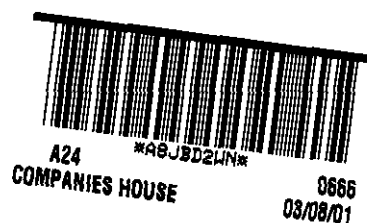


**CIC HOLDINGS LIMITED**

**Report and Financial Statements**

**31 December 2000**

**Deloitte & Touche  
Stonecutter Court  
1 Stonecutter Street  
London EC4A 4TR**



# **CIC HOLDINGS LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 2000**

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# **CIC HOLDINGS LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 2000**

### **OFFICERS AND PROFESSIONAL ADVISERS**

#### **DIRECTORS**

Yang Chao	- Chairman and Chief Executive Officer
Xie Yiqun	
Bertram G Hand	
Pan Zhangchao	- Resigned 9 March 2001
Lin Hui	- Resigned 9 March 2001

#### **COMPANY SECRETARY**

Huang Jun

#### **REGISTERED OFFICE**

The Communications Building  
48 Leicester Square  
London WC2H 7LT

#### **BANKERS**

Bank of China  
90 Cannon Street  
London EC4N 6HA

#### **AUDITORS**

Deloitte & Touche  
Stonecutter Court  
1 Stonecutter Street  
London EC4A 4TR

**REPORT AND FINANCIAL STATEMENTS 2000**

**DIRECTORS' REPORT**

The directors present their report and audited financial statements for the year ended 31 December 2000.

**PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS DEVELOPMENTS**

The company is the holding company for the following operational subsidiaries which together aim to administer and develop general insurance and reinsurance business within the European markets on behalf of the ultimate holding company, China Insurance H.K. (Holdings) Company Ltd.

There are currently five operational subsidiaries all 100% owned by the company whose results are consolidated within these accounts.

The main subsidiaries are detailed below:

**China Insurance Company (U.K.) Limited** which has been authorised and has been underwriting general and reinsurance business since 1985. The company has developed a well respected team who enjoy a good reputation in their market particularly among the Chinese community in the UK. Results were a little disappointing in 2000 when the post-tax profit was £661,932 (1999 - £1,353,789).

**China Insurance Company SA** is authorised in Luxembourg where it transacts general insurance business. It has also established a branch office in Rotterdam in the Netherlands. Gross premium income was LUF 13,810,685 (1999 - LUF 12,001,106) but due to an increase in loss reserves the company produced a post-tax loss of LUF 7,965,216 (1999 - LUF 2,028,241 post-tax profit).

**CIC (Deutschland) Versicherungs-Aktiengesellschaft** is authorised to underwrite general accident, fire and property insurance, third party liabilities and other property insurance together with marine, aviation and marine cargo insurance. Despite a 20% increase in gross written premium the ultimate result produced a post-tax loss of DM 479,011 (1999 - DM 479,023).

**CIC Services (Europe) Limited** is a non-underwriting company providing a variety of intermediary and administrative services from its London base. It again made a positive contribution to the profitability of the group of £5,836 post-tax profit (1999 - £4,122)

All of these companies continue to actively trade and every effort is being made in very competitive markets to improve their profitability.

**RESULTS AND DIVIDENDS**

The results of the group for the year ended 31 December 2000 are set out on pages 6 to 8. The retained profit of the group for the year amounted to £568,506 (1999 - £1,355,087).

No interim dividends were paid (1999 - £nil) and the directors do not recommend the payment of a final dividend (1999 - £nil). The retained profit of the group for the year has been carried forward as a credit balance in the profit and loss account.

**DIRECTORS AND THEIR INTERESTS**

The present directors of the company are shown on page 1, all of whom served throughout the year and to the date of this report except where stated otherwise. As at 31 December 2000, none of the directors had any beneficial interests in the ordinary shares of the group, or in any other group-related companies of China Insurance H.K. (Holdings) Company Ltd.

**ULTIMATE PARENT UNDERTAKING**

The ultimate parent of this group is China Insurance H.K. (Holdings) Company Ltd, a company incorporated in Hong Kong.

**REPORT AND FINANCIAL STATEMENTS 2000**

**DIRECTORS' REPORT**

**INVESTMENTS**

The investment portfolio has performed well during a volatile year and is analysed at notes 13 and 14. Income arising therefrom is shown in note 8.

**CREDITORS' PAYMENT POLICY**

The group negotiates credit terms with individual suppliers - which vary according to the trading relationships with the suppliers concerned, as well as prevailing market conditions. Payment is then made in accordance with the agreed terms.

**AUDITORS**

A resolution proposing the re-appointment of Deloitte & Touche will be submitted at the forthcoming Annual General Meeting.

Approved by the Board of Directors  
and signed on behalf of the Board by

A handwritten signature in black ink, appearing to be 'Huang Jun', written over a horizontal line.

Huang Jun  
Secretary

23 July 2001

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group as at the end of the financial year, and of the profit or loss of the company and of the group for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom accounting standards have been followed; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company and the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and of the group, and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and of the group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Board of Directors  
and signed on behalf of the Board by



Huang Jun  
Secretary

23 July 2001

## **AUDITORS' REPORT TO THE MEMBERS OF CIC HOLDINGS LIMITED**

We have audited the financial statements on pages 6 to 25, which have been prepared in accordance with the accounting policies set out on pages 12 to 15.

### **Respective responsibilities of directors and auditors**

As described on page 4, the company's directors are responsible for the preparation of financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

### **Basis of opinion**

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company and of the group, are consistently applied and adequately disclosed.

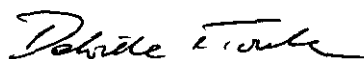
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Equalisation reserves**

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirement for insurance companies to maintain equalisation reserves. The nature of equalisation reserves, the amounts set aside at 31 December 2000, and the effect of the movements in those reserves during the year on the balance on the general business technical account and profit before tax are disclosed in note 6 to the financial statements.

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 December 2000, and of the profit of the group for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche  
Chartered Accountants  
and Registered Auditors

23 July 2001

Page 5

# CIC HOLDINGS LIMITED

## CONSOLIDATED PROFIT AND LOSS ACCOUNT For the year ended 31 December 2000

TECHNICAL ACCOUNT – GENERAL BUSINESS	Notes	2000 £	1999 £
<b>EARNED PREMIUMS, NET OF REINSURANCE</b>	2,3		
Gross premiums written		10,387,451	9,117,547
Outward reinsurance premiums		(4,119,118)	(3,387,186)
Net premiums written		<u>6,268,333</u>	<u>5,730,361</u>
Change in the provision for unearned premiums	2,3		
Gross amounts		(397,014)	(1,787,006)
Reinsurers' share		<u>210,098</u>	<u>1,125,050</u>
Net of reinsurance		<u>(186,916)</u>	<u>(661,956)</u>
<b>TOTAL TECHNICAL INCOME</b>		<u>6,081,417</u>	<u>5,068,405</u>
Claims incurred, net of reinsurance	2,4		
Claims paid			
Gross amounts		4,925,994	6,436,107
Reinsurers' share		(1,524,207)	(3,465,561)
Net of reinsurance		<u>3,401,787</u>	<u>2,970,546</u>
Change in the provision for outstanding claims	4,5		
Gross amounts		(588,140)	1,965,020
Reinsurers' share		<u>1,136,742</u>	<u>(2,611,638)</u>
Net of reinsurance		<u>548,602</u>	<u>(646,618)</u>
<b>CLAIMS INCURRED, NET OF REINSURANCE</b>		<u>3,950,389</u>	<u>2,323,928</u>
Net operating expenses	7,9	2,620,187	2,754,148
Other technical charges, net of reinsurance		1,600	1,583
Increase in equalisation provisions	6	<u>123,000</u>	<u>120,000</u>
<b>TOTAL TECHNICAL CHARGES</b>		<u>6,695,176</u>	<u>5,199,659</u>
<b>BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS</b>		<u>(613,759)</u>	<u>(131,254)</u>



# CIC HOLDINGS LIMITED

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2000

NON-TECHNICAL ACCOUNT	Notes	2000	1999
		£	£ As restated per Note 1(b)
<b>BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS</b>		<u>(613,759)</u>	<u>(131,254)</u>
Investment income	8	1,866,719	1,600,497
Realised gains on investments		389,935	1,095,443
Unrealised losses on investments		(447,747)	(237,592)
Investment expenses and charges		<u>(99,175)</u>	<u>(101,055)</u>
Investment returns		<u>1,709,732</u>	<u>2,357,293</u>
Exchange gains		128,712	104,831
Other income		78,218	206,007
Other charges	9	<u>(529,859)</u>	<u>(773,498)</u>
		<u>(322,929)</u>	<u>(462,660)</u>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAX</b>		773,044	1,763,379
<b>OPERATING PROFIT</b>		<u>896,044</u>	<u>1,883,379</u>
Increase in equalisation provisions	6	<u>(123,000)</u>	<u>(120,000)</u>
Tax charge on profit on ordinary activities	12	<u>(204,538)</u>	<u>(408,292)</u>
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAX AND RETAINED PROFIT FOR THE FINANCIAL YEAR</b>	18	<u>568,506</u>	<u>1,355,087</u>

All the amounts above are in respect of continuing operations.

**CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**  
**For the year ended 31 December 2000**

	Notes	2000 £	1999 £
Profit on ordinary activities after taxation		568,506	1,355,087
Exchange gains / (losses) on retranslation of net investment in foreign group companies	18	38,222	(581,135)
<b>TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR</b>		<u>606,728</u>	<u>773,952</u>

# CIC HOLDINGS LIMITED

## CONSOLIDATED BALANCE SHEET As at 31 December 2000

ASSETS	Notes	2000 £	1999 £
<b>INVESTMENTS</b>			
Land and buildings	13	-	279,300
Other financial investments	14	33,945,859	33,678,217
		<u>33,945,859</u>	<u>33,957,517</u>
<b>REINSURERS' SHARE OF TECHNICAL PROVISIONS</b>			
Provision for unearned premiums	3	2,462,324	2,255,857
Provision for outstanding claims	4,5	11,346,159	12,478,425
		<u>13,808,483</u>	<u>14,734,282</u>
<b>DEBTORS</b>			
Debtors arising out of direct insurance operations			
Amounts owed by policyholders		899,913	831,341
Amounts owed by intermediaries		860,415	1,021,406
		<u>1,760,328</u>	<u>1,852,747</u>
Debtors arising out of reinsurance operations		1,771,986	2,627,968
Taxation recoverable		6,658	6,489
Other debtors		345,752	258,423
		<u>3,884,724</u>	<u>4,745,627</u>
<b>OTHER ASSETS</b>			
Tangible fixed assets	16	295,282	400,999
Cash at bank and in hand		2,380,894	1,605,247
		<u>2,676,176</u>	<u>2,006,246</u>
<b>PREPAYMENTS AND ACCRUED INCOME</b>			
Accrued interest and rent		263,608	74,551
Deferred acquisition costs	7	945,849	732,746
Other prepayments and accrued income		15,540	19,500
		<u>1,224,997</u>	<u>826,797</u>
<b>TOTAL ASSETS</b>		<u>55,540,239</u>	<u>56,270,469</u>


# CIC HOLDINGS LIMITED

## CONSOLIDATED BALANCE SHEET

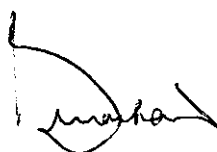
As at 31 December 2000

LIABILITIES	Notes	2000 £	1999 £
<b>CAPITAL AND RESERVES</b>			
Called up share capital	17	18,423,747	18,423,747
Capital reserve	18	762,388	762,388
Profit and loss account	18	9,919,170	9,312,442
Equity shareholders' funds	18	29,105,305	28,498,577
<b>GROSS TECHNICAL PROVISIONS</b>			
Provision for unearned premiums	3	5,574,809	5,175,439
Provision for outstanding claims	4,5	16,760,458	17,332,159
Equalisation provisions	6	633,000	510,000
		22,968,267	23,017,598
<b>PROVISIONS FOR OTHER RISKS AND CHARGES</b>			
Deferred taxation	19	291,186	501,161
<b>CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR</b>			
Creditors arising out of direct insurance operations		99,620	66,044
Creditors arising out of reinsurance operations		2,125,243	3,422,608
United Kingdom corporation tax		198,107	98,622
Other taxation and social security		3,371	-
Other creditors		533,510	405,259
		2,959,851	3,992,533
<b>ACCRUALS AND DEFERRED INCOME</b>			
Deferred reinsurance commissions	7	122,592	101,738
Other accruals and deferred income		93,038	158,862
		215,630	260,600
<b>TOTAL LIABILITIES</b>		55,540,239	56,270,469

These financial statements were approved by the Board of Directors on 23 July 2001 and signed on behalf of the Board of Directors by



Xie Yiqun  
Director



Bertram Hand  
Director

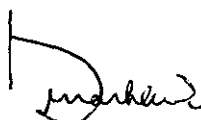
**COMPANY BALANCE SHEET**  
**As at 31 December 2000**

	Notes	2000 £	1999 £
<b>FIXED ASSETS</b>			
Tangible assets	16	1,618	18,070
Other financial investments	14	6,183,456	5,571,643
Investments in group undertakings	15	15,276,552	15,276,552
		<u>21,461,626</u>	<u>20,866,265</u>
<b>CURRENT ASSETS</b>			
Debtors		319,060	491,711
Cash at bank and in hand		46,820	15,486
		<u>365,880</u>	<u>507,197</u>
<b>CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR</b>		<u>(59,981)</u>	<u>(20,478)</u>
<b>NET CURRENT ASSETS</b>		<u>305,899</u>	<u>486,719</u>
<b>NET ASSETS</b>		<u>21,767,525</u>	<u>21,352,984</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	17	18,423,747	18,423,747
Profit and loss account	18	3,343,778	2,929,237
<b>EQUITY SHAREHOLDERS' FUNDS</b>	18	<u>21,767,525</u>	<u>21,352,984</u>

These financial statements were approved by the Board of Directors on 23 July 2001  
and signed on behalf of the Board of Directors by



Xie Yiqun  
Director



Bertram Hand  
Director

**NOTES TO THE ACCOUNTS**

**For the year ended 31 December 2000**

**1. ACCOUNTING POLICIES**

**(a) Basis of preparation**

The financial statements are prepared on a going concern basis, under the historical cost convention as modified by the revaluation of investments, and in accordance with applicable United Kingdom accounting standards.

The consolidated financial statements of the group are prepared on the basis of the accounting policies set out below and comply with the special provisions relating to insurance companies in Section 255A of, and Schedule 9A to, the Companies Act 1985, as amended by the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993. The recommendations of the Statement of Recommended Practice on 'Accounting for Insurance Business' issued by the Association of British Insurers in December 1998 ("ABI SORP") have been adopted.

The financial statements of the company have been prepared in accordance with the provisions of the Companies Act 1985. As permitted by section 230 of the Companies Act 1985, the profit and loss account of the company is not presented.

**(b) Change in accounting policy**

The group has adopted Financial Reporting Standard 16 ("FRS 16") on 'Current Tax'. The effect of this has been the exclusion of tax credits, which arise on UK dividends receivable, from both investment income and the tax charge in the profit and loss account. In prior years this tax credit has been included. Following the adoption of FRS 16 the results of the prior period have been restated. There is no effect on either the current or the previous year's profit after tax from this change in policy.

**(c) Cash flow statement**

The group availed itself of the exemption under Financial Reporting Standard 1 (Revised) on 'Cash Flow Statements' on the grounds that the company is a wholly owned subsidiary undertaking whose immediate parent prepares a group cash flow statement in its financial statements. As such, no consolidated cash flow statement is presented.

**(d) Basis of accounting for underwriting activities**

The annual basis of accounting has been applied to all classes of business.

**(e) Premiums**

Written premiums represent total premiums receivable for the whole period of cover - which emanate from contracts incepting during the financial year, together with adjustments arising in the financial year from premiums receivable in respect of business written in previous financial years. These also include pipeline premiums due but not yet reported.

Premiums are stated gross of commissions payable to intermediaries, but exclude insurance premium tax and other duties. Insurance premium tax due by the group, which has not been paid over to the Customs & Excise at the year end, has been included in the balance sheet as a liability under the heading "Other taxation and social security".

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards reinsurance business being reinsured.

**(f) Unearned premiums**

A provision for unearned premiums is made which represents that part of gross premiums written, and reinsurers' share thereof, that is estimated to be earned in the following or subsequent financial years. It is calculated separately for each insurance contract on the 365ths basis where the incidence of risk is the same throughout the contract. Where the incidence of risk varies during the term of the contract, the provision is based on the estimated risk profile of business written.

**NOTES TO THE ACCOUNTS**

**For the year ended 31 December 2000**

**1. ACCOUNTING POLICIES (continued)**

**(g) Claims incurred**

Claims incurred comprise all claim payments made in the financial year, and the attributable internal and external claims handling costs; movements in the outstanding claims provision, together with estimates of attributable claims handling costs; movements in the provision for incurred but not reported claims, after netting off all salvage and subrogation recoveries.

Outward reinsurance recoveries are accounted for in the same accounting period as the claims incurred for the related direct or inwards reinsurance business being reinsured.

**(h) Claims outstanding**

The provision for claims outstanding is made on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, of claims incurred but not reported by that date, and of related internal and external claims handling expenses.

The outstanding claims provision is based on information available at the balance sheet date. Subsequent information and events may result in the ultimate liability being less than, or greater than, the amount provided. Any differences between provisions and subsequent settlements are dealt with in the profit and loss technical account on general business of later years.

**(i) Deferred acquisition costs**

Acquisition costs comprise commissions and management costs which vary with, and are primarily related to, the acquisition of new insurance contracts and the renewal of existing insurance contracts. These costs are accrued over an equivalent period to that over which the underlying business is written and are charged to the accounting periods in which the related premiums are earned.

Acquisition costs are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

**(j) Equalisation provisions**

Equalisation provisions arise from certain classes of business written in the United Kingdom and are calculated in accordance with the Insurance Companies (Reserves) Act 1995.

The amounts provided are in addition to the provisions required to meet the anticipated ultimate cost of settling outstanding claims at the balance sheet date, and are included within the balance sheet as 'technical provisions' in accordance with Schedule 9A to the Companies Act 1985. Movements in the equalisation provision for the period are taken to the profit and loss technical account for general business – notwithstanding that they do not represent a liability at the balance sheet date.

**(k) Unexpired risk provisions**

Provision is made for unexpired risks when, after taking account of investment income, it is anticipated – on the basis of information available at the year end – that unearned premiums will be insufficient to meet the expected claims and related expenses of business in force at the end of the year.

This provision, where created, is included as a liability within 'provision for outstanding claims' in the balance sheet.

**(l) Investment returns**

Investment returns comprise investment income, realised and unrealised investment gains and losses, and investment expenses – all of which are recognised in the profit and loss non-technical account.

Investment income is recognised on an accruals basis, as are investment expenses.

Realised investment gains and losses represent the difference between net proceeds on disposal and their purchase price.

Unrealised investment gains and losses represent the difference between the valuation of investments at the balance sheet date and their purchase price. The movement in unrealised gains or losses therefore comprises the increase or decrease in the year in the value of investments held at the balance sheet date, together with the reversal of previously recognised unrealised gains and losses on investments disposed of in the current year.

**NOTES TO THE ACCOUNTS**

**For the year ended 31 December 2000**

**1. ACCOUNTING POLICIES (continued)**

**(m) Investments in land and buildings**

All land and buildings are stated at open market values as determined by an independent qualified surveyor.

Depreciation is provided at rates calculated to write off the costs, less estimated residual values, on a straight line basis over the estimated useful economic lives – at the following rates per annum:

Long leasehold land and buildings	2%
-----------------------------------	----

**(n) Other financial investments**

All investments are stated at current values prevailing at the balance sheet date. For all listed and unlisted investments, current values are taken to be the mid-market values prevailing at the balance sheet date. For deposits with credit institutions, current values represent the amounts outstanding at the balance sheet date.

**(o) Investments in group undertakings**

In the company's accounts, shares in subsidiary undertakings are stated at cost less provisions for any permanent diminution in value.

**(p) Depreciation of tangible fixed assets**

Depreciation is provided at rates calculated to write off the costs, less estimated residual values, on a straight line basis over the estimated useful economic lives of tangible fixed assets – at the following rates per annum:

Freehold land and buildings	0%
Office furniture, office and computer equipment	15% to 33%
Motor vehicles	20% to 33%

**(q) Current and deferred taxation**

The charge for taxation is based on profits for the year and takes into account deferred taxation.

Deferred taxation arises from timing differences between the treatment of certain items for taxation and accounting purposes. Provision for this is made under the liability method to the extent where it is probable a liability will crystallise, and calculated at rates at which it is anticipated the timing differences will reverse.

Deferred taxation assets are only recognised where it is reasonably certain that future tax recoveries will not be replaced by equivalent tax liabilities.

**(r) Basis of foreign currency translations**

Transactions in foreign currencies are recorded at the rates ruling at the dates of the transactions, or at the contracted rates of the transactions if covered by forward exchange contracts.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange ruling at the balance sheet date or if appropriate at the contracted forward rates. Exchange differences arising therefrom are recognised in the profit and loss non-technical account.

**(s) Operating and finance leases**

Assets held under finance leases and hire purchase contracts are capitalised at their fair values on the inception of the leases, and depreciated over their estimated useful lives. The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding.

Rentals under operating leases are charged to the profit and loss non-technical account in equal annual instalments over the period of the lease.



## NOTES TO THE ACCOUNTS

For the year ended 31 December 2000

## 1. ACCOUNTING POLICIES (continued)

## (t) Pension and other post retirement benefits

Beginning 22 December 1999, the company and its subsidiary, China Insurance Company (U.K.) Limited, established a new money purchase pension scheme for selected directors and staff on a defined contribution basis. Both companies' contributions reflect the defined contribution scales and these are charged to the profit and loss account in the period in which contributions are paid. The funds accumulated in this scheme are held independently of both companies' finances.

## 2. SEGMENTAL ANALYSES

Group	Direct property £000	Direct liability £000	Direct marine £000	Other direct £000	Total direct £000	Rein- surance accepted £000	Total £000
<b>2000</b>							
Gross premiums written	4,043	1,177	157	1,755	7,132	3,255	10,387
Gross premiums earned	3,903	975	158	1,953	6,989	3,001	9,990
Gross claims incurred	(1,839)	(336)	(132)	(1,308)	(3,615)	(723)	(4,338)
Gross operating expenses	(1,436)	(185)	(59)	(875)	(2,555)	(991)	(3,546)
Gross technical result	628	454	(33)	(230)	819	1,287	2,106
Reinsurance balance	(830)	(144)	15	(215)	(1,174)	(1,423)	(2,597)
Transfer to equalisation provision	(93)	(15)	-	(15)	(123)	-	(123)
Net technical result	(295)	295	(18)	(460)	(478)	(136)	(614)
Net technical provisions	4,536	1,579	73	868	7,056	2,104	9,160

Group	Direct property £000	Direct liability £000	Direct marine £000	Other direct £000	Total direct £000	Rein- surance accepted £000	Total £000
<b>1999</b>							
Gross premiums written	4,089	674	175	1,508	6,446	2,672	9,118
Gross premiums earned	3,353	638	162	1,633	5,786	1,544	7,330
Gross claims incurred	(2,454)	(280)	(117)	(347)	(3,198)	(5,203)	(8,401)
Gross operating expenses	(1,510)	(444)	(112)	(785)	(2,851)	(688)	(3,539)
Gross technical result	(611)	(86)	(67)	501	(263)	(4,347)	(4,610)
Reinsurance balance	153	291	(7)	(437)	-	4,599	4,599
Transfer to equalisation provision	(87)	(12)	(1)	(20)	(120)	-	(120)
Net technical result	(545)	193	(75)	44	(383)	252	(131)
Net technical provisions	4,588	1,274	121	447	6,430	1,853	8,283

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2000

## 2. SEGMENTAL ANALYSES (continued)

## Group

	2000 £	1999 £
Gross written premiums resulted from contracts of insurance concluded in:		
The United Kingdom	9,940	8,742
Other EU member states	447	376
	<u>10,387</u>	<u>9,118</u>

## 3. EARNED PREMIUMS, NET OF REINSURANCE

	2000			1999		
Group	Gross £	Reinsurance £	Net £	Gross £	Reinsurance £	Net £
Written premiums	<u>10,387,451</u>	<u>4,119,118</u>	<u>6,268,333</u>	<u>9,117,547</u>	<u>3,387,186</u>	<u>5,730,361</u>
Provision for unearned premiums						
Carried forward	(5,574,809)	(2,462,324)	(3,112,485)	(5,175,439)	(2,255,857)	(2,919,582)
Brought forward	5,175,439	2,255,857	2,919,582	3,398,711	1,134,059	2,264,652
Exchange differences	2,356	(3,631)	5,987	(10,278)	(3,252)	(7,026)
(Increase)/ decrease	<u>(397,014)</u>	<u>(210,098)</u>	<u>(186,916)</u>	<u>(1,787,006)</u>	<u>(1,125,050)</u>	<u>(661,956)</u>
Earned premiums	<u>9,990,437</u>	<u>3,909,020</u>	<u>6,081,417</u>	<u>7,330,541</u>	<u>2,262,136</u>	<u>5,068,405</u>

## 4. CLAIMS INCURRED, NET OF REINSURANCE

	2000			1999		
Group	Gross £	Reinsurance £	Net £	Gross £	Reinsurance £	Net £
Claims paid	<u>4,925,994</u>	<u>1,524,207</u>	<u>3,401,787</u>	<u>6,436,107</u>	<u>3,465,561</u>	<u>2,970,546</u>
Provision for outstanding claims						
Carried forward	16,760,458	11,346,159	5,414,299	17,332,159	12,478,425	4,853,734
Brought forward	(17,332,159)	(12,478,425)	(4,853,734)	(15,374,075)	(9,874,541)	(5,499,534)
Exchange differences	(16,439)	(4,476)	(11,963)	6,936	7,754	(818)
(Decrease) / increase	<u>(588,140)</u>	<u>(1,136,742)</u>	<u>548,602</u>	<u>1,965,020</u>	<u>2,611,638</u>	<u>(646,618)</u>
Claims incurred	<u>4,337,854</u>	<u>387,465</u>	<u>3,950,389</u>	<u>8,401,127</u>	<u>6,077,199</u>	<u>2,323,928</u>

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2000

## 5. PROVISION FOR OUTSTANDING CLAIMS

	2000			1999		
	Gross £	Reinsurance £	Net £	Gross £	Reinsurance £	Net £
Notified outstanding claims	12,735,703	8,291,523	4,444,180	12,864,274	9,362,796	3,501,478
Unexpired risk provision	40,000	-	40,000	101,291	19,801	81,490
Provision for claims incurred but not reported	3,808,398	3,054,636	753,762	4,174,902	3,095,828	1,079,074
	16,584,101	11,346,159	5,237,942	17,140,467	12,478,425	4,662,042
Claims handling expenses	176,357	-	176,357	191,692	-	191,692
	16,760,458	11,346,159	5,414,299	17,332,159	12,478,425	4,853,734
	2000			1999		
	Gross £	Reinsurance £	Net £	Gross £	Reinsurance £	Net £
Balance at 1 January	17,332,159	12,478,425	4,853,734	15,374,075	9,874,541	5,499,534
Claims paid / recoveries received during the year						
- Aviation	(250,419)	(246,231)	(4,188)	(2,224,602)	(2,189,582)	(35,020)
- Property	(2,417,848)	(817,803)	(1,600,045)	(2,236,887)	(642,088)	(1,594,799)
- Motor	(909,290)	-	(909,290)	(550,776)	-	(550,776)
- Miscellaneous and pecuniary loss	(770,469)	(452,063)	(318,406)	(400,285)	(121,531)	(278,754)
- Other risk classes	(446,917)	(2,895)	(444,022)	(342,955)	-	(342,955)
	(4,794,943)	(1,518,992)	(3,275,951)	(5,755,505)	(2,953,201)	(2,802,304)
Increase / (decrease) during the year						
- Under / (over) provision in prior years	10,277,710	8,120,184	2,157,526	(4,806,509)	(1,740,914)	(3,065,595)
- Increase / (decrease) in current year provisions	(6,054,468)	(7,733,458)	1,678,990	12,520,098	7,297,999	5,222,099
	4,223,242	386,726	3,836,516	7,713,589	5,557,085	2,156,504
Balance at 31 December	16,760,458	11,346,159	5,414,299	17,332,159	12,478,425	4,853,734

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2000

## 6. EQUALISATION PROVISIONS

These provisions, which are in addition to the provisions required to meet the anticipated ultimate cost of settling outstanding claims at the balance sheet date, are required by Schedule 9A to the Companies Act 1985 to be included within technical provisions in the balance sheet, notwithstanding that they do not represent liabilities at the balance sheet date. After tax relief at 30% (1999 - 30.25%), this has had the cumulative effect of reducing shareholders' funds by £443,100 (1999 - £355,725).

The movement in equalisation provisions during the year resulted in a decrease in the result on the profit and loss technical account for general business, as well as in the profit before taxation by £123,000 (1999 - £120,000).

## 7. NET OPERATING EXPENSES

Group	2000			1999		
	Gross £	Reinsurance £	Net £	Gross £	Reinsurance £	Net £
Acquisition costs and commissions	2,577,058	946,491	1,630,567	2,090,529	796,392	1,294,137
Deferred acquisition costs						
Carried forward	(945,849)	(122,592)	(823,257)	(732,746)	(101,738)	(631,008)
Brought forward	732,746	101,738	631,008	681,550	89,592	591,958
Exchange difference	181	-	181	(2,939)	-	(2,939)
(Increase) / decrease	(212,922)	(20,854)	(192,068)	(54,135)	(12,146)	(41,989)
Incurred acquisition costs	2,364,136	925,637	1,438,499	2,036,394	784,246	1,252,148
Administrative expenses and other charges (Note 9)	1,181,688	-	1,181,688	1,502,000	-	1,502,000
Total operating expenses	3,545,824	925,637	2,620,187	3,538,394	784,246	2,754,148

## 8. INVESTMENT INCOME

Group	2000 £	1999 £
		As restated per Note 1(b)
Interest on bank deposits	778,245	667,256
Income from fixed-income securities	786,717	674,519
Income from variable-yield securities	198,324	170,040
Other interest	103,433	88,682
	1,866,719	1,600,497

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2000

## 9. ADMINISTRATIVE EXPENSES AND OTHER CHARGES

## Group

	2000 £	1999 £
<b>Administrative expenses and other charges in both the technical and non-technical accounts include:</b>		
Directors' emoluments	172,094	247,708
Auditors' remuneration – Audit services	82,811	76,262
Auditors' remuneration – Non-audit services	43,778	6,750
Depreciation of tangible fixed assets – Owned assets	129,969	143,324
Decrease in bad debt provisions	(24,912)	-

## Company

	2000 £	1999 £
<b>Administrative expenses charged to the profit and loss account of the company include:</b>		
Auditors' remuneration – Audit services	10,105	12,396
Depreciation of tangible fixed assets – Owned assets	1,699	11,374

## 10. STAFF COSTS

	2000 £	1999 £
<b>Group</b>		
<b>All salary costs, including directors' emoluments, comprise:</b>		
Wages and salaries	1,030,351	1,033,353
Social security costs	105,701	112,943
Pension contributions	1,861	63,287
	<u>1,137,913</u>	<u>1,209,583</u>

	2000 Number	1999 Number
<b>The average number of employees, including executive directors employed during the year was as follows:</b>		
Management	7	9
Underwriting	15	14
Claims	6	6
Marketing	6	6
Administration	17	18
	<u>51</u>	<u>53</u>

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2000

## 11. DIRECTORS' REMUNERATION

## Group

	2000 £	1999 £
Directors' remuneration consists exclusively of remuneration for services provided as directors, which comprise:		
Emoluments		
Wages and salaries	155,334	184,531
Social security costs	16,760	20,134
Pension contributions	-	16,817
	<u>172,094</u>	<u>221,482</u>

Two directors (1999 - two) accrued benefits under the defined contribution scheme of the company and its subsidiary, China Insurance Company (U.K.) Limited.

## 12. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

	2000 £	1999 £ As restated per Note 1(b)
The group charge for taxation comprises:		
Current taxation		
United Kingdom corporation tax at 30% (1999 - 30.25%)	430,497	289,669
Over provision in prior years' tax	(15,984)	(99,406)
Overseas taxation	-	45,032
	<u>414,513</u>	<u>235,295</u>
Deferred taxation		
Current year (credit) / charge	(209,975)	222,359
Over provision in prior years' tax	-	(49,362)
	<u>204,538</u>	<u>408,292</u>

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2000

## 13. INVESTMENTS IN LAND AND BUILDINGS

Group	Long leasehold land and buildings £
<b>At valuation</b>	
At 1 January 2000	285,000
Revaluation	15,000
Disposals	(300,000)
At 31 December 2000	-
<b>Accumulated depreciation</b>	
At 1 January 2000	5,700
Eliminated on disposals	(5,700)
At 31 December 2000	-
<b>Net book value</b>	
At 31 December 2000	-
At 31 December 1999	279,300

The leasehold land and buildings were valued on an open market basis during the year by independent property valuers, who are members of the Royal Institute of Chartered Surveyors. These were disposed of on 29 December 2000 to the group's immediate parent, China Insurance H.K. (Holdings) Company Ltd at the market value of £300,000. The cost of the long leasehold land and buildings was £183,394 (1999 - £183,394).

## 14. OTHER FINANCIAL INVESTMENTS

Group	Current value		Historical cost	
	2000 £	1999 £	2000 £	1999 £
Shares, other variable yield securities, and units in unit trusts				
Listed	8,980,720	7,778,101	7,791,315	5,992,798
Unlisted	172,105	193,205	272,000	324,000
Debt securities and other fixed income securities				
Listed	10,158,330	9,672,786	9,547,306	9,392,436
Participation in Pool Re-Insurance Company Limited	19,151	18,423	19,151	18,423
Deposits with credit institutions	14,575,692	15,987,980	14,575,692	15,987,980
Deposits with ceding undertakings	39,861	27,722	39,861	27,722
	<u>33,945,859</u>	<u>33,678,217</u>	<u>32,245,325</u>	<u>31,743,359</u>
<b>Company</b>				
Deposits with credit institutions	<u>6,183,456</u>	<u>5,571,643</u>	<u>6,183,456</u>	<u>5,571,643</u>

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2000

## 15. INVESTMENTS IN GROUP UNDERTAKINGS

Company	2000 £	1999 £
Investments in subsidiary undertakings	15,276,552	15,276,552

Details of major investments in subsidiary companies are as follows:

Name of company	Country of registration	Share-holdings	Proportion of voting rights and shares held	Nature of business
China Insurance Company (U.K.) Limited	England and Wales	Ordinary shares	100%	Insurance company
China Insurance Company SA	Luxembourg	Ordinary shares	100%	Insurance company
CIC (Deutschland) Versicherungs-Aktiengesellschaft	Germany	Ordinary shares	100%	Insurance company
CIC Services (Europe) Limited	England and Wales	Ordinary shares	100%	Service company
CIC Rotterdam Services BV	The Netherlands	Ordinary shares	100% held by CIC Insurance Company SA	Service company

The company holds no listed investments.

## 16. TANGIBLE FIXED ASSETS

Group	Freehold property £	Office furniture, office and computer equipment £	Motor vehicles £	Total £
<b>At cost</b>				
At 1 January 2000	145,620	582,433	284,032	1,012,085
Exchange adjustment	4,371	2,141	809	7,321
Additions	-	15,361	19,733	35,094
Disposals	-	(92,137)	(46,382)	(138,519)
At 31 December 2000	149,991	507,798	258,192	915,981
<b>Accumulated depreciation</b>				
At 1 January 2000	-	359,817	251,269	611,086
Exchange adjustment	-	651	669	1,320
Charged during the year	-	107,832	22,137	129,969
Eliminated on disposals	-	(75,294)	(46,382)	(121,676)
At 31 December 2000	-	393,006	227,693	620,699
<b>Net book value</b>				
At 31 December 2000	149,991	114,792	30,499	295,282
At 31 December 1999	145,620	222,616	32,763	400,999



## NOTES TO THE ACCOUNTS

For the year ended 31 December 2000

## 16. TANGIBLE FIXED ASSETS (continued)

Company	Office furniture, office and computer equipment £	Motor vehicles £	Total £
<b>At cost</b>			
At 1 January 2000	72,362	35,535	107,897
Additions	2,090	-	2,090
Disposals	(68,809)	-	(68,809)
At 31 December 2000	5,643	35,535	41,178
<b>Accumulated depreciation</b>			
At 1 January 2000	54,292	35,535	89,827
Charged during the year	1,699	-	1,699
Eliminated on disposal	(51,966)	-	(51,966)
At 31 December 2000	4,025	35,535	39,560
<b>Net book value</b>			
At 31 December 2000	1,618	-	1,618
At 31 December 1999	18,070	-	18,070

## 17. CALLED UP SHARE CAPITAL

Group and Company	Authorised		Allotted, called up and fully paid	
	2000 £	1999 £	2000 £	1999 £
Ordinary shares of £1 each	20,000,000	20,000,000	18,423,747	18,423,747

## 18. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

Group	Share capital £	Profit and loss account £	Capital reserve £	Total for 2000 £	Total for 1999 £
At 1 January 2000	18,423,747	9,312,442	762,388	28,498,577	27,724,625
Retained profit for the financial year	-	568,506	-	568,506	1,355,087
Exchange gains / (losses) on retranslation of net investment in foreign group companies	-	38,222	-	38,222	(581,135)
At 31 December 2000	18,423,747	9,919,170	762,388	29,105,305	28,498,577

Unrealised gains and losses reported in the non-technical account are not considered to be distributable. The profit and loss account balance includes £995,447 (1999 - £1,404,972) relating to the group which are non-distributable.

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2000

## 18. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS (continued)

Company	Share capital £	Profit and loss account £	Total for 2000 £	Total for 1999 £
At 1 January 2000	18,423,747	2,929,237	21,352,984	20,906,042
Retained profit for the financial year	-	414,541	414,541	446,942
At 31 December 2000	<u>18,423,747</u>	<u>3,343,778</u>	<u>21,767,525</u>	<u>21,352,984</u>

## 19. DEFERRED TAXATION

Group	2000 £	1999 £
<b>Movements in the provision for deferred taxation are:</b>		
At 1 January 2000	501,161	328,164
(Decrease) / increase during the year	(209,975)	172,997
At 31 December 2000	<u>291,186</u>	<u>501,161</u>

Amounts of deferred tax liabilities / (assets) provided and unprovided for in the accounts are:

Group	Provided		Unprovided	
	2000 £	1999 £	2000 £	1999 £
Unrealised gains on investments	339,675	555,658	-	7,592
Capital allowances in advance of depreciation	(48,489)	(43,262)	(5,386)	(6,781)
General provision	-	(11,235)	-	-
	<u>291,186</u>	<u>501,161</u>	<u>(5,386)</u>	<u>811</u>

## 20. AMOUNTS OWED (TO) / FROM GROUP UNDERTAKINGS

Included in the balance sheet are amounts due (to) / from group-related undertakings external to the immediate group, as set out below:

Group	2000 £	1999 £
Deposits held by ceding undertakings	39,861	27,722
Debtors arising out of reinsurance operations	1,477,684	1,430,765
Creditors arising out of reinsurance operations	<u>(66,905)</u>	<u>(419,345)</u>
Company		
Dividends receivable from subsidiary undertaking	<u>300,000</u>	<u>450,000</u>

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2000

## 21. RELATED PARTY TRANSACTIONS

The group has taken advantage of the exemption in Financial Reporting Standard 8 on 'Related Party Disclosures' from disclosing transactions between immediate group entities since these have been eliminated on consolidation.

The group has accepted £2,790,614 (1999 - £2,575,372) of reinsurance contracts from various group-related and associated companies external to the immediate group. Corresponding reinsurance ceded to these companies during the year amounted to £625,661 (1999 - £529,889).

## 22. OPERATING LEASE COMMITMENTS

At 31 December 2000, the group had annual commitments under non-cancellable operating leases for the following year as set out below:

	Land and buildings	
	2000	1999
	£	£
Operating leases which expire:		
Within 5 to 10 years	253,671	248,802

## 23. ENGLISH AND AMERICAN UNDERWRITING AGENCY LIMITED ("EAUA")

During the period 1989 to 1992, China Insurance Company (U.K.) Limited participated in the EAUA underwriting pools which ceased underwriting on 23 November 1992. The run-off of the pools is now administered by Participant Run-off Limited.

The ultimate cost to this company of future claims arising from the former EAUA underwriting pools cannot be determined with certainty, and as such, this company has calculated its provisions in respect of such claims using ultimate loss projections produced by independent actuaries based on information currently available.

The ultimate liability may vary as a result of subsequent information and events which may result in significant adjustments to the amounts provided for as at 31 December 2000, which were £591,000 (1999 - £591,000).

## 24. CONTINGENT LIABILITIES

China Insurance Company (U.K.) Limited is required under the Policyholders Protection Act 1975 to contribute towards levies raised by the Policyholders Protection Board on UK general insurance business. The amount of the levy may vary from nil to a maximum annual levy of 1% of UK written premium income net of reinsurance. No levy was raised by the Policyholders Protection Board during the year (1999 - £nil).

## 25. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

At 31 December 2000, the company's and the group's ultimate parent undertaking and controlling party is China Insurance H.K. (Holdings) Company Ltd, a company incorporated in Hong Kong - which is ultimately controlled by China Insurance Company, Limited, a company incorporated in China.

Copies of China Insurance H.K. (Holdings) Company Ltd's accounts are obtainable from its registered office at 29-31/F, China Insurance Group Building, 141 Des Voeux Road, Central Hong Kong.