

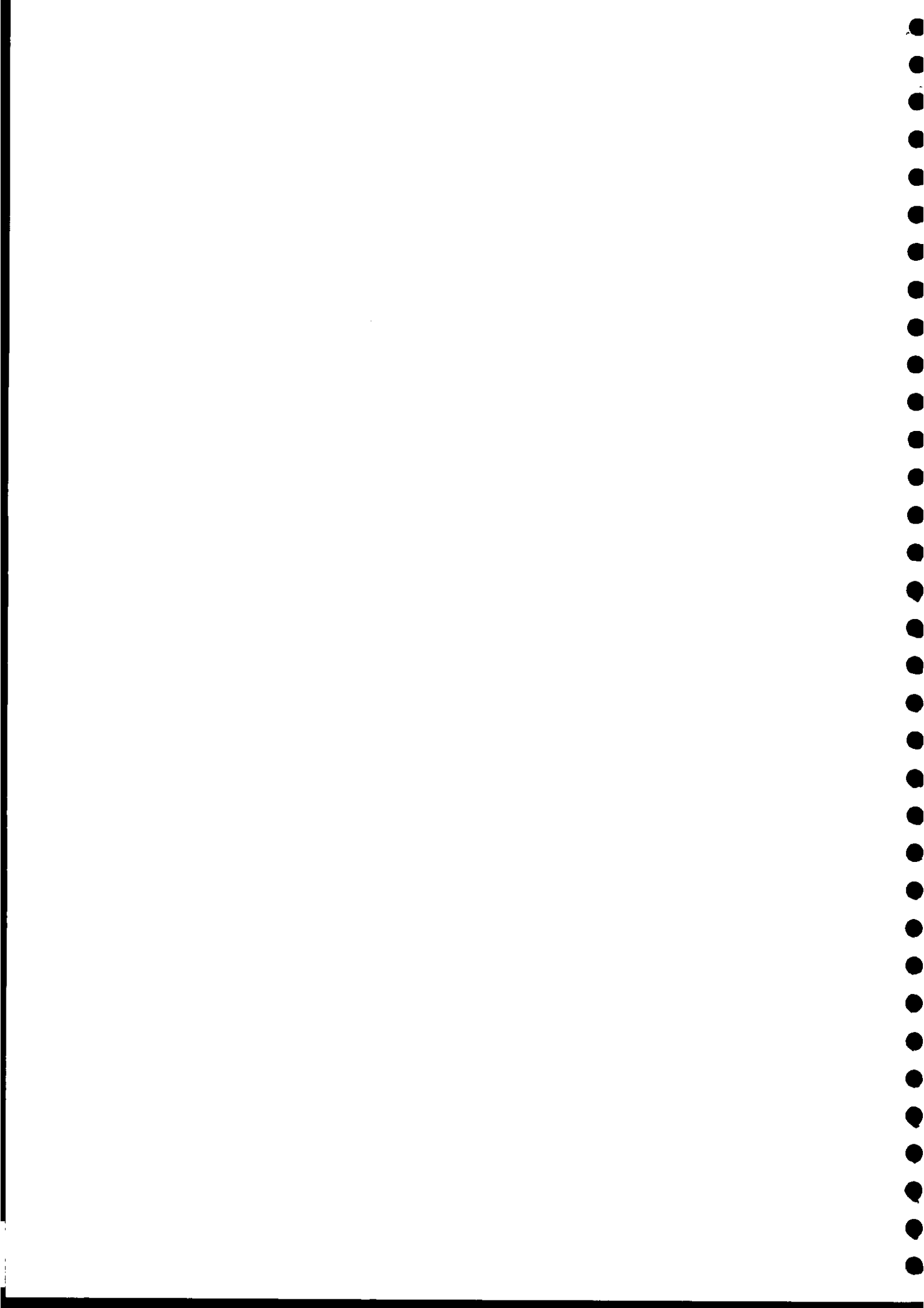
**CIC HOLDINGS LIMITED**

**Report and Financial Statements**

**31 December 1999**

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





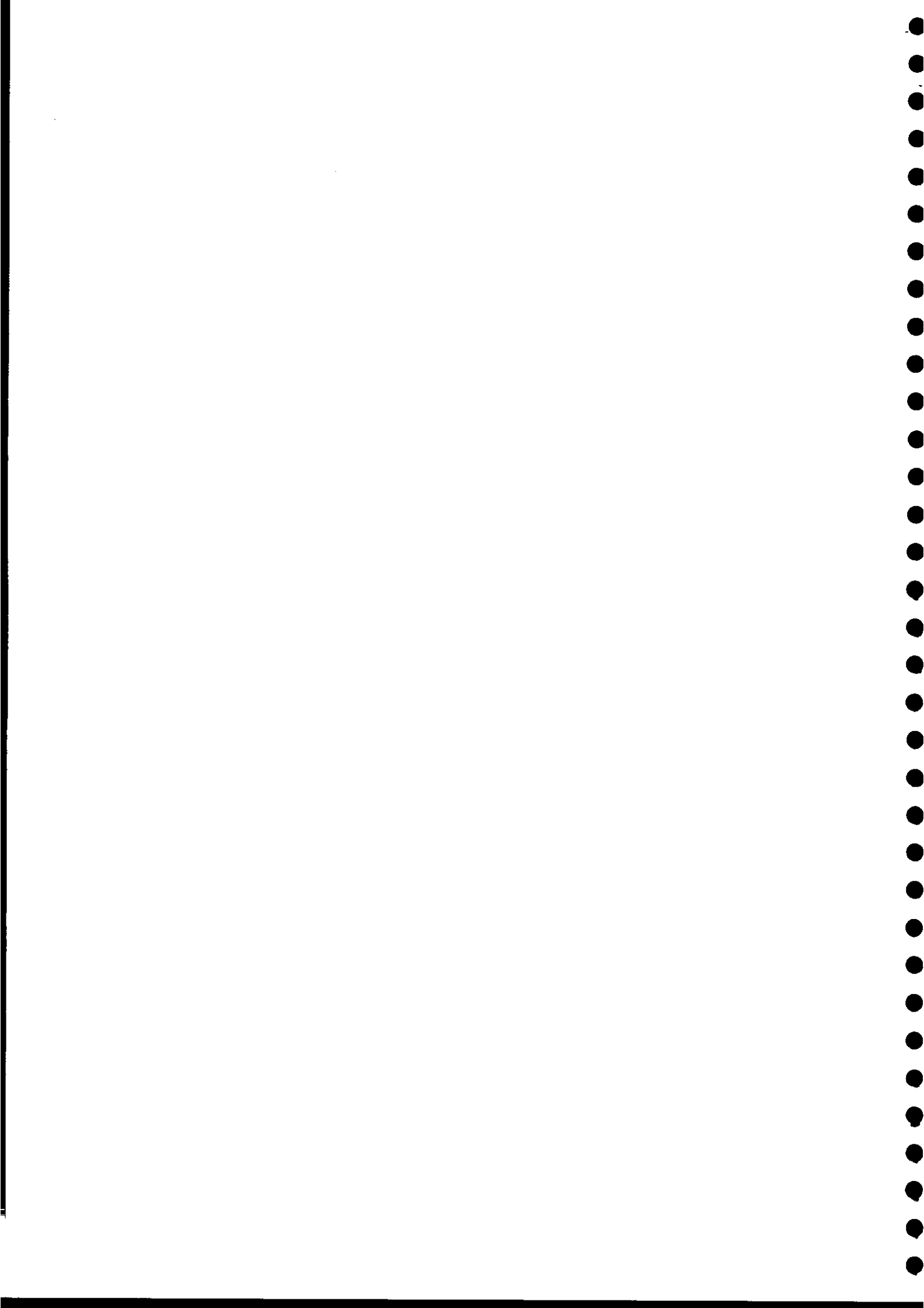
# **CIC HOLDINGS LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 1999**

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# **CIC HOLDINGS LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 1999**

### **OFFICERS AND PROFESSIONAL ADVISERS**

#### **DIRECTORS**

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

#### **COMPANY SECRETARY**

Huang Jun - Appointed 19 January 2000  
Liu Baolei - Resigned 19 January 2000

#### **REGISTERED OFFICE**

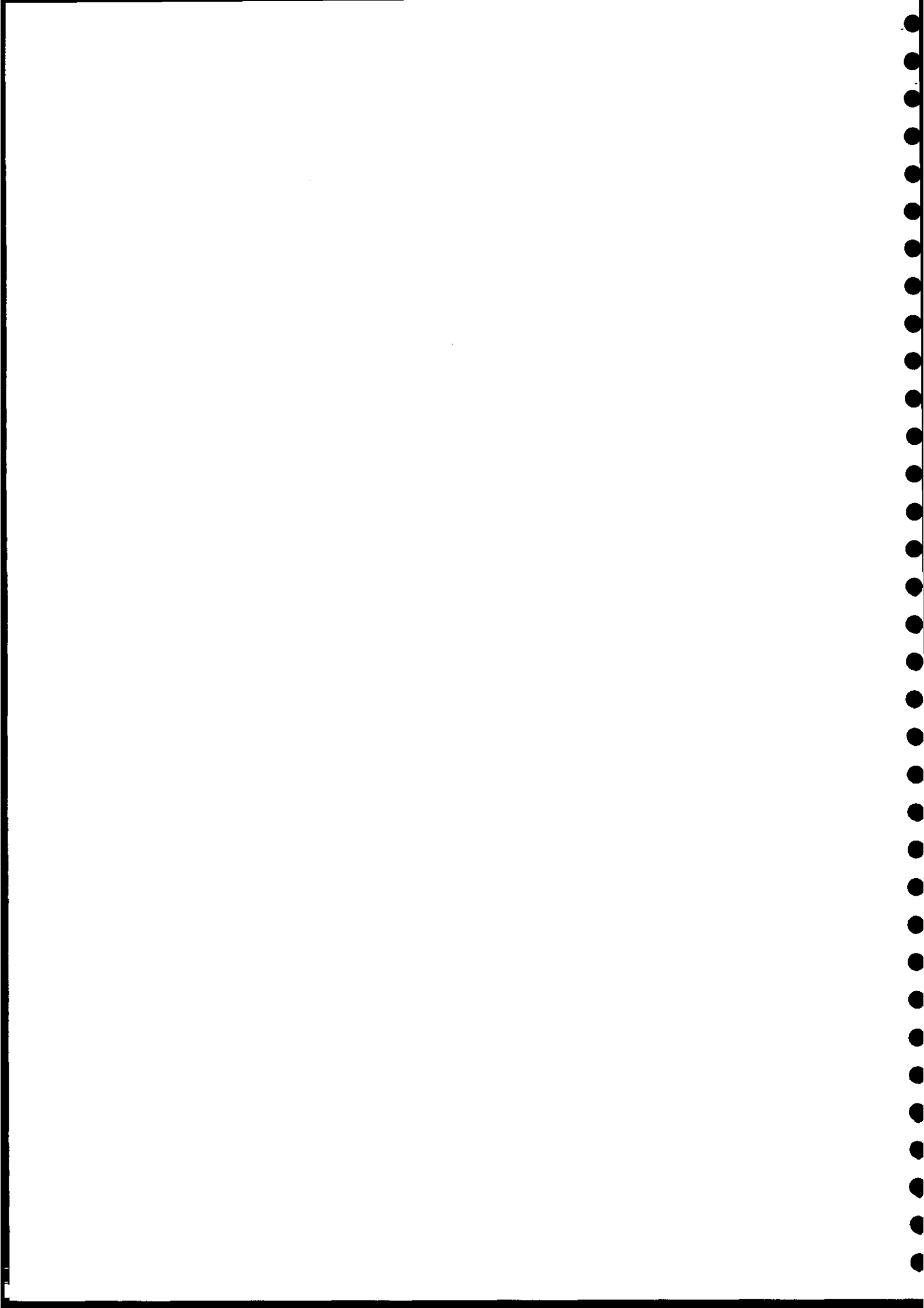
4th Floor  
38 Leadenhall Street  
London EC3A 1AT

#### **BANKERS**

Bank of China  
90 Cannon Street  
London EC4N 6HA

#### **AUDITORS**

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



## **DIRECTORS' REPORT**

The directors present their report and audited financial statements for the year ended 31 December 1999.

### **PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS DEVELOPMENTS**

The company operates as the holding company for the operational companies responsible for the development of Chinese insurance interests in Europe. The principal activity of the group is the transaction of general insurance and reinsurance business.

The largest subsidiary, China Insurance Company (UK) Limited, continues to concentrate on the retention and development of its United Kingdom direct general business account. This year has again proved to be a difficult one with continued pressure on rates and cover. Its portfolio of inwards reinsurance contracts remains limited to small net participations on cessions from group-related companies.

The company's next largest subsidiary in terms of age and scope of business is China Insurance Company SA, which mainly transacts general insurance business in Luxembourg, as well as through its branch office in Rotterdam, the Netherlands. Results to-date have been satisfactory although present volumes are still minimal in comparison with China Insurance Company (UK) Limited.

Its third largest subsidiary is CIC (Deutschland) Versicherungs-Aktiengesellschaft. This is a general insurance company based in Hamburg, Germany.

The fourth largest subsidiary is CIC Services (Europe) Limited, which is a non-underwriting company providing a variety of intermediary and administrative services from London.

### **RESULTS AND DIVIDENDS**

The results of the group for the year ended 31 December 1999 are set out on pages 6 to 25. The retained profit of the group for the year amounted to £1,355,087 (1998 - £1,672,012).

No interim dividends were paid (1998 - £nil) and the directors do not recommend the payment of a final dividend (1998 - £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**

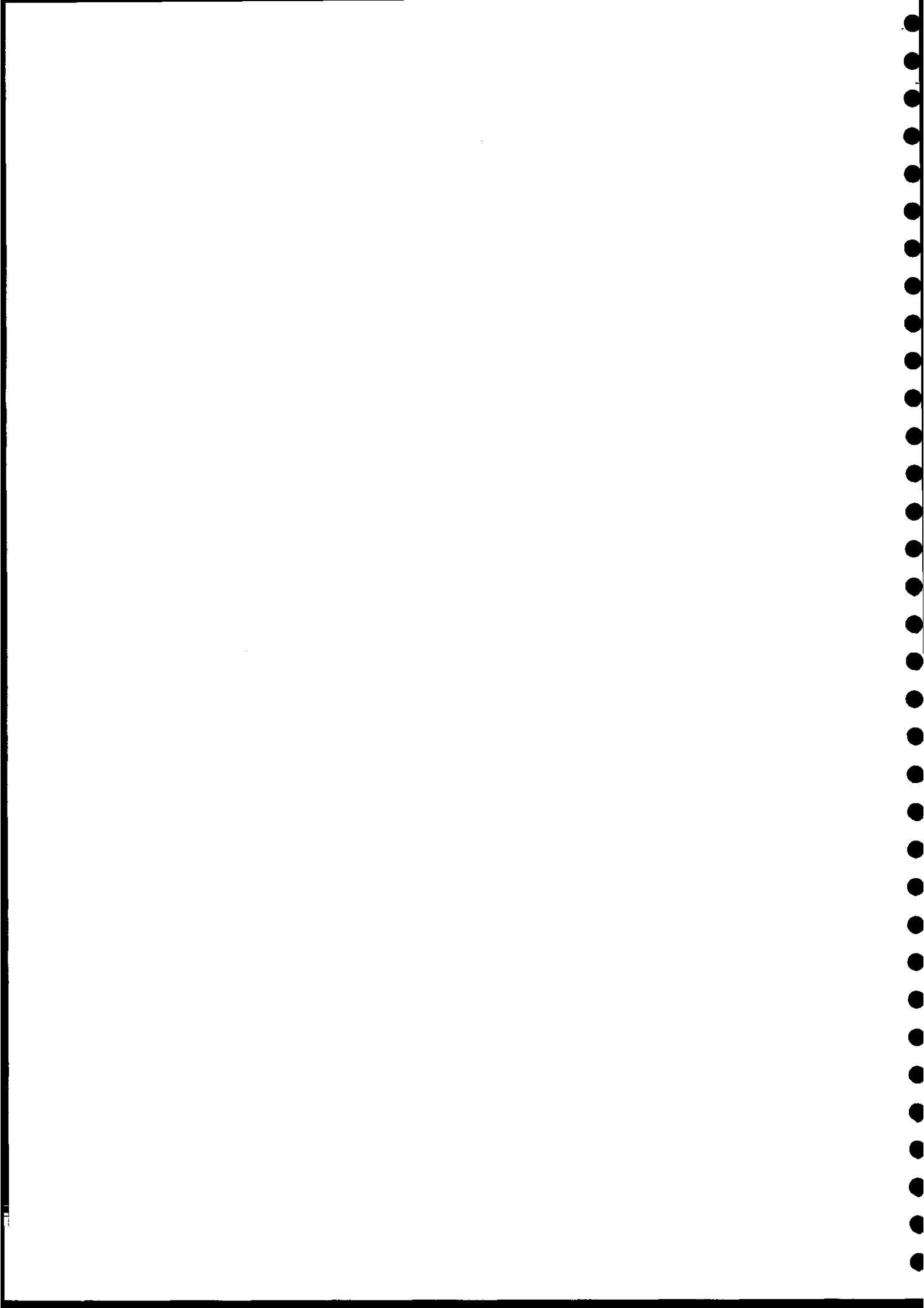
The present directors of the company are shown on page 1, all of whom served throughout the year and to the date of this report. As at 31 December 1999, none of the directors had any beneficial interests in the ordinary shares of the group, or in any other group-related companies.

### **ULTIMATE PARENT UNDERTAKING**

A corporate restructuring occurred in the company's former parent undertaking - the People's Insurance Company of China (Group), a company incorporated in China - the consequence of which resulted in China Insurance Hong Kong (Holdings) Company Limited (incorporated in Hong Kong) becoming the company's new ultimate parent undertaking towards the end of 1999 as noted in note 24.

### **INVESTMENTS**

The investment portfolio has performed well during a volatile year. Details arising from realised gains and losses are shown in note 7 to the accounts.





**DIRECTORS' REPORT**

**YEAR 2000**

As anticipated last year, the preparation work carried out on our computer systems proved to be effective. We are also pleased to advise that to-date we have not experienced any problems from any external source arising from the anticipated Millennium Bug problem. The situation continues to be monitored. Costs incurred to-date have not been significant. Any future costs associated with this issue cannot be quantified but are not expected to be significant.

**AUDITORS**

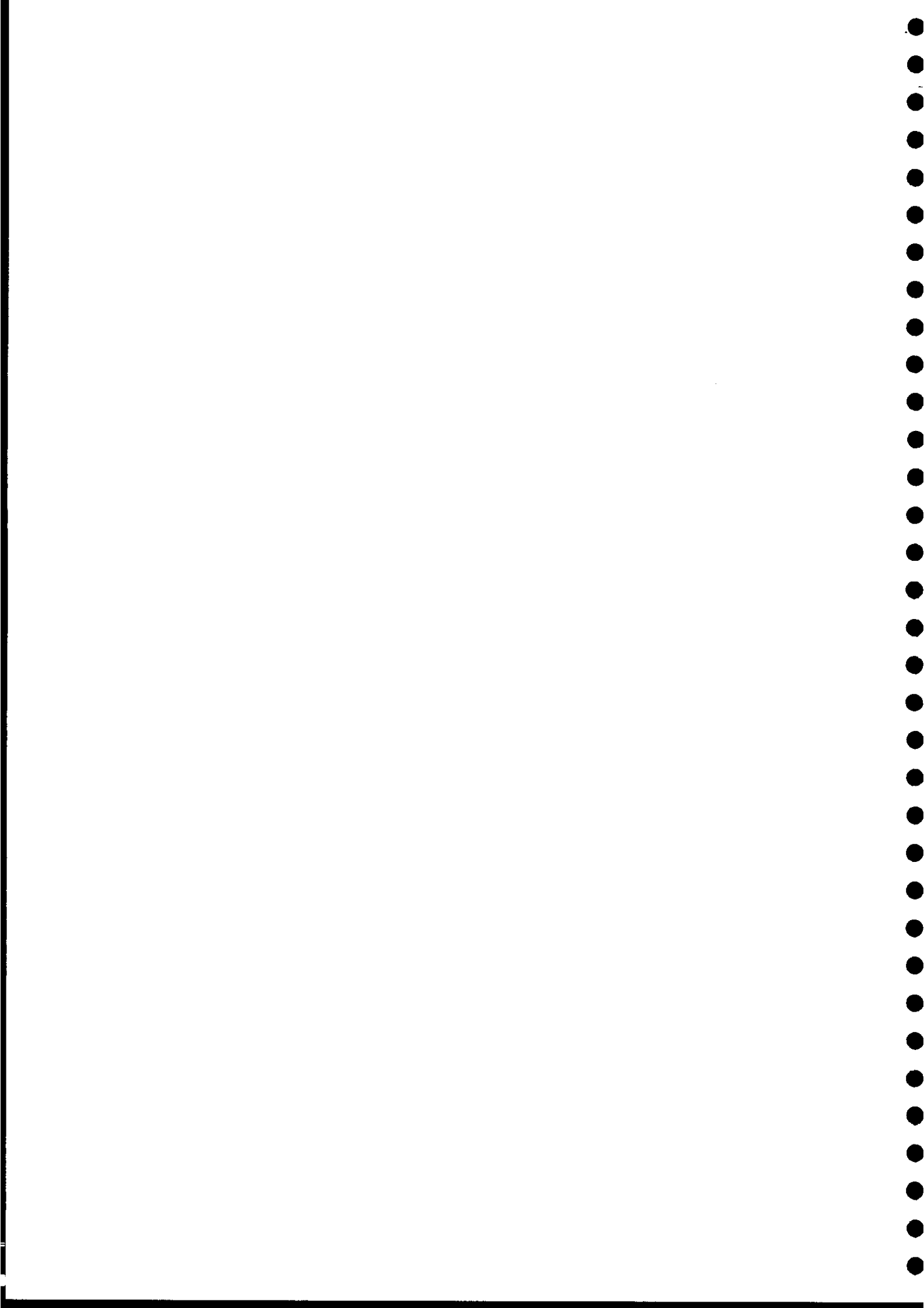
Ernst & Young have resigned as auditors and Deloitte & Touche have been appointed to fill the casual vacancy.

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

Approved by the Board of Directors on 3 May 2000  
and signed on behalf of the Board by



Huang Jun  
Secretary

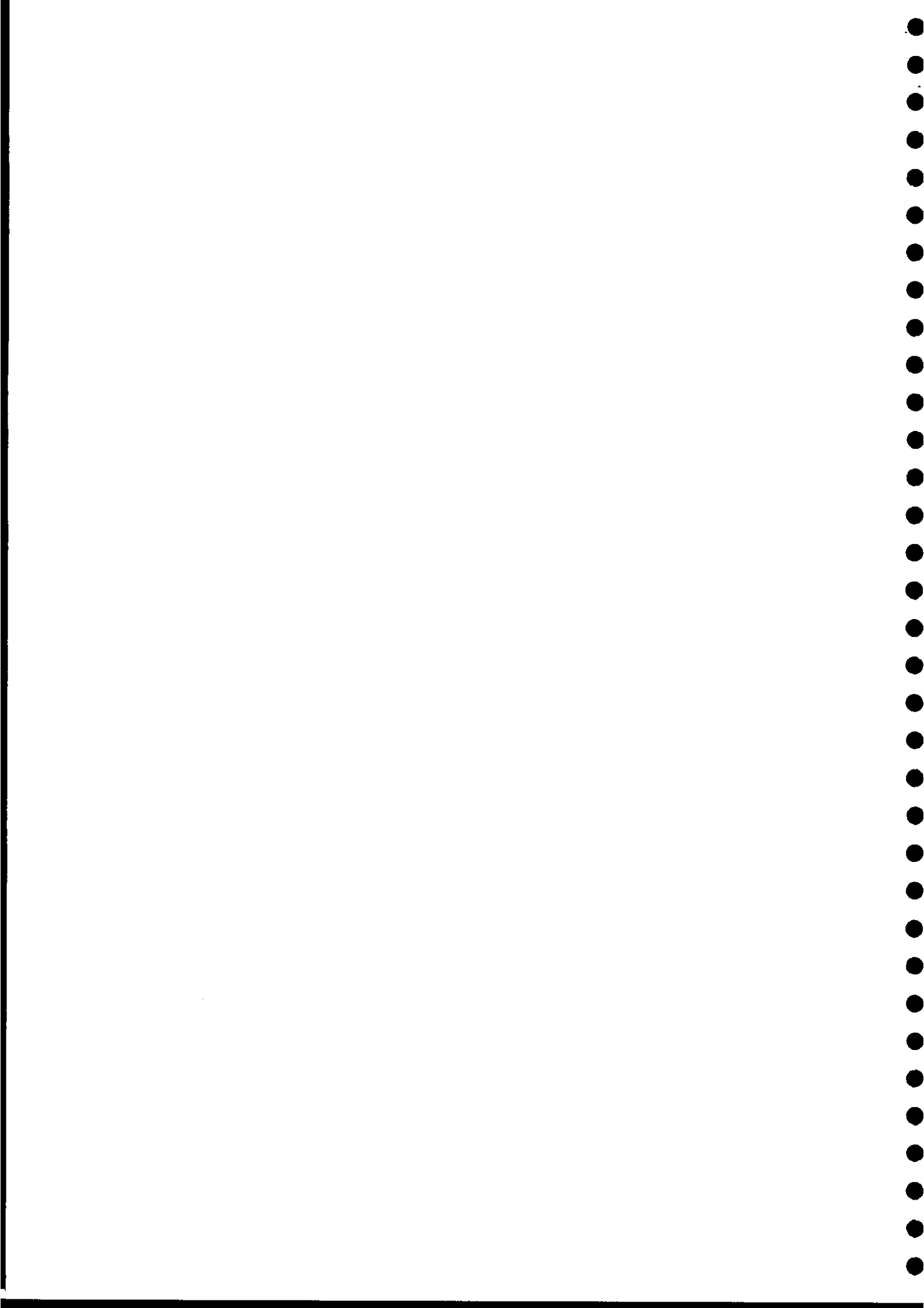


## **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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 accounting standards have been followed; and
- prepare the financial statements on the 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 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.



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

We have audited the financial statements on pages 6 to 24, which have been prepared under 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. It is our responsibility to form an independent opinion, based on our audit, on those 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 the group, consistently applied and adequately disclosed.

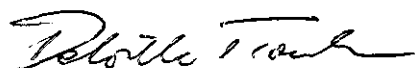
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity 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 1999, 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 5 to the financial statements.

### **Opinion**

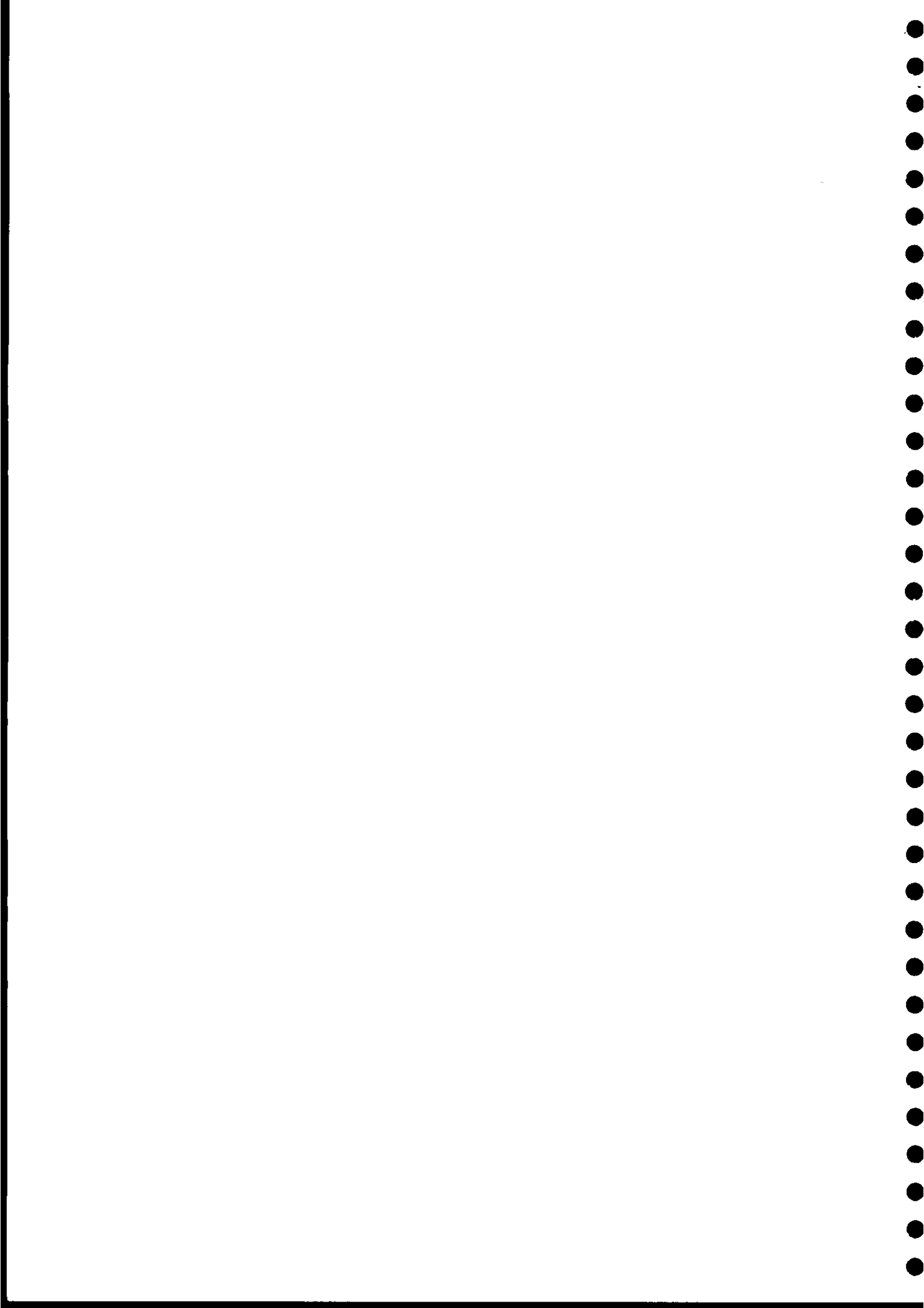
In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 December 1999, and of the profit of the group for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche  
Chartered Accountants  
and Registered Auditors

3 May 2000

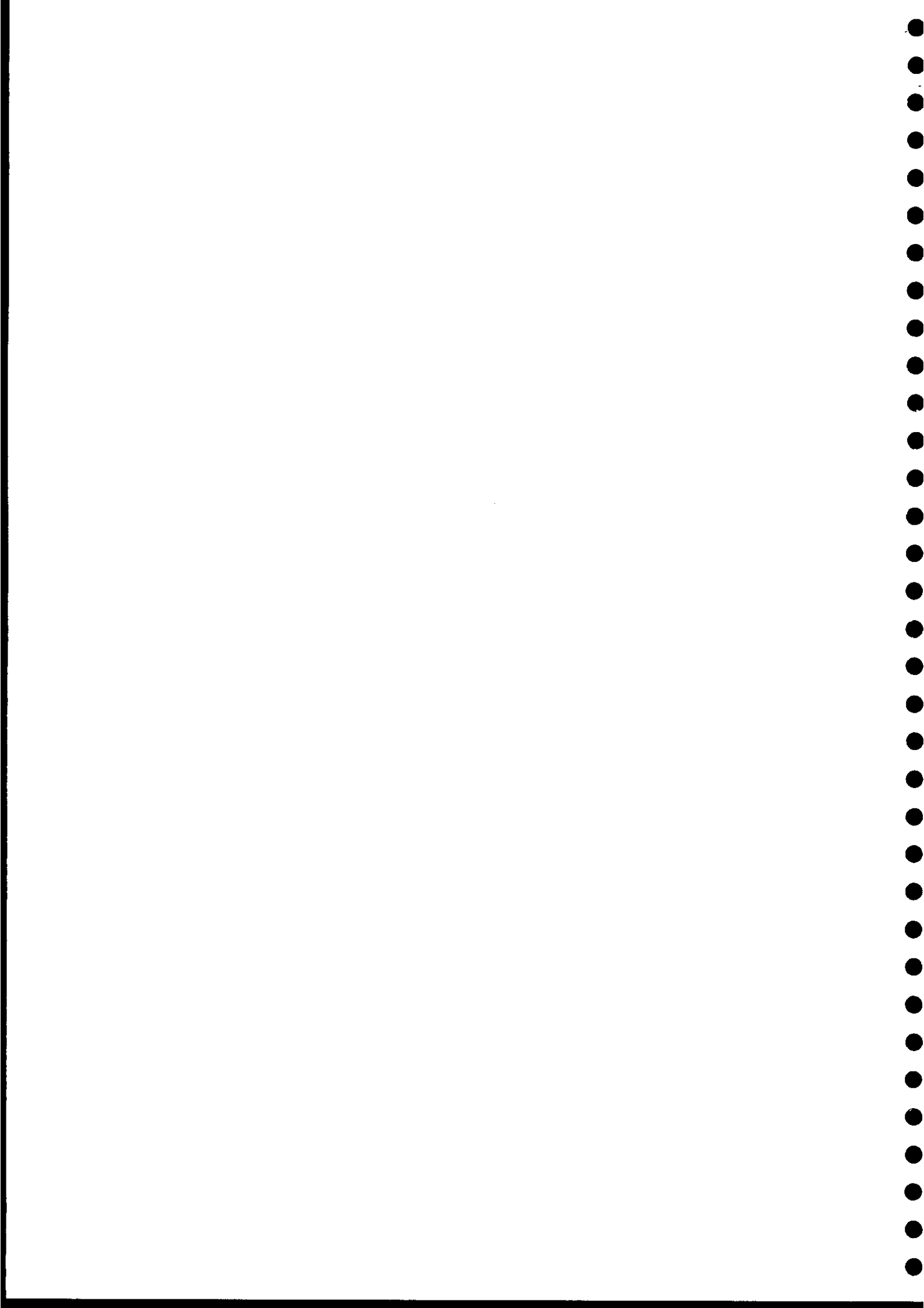
Page 5



**CONSOLIDATED PROFIT AND LOSS ACCOUNT**

For the year ended 31 December 1999

<b>TECHNICAL ACCOUNT – GENERAL BUSINESS</b>	<b>Notes</b>	<b>1999 £</b>	<b>1998 £</b>
Earned premiums, net of reinsurance	2 and 3		
Gross premiums written		9,117,547	8,219,067
Outward reinsurance premiums		(3,387,186)	(3,380,252)
Net premiums written		<u>5,730,361</u>	<u>4,838,815</u>
Change in the provision for unearned premiums	2 and 3		
Gross amounts		(1,787,006)	(872,628)
Reinsurers' share		<u>1,125,050</u>	<u>729,278</u>
Net of reinsurance		<u>(661,956)</u>	<u>(143,350)</u>
<b>TOTAL TECHNICAL INCOME</b>		<u>5,068,405</u>	<u>4,695,465</u>
Claims incurred, net of reinsurance	2 and 4		
Claims paid			
Gross amounts		6,436,107	4,713,368
Reinsurers' share		(3,465,561)	(2,345,425)
Net of reinsurance		<u>2,970,546</u>	<u>2,367,943</u>
Change in the provision for outstanding claims	2 and 4		
Gross amounts		1,965,020	6,533,081
Reinsurers' share		(2,611,638)	(6,269,809)
Net of reinsurance		<u>(646,618)</u>	<u>263,272</u>
<b>CLAIMS INCURRED, NET OF REINSURANCE</b>		<u>2,323,928</u>	<u>2,631,215</u>
Net operating expenses	6 and 8	2,754,148	1,821,818
Other technical charges, net of reinsurance		1,583	-
Increase in equalisation provisions	5	<u>120,000</u>	<u>126,667</u>
<b>TOTAL TECHNICAL CHARGES</b>		<u>(131,254)</u>	<u>4,579,700</u>
<b>BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS</b>		<u>(131,254)</u>	<u>115,765</u>



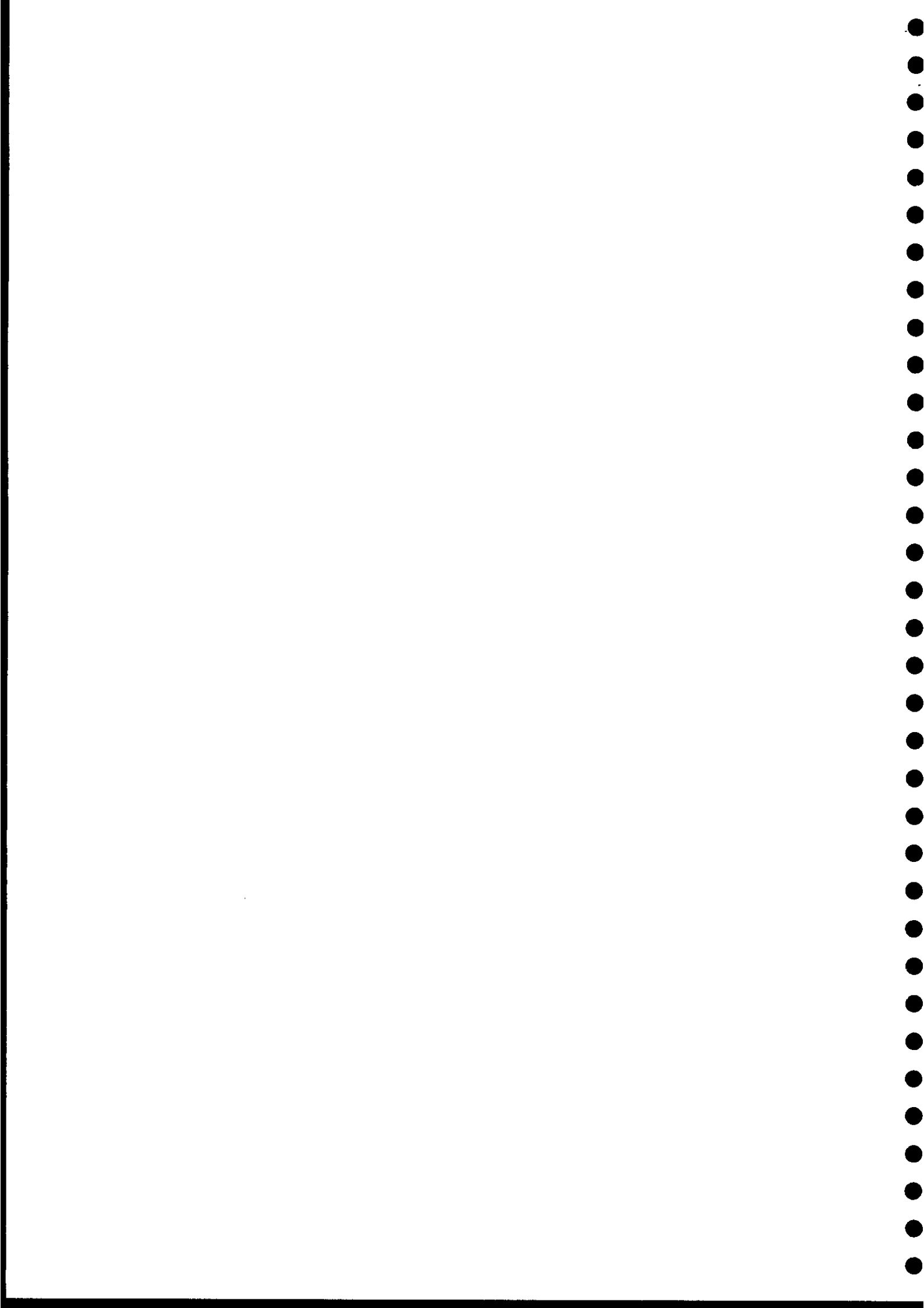


**CONSOLIDATED PROFIT AND LOSS ACCOUNT**

For the year ended 31 December 1999

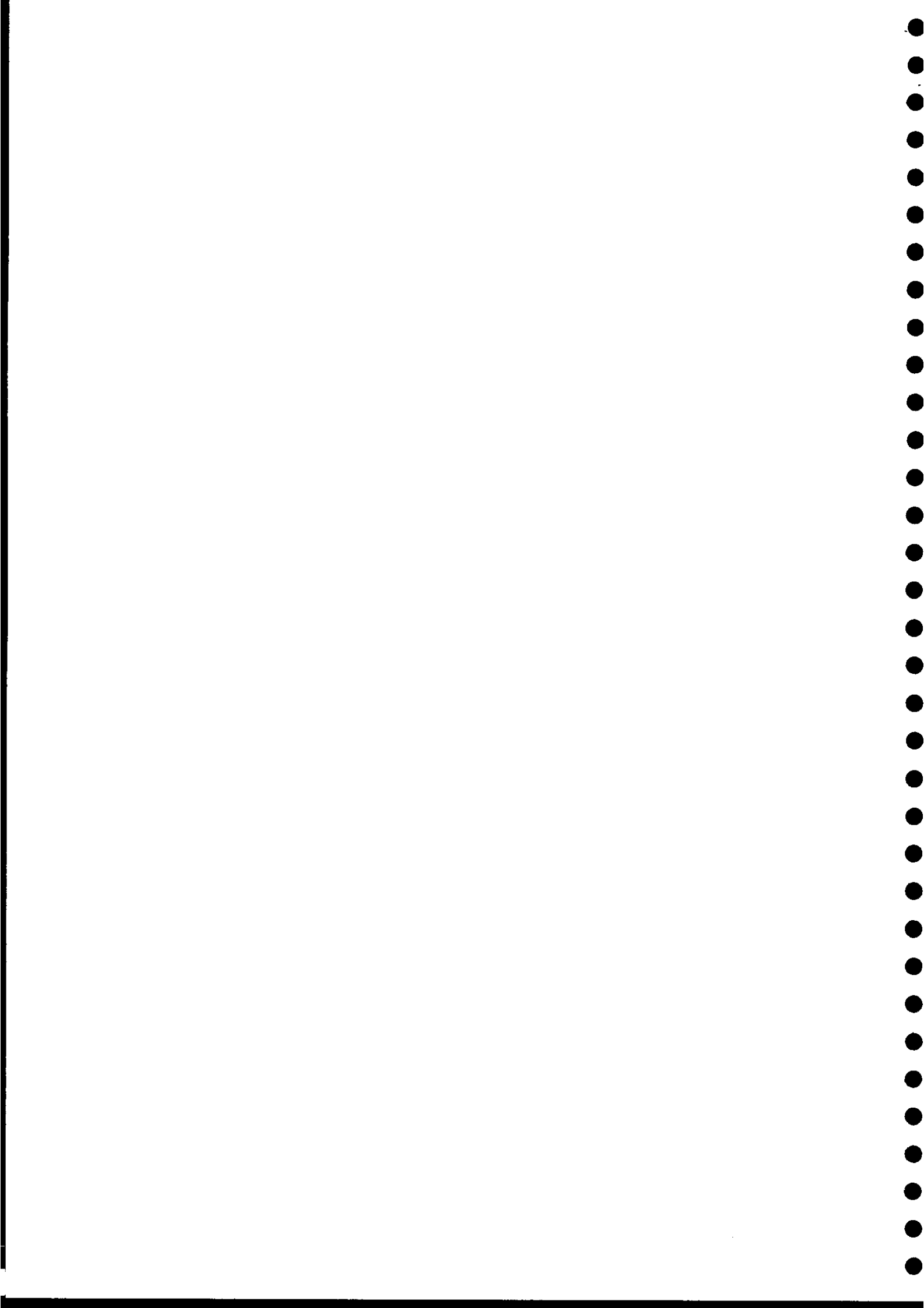
<b>NON-TECHNICAL ACCOUNT</b>	<b>Notes</b>	<b>1999 £</b>	<b>1998 £</b>
<b>BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS</b>		(131,254)	115,765
Investment income	7	1,625,044	1,814,840
Other income		206,007	94,587
Realised gains on investments		1,095,443	625,102
Unrealised (losses) / gains on investments		(237,592)	770,424
Investment expenses and charges		(101,055)	(90,952)
		<u>2,587,847</u>	<u>3,214,001</u>
Exchange gains / (losses)		104,831	(41,343)
Other charges	8	(773,498)	(668,986)
		<u>(668,667)</u>	<u>(710,329)</u>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAX</b>		1,787,926	2,619,437
<b>OPERATING PROFIT</b>		<u>1,907,926</u>	<u>2,746,104</u>
Increase in equalisation provisions	5	120,000	126,667
Tax charge on profit on ordinary activities	11	(432,839)	(947,425)
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAX AND RETAINED PROFIT FOR THE FINANCIAL YEAR</b>	17	<u>1,355,087</u>	<u>1,672,012</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 1999**

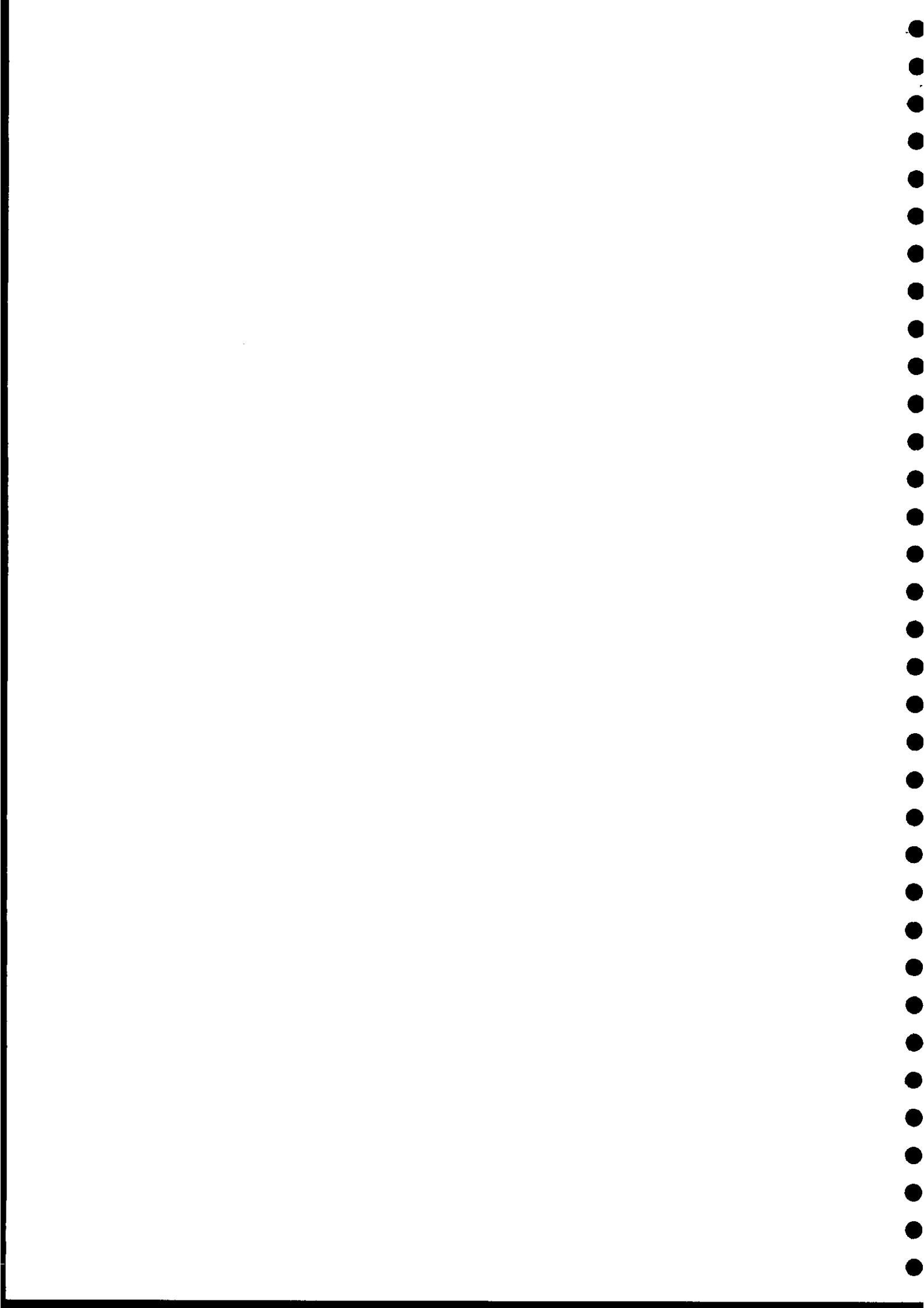
	Notes	1999 £	1998 £
Profit on ordinary activities after taxation		1,355,087	1,672,012
Exchange (losses) / gains on retranslation of net investment in foreign group companies	17	<u>(581,135)</u>	<u>195,056</u>
<b>TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR</b>		<u><u>773,952</u></u>	<u><u>1,867,068</u></u>



## CONSOLIDATED BALANCE SHEET

As at 31 December 1999

		1999 £	1998 £ As restated per Note 1(b)
<b>ASSETS</b>	<b>Notes</b>		
<b>INVESTMENTS</b>			
Land and buildings	12	279,300	135,711
Other financial investments	13	33,678,217	33,499,386
		<u>33,957,517</u>	<u>33,635,097</u>
<b>REINSURERS' SHARE OF TECHNICAL PROVISIONS</b>			
Provision for unearned premiums	3	2,255,857	1,134,059
Provision for outstanding claims	4	12,478,425	9,874,541
		<u>14,734,282</u>	<u>11,008,600</u>
<b>DEBTORS</b>			
Debtors arising out of direct insurance operations			
Amounts owed by policyholders		831,341	654,859
Amounts owed by intermediaries		1,021,406	702,300
		<u>1,852,747</u>	<u>1,357,159</u>
Debtors arising out of reinsurance operations		2,627,968	1,670,706
Taxation recoverable		6,489	251,479
Other debtors		258,423	45,822
		<u>4,745,627</u>	<u>3,325,166</u>
<b>OTHER ASSETS</b>			
Tangible fixed assets	15	400,999	471,148
Cash at bank and in hand		1,605,247	1,483,916
		<u>2,006,246</u>	<u>1,955,064</u>
<b>PREPAYMENTS AND ACCRUED INCOME</b>			
Accrued interest and rent		74,551	166,963
Deferred acquisition costs		732,746	681,550
Other prepayments and accrued income		19,500	3,590
		<u>826,797</u>	<u>852,103</u>
<b>TOTAL ASSETS</b>		<u>56,270,469</u>	<u>50,776,030</u>



**CONSOLIDATED BALANCE SHEET**

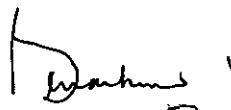
As at 31 December 1999

<b>LIABILITIES</b>	<b>Notes</b>	<b>1999 £</b>	<b>1998 £</b>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	16	18,423,746	18,423,746
Capital reserve		762,388	762,388
Profit and loss account		9,312,442	8,538,490
Equity shareholders' funds	17	<u>28,498,576</u>	<u>27,724,624</u>
<b>GROSS TECHNICAL PROVISIONS</b>			
Provision for unearned premiums	3	5,175,439	3,398,711
Provision for outstanding claims	4	17,332,159	15,374,075
Equalisation provisions	5	510,000	390,000
		<u>23,017,598</u>	<u>19,162,786</u>
<b>PROVISIONS FOR OTHER RISKS AND CHARGES</b>			
Deferred taxation	18	<u>501,161</u>	<u>328,164</u>
<b>CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR</b>			
Creditors arising out of direct insurance operations		66,045	63,026
Creditors arising out of reinsurance operations		3,422,608	2,236,445
United Kingdom corporation tax		98,622	782,462
Other creditors including taxation and social security		405,259	205,089
		<u>3,992,534</u>	<u>3,287,022</u>
<b>ACCRUALS AND DEFERRED INCOME</b>		<u>260,600</u>	<u>273,434</u>
<b>TOTAL LIABILITIES</b>		<u><u>56,270,469</u></u>	<u><u>50,776,030</u></u>

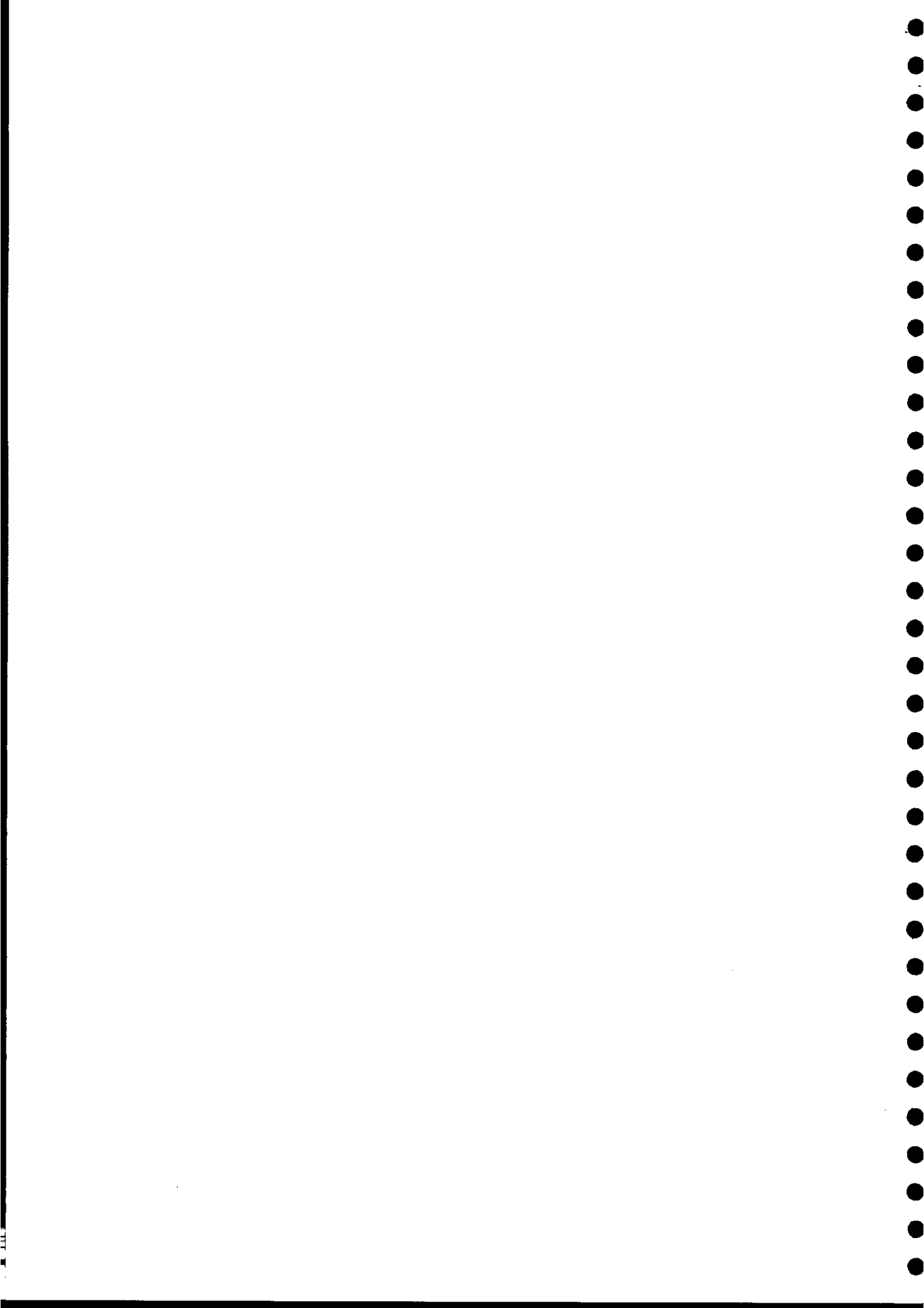
These financial statements were approved by the Board of Directors on 3 May 2000  
and signed on behalf of the Board of Directors by



Xie Yiqun  
Director



Bertram G Hand  
Director





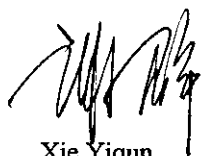
# CIC HOLDINGS LIMITED

## COMPANY BALANCE SHEET

As at 31 December 1999

	Notes	1999 £	1998 £
<b>FIXED ASSETS</b>			
Tangible fixed assets	15	18,070	29,317
Other financial investments	13	5,571,643	4,962,851
Investments in group undertakings	14	15,276,552	15,276,552
		<u>20,866,265</u>	<u>20,268,720</u>
<b>CURRENT ASSETS</b>			
Debtors		491,711	613,237
Cash at bank and in hand		15,486	65,579
		<u>507,197</u>	<u>678,816</u>
<b>CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR</b>		<u>20,478</u>	<u>41,494</u>
<b>NET CURRENT ASSETS</b>		<u>486,719</u>	<u>637,322</u>
<b>NET ASSETS</b>		<u>21,352,984</u>	<u>20,906,042</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	16	18,423,747	18,423,747
Profit and loss account	17	2,929,237	2,482,295
<b>EQUITY SHAREHOLDERS' FUNDS</b>	17	<u>21,352,984</u>	<u>20,906,042</u>

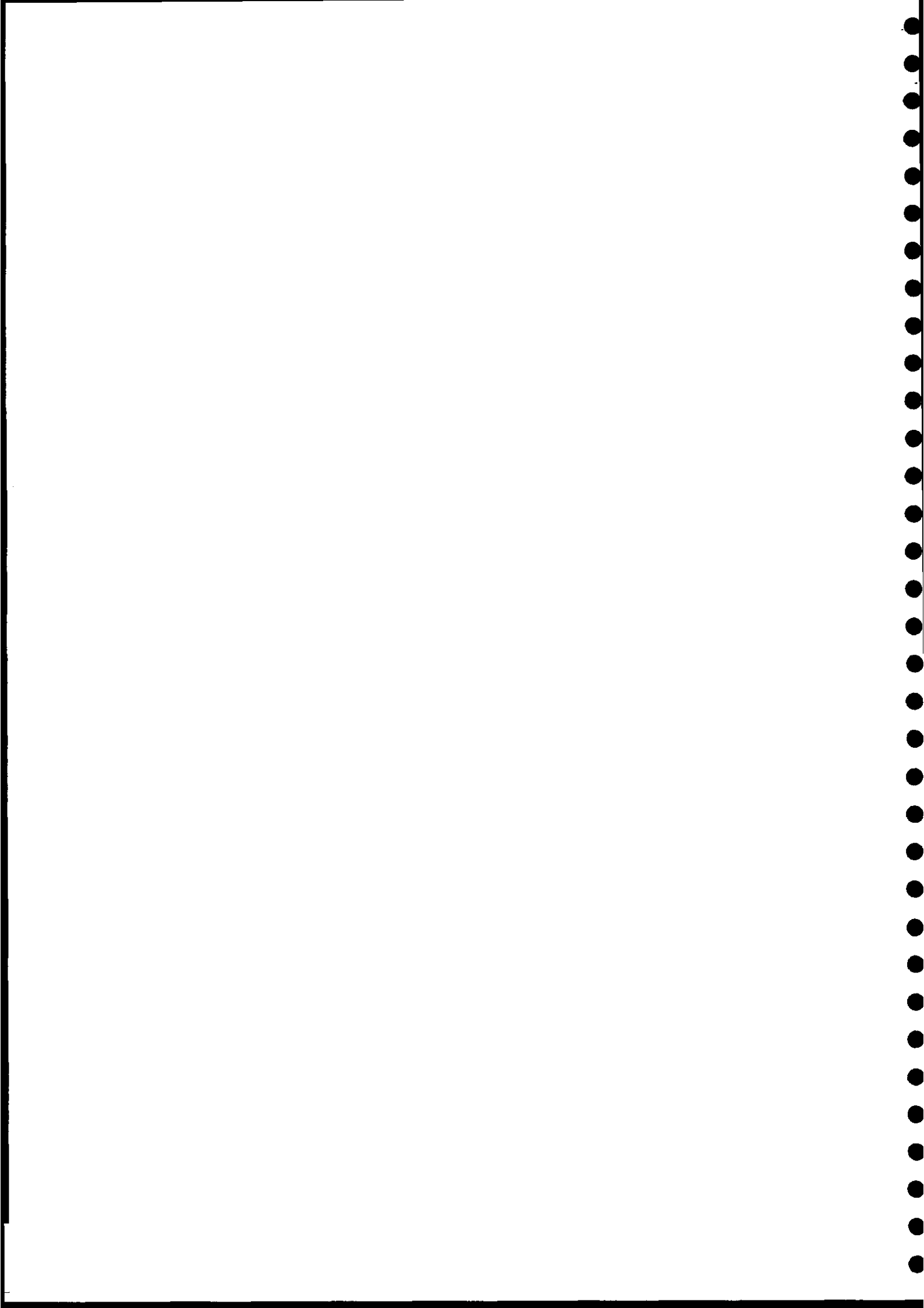
These financial statements were approved by the Board of Directors on 3 May 2000 and signed on behalf of the Board of Directors by



Xie Yiqun  
Director



Bertram G Hand  
Director



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1999

### 1. ACCOUNTING POLICIES

#### (a) Basis of preparation

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

#### (b) Change in accounting policy

The group has reclassified a long leasehold within tangible fixed assets to investments in land and buildings. This has resulted in the restatement of comparative amounts for tangible fixed assets (which has been reduced by £135,711), as well as the restatement of investments in land and buildings (which has been increased by £135,711).

This has had no effect on the profit for the current and previous financial years.

#### (c) Cash flow statement

The company availed itself of the exemption under Financial Reporting Standard 1 (Revised) on 'Cash Flow Statements' on the ground that it is a wholly owned subsidiary undertaking whose immediate parent prepares a group cash flow statement in its financial statements. As such, no 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 company, 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 creditors including taxation and social security".

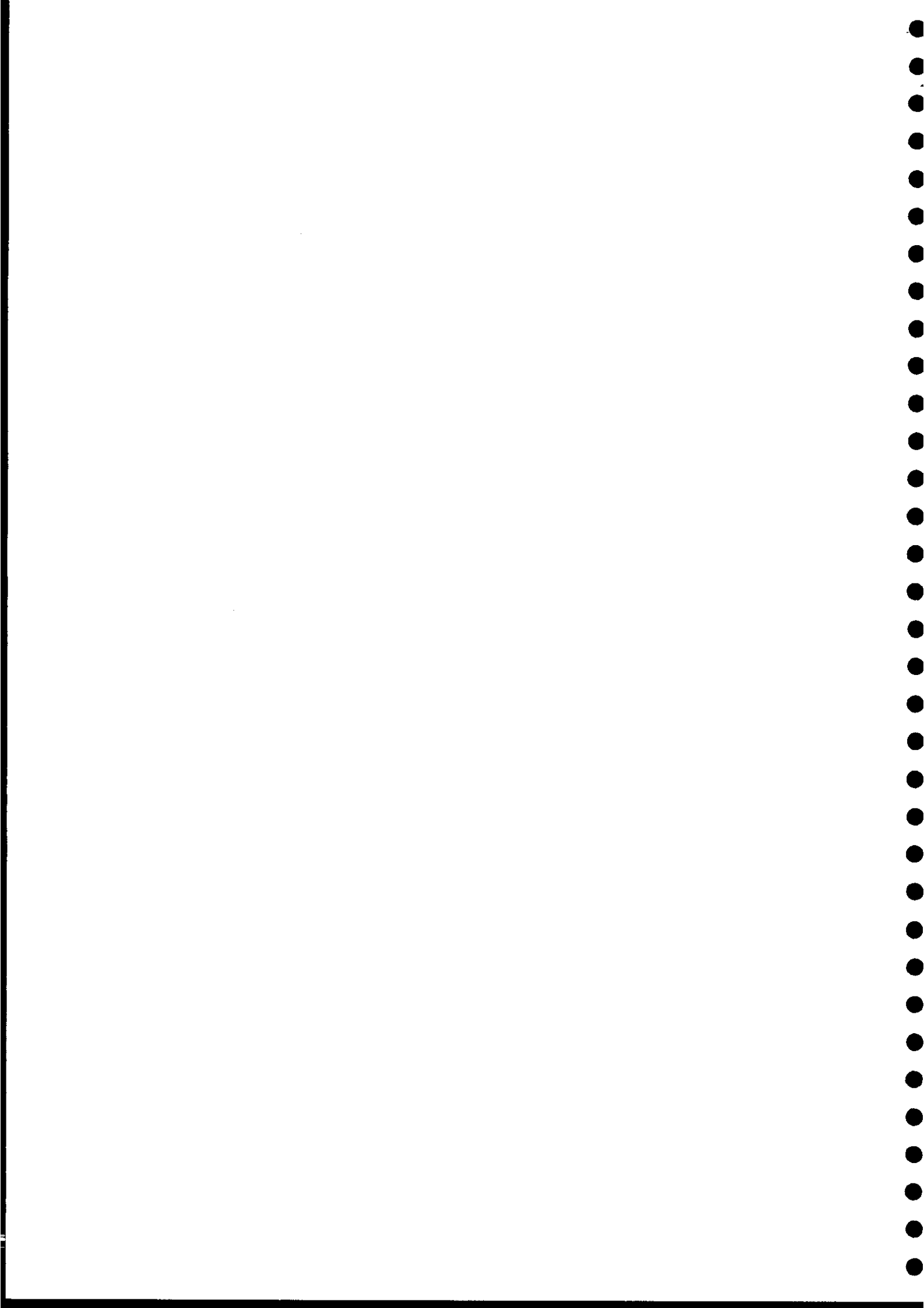
Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards reinsurance business being reinsured.

#### (f) Unearned premiums

For business accounted for on an annual basis, 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.

#### (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.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1999

### 1. ACCOUNTING POLICIES (continued)

#### (g) Claims incurred (continued)

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 claims handling expenses. Included in the provision is an estimate of internal and external claims handling costs.

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 is taken to the profit and loss technical account for general business – notwithstanding that it does 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 'other technical provisions' in the balance sheet.

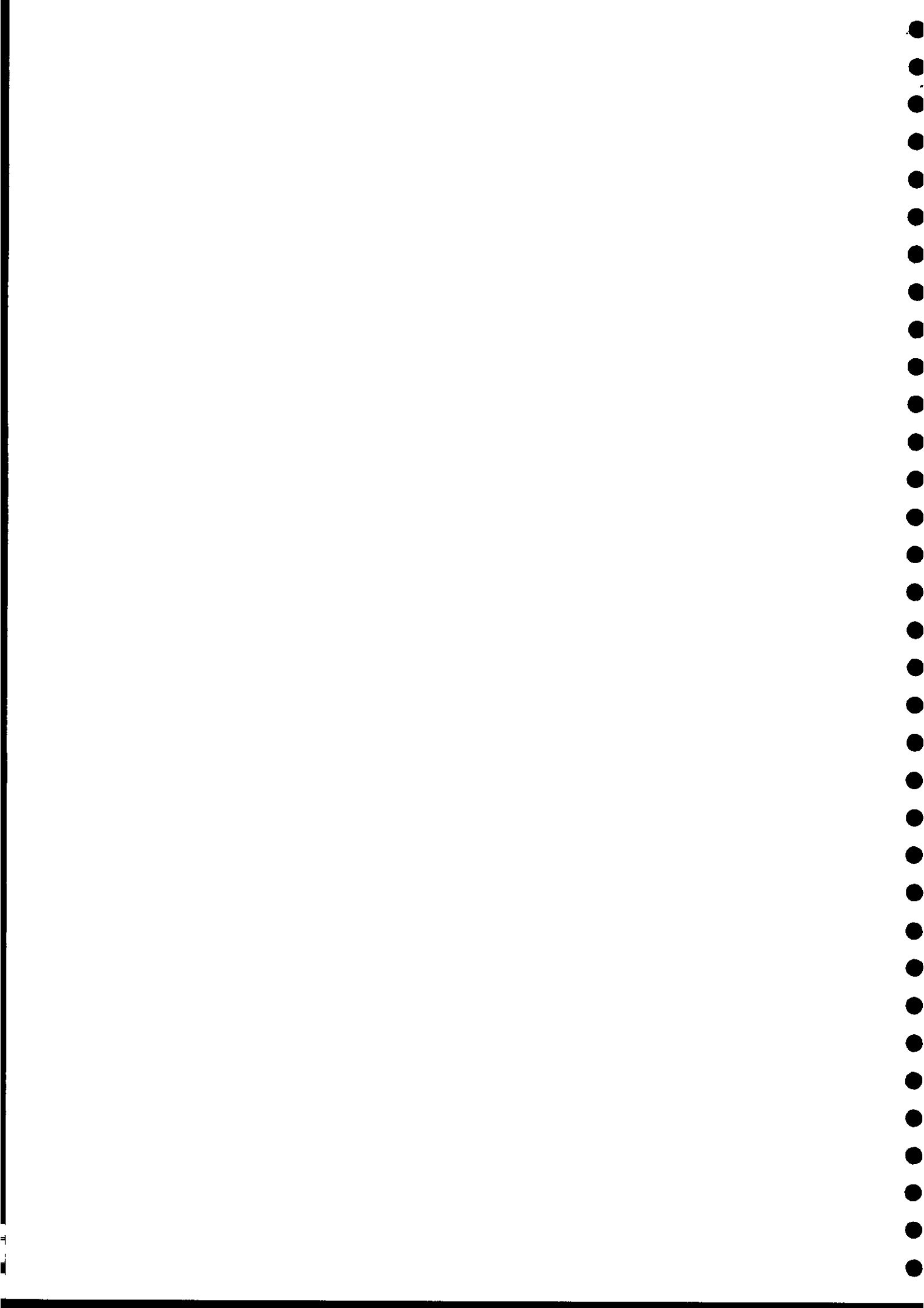
#### (l) Investment returns

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 are calculated as the difference between net proceeds on disposal and their purchase price.

Unrealised investment gains and losses are calculated as the difference between the valuation at the balance sheet date and their valuation at the last balance sheet date, or purchase price if acquired during the year. These include adjustments in respect of unrealised gains and losses recorded in prior years which have been realised during the year, and are reported as realised gains and losses in the current profit and loss account.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1999

## 1. ACCOUNTING POLICIES (continued)

## (m) Investments in land and buildings

All land and buildings, including freehold properties occupied by the company, 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 listed 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 parent 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 and equipment	15% ~ 33%
Motor vehicles	20% ~ 33%

## (q) Taxation and deferred taxation

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

Deferred taxation arise from timing differences between the treatment of certain items for taxation and accounting purposes – provision of which 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

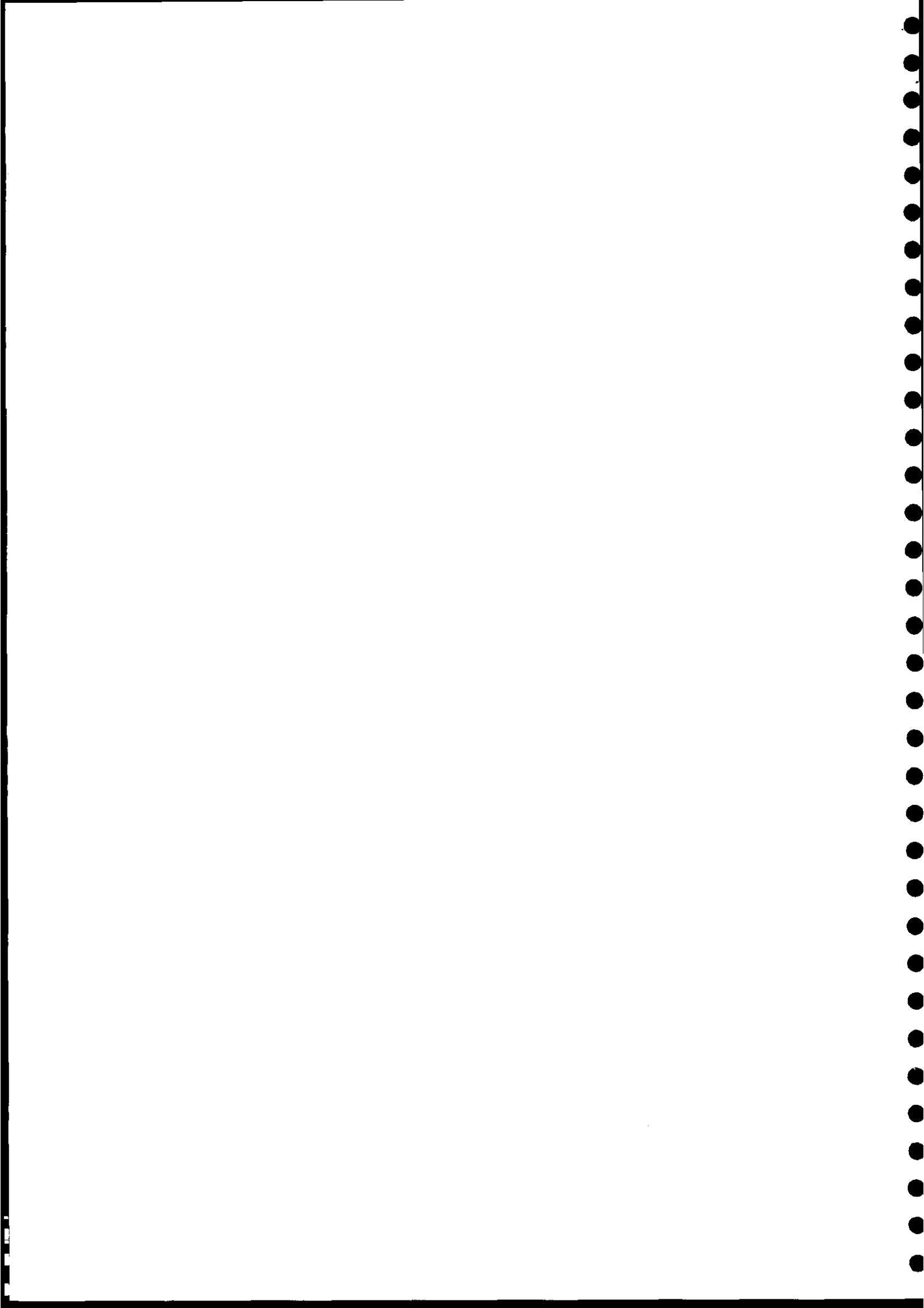
Transactions in foreign currencies are recorded at the rates ruling at the date of the transactions, or at the contracted rates of the transactions if covered by forward exchange contracts.

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 FINANCIAL STATEMENTS

For the year ended 31 December 1999

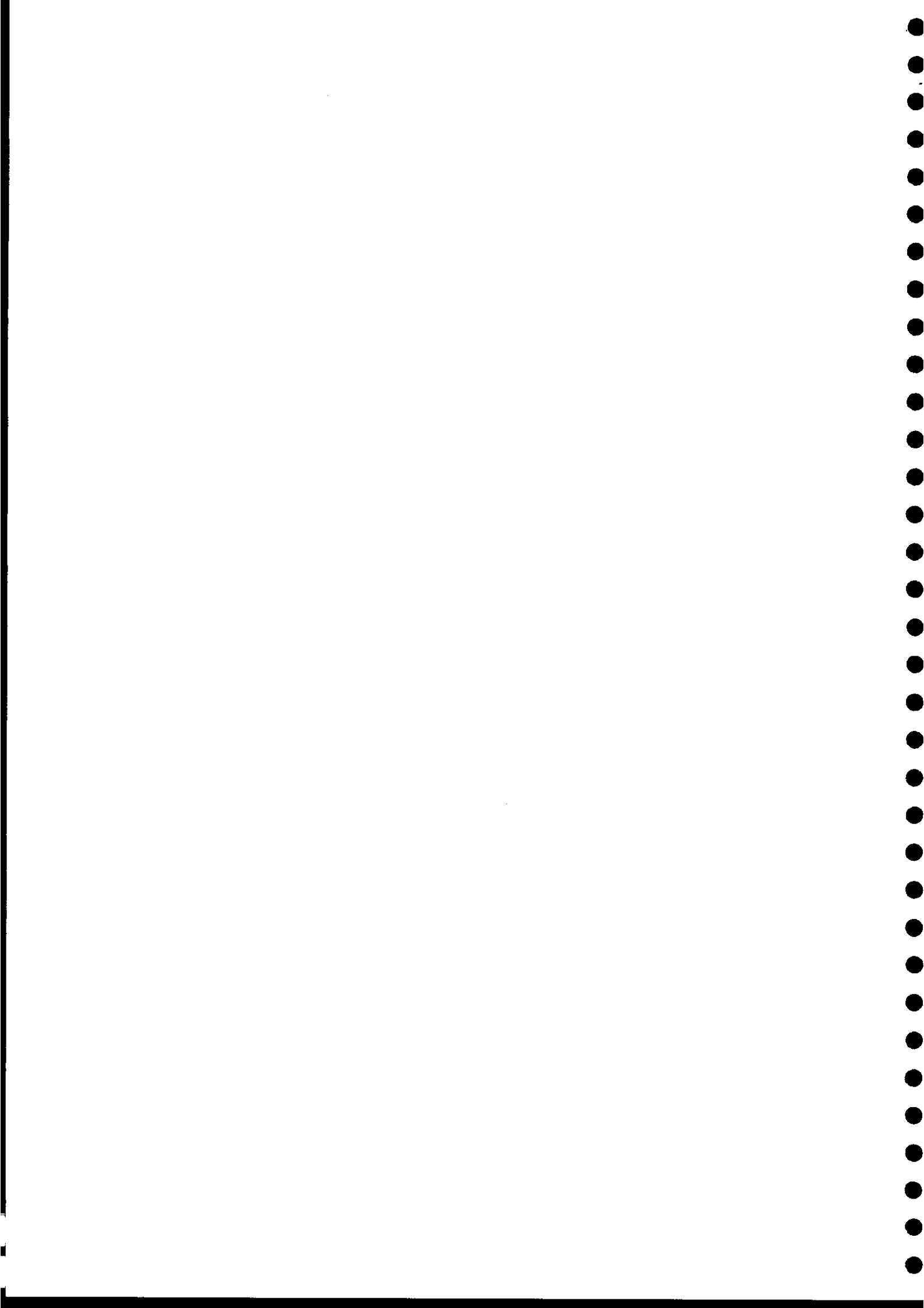
## 1. ACCOUNTING POLICIES (continued)

## (t) Pension and other post retirement benefits

Beginning 22 December 1999, the Company established a new money purchase pension scheme for selected directors and staff on a defined contribution basis. The company's contributions reflect the deferred 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 the company's 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
1999							
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	1,786	8,216
Group	Direct property £000	Direct liability £000	Direct marine £000	Other direct £000	Total direct £000	Rein- surance accepted £000	Total £000
1998							
Gross premiums written	3,534	533	251	1,152	5,470	2,749	8,219
Gross premiums earned	3,645	546	155	1,068	5,414	1,932	7,346
Gross claims incurred	(2,229)	(417)	(64)	(1,288)	(3,998)	(7,248)	(11,246)
Gross operating expenses	(1,374)	(254)	(99)	(388)	(2,115)	(555)	(2,670)
Gross technical result	42	(125)	(8)	(608)	(699)	(5871)	(6570)
Reinsurance balance	(555)	178	189	(417)	(605)	7,418	6,813
Transfer to equalisation provision	(88)	(12)	(3)	(24)	(127)	-	(127)
Net technical result	(601)	41	178	(1,049)	(1,431)	1,547	116
Net technical provisions	4,372	1,151	133	428	6,084	2,071	8,155



# NOTES TO THE FINANCIAL STATEMENTS

## For the year ended 31 December 1999

### 2. SEGMENTAL ANALYSES (continued)

#### Group

	1999 £	1998 £
<b>Gross written premiums resulted from contracts of insurance concluded in:</b>		
The United Kingdom	8,742	7,706
Other EU member states	376	513
	<u>9,118</u>	<u>8,219</u>

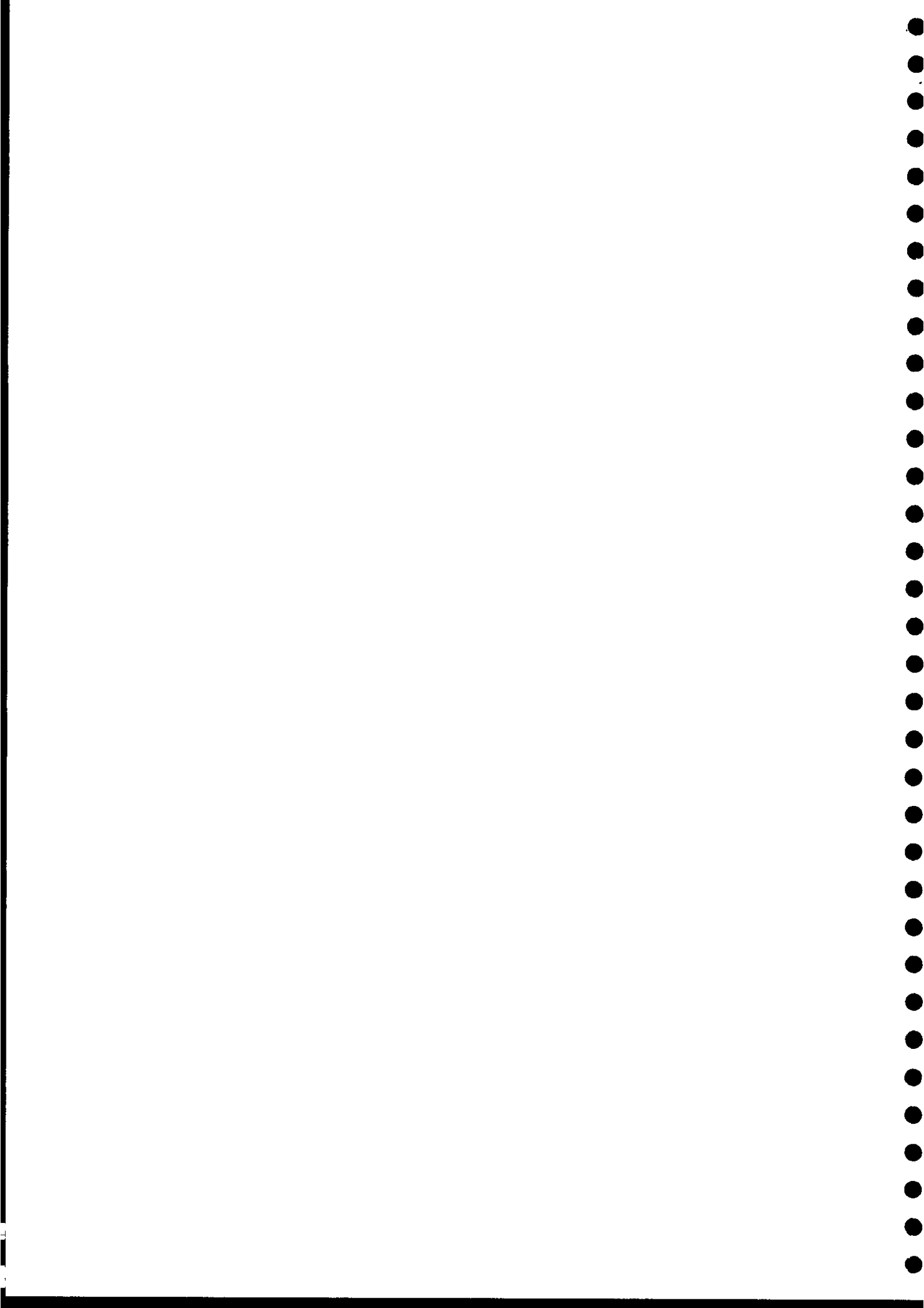
All premiums arising from direct business emanated from risks located in the United Kingdom, with the exception of 'direct marine' and 'reinsurances accepted' - which arose from international accounts where it has not been possible to present a meaningful analysis of risk by location.

### 3. EARNED PREMIUMS, NET OF REINSURANCE

Group	1999			1998		
	Gross £	Reinsurance £	Net £	Gross £	Reinsurance £	Net £
Premiums receivable	<u>9,117,547</u>	<u>3,387,186</u>	<u>5,730,361</u>	<u>8,219,067</u>	<u>3,380,252</u>	<u>4,838,815</u>
Provision for unearned premiums						
Carried forward	5,175,439	2,255,857	2,919,582	3,398,711	1,134,059	2,264,652
Brought forward	3,398,711	1,134,059	2,264,652	2,526,083	404,781	2,121,302
Exchange differences	(10,278)	(3,252)	(7,026)	-	-	-
Increase	<u>1,787,006</u>	<u>1,125,050</u>	<u>661,956</u>	<u>872,628</u>	<u>729,278</u>	<u>143,350</u>
Earned premiums	<u>7,330,541</u>	<u>2,262,136</u>	<u>5,068,405</u>	<u>7,346,439</u>	<u>2,650,974</u>	<u>4,695,465</u>

### 4. CLAIMS INCURRED, NET OF REINSURANCE

Group	1999			1998		
	Gross £	Reinsurance £	Net £	Gross £	Reinsurance £	Net £
Claims paid	<u>6,436,107</u>	<u>3,465,561</u>	<u>2,970,546</u>	<u>4,713,368</u>	<u>2,345,425</u>	<u>2,367,943</u>
Provision for outstanding claims						
Carried forward	17,332,159	12,478,425	4,853,734	15,374,075	9,874,541	5,499,534
Brought forward	15,374,075	9,874,541	5,499,534	8,840,994	3,604,732	5,236,262
Exchange differences	(6,936)	(7,754)	818	-	-	-
Increase / (decrease)	<u>1,965,020</u>	<u>2,611,638</u>	<u>(646,618)</u>	<u>6,533,081</u>	<u>6,269,809</u>	<u>263,272</u>
Claims incurred	<u>8,401,127</u>	<u>6,077,199</u>	<u>2,323,928</u>	<u>11,246,449</u>	<u>8,615,234</u>	<u>2,631,215</u>



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1999

## 5. 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 30.25% (1998 - 31%), this has had the cumulative effect of reducing shareholders' funds by £355,725 (1998 - £269,100).

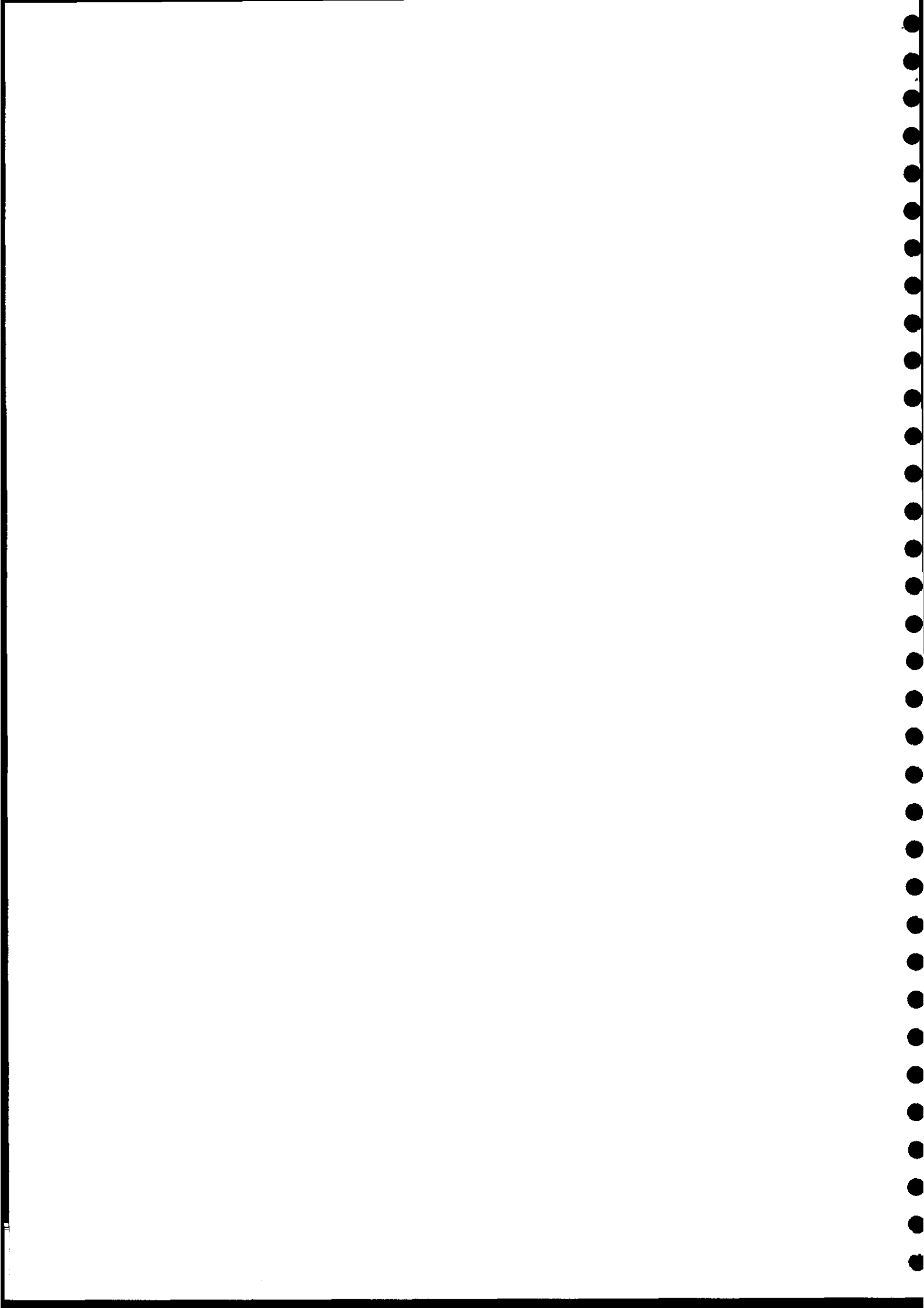
The movement in equalisation provisions during the year resulted in a decrease in the result on the profit and loss technical account for general business, as well as in the profit before taxation by £120,000 (1998 - £126,667).

## 6. NET OPERATING EXPENSES

Group	1999			1998		
	Gross £	Reinsurance £	Net £	Gross £	Reinsurance £	Net £
Acquisition costs (Commissions)	2,090,529	796,392	1,294,137	1,402,313	833,250	569,063
Deferred acquisition costs						
Carried forward	732,746	101,738	631,008	681,550	89,592	591,958
Brought forward	681,550	89,592	591,958	618,369	104,624	513,745
Exchange difference	(2,939)	-	(2,939)	-	-	-
(Increase) / decrease	(54,135)	(12,146)	(41,989)	(63,181)	15,032	(78,213)
Incurred acquisition costs	2,036,394	784,246	1,252,148	1,339,132	848,282	490,850
Administrative expenses (Note 8)			1,502,000			1,330,968
Total net operating expenses			2,754,148			1,821,818

## 7. INVESTMENT INCOME

Group	1999 £	1998 £
Income from investments	1,162,447	1,682,304
Other interest	462,597	132,536
	<u>1,625,044</u>	<u>1,814,840</u>



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1999

## 8. ADMINISTRATIVE EXPENSES

## Group

	1999 £	1998 £
<b>Administrative expenses charged to both the technical and non-technical accounts include:</b>		
Directors' emoluments	247,708	172,887
Auditors' remuneration – Audit services	76,262	70,384
Auditors' remuneration – Non-audit services	6,750	50,270
Depreciation of tangible fixed assets – Owned assets	143,324	124,872
Decrease in bad debt provisions	-	(8,941)
	<u>          </u>	<u>          </u>

## 9. STAFF COSTS

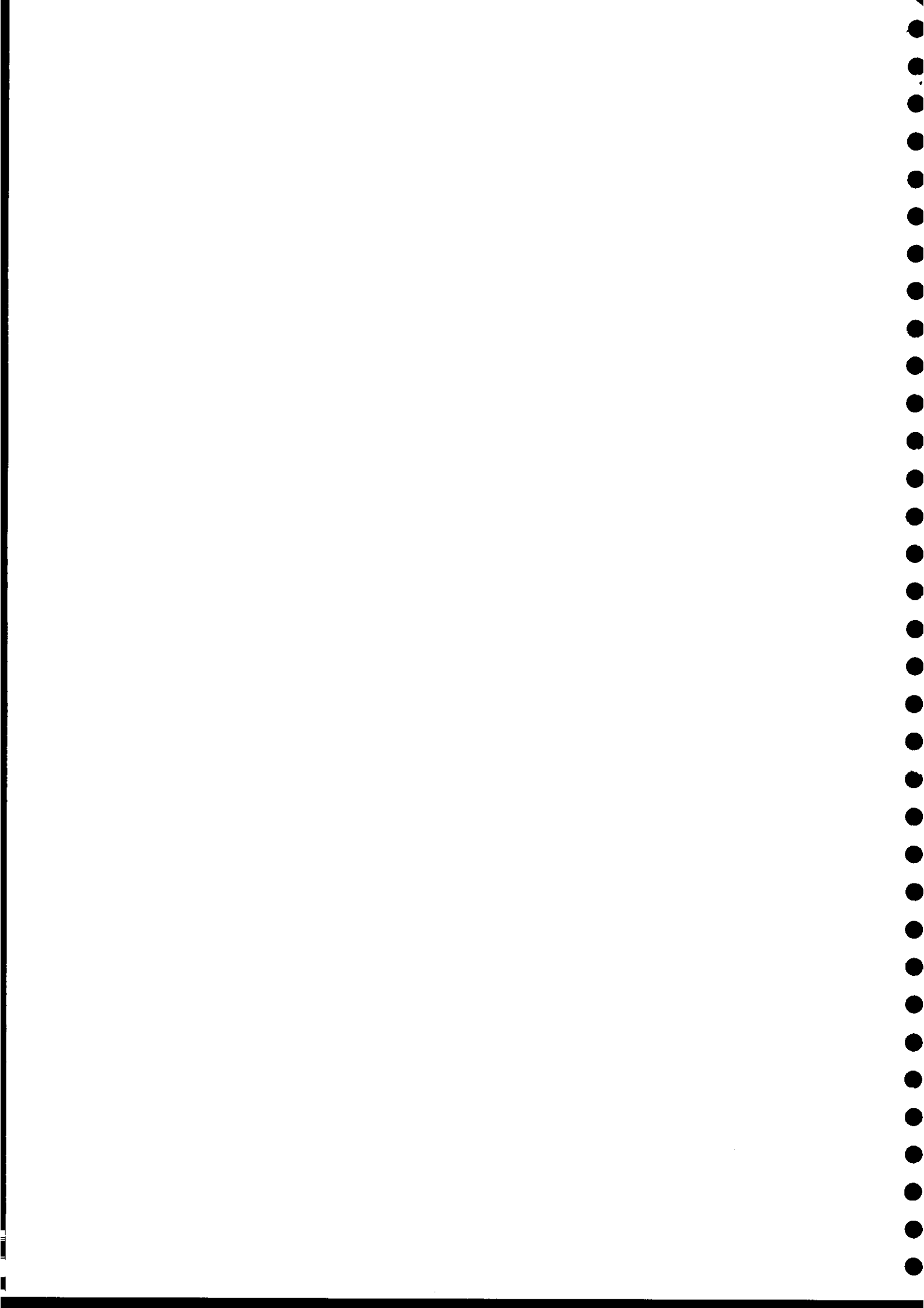
## Group

All salary costs, including directors' emoluments, comprise:

	1999 £	1998 £
Wages and salaries	1,033,353	919,235
Social security costs	112,943	138,701
Pension contributions	63,287	-
	<u>          </u>	<u>          </u>
	1,209,583	1,057,936
	<u>          </u>	<u>          </u>

The average number of employees, including executive directors employed during the year was as follows:

	1999 Number	1998 Number
Management	9	8
Underwriting	14	13
Claims	6	5
Marketing	6	6
Administration	18	20
	<u>          </u>	<u>          </u>
	53	52
	<u>          </u>	<u>          </u>





**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 1999**

**10. DIRECTORS' REMUNERATION**

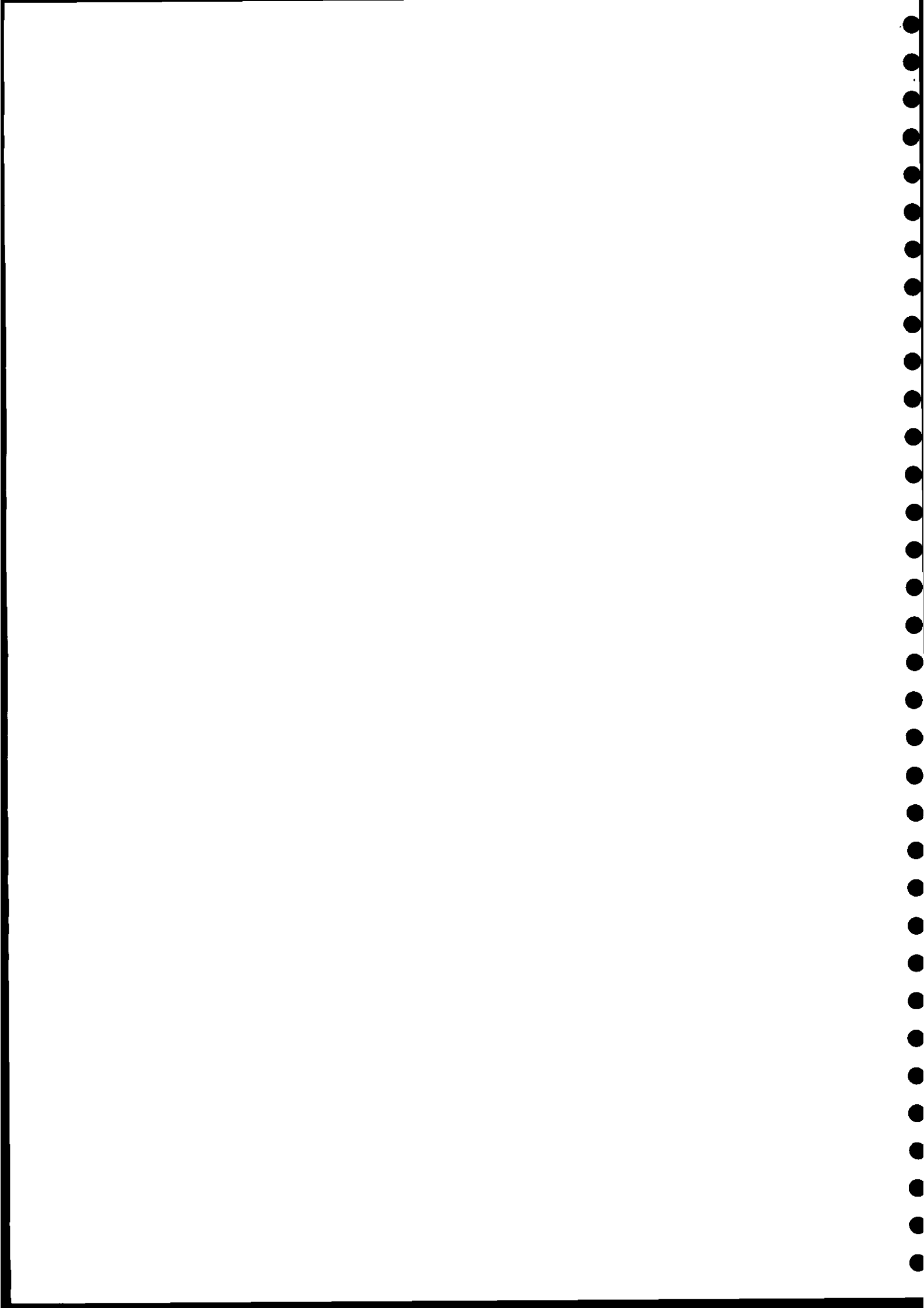
**Group**

	1999 £	1998 £
<b>Directors' remuneration consist exclusively of remuneration for services provided as directors, which comprise:</b>		
Emoluments		
Wages and salaries (including social security costs)	204,665	172,887
Pension contributions	16,817	-
	<u>221,482</u>	<u>172,887</u>

Two directors (1998 - None) accrued benefits under the holding company's defined contribution scheme.

**11. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES**

	1999 £	1998 £
<b>The group charge for taxation comprises:</b>		
Current taxation		
United Kingdom corporation tax at 30.25% (1998 - 31%)	289,669	696,300
(Over) / under provision in prior years' tax	(99,406)	91,559
Tax credit on franked investment income	24,547	42,356
Overseas taxation	45,032	34,457
	<u>259,842</u>	<u>864,672</u>
Deferred taxation		
Current year	222,359	82,753
Over provision in prior years' tax	(49,362)	-
	<u>432,839</u>	<u>947,425</u>



# NOTES TO THE FINANCIAL STATEMENTS

## For the year ended 31 December 1999

### 12. INVESTMENTS IN LAND AND BUILDINGS

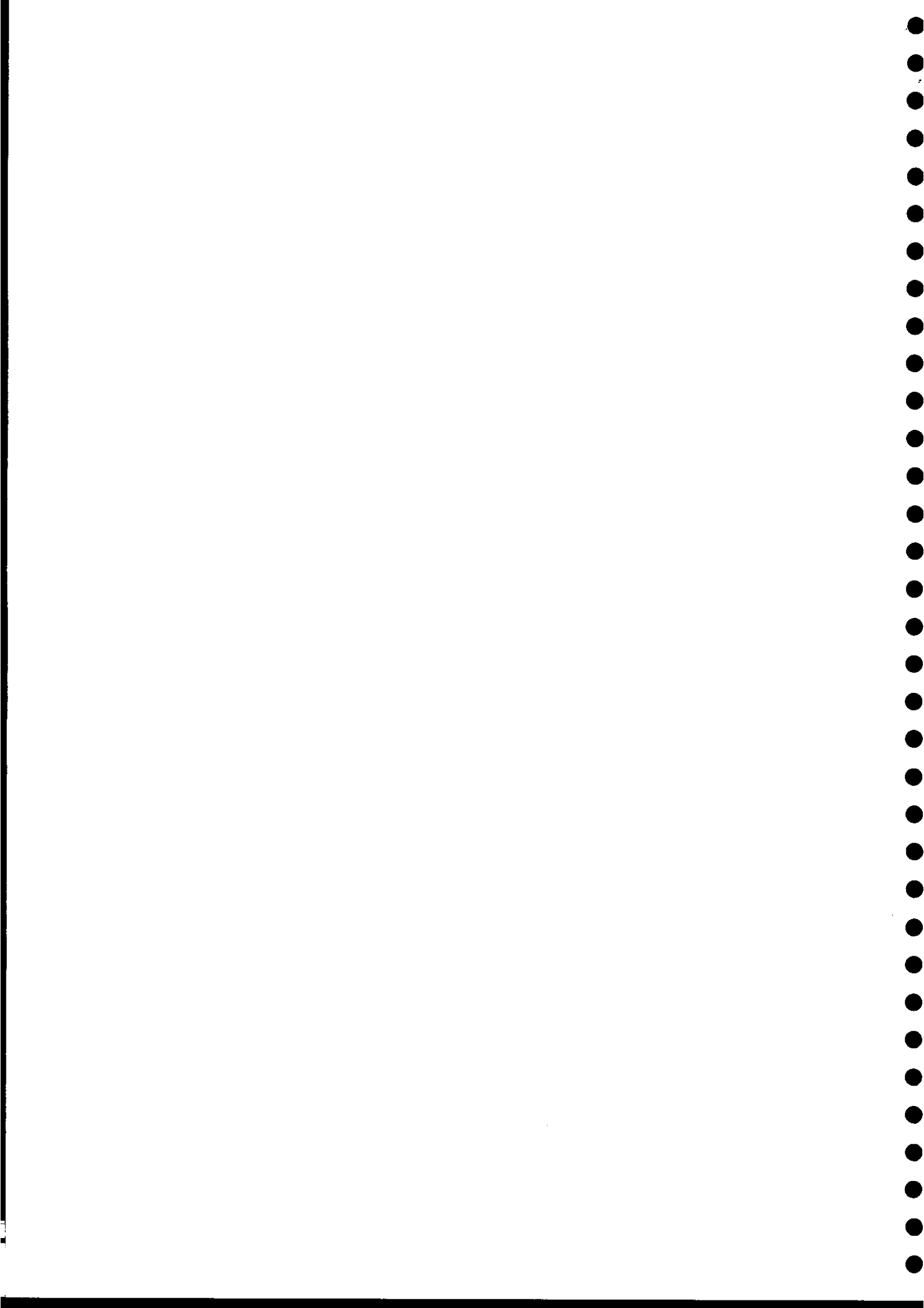
Group	Long leasehold land and buildings £
At valuation	
At 1 January 1999	183,394
Revaluation	101,606
At 31 December 1999	285,000
Accumulated depreciation	
At 1 January 1999	47,683
Charged during the year	5,700
Eliminated on revaluation	(47,683)
At 31 December 1999	5,700
Net book value	
At 31 December 1999	279,300
At 31 December 1998	135,711

The leasehold land and buildings were valued on an open market basis at 31 December 1999 by independent property valuers, who are members of the Royal Institute of Chartered Surveyors.

The cost of land and buildings, all of which were occupied by the company as at 31 December 1999, was £183,394 (1998 - £183,394).

### 13. OTHER FINANCIAL INVESTMENTS

Group	Current value		Historical cost	
	1999 £	1998 £	1999 £	1998 £
Shares, other variable yield securities, and units in unit trusts				
Listed	7,778,101	7,218,040	5,992,798	5,953,490
Unlisted	193,205	214,484	324,000	350,000
Debt securities and other fixed income securities				
Listed	9,672,786	7,942,187	9,392,436	6,973,812
Participation in investment pools	18,423	17,772	18,423	17,772
Deposits with credit institutions	15,987,980	18,083,523	15,987,980	18,083,523
Deposits with ceding undertakings	27,722	23,380	27,722	23,380
	<u>33,678,217</u>	<u>33,499,386</u>	<u>31,743,359</u>	<u>31,401,977</u>
Company				
Deposits with credit institutions	<u>5,571,643</u>	<u>4,962,851</u>	<u>5,571,643</u>	<u>4,962,851</u>



# NOTES TO THE FINANCIAL STATEMENTS

## For the year ended 31 December 1999

### 14. INVESTMENTS IN GROUP UNDERTAKINGS

Company	1999 £	1998 £
Investment in subsidiary undertakings	15,276,552	15,276,552

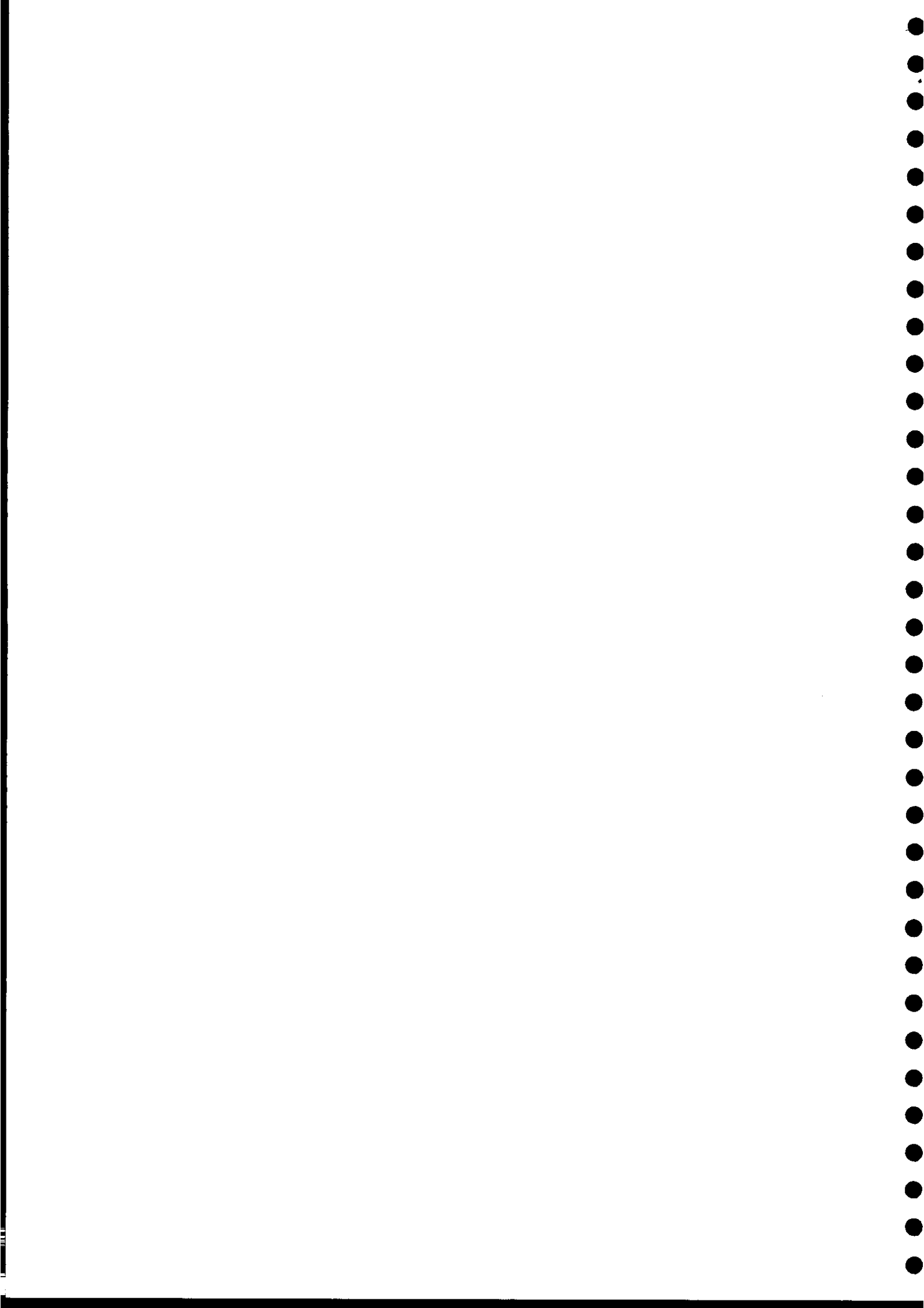
Details of major investments in subsidiary companies are as follows:

Name of company	Country of registration	Share-holdings	Proportion of voting rights and shares held	Nature of business
China Insurance Company (UK) 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.

### 15. TANGIBLE FIXED ASSETS

Group	Freehold property £	Office furniture, office and computer equipment £	Motor vehicles £	Total £
<b>At cost</b>				
At 1 January 1999 (as restated per Note 1(b))	159,288	612,802	294,343	1,066,433
Exchange adjustment	(13,668)	(19,764)	(10,311)	(43,743)
Additions	-	103,562	-	103,562
Disposals	-	(114,167)	-	(114,167)
At 31 December 1999	145,620	582,433	284,032	1,012,085
<b>Accumulated depreciation</b>				
At 1 January 1999 (as restated per Note 1(b))	-	354,098	241,187	595,285
Exchange adjustment	-	(5,774)	(7,582)	(13,356)
Charged during the year	-	125,660	17,664	143,324
Eliminated on disposals	-	(114,167)	-	(114,167)
At 31 December 1999	-	359,817	251,269	611,086
<b>Net book value</b>				
At 31 December 1999	145,620	222,616	32,763	400,999
At 31 December 1998 (as restated per Note 1(b))	159,288	258,704	53,156	471,148



# NOTES TO THE FINANCIAL STATEMENTS

## For the year ended 31 December 1999

### 15. TANGIBLE FIXED ASSETS (continued)

Company	Office furniture, office and computer equipment £	Motor vehicles £	Total £
<b>At cost</b>			
At 1 January 1999	72,235	35,535	107,770
Additions	127	-	127
At 31 December 1999	72,362	35,535	107,897
<b>Accumulated depreciation</b>			
At 1 January 1999	42,918	35,535	78,453
Charged during the year	11,374	-	11,374
At 31 December 1999	54,292	35,535	89,827
<b>Net book value</b>			
At 31 December 1999	18,070	-	18,070
At 31 December 1998	29,317	-	29,317

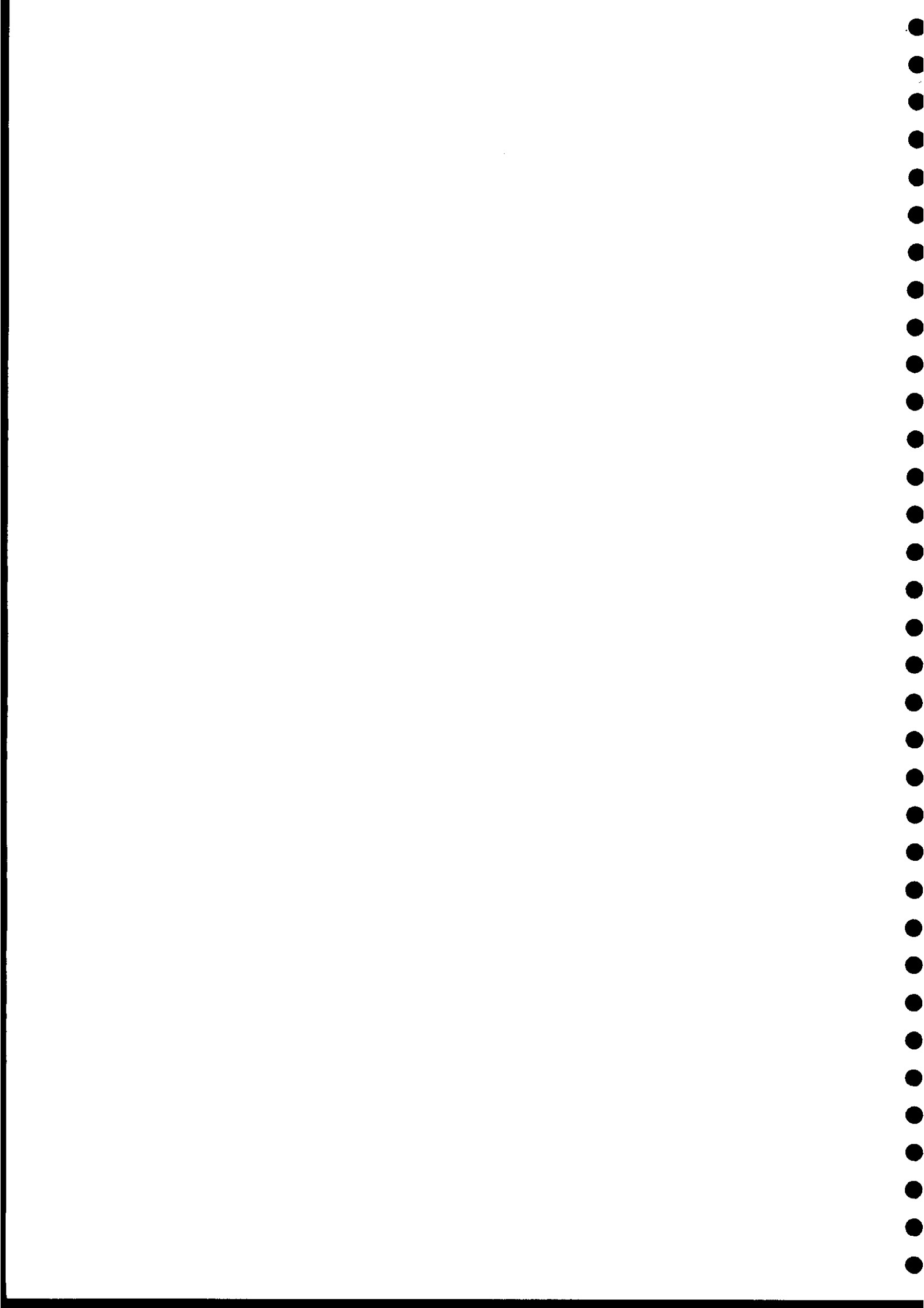
### 16. CALLED UP SHARE CAPITAL

Group and Company	Authorised		Allotted, called up and fully paid	
	1999 £	1998 £	1999 £	1998 £
Ordinary shares of £1 each	20,000,000	20,000,000	18,423,747	18,423,747

### 17. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Group	Share capital £	Profit and loss account £	Capital reserve £	Total for 1999 £	Total for 1998 £
At 1 January 1999	18,423,747	8,538,489	762,388	27,724,624	24,641,730
Issue of shares	-	-	-	-	1,215,826
Retained profit for the financial year	-	1,355,087	-	1,355,087	1,672,012
Exchange (losses) / gains on retranslation of net investment in foreign group companies	-	(581,135)	-	(581,135)	195,056
At 31 December 1999	18,423,747	9,312,441	762,388	28,498,576	27,724,624

Unrealised gains and losses reported in the non-technical account are not considered to be distributable. The profit and loss account balance includes £2,005,183 (1998 - £2,097,409) relating to the company which are non-distributable.





## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1999

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

Company	Share capital £	Profit and loss account £	Total for 1999 £	Total for 1998 £
At 1 January 1999	18,423,747	2,482,295	20,906,042	20,290,797
Retained profit for the financial year	-	446,942	446,942	615,245
At 31 December 1999	<u>18,423,747</u>	<u>2,929,237</u>	<u>21,352,984</u>	<u>20,906,042</u>

## 18. DEFERRED TAXATION

Group	1999 £	1998 £
<b>Movements in the provision for deferred taxation are:</b>		
At 1 January 1999	328,164	245,411
Increase during the year	172,997	82,753
At 31 December 1999	<u>501,161</u>	<u>328,164</u>

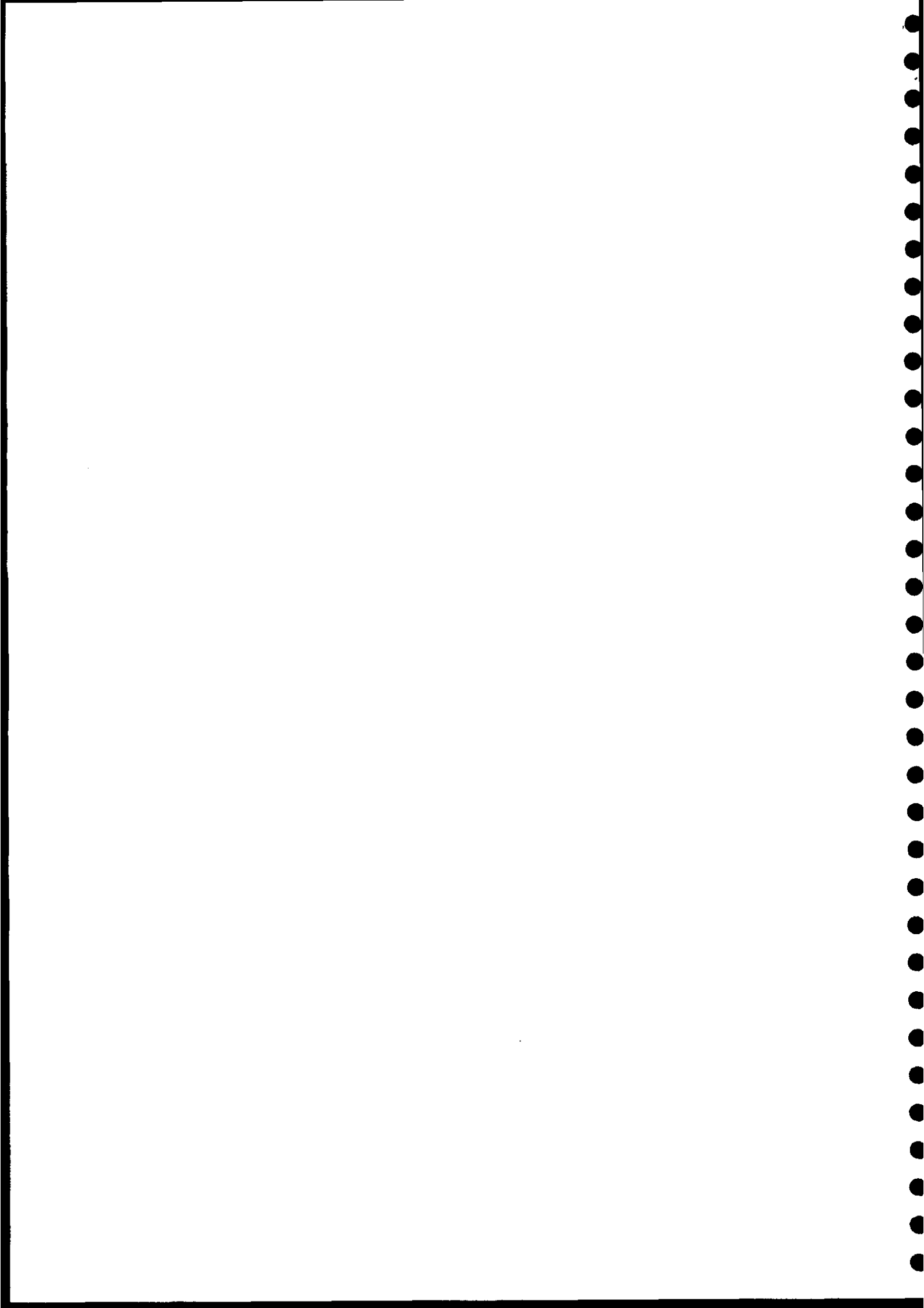
Amounts of deferred tax liabilities / (assets) provided and unprovided for in the accounts are:

Group	Provided		Unprovided	
	1999 £	1998 £	1999 £	1998 £
Unrealised gains on investments	555,658	417,938	7,592	-
Capital allowances in advance of depreciation	(43,262)	(40,383)	(6,781)	-
General provision	(11,235)	(49,391)	-	-
	<u>501,161</u>	<u>328,164</u>	<u>811</u>	<u>-</u>

## 19. 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	1999 £	1998 £
Deposits held by ceding undertakings	27,722	-
Debtors arising out of reinsurance operations	1,430,765	1,592,883
Creditors arising out of reinsurance operations	<u>(419,345)</u>	<u>(2,234,861)</u>
Company	1999 £	1998 £
Group relief receivable from subsidiary undertaking	-	83,605
Other creditors	-	(28,823)
Dividends receivable from subsidiary undertaking	<u>450,000</u>	<u>493,839</u>



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1999

## 20. 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 £2,575,372 (1998 - £2,493,000) 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 £529,889 (1998 - £499,000).

## 21. OPERATING LEASE COMMITMENTS

At 31 December 1999, the Company had annual commitments under non-cancellable operating leases for the following year as set out below:

	Land and buildings	
	1999	1998
	£	£
<b>Operating leases which expire:</b>		
Within 1 year	-	259,744
Within 10 years	248,802	-
	<u>248,802</u>	<u>-</u>

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

During the period 1989 to 1992, the company 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 the company of future claims arising from the former EAUA underwriting pools cannot be determined with certainty, and as such, the 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 1999, which were £591,000 (1998 - £940,000).

## 23. CONTINGENT LIABILITIES

The company is required under the Policyholders Protection Act 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 (1998 - £nil).

## 24. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

At 31 December 1999, the company's and the group's ultimate parent undertaking and controlling party is China Insurance Hong Kong (Holdings) Company Limited, a company incorporated in Hong Kong. Copies of its group consolidated accounts are obtainable from its registered office at 29-31/F, China Insurance Group Building, 141 Des Voeux road, Central Hong Kong.

The previous ultimate parent undertaking and controlling party was the People's Insurance Company of China, a company incorporated in China.

