

**Registered in England and Wales No. 02792480**

**CIC HOLDINGS (EUROPE) LTD (formerly  
CIC HOLDINGS LIMITED)**

**Report and Financial Statements**

**31 December 2002**



**Deloitte & Touche  
London**

# **CIC HOLDINGS (EUROPE) LTD (formerly CIC HOLDINGS LIMITED)**

## **REPORT AND FINANCIAL STATEMENTS 2002**

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# **CIC HOLDINGS (EUROPE) LTD (formerly CIC HOLDINGS LIMITED)**

## **REPORT AND FINANCIAL STATEMENTS 2002**

### **OFFICERS AND PROFESSIONAL ADVISERS**

#### **DIRECTORS**

Yang Chao	Chairman and Chief Executive Officer
Shi Chuan Ming	
Bertram G Hand	
Yang Fan	(appointed 5 March 2002)
Cai Lei	(resigned 4 November 2002)
Sun Yi He	(resigned 21 March 2003)

#### **COMPANY SECRETARY**

Huang Jun	(resigned 5 March 2002)
Yang Fan	(appointed 5 March 2002)

#### **REGISTERED OFFICE**

The Communications Building  
48 Leicester Square  
London WC2H 7LT

#### **BANKERS**

Bank of China  
90 Cannon Street  
London EC4N 6HA

#### **AUDITORS**

Deloitte & Touche  
London

# **CIC HOLDINGS (EUROPE) LTD (formerly CIC HOLDINGS LIMITED)**

## **DIRECTORS' REPORT**

The directors present their report and audited financial statements for the year ended 31st December 2002.

### **PRINCIPAL ACTIVITIES AND BUSINESS REVIEW**

In order to conform with structural changes within the ultimate parent group the company name was changed with effect from 4<sup>th</sup> July 2002 to CIC Holdings (Europe) Ltd.

During the year the company continued to be the holding company with three authorised general insurance companies and a small service company whose results are consolidated within these accounts. The three general insurance companies are: China Insurance Company (U.K.) Limited, China Insurance Company S.A. Luxembourg and CIC (Deutschland) Versicherungs-Aktiengesellschaft. CIC Services (Europe) Ltd currently has a very minor impact on the trading activities of the group.

Currently China Insurance Company (U.K.) Limited which began to operate in 1985 produces over 80% of the net earned premiums and is supported by the use of 71% of shareholders' funds of roughly £25 million.

Results have been extremely disappointing with a positive underwriting performance of some 6% (£637,657) only being achieved in the UK. This was reduced by a further transfer to the equalisation reserves of a further £245,000 reflecting a 40% increase in written premiums during the year. Currently the equalisation reserve stands at £1.05 million. Results have not required any release from these funds since it was established to reflect legislation in 1996 and it is considered unlikely that there will be any release arising from the adverse claims experience.

Investment returns continue to disappoint and had a significant effect on the results for the year showing a loss after tax of £5,313,220.

Currently a major review of the operational structure of group interests in Europe is being carried out and although the firm intention is to continue to develop our business in the region structural changes may well follow the current review.

### **RESULTS AND DIVIDENDS**

The results for the group for the year ended 31<sup>st</sup> December 2002 are set out on pages 6 to 25. The retained pre-tax loss of £5,608,516 was significantly affected by adverse results on an underwriting arrangement undertaken by CIC Deutschland, which with necessary increased provisions showed a loss of some £4.8 million.

Shareholders' funds now stand at £23,854,265 (2001: £29,083,707).

The directors do not recommend the payment of a dividend for the year and the accumulated retained profit will continue to be carried forward in the accounts.

### **DIRECTORS AND THEIR INTERESTS**

The present directors are shown on page 1. They all served throughout the year except for, Mr Cai Lei who resigned on the 4<sup>th</sup> November 2002 and returned to China, and Mr Yang Fan who was appointed on the 5<sup>th</sup> March 2002. As at 31<sup>st</sup> December 2002 none of the directors held any beneficial interests in the ordinary shares of the group, or in any other group-related companies of China Insurance (Holdings) Company Limited.

Subsequent to the 31<sup>st</sup> December 2002 Mrs Sun Yi He resigned on the 21<sup>st</sup> March 2003 also to take up a senior position elsewhere within the parent group.

### **ULTIMATE PARENT UNDERTAKING**

The ultimate parent company has changed its name from China Insurance Company Limited to China Insurance (Holdings) Company Limited. This company is incorporated in the People's Republic of China.

# **CIC HOLDINGS (EUROPE) LTD (formerly CIC HOLDINGS LIMITED)**

## **DIRECTORS' REPORT**

### **INVESTMENTS**

All investments are held within the country whose jurisdiction they operate within. Some 90% of investment funds being maintained within the United Kingdom.

### **AUDITORS**

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

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



Yang Fan  
Secretary

3 June 2003

**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 group for that period. 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 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 the system of internal control, for safeguarding the assets of the company and 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



Yang Fan  
Secretary

3 June 2003

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CIC HOLDINGS  
(EUROPE) LTD (formerly CIC HOLDINGS LIMITED)**

We have audited the financial statements of CIC Holdings (Europe) Ltd (formerly CIC Holdings Limited) for the year ended 31 December 2002 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the consolidated balance sheet, the company balance sheet and the related notes 1 to 24. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinion we have formed.

**Respective responsibilities of directors and auditors**

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

**Basis of audit 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.

**Fundamental uncertainty**

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the possible outcome to litigation against CIC (Deutschland) Versicherungs-Aktiengesellschaft, a subsidiary undertaking of the company, relating to the termination of a contractual relationship. The future settlement of this litigation could result in additional liabilities. Details of the circumstances relating to this fundamental uncertainty are described in note 18. Our opinion is not qualified in this respect.

**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 2002, and of the loss of the group for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

*Deloitte & Touche*

Deloitte & Touche

Chartered Accountants and Registered Auditors

London

4 June 2003

**CIC HOLDINGS (EUROPE) LTD (formerly CIC HOLDINGS LIMITED)**

**CONSOLIDATED PROFIT & LOSS ACCOUNT**

**For the year ended 31 December 2002**

<b>TECHNICAL ACCOUNT – GENERAL BUSINESS</b>	<b>Notes</b>	<b>2002 Total £</b>	<b>2001 Total (As Restated) £</b>
<b>EARNED PREMIUMS, NET OF REINSURANCE</b>	<b>2,3</b>		
Gross premiums written		19,494,548	12,380,322
Outward reinsurance premiums		(4,047,713)	(3,035,091)
Net premiums written		<u>15,446,835</u>	<u>9,345,231</u>
Change in the provision for unearned premiums			
Gross amounts		(3,003,671)	(328,947)
Reinsurers' share		<u>279,229</u>	<u>(1,021,571)</u>
Net of reinsurance		<u>(2,724,442)</u>	<u>(1,350,518)</u>
<b>TOTAL TECHNICAL INCOME</b>		<u>12,722,393</u>	<u>7,994,713</u>
<b>Claims incurred, net of reinsurance</b>	<b>4</b>		
Claims paid			
Gross amounts		9,851,110	4,998,780
Reinsurers' share		<u>(1,481,444)</u>	<u>(1,289,973)</u>
Net of reinsurance		<u>8,369,666</u>	<u>3,708,807</u>
Change in the provision for outstanding claims	<b>5</b>		
Gross amounts		3,182,568	(5,219,381)
Reinsurers' share		<u>(228,298)</u>	<u>5,754,381</u>
Net of reinsurance		<u>2,954,270</u>	<u>535,000</u>
<b>CLAIMS INCURRED, NET OF REINSURANCE</b>		<u>11,323,936</u>	<u>4,243,807</u>
Net operating expenses	<b>7,9</b>	4,417,937	3,238,043
Increase in equalisation provisions	<b>6</b>	<u>245,000</u>	<u>175,000</u>
<b>TOTAL TECHNICAL CHARGES</b>		<u>15,986,873</u>	<u>7,656,850</u>
<b>BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS</b>		<u>(3,264,480)</u>	<u>337,863</u>



**CIC HOLDINGS (EUROPE) LTD (formerly CIC HOLDINGS LIMITED)**

**CONSOLIDATED PROFIT & LOSS ACCOUNT**

**For the year ended 31 December 2002**

<b>NON-TECHNICAL ACCOUNT</b>		<b>Notes</b>	<b>2002 Total £</b>	<b>2001 Total (As restated) £</b>
<b>BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS</b>			<u>(3,264,480)</u>	<u>337,863</u>
Investment income	8		1,596,762	1,837,254
Realised losses on investments			(168,152)	(206,970)
Unrealised losses on investments			(1,911,911)	(1,296,543)
Investment expenses and charges			<u>(111,622)</u>	<u>(93,129)</u>
Investment returns			<u>(594,923)</u>	<u>240,612</u>
Exchange (losses)/gains			(168,095)	15,155
Other income			175,320	29,061
Other charges	9		<u>(1,756,338)</u>	<u>(398,041)</u>
			<u>(1,749,113)</u>	<u>(353,825)</u>
<b>(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAX</b>			<u>(5,608,516)</u>	<u>224,650</u>
<b>OPERATING (LOSS)/PROFIT</b>			<u>(5,363,516)</u>	<u>399,650</u>
Increase in equalisation provisions	6		<u>(245,000)</u>	<u>(175,000)</u>
Tax credit/(charge) on (loss)/profit on ordinary activities	12		<u>295,296</u>	<u>(120,374)</u>
<b>(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAX AND RETAINED (LOSS)/PROFIT FOR THE FINANCIAL YEAR</b>		17	<u><u>(5,313,220)</u></u>	<u><u>104,276</u></u>

All the amounts above are in respect of continuing operations.

**CIC HOLDINGS (EUROPE) LTD (formerly CIC HOLDINGS LIMITED)**

**CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND & LOSSES**  
**For the year ended 31 December 2002**

	Notes	2002 £	2001 Total (As restated) £
(Loss)/Profit on ordinary activities after taxation		(5,313,220)	104,276
Exchange gains / (losses) on retranslation of net investment in foreign group companies	17	83,778	(125,874)
<b>TOTAL RECOGNISED LOSSES RELATING TO THE YEAR</b>		<u>(5,229,442)</u>	<u>(21,598)</u>

# CIC HOLDINGS (EUROPE) LTD (formerly CIC HOLDINGS LIMITED)

## CONSOLIDATED BALANCE SHEET

As at 31 December 2002

ASSETS	Notes	2002 Total £	2001 Total (As restated) £
<b>INVESTMENTS</b>			
Other financial investments	13	35,105,911	34,094,204
Deposits with ceding undertakings	13	24,229	59,210
		<u>35,130,140</u>	<u>34,153,414</u>
<b>REINSURERS' SHARE OF TECHNICAL PROVISIONS</b>			
Provision for unearned premiums	3	1,720,842	1,440,066
Provision for outstanding claims	4,5	5,817,910	5,592,162
		<u>7,538,752</u>	<u>7,032,228</u>
<b>DEBTORS</b>			
Debtors arising out of direct insurance operations			
Amounts owed by policyholders		973,525	1,635,319
Amounts owed by intermediaries		2,622,914	1,648,976
		<u>3,596,439</u>	<u>3,284,295</u>
Debtors arising out of reinsurance operations		946,615	1,297,088
Taxation recoverable		542,727	60,873
Other debtors		76,160	39,160
		<u>5,161,941</u>	<u>4,681,416</u>
<b>OTHER ASSETS</b>			
Tangible fixed assets	15	227,365	215,591
Cash at bank and in hand		2,976,858	2,629,318
		<u>3,204,223</u>	<u>2,844,909</u>
<b>PREPAYMENTS AND ACCRUED INCOME</b>			
Accrued interest and rent		142,778	234,572
Deferred acquisition costs	7	1,814,452	1,251,657
Other prepayments and accrued income		94,581	7,476
		<u>2,051,811</u>	<u>1,493,705</u>
<b>TOTAL ASSETS</b>		<u>53,086,867</u>	<u>50,205,672</u>

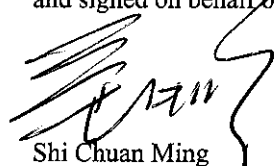
**CIC HOLDINGS (EUROPE) LTD (formerly CIC HOLDINGS LIMITED)**

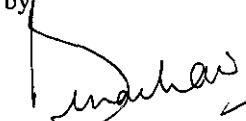
**CONSOLIDATED BALANCE SHEET**

**As at 31 December 2002**

<b>LIABILITIES</b>	<b>Notes</b>	<b>2002 Total £</b>	<b>2001 Total (As restated) £</b>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	16	18,423,747	18,423,747
Capital reserve	17	-	-
Profit and loss account	17	5,430,518	10,659,960
Equity shareholders' funds	17	23,854,265	29,083,707
<b>GROSS TECHNICAL PROVISIONS</b>			
Provision for unearned premiums	3	8,910,145	5,901,501
Provision for outstanding claims	4,5	14,743,304	11,536,488
Equalisation provisions	6	1,053,000	808,000
		24,706,449	18,245,989
<b>PROVISIONS FOR OTHER RISKS AND CHARGES</b>	18	977,708	-
<b>CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR</b>			
Creditors arising out of direct insurance operations		422,814	247,451
Creditors arising out of reinsurance operations		1,436,655	1,313,063
United Kingdom corporation tax		-	188,248
Other taxation and social security		745,342	451,118
Other creditors		232,560	337,568
		2,837,371	2,537,448
<b>CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</b>			
Creditors arising out of direct insurance operations		32,664	-
		32,664	-
<b>ACCRUALS AND DEFERRED INCOME</b>			
Deferred reinsurance commissions	7	344,160	233,747
Other accruals and deferred income		334,250	104,781
		678,410	338,528
<b>TOTAL LIABILITIES</b>		53,086,867	50,205,672

These financial statements were approved by the Board of Directors on 3 June 2003 and signed on behalf of the Board of Directors by

  
Shi Chuan Ming  
Director

  
Bertram Hand  
Director

**CIC HOLDINGS (EUROPE) LTD (formerly CIC HOLDINGS LIMITED)**

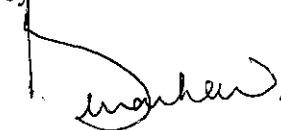
**COMPANY BALANCE SHEET**

**For the year ended 31 December 2002**

	Notes	2002 £	2001 £
<b>FIXED ASSETS</b>			
Tangible assets	15	923	2,414
Other financial investments	13	4,738,177	6,337,575
Investments in group undertakings	14	13,483,447	15,276,552
		<u>18,222,547</u>	<u>21,616,541</u>
<b>CURRENT ASSETS</b>			
Debtors		100,970	5,877
Cash at bank and in hand		32,246	315,321
		<u>133,216</u>	<u>321,198</u>
<b>CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR</b>			
Creditors		2,446	25,453
Accruals and deferred income		108,937	25,850
		<u>111,383</u>	<u>51,303</u>
<b>NET CURRENT ASSETS</b>		<u>21,833</u>	<u>269,895</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>18,244,380</u>	<u>21,886,436</u>
<b>TOTAL ASSETS</b>		<u>18,244,380</u>	<u>21,886,436</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	16	18,423,747	18,423,747
Profit and loss account	17	(179,367)	3,462,689
<b>EQUITY SHAREHOLDERS' FUNDS</b>	17	<u>18,244,380</u>	<u>21,886,436</u>

These financial statements were approved by the Board of Directors on 3 June 2003 and signed on behalf of the Board of Directors by

  
Shi Chuan Ming  
Director

  
Bertram Hand  
Director

**NOTES TO THE ACCOUNTS**

**For the year ended 31 December 2002**

**1. ACCOUNTING POLICIES**

**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 incorporate the financial statements of the company and all of its subsidiary undertakings.

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.

**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.

**Basis of accounting for underwriting activities**

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

**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.

**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 2002**

**1. ACCOUNTING POLICIES (continued)**

**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.

**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.

**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.

**Equalisation provisions**

Equalisation provisions arise from certain classes of business written in the United Kingdom and are calculated in accordance with the Insurers' Interim Prudential Sourcebook.

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 the Insurers' Interim Prudential Sourcebook. Movements in the equalisation provision for the period is taken to the profit and loss technical account for general business – notwithstanding that they do not represent a liability at the balance sheet date.

**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.

**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.

**NOTES TO THE ACCOUNTS**

**For the year ended 31 December 2002**

**1. ACCOUNTING POLICIES (continued)**

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.

**Other financial investments**

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

**Investments in group undertakings**

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

**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	Over useful economic life
Office furniture, office and computer equipment	15% to 33%
Motor vehicles	20% to 33%

**Deferred taxation**

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred taxation assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

**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, except for those generated by technical provisions, which are recognised in the technical account as part of the change in the provision for outstanding claims.

The financial statements of the foreign subsidiaries are translated into sterling at the closing rates of exchange and the difference arising from the translation of the opening net investment in subsidiaries at the closing rate is taken directly to the reserves.

**Operating leases**

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



# CIC HOLDINGS (EUROPE) LTD (formerly CIC HOLDINGS LIMITED)

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2002

### 2. SEGMENTAL ANALYSES

Group	Total direct £'000	Re- insurance accepted £'000	Total £'000
<b>2002</b>			
Gross premiums written	17,936	1,559	19,495
Net technical result	(3,155)	(109)	(3,264)
Net technical provisions	16,125	1,042	17,167

Group	Total direct £'000	Re- insurance accepted £'000	Total £'000
<b>2001</b>			
Gross premiums written	10,884	1,496	12,380
Net technical result	374	(36)	338
Net technical provisions	8,653	2,561	11,214

Group		
<b>Gross written premiums resulted from contracts of insurance concluded in:</b>	<b>2002 £'000</b>	<b>2001 £'000</b>
The United Kingdom	15,936	11,057
Other EU member states	3,558	1,323
	<u>19,494</u>	<u>12,380</u>

Net assets are maintained to meet the solvency requirements of the group as a whole and as a consequence a segmental analysis of net assets has not been provided. The group's investment portfolio is managed in such a manner that a meaningful analysis of investment income is not available and therefore no segmental analysis of profit before tax has been provided.

**CIC HOLDINGS (EUROPE) LTD (formerly CIC HOLDINGS LIMITED)**

**NOTES TO THE ACCOUNTS**

**For the year ended 31 December 2002**

**3. EARNED PREMIUMS, NET OF REINSURANCE**

Group	Gross £	2002 Re- insurance £	Net £	Gross £	2001 Re- insurance £	Net £
Written premiums	19,494,548	(4,047,713)	15,446,835	12,380,322	(3,035,091)	9,345,231
Provision for unearned premiums						
Carried forward	(8,910,145)	1,720,842	(7,189,303)	(5,901,501)	1,440,066	(4,461,435)
Brought forward	5,901,501	(1,440,066)	4,461,435	5,574,809	(2,462,324)	3,112,485
Exchange differences	4,973	1,546	6,519	(2,255)	687	(1,568)
(Increase)/ decrease	(3,003,671)	279,229	(2,724,442)	(328,947)	(1,021,571)	(1,350,518)
Earned premiums	16,490,877	(3,768,484)	12,722,393	12,051,375	(4,056,662)	7,994,713

**4. CLAIMS INCURRED, NET OF REINSURANCE**

Group	Gross £	2002 Re- insurance £	Net £	Gross £	2001 Re-insurance £	Net £
Claims paid	9,851,1110	(1,481,444)	8,369,666	4,998,780	(1,289,973)	3,708,807
Provision for outstanding claims						
Carried forward	14,743,304	(5,817,910)	8,925,394	11,536,488	(5,592,162)	5,944,326
Brought forward	(11,536,488)	5,592,162	(5,944,326)	(16,760,458)	11,346,159	(5,414,299)
Exchange differences	(24,248)	(2,550)	(26,798)	4,589	384	4,973
(Decrease) / increase	3,182,568	(228,298)	2,954,270	(5,219,381)	5,754,381	535,000
Claims incurred	13,033,678	(1,709,742)	11,323,936	(220,601)	4,464,408	4,243,807

**5. PROVISION FOR OUTSTANDING CLAIMS**

	Gross £	2002 Reinsurance £	Net £	Gross £	2001 Reinsurance £	Net £
Notified outstanding claims	13,210,484	(5,460,789)	7,749,695	10,107,247	(5,211,515)	4,895,732
Provision for claims incurred but not reported	1,277,137	(357,121)	920,016	1,261,811	(379,286)	882,525
Claims handling expenses	255,682	-	255,682	167,430	1,361	166,069
	14,743,304	(5,817,910)	8,925,394	11,536,488	(5,592,162)	5,944,326

# CIC HOLDINGS (EUROPE) LTD (formerly CIC HOLDINGS LIMITED)

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2002

### 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 the Insurers' Interim Prudential Sourcebook 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% (2001 – 30%) this has had the cumulative effect of reducing shareholders' funds by £730,100 (2001 – £565,600).

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 £245,000 (2001-£175,000).

### 7. NET OPERATING EXPENSES

Group	2002			2001		
	Gross £	Reinsurance £	Net £	Gross £	Reinsurance £	Net £
Acquisition costs and commissions	4,087,121	(831,423)	3,255,698	2,926,776	(654,296)	2,272,480
Deferred acquisition costs						
Carried forward	(1,814,452)	344,160	(1,470,292)	(1,251,657)	233,747	(1,017,910)
Brought forward	1,251,657	(233,747)	1,017,910	945,849	(122,592)	823,257
Exchange difference	1,277	(275)	1,002	(675)	(5,449)	(6,124)
(Increase) / decrease	(561,518)	110,138	(451,380)	(306,483)	105,706	(200,777)
Incurred acquisition costs	3,525,603	(721,284)	2,804,319	2,620,293	(548,590)	2,071,703
Administrative expenses and other charges (Note 9)	1,613,465	-	1,613,618	1,166,340	-	1,166,340
Total operating expenses	5,139,068	(721,284)	4,417,937	3,786,633	(548,590)	3,238,043

### 8. INVESTMENT INCOME

Group	2002		2001	
	£		£	
Interest on bank deposits	463,013	702,212		
Income from fixed-income securities	767,293	767,212		
Income from variable-yield securities	210,905	199,848		
Other interest	155,551	167,982		
	1,596,762	1,837,254		

# CIC HOLDINGS (EUROPE) LTD (formerly CIC HOLDINGS LIMITED)

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2002

### 9. ADMINISTRATIVE EXPENSES AND OTHER CHARGES

#### Group

Administrative expenses and other charges/(credits) in both the technical and non-technical accounts include:	2002 £	2001 £
Auditors' remuneration – Audit services	114,577	98,510
Auditors' remuneration – Non-audit services	10,539	25,424
Depreciation of tangible fixed assets – Owned assets	62,017	98,695
Decrease in bad debt provisions	(5,956)	(559)
Operating lease rentals – Leasehold Property	287,167	296,954

#### Company

Administrative expenses charged to the profit and loss account of the company include:	2002 £	2001 £
Auditors' remuneration – Audit services	19,740	25,850
Depreciation of tangible fixed assets – Owned assets	1,466	1,168

### 10. STAFF COSTS

Group	2002 £	2001 £
All salary costs, including directors' emoluments, comprise:		
Wages and salaries	1,297,513	1,023,937
Social security costs	147,073	106,237
Pension contributions	3,055	-
	1,447,641	1,130,174

	2002 Number	2001 Number
The average number of employees, including executive directors employed during the year was as follows:		
Management	10	7
Underwriting	15	14
Claims	7	10
Marketing	1	5
Administration	18	15
	51	51

**NOTES TO THE ACCOUNTS**

**For the year ended 31 December 2002**

**11. DIRECTORS' REMUNERATION**

**Group**

Directors' remuneration consists exclusively of remuneration for services provided as directors, which comprise:

	2002 £	2001 £
Emoluments		
Wages and salaries	294,633	209,919
Social security costs	21,751	19,301
	<u>316,384</u>	<u>229,220</u>

No directors (2001 - none) accrued benefits under the defined contribution scheme of the company and its subsidiary, China Insurance Company (U.K.) Limited.

The emoluments paid to the highest paid director amounted to £51,128 for the year.

The Chairman and two directors discharge their duties mainly outside the United Kingdom.

**12. TAX (CREDIT)/CHARGE ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES**

**i) Analysis of tax charge on ordinary activities**

	2002 £	2001 £
Current taxation		
United Kingdom corporation tax at 30% (2002 - 30%)	(277,059)	403,129
(Under)/Over provision in prior years' tax	(18,237)	8,431
	<u>(295,296)</u>	<u>411,560</u>
Deferred taxation		
Timing differences, origination and reversal	12,144	-
Adjustments to estimated recoverable amounts in previous periods	47,046	-
Adjustment in respect of prior years	(59,190)	(291,186)
	<u>(295,296)</u>	<u>120,374</u>

**ii) Factors affecting tax charge for the current period**

	2002 £	2001 £
(Loss)/profit on ordinary activities before tax	<u>(5,608,516)</u>	<u>224,650</u>
Tax at 30% thereon:	1,682,553	(67,395)
Expenses not deductible for tax purpose	(6,050)	(1,987)
Capital allowances in excess of depreciation	8,424	1,425
Movement in short term timing differences	(20,528)	(379,042)
UK dividend income	53,186	52,361
Overseas tax rates revalued for outstanding losses	(1,482,253)	(16,262)
Discounting adjustment	35,400	-
Rate differences on current tax	4,577	-
Consolidation adjustment	881	3,306
Adjustment to prior year deferred tax	869	38
Unrealised gains on fixed asset securities	-	4,427
Prior period adjustment	18,237	(8,431)
	<u>(295,296)</u>	<u>(411,560)</u>

There is no material impact of FRS 19 on current or prior year and accordingly there has been no restatement of 2001 figures.

# CIC HOLDINGS (EUROPE) LTD (formerly CIC HOLDINGS LIMITED)

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2002

### 13. OTHER FINANCIAL INVESTMENTS

Group	Current value		Historical cost	
	2002	2001	2002	2001
	£	£	£	£
Shares, other variable yield securities, and units in unit trusts				
Listed	6,053,077	7,543,387	8,059,367	7,735,537
Unlisted	62,116	166,538	220,000	273,405
Debt securities and other fixed income securities				
Listed	11,576,802	11,025,010	10,393,083	10,474,209
Deposits with credit institutions	17,413,916	15,359,269	17,413,916	15,359,491
Deposits with ceding undertakings	24,229	59,210	24,229	59,210
	<u>35,130,140</u>	<u>34,153,414</u>	<u>36,110,595</u>	<u>33,901,852</u>
<b>Company</b>				
Debt securities and other fixed income securities				
Listed	1,091,797	1,008,531	1,073,022	993,776
Deposits with credit institutions	3,646,380	5,329,044	3,646,380	6,322,820
	<u>4,738,177</u>	<u>6,337,575</u>	<u>4,719,402</u>	<u>7,316,596</u>

### 14. INVESTMENTS IN GROUP UNDERTAKINGS

<b>Company</b>	<b>£</b>
<b>Cost &amp; Net Book Value</b>	
Investments in subsidiary undertakings as at 31 December 2001	15,276,552
Additions	1,895,109
Disposals	-
Provision for diminution in value	(3,688,214)
Investments in subsidiary undertakings as at 31 December 2002	<u>13,483,447</u>

The increase in investments in subsidiaries is as a result of a capital reserve injection in cash of £1,895,109 by CIC Holdings (Europe) Ltd in CIC (Deutschland) Versicherungs-Aktiengesellschaft. This was paid in three tranches on 24<sup>th</sup> September 2002, the 11<sup>th</sup> November 2002 and 2<sup>nd</sup> December 2002. The provision for diminution in value of £3,688,214 (2001 – nil) represents the write-off of all investments made in CIC (Deutschland) Versicherungs-Aktiengesellschaft. Further capital reserve injections of €400,000 and €2,900,000 were approved by the board on 21 March 2003 and 16 May 2003 respectively.

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

**CIC HOLDINGS (EUROPE) LTD (formerly CIC HOLDINGS LIMITED)**

**NOTES TO THE ACCOUNTS**

**For the year ended 31 December 2002**

**15. TANGIBLE FIXED ASSETS**

**Group**

	Freehold property £	Office furniture, office and computer equipment £	Motor vehicles £	Total £
<b>At cost</b>				
At 1 January 2002	137,740	485,296	230,816	853,852
Exchange adjustment	9,008	10,366	4,024	23,398
Additions	-	42,131	22,195	64,326
Disposals	-	(71,299)	(24,860)	(96,159)
At 31 December 2002	146,748	466,494	232,175	845,417
<b>Accumulated depreciation</b>				
At 1 January 2002	-	421,989	216,272	638,261
Exchange adjustment	-	10,861	3,072	13,933
Charged during the year	-	46,144	15,873	62,017
Eliminated on disposals	-	(71,299)	(24,860)	(96,159)
At 31 December 2002	-	407,695	210,357	618,052
<b>Net book value</b>				
At 31 December 2002	146,748	58,799	21,818	227,365
At 31 December 2001	137,740	63,307	14,544	215,591

# CIC HOLDINGS (EUROPE) LTD (formerly CIC HOLDINGS LIMITED)

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2002

### 15. TANGIBLE FIXED ASSETS (continued)

#### Company

	Office furniture, office and computer equipment £	Motor vehicles £	Total £
<b>At cost</b>			
At 1 January 2002	4,181	35,535	39,716
Additions	1,026	-	1,026
Disposals	(1,051)	-	(1,051)
	<hr/>	<hr/>	<hr/>
At 31 December 2002	4,156	35,535	39,691
<b>Accumulated depreciation</b>			
At 1 January 2002	1,767	35,535	37,302
Charged during the year	1,466	-	1,466
Eliminated on disposal	-	-	-
	<hr/>	<hr/>	<hr/>
At 31 December 2002	3,233	35,535	38,768
<b>Net book value</b>			
At 31 December 2002	923	-	923
	<hr/>	<hr/>	<hr/>
At 31 December 2001	2,414	-	2,414
	<hr/>	<hr/>	<hr/>

### 16. CALLED UP SHARE CAPITAL

#### Group and company

	2002 £	2001 £
<b>Authorised</b>		
20,000,000 ordinary shares of £1 each	20,000,000	20,000,000
	<hr/>	<hr/>
<b>Called up, allotted and fully paid</b>		
18,423,747 ordinary shares of £1 each	18,423,747	18,423,747
	<hr/>	<hr/>



# CIC HOLDINGS (EUROPE) LTD (formerly CIC HOLDINGS LIMITED)

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2002

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

Group	Share capital £	Profit and loss account (as restated) £	Capital reserve (as restated) £	Total for 2002 £	Total for 2001 (as restated) £
At 1 January 2002	18,423,747	10,659,960	-	29,083,707	29,105,305
Retained (loss) / profit for the financial year	-	(5,313,220)	-	(5,313,220)	104,276
Exchange (losses) / gains on retranslation of net investment in foreign group companies	-	83,778	-	83,778	(125,874)
At 31 December 2002	<u>18,423,747</u>	<u>5,430,518</u>	<u>-</u>	<u>23,854,265</u>	<u>29,083,707</u>

The balance on the profit and loss account as at the 31 December 2001, was restated from the previous balance of £9,897,572. The capital reserve as at the 31 December 2001 has also been restated from the previous balance of £762,388. This represents a reserves transfer in respect of an error in the previous years accounts.

Unrealised gains and losses reported in the non-technical account are not considered to be distributable. The profit and loss account balance includes a loss of £1,296,543 (2001 - £1,017,047) relating to the group which are non-distributable.

Company	Share capital £	Profit and loss account £	Total for 2002 £	Total For 2001 £
At 1 January 2002	18,423,747	3,462,689	21,886,436	21,767,525
Retained profit for the financial year	-	(3,642,056)	(3,642,056)	118,911
At 31 December 2002	<u>18,423,747</u>	<u>(179,367)</u>	<u>18,244,380</u>	<u>21,886,436</u>

# CIC HOLDINGS (EUROPE) LTD (formerly CIC HOLDINGS LIMITED)

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2002

### 18. PROVISION FOR OTHER RISKS AND CHARGES

	2002 £	2001 £
i) Deferred Taxation	-	-
ii) Provision for future administration costs	488,854	-
ii) Provision for costs of litigation	488,854	-
	<u>977,708</u>	<u>-</u>
At 31 December 2002		

#### i) Deferred Taxation

Group	2002 £	2001 £
Movements in the provision for deferred taxation are:		
At 1 January 2002	-	291,186
Decrease during the year	-	(291,186)
	<u>-</u>	<u>-</u>
At 31 December 2002		

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

Group	Provided		Unprovided	
	2002 £	2001 £	2002 £	2001 £
Unrealised gains on investments	-	-	(777)	(39,401)
Capital allowances in advance of depreciation	(90)	-	(38,226)	(48,520)
Capital losses	-	-	(92)	-
Short term timing differences	90	-	-	-
	<u>-</u>	<u>-</u>	<u>(39,095)</u>	<u>(87,921)</u>

#### ii) Provision for future administration costs

The Directors of CIC (Deutschland) Versicherungs-Aktiengesellschaft passed a board resolution on 28 March 2003 to cease underwriting any further business with immediate effect. A provision of £488,854 (2001 – nil) has been made for the future administration of the company.

#### ii) Provision for costs of litigation

CIC (Deutschland) Versicherungs-Aktiengesellschaft have provided £488,854 (2001- nil) as the potential cost of litigation relating to the termination of the contractual relationship with "The Konzept & Marketing". This represents the best estimate of the management but is connected with a high degree of uncertainty.

# CIC HOLDINGS (EUROPE) LTD (formerly CIC HOLDINGS LIMITED)

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2002

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

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

Group	2002 £	2001 £
Deposits held by ceding undertakings	24,316	53,704
Debtors arising out of reinsurance operations	479,870	316,139
Creditors arising out of reinsurance operations	<u>(290,244)</u>	<u>(46,731)</u>
Company		
Dividends receivable from subsidiary undertaking	<u>-</u>	<u>-</u>

The names of the transacting related parties and their relationship to the group has not been disclosed as the transactions are not individually material.

### 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 £185,316 (2001 - £433,616) 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 £224,814 (2001 - £421,801).

### 21. OPERATING LEASE COMMITMENTS

At 31 December 2002, the group had annual commitments under non-cancellable operating leases for the following year as set out below:

	Land and buildings 2002 £	2001 £
Operating leases which expire:		
Within five to ten years	<u>252,727</u>	<u>252,727</u>

### 22. 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 2002, which were £508,000 (2001 - £591,000).

**NOTES TO THE ACCOUNTS**

**For the year ended 31 December 2002**

**23. CONTINGENT LIABILITIES**

China Insurance Company (U.K.) Limited was previously required under the Policyholders Protection Act 1975 to contribute towards levies raised by the Policyholders Protection Board on UK general insurance business. These responsibilities have now been assumed by the Financial Services Authority with effect from 1 December 2001. Under the terms of the Financial Services Compensations Scheme, a levy based on 0.66% of net relevant premiums was raised in 2001 and an amount of £37,568 was charged to the accounts for that year. No levy was raised for 2002.

**24. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY**

At 31 December 2002, the company's ultimate parent undertaking and controlling party is China Insurance (Holdings) Company Ltd (formerly China Insurance Company Limited)- a company incorporated in China. This is the parent company of the largest group in which the results of CIC Holdings (Europe) Ltd are included. Copies of the group consolidated accounts are obtainable from its registered office at 9/F Gate 1 Dacheng Square, 28 Xuanwumen West Street, Xuanwu District, Beijing, P.R. China. ~~This is the~~

The company's immediate parent undertaking is China Insurance H.K. (Holdings) Company Ltd, a company incorporated in Hong Kong. This is the parent company of the smallest group into which the results of CIC Holdings (Europe) Ltd are consolidated. Copies of China Insurance (Holdings) Company Limited's accounts are obtainable from its registered office at 22/F, Ming An Plaza, 8 Sunning Road, Causeway Bay, Hong Kong.