

**CIC HOLDINGS LIMITED**

**Report and Financial Statements**

**31 December 2001**

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



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**REPORT AND FINANCIAL STATEMENTS 2001**

**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS**

Yang Chao	Chairman and Chief Executive Officer
Shi Chuan Ming	(appointed 17 July 2001)
Xie Yi Qun	(resigned 24 July 2001)
Bertram G Hand	
Yang Fan	(appointed 5 March 2002)
Cai Lei	(appointed 17 July 2001)
Sun Yi He	(appointed 17 July 2001)

**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  
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 2001.

## PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS DEVELOPMENTS

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

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

The main subsidiaries are detailed below:

**China Insurance Company (UK) limited** which has been authorised and has been underwriting general and reinsurance business since 1985. The company has developed a well-respected team who enjoys a good reputation in their market particularly among the Chinese community in the UK. Although not directly involved in losses arising from the events of September 11 the company has been able to take advantage of the subsequent changes in the UK market. We have enjoyed a substantial increase both in rating and new business accepted.

The resultant improvement in the technical account to a surplus of £413,143 (2000: £188,072 loss) was unfortunately offset by the requirement to bring unrealised investment losses into the profit and loss account and further substantial transfers to the statutory equalisation provision. Pre tax profits fell to £56,856 (2000: £820,424 profit).

**China Insurance Company SA** is authorised and registered in Luxembourg where it transacts general insurance and reinsurance business. A branch operation has been established in Rotterdam.

During the year a 42% increase was achieved in net earned premiums of LUF 13,739,324 (2000: LUF 9,648,826) together with a significant improvement in incurred claims. Despite an increase in administrative expenses a profit for the year of LUF 99,804 was achieved (2000: LUF 7,965,216 loss).

**CIC (Deutschland) Versicherungs-Aktiengesellschaft** is authorised to underwrite general accident, fire and property insurance, third party liabilities and other property insurance together with marine, aviation and marine cargo insurance. The company secured an interest in a major new contract which assisted in a substantial increase in net earned income to €1.584m (2000: €276k). Despite also suffering losses from the disappointing investment markets a significant improvement was achieved with the net loss reduced to €92,215 (2000: €244,914).

**CIC Services (Europe) Limited** is a non-underwriting company providing a variety of intermediary and administrative services from its London base. A small loss of £5,640 after tax was incurred in the year (2000: £5,836 profit).

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

The company itself made a positive contribution to the group results from its own investment portfolio.

## RESULT AND DIVIDENDS

The results of the group for the year ended 31 December 2001 are set out on pages 6 to 23. The retained profit of the group for the year after corporation tax amounted to £104,276 (2000: £568,506).

No interim dividends were paid (2000: £nil) and the directors do not recommend the payment of a final dividend (2000: £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' REPORT (continued)**

**DIRECTORS AND THEIR INTERESTS**

The present directors are shown on page 1. Mr. Yang Chao and Mr. Hand served throughout the year. Mr. Shi Chuan Ming replaced Mr. Xie Yi Qun as Chief Executive of China Insurance Company (UK) Ltd. Mr. Xie Yi Qun left to take up a new senior appointment within a group-related company. Mr. Cai Lei from CIC (Deutschland) and Ms. Sun Yi He from China Insurance Company SA were appointed on 17 July 2001.

As at 31 December 2001 none of the directors had any beneficial interests in the ordinary shares of the group, or in any other group-related companies of China Insurance H.K. (Holdings) Company Ltd.

Subsequent to the year end Mr. Yang Fan was appointed to the Board on 5 March 2002.

**COMPANY SECRETARY**

Subsequent to the year end Mr. Huang Jun resigned as Secretary to the company prior to taking up a position elsewhere. Mr. Yang Fan was appointed on 5 March 2002 to replace Mr. Huang Jun.

**ULTIMATE PARENT UNDERTAKING**

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

**INVESTMENTS**

With the majority of the investment portfolio in fixed interest or bank deposits the 16% fall in the equity content was absorbed and the market value rose by 0.6% to £34.15m.

**CREDITORS' PAYMENT POLICY**

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

**AUDITORS**

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

Approved by the Board of Directors

and signed on behalf of the Board by



Yang Fan

Secretary

9 May 2002

**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 year. In preparing those financial statements, the directors are required to:

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

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

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



Yang Fan  
Secretary

9 May 2002

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

We have audited the financial statements of CIC Holdings Limited for the year ended 31 December 2001 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.

### **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.

### **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 2001, 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

9 May 2002

**CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
**For the year ended 31 December 2001**

		2001 £	2000 £
<b>TECHNICAL ACCOUNT – GENERAL BUSINESS</b>	<b>Notes</b>		
<b>EARNED PREMIUMS, NET OF REINSURANCE</b>	2,3		
Gross premiums written		12,380,322	10,387,451
Outward reinsurance premiums		(3,035,091)	(4,119,118)
Net premiums written		<u>9,345,231</u>	<u>6,268,333</u>
Change in the provision for unearned premiums			
Gross amounts		(328,947)	(397,014)
Reinsurers' share		(1,021,571)	210,098
Net of reinsurance		<u>(1,350,518)</u>	<u>(186,916)</u>
<b>TOTAL TECHNICAL INCOME</b>		<u>7,994,713</u>	<u>6,081,417</u>
<b>CLAIMS INCURRED, NET OF REINSURANCE</b>			
Claims incurred, net of reinsurance	4		
Claims paid			
Gross amounts		4,998,780	4,925,994
Reinsurers' share		(1,289,973)	(1,524,207)
Net of reinsurance		<u>3,708,807</u>	<u>3,401,787</u>
Change in the provision for outstanding claims	4		
Gross amounts		(5,219,381)	(588,140)
Reinsurers' share		5,754,381	1,136,742
Net of reinsurance		<u>535,000</u>	<u>548,602</u>
<b>CLAIMS INCURRED, NET OF REINSURANCE</b>		<u>4,243,807</u>	<u>3,950,389</u>
Net operating expenses	7,9	3,238,043	2,620,187
Other technical charges, net of reinsurance		-	1,600
Increase in equalisation provisions	6	175,000	123,000
<b>TOTAL TECHNICAL CHARGES</b>		<u>7,656,850</u>	<u>6,695,176</u>
<b>BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS</b>		<u>337,863</u>	<u>(613,759)</u>



**CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
**For the year ended 31 December 2001**

	Notes	2001 £	2000 £
<b>NON-TECHNICAL ACCOUNT</b>			
<b>BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS</b>		<u>337,863</u>	<u>(613,759)</u>
Investment income	8	1,837,254	1,866,719
Realised (losses)/gains on investments		(206,970)	389,935
Unrealised losses on investments		(1,296,543)	(447,747)
Investment expenses and charges		<u>(93,129)</u>	<u>(99,175)</u>
Investment returns		<u>240,612</u>	<u>1,709,732</u>
Exchange gains		15,155	128,712
Other income		29,061	78,218
Other charges	9	<u>(398,041)</u>	<u>(529,859)</u>
		<u>(353,825)</u>	<u>(322,929)</u>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAX</b>		224,650	773,044
<b>OPERATING PROFIT</b>		<u>399,650</u>	<u>896,044</u>
Increase in equalisation provisions	6	<u>(175,000)</u>	<u>(123,000)</u>
Tax charge on profit on ordinary activities	12	<u>(120,374)</u>	<u>(204,538)</u>
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAX AND RETAINED PROFIT FOR THE FINANCIAL YEAR</b>	17	<u><u>104,276</u></u>	<u><u>568,506</u></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 2001**

	Notes	2001 £	2000 £
Profit on ordinary activities after taxation		104,276	568,506
Exchange (losses) / gains on retranslation of net investment in foreign group companies	17	(125,874)	38,222
<b>TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR</b>		<u>(21,598)</u>	<u>606,728</u>

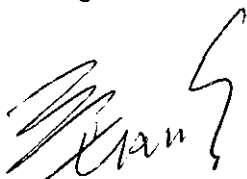
**CONSOLIDATED BALANCE SHEET**  
**As at 31 December 2001**

<b>ASSETS</b>	<b>Notes</b>	<b>2001 £</b>	<b>2000 £</b>
<b>INVESTMENTS</b>			
Other financial investments	13	34,094,204	33,905,998
Deposits with ceding undertakings	13	59,210	39,861
		<u>34,153,414</u>	<u>33,945,859</u>
<b>REINSURERS' SHARE OF TECHNICAL PROVISIONS</b>			
Provision for unearned premiums	3	1,440,066	2,462,324
Provision for outstanding claims	4,5	5,592,162	11,346,159
		<u>7,032,228</u>	<u>13,808,483</u>
<b>DEBTORS</b>			
Debtors arising out of direct insurance operations			
Amounts owed by policyholders		1,635,319	899,913
Amounts owed by intermediaries		1,648,976	860,415
		<u>3,284,295</u>	<u>1,760,328</u>
Debtors arising out of reinsurance operations		1,297,088	1,771,986
Taxation recoverable		60,873	6,658
Other debtors		39,160	345,752
		<u>4,681,416</u>	<u>3,884,724</u>
<b>OTHER ASSETS</b>			
Tangible fixed assets	15	215,591	295,282
Cash at bank and in hand		2,629,318	2,380,894
		<u>2,844,909</u>	<u>2,676,176</u>
<b>PREPAYMENTS AND ACCRUED INCOME</b>			
Accrued interest and rent		234,572	263,608
Deferred acquisition costs	7	1,251,657	945,849
Other prepayments and accrued income		7,476	15,540
		<u>1,493,705</u>	<u>1,224,997</u>
<b>TOTAL ASSETS</b>		<u>50,205,672</u>	<u>55,540,239</u>

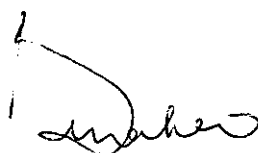
**CONSOLIDATED BALANCE SHEET**  
**As at 31 December 2001**

LIABILITIES	Notes	2001 £	2000 £
<b>CAPITAL AND RESERVES</b>			
Called up share capital	16	18,423,747	18,423,747
Capital reserve	17	762,388	762,388
Profit and loss account	17	9,897,572	9,919,170
Equity shareholders' funds	17	<u>29,083,707</u>	<u>29,105,305</u>
<b>GROSS TECHNICAL PROVISIONS</b>			
Provision for unearned premiums	3	5,901,501	5,574,809
Provision for outstanding claims	4,5	11,536,488	16,760,458
Equalisation provisions	6	808,000	633,000
		<u>18,245,989</u>	<u>22,968,267</u>
<b>PROVISIONS FOR OTHER RISKS AND CHARGES</b>			
Deferred taxation	18	-	291,186
<b>CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR</b>			
Creditors arising out of direct insurance operations		247,451	99,620
Creditors arising out of reinsurance operations		1,313,063	2,125,243
United Kingdom corporation tax		188,248	198,107
Other taxation and social security		451,118	3,371
Other creditors		337,568	533,510
		<u>2,537,448</u>	<u>2,959,851</u>
<b>ACCRUALS AND DEFERRED INCOME</b>			
Deferred reinsurance commissions	7	233,747	122,592
Other accruals and deferred income		104,781	93,038
		<u>338,528</u>	<u>215,630</u>
<b>TOTAL LIABILITIES</b>		<u><u>50,205,672</u></u>	<u><u>55,540,239</u></u>

These financial statements were approved by the Board of Directors on 9 May 2002  
and signed on behalf of the Board of Directors by



Shi Chuan Ming  
Director

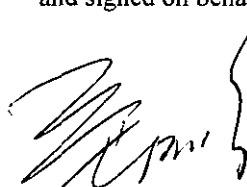


Bertram Hand  
Director

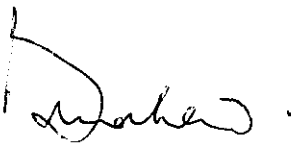
COMPANY BALANCE SHEET  
As at 31 December 2001

	Notes	2001 £	2000 £
<b>FIXED ASSETS</b>			
Tangible assets	15	2,414	1,618
Other financial investments	13	6,337,575	6,183,456
Investments in group undertakings	14	15,276,552	15,276,552
		<u>21,616,541</u>	<u>21,461,626</u>
<b>CURRENT ASSETS</b>			
Debtors		5,877	319,060
Cash at bank and in hand		315,321	46,820
		<u>321,198</u>	<u>365,880</u>
<b>CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR</b>		<u>(51,303)</u>	<u>(59,981)</u>
<b>NET CURRENT ASSETS</b>		<u>269,895</u>	<u>305,899</u>
<b>NET ASSETS</b>		<u>21,886,436</u>	<u>21,767,525</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	16	18,423,747	18,423,747
Profit and loss account	17	3,462,689	3,343,778
<b>EQUITY SHAREHOLDERS' FUNDS</b>	17	<u>21,886,436</u>	<u>21,767,525</u>

These financial statements were approved by the Board of Directors on 9 May 2002  
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 2001****1. ACCOUNTING POLICIES****(a) Basis of preparation**

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

The consolidated financial statements 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.

**(b) 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.

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

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

**(d) 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.

**(e) 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.

**(f) 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.

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2001

## 1. ACCOUNTING POLICIES (continued)

## (g) 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.

## (h) 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.

## (i) 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.

## (j) 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.

## (k) Investment returns

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

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

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

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

**NOTES TO THE ACCOUNTS****For the year ended 31 December 2001****1. ACCOUNTING POLICIES (continued)****(l) Other financial investments**

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

**(m) Investments in group undertakings**

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

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

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

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

**(o) Current and deferred taxation**

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

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

**(p) 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.

**(q) 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.



## NOTES TO THE ACCOUNTS

For the year ended 31 December 2001

## 2. SEGMENTAL ANALYSES

Group	Total direct £'000	Rein- surance accepted £'000	Total £'000
<b>2001</b>			
Gross premiums written	10,884	1,496	12,380
Gross technical result	3,871	4,612	8,483
Reinsurance balance	(3,322)	(4,648)	(7,970)
Transfer to equalisation provision	(175)	-	(175)
Net technical result	374	(36)	338
Net technical provisions	8,653	2,561	11,214

Group	Total direct £'000	Rein- surance accepted £'000	Total £'000
<b>2000</b>			
Gross premiums written	7,132	3,255	10,387
Gross technical result	819	1,287	2,106
Reinsurance balance	(1,174)	(1,423)	(2,597)
Transfer to equalisation provision	(123)	-	(123)
Net technical result	(478)	(136)	(614)
Net technical provisions	7,056	2,104	9,160

## Group

	2001 £'000	2000 £'000
<b>Gross written premiums resulted from contracts of insurance concluded in:</b>		
The United Kingdom	11,057	9,940
Other EU member states	1,323	447
	12,380	10,387

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.

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2001

## 3. EARNED PREMIUMS, NET OF REINSURANCE

Group	2001			2000		
	Gross £	Reinsurance £	Net £	Gross £	Reinsurance £	Net £
Written premiums	12,380,322	3,035,091	9,345,231	10,387,451	4,119,118	6,268,333
Provision for unearned premiums						
Carried forward	(5,901,501)	(1,440,066)	(4,461,435)	(5,574,809)	(2,462,324)	(3,112,485)
Brought forward	5,574,809	2,462,324	3,112,485	5,175,439	2,255,857	2,919,582
Exchange differences	(2,255)	(687)	(1,568)	2,356	(3,631)	5,987
(Increase)/ decrease	(328,947)	1,021,571	(1,350,518)	(397,014)	(210,098)	(186,916)
Earned premiums	12,051,375	4,056,662	7,994,713	9,990,437	3,909,020	6,081,417

## 4. CLAIMS INCURRED, NET OF REINSURANCE

Group	2001			2000		
	Gross £	Reinsurance £	Net £	Gross £	Reinsurance £	Net £
Claims paid	4,998,780	1,289,973	3,708,807	4,925,994	1,524,207	3,401,787
Provision for outstanding claims						
Carried forward	11,536,488	5,592,162	5,944,326	16,760,458	11,346,159	5,414,299
Brought forward	(16,760,458)	(11,346,159)	(5,414,299)	(17,332,159)	(12,478,425)	(4,853,734)
Exchange differences	4,589	(384)	4,973	(16,439)	(4,476)	(11,963)
(Decrease) / increase	(5,219,381)	(5,754,381)	535,000	(588,140)	(1,136,742)	548,602
Claims incurred	(220,601)	(4,464,408)	4,243,807	4,337,854	387,465	3,950,389

## 5. PROVISION FOR OUTSTANDING CLAIMS

	2001			2000		
	Gross £	Reinsurance £	Net £	Gross £	Reinsurance £	Net £
Notified outstanding claims	10,107,247	5,211,515	4,895,732	12,735,703	8,291,523	4,444,180
Unexpired risk provision	-	-	-	40,000	-	40,000
Provision for claims incurred but not reported	1,261,811	379,286	882,525	3,808,398	3,054,636	753,762
Claims handling expenses	167,430	1,361	166,069	176,357	-	176,357
	11,536,488	5,592,162	5,944,326	16,760,458	11,346,159	5,414,299

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2001

## 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% (2000 - 30%), this has had the cumulative effect of reducing shareholders' funds by £565,600 (2000 - £443,100).

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 £175,000 (2000-£123,000).

## 7. NET OPERATING EXPENSES

Group	2001			2000		
	Gross £	Reinsurance £	Net £	Gross £	Reinsurance £	Net £
Acquisition costs and commissions	2,926,776	654,296	2,272,480	2,577,058	946,491	1,630,567
Deferred acquisition costs						
Carried forward	(1,251,657)	(233,747)	(1,017,910)	(945,849)	(122,592)	(823,257)
Brought forward	945,849	122,592	823,257	732,746	101,738	631,008
Exchange difference	(675)	5,449	(6,124)	181	-	181
(Increase) / decrease	(306,483)	(105,706)	(200,777)	(212,922)	(20,854)	(192,068)
Incurred acquisition costs	2,620,293	548,590	2,071,703	2,364,136	925,637	1,438,499
Administrative expenses and other charges (Note 9)	1,166,340	-	1,166,340	1,181,688	-	1,181,688
Total operating expenses	3,786,633	548,590	3,238,043	3,545,824	925,637	2,620,187

## 8. INVESTMENT INCOME

Group	2001 £	2000 £
Interest on bank deposits	702,212	778,245
Income from fixed-income securities	767,212	786,717
Income from variable-yield securities	199,848	198,324
Other interest	167,982	103,433
	<u>1,837,254</u>	<u>1,866,719</u>

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2001

## 9. ADMINISTRATIVE EXPENSES AND OTHER CHARGES

## Group

	2001 £	2000 £
<b>Administrative expenses and other charges in both the technical and non-technical accounts include:</b>		
Directors' emoluments	229,220	172,094
Auditors' remuneration – Audit services	98,510	82,811
Auditors' remuneration – Non-audit services	25,424	43,778
Depreciation of tangible fixed assets – Owned assets	98,695	129,969
Decrease in bad debt provisions	(559)	(24,912)
Operating lease charge	296,954	297,802

## Company

	2001 £	2000 £
<b>Administrative expenses charged to the profit and loss account of the company include:</b>		
Auditors' remuneration – Audit services	25,850	10,105
Depreciation of tangible fixed assets – Owned assets	1,168	1,699

## 10. STAFF COSTS

	2001 £	2000 £
<b>Group</b>		
<b>All salary costs, including directors' emoluments, comprise:</b>		
Wages and salaries	1,023,937	1,030,351
Social security costs	106,237	105,701
Pension contributions	-	1,861
	<u>1,130,174</u>	<u>1,137,913</u>

	2001 Number	2000 Number
<b>The average number of employees, including executive directors employed during the year was as follows:</b>		
Management	7	7
Underwriting	14	15
Claims	5	6
Marketing	10	6
Administration	15	17
	<u>51</u>	<u>51</u>

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2001

## 11. DIRECTORS' REMUNERATION

## Group

	2001 £	2000 £
Directors' remuneration consists exclusively of remuneration for services provided as directors, which comprise:		
Emoluments		
Wages and salaries	209,919	155,334
Social security costs	19,301	16,760
	<u>229,220</u>	<u>172,094</u>

No directors (2000 - two) 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 £62,039 for the year.

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

## 12. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

	2001 £	2000 £
The group charge for taxation comprises:		
Current taxation		
United Kingdom corporation tax at 30% (2000 - 30%)	403,129	430,497
(Under)/Over provision in prior years' tax	8,431	(15,984)
	<u>411,560</u>	<u>414,513</u>
Deferred taxation		
Current year (credit) / charge	(291,186)	(209,975)
	<u>120,374</u>	<u>204,538</u>

## 13. OTHER FINANCIAL INVESTMENTS

	Current value		Historical cost	
	2001 £	2000 £	2001 £	2000 £
Group				
Shares, other variable yield securities, and units in unit trusts				
Listed	7,543,387	8,980,720	7,735,537	7,791,315
Unlisted	166,538	172,105	273,405	272,000
Debt securities and other fixed income securities				
Listed	11,025,010	10,158,330	10,474,209	9,547,306
Participation in Pool Re-Insurance Company Limited	-	19,151	-	19,151
Deposits with credit institutions	15,359,269	14,575,692	15,359,491	14,575,692
Deposits with ceding undertakings	59,210	39,861	59,210	39,861
	<u>34,153,414</u>	<u>33,945,859</u>	<u>33,901,852</u>	<u>32,245,325</u>
Company				
Debt securities and other fixed income securities				
Listed	1,008,531	-	993,776	-
Deposits with credit institutions	5,329,044	6,183,456	6,322,820	6,183,456
	<u>6,337,575</u>	<u>6,183,456</u>	<u>7,316,596</u>	<u>6,183,456</u>

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2001

## 14. INVESTMENTS IN GROUP UNDERTAKINGS

Company	2001 £	2000 £
Investments in subsidiary undertakings	15,276,552	15,276,552

Details of major investments in subsidiary companies are as follows:

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

## 15. TANGIBLE FIXED ASSETS

Group	Freehold property £	Office furniture, office and computer equipment £	Motor vehicles £	Total £
<b>At cost</b>				
At 1 January 2001	149,991	507,798	258,192	915,981
Exchange adjustment	(12,251)	(25,348)	95	(37,504)
Additions	-	30,243	-	30,243
Disposals	-	(27,397)	(27,471)	(54,868)
At 31 December 2001	137,740	485,296	230,816	853,852
<b>Accumulated depreciation</b>				
At 1 January 2001	-	393,006	227,693	620,699
Exchange adjustment	-	(26,048)	(110)	(26,158)
Charged during the year	-	82,536	16,159	98,695
Eliminated on disposals	-	(27,505)	(27,470)	(54,975)
At 31 December 2001	-	421,989	216,272	638,261
<b>Net book value</b>				
At 31 December 2001	137,740	63,307	14,544	215,591
At 31 December 2000	149,991	114,792	30,499	295,282

# NOTES TO THE ACCOUNTS

## For the year ended 31 December 2001

### 15. TANGIBLE FIXED ASSETS (continued)

Company	Office furniture, office and computer equipment £	Motor vehicles £	Total £
<b>At cost</b>			
At 1 January 2001	5,643	35,535	41,178
Additions	1,964	-	1,964
Disposals	(3,426)	-	(3,426)
At 31 December 2001	4,181	35,535	39,716
<b>Accumulated depreciation</b>			
At 1 January 2001	4,025	35,535	39,560
Charged during the year	1,168	-	1,168
Eliminated on disposal	(3,426)	-	(3,426)
At 31 December 2001	1,767	35,535	37,302
<b>Net book value</b>			
At 31 December 2001	2,414	-	2,414
At 31 December 2000	1,618	-	1,618

### 16. CALLED UP SHARE CAPITAL

Group and Company	Authorised		Allotted, called up and fully paid	
	2001 £	2000 £	2001 £	2000 £
Ordinary shares of £1 each	20,000,000	20,000,000	18,423,747	18,423,747

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

Group	Share capital £	Profit and loss account £	Capital reserve £	Total for 2001 £	Total for 2000 £
At 1 January 2001	18,423,747	9,919,170	762,388	29,105,305	28,498,577
Retained profit for the financial year	-	104,276	-	104,276	568,506
Exchange (losses) / gains on retranslation of net investment in foreign group companies	-	(125,874)	-	(125,874)	38,222
At 31 December 2001	18,423,747	9,897,572	762,388	29,083,707	29,105,305

Unrealised gains and losses reported in the non-technical account are not considered to be distributable. The profit and loss account balance includes £1,017,047 (2000 - £995,447) relating to the group which are non-distributable.

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2001

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

Company	Share capital £	Profit and loss account £	Total for 2001 £	Total for 2000 £
At 1 January 2001	18,423,747	3,343,778	21,767,525	21,352,984
Retained profit for the financial year	-	118,911	118,911	414,541
At 31 December 2001	18,423,747	3,462,689	21,886,436	21,767,525

## 18. DEFERRED TAXATION

Group	2001 £	2000 £
<b>Movements in the provision for deferred taxation are:</b>		
At 1 January 2001	291,186	501,161
Decrease during the year	(291,186)	(209,975)
At 31 December 2001	-	291,186

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

Group	Provided		Unprovided	
	2001 £	2000 £	2001 £	2000 £
Unrealised gains on investments	-	339,675	(39,401)	-
Capital allowances in advance of depreciation	-	(48,489)	(48,520)	(5,386)
General provision	-	-	-	-
	-	291,186	(87,921)	(5,386)

## 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	2001 £	2000 £
Deposits held by ceding undertakings	53,704	39,861
Debtors arising out of reinsurance operations	316,139	1,477,684
Creditors arising out of reinsurance operations	(46,731)	(66,905)
<b>Company</b>		
Dividends receivable from subsidiary undertaking	-	300,000

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



## NOTES TO THE ACCOUNTS

For the year ended 31 December 2001

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

The group has accepted £433,616 (2000 - £2,790,614) 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 £421,801 (2000 - £625,661).

## 21. OPERATING LEASE COMMITMENTS

At 31 December 2001, the group had annual commitments under non-cancellable operating leases for the following year as set out below:

	Land and buildings	
	2001	2000
	£	£
<b>Operating leases which expire:</b>		
Within five to ten years	252,727	253,671

## 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 2001, which were £591,000 (2000 - £591,000).

## 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 and an amount of £37,568 (2000 - £nil) has been charged to the accounts.

## 24. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

At 31 December 2001, the company's and the group's immediate parent undertaking and controlling party is China Insurance H.K. (Holdings) Company Ltd, a company incorporated in Hong Kong - which is ultimately controlled by China Insurance Company Limited, a company incorporated in China.

Copies of China Insurance H.K. (Holdings) Company Ltd's accounts are obtainable from its registered office at 22/F., Ming An Plaza, 8 Sunning Road, Causeway Bay, Hong Kong.