ERNST & YOUNG
安 永

Ernst & Young
18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

Tel: +852 2846 9888
Fax: +852 2868 4432
www.ey.com

香港中環金融街8號
國際金融中心2期18樓

電話:+852 2846 9888
傳真:+852 2868 4432

10 December 2009

The Directors
China Pacific Insurance (Group) Co., Ltd.

UBS AG, Hong Kong Branch
Credit Suisse (Hong Kong) Limited
China International Capital Corporation Hong Kong Securities Limited
Goldman Sachs (Asia) L.L.C.

Dear Sirs,

We set out below our report on the financial information of China Pacific Insurance (Group) Co., Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the financial years ended 31 December 2006, 2007 and 2008 and the six-month period ended 30 June 2009 (the "Relevant Periods") and the six-month period ended 30 June 2008 for inclusion in the prospectus of the Company dated 10 December 2009 (the "Prospectus") in connection with the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "SEHK").

The Company was established in Shanghai, the People's Republic of China (the "PRC" or "Mainland China") in May 1991, under the name of China Pacific Insurance Co., Ltd. Pursuant to approval by the China Insurance Regulatory Commission (the "CIRC") in 2001, the Company separated its insurance business into property and casualty insurance and life insurance and was restructured as an investment holding company in October 2001. Currently, the Group is principally engaged in various property and casualty and life insurance businesses.

The Company is the majority shareholder of China Pacific Property Insurance Co., Ltd. ("CPPIC") and China Pacific Life Insurance Co., Ltd. ("CPLIC"), two specialised insurance companies. In 2006, with the approval of CIRC, the Company and CPPIC established Pacific Asset Management Co., Ltd. ("PAMC") to handle the investment activities for the Group, where such functions were originally undertaken by the Company. The Company had also formed a joint venture named Pacific-Antai Life Insurance Co., Ltd. ("Pacific Antai") in 1998, in which the Company has a 50% equity interest. These companies operate in Mainland China of the PRC. The Company has a wholly-owned subsidiary, China Pacific Insurance Co., (H.K.) Ltd. ("CPIC HK"), which is incorporated in Hong Kong. Other subsidiaries are relatively insignificant.

In December 2007, the Company conducted an initial public offering of its domestic common shares ("A shares") in the Mainland China. The Company's A shares have been listed on the Shanghai Stock Exchange since 25 December 2007.

All companies now comprising the Group have adopted 31 December as their financial year end for financial reporting purposes.

The statutory consolidated financial statements of the Group for the year ended 31 December 2006 were prepared in accordance with the Accounting Standards for Business Enterprises, the Accounting System for Financial Institutions (2001 version) and other relevant regulations issued by the Ministry of Finance (the "MOF") of the PRC and CIRC (the "Previous PRC GAAP") and were audited by Ernst & Young Da Hua CPA Co., Ltd. ("安永大華會計師事務所有限責任公司") ("Ernst & Young Da Hua").

From 1 January 2007, at the direction of CIRC, the Group adopted the "Accounting Standards for Business Enterprises (2006 version)" issued by the MOF. For the purpose of the Company's initial public offering of domestic shares in December 2007, the Company prepared consolidated financial statements of the Group for each of the three financial years ended 31 December 2004, 2005 and 2006 and the six-month period ended 30 June 2007. The consolidated financial statements of the Group for the six-month period ended 30 June 2007 were prepared in accordance with the Accounting Standards for Business Enterprises (2006 version) and other relevant regulations issued by the MOF and CIRC (the "PRC GAAP"). The Group also adjusted its statutory consolidated financial statements for each of the years ended 31 December 2004, 2005 and 2006 in accordance with the Accounting Standards for Business Enterprises (2006 version) No. 38 "First time adoption of the Accounting Standards for Business Enterprises" and other relevant regulations issued by the MOF and China Securities Regulatory Commission (the "CSRC"). These statutory financial statements were audited by Ernst & Young Da Hua in accordance with the Chinese Auditing Standards issued by the Chinese Institute of Certified Public Accountants.

The statutory consolidated financial statements of the Group for the year ended 31 December 2007 and 2008 were also prepared in accordance with PRC GAAP and were audited by Ernst & Young Da Hua and Ernst & Young Hua Ming ("安永華明會計師事務所"), respectively. The consolidated financial statements of the Group for the six-month period ended 30 June 2009, prepared in accordance with the PRC GAAP, were also audited by Ernst & Young Hua Ming.

The financial information set out in this report, including the consolidated income statements, statements of comprehensive income, statements of changes in equity and cash flow statements of the Group for the Relevant Periods and for the six-month period ended 30 June 2008 (unaudited), and the consolidated balance sheets of the Group and the balance sheets of the Company as at 31 December 2006, 2007 and 2008 and 30 June 2009, together with the notes thereto (collectively referred to as the "Financial Information") have been prepared, based on the statutory financial statements as audited respectively by Ernst & Young Da Hua and Ernst & Young Hua Ming and the relevant management accounts of the Group, after making such adjustments as appropriate to comply with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The directors of the Company (the "directors") are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with HKFRSs. The directors of the respective companies of the Group are responsible for the preparation and the true and fair preparation of the respective audited financial statements and, where appropriate, management accounts in accordance with the relevant accounting principles and financial regulations applicable to these companies. In preparing the Financial Information, it is fundamental that appropriate accounting policies are selected and applied consistently, and that judgements and estimates made are prudent and reasonable. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion thereon.

Procedures performed in respect of the part of the Financial Information during the Relevant Periods

For the purpose of this report, we have carried out independent audit procedures in respect of the part of the Financial Information for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Procedures performed in respect of the 30 June 2008 Financial Information

For the purpose of this report, we have also performed a review of the part of the Financial Information for the six-month period ended 30 June 2008 (the "30 June 2008 Financial Information") in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists principally of making inquires of management and applying analytical procedures to the financial information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the 30 June 2008 Financial Information.

Opinion in respect of the part of the Financial Information during the Relevant Periods

In our opinion, for the purpose of this report, the Financial Information during the Relevant Periods gives a true and fair view of the consolidated results and cash flows of the Group for each of the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 and of the state of affairs of the Company and of the Group as at 31 December 2006, 2007, 2008 and 30 June 2009 in accordance with HKFRSs.

Review conclusion in respect of the 30 June 2008 Financial Information

Based on our review which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the 30 June 2008 Financial Information does not give a true and fair view of the consolidated results and cash flows of the Group for the six-month period ended 30 June 2008, in accordance with HKFRSs.

CONSOLIDATED INCOME STATEMENTS
(All amounts expressed in Renminbi ("RMB") million unless otherwise specified)

Group	Notes	Year ended 31 December 2006	2007	2008	Six months ended 30 June 2008 (unaudited)	2009
Gross written premiums and policy fees	5(a)	35,926	44,881	53,845	29,393	35,773
Less: Premiums ceded to reinsurers	5(b)	(6,394)	(6,762)	(8,435)	(4,690)	(5,538)
Net written premiums and policy fees	5	29,532	38,119	45,410	24,703	30,235
Net change in unearned premium reserves		(1,618)	(1,937)	(1,307)	(2,386)	(3,259)
Net premiums earned and policy fees		27,914	36,182	44,103	22,317	26,976
Investment income	6	9,534	27,230	8,110	14,452	8,878
Other operating income		284	535	816	344	165
Other income		9,818	27,765	8,926	14,796	9,043
Total income		37,732	63,947	53,029	37,113	36,019
Net policyholders' benefits and claims:						
Life insurance death and other benefits paid	7	(1,407)	(1,822)	(2,838)	(2,135)	(1,850)
Claims incurred	7	(7,800)	(10,568)	(13,943)	(7,041)	(7,361)
Changes in long-term traditional insurance contract liabilities	7	(10,362)	(17,409)	(10,093)	(9,645)	(9,512)
Interest credited to long-term investment type insurance contract liabilities	7	(2,660)	(3,511)	(4,748)	(2,322)	(2,413)
Policyholder dividends	7	(1,105)	(1,223)	(2,595)	(1,274)	(985)
Finance costs	8	(581)	(848)	(532)	(380)	(138)
Interest credited to investment contracts		(221)	(165)	(102)	(59)	(38)
Amortisation on deferred acquisition costs	28	(3,880)	(5,155)	(5,634)	(2,517)	(3,786)
Provision for insurance guarantee fund		(211)	(275)	(318)	(176)	(213)
Change in deferred revenue		240	(430)	(2,903)	(1,541)	(987)
Other operating and administrative expenses		(5,742)	(7,845)	(7,246)	(3,878)	(3,603)
Total benefits, claims and expenses		(33,729)	(49,251)	(50,952)	(30,968)	(30,886)
Share of profits/(losses) of:						
A jointly-controlled entity		5	70	(52)	(2)	26
Associates		(8)	—	—	—	—
Profit before tax	9	4,000	14,766	2,025	6,143	5,159
Income tax	14	(1,363)	(2,500)	1,161	55	(1,158)
Net profit for the year/period		2,637	12,266	3,186	6,198	4,001
Attributable to:						
Equity holders of the parent	15	2,019	11,238	3,086	6,082	3,937
Minority interests		618	1,028	100	116	64
		2,637	12,266	3,186	6,198	4,001
Basic earnings per share attributable to ordinary equity holders of the parent	16	RMB0.47	RMB1.82	RMB0.40	RMB0.79	RMB0.51

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(All amounts expressed in RMB million unless otherwise specified)

Group	Notes	Year ended 31 December 2006	2007	2008	Six months ended 30 June 2008 (unaudited)	2009
Net profit for the year/period		2,637	12,266	3,186	6,198	4,001
Other comprehensive income						
Exchange differences on translation of foreign operations		(6)	(9)	(6)	(6)	(2)
Net gains/(losses) on available-for-sale financial assets		8,177	11,791	(20,680)	(28,805)	3,773
Shadow accounting adjustment		(730)	(3,373)	2,452	6,904	380
Income tax relating to components of other comprehensive income/(loss)		(2,429)	(1,483)	4,563	5,452	(1,038)
Other comprehensive income/(loss) for the year/period, net of tax	10	5,012	6,926	(13,671)	(16,455)	3,113
Total comprehensive income/(loss) for the year/period, net of tax		7,649	19,192	(10,485)	(10,257)	7,114
Attributable to:						
Equity holders of the parent		5,836	17,601	(10,292)	(10,073)	6,999
Minority interests		1,813	1,591	(193)	(184)	115
		7,649	19,192	(10,485)	(10,257)	7,114

CONSOLIDATED BALANCE SHEETS
(All amounts expressed in RMB million unless otherwise specified)

Group	Notes	As at 31 December 2006	2007	2008	As at 30 June 2009
ASSETS					
Property and equipment	17	3,928	4,546	6,596	6,913
Intangible assets	19	117	249	365	342
Prepaid land lease payments	20	222	217	213	210
Interests in associates	22	209	—	—	—
Investment in a jointly-controlled entity	23	322	367	391	417
Financial assets at fair value through profit or loss	24.1	4,758	2,463	1,166	416
Held-to-maturity financial assets	24.2	36,879	58,120	70,980	81,919
Available-for-sale financial assets	24.3	68,430	121,867	96,142	113,572
Investments classified as loans and receivables	24.4	7,726	13,923	16,532	22,346
Securities purchased under agreements to resell	25	1,744	5,500	60	—
Term deposits	26	53,855	59,262	82,756	91,061
Restricted statutory deposits		889	998	1,838	1,838
Policy loans		219	442	698	986
Interest receivables	27	2,134	3,393	4,979	6,857
Deferred acquisition costs	28	11,276	13,468	20,114	22,320
Reinsurance assets	29	7,247	8,395	9,627	11,082
Deferred income tax assets	30	79	6	763	705
Income tax receivable		1	408	508	—
Insurance receivables	31	3,177	3,711	4,303	5,017
Other assets	32	555	1,384	2,406	2,239
Cash and short-term time deposits	33	10,142	23,622	17,513	18,734
Total assets		213,909	322,341	337,950	386,974
EQUITY AND LIABILITIES					
Equity					
Issued capital	34	4,300	7,700	7,700	7,700
Reserves	35	8,369	51,538	38,264	41,326
Retained profits	35	1,815	12,706	13,391	15,018
Equity attributable to equity holders of the parent		14,484	71,944	59,355	64,044
Minority interests		3,080	712	671	728
Total equity		17,564	72,656	60,026	64,772
Liabilities					
Insurance contract liabilities	36	155,607	201,979	239,467	265,326
Investment contract liabilities	37	7,449	4,554	3,039	2,632
Subordinated debt	38	2,038	2,113	2,188	2,226
Securities sold under agreements to repurchase	39	3,120	11,788	7,020	22,435
Policyholders' deposits		11,315	6,913	576	94
Provisions	40	985	402	98	98
Deferred income tax liabilities	30	3,281	6,720	1,753	3,833
Income tax payable		194	64	8	57
Deferred revenue	41	3,711	4,018	9,469	9,812
Premium received in advance		1,288	2,149	2,788	1,264
Policyholder dividend payable		1,984	2,779	4,147	4,598
Payables to reinsurers		1,694	1,607	2,213	3,040
Other liabilities	42	3,679	4,599	5,158	6,787
Total liabilities		196,345	249,685	277,924	322,202
Total equity and liabilities		213,909	322,341	337,950	386,974

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(All amounts expressed in RMB million unless otherwise specified)

	For the year ended 31 December 2006								
	Attributable to equity holders of the parent								
		Reserves							
Group	Issued capital	Capital reserve	Surplus reserves	Foreign currency translation reserve	Available-for-sale investment revaluation reserve	Retained profits/ (accumulated losses)	Total	Minority interests	Total equity
At 1 January 2006	4,300	5,713	415	(3)	328	(2,109)	8,644	1,272	9,916
Total comprehensive (loss)/income	—	—	—	(6)	3,823	2,019	5,836	1,813	7,649
Dividends paid to minority shareholders	—	—	—	—	—	—	—	(5)	(5)
Accumulated losses offset by capital reserve (note 35(a))	—	(2,037)	—	—	—	2,037	—	—	—
Appropriations to surplus reserves	—	—	132	—	—	(132)	—	—	—
Others	—	4	—	—	—	—	4	—	4
At 31 December 2006	4,300	3,680	547	(9)	4,151	1,815	14,484	3,080	17,564

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (continued)
(All amounts expressed in RMB million unless otherwise specified)

	For the year ended 31 December 2007								
	Attributable to equity holders of the parent								
		Reserves							
Group	Issued capital	Capital reserve	Surplus reserves	Foreign currency translation reserve	Available-for-sale investment revaluation reserve	Retained profits	Total	Minority interests	Total equity
At 1 January 2007	4,300	3,680	547	(9)	4,151	1,815	14,484	3,080	17,564
Total comprehensive (loss)/income	—	—	—	(9)	6,372	11,238	17,601	1,591	19,192
Dividends paid to minority shareholders	—	—	—	—	—	—	—	(66)	(66)
Issue of shares	3,400	35,874	—	—	—	—	39,274	—	39,274
Capital injection into subsidiaries	—	6	—	—	—	—	6	(6)	—
Purchase of minority interests	—	576	—	—	—	—	576	(3,887)	(3,311)
Reattribution of available-for-sale investment revaluation reserve due to the acquisition of additional interest in subsidiaries	—	(1,620)	—	—	1,620	—	—	—	—
Appropriations to surplus reserves	—	—	347	—	—	(347)	—	—	—
Others	—	3	—	—	—	—	3	—	3
At 31 December 2007	7,700	38,519	894	(18)	12,143	12,706	71,944	712	72,656

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (continued)
(All amounts expressed in RMB million unless otherwise specified)

	For the year ended 31 December 2008								
	Attributable to equity holders of the parent								
		Reserves							
Group	Issued capital	Capital reserve	Surplus reserves	Foreign currency translation reserve	Available-for-sale investment revaluation reserve	Retained profits	Total	Minority interests	Total equity
At 1 January 2008	7,700	38,519	894	(18)	12,143	12,706	71,944	712	72,656
Total comprehensive (loss)/ income	—	—	—	(6)	(13,372)	3,086	(10,292)	(193)	(10,485)
Dividends declared[1]	—	—	—	—	—	(2,310)	(2,310)	—	(2,310)
Dividends paid to minority shareholders	—	—	—	—	—	—	—	(60)	(60)
Capital injection into subsidiaries	—	13	—	—	—	—	13	212	225
Reattribution of available-for-sale investment revaluation reserve due to the acquisition of additional interest in subsidiaries	—	9	—	—	(9)	—	—	—	—
Appropriations to surplus reserves	—	—	91	—	—	(91)	—	—	—
At 31 December 2008	7,700	38,541	985	(24)	(1,238)	13,391	59,355	671	60,026

1 Dividends declared represent final dividend on ordinary shares declared for the year ended 31 December 2007, amounting to RMB2,310 million (RMB0.30 per share).

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (continued)
(All amounts expressed in RMB million unless otherwise specified)

	For the six months ended 30 June 2008 (unaudited)								
	Attributable to equity holders of the parent								
		Reserves							
Group	Issued capital	Capital reserve	Surplus reserves	Foreign currency translation reserve	Available-for-sale investment revaluation reserve	Retained profits	Total	Minority interests	Total equity
At 1 January 2008	7,700	38,519	894	(18)	12,143	12,706	71,944	712	72,656
Total comprehensive (loss)/income	—	—	—	(6)	(16,149)	6,082	(10,073)	(184)	(10,257)
Dividends declared[1]	—	—	—	—	—	(2,310)	(2,310)	—	(2,310)
Dividends paid to minority shareholders	—	—	—	—	—	—	—	(60)	(60)
Capital injection into subsidiaries	—	10	—	—	—	—	10	126	136
Reattribution of available-for-sale investment revaluation reserve due to the acquisition of additional interest in subsidiaries	—	9	—	—	(9)	—	—	—	—
At 30 June 2008	7,700	38,538	894	(24)	(4,015)	16,478	59,571	594	60,165

1 Dividends declared represent final dividend on ordinary shares declared for the year ended 31 December 2007, amounting to RMB2,310 million (RMB0.30 per share).

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (continued)
(All amounts expressed in RMB million unless otherwise specified)

	For the six months ended 30 June 2009								
	Attributable to equity holders of the parent								
		Reserves							
Group	Issued capital	Capital reserve	Surplus reserves	Foreign currency translation reserve	Available-for-sale investment revaluation reserve	Retained profits	Total	Minority interests	Total equity
At 1 January 2009	7,700	38,541	985	(24)	(1,238)	13,391	59,355	671	60,026
Total comprehensive (loss)/income	—	—	—	(2)	3,064	3,937	6,999	115	7,114
Dividends declared[1]	—	—	—	—	—	(2,310)	(2,310)	—	(2,310)
Dividends paid to minority shareholders	—	—	—	—	—	—	—	(58)	(58)
At 30 June 2009	7,700	38,541	985	(26)	1,826	15,018	64,044	728	64,772

1 Dividends declared represent final dividend on ordinary shares declared for the year ended 31 December 2008, amounting to RMB2,310 million (RMB0.30 per share).

CONSOLIDATED CASH FLOW STATEMENTS
(All amounts expressed in RMB million unless otherwise specified)

Group	Notes	Year ended 31 December 2006	2007	2008	Six months ended 30 June 2008 (Unaudited)	2009
OPERATING ACTIVITIES						
Cash generated from operating activities	46	27,573	22,680	25,218	17,167	18,903
Income tax (paid)/refund		(32)	(1,010)	(162)	(138)	377
Net cash inflow from operating activities		27,541	21,670	25,056	17,029	19,280
INVESTING ACTIVITIES						
Purchases of property and equipment, intangible assets and other assets		(597)	(1,495)	(2,945)	(2,062)	(719)
Proceeds from sale of items of property and equipment, intangible assets and other assets		92	49	252	108	15
Purchases of investments, net		(25,271)	(57,728)	(42,214)	(23,928)	(35,509)
Disposal of an equity interest in an associate		22	—	—	—	—
Increase of investments in an associate/a jointly-controlled entity		(100)	(81)	(50)	—	—
Interest received		5,085	5,371	8,412	2,899	3,714
Dividends received from investments		794	5,713	7,171	6,993	485
Net cash outflow from investing activities		(19,975)	(48,171)	(29,374)	(15,990)	(32,014)
FINANCING ACTIVITIES						
Securities sold under agreements to repurchase, net		(6,401)	8,668	(4,768)	(10,022)	15,931
Capital contribution from minority shareholders of subsidiaries		—	—	225	136	—
Purchase of minority interests		—	(3,311)	—	—	—
Proceeds from issuance of shares		—	39,274	—	—	—
Proceeds from issuance of subordinated debt		2,000	—	—	—	—
Interest paid		(488)	(764)	(229)	(348)	(53)
Dividends paid		(5)	(57)	(2,359)	(1,905)	(1,982)
Net cash (outflow)/inflow from financing activities		(4,894)	43,810	(7,131)	(12,139)	13,896
Effects of exchange rate changes on cash and cash equivalents		(112)	(43)	(100)	(64)	(1)
Net increase/(decrease) in cash and cash equivalents		2,560	17,266	(11,549)	(11,164)	1,161
Cash and cash equivalents at beginning of year/period		9,296	11,856	29,122	29,122	17,573
Cash and cash equivalents at end of year/period		11,856	29,122	17,573	17,958	18,734
Analysis of balances of cash and cash equivalents						
Cash at banks and on hand	33	4,774	13,248	5,991	10,922	5,771
Time deposits with original maturity of no more than three months	33	4,930	2,044	10,997	2,397	12,387
Other monetary assets	33	438	8,330	525	4,180	576
Securities purchased under agreements to resell with original maturity of no more than three months		1,714	5,500	60	459	—
Cash and cash equivalents at end of year/period		11,856	29,122	17,573	17,958	18,734

BALANCE SHEETS
(All amounts expressed in RMB million unless otherwise specified)

Company

	Notes	As at 31 December 2006	2007	2008	As at 30 June 2009
ASSETS					
Property and equipment	17	331	285	1,925	2,246
Investment property	18	253	219	211	191
Intangible assets		6	6	38	33
Prepaid land lease payments	20	197	192	188	186
Investments in subsidiaries	21	7,643	13,874	30,581	30,581
Interests in associates	22	209	—	—	—
Investment in a jointly-controlled entity	23	350	350	400	400
Financial assets at fair value through profit or loss	24.1	94	39	33	32
Held-to-maturity financial assets	24.2	—	27	682	695
Available-for-sale financial assets	24.3	183	19,864	4,290	5,401
Investments classified as loans and receivables	24.4	700	704	1,876	1,199
Securities purchased under agreements to resell	25	—	5,500	—	—
Term deposits	26	121	4,578	6,566	6,527
Interest receivables		3	159	155	200
Deferred income tax assets		—	—	753	705
Income tax receivable		—	—	133	—
Other assets	32	101	1,920	938	938
Cash and short-term time deposits	33	1,805	16,071	2,538	3,654
Total assets		11,996	63,788	51,307	52,988
EQUITY AND LIABILITIES					
Equity					
Issued capital	34	4,300	7,700	7,700	7,700
Reserves	35	2,185	38,684	38,697	38,659
Retained profits	35	2,662	5,763	4,262	5,494
Total equity		9,147	52,147	50,659	51,853
Liabilities					
Provisions	40	305	87	94	94
Income tax payable		27	59	—	—
Deferred income tax liabilities		—	108	—	—
Due to subsidiaries		1,770	11,088	313	401
Other liabilities	42	747	299	241	640
Total liabilities		2,849	11,641	648	1,135
Total equity and liabilities		11,996	63,788	51,307	52,988

NOTES TO THE FINANCIAL INFORMATION
(All amounts expressed in RMB million unless otherwise specified)

1. CORPORATE INFORMATION

The Company was established on 13 May 1991 with a registered capital of RMB1,000 million under the name of China Pacific Insurance Co., Ltd., being the first joint stock commercial insurance company authorized to conduct composite insurance operations on a nationwide basis in the PRC. The Company's founding investors included Bank of Communications, together with some of its branches, and other entities, some of whom are no longer shareholders of the Company.

On 26 September 1995, the Company increased its registered capital to RMB2,006.39 million. On 24 October 2001, the Company was restructured as a joint stock limited company and was renamed as China Pacific Insurance (Group) Co., Ltd. On 31 December 2002, the Company increased its registered capital to RMB4,300 million. On 4 June 2007, the Company further increased its registered capital to RMB6,700 million through a private placement.

In December 2007, the Company conducted a public offering of A Shares in the PRC. Upon the completion of the A share offering, the share capital was increased to RMB7,700 million. The Company's A Shares are listed on the Shanghai Stock Exchange and trading of its A Shares commenced on 25 December 2007.

The registered office of the Company is No. 190 Yincheng Zhong Road, Shanghai.

Particulars of the Company's subsidiaries as at 30 June 2009 are as follows:

Name	Place of incorporation/ registration and operations	Percentage of equity attributable to the Company		Registered and paid-up capital (RMB unless otherwise stated, thousand)	Principal activities
		Direct	Indirect		
CPLIC	Shanghai	98.29	—	5,100,000	Life insurance
CPPIC	Shanghai	98.30	—	4,088,000	Property and casualty insurance
PAMC	Shanghai	80.00	19.66	500,000	Investment management
CPIC HK*	Hong Kong	100.00	—	HK$250,000	Property and casualty insurance
Shanghai Pacific Real Estate Co., Ltd.*	Shanghai	100.00	—	115,000	Management of properties
Fenghua Xikou Garden Hotel*	Zhejiang	—	98.29	8,000	Hotel operations
Jiaxing Taibao Insurance Agency Co., Ltd. ("Taibao")*	Zhejiang	—	78.63	500	Insurance agency

* The financial statements of these subsidiaries were not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.

The principal changes to the structure of the Group during the Relevant Periods are as follows:

(a) In December 2005, Carlyle Asia Partners, L.P., through two investment entities controlled by it, Carlyle Holdings Mauritius Limited and Parallel Investors Holdings Limited, entered into agreements with the Company and CPLIC to invest in CPLIC. Through the transaction, these two investment entities (collectively referred to as the "Foreign Investors") acquired 24.98% equity interest in CPLIC. Subsequently, on 30 April 2007, the Company completed a subsequent transaction with the Foreign Investors, pursuant to which the Foreign Investors acquired 19.90% equity interest in the Company and transferred their entire stake in CPLIC to the Company. Upon the completion of this transaction, the Company maintains a 97.50% equity interest in CPLIC. The 24.98% equity interest held by the Foreign Investors was accounted for as minority interests during the period from December 2005 to April 2007.

(b) In May 2007, with the approval of CIRC, the Company paid RMB2,002.26 million in cash to CPLIC to subscribe for 302 million additional shares in CPLIC. As a result, the Company increased its equity interest in CPLIC from 97.50% to 97.83%.

(c) In May 2007, with the approval of CIRC, the Company paid RMB700.92 million in cash to CPPIC to subscribe for 236 million additional shares in CPPIC. As a result, the Company increased its equity interest in CPPIC from 97.96% to 98.14%.

(d) In June 2006, the Company and CPPIC established PAMC with a registered capital of RMB200 million to handle the investment activities for the Group. Upon establishment, the Company and CPPIC held 90% and

10% equity interests in PAMC, respectively. Pursuant to approval by CIRC, the Company transferred 40% of its equity interests in PAMC to CPLIC in September 2007. In September 2007, the registered capital of PAMC was increased to RMB500 million by virtue of the Company's additional contribution in cash. As a result of the above share transfer and capital injection, the Company, CPLIC and CPPIC held 80%, 16% and 4% equity interests in PAMC, respectively.

(e) The Company dissolved one of its subsidiaries, China Pacific (America) Services, Inc., on 31 May 2007.

(f) In June 2007, CPLIC, together with two non-related parties, set up Taibao. CPLIC injected RMB400,000 in cash for an 80% equity interest in Taibao.

(g) Pursuant to approval from the Company's shareholders and the CSRC, the Company issued 1 billion ordinary A shares with par value of RMB1 at a price of RMB30 each in December 2007. The total cash consideration received, after deduction of issuance expenses, amounted to approximately RMB29,032 million and the Company's registered and paid-up capital have been increased to RMB7,700 million thereafter. The Company's A shares were listed on the Shanghai Stock Exchange on 25 December 2007.

(h) In June 2008, with approval of CIRC, the Company injected additional cash of RMB2,761 million to CPPIC. As a result, the Company increased its equity interest in CPPIC from 98.14% to 98.30%.

(i) In June and November 2008, with the approval of CIRC, the Company injected additional cash of RMB5,902 million and RMB7,913 million to CPLIC, respectively. As a result, the Company increased its equity interest in CPLIC from 97.83% to 98.29%.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

2.1 Basis of preparation

The Financial Information has been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong. The Financial Information has been prepared under the historical cost convention other than financial instruments that have been measured at fair values and insurance contract liabilities that have been measured based on actuarial methods. The Financial Information is presented in RMB and all values are rounded to the nearest million except when otherwise indicated.

All HKFRSs that remain in effect which are relevant to the Group have been applied. The Group has not applied the following key new and revised HKFRSs that have been issued but are not yet effective in the Financial Information:

HKFRS 1 (Revised)	First-time Adoption of HKFRS [1]
HKFRS 3 (Revised)	Business Combinations [1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements [1]
HKAS 39 Amendment	Amendment to HKAS 39 Financial Instruments: Recognition and Measurement — Eligible Hedged Items [1]
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners [1]
HK(IFRIC)-Int 18	Transfers of Assets from Customers [2]
Amendments to HKFRS 2	Share-based Payment — Group Cash-settled Share-based Payment Transactions [3]
Amendment to HKAS 32	Classification of Rights Issues [4]
HKAS 24 (Revised)	Related Party Transactions [5]
HKFRS 9	Financial Instruments [6]

Apart from the above, the HKICPA has also issued *Improvements to HKFRSs* in May 2009 which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Improvements to HKFRSs issued in May 2009 contains amendments to HKFRS 2, HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, Appendix to HKAS 18, HKAS 36, HKAS 38, HKAS 39, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16. Except for the amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 which are effective for annual periods beginning on or after 1 July 2009 and that no transitional provisions for amendment to Appendix to HKAS 18 has been specified, other amendments are generally effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 July 2009

2 Effective for transfers of assets from customers received on or after 1 July 2009

3 Effective for annual periods beginning on or after 1 January 2010

4 Effective for annual periods beginning on or after 1 February 2010

5 Effective for annual periods beginning on or after 1 January 2011

6 Effective for annual periods beginning on or after 1 January 2013

HKFRS 1 (Revised) was issued in December 2008. The revised HKFRS 1 corrects a potential technical problem arising from the interaction of HKFRS 1 and the revised HKFRS 3 Business Combinations and revised HKAS 27 Consolidated and Separate Financial Statements, both published in March 2008. The amendment does not affect the application of HKFRS 1 by first-time adopters.

HKFRS 3 (Revised) and HKAS 27 (Revised) were issued in March 2008. HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by HKFRS 3 (Revised) and HKAS 27 (Revised) will be applied prospectively and will affect future acquisitions and transactions with minority interests.

HKAS 39 Amendment was issued in November 2008. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. As the Group has not entered into any such hedges, the amendment is unlikely to have significant financial impact on the Group.

HK(IFRIC)-Int 17 was issued in December 2008. The Interpretation standardises practice in the accounting for non-reciprocal distributions of non-cash assets to owners. The Interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments were made to HKAS 10 Events after the Balance Sheet Date and HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations. While the adoption of the interpretation may result in changes in certain accounting policies, the interpretation is unlikely to have any significant financial impact on the Group.

HK(IFRIC)-Int 18 was issued in February 2009. The Interpretation provides additional guidance on the accounting for transfers of assets from customers where the entity must then use the assets either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both. As the Group has no transfers of assets from customers during the Relevant Periods, the amendments are unlikely to have any significant financial impact on the Group.

Amendments to HKFRS 2 were issued in July 2009. The amendments clarify its scope and the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when that entity has no obligation to settle the share-based payment transaction. As the Group has no share-based payment transactions during the Relevant Periods, the amendments are unlikely to have any financial impact on the Group.

Amendment to HKAS 32 was issued in October 2009. The amendment provides relief to entities that issue rights in a currency other than their functional currency, from treating the rights as derivatives with fair value changes recorded in profit or loss. Such rights will now be classified as equity instruments when certain conditions are met. The Group had no such transactions during the Relevant Periods, the amendment will not have any significant impact on the financial statements of the Group.

HKAS 24 (Revised) was issued in November 2009. The revised HKAS 24 clarifies and simplifies the definition of a related party. The revised standard also provides some relief for government-related entities to disclose details of all transactions with other government-related entities (as well as with the government itself). The revision will not have significant impact on the financial statements of the Group.

HKFRS 9 was issued in November 2009. The new standard uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in HKAS 39. The approach in HKFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. It will be effective for annual periods beginning on or after 1 January 2013, with early adoption permitted. The Group has not decided to early adopt HKFRS 9. The Group is in the process of making an assessment of the impact of the new standard.

So far, except for the newly issued HKFRS 9, the directors conclude that the adoption of the above new and revised HKFRSs would not have a significant impact on the Group's results of operations and financial position.

The Group presents its assets and liabilities based on expectations regarding recovery or settlement within 12 months after the balance sheet date (current) and more than 12 months after the balance sheet date (non-current) in the notes to the Financial Information.

Financial assets and liabilities are offset and the net amount reported in the balance sheets only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Income and expense will not be offset in the income statements unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

A summary of the significant accounting policies adopted and consistently applied by the Group in the preparation of the Financial Information is set out below.

2.2 Summary of principal accounting policies

(1) Basis of consolidation

The Financial Information of the Group comprises the financial statements of the Company and its subsidiaries.

The financial statements of the subsidiaries for the purpose of preparing the Financial Information are prepared for the same reporting year as the Company, using consistent accounting policies. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries and are presented separately in the consolidated income statements and within equity in the consolidated balance sheets, separately from the parent shareholders' equity.

The acquisition of subsidiaries not under common control is accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

The changes in the Company's ownership interest in a subsidiary that do not result in the change of control are accounted for as equity transactions (i.e. transactions between owners acting in their capacity as owners), whereby the carrying amounts of the minority interests shall be adjusted to reflect the changes in their interests in the subsidiary. Any difference between the amount by which the minority interest is adjusted and the fair value of the consideration paid or received shall be recognised directly in equity (as capital reserve).

(2) Foreign currency translation

The Financial Information is presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the rates of exchange ruling at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. All foreign exchange differences are taken to the income statement, except when it relates to items when gains or losses are recognised directly in equity, the gain or loss is then recognised net of the exchange component in equity.

The functional currencies of certain overseas operations are currencies other than RMB. As at the balance sheet date, the assets and liabilities of these overseas operations are translated into RMB at the exchange rates ruling at the balance sheet date and their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences arising on the retranslation are taken directly to a separate component of equity. On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statements, the cash flows of overseas operations are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas operations which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

(3) Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

The results of subsidiaries are included in the Company's income statements to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

(4) Jointly-controlled entities

A jointly-controlled entity is an entity that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's investment in a jointly-controlled entitiy are stated in the consolidated balance sheets at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of jointly-controlled entity is included in the consolidated income statements and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entity are eliminated to the extent of the Group's investment in the jointly-controlled entity, except where unrealised losses provided evidence of an impairment of the asset transferred.

The results of jointly-controlled entity are included in the Company's income statements to the extent of dividends received and receivable. The Company's interests in jointly-controlled entity are treated as non-current assets and are stated at cost less any impairment losses.

(5) Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interests in associates are stated in the consolidated balance sheets at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statements and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

The results of associates are included in the Company's income statements to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any impairment losses.

(6) Business combinations and goodwill

Business combinations are accounted for using the acquisition accounting method. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognised in the income statement.

(7) Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e);

(8) Property and equipment and depreciation

Property and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred.

In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Land and buildings	1.39% to 3.23%
Motor vehicles	12.13% to 32.33%
Office furniture and equipment	10% to 33.33%
Leasehold improvements	Over the shorter of the lease terms and 20%

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each balance sheet date.

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents costs of construction of buildings and other items of property as well as costs of equipment under installation. Construction in progress is stated at cost less any impairment losses, and is not depreciated, and is reclassified to the appropriate category of property and equipment when completed and ready for use.

(9) Investment property

The Company's investment property is an interest in a building held to earn rental income, rather than for the supply of services or for administrative purposes.

Such property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at cost less accumulated depreciation and any impairment loss.

Depreciation is computed on the straight-line basis over the estimated useful life. The estimated useful life of the investment property is 30 years.

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from the investment property.

Investment property is derecognised when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal. A transfer to, or from, an investment property is made when, and only when, there is evidence of a change in use.

(10) Intangible assets (other than goodwill)

The Group's intangible assets are initially recognized at cost.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

(11) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property and equipment.

(12) Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether the embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on these financial assets are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity financial assets are subsequently measured at amortised cost less any allowance for impairment. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the other three categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investments are derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

(13) Derivative financial instruments

Derivative financial instruments are classified as held for trading unless they are designated as effective hedging instruments. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Embedded derivatives are treated as separate derivatives and are recorded at fair value if their economic characteristics and risks are not closely related to those of the related host contract and the host contract is not itself recorded at fair value through profit or loss.

(14) Fair value of financial instruments

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices for assets and offer prices for liabilities, at the close of business at the balance sheet date. If quoted market prices are not available, reference can also be made to broker or dealer price quotations. If current market prices are not available at the balance sheet date, reference is made to most recent arm's length transaction prices, adjusted for significant changes, if any, in economic circumstances since the date of that recent transaction.

For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and other valuation models. For discounted cash flow techniques, estimated future cash flows are based on directors' best estimates and the discount rate used is a market related rate for a similar instrument. Certain financial instruments, including derivative financial instruments, are valued using pricing models that consider, among other factors, contractual and market prices, correlation, time value of money, credit risk, yield curve volatility factors and/or prepayment rates of the underlying positions. The use of different pricing models and assumptions could produce materially different estimates of fair values.

The fair values of floating rate and overnight deposits with credit institutions are their carrying values. The carrying value is the cost of the deposit and accrued interest. The fair value of fixed interest-bearing deposits is estimated using discounted cash flow techniques. Expected cash flows are discounted at current market rates for similar instruments at the balance sheet date.

If the fair value cannot be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the investment or the amount received on issuing the financial liability, less impairment losses. All transaction costs directly attributable to the acquisition are also included in the cost.

(15) Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to insurance and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. The Group collectively considers the magnitude of the decline in fair value relative to the cost, volatility, and the duration of the decline in evaluating whether a decline in fair value is significant. The Group considers the period and consistency of the decline in evaluating whether a decline in fair value is prolonged. In general, the larger the magnitude of the decline in fair value relative to cost, the lower the volatility, the longer the duration of the decline or the more consistent the magnitude of decline, the more likely objective evidence of impairment of an equity instrument exists.

The Group also considers qualitative evidence that includes, but is not necessarily limited to the following:

- Significant financial difficulty of the investee, including failure to comply with contractual obligations, financial restructuring, deterioration of going concern expectations;

- Adverse changes relative to the investee's technology, market, customer base, macro economic indicators relative to the business, significant legal or regulatory matters.

Impairment losses on equity instruments classified as available-for-sale are not reversed through the income statement. Impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

(16) Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from a financial asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

(17) Securities purchased under agreements to resell

The Group enters into purchases of securities under agreements to resell substantially identical securities. These agreements are classified as loans and receivables. The amounts advanced under these agreements are reflected as assets in the balance sheets. The Group does not take physical possession of securities purchased under agreements to resell. In the event of default by the counterparty to repay the loan, the Group has the right to the underlying securities.

(18) Impairment of non-financial assets other than deferred tax assets and goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than deferred tax assets, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset (other than goodwill) is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

(19) Deferred acquisition costs ("DAC")

The costs of acquiring new and renewal business, including commissions, underwriting, marketing and policy issue expenses, which vary with and are primarily related to the production of the new and renewal business, are deferred. DAC is subject to recoverability testing at the time of the issue of the policy and at the end of each accounting period.

For long-term traditional insurance contracts, DAC is amortised over the expected life of the contracts as a constant percentage of expected premiums. Expected premiums are estimated at the date of policy issue and are consistently applied throughout the life of the contracts unless adverse experience causes a deficiency in liability adequacy test.

For long-term investment type insurance contracts, DAC is amortised over the expected life of the contracts based on a constant percentage of the present value of estimated gross profits that are expected to be realised over the life of the contracts. Estimated gross profits include expected amounts to be assessed for mortality, administration, investment and surrender, less benefit claims in excess of policyholder balances, administrative expenses and interest credited.

Estimated gross profits are revised regularly and the interest rate used to compute the present value of revised estimates of expected gross profits is the latest revised rate applied to the remaining benefit period. Deviations of actual results from estimated experience are reflected in the consolidated income statement. When DAC is amortised in proportion to gross profits on the acquired contracts, realised gains/losses are taken into account as well as gains/losses recognised directly in equity (unrealised gains/losses). If these gains/losses were to be realised, the gross profits used to amortise DAC would be affected. Therefore, an adjustment relating to these unrealised gains/losses is recognised in equity and is also reflected in the amount of DAC in the balance sheets ("shadow accounting").

For property and casualty and short-term accident and health insurance contracts, DAC is amortised over the period in which the related written premiums are earned. DAC is derecognised when the related contracts are settled or disposed of. DAC is periodically reviewed to determine that they do not exceed recoverable amounts. Contributions received from reinsurers towards acquisition costs are deferred in an identical manner.

For investment contracts without discretionary participation features ("DPF"), those incremental costs that are directly attributable to the provision of investment management services are deferred and recognised as assets, to the extent that these costs can be identified separately and measured reliably and it is probable that they will be recovered. This asset is amortised in line with revenue generated by the investment management service and is tested for recoverability at each reporting date.

(20) Reinsurance

The Group cedes insurance risk in the normal course of business. Reinsurance assets primarily represent balances due from reinsurance companies for ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a manner consistent with the reinsured risks and in accordance with the terms of the reinsurance contracts.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Group may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Group will receive from the reinsurer can be measured reliably. The impairment loss is recorded in the income statement.

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders. The Group also assumes reinsurance risk in the normal course of business. Premiums and claims on assumed reinsurance are recognised as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Amounts payable to reinsurers are estimated in a manner consistent with that of the associated reinsurance contracts.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance unless a legal right and the intention of offset exist.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

(21) Cash and cash equivalents

For the purpose of consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

(22) Insurance guarantee fund

Before 1 January 2009, pursuant to "Administrative Regulations on the Insurance Guarantee Fund" (Baojianhuiling [2004] No. 16), the Group made provision for insurance guarantee fund based on net premiums in financial statements prepared under generally accepted accounting principles in the PRC as follows:

(a) at 1% of the net premiums of property and casualty insurance, accident insurance and short-term health insurance;

(b) at 0.15% of the net premiums of long-term life insurance with guaranteed investment returns and long-term health insurance;

(c) at 0.05% of the net premiums of long-term life insurance without guaranteed investment returns;

No additional provision is required when the cumulative provision balance of CPLIC reaches 1% of its total assets as determined in accordance with PRC GAAP, and no additional provision is required when the cumulative provision balance of CPPIC reaches 6% of its total assets as determined in accordance with PRC GAAP.

Since 1 January 2009, pursuant to "Administrative Measures on Insurance Guarantee Fund" (Baojianhuiling [2008] No. 2) and "Notice for Certain Matters Relating to Insurance Guarantee Fund" (Baojianfa [2008] No. 116), the Group provides for insurance guarantee fund based on premium income or premium and deposits in the financial statements prepared under generally accepted accounting principles in the PRC as follows:

(a) For non-investment type property and casualty insurance, insurance guarantee fund is provided at 0.8% of premium income; For investment type property and casualty insurance with guaranteed investment returns, insurance guarantee fund is provided at 0.08% of premium and deposits; For investment type property and casualty insurance without guaranteed investment returns, insurance guarantee fund is provided at 0.05% of premium and deposits;

(b) For life insurance with guaranteed investment returns, insurance guarantee fund is provided at 0.15% of premium and deposits; For life insurance without guaranteed investment returns, insurance guarantee fund is provided at 0.05% of premium and deposits;

(c) For short-term health insurance, insurance guarantee fund is provided at 0.8% of premium income; For long-term health insurance, insurance guarantee fund is provided at 0.15% of premium income;

(d) For non-investment type accident insurance, insurance guarantee fund is provided at 0.8% of premium income; For investment type accident insurance with guaranteed investment returns, insurance guarantee fund is provided at 0.08% of premium and deposits; For investment type accident insurance without guaranteed investment returns, insurance guarantee fund is provided at 0.05% of premium and deposits;

No additional provision is required when the cumulative provision balance of CPLIC reaches 1% of its total assets as determined in accordance with PRC GAAP, and no additional provision is required when the cumulative provision balance of CPPIC reaches 6% of its total assets as determined in accordance with PRC GAAP.

(23) Product classification

Insurance contracts are defined as those containing significant insurance risk at the inception of the contracts, or those where at the inception of the contracts there is a scenario with commercial substance where the level of insurance risk may be significant over time. The significance of insurance risk as determined by the Group is dependent on both the probability of an insurance event and the magnitude of its potential effect. Insurance contracts can also transfer financial risk.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period.

Insurance and investment contracts are further classified as being either with or without DPF. DPF is a contractual right which entitles the contract holder to receive, as a supplement to guaranteed benefits, additional benefits which are likely to be a significant portion of the total contractual benefits and whose amount or timing is contractually at the discretion of the Group. These DPF are contractually based on the performance of a specified pool of contracts or a specified type of contracts or on the realised and unrealised investment returns on a specified pool of assets held by the Group. The unrealised investment returns include gains/losses recognised directly in equity.

Certain property and casualty insurance contracts (policyholders' savings products) contain both an insurance component and a deposit component and the cash flows from the two components are distinct. Since the deposit component can be clearly identified and measured separately, the Group unbundles the insurance and deposit components, and accounts for the insurance component and the deposit component as an insurance contract and a financial liability respectively.

(24) Insurance contract liabilities

(a) Long-term life insurance contract reserves

(i) Long-term traditional insurance contracts

Long-term traditional insurance contracts include whole life and term life insurance, long-term health insurance, endowment insurance and annuity policies with significant life contingency risk, etc.

Liabilities for contractual benefits that are expected to be incurred in the future are recorded when the related premiums are recognised. Such liabilities for long-term traditional insurance contracts are calculated using a net level premium valuation method based on actuarial assumptions as to mortality, persistency, expenses, withdrawals and investment return, including where appropriate a provision for adverse deviation ("PAD"). The assumptions are established at the time of the issue of the policy and remain unchanged unless adverse experience causes a deficiency in liability adequacy testing.

For policies where the premium payment period is less than the policy term, a deferred profit liability is also included in the policyholder liability for long-term traditional insurance contracts. The deferred profit liability ensures a profit emergence in a constant relationship to the amount of insurance in force.

(ii) Long-term investment type insurance contracts

Long-term investment type insurance contracts include life insurance and annuity contracts with significant investment features but still with sufficiently significant insurance risk of being considered as insurance contracts under HKFRS 4, as well as certain investment contracts with DPF.

The liabilities for long-term investment type insurance contracts are recognized as accumulation of deposits received less charges plus interest credited.

These contracts are accounted for as follows: revenue from a contract consists of various charges (policy fees, handling fees, management fees, surrender charges) made against the contract for the cost of insurance, expenses and early surrender. Excess first year charges are deferred as an unearned revenue liability ("URL") and are recognised in the income statement over the estimated life of the contracts in a constant relationship to estimated gross profits. The URL is included in deferred revenue. To the extent unrealised gains or losses from available-for-sale financial assets affect the estimated gross profits, shadow adjustments are recognised in equity. Policy benefits and claims that are charged to expenses include benefit claims incurred in the year in excess of related contract balances and interest credited to these contracts.

(b) Claim reserves

Claim reserves comprise a best estimate of insurance contract provisions for the ultimate cost of all claims incurred but not settled at the balance sheet date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Significant delays can be experienced in the notification and settlement of claims and therefore, the ultimate cost cannot be known with certainty at the balance sheet date. The methods of determining such estimates and establishing the resulting liabilities are continually reviewed and updated. Resulting adjustments are reflected in the income statement for the period. The Group does not discount its claim reserves.

(c) Unearned premium reserves

Upon inception of property and casualty and short-term life insurance contracts, premiums are recorded as written and are earned on a pro-rata basis over the term of the related insurance contracts. The unearned premium reserves represent the portions of premiums written relating to unexpired periods of risk coverage.

(d) Liability adequacy test

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the insurance contract liabilities net of the related deferred acquisition costs. In performing these tests, current best estimates of future contractual cash flows, claims handling and policy administration expenses as well as investment income from assets backing such liabilities are used. Any deficiency is immediately charged to the income statement initially by writing off deferred acquisition costs and subsequently by establishing a provision for losses arising from the liability adequacy tests. Any deferred acquisition costs written off will not be reinstated subsequently. As mentioned above, long-term traditional insurance contracts are measured based on assumptions set out at the inception of the policies. When the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions are used for the subsequent measurement of these liabilities. For short-term life and property and casualty insurance contracts, a provision is assessed on the basis of estimates of future claims, costs, premiums earned, etc.

(25) Investment contract liabilities

These relate to investment contracts without DPF.

Investment contracts without DPF are not considered to be insurance contracts and are accounted for as financial liabilities. The liabilities for investment contracts without DPF are measured at estimated fair value or amortised cost using the effective interest method.

Revenue from these contracts consists of various charges (policy fees, handling fees, management fees and surrender charges) made against the contracts for the cost of management, expenses, early surrender, etc. Front-end fees received for rendering future investment management services are deferred and recognised in the income statement over the estimated life of the contracts when the related services are rendered. The deferred front-end fees are included in deferred revenue.

(26) DPF in long-term life insurance contracts

DPF is contained in certain long-term traditional insurance contracts and investment type insurance contracts. These contracts are collectively called participating contracts. Under the current PRC insurance regulations, the Group is obligated to pay to the policyholders of participating contracts at least 70% of the distributable surplus, which includes mainly net investment spread and other gains or losses arising from the assets supporting these contracts; if this eligible surplus has not been declared and paid, it is included in the long-term traditional insurance contract liabilities. The policyholders' share realised and unrealised gains, which may be paid to participating policyholders in the future under the policy terms, is included in long-term traditional insurance contract liabilities (shadow accounting will apply if part of the unrealized gain is captured within equity).

(27) Financial liabilities

Financial liabilities at amortised cost (including interest-bearing borrowings)

Financial liabilities including interest-bearing borrowings (subordinated debt), policyholders' deposits, securities sold under repurchase agreements and miscellaneous payables and accruals, and are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised as "finance costs" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

(28) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

(29) Securities sold under agreements to repurchase

Securities sold under agreements to repurchase are financial liabilities and are recorded at amortised cost. The Group may be required to provide additional collateral based on the fair value of the underlying securities and such collateral assets continue to be carried on the balance sheet.

(30) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

With the exception of insurance contracts, for which potential future losses are already considered in establishing the insurance contract liabilities, a provision is recognised for onerous contracts in which the unavoidable costs of meeting the resulting obligation exceed the expected future economic benefits.

(31) Deferred revenue

Deferred revenue includes the URL arising from long-term investment type insurance contracts and deferred front-end fees arising from investment contracts without DPF. These unearned revenues and deferred fees are recognised in the income statement over the estimated life of the contracts.

(32) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and a jointly-controlled entity, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and a jointly-controlled entity, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(33) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following basis:

(a) Premiums and policy fees

Premiums from long-term traditional life insurance contracts are recognised as revenue when due from policyholders. Amounts collected as premiums from long-term investment type insurance contracts and investment contracts are reported as deposits. Only those parts of the premiums used to cover the insured risks and associated costs are treated as revenue. These mainly include fees for the cost of insurance, administrative charges and surrender charges.

Premiums from the sale of property and casualty insurance contracts and short-term accident and health insurance contracts, net of endorsements, are recorded as written at the inception of risk and are earned on a pro-rata basis over the terms of the related policy coverage. For those contracts for which the period of risk differs significantly from the contract period, premiums are recognised over the period of risk in proportion to the amount of insurance protection provided.

(b) Net investment income

Net investment income includes interest from term deposits, fixed maturity securities, securities purchased under agreements to resell, policy loans and other loans, dividends from investment funds and securities, etc.

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset. Dividends are recognised when the shareholders' right to receive payment is established.

(34) Employee benefits

(a) Pension schemes

The employees of the Group participate in various defined contribution pension plans principally organised by municipal and provincial governments. The Group makes and accrues contributions to the pension plans based on certain percentages of the salaries of the employees on a monthly basis. Certain employees also participate in the Enterprise Annuity Transition Plan of Shanghai ("上海企業年金過渡計劃") managed by Changjiang Pension Insurance Co., Ltd. The Group has no other significant legal or constructive obligations for retirement benefits beyond the said contributions, which are expensed as incurred.

The Group pays early retirement benefits to those employees who accept early retirement arrangements approved by management. Early retirement benefits are paid to those employees who voluntarily retire before the normal retirement date. The related benefit payments are made from the date of early retirement through the normal retirement date. The Group records a liability for the present value of its early retirement obligation when employees retire early. Any change in the present value of the early retirement obligation is charged or credited to the income statement immediately as it occurs.

(b) Housing benefits

The employees of the Company and its subsidiaries which operate in Mainland China are entitled to participate in various government-sponsored housing funds. The Company and these subsidiaries contribute on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each period.

(c) Medical benefits

The Group makes contributions for medical benefits to the local authorities in accordance with the relevant local regulations.

(d) Long-term incentive plans

The Group also operates long-term incentive plans for senior management and some of the key employees. The employee benefits under the long-term incentive plans are accrued during the vesting periods when employees provide services and are paid gradually.

(35) Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

(36) Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires directors to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting dates. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets and liabilities affected in the future.

3.1 Judgements

In the process of applying the Group's accounting policies, the directors have made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

(1) Classification of financial assets

The Group classifies its financial assets in accordance with HKAS 39 as financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets, as appropriate. Certain of these classifications require judgements. In making these judgements, the Group considers the intention of holding these financial assets, the requirements of HKAS 39 and their implications to the presentation in the financial statements.

(2) Classification of insurance contracts

The Group shall make significant judgments on the classification of insurance contracts. Different classifications would affect the accounting treatment and the Group's financial position and operating results.

(3) Impairment of available-for-sale equity financial instruments

The Group determines that available-for-sale equity financial instruments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgement. Please refer to note 2.2(15) for the factors the Group considers when making such judgement.

3.2 Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(1) Valuation of insurance contract liabilities

Life insurance contract liabilities

The liability for life insurance contracts is either based on current assumptions or on assumptions established at inception of the contract, reflecting the best estimate at the time as increased by a margin for risk and adverse deviation. All contracts are subject to a liability adequacy test, which reflects directors' best current estimate of future cash flows.

Certain acquisition costs related to the sale of policies are recorded in deferred acquisition costs and are amortised to the income statement over time. If the assumptions relating to future profitability of these policies are not realised, the amortisation of these costs could be accelerated and may require additional write-offs to the income statement.

The main assumptions used relate to mortality, morbidity, longevity, investment returns, expenses, lapse and surrender rates. The Group base mortality and morbidity tables on standard industry and national tables which reflect historical experiences, adjusted when appropriate to reflect the Group's unique risk exposure, product characteristics, target markets and own claims severity and frequency experiences. For those contracts that insure risk to longevity, prudent allowance is made for expected future mortality improvements, but epidemics, as well as wide ranging changes to life style, could result in significant changes to the expected future mortality exposure.

Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.

Assumptions on future expenses are based on current expense levels, adjusted for expected expense inflation adjustments if appropriate.

Lapse and surrender rates depend on product features, policy duration and external circumstances, such as sale trends. Credible own experience is used in establishing these assumptions.

Property and casualty and short-term life insurance contract liabilities

For property and casualty and short-term life insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the balance sheet date and for the expected ultimate cost of claims incurred but not yet reported at the balance sheet date ("IBNR"). It may take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form a significant part of the balance sheet liability. The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as the Chain Ladder and Bornhuetter-Ferguson methods.

The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios.

Historical claims development is mainly analysed by accident year, but can also be further analysed by geographical area, as well as by significant business line and claim type. Large claims are usually separately addressed, either by being reserved at the face value of loss adjustor estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (for example to reflect one-off occurrences, changes in external or maker factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking into account of all the uncertainties involved. A margin for adverse deviation may also be included in the liability valuation.

(2) Valuation of investment contracts without DPF liabilities

The liability for investment contracts without DPF is measured at estimated fair value or amortised cost using the effective interest method. A variety of factors are considered in these valuations, including time value of money, volatility, policyholders' behaviour, servicing cost.

(3) Fair values of financial assets and derivative financial instruments determined using valuation techniques

Fair value, in the absence of an active market or when current market prices are not available, is estimated by using valuation techniques, such as recent arm's length transactions, reference to the current market value of another instrument which is substantially the same, a discounted cash flow analysis and/or option pricing models. For reference to similar instruments, instruments must have similar credit ratings.

For a discounted cash flow analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Estimated future cash flows are influenced by factors such as economic conditions (including country specific risks), concentrations in specific industries, types of instruments or currencies, market liquidity and financial conditions of counterparties. Discount rates are influenced by risk-free interest rates and credit risk.

(4) Deferred income tax assets

Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. Those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. Directors' judgement is required to assess the probability of future taxable profits.

4. SEGMENT INFORMATION

For management purpose, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

- The life insurance segment offers a wide range of RMB life insurance;
- The property and casualty insurance segment provides a wide range of RMB and foreign-currency property and casualty insurance;
- The corporate and other businesses segment provides investment and other management services.

Segment result represents revenue less expenses directly attributable to a segment and the relevant portion of enterprise revenue less expenses that can be allocated on a reasonable basis to a segment, whether from external transactions or from transactions with other segments of the Group.

Segment assets and liabilities mainly comprise those operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment assets are determined after deducting related allowances that are reported as direct offsets in the Group's consolidated balance sheets.

Intersegment revenues are eliminated on consolidation. Intersegment sales and transfers are measured based on actual transaction price.

More than 99% of the Group's revenue is derived from its operations in the PRC. More than 99% of the Group's assets are located in the PRC.

During the Relevant Periods, no gross written premiums and policy fees from transactions with a single external customer amounted to 2% or more of the Group's total gross written premiums and policy fees.

Segment income statement for the year ended 31 December 2006

	Life insurance	Property and casualty insurance				Corporate and others	Eliminations	Total
		Mainland China	Hong Kong	Eliminations	Sub-total			
Gross written premiums and policy fees	17,729	18,144	147	(94)	18,197	—	—	35,926
Less: Premiums ceded to reinsurers	(2,137)	(4,322)	(29)	94	(4,257)	—	—	(6,394)
Net written premiums and policy fees	15,592	13,822	118	—	13,940	—	—	29,532
Net change in unearned premium reserves	(52)	(1,568)	2	—	(1,566)	—	—	(1,618)
Net premiums earned and policy fees	15,540	12,254	120	—	12,374	—	—	27,914
Investment income	8,320	1,112	14	—	1,126	88	—	9,534
Other operating income	116	68	1	—	69	280	(181)	284
Other income	8,436	1,180	15	—	1,195	368	(181)	9,818
Segment income	23,976	13,434	135	—	13,569	368	(181)	37,732
Net policyholders' benefits and claims:								
Life insurance death and other benefits paid	(1,407)	—	—	—	—	—	—	(1,407)
Claims incurred	(326)	(7,395)	(79)	—	(7,474)	—	—	(7,800)
Changes in long-term traditional insurance contract liabilities	(10,362)	—	—	—	—	—	—	(10,362)
Interest credited to long-term investment type insurance contract liabilities	(2,660)	—	—	—	—	—	—	(2,660)
Policyholder dividends	(1,105)	—	—	—	—	—	—	(1,105)
Finance costs	(209)	(368)	—	—	(368)	(4)	—	(581)
Interest credited to investment contracts	(221)	—	—	—	—	—	—	(221)
Amortisation on deferred acquisition costs	(2,623)	(1,257)	—	—	(1,257)	—	—	(3,880)
Provision for insurance guarantee fund	(73)	(138)	—	—	(138)	—	—	(211)
Change in deferred revenue	240	—	—	—	—	—	—	240
Other operating and administrative expenses	(1,973)	(3,324)	(43)	—	(3,367)	(610)	208	(5,742)
Segment benefits, claims and expenses	(20,719)	(12,482)	(122)	—	(12,604)	(614)	208	(33,729)
Segment results	3,257	952	13	—	965	(246)	27	4,003
Share of profits/(losses) of:								
A jointly-controlled entity	—	—	—	—	—	5	—	5
Associates	—	—	—	—	—	(8)	—	(8)
Profit/(loss) before tax	3,257	952	13	—	965	(249)	27	4,000
Income tax	(1,058)	(261)	—	—	(261)	(44)	—	(1,363)
Net profit/(loss) for the year	2,199	691	13	—	704	(293)	27	2,637

Segment balance sheet as at 31 December 2006

	Life insurance	Property and casualty insurance				Corporate and others	Eliminations	Total
		Mainland China	Hong Kong	Eliminations	Sub-total			
Interests in associates	—	—	—	—	—	209	—	209
Investment in a jointly-controlled entity	—	—	—	—	—	322	—	322
Investments in securities*	101,031	15,587	106	—	15,693	1,078	(9)	117,793
Term deposits	45,061	8,587	87	—	8,674	120	—	53,855
Deferred acquisition costs	10,283	993	—	—	993	—	—	11,276
Others	16,718	12,443	109	(57)	12,495	3,042	(1,801)	30,454
Segment assets	173,093	37,610	302	(57)	37,855	4,771	(1,810)	213,909
Insurance contract liabilities	138,042	17,484	136	(55)	17,565	—	—	155,607
Investment contract liabilities	7,449	—	—	—	—	—	—	7,449
Subordinated debt	2,038	—	—	—	—	—	—	2,038
Securities sold under agreements to repurchase	2,026	1,094	—	—	1,094	—	—	3,120
Policyholders' deposits	29	11,286	—	—	11,286	—	—	11,315
Deferred revenue	3,711	—	—	—	—	—	—	3,711
Others	8,983	2,994	31	(2)	3,023	2,898	(1,799)	13,105
Segment liabilities	162,278	32,858	167	(57)	32,968	2,898	(1,799)	196,345

* Investments in securities comprise financial assets at fair value through profit or loss, held-to-maturity financial assets, available-for-sale financial assets and investments classified as loans and receivables.

Other segment information for the year ended 31 December 2006

	Life insurance	Property and casualty insurance				Corporate and others	Eliminations	Total
		Mainland China	Hong Kong	Eliminations	Sub-total			
Depreciation and amortisation (other than DAC)	211	220	1	—	221	8	(16)	424
Capital expenditure	263	246	—	—	246	83	—	592
Impairment losses charges/(reversal)	(35)	(37)	—	—	(37)	21	—	(51)
Interest income	4,835	708	5	—	713	44	—	5,592
Unrealised gains from financial assets at fair value through profit or loss	395	—	—	—	—	16	—	411

Segment income statement for the year ended 31 December 2007

	Life insurance	Property and casualty insurance				Corporate and others	Eliminations	Total
		Mainland China	Hong Kong	Eliminations	Sub-total			
Gross written premiums and policy fees	21,332	23,474	184	(109)	23,549	—	—	44,881
Less: Premiums ceded to reinsurers	(1,747)	(5,097)	(27)	109	(5,015)	—	—	(6,762)
Net written premiums and policy fees	19,585	18,377	157	—	18,534	—	—	38,119
Net change in unearned premium reserves	(300)	(1,624)	(13)	—	(1,637)	—	—	(1,937)
Net premiums earned and policy fees	19,285	16,753	144	—	16,897	—	—	36,182
Investment income	22,881	3,782	23	—	3,805	544	—	27,230
Other operating income	299	50	2	—	52	329	(145)	535
Other income	23,180	3,832	25	—	3,857	873	(145)	27,765
Segment income	42,465	20,585	169	—	20,754	873	(145)	63,947
Net policyholders' benefits and claims:								
Life insurance death and other benefits paid	(1,822)	—	—	—	—	—	—	(1,822)
Claims incurred	(463)	(10,007)	(98)	—	(10,105)	—	—	(10,568)
Changes in long-term traditional insurance contract liabilities	(17,409)	—	—	—	—	—	—	(17,409)
Interest credited to long-term investment type insurance contract liabilities	(3,511)	—	—	—	—	—	—	(3,511)
Policyholder dividends	(1,223)	—	—	—	—	—	—	(1,223)
Finance costs	(452)	(393)	—	—	(393)	(3)	—	(848)
Interest credited to investment contracts	(165)	—	—	—	—	—	—	(165)
Amortisation on deferred acquisition costs	(3,008)	(2,147)	—	—	(2,147)	—	—	(5,155)
Provision for insurance guarantee fund	(97)	(178)	—	—	(178)	—	—	(275)
Change in deferred revenue	(430)	—	—	—	—	—	—	(430)
Other operating and administrative expenses	(3,165)	(4,179)	(54)	—	(4,233)	(553)	106	(7,845)
Segment benefits, claims and expenses	(31,745)	(16,904)	(152)	—	(17,056)	(556)	106	(49,251)
Segment results	10,720	3,681	17	—	3,698	317	(39)	14,696
Share of profit of:								
A jointly-controlled entity	—	—	—	—	—	70	—	70
Profit before tax	10,720	3,681	17	—	3,698	387	(39)	14,766
Income tax	(1,430)	(1,031)	—	—	(1,031)	(39)	—	(2,500)
Net profit for the year	9,290	2,650	17	—	2,667	348	(39)	12,266

Segment balance sheet at 31 December 2007

	Life insurance	Property and casualty insurance				Corporate and others	Eliminations	Total
		Mainland China	Hong Kong	Eliminations	Sub-total			
Investment in a jointly-controlled entity	—	—	—	—	—	367	—	367
Investments in securities*	157,765	17,687	105	—	17,792	20,825	(9)	196,373
Term deposits	47,944	6,658	82	—	6,740	4,578	—	59,262
Deferred acquisition costs	12,047	1,421	—	—	1,421	—	—	13,468
Others	24,579	15,483	125	(106)	15,502	24,897	(12,107)	52,871
Segment assets	242,335	41,249	312	(106)	41,455	50,667	(12,116)	322,341
Insurance contract liabilities	180,527	21,372	150	(70)	21,452	—	—	201,979
Investment contract liabilities	4,554	—	—	—	—	—	—	4,554
Subordinated debt	2,113	—	—	—	—	—	—	2,113
Securities sold under agreements to repurchase	11,779	—	—	—	—	9	—	11,788
Policyholders' deposits	10	6,903	—	—	6,903	—	—	6,913
Deferred revenue	4,018	—	—	—	—	—	—	4,018
Others	13,327	5,384	19	(36)	5,367	11,695	(12,069)	18,320
Segment liabilities	216,328	33,659	169	(106)	33,722	11,704	(12,069)	249,685

* Investments in securities comprise financial assets at fair value through profit or loss, held-to-maturity financial assets, available-for-sale financial assets and investments classified as loans and receivables.

Other segment information for the year ended 31 December 2007

	Life insurance	Property and casualty insurance				Corporate and others	Eliminations	Total
		Mainland China	Hong Kong	Eliminations	Sub-total			
Depreciation and amortisation (other than DAC)	218	208	1	—	209	69	38	534
Capital expenditure	930	389	—	—	389	56	—	1,375
Impairment losses charges/(reversal)	(31)	59	—	—	59	—	—	28
Interest income	5,730	787	5	—	792	109	—	6,631
Unrealised gains/(losses) from financial assets at fair value through profit or loss	248	4	—	—	4	(17)	—	235

Segment income statement for the year ended 31 December 2008

	Life insurance	Property and casualty insurance				Corporate and others	Eliminations	Total
		Mainland China	Hong Kong	Eliminations	Sub-total			
Gross written premiums and policy fees	25,921	27,875	171	(122)	27,924	—	—	53,845
Less: Premiums ceded to reinsurers	(2,024)	(6,505)	(28)	122	(6,411)	—	—	(8,435)
Net written premiums and policy fees	23,897	21,370	143	—	21,513	—	—	45,410
Net change in unearned premium reserves	(63)	(1,238)	(6)	—	(1,244)	—	—	(1,307)
Net premiums earned and policy fees	23,834	20,132	137	—	20,269	—	—	44,103
Investment income	9,587	1,179	(1)	—	1,178	(2,655)	—	8,110
Other operating income	422	83	—	—	83	493	(182)	816
Other income	10,009	1,262	(1)	—	1,261	(2,162)	(182)	8,926
Segment income	33,843	21,394	136	—	21,530	(2,162)	(182)	53,029
Net policyholders' benefits and claims:								
Life insurance death and other benefits paid	(2,838)	—	—	—	—	—	—	(2,838)
Claims incurred	(629)	(13,208)	(106)	—	(13,314)	—	—	(13,943)
Changes in long-term traditional insurance contract liabilities	(10,093)	—	—	—	—	—	—	(10,093)
Interest credited to long-term investment type insurance contract liabilities	(4,748)	—	—	—	—	—	—	(4,748)
Policyholder dividends	(2,595)	—	—	—	—	—	—	(2,595)
Finance costs	(317)	(178)	—	—	(178)	(37)	—	(532)
Interest credited to investment contracts	(102)	—	—	—	—	—	—	(102)
Amortisation on deferred acquisition costs	(2,545)	(3,089)	—	—	(3,089)	—	—	(5,634)
Provision for insurance guarantee fund	(104)	(214)	—	—	(214)	—	—	(318)
Change in deferred revenue	(2,903)	—	—	—	—	—	—	(2,903)
Other operating and administrative expenses	(2,901)	(3,955)	(36)	—	(3,991)	(540)	186	(7,246)
Segment benefits, claims and expenses	(29,775)	(20,644)	(142)	—	(20,786)	(577)	186	(50,952)
Segment results	4,068	750	(6)	—	744	(2,739)	4	2,077
Share of loss of:								
A jointly-controlled entity	—	—	—	—	—	(52)	—	(52)
Profit/(loss) before tax	4,068	750	(6)	—	744	(2,791)	4	2,025
Income tax	345	(27)	—	—	(27)	843	—	1,161
Net profit/(loss) for the year	4,413	723	(6)	—	717	(1,948)	4	3,186

Segment balance sheet at 31 December 2008

	Life insurance	Property and casualty insurance				Corporate and others	Eliminations	Total
		Mainland China	Hong Kong	Eliminations	Sub-total			
Investment in a jointly-controlled entity	—	—	—	—	—	391	—	391
Investments in securities*	161,010	16,333	70	—	16,403	7,416	(9)	184,820
Term deposits	71,418	4,703	67	—	4,770	6,568	—	82,756
Deferred acquisition costs	18,217	1,897	—	—	1,897	—	—	20,114
Others	26,655	16,230	302	(104)	16,428	7,166	(380)	49,869
Segment assets	277,300	39,163	439	(104)	39,498	21,541	(389)	337,950
Insurance contract liabilities	214,779	24,598	170	(80)	24,688	—	—	239,467
Investment contract liabilities	3,039	—	—	—	—	—	—	3,039
Subordinated debt	2,188	—	—	—	—	—	—	2,188
Securities sold under agreements to repurchase	6,980	40	—	—	40	—	—	7,020
Policyholders' deposits	10	566	—	—	566	—	—	576
Deferred revenue	9,469	—	—	—	—	—	—	9,469
Others	10,332	5,429	6	(24)	5,411	765	(343)	16,165
Segment liabilities	246,797	30,633	176	(104)	30,705	765	(343)	277,924

* Investments in securities comprise financial assets at fair value through profit or loss, held-to-maturity financial assets, available-for-sale financial assets and investments classified as loans and receivables.

Other segment information for the year ended 31 December 2008

	Life insurance	Property and casualty insurance				Corporate and others	Eliminations	Total
		Mainland China	Hong Kong	Eliminations	Sub-total			
Depreciation and amortisation (other than DAC)	321	268	—	—	268	75	—	664
Capital expenditure	650	454	—	—	454	1,744	—	2,848
Impairment losses charges	3,480	394	11	—	405	1,336	—	5,221
Interest income	8,825	876	9	—	885	913	—	10,623
Unrealised gains/(losses) from financial assets at fair value through profit or loss	(722)	(23)	—	—	(23)	3	—	(742)

Segment income statement for the six-month period ended 30 June 2008 (unaudited).

	Life insurance	Property and casualty insurance				Corporate and others	Eliminations	Total
		Mainland China	Hong Kong	Eliminations	Sub-total			
Gross written premiums and policy fees	13,603	15,764	91	(65)	15,790	—	—	29,393
Less: Premiums ceded to reinsurers	(920)	(3,821)	(14)	65	(3,770)	—	—	(4,690)
Net written premiums and policy fees	12,683	11,943	77	—	12,020	—	—	24,703
Net change in unearned premium reserves	(88)	(2,291)	(7)	—	(2,298)	—	—	(2,386)
Net premiums earned and policy fees	12,595	9,652	70	—	9,722	—	—	22,317
Investment income	12,630	1,225	(3)	—	1,222	600	—	14,452
Other operating income	65	34	—	—	34	371	(126)	344
Other income	12,695	1,259	(3)	—	1,256	971	(126)	14,796
Segment income	25,290	10,911	67	—	10,978	971	(126)	37,113
Net policyholders' benefits and claims:								
Life insurance death and other benefits paid	(2,135)	—	—	—	—	—	—	(2,135)
Claims incurred	(279)	(6,708)	(54)	—	(6,762)	—	—	(7,041)
Changes in long-term traditional insurance contract liabilities	(9,645)	—	—	—	—	—	—	(9,645)
Interest credited to long-term investment type insurance contract liabilities	(2,322)	—	—	—	—	—	—	(2,322)
Policyholder dividends	(1,274)	—	—	—	—	—	—	(1,274)
Finance costs	(219)	(126)	—	—	(126)	(35)	—	(380)
Interest credited to investment contracts	(59)	—	—	—	—	—	—	(59)
Amortisation on deferred acquisition costs	(1,167)	(1,350)	—	—	(1,350)	—	—	(2,517)
Provision for insurance guarantee fund	(56)	(120)	—	—	(120)	—	—	(176)
Change in deferred revenue	(1,541)	—	—	—	—	—	—	(1,541)
Other operating and administrative expenses	(1,733)	(2,028)	(24)	—	(2,052)	(218)	125	(3,878)
Segment benefits, claims and expenses	(20,430)	(10,332)	(78)	—	(10,410)	(253)	125	(30,968)
Segment results	4,860	579	(11)	—	568	718	(1)	6,145
Share of loss of:								
A jointly-controlled entity	—	—	—	—	—	(2)	—	(2)
Profit/(loss) before tax	4,860	579	(11)	—	568	716	(1)	6,143
Income tax	98	(48)	—	—	(48)	5	—	55
Net profit/(loss) for the period	4,958	531	(11)	—	520	721	(1)	6,198

Other segment information for the six-month period ended 30 June 2008 (unaudited).

	Life insurance	Property and casualty insurance				Corporate and others	Eliminations	Total
		Mainland China	Hong Kong	Eliminations	Sub-total			
Depreciation and amortisation (other than DAC)	148	136	1	—	137	33	—	318
Capital expenditure	249	203	—	—	203	1,436	—	1,888
Impairment losses charges	1,059	195	—	—	195	186	—	1,440
Interest income	3,892	392	2	—	394	408	—	4,694
Unrealised gains/(losses) from financial assets at fair value through profit or loss	(578)	4	—	—	4	(1)	—	(575)

Segment income statement for the six-month period ended 30 June 2009

	Life insurance	Property and casualty insurance				Corporate and others	Eliminations	Total
		Mainland China	Hong Kong	Eliminations	Sub-total			
Gross written premiums and policy fees	17,091	18,656	101	(75)	18,682	—	—	35,773
Less: Premiums ceded to reinsurers	(1,369)	(4,230)	(14)	75	(4,169)	—	—	(5,538)
Net written premiums and policy fees	15,722	14,426	87	—	14,513	—	—	30,235
Net change in unearned premium reserves	(207)	(3,044)	(8)	—	(3,052)	—	—	(3,259)
Net premiums earned and policy fees	15,515	11,382	79	—	11,461	—	—	26,976
Investment income	7,889	566	8	—	574	415	—	8,878
Other operating income	83	49	—	—	49	142	(109)	165
Other income	7,972	615	8	—	623	557	(109)	9,043
Segment income	23,487	11,997	87	—	12,084	557	(109)	36,019
Net policyholders' benefits and claims:								
Life insurance death and other benefits paid	(1,850)	—	—	—	—	—	—	(1,850)
Claims incurred	(147)	(7,166)	(48)	—	(7,214)	—	—	(7,361)
Changes in long-term traditional insurance contract liabilities	(9,512)	—	—	—	—	—	—	(9,512)
Interest credited to long-term investment type insurance contract liabilities	(2,413)	—	—	—	—	—	—	(2,413)
Policyholder dividends	(985)	—	—	—	—	—	—	(985)
Finance costs	(135)	(3)	—	—	(3)	—	—	(138)
Interest credited to investment contracts	(38)	—	—	—	—	—	—	(38)
Amortisation on deferred acquisition costs	(1,889)	(1,897)	—	—	(1,897)	—	—	(3,786)
Provision for insurance guarantee fund	(64)	(149)	—	—	(149)	—	—	(213)
Change in deferred revenue	(987)	—	—	—	—	—	—	(987)
Other operating and administrative expenses	(1,575)	(1,887)	(29)	—	(1,916)	(259)	147	(3,603)
Segment benefits, claims and expenses	(19,595)	(11,102)	(77)	—	(11,179)	(259)	147	(30,886)
Segment results	3,892	895	10	—	905	298	38	5,133
Share of profit of:								
A jointly-controlled entity	—	—	—	—	—	26	—	26
Profit before tax	3,892	895	10	—	905	324	38	5,159
Income tax	(872)	(208)	—	—	(208)	(67)	(11)	(1,158)
Net profit for the period	3,020	687	10	—	697	257	27	4,001

Segment balance sheet as at 30 June 2009

	Life insurance	Property and casualty insurance				Corporate and others	Eliminations	Total
		Mainland China	Hong Kong	Eliminations	Sub-total			
Investment in a jointly-controlled entity	—	—	—	—	—	417	—	417
Investments in securities*	191,122	18,883	355	—	19,238	7,907	(14)	218,253
Term deposits	79,328	5,204	—	—	5,204	6,529	—	91,061
Deferred acquisition costs	19,895	2,425	—	—	2,425	—	—	22,320
Others	28,142	18,864	110	(152)	18,822	8,398	(439)	54,923
Segment assets	318,487	45,376	465	(152)	45,689	23,251	(453)	386,974
Insurance contract liabilities	236,569	28,666	177	(86)	28,757	—	—	265,326
Investment contract liabilities	2,632	—	—	—	—	—	—	2,632
Subordinated debt	2,226	—	—	—	—	—	—	2,226
Securities sold under agreements to repurchase	21,435	1,000	—	—	1,000	—	—	22,435
Policyholders' deposits	10	84	—	—	84	—	—	94
Deferred revenue	9,812	—	—	—	—	—	—	9,812
Others	12,538	6,388	12	(66)	6,334	1,239	(434)	19,677
Segment liabilities	285,222	36,138	189	(152)	36,175	1,239	(434)	322,202

* Investments in securities comprise financial assets at fair value through profit or loss, held-to-maturity financial assets, available-for-sale financial assets and investments classified as loans and receivables.

Other segment information for the six-month period ended 30 June 2009

	Life insurance	Property and casualty insurance				Corporate and others	Eliminations	Total
		Mainland China	Hong Kong	Eliminations	Sub-total			
Depreciation and amortisation (other than DAC)	182	147	3	—	150	55	—	387
Capital expenditure	272	85	—	—	85	345	—	702
Impairment losses charges	98	53	—	—	53	—	—	151
Interest income	5,099	416	8	—	424	310	—	5,833
Unrealised gains/(losses) from financial assets at fair value through profit or loss	107	21	—	—	21	(1)	—	127

5. NET WRITTEN PREMIUMS AND POLICY FEES

(a) Gross written premiums and policy fees

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
				(unaudited)	
Long-term life insurance premiums	12,447	15,136	18,660	9,831	12,607
Short-term life insurance premiums	2,385	2,633	2,838	1,467	1,706
Property and casualty insurance premiums	18,197	23,549	27,924	15,790	18,682
Policy fees	2,897	3,563	4,423	2,305	2,778
	35,926	44,881	53,845	29,393	35,773

(b) Premiums ceded to reinsurers

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
				(unaudited)	
Long-term life insurance premiums ceded to reinsurers	(1,020)	(983)	(1,158)	(482)	(925)
Short-term life insurance premiums ceded to reinsurers	(1,117)	(764)	(866)	(438)	(444)
Property and casualty insurance premiums ceded to reinsurers	(4,257)	(5,015)	(6,411)	(3,770)	(4,169)
	(6,394)	(6,762)	(8,435)	(4,690)	(5,538)

(c) Net written premiums and policy fees

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
				(unaudited)	
Net written premiums and policy fees	29,532	38,119	45,410	24,703	30,235

6. INVESTMENT INCOME

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
				(unaudited)	
Interest and dividend income (a)	6,386	12,379	17,755	11,657	6,362
Realised gains/(losses) (b)	2,737	14,616	(3,756)	4,634	2,517
Unrealised gains/(losses) (c)	411	235	(742)	(575)	127
Charge of impairment losses on financial assets	—	—	(5,147)	(1,264)	(128)
	9,534	27,230	8,110	14,452	8,878

(a) Interest and dividend income

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
				(unaudited)	
Financial assets at fair value through profit or loss					
- Fixed maturity investments	2	4	2	1	1
- Investment funds	414	798	169	136	1
- Equity securities	—	9	1	1	—
	416	811	172	138	2
Held-to-maturity financial assets					
- Fixed maturity investments	1,306	1,739	2,898	1,310	1,752
Loans and receivables					
- Fixed maturity investments	2,626	3,018	4,499	2,025	2,329
Available-for-sale financial assets					
- Fixed maturity investments	1,658	1,870	3,224	1,358	1,751
- Investment funds	371	4,815	6,800	6,689	355
- Equity securities	9	126	162	137	173
	2,038	6,811	10,186	8,184	2,279
	6,386	12,379	17,755	11,657	6,362

(b) Realised gains/(losses)

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
				(unaudited)	
Derivative financial instruments	—	76	5	5	—
Other financial assets at fair value through profit or loss					
- Fixed maturity investments	3	—	—	—	11
- Investment funds	787	1,712	258	252	46
- Equity securities	27	109	(11)	24	2
	817	1,821	247	276	59
Available-for-sale financial assets					
- Fixed maturity investments	82	(522)	114	58	643
- Investment funds	1,126	4,907	(3,681)	420	198
- Equity securities	712	8,334	(441)	3,875	1,617
	1,920	12,719	(4,008)	4,353	2,458
	2,737	14,616	(3,756)	4,634	2,517

(c) Unrealised gains/(losses)

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
				(unaudited)	
Derivative financial instruments	1	(1)	—	—	—
Other financial assets at fair value through profit or loss					
- Fixed maturity investments	—	(3)	6	1	7
- Investment funds	363	205	(668)	(501)	121
- Equity securities	47	34	(80)	(75)	(1)
	410	236	(742)	(575)	127
	411	235	(742)	(575)	127

7. NET POLICYHOLDERS' BENEFITS AND CLAIMS

	Year ended 31 December 2006		
	Gross	Ceded	Net
Life insurance death and other benefits paid	1,463	(56)	1,407
Claims incurred			
- Short-term life insurance	855	(529)	326
- Property and casualty insurance	10,118	(2,644)	7,474
Changes in long-term traditional insurance contract liabilities	10,867	(505)	10,362
Interest credited to long-term investment type insurance contract liabilities	2,660	—	2,660
Policyholder dividends	1,105	—	1,105
	27,068	(3,734)	23,334

	Year ended 31 December 2007		
	Gross	Ceded	Net
Life insurance death and other benefits paid	1,877	(55)	1,822
Claims incurred			
- Short-term life insurance	942	(479)	463
- Property and casualty insurance	12,872	(2,767)	10,105
Changes in long-term traditional insurance contract liabilities	18,058	(649)	17,409
Interest credited to long-term investment type insurance contract liabilities	3,511	—	3,511
Policyholder dividends	1,223	—	1,223
	38,483	(3,950)	34,533

	Year ended 31 December 2008		
	Gross	Ceded	Net
Life insurance death and other benefits paid	2,838	—	2,838
Claims incurred			
- Short-term life insurance	1,011	(381)	630
- Property and casualty insurance	17,411	(4,098)	13,313
Changes in long-term traditional insurance contract liabilities	10,674	(581)	10,093
Interest credited to long-term investment type insurance contract liabilities	4,748	—	4,748
Policyholder dividends	2,595	—	2,595
	39,277	(5,060)	34,217

	Six months ended 30 June 2008		
	Gross	Ceded	Net
		(unaudited)	
Life insurance death and other benefits paid	2,135	—	2,135
Claims incurred			
- Short-term life insurance	460	(181)	279
- Property and casualty insurance	9,312	(2,550)	6,762
Changes in long-term traditional insurance contract liabilities	9,874	(229)	9,645
Interest credited to long-term investment type insurance contract liabilities	2,322	—	2,322
Policyholder dividends	1,274	—	1,274
	25,377	(2,960)	22,417

	Six months ended 30 June 2009		
	Gross	Ceded	Net
Life insurance death and other benefits paid	1,850	—	1,850
Claims incurred			
- Short-term life insurance	402	(255)	147
- Property and casualty insurance	8,757	(1,543)	7,214
Changes in long-term traditional insurance contract liabilities	10,246	(734)	9,512
Interest credited to long-term investment type insurance contract liabilities	2,413	—	2,413
Policyholder dividends	985	—	985
	24,653	(2,532)	22,121

8. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
				(unaudited)	
Current borrowings					
- Interest expense on securities sold under agreements to repurchase	186	380	221	193	55
- Interest expense on policyholders' deposits	357	355	164	114	2
- Interest expense on policyholder dividends	—	38	72	35	42
- Others	—	—	—	—	1
	543	773	457	342	100
Non-current borrowings					
- Interest expense on subordinated debt	38	75	75	38	38
	581	848	532	380	138

9. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
				(unaudited)	
Employee benefits expense (including directors' and supervisors' emoluments) (note 11)	2,293	3,285	4,100	1,799	2,489
Auditors' remuneration	27	9	38	9	9
Operating lease payments in respect of land and buildings	229	270	331	97	191
Depreciation of property and equipment (note 17)	430	460	533	256	309
Amortisation of intangible assets (note 19)	32	50	117	56	69
Amortisation of prepaid land lease payments (note 20)	5	5	4	2	3
Amortisation/(reversal) of other assets	(43)	19	10	4	6
Loss/(gain) on disposal of items of property and equipment, intangible assets and other long-term assets	30	25	(127)	(123)	(9)
Charge of impairment loss on insurance receivables	—	76	54	109	31
Reversal of impairment loss on property and equipment (note 17)	(1)	—	—	—	—
Charge of impairment loss on financial assets (note 6)	—	—	5,147	1,264	128
Charge of impairment loss on the investment in Fudan Pacific Institute of Finance (the "Institute") and additional provision made (note 51)	325	—	—	—	—
Foreign exchange loss, net	147	242	132	115	3

10. OTHER COMPREHENSIVE INCOME/(LOSS)

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
				(unaudited)	
Exchange differences on translation of foreign operations	(6)	(9)	(6)	(6)	(2)
Available-for-sale financial assets					
Gains/(losses) arising during the year/period	10,097	24,510	(29,829)	(25,716)	6,107
Reclassification adjustments for (gains)/losses included in profit or loss	(1,920)	(12,719)	4,008	(4,353)	(2,462)
Impairment charges reclassified to the income statement	—	—	5,141	1,264	128
	8,177	11,791	(20,680)	(28,805)	3,773
Income tax relating to available-for-sale financial assets	(2,670)	(2,228)	5,176	7,178	(943)
	5,507	9,563	(15,504)	(21,627)	2,830
Shadow accounting adjustment	(730)	(3,373)	2,452	6,904	380
Income tax relating to shadow accounting adjustment	241	745	(613)	(1,726)	(95)
	(489)	(2,628)	1,839	5,178	285
Other comprehensive income/(loss)	5,012	6,926	(13,671)	(16,455)	3,113

11. EMPLOYEE BENEFITS EXPENSE (INCLUDING DIRECTORS' AND SUPERVISORS' EMOLUMENTS)

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
				(unaudited)	
Salaries, allowances and other short-term benefits	1,966	2,750	3,323	1,535	2,106
Contributions to defined contribution plans(1)	320	465	675	256	354
Early retirement benefit obligation	7	10	23	8	5
Long-term incentive(2)	—	60	79	—	24
	2,293	3,285	4,100	1,799	2,489

(1) Contributions to defined contribution plans mainly include contributions made to the state pension schemes.

(2) In order to motivate senior management and certain key employees, the Group operates long-term incentive plans. Pursuant to resolutions made at the shareholders' meeting held in 2007, the Group awarded eligible participants incentive rewards for fiscal year 2006, to be paid in cash in the sixth year from the date of award. On 24 October 2008, the board of directors of the Company approved a long-term deferred bonus plan for senior management and certain key employees. The deferred bonuses will be paid gradually during the three years following the year of grant subject to the performance of both the Group and the eligible participants in those years.

12. DIRECTORS' AND SUPERVISORS' REMUNERATION

Details of the directors' and the supervisors' remuneration are as follows:

	Year ended 31 December			Six months ended 30 June	
(in RMB thousand)	2006	2007	2008	2008	2009
				(unaudited)	
Fees	420	626	1,250	625	625
Other remuneration					
-Salaries, allowances and other short-term benefits	3,649	8,467	7,868	3,142	3,174
-Contributions to defined contribution plans	474	405	478	215	257
-Long-term incentive paid(1)	—	—	—	—	695
	4,123	8,872	8,346	3,357	4,126
	4,543	9,498	9,596	3,982	4,751

(1) This represents amount paid under the Group's long-term incentive plan detailed in note 11(2). Amounts accrued for all eligible participants under the plan as a whole but not yet allocated to individual personnel are not included above because such amounts are not yet fully vested.

(a) Independent non-executive directors

Included in the fees are amounts of RMB420 thousand, RMB626 thousand, RMB1,250 thousand, RMB625 thousand and RMB625 thousand paid to independent non-executive directors for the years ended 31 December 2006, 2007 and 2008, and for the six-month periods ended 30 June 2008 (unaudited) and 2009. There were no other emoluments payable to the independent non-executive directors during the Relevant Periods and for the six-month period ended 30 June 2008 (unaudited).

	Year ended 31 December 2006				
(in RMB thousand)	Fees	Long-term incentive	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
GONG Haocheng	60	—	—	—	60
DENG Hongxun	60	—	—	—	60
FENG Jun	60	—	—	—	60
CHEN Hengping	60	—	—	—	60
ZHUO Zhi	60	—	—	—	60
HE Dechuan	60	—	—	—	60
GAO Yongfu	60	—	—	—	60
	420	—	—	—	420

(in RMB thousand)	Fees	Long-term incentive	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
	Year ended 31 December 2007				
GONG Haocheng	30	—	—	—	30
DENG Hongxun	30	—	—	—	30
FENG Jun	30	—	—	—	30
CHEN Hengping	30	—	—	—	30
ZHUO Zhi	30	—	—	—	30
HE Dechuan	30	—	—	—	30
GAO Yongfu	30	—	—	—	30
LI Ruoshan	104	—	—	—	104
XIAO Wei	104	—	—	—	104
YUEN Tin Fan	104	—	—	—	104
CHANG Tso Tung Stephen	104	—	—	—	104
	626	—	—	—	626

(in RMB thousand)	Fees	Long-term incentive	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
	Year ended 31 December 2008				
XU Shanda	250	—	—	—	250
LI Ruoshan	250	—	—	—	250
XIAO Wei	250	—	—	—	250
YUEN Tin Fan	250	—	—	—	250
CHANG Tso Tung Stephen	250	—	—	—	250
	1,250	—	—	—	1,250

(in RMB thousand)	Fees	Long-term incentive	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
	Six months ended 30 June 2008 (unaudited)				
XU Shanda	125	—	—	—	125
LI Ruoshan	125	—	—	—	125
XIAO Wei	125	—	—	—	125
YUEN Tin Fan	125	—	—	—	125
CHANG Tso Tung Stephen	125	—	—	—	125
	625	—	—	—	625

(in RMB thousand)	Fees	Long-term incentive	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
	Six months ended 30 June 2009				
LI Ruoshan	125	—	—	—	125
XIAO Wei	125	—	—	—	125
YUEN Tin Fan	125	—	—	—	125
CHANG Tso Tung Stephen	125	—	—	—	125
XU Shanda	125	—	—	—	125
	625	—	—	—	625

(b) Executive directors and non-executive directors

(in RMB thousand)	Year ended 31 December 2006 Long-term incentive	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
Executive director:				
HUO Lianhong	—	1,201	135	1,336
Non-executive directors:				
GAO Guofu	—	328	57	385
CHEN Shaochang	—	—	—	—
HUANG Kongwei	—	—	—	—
SHEN Weiming	—	—	—	—
XU Ming	—	—	—	—
YANG Xianghai	—	—	—	—
YU Yeming	—	—	—	—
ZHOU Ciming	—	—	—	—
ZHANG Jianwei	—	—	—	—
ZHANG Meng	—	—	—	—
PAN Jiande	—	—	—	—
WANG Guoliang	—	1,109	135	1,244
	—	2,638	327	2,965

(in RMB thousand)	Year ended 31 December 2007 Long-term incentive	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
Executive director:				
HUO Lianhong	—	2,640	136	2,776
Non-executive directors:				
GAO Guofu	—	2,840	112	2,952
CHEN Shaochang	—	104	—	104
HUANG Kongwei	—	104	—	104
SHEN Weiming	—	104	—	104
XU Ming	—	104	—	104
YANG Xianghai	—	104	—	104
YU Yeming	—	104	—	104
ZHOU Ciming	—	104	—	104
YANG Xiangdong	—	104	—	104
FENG Junyuan, Janine	—	104	—	104
	—	6,416	248	6,664

(in RMB thousand)	Long-term incentive	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
	Year ended 31 December 2008			
Executive directors:				
GAO Guofu*	—	1,638	133	1,771
HUO Lianhong	—	1,520	146	1,666
Non-executive directors:				
CHEN Shaochang	—	250	—	250
HUANG Kongwei	—	250	—	250
SHEN Weiming	—	250	—	250
YANG Xianghai	—	250	—	250
YU Yeming	—	250	—	250
ZHOU Ciming	—	250	—	250
YANG Xiangdong	—	250	—	250
FENG Junyuan, Janine	—	250	—	250
	—	5,158	279	5,437

* Executive director since October 2008 in accordance with relevant regulations.

(in RMB thousand)	Long-term incentive	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
	Six months ended 30 June 2008 (unaudited)			
Executive director:				
HUO Lianhong	—	582	69	651
Non-executive directors:				
GAO Guofu	—	642	64	706
CHEN Shaochang	—	125	—	125
HUANG Kongwei	—	125	—	125
SHEN Weiming	—	125	—	125
YANG Xiangdong	—	125	—	125
FENG Junyuan, Janine	—	125	—	125
YANG Xianghai	—	125	—	125
YU Yeming	—	125	—	125
ZHOU Ciming	—	125	—	125
	—	2,224	133	2,357

(in RMB thousand)	Six months ended 30 June 2009 Long-term incentive	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
Executive directors:				
GAO Guofu	260	642	71	973
HUO Lianhong	236	582	79	897
Non-executive directors:				
YANG Xiangdong	—	125	—	125
HUANG Kongwei	—	125	—	125
FENG Junyuan, Janine	—	125	—	125
YANG Xianghai	—	125	—	125
YU Yeming**	—	125	—	125
ZHOU Ciming	—	125	—	125
CHEN Shaochang	—	83	—	83
SHEN Weiming	—	83	—	83
	496	2,140	150	2,786

** Resigned effective on 28 October 2009.

On 25 June 2007, the board of directors resolved to grant annual allowance of RMB250 thousand to each director, except for Mr. Huo Lianhong and Mr. Gao Guofu who have already received remuneration from the Company. This resolution was approved at the 5th extraordinary general meeting held in July 2007. There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods and the six-month period ended 30 June 2008 (unaudited).

(c) Supervisors

(in RMB thousand)	Year ended 31 December 2006 Long-term incentive	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
MA Guoqiang	—	—	—	—
LI Bailing	—	—	—	—
TIAN Shibao	—	—	—	—
XIONG Xingwang	—	703	92	795
YUAN Songwen	—	308	55	363
	—	1,011	147	1,158

(in RMB thousand)	Year ended 31 December 2007 Long-term incentive	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
MA Guoqiang	—	104	—	104
ZHANG Jianwei	—	104	—	104
LIN Lichun	—	104	—	104
XIONG Xingwang	—	1,310	95	1,405
YUAN Songwen	—	429	62	491
	—	2,051	157	2,208

(in RMB thousand)	Year ended 31 December 2008			
	Long-term incentive	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
MA Guoqiang	—	250	—	250
ZHANG Jianwei	—	250	—	250
LIN Lichun	—	250	—	250
SONG Junxiang	—	1,489	127	1,616
YUAN Songwen	—	472	71	543
	—	2,711	198	2,909

(in RMB thousand)	Six Months Ended 30 June 2008 (unaudited)			
	Long-term incentive	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
MA Guoqiang	—	125	—	125
ZHANG Jianwei	—	125	—	125
LIN Lichun	—	125	—	125
XIONG Xingwang	—	393	49	442
YUAN Songwen	—	150	33	183
	—	918	82	1,000

(in RMB thousand)	Six months ended 30 June 2009			
	Long-term incentive	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
MA Guoqiang	—	125	—	125
ZHANG Jianwei	—	125	—	125
LIN Lichun	—	125	—	125
SONG Junxiang	198	489	68	755
YUAN Songwen	—	170	40	210
	198	1,034	108	1,340

On 25 June 2007, the board of directors resolved to grant annual allowance of RMB250 thousand to each supervisor, except for Mr. Xiong Xingwang, Mr. Song Junxiang and Mr. Yuan Songwen who have already received remuneration from the Company. This resolution was approved at the 5th extraordinary general meeting held in July 2007. There was no arrangement under which a supervisor waived or agreed to waive any remuneration during the Relevant Periods and the six-month period ended 30 June 2008 (unaudited).

13. FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose remuneration was the highest in the Group include the remuneration of two directors whose emoluments amount to RMB1,870 thousand for the six-month period ended 30 June 2009 (no director for the year ended 31 December 2008, two directors for the year ended 31 December 2007: RMB5,728 thousand, two directors for the year ended 31 December 2006: RMB2,580 thousand, and two directors for the six-month period ended 30 June 2008: RMB1,357 thousand) which are included in the analysis in note 12.

The number of non-director, highest paid individuals whose remuneration fell within the following bands is set out below:

	Year ended 31 December			Six months Ended 30 June	
	2006	2007	2008	2008	2009
				(unaudited)	
Nil to RMB1,000,000	—	—	—	1	—
RMB1,000,001 to RMB2,000,000	2	—	—	—	1
RMB2,000,001 to RMB3,000,000	—	2	1	2	1
RMB3,000,001 to RMB4,000,000	—	—	2	—	—
RMB4,000,001 to RMB5,000,000	—	—	—	—	1
RMB5,000,001 to RMB6,000,000	—	—	1	—	—
RMB6,000,001 to RMB7,000,000	1	—	1	—	—
RMB7,000,001 to RMB8,000,000	—	1	—	—	—
Total	3	3	5	3	3

Details of the remuneration of the highest paid non-director individuals are as follows:

(in RMB thousand)	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
				(unaudited)	
Salaries, allowances and other short-term benefits	8,485	12,280	18,206	5,363	8,080
Contributions to defined contribution plans	226	227	411	—	—
Long-term incentive paid(1)	—	—	2,886	—	—
	8,711	12,507	21,503	5,363	8,080
The number of non-director individuals for above remuneration	3	3	5	3	3

(1) This represents amount paid under the Group's long-term incentive plan detailed in note 11(2). Amounts accrued for all eligible participants under the plan as a whole but not yet allocated to individual personnel are not included above because such amounts are not yet fully vested.

During the Relevant Periods and the six-month period ended 30 June 2008, no emoluments were paid by the Group to any of these non-director individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

14. INCOME TAX

(a) Income tax expense

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
				(unaudited)	
Current income tax	402	471	—	58	58
Deferred income tax (note 30)	961	2,029	(1,161)	(113)	1,100
	1,363	2,500	(1,161)	(55)	1,158

(b) Tax recorded in other comprehensive income

	Year ended 31 December			Six Months Ended 30 June	
	2006	2007	2008	2008	2009
				(unaudited)	
Deferred income tax liabilities/(assets) (note 30)	2,429	1,483	(4,563)	(5,452)	1,038

(c) *Reconciliation of tax expense*

Current income tax has been provided at the rate of 33% on the estimated assessable profits arising in Mainland China of the PRC during the years ended 31 December 2006 and 2007. According to the PRC Corporate Income Tax Law, the corporate income tax rate for the year ended 31 December 2008, the six-month periods ended 30 June 2008 and 2009 was reduced from 33% to 25%. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

A reconciliation of the tax expense applicable to profit before tax using the PRC statutory income tax rate of 25% (for the years ended 31 December 2006 and 2007 using the PRC statutory income tax rate of 33%) to the tax expense at the Group's effective tax rate is as follows:

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
				(unaudited)	
Profit before tax	4,000	14,766	2,025	6,143	5,159
Tax computed at the statutory tax rate	1,320	4,873	506	1,536	1,290
Effect on deferred tax due to change in tax rate from 33% to 25%	—	(828)	—	—	—
Lower tax rates of subsidiaries incorporated outside the Mainland China	(2)	(3)	—	(1)	—
Adjustments to income tax in respect of previous periods	46	48	(20)	8	(83)
Attributable to a jointly-controlled entity and associates	1	(23)	13	—	(7)
Unrecognised deferred income tax assets	—	—	—	208	—
Income not subject to tax	(132)	(1,609)	(1,880)	(1,840)	(174)
Expenses not deductible for tax	130	42	220	34	132
Tax expense at the Group's effective rate	1,363	2,500	(1,161)	(55)	1,158

There was no share of income tax attributable to the jointly-controlled entity and associates as they have been included in "Share of profits/(losses) of a jointly-controlled entity and associates" on the face of the consolidated income statement for the Relevant Periods and the six-month period ended 30 June 2008.

15. NET PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated net profit attributable to equity holders of the parent for the years ended 31 December 2006, 2007, 2008 and for the six-month periods ended 30 June 2008 (unaudited) and 2009 included net profit/(loss) of RMB(140) million, RMB3,448 million, RMB900 million, RMB3,444 million and RMB3,542 million, respectively, which have been dealt with in the financial statements of the Company.

16. BASIC EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

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

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
				(unaudited)	
Consolidated net profit for the year/period attributable to equity holders of the parent	2,019	11,238	3,086	6,082	3,937
Weighted average number of ordinary shares in issue (million)	4,300	6,167	7,700	7,700	7,700
Earnings per ordinary share	RMB0.47	RMB1.82	RMB0.40	RMB0.79	RMB0.51

The Company had no dilutive potential ordinary shares for the Relevant Periods and the six-month period ended 30 June 2008, hence no diluted earnings per share amount is presented.

17. PROPERTY AND EQUIPMENT

Group	Land and buildings	Construction in progress	Motor vehicles	Office furniture and equipment	Leasehold improvements	Total
Cost						
At 1 January 2006	3,696	143	417	1,177	289	5,722
Additions	142	54	68	193	18	475
Transfers	172	(175)	—	—	3	—
Disposals	(41)	—	(31)	(62)	(19)	(153)
At 31 December 2006	3,969	22	454	1,308	291	6,044
Additions	51	461	85	518	61	1,176
Transfers	29	(29)	—	—	—	—
Cost adjustment	(73)	—	—	—	—	(73)
Disposals	(18)	—	(36)	(71)	(4)	(129)
At 31 December 2007	3,958	454	503	1,755	348	7,018
Additions	18	1,976	86	348	167	2,595
Transfers	379	(379)	—	—	—	—
Disposals	(15)	—	(55)	(64)	—	(134)
At 31 December 2008	4,340	2,051	534	2,039	515	9,479
Additions	11	453	18	116	34	632
Transfers	40	(40)	—	—	—	—
Disposals	(3)	—	(5)	(33)	—	(41)
At 30 June 2009	4,388	2,464	547	2,122	549	10,070
Accumulated depreciation and impairment						
At 1 January 2006	580	—	216	827	168	1,791
Depreciation charge	128	—	74	180	48	430
Disposals	(31)	—	(26)	(28)	(19)	(104)
Reversal of impairment losses	(1)	—	—	—	—	(1)
At 31 December 2006	676	—	264	979	197	2,116
Depreciation charge	148	—	72	203	37	460
Disposals	(12)	—	(35)	(52)	(2)	(101)
Write-off of impairment losses	(3)	—	—	—	—	(3)
At 31 December 2007	809	—	301	1,130	232	2,472
Depreciation charge	129	—	54	302	48	533
Disposals	(3)	—	(55)	(64)	—	(122)
At 31 December 2008	935	—	300	1,368	280	2,883
Depreciation charge	71	—	32	172	34	309
Disposals	—	—	(3)	(32)	—	(35)
At 30 June 2009	1,006	—	329	1,508	314	3,157
Net book value						
At 31 December 2006	3,293	22	190	329	94	3,928
At 31 December 2007	3,149	454	202	625	116	4,546
At 31 December 2008	3,405	2,051	234	671	235	6,596
At 30 June 2009	3,382	2,464	218	614	235	6,913

The Group was in the process of making necessary arrangements to obtain legal title in respect of the ownership of buildings with aggregate net book values of approximately RMB860 million, RMB243 million RMB155 million and RMB162 million as at 31 December 2006, 2007, 2008 and 30 June 2009. The Group considered that not possessing the legal title in respect of the ownership of the buildings will not affect the Group to use the buildings for the relevant business activities, and there was no significant negative impact on the Group's operating results and financial status.

In addition, as at 30 June 2009, buildings of the Group with a net book value of RMB24 million are situated on parcels of allocated land. In accordance with the prevailing rules and regulations, there are restrictions on the transfer of such properties.

Company	Land and buildings	Construction in progress	Motor vehicles	Office furniture and equipment	Leasehold improvements	Total
Cost						
At 1 January 2006	385	1	6	94	—	486
Additions	7	2	1	43	4	57
Transfer to investment property (note 18)	(75)	—	—	—	—	(75)
Disposals	—	(3)	(1)	(16)	—	(20)
At 31 December 2006	317	—	6	121	4	448
Additions	—	—	3	38	—	41
Cost adjustment	(73)	—	—	—	—	(73)
Transfer from investment property (note 18)	34	—	—	—	—	34
At 31 December 2007	278	—	9	159	4	450
Additions	—	1,539	1	99	49	1,688
Disposals	—	—	(1)	(1)	—	(2)
At 31 December 2008	278	1,539	9	257	53	2,136
Additions	—	330	—	8	2	340
Disposals	—	—	(1)	—	—	(1)
Transfer from investment property (note 18)	20	—	—	—	—	20
At 30 June 2009	298	1,869	8	265	55	2,495
Accumulated depreciation and impairment						
At 1 January 2006	24	—	4	55	—	83
Depreciation charge	27	—	1	32	—	60
Transfer to investment property (note 18)	(10)	—	—	—	—	(10)
Disposals	—	—	(1)	(15)	—	(16)
At 31 December 2006	41	—	4	72	—	117
Depreciation charge	10	—	1	27	1	39
Transfer from investment property (note 18)	9	—	—	—	—	9
At 31 December 2007	60	—	5	99	1	165
Depreciation charge	9	—	1	37	1	48
Disposals	—	—	(2)	—	—	(2)
At 31 December 2008	69	—	4	136	2	211
Depreciation charge	4	—	1	28	1	34
Transfers from investment property (note 18)	4	—	—	—	—	4
At 30 June 2009	77	—	5	164	3	249
Net book value						
At 31 December 2006	276	—	2	49	4	331
At 31 December 2007	218	—	4	60	3	285
At 31 December 2008	209	1,539	5	121	51	1,925
At 30 June 2009	221	1,869	3	101	52	2,246

18. INVESTMENT PROPERTY

Company	As at 31 December 2006	2007	2008	As at 30 June 2009
Cost				
Beginning of year/period	229	304	270	270
Transfer from/(to) property and equipment	75	(34)	—	(20)
End of year/period	304	270	270	250
Accumulated depreciation and impairment losses				
Beginning of year/period	31	51	51	59
Transfer from/(to) property and equipment	10	(9)	—	(4)
Depreciation charge	10	9	8	4
End of year/period	51	51	59	59
Net book value				
End of year/period	253	219	211	191
Beginning of year/period	198	253	219	211

The Company leases certain floors of its office building to CPPIC, CPLIC and PAMC and charges rentals based on the areas occupied by the respective entities. These floors which are held for rental are recorded aggregately as an investment property of the Company. Rental transactions are eliminated upon consolidation and the property is categorised as a building of the Group in the consolidated balance sheets.

19. INTANGIBLE ASSETS

Group	Software
Cost	
At 1 January 2006	119
Additions	89
At 31 December 2006	208
Additions	182
At 31 December 2007	390
Additions	234
Disposal	(14)
At 31 December 2008	610
Additions	66
Disposal	(44)
As at 30 June 2009	632
Accumulated amortisation	
At 1 January 2006	59
Amortisation	32
At 31 December 2006	91
Amortisation	50
At 31 December 2007	141
Amortisation	117
Disposal	(13)
At 31 December 2008	245
Amortisation	69
Disposal	(24)
At 30 June 2009	290
Carrying amount	
At 31 December 2006	117
At 31 December 2007	249
At 31 December 2008	365
At 30 June 2009	342

20. PREPAID LAND LEASE PAYMENTS

Land use rights	Group	Company
Cost		
At 1 January 2006, 31 December 2006, 2007 and 2008, and 30 June 2009	241	213
Accumulated amortisation		
At 1 January 2006	14	12
Amortisation	5	4
At 31 December 2006	19	16
Amortisation	5	5
At 31 December 2007	24	21
Amortisation	4	4
At 31 December 2008	28	25
Amortisation	3	2
At 30 June 2009	31	27
Carrying amount		
At 31 December 2006	222	197
At 31 December 2007	217	192
At 31 December 2008	213	188
At 30 June 2009	210	186

Land use rights are acquired under the PRC laws for fixed periods, and the related costs are amortised on the straight-line basis. All of the Group's land use rights are related to pieces of land located in the PRC. The costs of the land use rights are amortised over the lease terms ranging from 30 to 50 years.

The Company's land use rights with a total cost of RMB213 million have been provided for use by the Institute free of charge.

21. INVESTMENTS IN SUBSIDIARIES

	As at 31 December			As at 30 June
Company	**2006**	**2007**	**2008**	**2009**
Unlisted shares, at cost	7,643	13,874	30,581	30,581

Particulars of the Company's subsidiaries as at 30 June 2009 are set out in note 1 to this Financial Information.

The amounts due from and to subsidiaries are disclosed in note 32 to the Financial Information or on the face of the Company's balance sheets. The amounts are unsecured, interest-free and are repayable on demand or within one year. The carrying amounts of the amounts due from and to subsidiaries approximate their fair values.

22. INTERESTS IN ASSOCIATES

	As at 31 December			As at 30 June
Group	**2006**	**2007**	**2008**	**2009**
Share of net assets	31	—	—	—
Advances to an associate	209	—	—	—
	240	—	—	—
Provision for impairment	(31)	—	—	—
	209	—	—	—

Company	As at 31 December 2006	2007	2008	As at 30 June 2009
Unlisted shares, at cost	63	—	—	—
Advances to an associate	209	—	—	—
	272	—	—	—
Provision for impairment	(63)	—	—	—
	209	—	—	—

The advances to an associate are unsecured, interest-free and have no fixed terms of repayment.

The Group had interests in associates in respect of the Institute and Yun Nan Dong Lu Hotel (the "Hotel") as at 31 December 2006.

As mentioned in note 51, the Institute was an associate of the Group until the Group transferred its equity interest in the Institute to Fudan University in July 2007.

The Hotel reported a loss during 2006 and ceased operations in 2007. The Group has made full provision for its investment in the Hotel, and has written off such investment in 2007.

The assets and liabilities of the Group's associates as at 31 December 2006 and their results for the year then ended, as disclosed below, include the assets and liabilities, as well as the results, of both the Institute and the Hotel as extracted from their respective financial statements:

	As at 31 December 2006	2007	2008	As at 30 June 2009
Associates' assets and liabilities :				
Assets	1,091	—	—	—
Liabilities	(1,031)	—	—	—
Net assets	60	—	—	—
Associates' results :				
Revenue	36	—	—	—
Losses	(71)	—	—	—

The financial statements of the above associates were not audited by Ernst & Young Hong Kong or other member firms of the Ernst & Young global network.

23. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

Group	As at 31 December 2006	2007	2008	As at 30 June 2009
Share of net assets	322	367	391	417
Company				
Unlisted shares, at cost	350	350	400	400

Particulars of the jointly-controlled entity as at 30 June 2009 are as follows:

Name	Place of incorporation	Percentage of equity attributable to the Company: Direct	Indirect	Registered and paid-up capital (RMB thousand)	Principal activity
Pacific Antai	Shanghai	50.00	—	800,000	Life insurance

The following table illustrates the financial information of the Group's jointly-controlled entity:

	As at 31 December 2006	As at 31 December 2007	As at 31 December 2008	As at 30 June 2009
Share of the jointly-controlled entity's assets and liabilities:				
Assets	1,412	1,618	1,923	2,090
Liabilities	(1,090)	(1,251)	(1,532)	(1,673)
Net assets	322	367	391	417
Share of the jointly-controlled entity's results:				
Revenue	315	357	559	296
Net profit/(loss)	5	70	(52)	26

Pursuant to a resolution made at the Company's board of directors meeting held on 17 August 2007, the directors agreed to implement a plan to sell the Company's entire 50% equity interest in Pacific Antai. As of the date of this report, no binding agreements have been reached yet.

The financial statements prepared in accordance with HKFRSs for the years ended 31 December 2006, 2007 and 2008, and six-month period ended 30 June 2009 of the jointly-controlled entity were not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.

24.1 Financial Assets at Fair Value through Profit or Loss

All the Group's financial assets at fair value through profit or loss are held for trading and were as follows:

Group	As at 31 December 2006	As at 31 December 2007	As at 31 December 2008	As at 30 June 2009
Listed				
Equity securities	152	162	17	—
Investment funds	445	152	226	49
Debt securities				
- Government bonds	41	39	33	32
- Corporate bonds	10	15	54	70
	648	368	330	151
Unlisted				
Derivative financial assets	1	—	—	—
Investment funds	4,059	2,095	836	265
Debt securities				
- Corporate bonds	50	—	—	—
	4,110	2,095	836	265
	4,758	2,463	1,166	416

Company	As at 31 December 2006	As at 31 December 2007	As at 31 December 2008	As at 30 June 2009
Listed				
Equity securities	42	—	—	—
Debt securities				
- Government bonds	41	39	33	32
	83	39	33	32
Unlisted				
Derivative financial assets	1	—	—	—
Debt securities				
- Corporate bonds	10	—	—	—
	11	—	—	—
	94	39	33	32

24.2 Held-to-Maturity Financial Assets

Held-to-maturity financial assets are stated at amortised cost and comprise the following:

Group	As at 31 December 2006	As at 31 December 2007	As at 31 December 2008	As at 30 June 2009
Listed				
Debt securities				
- Government bonds	3,916	3,935	3,955	3,856
- Finance bonds	—	—	58	45
- Corporate bonds	3,963	5,498	6,193	6,320
	7,879	9,433	10,206	10,221
Unlisted				
Debt securities				
- Government bonds	1,513	808	1,601	3,054
- Finance bonds	13,190	15,373	18,331	26,369
- Corporate bonds	14,297	32,506	40,842	42,275
	29,000	48,687	60,774	71,698
	36,879	58,120	70,980	81,919

Company	As at 31 December 2006	As at 31 December 2007	As at 31 December 2008	As at 30 June 2009
Listed				
Debt securities				
- Corporate bonds	—	27	582	595
Unlisted				
Debt securities				
- Corporate bonds	—	—	100	100
	—	27	682	695

24.3 Available-for-Sale Financial Assets

Group	As at 31 December 2006	As at 31 December 2007	As at 31 December 2008	As at 30 June 2009
Listed				
Equity securities	10,732	34,427	5,307	17,454
Investment funds	8,114	14,049	4,033	4,452
Debt securities				
- Government bonds	13,593	13,168	11,239	9,901
- Corporate bonds	1,935	2,751	12,319	12,878
	34,374	64,395	32,898	44,685
Unlisted				
Other equity investments	14	84	1,622	2,877
Investment funds	2,826	14,174	2,886	6,577
Debt securities				
- Government bonds	493	6,103	4,457	550
- Finance bonds	23,126	23,853	39,328	36,830
- Corporate bonds	7,597	13,258	14,951	22,053
	34,056	57,472	63,244	68,887
	68,430	121,867	96,142	113,572

At 30 June 2009, certain unlisted equity investments with a carrying amount of RMB2,877 million (RMB14 million, RMB84 million and RMB1,622 million at 31 December 2006, 2007 and 2008, respectively) were stated at cost because their fair values cannot be measured reliably. The Group does not intend to dispose of them in the near future.

Company	As at 31 December 2006	2007	2008	As at 30 June 2009
Listed				
Equity securities	59	3,134	55	356
Investment funds	106	644	581	66
Debt securities				
- Corporate bonds	—	2	1,328	1,407
	165	3,780	1,964	1,829
Unlisted				
Investment funds	2	4,526	15	56
Debt securities				
- Government bonds	—	4,573	—	—
- Finance bonds	—	1,396	1,675	2,143
- Corporate bonds	16	5,589	636	1,373
	18	16,084	2,326	3,572
	183	19,864	4,290	5,401

24.4 Investments Classified as Loans and Receivables

Group	As at 31 December 2006	2007	2008	As at 30 June 2009
Debt securities				
-Finance	7,726	9,227	11,537	9,904
-Corporate	—	4,696	4,995	12,442
	7,726	13,923	16,532	22,346

Company	As at 31 December 2006	2007	2008	As at 30 June 2009
Debt securities -Finance	700	704	1,876	1,199

25. SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL

Group	As at 31 December 2006	2007	2008	As at 30 June 2009
Securities-bonds				
Stock Exchange	590	—	60	—
Inter-bank market	1,154	5,500	—	—
	1,744	5,500	60	—

Company	As at 31 December 2006	2007	2008	As at 30 June 2009
Securities-bonds				
Inter-bank market	—	5,500	—	—

The Group does not sell or re-pledge the collateral underlying the securities purchased under agreements to resell.

26. TERM DEPOSITS

Group	As at 31 December 2006	2007	2008	As at 30 June 2009
Within 1 year (including 1 year)	14,758	20,381	212	7,627
1 to 3 years (including 3 year)	20,762	7,886	20,929	30,120
3 to 5 years (including 5 year)	17,486	29,260	61,260	53,010
More than 5 years	849	1,735	355	304
	53,855	59,262	82,756	91,061

Company	As at 31 December 2006	2007	2008	As at 30 June 2009
Within 1 year (including 1 year)	25	25	25	27
3 to 5 years (including 5 year)	10	4,000	6,500	6,500
More than 5 years	86	553	41	—
	121	4,578	6,566	6,527

27. INTEREST RECEIVABLE

Group	As at 31 December 2006	2007	2008	As at 30 June 2009
Interest receivable from deposits	762	1,386	2,214	2,755
Interest receivable from loans	1	7	24	29
Interest receivable from bonds	1,372	2,001	2,742	4,074
	2,135	3,394	4,980	6,858
Less: Bad debt provision	(1)	(1)	(1)	(1)
	2,134	3,393	4,979	6,857

28. DEFERRED ACQUISITION COSTS

Group	Gross	Ceded	Net
At 1 January 2006	12,478	(1,235)	11,243
Deferred	6,797	(1,746)	5,051
Amortised	(5,272)	1,392	(3,880)
Effect of net unrealised gains on investments through equity (shadow accounting adjustment)	(1,138)	—	(1,138)
At 31 December 2006	12,865	(1,589)	11,276
Deferred	9,929	(2,184)	7,745
Amortised	(7,223)	2,068	(5,155)
Effect of net unrealised gains on investments through equity (shadow accounting adjustment)	(398)	—	(398)
At 31 December 2007	15,173	(1,705)	13,468
Deferred	12,767	(2,557)	10,210
Amortised	(8,078)	2,444	(5,634)
Effect of net unrealised losses on investments through equity (shadow accounting adjustment)	2,070	—	2,070
At 31 December 2008	21,932	(1,818)	20,114
Deferred	8,197	(1,704)	6,493
Amortised	(5,032)	1,246	(3,786)
Effect of net unrealised gains on investments through equity (shadow accounting adjustment)	(501)	—	(501)
At 30 June 2009	24,596	(2,276)	22,320

Group	As at 31 December 2006	2007	2008	As at 30 June 2009
DAC excluding unrealised gains/losses	12,678	15,268	19,844	22,551
DAC recorded in unrealised (gains)/losses	(1,402)	(1,800)	270	(231)
	11,276	13,468	20,114	22,320

29. REINSURANCE ASSETS

Group	As at 31 December 2006	2007	2008	As at 30 June 2009
Reinsurers' share of insurance contracts (note 36)	7,247	8,395	9,627	11,082
Reinsurers' share of investment contracts (note 37)	—	—	—	—
	7,247	8,395	9,627	11,082

30. DEFERRED INCOME TAX ASSETS AND LIABILITIES

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

Group	As at 31 December 2006	2007	2008	As at 30 June 2009
Net deferred income tax assets/(liabilities), at beginning of year/period	188	(3,202)	(6,714)	(990)
Recognised as expense/(income) (note 14(a))	(961)	(2,029)	1,161	(1,100)
Recognised in equity (note 14(b))	(2,429)	(1,483)	4,563	(1,038)
Net deferred income tax liabilities, at end of year/period	(3,202)	(6,714)	(990)	(3,128)

Group	As at 31 December 2006	2007	2008	As at 30 June 2009
Deferred income tax assets/(liabilities):				
Insurance contract and investment contract liabilities	1,790	(542)	(729)	(972)
Impairment of assets	431	167	719	97
Commissions and handling fees	230	183	—	269
Tax losses carried forward	167	—	1,180	1,019
Deferred revenue	1,224	1,005	2,367	2,453
Net fair value adjustment on available-for-sale financial assets and financial assets carried at fair value through profit or loss	(3,346)	(4,182)	449	(585)
Deferred acquisition costs	(3,721)	(3,367)	(5,028)	(5,581)
Others	23	22	52	172
Net deferred income tax liabilities	(3,202)	(6,714)	(990)	(3,128)
Represented by:				
Deferred tax assets	79	6	763	705
Deferred tax liabilities	(3,281)	(6,720)	(1,753)	(3,833)

31. INSURANCE RECEIVABLES

Group	As at 31 December 2006	2007	2008	As at 30 June 2009
Insurance receivables	3,277	3,859	4,499	5,244
Provision for impairment of insurance receivables	(100)	(148)	(196)	(227)
	3,177	3,711	4,303	5,017

An aged analysis of the insurance receivables is as follows:

Group	As at 31 December 2006	2007	2008	As at 30 June 2009
Within 3 months	2,663	2,813	3,251	3,585
Over 3 months and within 1 year	442	641	846	1,098
Over 1 year	72	257	206	334
	3,177	3,711	4,303	5,017

Insurance receivables include premium receivables from policyholders or agents and receivables from reinsurers.

The credit terms for premium receivables from life insurance policyholders are 60 days. CPPIC normally collects premium receivables from agents on a monthly or quarterly basis, and certain premiums are collected by CPPIC in installments. According to the Group's credit policy, the credit terms for premium receivables cannot be longer than the insurance coverage period. The Group and reinsurers normally settle receivables and payables on a quarterly basis.

The Group's insurance receivables relate to a large number of counterparties, and there is no significant concentration of credit risk. Insurance receivables are non-interest bearing.

The following insurance receivables are individually determined to be impaired mainly because they are past due and were not collected before the end of the insurance coverage period. The Group does not hold any collateral or other enhancements over these balances.

Group	As at 31 December 2006	2007	2008	As at 30 June 2009
Insurance receivables that are individually determined to be impaired	53	67	63	128
Related provision for impairment	(53)	(67)	(63)	(128)
	—	—	—	—

32. OTHER ASSETS

Group	As at 31 December 2006	2007	2008	As at 30 June 2009
Due from the Institute	63	—	—	—
Foreclosed assets (note 51)	22	843	873	873
Due from agents	63	54	46	225
Receivable from securities clearance	—	—	337	222
Co-insurance receivable	—	—	339	265
Tax receivable other than income tax	—	—	384	39
Others	407	487	427	615
	555	1,384	2,406	2,239

Company	As at 31 December 2006	2007	2008	As at 30 June 2009
Due from subsidiaries	8	11	—	—
Dividends receivable	9	956	8	10
Foreclosed assets (note 51)	—	840	871	871
Others	84	113	59	57
	101	1,920	938	938

33. CASH AND SHORT-TERM TIME DEPOSITS

Group	As at 31 December 2006	2007	2008	As at 30 June 2009
Cash at banks and on hand	4,774	13,248	5,991	5,771
Time deposits with original maturity of no more than three months	4,930	2,044	10,997	12,387
Other monetary assets	438	8,330	525	576
	10,142	23,622	17,513	18,734

Company	As at 31 December 2006	2007	2008	As at 30 June 2009
Cash at banks and on hand	1,367	6,175	316	457
Time deposits with original maturity of no more than three months	—	1,650	1,970	3,154
Other monetary assets	438	8,246	252	43
	1,805	16,071	2,538	3,654

The Group's balances denominated in RMB amounted to RMB7,025 million, RMB22,632 million, RMB15,810 million and RMB17,713 million as at 31 December 2006, 2007, 2008 and as at 30 June 2009, respectively. RMB is not freely convertible into other currencies; however, under Mainland China's foreign exchange regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earn interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances and deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and short-term time deposits approximate their fair values.

34. ISSUED CAPITAL

Group and Company	As at 31 December 2006	2007	2008	As at 30 June 2009
Number of shares registered, issued and fully paid at RMB1 each (million)	4,300	7,700	7,700	7,700

Please refer to note 1 for details of changes in issued capital.

35. RESERVES AND RETAINED PROFITS

The amounts of the Group's reserves and the movements therein for the Relevant Periods are presented in the consolidated statement of changes in equity of the Financial Information.

(a) Capital reserve

Capital reserve mainly represents share premiums arising from the issuance of shares and the deemed disposal of an equity interest in CPLIC to the Foreign Investors in December 2005, and the subsequent repurchase of the equity interest in CPLIC by the Company in April 2007.

(i) Dilution of equity interest in CPLIC in December 2005

Pursuant to a resolution of the Company's first extraordinary shareholders' meeting held in October 2005 and approval of CIRC, the registered capital of CPLIC was increased from RMB1,000 million to RMB1,998 million in December 2005. The additional capital of RMB998 million was equally contributed by the Company and the Foreign Investors.

As a result, the Company's equity interest in CPLIC was diluted from the original 95% to 72.52%, and the Foreign Investors acquired a 24.98% equity interest in CPLIC. Since this is accounted for as an equity transaction, the increase in the Group's share in the book value of the net assets of CPLIC as a result of the transaction was recorded in equity as capital reserve.

(ii) Accumulated losses offset by capital reserve

Pursuant to a resolution made at the Company's 2005 annual general shareholders' meeting held on 20 July 2006, it was resolved that the Company would utilise an amount of RMB2,037 million standing to the credit of the Company's capital reserve as at 31 December 2005 to offset the entire accumulated losses as reported in its statutory financial statements as at 31 December 2005.

(iii) Acquisition of minority interest in CPLIC in April 2007

In April 2007, the Company acquired the Foreign Investors' 24.98% equity interest in CPLIC at a consideration of RMB3,311 million.

Since this is accounted for as an equity transaction, the excess of carrying amount of minority interest acquired over the consideration paid was recorded in equity as capital reserve.

(iv) Additional capital injections to CPLIC and CPPIC in May 2007, June 2008, November 2008

As mentioned in notes 1(b) and 1(c), the Company injected RMB2,002 million and RMB701 million into CPLIC and CPPIC, respectively, in May 2007 to acquire additional 302 million shares and 236 million shares in CPLIC and CPPIC, respectively.

In June 2008, the Company injected RMB5,902 million and RMB2,761 million into CPLIC and CPPIC, respectively, to acquire additional 1,180 million shares and 1,380 million shares in CPLIC and CPPIC, respectively.

In November 2008, the Company injected RMB7,913 million into CPLIC to acquire additional 1,583 million shares.

The difference between the changes in the Group's share of book value of net assets of CPLIC and CPPIC and respective considerations is recorded as an increase in capital reserve, and as a decrease in minority interests by the same amount in the consolidated statement of changes in equity.

(b) Surplus reserves

Surplus reserves consist of the statutory surplus reserve, the statutory public welfare fund and the discretionary surplus reserve.

(i) Statutory surplus reserve ("SSR")

According to the PRC Company Law and the articles of association of the Company and its subsidiaries in Mainland China, the Company and the subsidiaries are required to set aside 10% of their net profit (after offsetting the accumulated losses incurred in previous years) determined under the PRC GAAP, to their SSR until the balance reaches 50% of respective registered capital.

Subject to the approval of shareholders, SSR may be used to offset accumulated losses, if any, and may also be converted into capital, provided that the balance of the SSR after such capitalisation is not less than 25% of the registered capital.

Of the Group's retained profits, RMB994 million as at 30 June 2009 (31 December 2008: RMB994 million; 31 December 2007: RMB667 million; 31 December 2006: nil) represents the Company's share of its subsidiaries' surplus reserve fund which cannot be used for profit distribution.

(ii) Statutory public welfare fund ("PWF")

Prior to 1 January 2006, the Company and its subsidiaries in Mainland China were required to appropriate 5% to 10% of their net profits (after offsetting the accumulated losses incurred in previous years), as determined under the PRC GAAP, to the PWF, which is a non-distributable reserve except in the event of liquidation of the Company and the subsidiaries.

According to the revised PRC Company Law effective from 1 January 2006, the Group is no longer required to make appropriation to the PWF. All unutilised PWF as at 1 January 2006 was transferred to the SSR.

(iii) Discretionary surplus reserve ("DSR")

After making necessary appropriations to the SSR and PWF (prior to 1 January 2006), the Company and its subsidiaries in Mainland China may also appropriate a portion of their net profit to the DSR upon the approval of the shareholders in general meetings.

Subject to the approval of the shareholders, the DSR may be used to offset accumulated losses, if any, and may be converted into capital.

(c) General reserve

In accordance with the relevant regulations, general reserve should be set aside to cover catastrophic losses as incurred by companies operating in the insurance business. CPPIC and CPLIC would need to make appropriations for such reserve based on their respective year end profit determined in accordance with PRC GAAP, and based on the applicable PRC financial regulations, in the annual financial statements. Such reserve is not available for profit distribution or transfer to capital.

Of the Group's retained profits, RMB991 million as at 30 June 2009 (31 December 2008: RMB991 million; 31 December 2007: RMB666 million; 31 December 2006: nil) represents the Company's share of its subsidiaries' general reserve which cannot be used for profit distribution.

(d) Other reserves

The investment revaluation reserve records the fair value changes of available-for-sale financial assets. The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of the subsidiaries incorporated outside Mainland China.

(e) Distributable profits

According to the Articles of Association of the Company, the amount of retained profits available for distribution of the Company after the listing of the shares on the Main Board of SEHK should be the lower of the amount determined under PRC GAAP and the amount determined under HKFRSs. The amount that the Company's subsidiaries can legally distribute by way of a dividend is determined by reference to their profits as reflected in their financial statements prepared in accordance with the accounting regulations and principles promulgated by local regulatory bodies of the respective countries/regions. These profits may differ from those dealt with in the Financial Information, which is prepared in accordance with HKFRSs.

(f) The movements in reserves and retained profits of the Company during the Relevant Periods are set out below:

Company	Capital reserve	Surplus reserves	Available-for-sale investment revaluation reserve	Total	Retained profits
At 1 January 2006	3,929	244	1	4,174	765
Changes in fair value of available-for-sale financial assets	—	—	26	26	—
Realised loss transferred to the income statement on sale of available-for-sale financial assets	—	—	20	20	—
Other comprehensive income for the year	—	—	46	46	—
Net loss for the year	—	—	—	—	(140)
Total comprehensive income for the year	—	—	46	46	(140)
Accumulated losses offset by capital reserve	(2,037)	—	—	(2,037)	2,037
Others	2	—	—	2	—
	(2,035)	—	46	(1,989)	1,897
At 31 December 2006	1,894	244	47	2,185	2,662

Company	Capital reserve	Surplus reserves	Available-for-sale investment revaluation reserve	Total	Retained profits
At 1 January 2007	1,894	244	47	2,185	2,662
Changes in fair value of available-for-sale financial assets	—	—	841	841	—
Realised gain transferred to the income statement on sale of available-for-sale financial assets	—	—	(458)	(458)	—
Aggregate tax effect of items recognised directly in equity	—	—	(108)	(108)	—
Other comprehensive income for the year	—	—	275	275	—
Net profit for the year	—	—	—	—	3,448
Total comprehensive income for the year	—	—	275	275	3,448
Issue of shares	35,874	—	—	35,874	—
Appropriations to surplus reserve	—	347	—	347	(347)
Others	3	—	—	3	—
	35,877	347	275	36,499	3,101
At 31 December 2007	37,771	591	322	38,684	5,763

Company	Capital reserve	Surplus reserves	Available-for-sale investment revaluation reserve	Total	Retained profits
At 1 January 2008	37,771	591	322	38,684	5,763
Changes in fair value of available-for-sale financial assets	—	—	(4,231)	(4,231)	—
Realised loss transferred to the income statement on sale of available-for-sale financial assets	—	—	2,791	2,791	—
Impairment charges reclassified to the income statement	—	—	1,336	1,336	—
Aggregate tax effect of items recognised directly in equity	—	—	26	26	—
Other comprehensive income for the year	—	—	(78)	(78)	—
Net profit for the year	—	—	—	—	900
Total comprehensive income for the year	—	—	(78)	(78)	900
Dividends declared	—	—	—	—	(2,310)
Appropriations to surplus reserve	—	91	—	91	(91)
	—	91	(78)	13	(1,501)
At 31 December 2008	37,771	682	244	38,697	4,262

Company	Capital reserve	Surplus reserves	Available-for-sale investment revaluation reserve	Total	Retained profits
At 1 January 2009	37,771	682	244	38,697	4,262
Changes in fair value of available-for-sale financial assets	—	—	50	50	—
Realised gain transferred to the income statement on sale of available-for-sale financial assets	—	—	(101)	(101)	—
Aggregate tax effect of items recognised directly in equity	—	—	13	13	—
Other comprehensive income for the period	—	—	(38)	(38)	—
Net profit for the period	—	—	—	—	3,542
Total comprehensive income for the period	—	—	(38)	(38)	3,542
Dividends declared	—	—	—	—	(2,310)
	—	—	(38)	(38)	1,232
At 30 June 2009	37,771	682	206	38,659	5,494

36. INSURANCE CONTRACT LIABILITIES

Group	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 29)	Net
	As at 31 December 2006		
Long-term life insurance contracts			
- Traditional insurance contracts	51,310	(1,771)	49,539
- Investment type insurance contracts	85,055	—	85,055
- Claim reserves	183	(12)	171
	136,548	(1,783)	134,765
Short-term life insurance contracts			
- Unearned premiums	1,188	(570)	618
- Claim reserves	306	(152)	154
	1,494	(722)	772
Property and casualty insurance contracts			
- Unearned premiums	10,821	(2,266)	8,555
- Claim reserves	6,744	(2,476)	4,268
	17,565	(4,742)	12,823
	155,607	(7,247)	148,360
IBNR included in claim reserves	2,223	(609)	1,614

Group	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 29)	Net
	As at 31 December 2007		
Long-term life insurance contracts			
- Traditional insurance contracts	71,446	(2,420)	69,026
- Investment type insurance contracts	106,876	—	106,876
- Claim reserves	463	(14)	449
	178,785	(2,434)	176,351
Short-term life insurance contracts			
- Unearned premiums	1,337	(419)	918
- Claim reserves	405	(156)	249
	1,742	(575)	1,167
Property and casualty insurance contracts			
- Unearned premiums	12,738	(2,546)	10,192
- Claim reserves	8,714	(2,840)	5,874
	21,452	(5,386)	16,066
	201,979	(8,395)	193,584
IBNR included in claim reserves	3,242	(818)	2,424

Group	As at 31 December 2008 Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 29)	Net
Long-term life insurance contracts			
- Traditional insurance contracts	79,638	(3,001)	76,637
- Investment type insurance contracts	132,536	—	132,536
- Claim reserves	709	(16)	693
	212,883	(3,017)	209,866
Short-term life insurance contracts			
- Unearned premiums	1,426	(444)	982
- Claim reserves	470	(139)	331
	1,896	(583)	1,313
Property and casualty insurance contracts			
- Unearned premiums	14,520	(3,090)	11,430
- Claim reserves	10,168	(2,937)	7,231
	24,688	(6,027)	18,661
	239,467	(9,627)	229,840
IBNR included in claim reserves	1,815	(509)	1,306

Group	As at 30 June 2009 Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 29)	Net
Long-term life insurance contracts			
- Traditional insurance contracts	89,926	(3,736)	86,190
- Investment type insurance contracts	143,801	—	143,801
- Claim reserves	786	(17)	769
	234,513	(3,753)	230,760
Short-term life insurance contracts			
- Unearned premiums	1,618	(429)	1,189
- Claim reserves	438	(129)	309
	2,056	(558)	1,498
Property and casualty insurance contracts			
- Unearned premiums	18,623	(4,140)	14,483
- Claim reserves	10,134	(2,631)	7,503
	28,757	(6,771)	21,986
	265,326	(11,082)	254,244
IBNR included in claim reserves	1,827	(475)	1,352

(a) Long-term life insurance contract liabilities

Movements of traditional insurance contract liabilities

Group	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 29)	Net
At 31 January 2006	39,517	(1,266)	38,251
Valuation premiums	7,497	(409)	7,088
Liabilities released for payments on benefits and claims	(1,141)	49	(1,092)
Accretion of investment income	1,873	(56)	1,817
Other movements	3,564	(89)	3,475

Group	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 29)	Net
At 31 December 2006	51,310	(1,771)	49,539
Valuation premiums	8,885	(895)	7,990
Liabilities released for payments on benefits and claims	(1,477)	79	(1,398)
Accretion of investment income	2,401	(81)	2,320
Other movements	10,327	248	10,575
At 31 December 2007	71,446	(2,420)	69,026
Valuation premiums	10,407	(1,158)	9,249
Liabilities released for payments on benefits and claims	(1,918)	113	(1,805)
Accretion of investment income	2,858	(109)	2,749
Other movements	(3,155)	573	(2,582)
At 31 December 2008	79,638	(3,001)	76,637
Valuation premiums	6,574	(925)	5,649
Liabilities released for payments on benefits and claims	(1,003)	112	(891)
Accretion of investment income	1,638	(64)	1,574
Other movements	3,079	142	3,221
At 30 June 2009	89,926	(3,736)	86,190

Movements of investment type insurance contract liabilities

Group	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 29)	Net
At 1 January 2006	67,160	—	67,160
Deposits received	21,217	—	21,217
Deposits released for payments on benefits and claims	(3,608)	—	(3,608)
Fees deducted	(2,773)	—	(2,773)
Interest credited	2,660	—	2,660
Effect of net unrealised gains on investments through equity (shadow accounting adjustment) and others	399	—	399
At 31 December 2006	85,055	—	85,055
Deposits received	32,451	—	32,451
Deposits released for payments on benefits and claims	(11,681)	—	(11,681)
Fees deducted	(3,480)	—	(3,480)
Interest credited	3,511	—	3,511
Effect of net unrealised gains on investments through equity (shadow accounting adjustment) and others	1,020	—	1,020
At 31 December 2007	106,876	—	106,876
Deposits received	44,488	—	44,488
Deposits released for payments on benefits and claims	(19,529)	—	(19,529)
Fees deducted	(4,350)	—	(4,350)
Interest credited	4,748	—	4,748
Effect of net unrealised gains on investments through equity (shadow accounting adjustment) and others	303	—	303
At 31 December 2008	132,536	—	132,536
Deposits received	20,808	—	20,808
Deposits released for payments on benefits and claims	(9,602)	—	(9,602)
Fees deducted	(2,727)	—	(2,727)
Interest credited	2,413	—	2,413
Effect of net unrealised gains on investments through equity (shadow accounting adjustment) and others	373	—	373
At 30 June 2009	143,801	—	143,801

(b) Short-term life insurance contract liabilities

Movements of unearned premiums

Group	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 29)	Net
At 1 January 2006	1,090	(524)	566
Premiums written	2,385	(1,117)	1,268
Premiums earned	(2,287)	1,071	(1,216)
At 31 December 2006	1,188	(570)	618
Premiums written	2,633	(764)	1,869
Premiums earned	(2,484)	915	(1,569)
At 31 December 2007	1,337	(419)	918
Premiums written	2,838	(866)	1,972
Premiums earned	(2,749)	841	(1,908)
At 31 December 2008	1,426	(444)	982
Premiums written	1,706	(444)	1,262
Premiums earned	(1,514)	459	(1,055)
At 30 June 2009	1,618	(429)	1,189

Movements of claim reserves

Group	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 29)	Net
At 1 January 2006	282	(97)	185
Claims incurred	855	(529)	326
Claims paid	(831)	474	(357)
At 31 December 2006	306	(152)	154
Claims incurred	942	(479)	463
Claims paid	(843)	475	(368)
At 31 December 2007	405	(156)	249
Claims incurred	1,011	(381)	630
Claims paid	(946)	398	(548)
At 31 December 2008	470	(139)	331
Claims incurred	402	(255)	147
Claims paid	(434)	265	(169)
At 30 June 2009	438	(129)	309

(c) Property and casualty insurance contracts liabilities

Movements of unearned premiums

Group	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 29)	Net
At 1 January 2006	8,785	(1,796)	6,989
Premiums written	18,197	(4,257)	13,940
Premiums earned	(16,161)	3,787	(12,374)
At 31 December 2006	10,821	(2,266)	8,555
Premiums written	23,549	(5,015)	18,534
Premiums earned	(21,632)	4,735	(16,897)
At 31 December 2007	12,738	(2,546)	10,192
Premiums written	27,924	(6,411)	21,513
Premiums earned	(26,142)	5,867	(20,275)
At 31 December 2008	14,520	(3,090)	11,430
Premiums written	18,682	(4,169)	14,513
Premiums earned	(14,579)	3,119	(11,460)
At 30 June 2009	18,623	(4,140)	14,483

Movements of claim reserves

Group	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 29)	Net
At 1 January 2006	5,317	(1,565)	3,752
Claims incurred	10,118	(2,644)	7,474
Claims paid	(8,691)	1,733	(6,958)
At 31 December 2006	6,744	(2,476)	4,268
Claims incurred	12,872	(2,767)	10,105
Claims paid	(10,902)	2,403	(8,499)
At 31 December 2007	8,714	(2,840)	5,874
Claims incurred	17,411	(4,098)	13,313
Claims paid	(15,957)	4,001	(11,956)
At 31 December 2008	10,168	(2,937)	7,231
Claims incurred	8,757	(1,543)	7,214
Claims paid	(8,791)	1,849	(6,942)
At 30 June 2009	10,134	(2,631)	7,503

37. INVESTMENT CONTRACT LIABILITIES

Group	As at 31 December 2006	2007	2008	As at 30 June 2009
Investment contract liabilities	7,449	4,554	3,039	2,632
Reinsurers' share of investment contract liabilities (note 29)	—	—	—	—
	7,449	4,554	3,039	2,632

Movements of investment contract liabilities

Group	Investment contract liabilities	Reinsurers' share of investment contract liabilities (note 29)	Net
At 1 January 2006	11,201	(6)	11,195
Deposits received	1,787	—	1,787
Deposits withdrawn	(5,636)	6	(5,630)
Fees deducted	(124)	—	(124)
Interest credited	221	—	221
At 31 December 2006	7,449	—	7,449
Deposits received	1,041	—	1,041
Deposits withdrawn	(4,018)	—	(4,018)
Fees deducted	(83)	—	(83)
Interest credited	165	—	165
At 31 December 2007	4,554	—	4,554
Deposits received	719	—	719
Deposits withdrawn	(2,263)	—	(2,263)
Fees deducted	(73)	—	(73)
Interest credited	102	—	102
At 31 December 2008	3,039	—	3,039
Deposits received	491	—	491
Deposits withdrawn	(885)	—	(885)
Fees deducted	(51)	—	(51)
Interest credited	38	—	38
At 30 June 2009	2,632	—	2,632

38. SUBORDINATED DEBT

	As at 31 December			As at 30 June
Group	**2006**	**2007**	**2008**	**2009**
Subordinated debt	2,038	2,113	2,188	2,226

With CIRC's approval, CPLIC issued RMB2,000 million of callable subordinated debt to Agricultural Bank of China on 29 June 2006. These are 10-year fixed rate subordinated debt maturing in 2016, bearing a coupon rate of 3.75% per annum. CPLIC has the option to redeem all or part of the debt at face value on 29 June 2011. If CPLIC does not exercise this option on that date, the annual coupon rate will increase to 5.75% thereafter. CPLIC expects to redeem the debt in full on 29 June 2011.

39. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

	As at 31 December			As at 30 June
Group	**2006**	**2007**	**2008**	**2009**
Bonds				
Stock exchange	416	428	3,020	—
Inter-bank market	2,704	11,360	4,000	22,435
	3,120	11,788	7,020	22,435

As at 30 June 2009, bond investments of approximately RMB22,435 million (31 December 2008: RMB7,020 million; 31 December 2007: RMB11,788 million; 31 December 2006: RMB3,185 million) were used as securities sold under agreements to repurchase, among which bond investments of approximately RMB22,000 million were pledged as at 30 June 2009 (31 December 2008: RMB7,020 million; 31 December 2007: RMB11,788 million; 31 December 2006: RMB3,185 million). Securities sold under agreements to repurchase are generally repurchased within 12 months from the date the securities are sold.

40. PROVISIONS

Group	As at 31 December 2006	2007	2008	As at 30 June 2009
Provision for the Institute (note 51)	305	87	94	94
Provision for lawsuits (note 49)	680	315	4	4
	985	402	98	98

Company	As at 31 December 2006	2007	2008	As at 30 June 2009
Provision for the Institute (note 51)	305	87	94	94

41. DEFERRED REVENUE

Group	As at 31 December 2006	2007	2008	As at 30 June 2009
Beginning of year/period	5,683	3,711	4,018	9,469
Fee deferred	1,819	2,416	3,037	1,761
Amortization in income statement	(2,059)	(1,986)	(134)	(774)
Unrealized (gains)/losses	(1,732)	(123)	2,548	(644)
End of year/period	3,711	4,018	9,469	9,812
Deferred revenue excluding unrealised (gains)/losses	5,829	6,259	9,162	10,149
Deferred revenue recorded in unrealised (gains)/losses	(2,118)	(2,241)	307	(337)
	3,711	4,018	9,469	9,812

42. OTHER LIABILITIES

Group	As at 31 December 2006	2007	2008	As at 30 June 2009
Salary and staff welfare payable	815	1,065	993	966
Commission and brokerage payable	632	804	829	1,186
Annuity and other insurance payables	708	1,234	1,644	1,896
Co-insurance payable	—	—	291	270
Payables for purchase of office buildings	314	163	48	6
Payables for securities clearance	215	—	—	349
Tax payable other than income tax	239	191	265	397
Accrued expenses	167	210	183	309
Insurance guarantee fund	58	105	120	127
Dividend payable	13	14	25	411
Others	518	813	760	870
	3,679	4,599	5,158	6,787

Company	As at 31 December 2006	2007	2008	As at 30 June 2009
Salary and staff welfare payable	97	132	101	101
Payables for purchase of office buildings	297	—	—	—
Payables for securities clearance	215	—	—	—
Dividend payable	—	—	—	382
Others	138	167	140	157
	747	299	241	640

43. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS — ASSUMPTIONS AND SENSITIVITIES

(a) Long-term life insurance contracts

Key assumptions

Material judgements are required in the process of determining the liabilities and making the choice of assumptions. Assumptions in use are based on past experience, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information.

Life insurance contract estimates are either based on current assumptions or calculated using the assumptions established at the time the contract was issued, in which case a margin for risk and adverse deviation is generally included for long-term traditional insurance contracts. Assumptions are made in relation to future deaths, voluntary terminations, investment returns and administration expenses. If the liabilities are not adequate, the assumptions are altered to reflect the current estimates.

The key assumptions to which the estimation of liabilities is particularly sensitive are as follows:

- Mortality and morbidity rates

  Assumptions are based on standard industry and national tables, according to the type of contract written and the territory in which the insured person resides, reflecting recent historical experience and are adjusted when appropriate to reflect the Group's own experiences. Assumptions are differentiated by sex, underwriting class and contract type.

  For long-term life insurance policies, an increase in rates will lead to a larger number of claims and claims that could occur sooner than anticipated, which will increase long-term life insurance contract liabilities and reduce profits for the shareholders.

  For annuity contracts, a high mortality will decrease payments, thereby decreasing long-term life insurance contract liabilities and increasing profits for the shareholders.

- Investment return

  The weighted average rate of return is derived based on a model portfolio that is assumed to back liabilities, consistent with the long-term asset allocation strategy. These estimates are based on the current market returns as well as expectations about future economic and financial developments.

  The best estimate investment return assumption grades from 4.1% per annum in 2006 to 5.2% per annum in 2014.

  An increase in investment return would lead to a decrease in long-term life insurance contract liabilities and an increase in profits for the shareholders.

- Expenses

  Operating expense assumptions reflect the projected costs of maintaining and servicing in force policies. The assumption for policy administration expense is determined based on expected unit costs. Unit costs have been based on an analysis of actual experience.

  An increase in the level of expenses would result in an increase in long-term life insurance contract liabilities, thereby reducing profits for the shareholders.

- Lapse and surrender rates

  Lapses relate to the termination of policies due to non-payment of premiums. Surrenders relate to the voluntary termination of policies by policyholders. Policy termination assumptions are determined using statistical measures based on the Group's experience and vary by product type, policy duration and sale trend.

  An increase in lapse rates that occurs early in the life of the policy would tend to reduce profits for the shareholders, but those that occur later in the life of the policy are broadly neutral in terms of their effect to the results of the Group.

Change in assumptions

The assumptions used to estimate the liabilities of the Group's long-term life insurance contracts require judgement and are subject to uncertainty. In 2006, the long-term life insurance contract liabilities increased by RMB785 million mainly due to the loss recognition triggered by the changes in assumption for lapse rate of certain non-participating group life insurance contracts. In 2007, there were further changes in lapse rate assumptions of certain non-participating group life insurance contracts, which resulted in loss recognition and additional liabilities recognised of RMB173 million.

Sensitivities

The analysis below is performed to show the reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross long-term life insurance contract liabilities. The correlation of assumptions will have a significant effect in determining the ultimate liabilities; however, for the purpose of demonstrating the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear. For long-term traditional insurance contracts, the assumption changes apply to both lock-in assumption and current best estimate assumption. For long-term investment type insurance contracts, the impact of assumption change to liabilities would only realise if the liabilities fail the liability adequacy test.

	As at 31 December 2006		
	Change in assumptions	Impact on gross long-term life insurance contract liabilities	Impact of assumption change as a percentage of relevant gross long-term life insurance contract liabilities
Mortality and morbidity rates	+10%	10	0.01%
Investment return	+25 basis points	(1,297)	(0.97)%
Investment return	–25 basis points	1,355	1.02%
Expenses	+10%	74	0.06%
Lapse and surrender rates	–10%	34	0.03%

	As at 31 December 2007		
	Change in assumptions	Impact on gross long-term life insurance contract liabilities	Impact of assumption change as a percentage of relevant gross long-term life insurance contract liabilities
Mortality and morbidity rates	10%	19	0.01%
Investment return	+ 25 basis points	(1,727)	(1.08)%
Investment return	–25 basis points	1,817	1.14%
Expenses	10%	91	0.06%
Lapse and surrender rates	–10%	(12)	(0.01)%

	As at 31 December 2008		
	Change in assumptions	Impact on gross long-term life insurance contract liabilities	Impact of assumption change as a percentage of relevant gross long-term life insurance contract liabilities
Mortality and morbidity rates	10%	40	0.02%
Investment return	+25 basis points	(1,858)	(0.96)%
Investment return	–25 basis points	1,937	1.00%
Expenses	10%	105	0.05%
Lapse and surrender rates	–10%	24	0.01%

	As at 30 June 2009		
	Change in assumptions	Impact on gross long-term life insurance contract liabilities	Impact of assumption change as a percentage of relevant gross long-term life insurance contract liabilities
Mortality and morbidity rates	10%	59	0.03%
Investment return	+ 25 basis points	(1,992)	(0.94)%
Investment return	–25 basis points	2,075	0.98%
Expenses	10%	115	0.05%
Lapse and surrender rates	–10%	47	0.02%

The sensitivity analysis also does not take into account the fact that the assets and liabilities are actively managed and may vary at the time that any actual market movement occurs.

Other limitations in the above analysis include the use of hypothetical market movements to demonstrate potential risk and the assumption that interest rates move in identical fashion.

(b) Property and casualty and short-term life insurance contracts

Key assumptions

The principal assumption underlying the estimates is the Group's past claim development experience. This includes assumptions in respect of average claim costs, claims handling costs, claims inflation factors and claim numbers for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example one-off occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as changes in internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key assumptions include delays in settlement, etc.

Sensitivities

The property and casualty and short-term life insurance claim reserves are sensitive to the above key assumptions. The sensitivity of certain variables like legislative changes, uncertainty in the estimation process, is not possible to quantify. Furthermore, because of delays that arise between occurrence of a claim and its subsequent notification and eventual settlement, the outstanding claim reserves are not known with certainty at the balance sheet date.

To illustrate the sensitivities of ultimate claim costs, for example, a respective percentage change in average claim costs or the number of claims alone results in a similar percentage change in claim reserves. In other words, while other assumptions remain unchanged, a 5% increase in average claim costs would increase net claim reserves for property and casualty insurance and short-term life insurance as at 30 June 2009 by RMB375 million and RMB15 million (31 December 2008: RMB362 million and RMB17 million; 31 December 2007: RMB294 million and RMB12 million; 31 December 2006: RMB213 million and RMB8 million), respectively.

Claim development tables

The following tables reflect the cumulative incurred claims, including both claims notified and incurred but not reported for each successive accident year at each balance sheet date, together with cumulative payments to date.

Gross property and casualty insurance claim reserves:

	Accident year/period at end of					
Estimate of ultimate claim cost	**31 December 2005**	**31 December 2006**	**31 December 2007**	**31 December 2008**	**30 June 2009**	**Total**
Accident year	8,748	10,431	13,270	18,631	8,979	
One year later	8,345	10,017	12,725	18,565		
Two years later	8,231	9,499	12,632			
Three years later	8,082	9,467				
Four years later	8,088					
Current estimate of cumulative claims	8,088	9,467	12,632	18,565	8,979	57,731
Cumulative payments to date	(7,991)	(9,206)	(11,792)	(15,221)	(3,793)	(48,003)
Liability recognised in the consolidated balance sheets	97	261	840	3,344	5,186	9,728
Liability in respect of prior years and unallocated loss adjustment expenses						406
Total gross claim reserves included in the consolidated balance sheets						10,134

Net property and casualty insurance claim reserves:

	Accident year/period at end of					
Estimate of ultimate claim cost	**31 December 2005**	**31 December 2006**	**31 December 2007**	**31 December 2008**	**30 June 2009**	**Total**
Accident year	6,600	7,518	10,459	14,036	7,176	
One year later	6,390	7,233	10,108	14,031		
Two years later	6,349	7,104	10,048			
Three years later	6,285	7,094				
Four years later	6,283					
Current estimate of cumulative claims	6,283	7,094	10,048	14,031	7,176	44,632
Cumulative payments to date	(6,223)	(6,942)	(9,461)	(11,677)	(3,117)	(37,420)
Liability recognised in the consolidated balance sheets	60	152	587	2,354	4,059	7,212
Liability in respect of prior years and unallocated loss adjustment expenses						292
Total net claim reserves included in the consolidated balance sheets						7,504

Gross short-term life insurance claim reserves:

Estimate of ultimate claim cost	Accident year/period at end of 31 December 2005	31 December 2006	31 December 2007	31 December 2008	30 June 2009	Total
Accident year	722	772	909	1,005	433	
One year later	865	881	920	1,013		
Two years later	873	870	901			
Three years later	837	847				
Four years later	837					
Current estimate of cumulative claims	837	847	901	1,013	433	4,031
Cumulative payments to date	(836)	(837)	(850)	(871)	(199)	(3,593)
Total gross claim reserves included in the consolidated balance sheets						438

Net short-term life insurance claim reserves:

Estimate of ultimate claim cost	Accident year/period at end of 31 December 2005	31 December 2006	31 December 2007	31 December 2008	30 June 2009	Total
Accident year	451	386	545	711	315	
One year later	541	441	558	711		
Two years later	546	440	542			
Three years later	523	423				
Four years later	523					
Current estimate of cumulative claims	523	423	542	711	315	2,514
Cumulative payments to date	(523)	(418)	(510)	(610)	(144)	(2,205)
Total net claim reserves included in the consolidated balance sheets						309

44. RISK MANAGEMENT

(a) Insurance risk

The principal risk the Group faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Group is to ensure that sufficient reserves are available to cover these liabilities.

Insurance risk could occur due to any of the following factors:

Occurrence risk — the possibility that the number of insured events will differ from that expected.

Severity risk — the possibility that the cost of the events will differ from that expected.

Development risk — the possibility that changes may occur in the amount of an insurer's obligation at the end of the contract period.

The above risk exposure is mitigated by the diversification across a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by change in any subset of the portfolio. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines, as well as the use of reinsurance arrangements.

The businesses of the Group mainly comprise long-term life insurance contracts, short-term life insurance contracts and property and casualty insurance contracts. For contracts where death is the insured risk, the significant factors that could increase the overall frequency of claims are epidemics, widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected. For contracts where survival is the insured risk, the most significant factor is continued improvement in medical science and social conditions that would increase longevity. For property and casualty insurance contracts, claims are often affected by natural disasters, calamities, terrorist attacks, etc.

There would be no significant mitigating terms and conditions that reduce the insured risk accepted for contracts with fixed and guaranteed benefits and fixed future premiums. Insurance risk is also affected by the policyholders' rights to terminate the contract, to pay reduced premiums, to refuse to pay premiums or to avail the guaranteed annuity option. Thus, the resultant insurance risk is subject to the policyholders' behaviour and decisions.

The Group manages insurance risks through reinsurance to reduce the effect of potential losses to the Group. Two major types of reinsurance agreements, ceding on a quota share basis or a surplus basis, are usually used to cover insurance liability risk, with retention limits varying by product line and territory. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claim provisions and are in accordance with the reinsurance contracts. Although the Group has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Group's placement of reinsurance is diversified such that neither it is dependent on a single reinsurer nor are the operations of the Group substantially dependent upon any single reinsurance contract.

Currently, the Group's insurance risk does not vary significantly in relation to the locations of the risks insured by the Group whilst undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

The Group's concentration of insurance risk is reflected by its major lines of business as analysed by premium income in note 5.

(b) Financial risk

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk, which arise from foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk).

The following policies and procedures are in place to mitigate the Group's exposure to market risk:

- A group market risk policy setting out the assessment and determination of what constitutes market risk for the Group. Compliance with the policy is monitored and exposures and breaches are reported to the Group risk management committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.
- Asset allocation and portfolio limit structure, which ensures that assets back specific policyholder liabilities and that assets are held to deliver income and gains for policyholders which are in line with expectations of the policyholders.
- Strict control over hedging activities.

(i) Currency risk

Currency risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group operates principally in Mainland China with only limited exposure to foreign exchange rate risk arising primarily from certain foreign currency insurance policies, bank deposits and securities denominated in United States dollar ("USD") or Hong Kong dollar ("HKD").

The following tables summarise the Group's exposure to foreign currency exchange rate risk at the balance sheet date by categorising all financial assets and liabilities by major currencies.

	As at 31 December 2006			
	RMB	USD	HKD	Total
Financial assets at fair value through profit or loss	4,758	—	—	4,758
Held-to-maturity financial assets	36,782	—	97	36,879
Available-for-sale financial assets	67,795	—	635	68,430
Investments classified as loans and receivables	7,726	—	—	7,726
Term deposits	53,125	603	127	53,855
Reinsurance assets	7,247	—	—	7,247
Others	7,897	581	12	8,490
Cash and short-term time deposits	7,025	3,069	48	10,142
	192,355	4,253	919	197,527
Subordinated debt	2,038	—	—	2,038
Securities sold under agreements to repurchase	3,120	—	—	3,120
Policyholders' deposits	11,315	—	—	11,315
Insurance contract liabilities	155,607	—	—	155,607
Investment contract liabilities	7,449	—	—	7,449
Others	6,448	364	29	6,841
	185,977	364	29	186,370

	As at 31 December 2007			
	RMB	USD	HKD	Total
Financial assets at fair value through profit or loss	2,463	—	—	2,463
Held-to-maturity financial assets	58,028	71	21	58,120
Available-for-sale financial assets	119,980	13	1,874	121,867
Investments classified as loans and receivables	13,923	—	—	13,923
Term deposits	58,417	778	67	59,262
Reinsurance assets	8,395	—	—	8,395
Others	13,709	656	13	14,378
Cash and short-term time deposits	22,632	701	289	23,622
	297,547	2,219	2,264	302,030
Subordinated debt	2,113	—	—	2,113
Securities sold under agreements to repurchase	11,788	—	—	11,788
Policyholders' deposits	6,913	—	—	6,913
Insurance contract liabilities	201,979	—	—	201,979
Investment contract liabilities	4,554	—	—	4,554
Others	7,945	476	10	8,431
	235,292	476	10	235,778

	As at 31 December 2008			
	RMB	USD	HKD	Total
Financial assets at fair value through profit or loss	1,166	—	—	1,166
Held-to-maturity financial assets	70,912	13	55	70,980
Available-for-sale financial assets	95,738	2	402	96,142
Investments classified as loans and receivables	16,532	—	—	16,532
Term deposits	82,556	138	62	82,756
Reinsurance assets	9,627	—	—	9,627
Others	11,589	1,271	7	12,867
Cash and short-term time deposits	15,810	863	840	17,513
	303,930	2,287	1,366	307,583
Subordinated debt	2,188	—	—	2,188
Securities sold under agreements to repurchase	7,020	—	—	7,020
Policyholders' deposits	576	—	—	576
Insurance contract liabilities	239,467	—	—	239,467
Investment contract liabilities	3,039	—	—	3,039
Others	9,903	996	4	10,903
	262,193	996	4	263,193

	As at 30 June 2009			
	RMB	USD	HKD	Total
Financial assets at fair value through profit or loss	416	—	—	416
Held-to-maturity financial assets	81,774	145	—	81,919
Available-for-sale financial assets	112,335	178	1,059	113,572
Investments classified as loans and receivables	22,346	—	—	22,346
Term deposits	90,832	202	27	91,061
Reinsurance assets	11,082	—	—	11,082
Others	14,639	1,205	19	15,863
Cash and short-term time deposits	17,713	595	426	18,734
	351,137	2,325	1,531	354,993
Subordinated debt	2,226			2,226
Securities sold under agreements to repurchase	22,435	—	—	22,435
Policyholders' deposits	94	—	—	94
Insurance contract liabilities	265,326	—	—	265,326
Investment contract liabilities	2,632	—	—	2,632
Others	12,470	1,072	3	13,545
	305,183	1,072	3	306,258

The Group has no significant concentration of currency risk.

Sensitivities

The analysis below is performed to show the reasonably possible movements in foreign currency exchange rate with all other assumptions held constant, showing the pre-tax impact on profit before tax of the Group (due to changes in fair value of currency sensitive monetary assets and liabilities) and equity of the Group when the foreign exchange rate of USD and HKD vary. The correlation of variables will have a significant effect in determining the ultimate impact on currency risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis.

		31 December 2006	
Currency	Changes in exchange rate	Impact on profit before tax	Impact on equity
USD	+ 5%	194	194
USD	– 5%	(194)	(194)
HKD	+ 5%	13	13
HKD	– 5%	(13)	(13)

Currency	Changes in exchange rate	31 December 2007 Impact on profit before tax	31 December 2007 Impact on equity
USD	+ 5%	87	87
USD	– 5%	(87)	(87)
HKD	+ 5%	19	19
HKD	– 5%	(19)	(19)

Currency	Changes in exchange rate	31 December 2008 Impact on profit before tax	31 December 2008 Impact on equity
USD	+ 5%	64	64
USD	– 5%	(64)	(64)
HKD	+ 5%	48	48
HKD	– 5%	(48)	(48)

Currency	Changes in exchange rate	30 June 2009 Impact on profit before tax	30 June 2009 Impact on equity
USD	+ 5%	63	63
USD	– 5%	(63)	(63)
HKD	+ 5%	25	25
HKD	– 5%	(25)	(25)

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Floating rate instruments expose the Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value interest risk.

The Group's interest risk policy requires it to manage interest rate risk by maintaining an appropriate match of fixed and variable rate instruments. The policy also requires it to manage the maturity of interest-bearing financial assets and interest-bearing financial liabilities. Interest on floating rate instruments is repriced when benchmark interest rates change. Interest on other instruments is either fixed during its term or repriced at intervals of less than one year if the benchmark interest rates change.

The Group has no significant concentration of interest rate risk.

The analysis below is performed to show the reasonably possible movements in interest rate with all other assumptions held constant, showing the impact on profit before tax of the Group (due to change in interest income and change in fair values of financial assets and liabilities whose fair value are recorded in the consolidated income statement) and equity of the Group (that reflects adjustments to profit before tax and changes in fair value of available-for-sale financial assets). The correlation of variables will have a significant effect in determining the ultimate impact on interest rate risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

Since almost all financial instruments of the Group that bear interest rate risks are financial instruments denominated in RMB, the sensitivity analysis below only shows the pre-tax impact of RMB financial instruments on the Group's profit before tax and equity when RMB interest rate changes.

Changes in RMB interest rate	31 December 2006 Impact on profit before tax	31 December 2006 Impact on equity
+ 50 basis points	229	(824)
– 50 basis points	(229)	824

Changes in RMB interest rate	31 December 2007	
	Impact on profit before tax	Impact on equity
+ 50 basis points	349	(566)
– 50 basis points	(349)	656

Changes in RMB interest rate	31 December 2008	
	Impact on profit before tax	Impact on equity
+ 50 basis points	302	(468)
– 50 basis points	(301)	541

Changes in RMB interest rate	30 June 2009	
	Impact on profit before tax	Impact on equity
+ 50 basis points	324	(541)
– 50 basis points	(324)	583

Since carrying amounts of most investment contracts of the Group and interest credited to those contracts would not change even if the market interest rate had changed, in respect of investment contracts, changes in market interest rates by 50 basis points would not result in significant impact on the profit before tax and equity of the Group.

(iii) Price risk

Equity price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Group's price risk policy requires it to manage such risk by setting and monitoring objectives and constraints on investments, diversification plans, and limits on investment type.

The Group's equity price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices, principally investment funds and equity securities. The Group uses 5-day market price value-at-risk ("VAR") technique to estimate its risk exposure for listed equity securities and equity investment funds. The Group adopts 5 days as the holding period on the assumption that not all the investments can be sold in one day. Moreover, the VAR calculation is made based on normal market condition and a 95% confidence level impact on equity for listed equity securities and equity investments funds with 5-day reasonable market fluctuation and with 95% confidence level. The Group began to adopt the VAR technique to estimate its price risk from 2007.

As at 30 June 2009, the estimated impact on equity for listed equity securities and equity investment funds, using the VAR technique and the assumptions above in the normal market is RMB2,284 million (31 December 2008: RMB1,194 million; 31 December 2007: RMB4,120 million).

Credit risk

Credit risk is the risk that one party to a financial instrument (debt instrument) or reinsurance asset will cause a financial loss to the other party by failing to discharge an obligation.

The Group is exposed to credit risks primarily associated with its deposit arrangements with commercial banks, investments in bonds, reinsurance arrangements with reinsurers, premium receivables, securities purchased under agreements to resell and policy loans.

Majority of the Group's financial assets are bond investments which include government bonds, finance bonds and corporate bonds. The finance bonds have high domestic credit rating and the corporate bonds are guaranteed mainly by financial institutions with high domestic credit rating. Hence, the related credit risk should be regarded as relatively low.

For securities purchased under agreements to resell and policy loans, there is security pledge and the maturity period is less than one year. Hence, the related credit risk should not have significant impact on the Group's financial statements.

The Group mitigates credit risk by utilising credit control policies, undertaking credit analysis on potential investments, and imposing aggregate counterparty exposure limits.

The table below shows the maximum exposure to credit risk for the assets subject to credit risk. The maximum exposure is shown gross, before the effect of mitigation through any collateral held or other credit enhancements.

	As at 31 December			As at 30 June
	2006	2007	2008	2009
Financial assets at fair value through profit or loss	101	54	87	102
Held-to-maturity financial assets	36,879	58,120	70,980	81,919
Available-for-sale financial assets	46,744	59,133	82,294	82,212
Investments classified as loans and receivables	7,726	13,923	16,532	22,346
Term deposits	53,855	59,262	82,756	91,061
Reinsurance assets	7,247	8,395	9,627	11,082
Insurance receivables	3,177	3,711	4,303	5,017
Others	5,503	10,668	8,564	10,846
Cash and short-term time deposits	10,136	23,618	17,508	18,724
Total credit risk exposure	171,368	236,884	292,651	323,309

The above asset account balances did not include equity investment balances.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or a counterparty failing to repay a contractual obligation; or an insurance liability falling due for payment earlier than expected; or the inability to generate cash inflows as anticipated.

The Group is exposed to liquidity risk on insurance policies that permit surrenders, withdrawals or other forms of early termination. The Group seeks to manage its liquidity risk by matching, to the extent possible, the duration of its investment assets with the duration of its insurance policies and ensuring that the Group is able to meet its payment obligations and fund its lending and investment operations on a timely basis.

The following policies and procedures are in place to mitigate the Group's exposure to liquidity risk:

- Implementing group liquidity risk policy by setting out the assessment and determination of what constitutes liquidity risk for the Group. Compliance with the policy is monitored and exposures and breaches are reported to the Group risk management committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.

- Setting out guidelines on asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure that sufficient funding is available to meet insurance and investment contract obligations.

- Setting up contingency funding plans which specify the minimum proportions of funds to meet emergency calls as well as specifying events that would trigger such plans.

The tables below summarise the maturity profiles of the financial liabilities of the Group based on remaining undiscounted contractual obligations and insurance contract liabilities of the Group based on the estimated timing of the net cash outflows. Repayments which are subject to notices are treated as if notices were to be given immediately.

	As at 31 December 2006			
	Up to one year*	1 to 5 years	Over 5 years	Total
Insurance contract liabilities	22,537	44,340	88,730	155,607
Investment contract liabilities	7,449	—	—	7,449
Subordinated debt	—	2,375	—	2,375
Securities sold under agreements to repurchase	3,123	—	—	3,123
Policyholders' deposits	11,315	—	—	11,315
Others	6,743	86	9	6,838
Total	51,167	46,801	88,739	186,707

	As at 31 December 2007			
	Up to one year*	1 to 5 years	Over 5 years	Total
Insurance contract liabilities	43,013	33,912	125,054	201,979
Investment contract liabilities	4,554	—	—	4,554
Subordinated debt	—	2,375	—	2,375
Securities sold under agreements to repurchase	11,795	—	—	11,795
Policyholders' deposits	6,913	—	—	6,913
Others	8,112	249	63	8,424
Total	74,387	36,536	125,117	236,040

	As at 31 December 2008			
	Up to one year*	1 to 5 years	Over 5 years	Total
Insurance contract liabilities	28,201	31,952	179,314	239,467
Investment contract liabilities	298	255	2,486	3,039
Subordinated debt	—	2,375	—	2,375
Securities sold under agreements to repurchase	7,021	—	—	7,021
Policyholders' deposits	576	—	—	576
Others	10,378	510	15	10,903
Total	46,474	35,092	181,815	263,381

	As at 30 June 2009			
	Up to one year*	1 to 5 years	Over 5 years	Total
Insurance contract liabilities	37,620	24,992	202,714	265,326
Investment contract liabilities	411	247	1,974	2,632
Subordinated debt	—	2,375	—	2,375
Securities sold under agreements to repurchase	22,458	—	—	22,458
Policyholders' deposits	94	—	—	94
Others	12,994	531	14	13,539
Total	73,577	28,145	204,702	306,424

* Either due up to one year or payable on demand.

The table below summarises the expected utilisation or settlement of assets and liabilities.

	As at 31 December 2006		
	Current	Non-current	Total
Assets:			
Financial assets at fair value through profit or loss	4,758	—	4,758
Held-to-maturity financial assets	1,517	35,362	36,879
Available-for-sale financial assets	21,938	46,492	68,430
Investments classified as loans and receivables	—	7,726	7,726
Term deposits	14,758	39,097	53,855
Others	18,314	13,805	32,119
Cash and short-term time deposits	10,142	—	10,142
Total assets	71,427	142,482	213,909
Liabilities			
Insurance contract liabilities	22,537	133,070	155,607
Investment contract liabilities	7,449	—	7,449
Subordinated debt	—	2,038	2,038
Securities sold under agreements to repurchase	3,120	—	3,120
Policyholders' deposits	11,315	—	11,315
Others	6,270	10,546	16,816
Total liabilities	50,691	145,654	196,345

	As at 31 December 2007		
	Current	Non-current	Total
Assets:			
Financial assets at fair value through profit or loss	2,463	—	2,463
Held-to-maturity financial assets	532	57,588	58,120
Available-for-sale financial assets	70,158	51,709	121,867
Investments classified as loans and receivables	—	13,923	13,923
Term deposits	20,381	38,881	59,262
Others	29,346	13,738	43,084
Cash and short-term time deposits	23,622	—	23,622
Total assets	146,502	175,839	322,341
Liabilities			
Insurance contract liabilities	43,013	158,966	201,979
Investment contract liabilities	4,554	—	4,554
Subordinated debt	—	2,113	2,113
Securities sold under agreements to repurchase	11,788	—	11,788
Policyholders' deposits	6,913	—	6,913
Others	11,116	11,222	22,338
Total liabilities	77,384	172,301	249,685

	As at 31 December 2008		
	Current	Non-current	Total
Assets:			
Financial assets at fair value through profit or loss	1,166	—	1,166
Held-to-maturity financial assets	2,406	68,574	70,980
Available-for-sale financial assets	22,674	73,468	96,142
Investments classified as loans and receivables	4,435	12,097	16,532
Term deposits	212	82,544	82,756
Others	20,694	32,167	52,861
Cash and short-term time deposits	17,513	—	17,513
Total assets	69,100	268,850	337,950
Liabilities			
Insurance contract liabilities	28,357	211,110	239,467
Investment contract liabilities	298	2,741	3,039
Subordinated debt	—	2,188	2,188
Securities sold under agreements to repurchase	7,020	—	7,020
Policyholders' deposits	576	—	576
Others	16,756	8,878	25,634
Total liabilities	53,007	224,917	277,924

	As at 30 June 2009		
	Current	Non-current	Total
Assets:			
Financial assets at fair value through profit or loss	416	—	416
Held-to-maturity financial assets	4,746	77,173	81,919
Available-for-sale financial assets	41,885	71,687	113,572
Investments classified as loans and receivables	5,297	17,049	22,346
Term deposits	7,627	83,434	91,061
Others	25,396	33,530	58,926
Cash and short-term time deposits	18,734	—	18,734
Total assets	104,101	282,873	386,974

	As at 30 June 2009		
	Current	Non-current	Total
Liabilities			
Insurance contract liabilities	37,620	227,706	265,326
Investment contract liabilities	411	2,221	2,632
Subordinated debt	—	2,226	2,226
Securities sold under agreements to repurchase	22,435	—	22,435
Policyholders' deposits	94	—	94
Others	17,497	11,992	29,489
Total liabilities	78,057	244,145	322,202

(c) Operational risks

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss.

The Group is exposed to many types of operational risks in the conduct of its business, from inadequate or failure to obtain proper authorisations or supporting documentation to comply with operational and informational security procedures that prevent frauds or errors by employees.

The Group cannot expect to eliminate all operational risks, but by initiating a rigorous control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access controls, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit. Business risks such as changes in environment, technology and the industry are monitored through the Group's strategic planning and budgeting process.

(d) Mismatching risk of assets and liabilities

Assets and liabilities mismatching risk is the risk of loss due to the Group's inability to match its assets with its liabilities on the basis of duration, cash flow and investment return. Under the current regulatory and market environment, the Group is unable to invest in assets with a duration of sufficient length to match the duration of its life insurance liabilities. When the current regulatory and market environment permits, the Group will lengthen the duration of its assets and increase the profile of securities with fixed investment returns to narrow the gap of duration and investment returns of the existing liabilities.

In order to further enhance the management of matching of assets and liabilities, the Group set up, in April 2009, an Asset-Liability Management Committee. The committee has an asset-liability working group which analyzes the extent of assets and liabilities matching.

(e) Capital management risks

Externally imposed capital requirements are set and regulated by CIRC. These requirements are put in place to ensure sufficient solvency margins. Further objectives are set by the Group to maintain a strong credit rating and healthy solvency margin capital ratios in order to support its business objectives and maximise shareholders' value.

The Group manages its capital requirements by assessing shortfalls, if any, between reported and required capital levels on a regular basis. The Group has stepped up efforts to maintain a platform for sustained financing in order to meet solvency margin needs arising from future expansion in business activities. The Group continuously and proactively adjusts the business mix, optimises the asset allocation, improves the asset quality and enhances the operating efficiency so as to underscore the role of profitability in relation to solvency margin.

The solvency margins are computed based on the relevant regulations issued by CIRC; actual solvency margins are the excess of admitted assets over admitted liabilities as determined under the regulations. The admitted assets and liabilities for this purpose are computed mainly based on the assets and liabilities in the financial statements in accordance with the PRC GAAP, adjusted for a number of risk factors on a conservative basis. Minimum solvency margin represents the required capital that must be held to meet the payments of claims and other liabilities, which is computed by reference to such key indicators such as premium income, claim payments and insurance contract liabilities as determined under the PRC GAAP.

The table below summarises the minimum and actual solvency margins of the major insurance subsidiaries of the Group determined according to CIRC's solvency rules based on the audited accounts prepared by the Group in accordance with PRC GAAP as at 31 December 2007 and 2008, and 30 June 2009 (31 December 2006: prepared according to CIRC solvency rules based on the audited accounts prepared in accordance with the Previous PRC GAAP):

	As at 31 December			As at 30 June
CPPIC	**2006**	**2007**	**2008**	**2009**
Actual solvency margin	2,502	5,955	5,959	6,299
Minimum solvency margin	2,052	2,715	3,177	3,550
Surplus	450	3,240	2,782	2,749
Solvency margin ratio	122%	219%	188%	177%

	As at 31 December			As at 30 June
CPLIC	**2006**	**2007**	**2008**	**2009**
Actual solvency margin	4,201	23,570	24,035	25,285
Minimum solvency margin	7,119	8,507	10,291	11,305
Surplus/(deficiency)	(2,918)	15,063	13,744	13,980
Solvency margin ratio	59%	277%	234%	224%

According to relevant regulations, if the actual solvency margin of an insurance company falls below the minimum solvency margin, CIRC may put the insurance company under special supervision and take additional necessary measures depending on the circumstances, until the minimum solvency margin requirement is satisfied. Prior to 2007, CPLIC's actual solvency margin was lower than the minimum solvency margin. As a result, CPLIC was restricted from expanding its branch network and the Company was restricted from declaring and distributing dividends to its shareholders. This was corrected as a result of the CPLIC's continued profitability in recent years as well as increase in capital injections to CPLIC.

Following the adoption of the PRC GAAP effective from 1 January 2007, the recalculated actual and minimum solvency margins of CPPIC as at 1 January 2007 should be RMB3,112 million and RMB2,052 million respectively; and the recalculated actual and minimum solvency margins of CPLIC as at 1 January 2007 should be RMB9,712 million and RMB7,095 million respectively.

45. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value estimates are made at a specific point in time based on relevant market information and information about the various financial instruments. When an active market exists, such as an authorised securities exchange, the market value is the best reflection of the fair values of financial instruments. For financial instruments where there is no active market or when current market prices are not available, fair value is determined using valuation techniques (note 3.2(3)).

The Group's financial assets mainly include cash and short-term time deposits, policy loans, insurance receivables, securities purchased under agreements to resell, statutory deposits, investments and other assets.

The Group's financial liabilities mainly include securities sold under agreements to repurchase, policyholders' deposits, subordinated debt issued and other liabilities.

Fair value of financial assets and liabilities not carried at fair value

The following table summarises the carrying values and the fair values of held-to-maturity debt securities, subordinated debt, finance bonds and corporate bonds whose fair values are not presented in the consolidated balance sheets.

	As at 31 December 2006	
	Carrying Amounts	**Estimated fair Values**
Financial assets:		
Held-to-maturity financial assets	36,879	37,319
Investments classified as loans and receivables	7,726	7,735
Financial liabilities:		
Subordinated debt	2,038	1,698

	As at 31 December 2007	
	Carrying Amounts	Estimated fair Values
Financial assets:		
Held-to-maturity financial assets	58,120	54,625
Investments classified as loans and receivables	13,923	13,763
Financial liabilities:		
Subordinated debt	2,113	1,830

	As at 31 December 2008	
	Carrying Amounts	Estimated fair Values
Financial assets:		
Held-to-maturity financial assets	70,980	75,371
Investments classified as loans and receivables	16,532	17,189
Financial liabilities:		
Subordinated debt	2,188	2,217

	As at 30 June 2009	
	Carrying Amounts	Estimated fair Values
Financial assets:		
Held-to-maturity financial assets	81,919	83,344
Investments classified as loans and receivables	22,346	22,351
Financial liabilities:		
Subordinated debt	2,226	2,258

Carrying amounts of other financial assets and financial liabilities approximate their fair values.

Determination of fair value and fair values hierarchy

The Group establishes a framework that includes a hierarchy used to classify the inputs used in measuring fair value for financial assets. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

The levels of the fair value hierarchy are as follows:

(a) Fair value is based on quoted prices (unadjusted) in active markets for identical assets or liabilities ("Level 1");

(b) Fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) ("Level 2"); and

(c) Fair value is based on inputs for the asset or liability that are not based on observable market data (unobservable inputs) ("Level 3").

The following table shows an analysis of financial assets recorded at fair value by level of the fair value hierarchy:

	As at 31 December 2006			
	Level 1	Level 2	Level 3	Total fair value
Financial assets at fair value through profit or loss				
- Derivative financial assets	—	—	1	1
- Equity securities	152	—	—	152
- Investment funds	4,504	—	—	4,504
- Debt securities	51	50	—	101
	4,707	50	1	4,758

	As at 31 December 2006			
	Level 1	Level 2	Level 3	Total fair value
Available-for-sale financial assets				
- Equity securities	10,732	—	—	10,732
- Investment funds	10,940	—	—	10,940
- Debt securities	15,528	31,216	—	46,744
	37,200	31,216	—	68,416
Total	41,907	31,266	1	73,174

	As at 31 December 2007			
	Level 1	Level 2	Level 3	Total fair value
Financial assets at fair value through profit or loss				
- Equity securities	162	—	—	162
- Investment funds	2,247	—	—	2,247
- Debt securities	54	—	—	54
	2,463	—	—	2,463
Available-for-sale financial assets				
- Equity securities	34,427	—	—	34,427
- Investment funds	28,223	—	—	28,223
- Debt securities	15,919	43,214	—	59,133
	78,569	43,214	—	121,783
Total	81,032	43,214	—	124,246

	As at 31 December 2008			
	Level 1	Level 2	Level 3	Total fair value
Financial assets at fair value through profit or loss				
- Equity securities	17	—	—	17
- Investment funds	1,062	—	—	1,062
- Debt securities	87	—	—	87
	1,166	—	—	1,166
Available-for-sale financial assets				
- Equity securities	5,307	—	—	5,307
- Investment funds	6,919	—	—	6,919
- Debt securities	23,558	58,736	—	82,294
	35,784	58,736	—	94,520
Total	36,950	58,736	—	95,686

	As at 30 June 2009			
	Level 1	Level 2	Level 3	Total fair value
Financial assets at fair value through profit or loss				
- Investment funds	314	—	—	314
- Debt securities	102	—	—	102
	416	—	—	416
Available-for-sale financial assets				
- Equity securities	17,454	—	—	17,454
- Investment funds	11,029	—	—	11,029
- Debt securities	22,779	59,433	—	82,212
	51,262	59,433	—	110,695
Total	51,678	59,433	—	111,111

There have been no transfers between Level 1 and Level 2 of the fair value hierarchy during the Relevant Periods.

The movements of financial instruments recorded at fair value in level 3 during the Relevant Periods represent fair value change of derivative financial assets.

46. NOTES TO CONSOLIDATED CASH FLOW STATEMENTS

Reconciliation from profit before tax to cash generated from operating activities:

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
				(unaudited)	
Profit before tax	4,000	14,766	2,025	6,143	5,159
Investment income	(9,534)	(27,230)	(8,110)	(14,452)	(8,878)
Foreign currency losses, net	147	242	132	115	3
Finance costs	581	848	296	380	93
Charge/(reversal) of impairment losses on insurance receivables and other assets, net	(70)	28	74	176	23
Reversal of impairment loss on property and equipment	(1)	—	—	—	—
Depreciation of property and equipment	430	460	533	256	309
Amortisation of intangible assets	32	50	117	56	69
Amortisation/(reversal) of other assets	(43)	19	10	4	6
Amortisation of prepaid land lease payments	5	5	4	2	3
Loss/(gain) on disposal of items of property and equipment, intangible assets and other long-term assets, net	30	25	(127)	(123)	(9)
Charge of impairment loss on the investment in the Institute and additional provision made	325	—	—	—	—
Charge/(reversal) of provision for lawsuits	—	2	(280)	—	—
Share of losses of associates	8	—	—	—	—
Share of losses/(profits) of a jointly-controlled entity	(5)	(70)	52	2	(26)
	(4,095)	(10,855)	(5,274)	(7,441)	(3,248)
Increase in deferred acquisition costs	(1,171)	(2,590)	(4,576)	(2,647)	(2,707)
Increase in reinsurance assets	(1,988)	(1,148)	(1,232)	(2,094)	(1,455)
Increase in insurance receivables	(520)	(611)	(646)	(2,286)	(760)
Increase in other assets	(67)	(872)	(1,549)	(579)	(224)
Increase in insurance contract liabilities	31,966	43,273	39,668	32,620	25,446
Decrease in investment contract liabilities	(3,752)	(2,895)	(1,515)	(861)	(407)
Increase in insurance guarantee fund	1	47	15	10	7
Increase/(decrease) in deferred revenue	(240)	430	2,903	1,541	987
Increase/(decrease) in other operating liabilities	7,439	(2,099)	(2,576)	(1,096)	1,264
Cash generated from operating activities	27,573	22,680	25,218	17,167	18,903

47. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed in note 51 in the Financial Information, the Group had the following material transactions with related parties:

(a) Sale of insurance and investment contracts

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
				(unaudited)	
Equity holders who individually own more than 5% of equity interests of the Company	55	28	49	43	39

The directors are of the opinion that the Group's above related party transactions were entered into based on normal commercial terms during the normal course of insurance business.

(b) Purchase of property and equipment

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
				(unaudited)	
Equity holders who individually own more than 5% of equity interests of the Company	—	83	—	—	—

(c) Compensation of key management personnel of the Group

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
				(unaudited)	
Salaries, allowances and other short-term benefits	18	39	30	14	11
Long-term incentive paid[1]	—	—	1	—	2
Total compensation of key management personnel	18	39	31	14	13

(1) This represents amount paid under the Group's long-term incentive plan detailed in note 11(2). Amounts accrued for all eligible participants under the plan as a whole but not yet allocated to individual personnel are not included above because such amounts are not yet fully vested, and the eventual entitlement and payment of such amounts depend upon the future performance of both the Group and the relevant personnel.

Further details of directors' emoluments are included in note 12 to this Financial Information.

48. COMMITMENTS

(a) Capital commitments

The Group had the following capital commitments at the balance sheet dates:

	Year ended 31 December			As at 30 June
	2006	2007	2008	2009
Contracted, but not provided for ((1),(2),(3),(4),(5),(6))	244	140	6,863	5,586
Authorised, but not contracted for	—	728	461	461
	244	868	7,324	6,047

(1) In June 2008, CIRC approved Ping An Asset Management Co., Ltd, PAMC, Taikang Asset Management Co., Ltd. and Taiping Asset Management Co., Ltd. to jointly establish Beijing-Shanghai High-speed Railway Equity Investment Scheme and to raise RMB16 billion for acquisition of 13.913% equity interest in Beijing-Shanghai High-speed Railway Corporation Limited. CPLIC's share of this investment scheme would amount to RMB4 billion in total. As at 30 June 2009, RMB1,201 million (31 December 2008: RMB2,456 million) has not yet been paid.

(2) In March 2008, the board of directors of CPLIC approved CPLIC's investment in CPIC-Wujiang Water Power Station Debt Investment Scheme established by PAMC, amounting to RMB2,700 million. RMB2,400 million was not yet paid as at 31 December 2008, and that was paid in January 2009.

(3) In March 2008, the Company's shareholders' general meeting, the Company approved to establish IT Backup Center and Customer Support Center in Chengdu High-tech Zone. The expected total investment amounts to RMB1,000 million. Due to the earthquake in Sichuan, the scheme was delayed and investment has not been made as at 30 June 2009.

(4) In March 2009, CIRC approved PICC Asset Management Co., Ltd to establish 5-year and 10-year PICC-Tianjin Binhai New Area Traffic Project Debt Investment Scheme. The Group's total investment would be RMB2,200 million. As at 30 June 2009, RMB1,800 million was yet to be invested.

(5) In April 2009, pursuant to the approval from CPLIC's board of directors, CPLIC entered into a share transfer agreement with Shanghai International Group ("SIG") to purchase SIG's 114 million shares in Changjiang Pension Insurance Co., Ltd. ("Changjiang Pension") for RMB170 million. CPLIC also entered into a share subscription agreement with Changjiang Pension to subscribe for 219 million new shares in Changjiang Pension for RMB328 million. The subscription amounting to RMB328 million was subsequently paid in July 2009.

The share transfer agreement was approved by CIRC in October 2009. The share subscription was not yet completed.

(6) In April 2009, CIRC approved PAMC to establish CPIC-Shanghai Chongming Tunnel Project Debt Investment Scheme amounting to RMB2,000 million. The Group subscribed for RMB1,200 million in total in this investment scheme. As at 30 June 2009, RMB300 million was yet to be invested.

(b) Operating lease commitments

The Group leases office premises and staff quarters under various operating lease agreements. Future minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December			As at 30 June
	2006	2007	2008	2009
Within 1 year	130	182	256	268
1 to 2 years	110	130	200	191
2 to 3 years	47	83	127	126
More than 3 years	38	138	499	508
	325	533	1,082	1,093

49. CONTINGENT LIABILITIES

Owing to the nature of insurance business, the Group is involved in the making of estimates for contingencies and legal proceedings in the ordinary course of business, both in the capacity as plaintiff or defendant in litigation and arbitration. Legal proceedings mostly involve claims on the Group's insurance policies. Provision has been made for the probable losses to the Group, including those claims where directors can reasonably estimate the outcome of the litigations taking into account the related legal advice, if any.

In addition to the above legal proceedings, as at 30 June 2009, the Group was the defendant in certain pending litigation and disputes with a gross claim of RMB13 million (31 December 2008: RMB9 million; 31 December 2007: RMB513 million; 31 December 2006: RMB866 million). Provisions have been made for the possible loss based on best estimate by the directors (see note 40) and the Group would only be contingently liable for any claim that is in excess of what had been provided. During the Relevant Periods, provision amounts had decreased as they had been utilised for the settlement of such claims.

50. POST BALANCE SHEET EVENTS

On 31 August 2009, the Company's shareholders' general meeting approved the Company's H share offering plan.

Please also refer to Note 48(a)(5) for post balance sheet events in relation to Changjiang Pension.

51. OTHER SIGNIFICANT MATTERS

(a) Investment in the Institute

In September 2003, the Company entered into a 10-year cooperation agreement ("Cooperation Agreement") with Fudan University in respect of the establishment of the Institute. Fudan University obtained 17.5% equity interest in the Institute in exchange for the use of its brand name by the Institute. The Company, along with four other companies including Dalian Shi De (Group) Company Limited, injected cash totalling RMB200 million to obtain the remaining 82.50% equity interest in the Institute, where the Company initially injected RMB100 million for 41.25% equity interest. The Company did not control the Institute and recorded the investment in the Institute as an investment in an associate. The Institute constructed buildings for education purposes on a piece of land provided free-of-charge by the Company and recorded such buildings as its assets.

In August 2004, the Company entered into a training agreement with the Institute, which stipulated that the Institute would provide various training courses to the Group from October 2004 to 2008, for a consideration of approximately RMB411 million.

After the sale of 10.31% and 9.28% equity interests in the Institute to other investors of the Institute in 2005 and 2006, respectively, in November 2006, the Company's board of directors decided to dispose of the Company's remaining investment in the Institute. As of 31 December 2006, a full provision of RMB20 million was made for the Company's investment in the Institute, and a further provision of RMB305 million was made for the losses that were expected to be incurred as implementing a plan to exit from this investment and terminating all agreements with Fudan University and the Institute.

Pursuant to the resolutions of the board of directors' meeting held in November 2006 and the board of directors' meeting held on 7 February 2007, the Company took the following measures in 2007:

- An agreement between the Company and the Institute was signed to terminate the training agreement. Further, agreements were entered into with other investors of the Institute, other than Fudan University, pursuant to which the Company agreed to pay these investors an aggregate amount of RMB81 million. In return, these investors agreed to give up their equity interests and related rights in the Institute.

- Related outstanding loans and payables were settled or otherwise extinguished by the Company on behalf of the Institute. In June 2007, the Company entered into a debt restructuring agreement with the Institute and agreed to take possession of the buildings, related facilities and other assets of the Institute with a net book value of RMB978 million to settle the receivables due from the Institute of approximately RMB923 million. The difference of RMB54 million would be settled in cash by the Company to the Institute. In order for the Institute to provide education to the existing students, the Company agreed to continue to provide necessary educational facilities to the Institute free of consideration till 31 August 2010, when all existing students of the Institute would have graduated. Upon initial recognition, the above foreclosed assets were recorded at RMB840 million in other assets (see note 32) based on valuation results.

- In June 2007, the Company entered into an agreement with Fudan University to terminate the Cooperation Agreement. The agreement was subsequently approved by the PRC education authorities and CIRC in July 2007. The Company transferred its remaining interests in the Institute to Fudan University for a consideration of RMB1 according to this agreement.

As a result of subsequent utilisation, the above provision for the Institute was reduced to RMB94 million as at 30 June 2009.

(b) Applying PRC GAAP and HKFRSs since 2009 year end financial reporting

Currently, the differences between the Group's HKFRSs Financial Information and its PRC GAAP financial statements for the same periods are mainly related to accounting for acquisition costs, measurements of premium income and actuarial reserves, as well as related impact on deferred tax.

On 5 January 2009, CIRC issued "Circular on Insurance Industry's Implementation of Interpretation No. 2 to New China Accounting Standards" (Baojianfa (2009) No. 1) which requires a PRC insurance company to modify its existing accounting policies, such that there would be no material GAAP differences in its PRC GAAP and HKFRSs financial statements since the year ending 31 December 2009. The major requirements include:

(1) Acquisition costs for insurance contracts are expensed in the income statement (under the Group's current HKFRSs accounting policy in Note 2.2(19), acquisition costs are deferred and amortized over the expected life of the insurance contracts);

(2) Measurement of premium income should be based on testing "significant insurance risk" and unbundling (under the Group's current HKFRSs accounting policies in Note 2.2(23) and 2.2(33)(a), the Group already considers such principles); and

(3) Best estimates should be used for measuring actuarial reserves (under the Group's current HKFRSs accounting policies in Note 2.2(24) and (26), certain actuarial assumptions for long term life insurance contract reserves are established at the time of issuing the policies and remain unchanged unless adverse experience causes a deficiency in liability adequacy testing).

Baojianfa (2009) No. 1 also states that detailed implementation requirements will be issued in due course and that, prior to issuance such implementation requirements, insurance companies shall continue to use their existing accounting policies. As soon as the said implementation requirements are issued, the Group will assess their implications on its current accounting policies, operating results and financial position.

52. RECONCILIATION OF DIFFERENCES BETWEEN PRC GAAP AND HKFRSs FINANCIAL STATEMENTS

Material differences between the Group's PRC GAAP and HKFRSs financial statements are as follows:

Consolidated net profit attributable to equity holders of the parent

		Years ended 31 December			Six months ended 30 June	
	Notes	**2006**	**2007**	**2008**	**2008**	**2009**
Financial statements prepared in accordance with PRC GAAP		1,008	6,893	1,339	5,512	2,364
Premiums, benefits and reserves for life insurance	(i)	700	3,655	(2,136)	(1,828)	(604)
Deferred acquisition costs	(ii)	1,171	2,590	4,576	2,647	2,707
Deferred tax	(iii)	(644)	(1,126)	(609)	(204)	(526)
Minority interests and others		(216)	(774)	(84)	(45)	(4)
Financial statements prepared in accordance with HKFRSs		2,019	11,238	3,086	6,082	3,937

Consolidated equity attributable to equity holders of the parent

	Notes	31 December 2006	31 December 2007	31 December 2008	30 June 2009
Financial statements prepared in accordance with PRC GAAP		11,153	62,807	48,741	51,756
Premiums, benefits and reserves for life insurance	(i)	(5,076)	(1,276)	(5,958)	(5,924)
Deferred acquisition costs	(ii)	11,276	13,468	20,114	22,320
Deferred tax	(iii)	(2,041)	(3,048)	(3,538)	(4,100)
Minority interests and others		(828)	(7)	(4)	(8)
Financial statements prepared in accordance with HKFRSs		14,484	71,944	59,355	64,044

Notes:

(i) Premiums, benefits and reserves for life insurance

In the Group's PRC GAAP financial statements, long-term products generally comprise long-term life insurance and long-term health insurance, where premiums received and benefits paid are recognized in current period's income statement. In the Group's HKFRSs financial statements, long-term products are mainly classified as long-term traditional insurance contracts, long-term investment type insurance contracts and investment contracts. Premiums from long-term traditional life insurance contracts are recognised as revenue when due form policyholders, whereas amounts collected as premiums from long-term investment type insurance contracts and investment contracts are reported as deposits and only those parts of the premiums used to cover the insured risks and associated costs are treated as revenue.

Also included in this reconciling item are differences in actuarial reserving methodologies. In the Group's PRC GAAP financial statements, reserves for life insurance are provided for in accordance with related actuarial regulations promulgated by CIRC. In the Group's HKFRSs financial statements, reserves for life insurance are provided for in accordance with HKFRS 4 Insurance Contracts with reference to international practices.

(ii) Deferred acquisition costs

In the Group's PRC GAAP financial statements, the costs of acquiring new and renewal business, including commissions, underwriting, marketing and policy issue expenses, are recognized in the income statement when incurred. In the Group's HKFRSs financial statements, commissions, underwriting, marketing and policy issue expenses of acquiring new and renewal policies are deferred and amortized over the expected life of the insurance contracts as a constant percentage of expected premiums or as a constant percentage of the present value of estimated gross profits expected to be realized over the life of the insurance contracts by product types.

(iii) Deferred tax related to the above differences

The above differences between the Group's PRC GAAP and HKFRSs financial statements are temporary differences in accordance with HKAS 12 Income Taxes. The Group recognizes deferred tax assets and liabilities accordingly using the tax rates at that time expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled.

53. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group and the Company in respect of any period subsequent to 30 June 2009.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong