



CHINA TAIPING INSURANCE (NEW ZEALAND) COMPANY LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2011

CHINA TAIPING INSURANCE (NEW ZEALAND) COMPANY LIMITED
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

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CHINA TAIPING INSURANCE (NEW ZEALAND) COMPANY LIMITED

DIRECTORS' REPORT

We are very pleased to be able to present the annual report for the year ended 31 December 2011 to shareholders and other interested parties.

RESULT: The profit of China Taiping Insurance (New Zealand) Company Limited for the year before tax was -\$1,296,692 (2010: \$718,789).

DIVIDEND: The Directors recommend that no dividend be paid.

AUDITOR: In terms of the Companies Act 1993, Deloitte is to continue in office as the Company's auditor.

<u>APPROPRIATIONS:</u>	Profit attributable to shareholders	(1,296,692)
	Accumulated Loss brought forward	(306,630)
		<hr/>
	Accumulated Loss carried forward	\$ (1,603,322)
		<hr/>

ACTIVITIES: The principal activities during the year were those of insurance underwriting and investment.

REGISTERED OFFICE: Level 10E
17 Albert Street
Auckland City
New Zealand

No disclosure has been made pursuant to Section 211(1) (a) and (e) to (j) of the Companies Act 1993 following an unanimous decision by the shareholders in accordance with Section 211 (3) of the Act.


The company is firmly committed to maintaining the highest levels of corporate governance and risk management process, and the company will continue to act promptly and proactively on any areas for improvement.

Finally we would like to express our sincere thanks to our loyal and dedicated staff for the efforts in contributing to the overall success of the Company in the year 2011.

ON BEHALF OF THE BOARD

 Director

2012-3-27 Date

 Director

2012-3-27 Date



**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
CHINA TAIPING INSURANCE (NEW ZEALAND) COMPANY LIMITED**

Report on the Financial Statements

We have audited the financial statements of China Taiping Insurance (New Zealand) Limited on pages 4 to 24, which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income and the statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Board of Directors' Responsibility for the Financial Statements

The Board of Directors are responsible for the preparation of financial statements, in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the Board of Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate 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 the accounting policies used and the reasonableness of accounting estimates, as well as 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.

Other than in our capacity as auditor, we have no relationship with or interests in China Taiping Insurance (New Zealand) Company Limited.

Opinion

In our opinion, the financial statements on pages 4 to 24:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the financial position of China Taiping Insurance (New Zealand) Company Limited as at 31 December 2011, and its financial performance for the year ended on that date.

Report on Other Legal and Regulatory Requirements

We also report in accordance with section 16 of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 December 2011:

- we have obtained all the information and explanations we have required; and
- in our opinion proper accounting records have been kept by China Taiping Insurance (New Zealand) Company Limited as far as appears from our examination of those records.

Chartered Accountants
27 March 2012
Auckland, New Zealand

CHINA TAIPING INSURANCE (NEW ZEALAND) COMPANY LTD

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011 \$	2010 \$
Direct Premium Revenue	21	12,215,430	9,325,257
Movement in Unearned Premium	21	(1,582,415)	(602,305)
Outward Reinsurance Premium Expense	12	(6,057,579)	(3,984,021)
Movement in Deferred Reinsurance Premium	21	1,165,100	337,162
Net Premium Revenue		<u>5,740,536</u>	<u>5,076,093</u>
Direct Claims Expenses		32,887,337	12,066,164
Reinsurance and Other Recoveries Revenue		(29,058,127)	(9,920,927)
Net Claims Incurred		<u>3,829,210</u>	<u>2,145,237</u>
Acquisition Costs		922,685	833,338
Underwriting Expenses	11	2,781,582	2,117,191
		<u>3,704,267</u>	<u>2,950,529</u>
Underwriting (Loss)/Profit		(1,792,891)	(19,673)
Investment revenue	8	507,014	480,976
Sundry income		7,164	257,486
Interest expenses	6(vi)	(17,979)	0
Profit/(Loss) before income tax expense		(1,296,692)	718,789
Income tax expense	30	-	-
(Loss) / Profit attributable to shareholders		<u>(1,296,692)</u>	<u>718,789</u>
Total comprehensive (loss) / income for the year		<u>(1,296,692)</u>	<u>718,789</u>

The attached notes on pages 7 to 24 form part of and should be read in conjunction with these financial statements.

CHINA TAIPING INSURANCE (NEW ZEALAND) COMPANY LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	Share Capital \$	Accumulated Deficit \$	Total \$
Balance as at 1 January 2010		6,990,981	(1,025,419)	5,965,562
Profit and total comprehensive income for the year			718,789	718,789
Balance as at 31 December 2010		6,990,981	(306,630)	6,684,351
Loss and total comprehensive income for the year			(1,296,692)	(1,296,692)
Share issued to parent	9	2,036,047	0	2,036,047
Balance as at 31 December 2011		9,027,028	(1,603,322)	7,423,706

The attached notes on pages 7 to 24 form part of and should be read in conjunction with these financial statements.

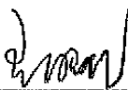
CHINA TAIPING INSURANCE (NEW ZEALAND) COMPANY LIMITED

STATEMENT OF FINANCIAL POSITION


AS AT 31 DECEMBER 2011

	Notes	2011 \$	2010 \$
Assets			
Cash and Cash Equivalents		2,388,658	507,918
Trade and Other Receivables	13	4,823,356	4,002,628
Tax Receivable		249,903	274,656
Inter-company Receivables	6	11,372	15,692
Deferred Reinsurance Premium	21	3,276,096	2,110,996
Deferred Acquisition Costs		0	434,517
Reinsurance and other Recoveries Claimed	24	31,749,401	8,735,625
Investment	18	4,251,574	6,672,045
Intangibles	15	2,909	6,936
Property, Plant & Equipment	14	446,516	465,356
Total Assets		47,199,785	23,226,369
Liabilities			
Trade and Other Payables	16	8,842,164	4,169,466
Outstanding Claims Liability	22	24,705,000	7,726,052
Provision for Unearned Premium	21	6,228,915	4,646,500
Total Liabilities		39,776,079	16,542,018
Net Assets		7,423,706	6,684,351
Accumulated Deficit	10	(1,603,322)	(306,630)
Share Capital	9	9,027,028	6,990,981
Total Equity		7,423,706	6,684,351

For and on behalf of the board of directors, who authorized the issue of this financial report on the date signing:

 Director

2012-3-27 Date

 Director

2012-3-27 Date

The attached notes on pages 7 to 24 form part of and should to be read in conjunction with these financial statements.

CHINA TAIPING INSURANCE (NEW ZEALAND) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

1. STATEMENT OF ACCOUNTING POLICIES

Reporting Entity

The financial statements are for the reporting entity China Taiping Insurance (NZ) Company Limited. The company is registered under the Companies Act 1993.

Financial Reporting Framework

The financial statements have been prepared in accordance with the Companies Act 1993 and the Financial Reporting Act 1993.

Statement of Compliance

The financial report has been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'). They comply with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and other applicable Financial Reporting Standards as appropriate for profit oriented entities that qualify for and apply differential reporting concessions.

Basis of Preparation

The general accounting policies recognised as appropriate for the measurement and reporting of results, and the financial position have been followed in the preparation of these financial statements. The historical cost method as modified by the revaluation of certain assets has been followed. The reporting currency is New Zealand dollars.

In the application of NZ IFRS, management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. It is possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the asset or liability affected.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of NZ IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

Significant Accounting Policies

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

a) Property, Plant & Equipment

The cost of purchased property, plant & equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

Depreciation of Property, Plant & Equipment

Property, plant & equipment are depreciated on a diminishing value basis so as to write off the cost less the estimated residual value of these assets over their estimated useful lives. Expenditures for maintenance and repairs are charged to the profit and loss account as incurred, expenditure incurred to major improvements is capitalised and depreciated. The diminishing rates are:

Motor Vehicles	26%-36%
Office Furniture	14%-18%
Office Equipment & others	11.4%-60%
Buildings	4%-14.4%
Computer hardware	48%

CHINA TAIPING INSURANCE (NEW ZEALAND) COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

b) Intangible Assets

Software is finite life intangibles and is recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a diminishing value basis so as to write off the cost less the estimated residual value of these assets over their estimated useful lives. Amortisation is included in expenses. The diminishing rates are 48%-60%.

c) Disposals of Tangible and Intangible Assets

The difference between the proceeds on disposal and net book value is recognised in the profit and loss account.

d) Revenue Recognition

General Insurance Revenue

Premium revenue for Fire & General Business comprises amounts charged to policyholders or other insurers. The earned portion of premium received and receivable, including unclosed business, is recognised as revenue. The pattern of recognition of revenue over the policy or indemnity periods is based on time, which closely approximates the pattern of risks underwritten.

Unearned premium is determined by apportioning the premiums written over the period of risk from the date of attachment of risk, based on the number of days of unexpired cover for each policy.

Investment Revenue

Investment revenue is shown before deduction of income tax and is included on an accrual basis and dividends are included to the extent declared before balance date.

e) Unearned Premium

Provisions in respect of the proportion of premiums relating to risk in future periods of account are calculated on the 365ths basis.

f) Deferred Acquisition Expenses

Acquisition expenses, principally comprising commissions and brokerage expenses incurred on obtaining insurance contracts, are deferred and expensed over the period in which the related premiums are earned. A portion of acquisition costs relating to unearned premium is deferred in recognition that it represents a future benefit. Deferred acquisition costs are an asset and are measured at the lower of cost and recoverable amount.

g) Claims

Reported claims have been assessed in the light of the information available at balance date and after taking account of expected trends in future settlements.

The Outstanding Claims provision comprises the estimated costs of claims incurred including indirect claims settlement costs, whether reported or not, and claims not settled at balance date. The provision for claims incurred but not reported has been evaluated and assessed by using standard actuarial techniques produced by China Insurance H.K. (Holdings) Co., Ltd as at 31 December 2011.

All claims except Earthquake related claims are expected to be settled within one year.

CHINA TAIPING INSURANCE (NEW ZEALAND) COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

h) Income Tax

Income tax for the period is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

i) Operating Leases

Operating lease rentals are recognised evenly over the expected period of benefit to the company.

j) Foreign Exchange Policy

Transactions denominated in foreign currencies are translated into the reporting currency using the exchange rate in effect at the transaction date. Monetary items receivable or payable in a foreign currency are translated at balance date at the closing rate. Exchange differences on foreign currency balances are recognised in the Statement of Comprehensive Income.

k) Outwards Reinsurance

Premiums ceded to reinsurers are recognised as an expense in accordance with the pattern of reinsurance service received.

l) Reinsurance and Other Recoveries Receivables

Reinsurance and other recoveries receivables on paid claims, reported claims not yet paid and claims incurred but not reported are recognised as revenue. Recoveries receivable on reported claims not yet paid and claims incurred but not reported are assessed in a manner similar to the assessment of outstanding claims. Recoveries receivable in relation to long-tail classes are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

m) Trade and Other Receivables

Accounts receivable are stated at their estimated net realisable value after allowance for bad or doubtful debts and credit notes due. An allowance is established when the entity will not be able to collect all amounts due to the original term of the receivable. Any decrease or increase of the allowance is recognized in the income statement within underwriting expenses.

n) Payables

Trade payables and other accounts payable are recognised when the Company becomes obliged to make future payments resulting from the purchase of goods and services.

o) Employee Benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

CHINA TAIPING INSURANCE (NEW ZEALAND) COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

o) Employee Benefits (continued)

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Company in respect of services provided by employees up to the reporting date.

p) Financial Assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity investments', 'available-for-sale', and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Currently the company has only classified financial assets in the 'Loans and receivables' and "At fair value through profit or loss' categories.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account.

CHINA TAIPING INSURANCE (NEW ZEALAND) COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

p) Financial Assets (continued)

When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

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 through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

q) Financial Liabilities

Trade and other payables are recognised when the company becomes obliged to make future payments resulting from the purchase of goods and services.

Trade and other payables are classified as 'other financial liabilities'. Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount of the liability.

2. DIFFERENTIAL REPORTING

The Company qualifies for differential reporting exemptions as described in the Framework for Differential Reporting issued by the New Zealand Institute of Chartered Accountants because the Company is not publicly accountable and there is no separation between the shareholders and the governing body. The Company has elected to apply all the available exemptions except for the exemption under NZ IAS 18 Revenue which allows revenue and expenses to be recognised inclusive of goods and services tax and NZ IAS 21 The Effects of Changes in Foreign Exchange Rates allowing the measurement of transactions in foreign currencies at the settlement rate.

3. CHANGES IN ACCOUNTING POLICY

The accounting policies set out above have been applied consistently to all periods presented in these financial statements. Accordingly, there have been no changes in accounting policies from those contained in the last audited financial statements.

4. ULTIMATE HOLDING COMPANY

China Taiping Insurance Group Co. (previously named China Insurance (Holdings) Co., Ltd) incorporated in the People's Republic of China, is the Company's ultimate holding company.

5. PARENT COMPANY

China Taiping Insurance Group (HK) Company Limited (previously named China Insurance H.K. (Holdings) Co., Ltd), incorporated in Hong Kong, is the Company's immediate parent company.

CHINA TAIPING INSURANCE (NEW ZEALAND) COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

6. RELATED PARTY TRANSACTIONS

Related Party Transactions

- (i) China Taiping Insurance Group (HK) Company Limited (previously named China Insurance H.K. (Holdings) Co., Ltd) provides management services to the Company. A management fee of \$214,221 was charged this year (2010: \$138,580).
- (ii) China Taiping Insurance Group Co. (previously named China Insurance (Holdings) Co., Ltd) training centre provides training to the Company. A training fee of \$33,160 was charged this year (2010: \$10,645)
- (iii) Reinsurance inwards from Taiping Reinsurance Company Limited (previously named China International Reinsurance Co., Ltd, same ultimate shareholders with China Taiping Insurance (New Zealand) Company Limited) of \$15,937 was accrued for this year (2010: \$17,554).
- (iv) Taiping Reinsurance Brokers Ltd. (previously named Sino-Re Reinsurance Brokers Co., Ltd, same ultimate shareholders with China Taiping Insurance (New Zealand) Co., Ltd) was acting as reinsurance agent for the Company. All reinsurance outwards/inwards issues were dealt through this activity. Net reinsurance ceded was \$6,057,578 this year (2010: \$3,984,022). Reinsurance recovery was \$13,046,409 (2010: \$3,008,960).
- (v) During 2011, China Taiping Insurance Group (HK) Company Limited loaned two amounts totalling \$2,036,047 to China Taiping Insurance (NZ) Company Limited. \$788,581 was loaned on 22 June 2011 and \$1,247,466 was loaned on 22 August 2011. On 30 December 2011, the total debt was converted into capital therefore adding 2,036,047 shares at \$1 each to China Taiping Insurance (NZ) Company Limited.
- (vi) The interest expense relating to the Loans in (v) is \$17,979 in the year 2011 (2010: Nil)

Related Party Balances:

	<u>2011</u>	<u>2010</u>
	\$	\$
Inter-company Receivable		
- Taiping Reinsurance Co., Ltd.	11,372	15,692
Inter-company Payable		
- China Taiping Insurance Group (HK) Company Limited	232,202	221,580
Reinsurance Recovery Receivable		
- Taiping Reinsurance Brokers Ltd	8,862,335	1,581,069
Reinsurance Account Payable		
- Taiping Reinsurance Brokers Ltd	6,046,076	1,802,285

The amounts outstanding are unsecured, and will be settled in cash. No guarantees have been given or received. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

These amounts are included in reinsurance and other recoveries receivables (Note 24) and Trade and other payables (Note 16).

CHINA TAIPING INSURANCE (NEW ZEALAND) COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

7. PRINCIPAL ACTIVITY

The principal activities during the year were those of insurance underwriting and investment.

8. INVESTMENT REVENUE

	<u>2011</u>	<u>2010</u>
	\$	\$
Investment Revenue comprises:		
Interest on Government Stock	190,576	128,383
Interest on Short Term Deposits	155,985	259,594
Interest on Cash Account	28,051	24,637
Lease Investment Revenue	14,250	19,000
Other Investment Revenue (note 20(b))	118,152	49,362
	<u>507,014</u>	<u>480,976</u>

9. SHARE CAPITAL

	Notes	<u>2011</u>	<u>2010</u>
		\$	\$
Opening balance		6,990,981	6,990,981
Issued share capital	6 (v)	2,036,047	0
Closing balance (Issued and fully paid ordinary capital)		<u>9,027,028</u>	<u>6,990,981</u>

All shares carry equal voting rights and share equally in any surplus upon winding up. The share capital balance represents 9,027,028 ordinary shares at \$1 each.

Changes to the Companies Act in 1993 abolished the authorised capital and par value concept in relation to share capital from 1 July 1994. Therefore, the company does not have a limited amount of authorised capital and issued shares do not have a par value.

10. ACCUMULATED DEFICIT

	<u>2011</u>	<u>2010</u>
	\$	\$
Opening balance	(306,630)	(1,025,419)
Profit and total comprehensive income for the year	(1,296,692)	718,789
Closing balance	<u>(1,603,322)</u>	<u>(306,630)</u>

CHINA TAIPING INSURANCE (NEW ZEALAND) COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

11. EXPENSES

Expenses are made up of:

	<u>2011</u>	<u>2010</u>
	\$	\$
Employee Benefits Expenses	1,432,589	1,311,311
Defined Contribution Plans	12,383	10,723
Operating Lease Expenses	126,991	128,187
Advertising and Marketing	936	918
Depreciation and Amortization	28,465	32,123
Travel Expenses	44,765	40,873
Other Expenses	653,109	593,056
Deferred Acquisition Cost Write-off	482,344	0
	<u>2,781,582</u>	<u>2,117,191</u>

	<u>2011</u>	<u>2010</u>
	\$	\$
Expenses included:		
Depreciation: Motor Vehicles	8,260	13,017
Buildings	9,261	9,851
Office Equipment & other	1,591	1,147
Computer hardware	3,445	3,842
Office furniture	1,881	2,110
Amortization of software	4,027	2,156
Auditor Remuneration:		
Audit Fee for Audit of Financial Statements	70,747	63,263
Tax Advices Services	0	2,500
Audit fee for audit of Insurance Companies		
Deposits Act Return	2,500	2,500

12. REINSURANCE CEDED

	<u>2011</u>	<u>2010</u>
	\$	\$
Reinsurance Premiums Written	6,866,872	4,780,156
Reinsurance Commissions	(809,293)	(796,135)
	<u>6,057,579</u>	<u>3,984,021</u>

13. TRADE AND OTHER RECEIVABLES

	<u>2011</u>	<u>2010</u>
	\$	\$
Premium Debtors	4,770,599	3,862,447
Provision for bad debts	(30,000)	(30,000)
Sundry Debtors	82,757	170,181
	<u>4,823,356</u>	<u>4,002,628</u>

The provision for bad debts in relation to trade receivables is provided for based on estimated irrecoverable amounts determined by reference to current customer circumstances and past default experience. In determining the recoverability of a trade receivable the Company considers any change in the credit quality of the trade receivable from the date the credit was initially granted up to the reporting date. In the current year the Company has recognised no bad debt expenses (2010: nil).

CHINA TAIPING INSURANCE (NEW ZEALAND) COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

14. PROPERTY, PLANT AND EQUIPMENT

	<u>At Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
	\$	\$	\$
2011			
Motor Vehicles	109,657	94,972	14,685
Office Furniture	59,587	47,896	11,691
Office Equipment & others	35,836	32,534	3,302
Buildings	618,824	207,390	411,434
Computer hardware	117,850	112,446	5,404
	<u>941,754</u>	<u>495,238</u>	<u>446,516</u>
2010			
Motor Vehicles	109,657	86,712	22,945
Office Furniture	59,587	46,015	13,572
Office Equipment & others	34,068	30,943	3,125
Buildings	618,824	198,129	420,695
Computer hardware	114,020	109,001	5,019
	<u>936,156</u>	<u>470,800</u>	<u>465,356</u>

15. INTANGIBLES

	<u>At Cost</u>	<u>Accumulated Amortisation</u>	<u>Net Book Value</u>
	\$	\$	\$
2011			
Software	<u>49,517</u>	<u>46,608</u>	<u>2,909</u>
2010			
Software	<u>49,517</u>	<u>42,581</u>	<u>6,936</u>

16. TRADE AND OTHER PAYABLE

	2011	2010
	\$	\$
Accounts payable	293,071	173,730
Brokerage & commission payable	1,023,194	920,188
Payable to Reinsurance Companies (Note 6)	6,046,076	1,802,285
Sundry Creditors and Accruals	<u>1,479,823</u>	<u>1,273,263</u>
	<u>8,842,164</u>	<u>4,169,466</u>

The average credit limit for payables owing to the Company's reinsurer and brokers is 74 days. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

CHINA TAIPING INSURANCE (NEW ZEALAND) COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

17. CAPITAL COMMITMENTS

There were no capital commitments in the year 2011 (2010: \$Nil).

18. INVESTMENTS

	<u>2011</u> \$	<u>2010</u> \$
Fixed Interest maturing <12 months	1,507,713	4,086,560
Government Stock	560,723	523,626
Auckland City Council Bond	2,183,138	2,061,859
Total investments	<u>4,251,574</u>	<u>6,672,045</u>

19. INSURER FINANCIAL STRENGTH RATING

China Insurance (NZ) Co., Ltd has a Credit Rating of BBB, and a Financial Strength Rating of B++ issued by A.M. BEST Company, an approved agency by the New Zealand Registrar of Companies.

20. FINANCIAL INSTRUMENTS

(a) Foreign Exchange

The Company undertakes transactions denominated in foreign currencies from time to time and resulting from these activities, exposures in foreign currency arise. The Company does not take out forward exchange contracts to manage these exposures and translates these transactions at the spot rate.

(b) Fair Value of Financial Instruments

The carrying value of loans and receivables and financial liabilities at amortised costs are considered to approximate their fair values. This is because these financial instruments are short term in nature.

Investment in government bond is stated at fair value. Fair value is calculated by reference to the market yield as at year end.

CHINA TAIPING INSURANCE (NEW ZEALAND) COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

21. UNEARNED PREMIUM RESERVE

<u>2011</u>	Gross \$	Reinsurance \$	Net \$
As at 1 January	4,646,500	(2,110,996)	2,535,504
Premium on contracts written	12,215,480	(6,866,872)	5,348,608
Earnings of premium written	(10,633,065)	5,701,772	(4,931,293)
Movement in unearned premium	1,582,415	(1,165,100)	417,315
As at 31 December	6,228,915	(3,276,096)	2,952,819

<u>2010</u>	Gross \$	Reinsurance \$	Net \$
As at 1 January	4,044,195	(1,773,834)	2,270,361
Premium on contracts written	9,325,257	(4,780,156)	4,545,101
Earnings of premium written	(8,722,952)	4,442,994	(4,279,958)
Movement in unearned premium	602,305	(337,162)	265,143
As at 31 December	4,646,500	(2,110,996)	2,535,504

22. CLAIMS PROVISIONS

	<u>2011</u> \$	<u>2010</u> \$
Estimate of Expected Future Payments for Claims Reported including:		
Reported Claims	22,051,147	6,979,052
Indirect Claims Settlement Costs	125,000	80,000
Incurred But Not Reported	2,528,853	667,000
Gross Provision	24,705,000	7,726,052

23. OPERATING LEASE OBLIGATIONS

Obligations payable after balance date on non-cancellable operating leases are as follows:

	<u>2011</u> \$	<u>2010</u> \$
Not later than one year	31,378	34,230
Later than one year and not later than five years	0	31,378
Total	31,378	65,608

CHINA TAIPING INSURANCE (NEW ZEALAND) COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

24. REINSURANCE AND OTHER RECOVERIES RECEIVABLE

	<u>2011</u>	<u>2010</u>
	\$	\$
Reinsurance Recovery Receivable (Note 6)	8,862,335	1,581,069
Other Recovery Receivable	177,066	197,188
Outstanding Claims Recovery Receivable	20,269,403	6,404,368
IBNR Claims Recovery Receivable	2,440,597	553,000
	<u>31,749,401</u>	<u>8,735,625</u>

Outstanding claims recovery receivable and IBNR claims recovery receivable require confirmation from Taiping Reinsurance Brokers Ltd. Once confirmed they will form part of related party receivables.

25. LIABILITY ADEQUACY TEST

The liability adequacy test carried out on the portfolios in the current year, in accordance with NZ IFRS 4 identified a deficiency, therefore total deferred acquisition cost of \$482,343 has been fully written off, see note 11. No additional unexpired risk liability is required.

A risk margin of 13.5% for property and 9% for motor has been applied in the liability adequacy test and this is intended to provide at least a 75% level of sufficiency.

26. REINSURANCE PROGRAMME

The Company's reinsurance program is structured to adequately protect the Company's solvency and capital position. It covers per risk and event losses assessed as the worst possible scenario. Reinsurance is placed to cover losses in excess of the company's agreed retention for each class of business.

27. EQUITY RETAINED FOR THE PURPOSES OF FINANCIAL SOUNDNESS

The Company retains a level of share capital which enable it to maintain an adequate solvency margin for ongoing ability to pay clients.

28. PROVISION FOR EMPLOYEE ENTITLEMENT

Annual leave and time off in lieu of overtime worked are recognised as they accrue to employees, based on current rates of pay. As at 31st December 2011, provision for annual leave is \$101,131 (2010: \$86,979) and is included in trade and other payables (Note 16).

29. ACTUARIAL INFORMATION

The actuary who carried out the valuation of the IBNR reserve of the Company is Yin Lawn from the actuarial team in the PricewaterhouseCoopers Asia Actuarial Services (Singapore) Pte. Ltd. Taiwan branch.

Report Date: 22 February 2012

Qualification: FCAS – Fellow of the Casualty Actuarial Society

The report relied on historical data and other qualitative and quantitative information provided by China Taiping Insurance (NZ) Company Limited. The actuary also reconciled the business data to the financial data in which the overall result is acceptable.

CHINA TAIPING INSURANCE (NEW ZEALAND) COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

Unexpired risk liability

The unearned premium liability in respect of both the domestic and commercial portfolios was found to be deficient as at 31 December 2011.

The probability of sufficiency (POS) adopted in performing the liability adequacy test is set at the 75th percentile which is the same as that adopted in determining the outstanding claims liabilities (OCL).

The POS for OCL is set at a level that is appropriate and sustainable to cover the company's claims obligations after having regard to the prevailing market environment and prudent industry practice.

Being a test of adequacy, the POS for LAT is set to highlight deficiencies in product pricing following an analysis of the company's profit margins that equates to the company's cost of capital after having regard to regulatory minimum requirements.

(a) Assumptions

	2011(000's)
CALCULATION OF DEFICIENCY	
Unearned premium liability relating to insurance contracts issued	2,953
Related deferred acquisition costs	482
Central estimate of present value of expected future cash flows arising from future claims on insurance contracts issued	2,183
Risk margin of 13.5% for property, 9% for motor	195
INITIAL SURPLUS	93

Management has reviewed the actuary report and underlying assumptions, and management has made the following adjustments to the assumptions:

- Best estimate for excess of loss premium has increased by \$405,000.
- Best estimate for maintenance expense has increased by \$170,000.

The impact of these changes results in a net deficiency of \$482,343 rather than a net surplus of \$93,000, as a result, related deferred acquisition costs of \$482,343 has been written off to \$nil, see Note 11 and Note 25.

The following assumptions have been made in determining the outstanding claims liabilities

	2011	
	Property	Motor
Inflation rate	0%	0%
Superimposed inflation rate	0%	0%
Discount rate	0%	0%
Discounted mean term (years)	0	0
Claim handling expense ratio	5%	5%
Risk margin	6%	9%

(b) Processes used to determine assumptions

The valuations included in the reported results are calculated using assumptions including:

CHINA TAIPING INSURANCE (NEW ZEALAND) COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

Inflation rate

The actuarial methods do not make explicit allowance for future inflation; however, an implicit allowance is made because they project past development rates of claim inflation contained within the data's historical claim development.

Superimposed inflation rate

There is a tendency for claim costs, particularly for the liability classes, to increase at levels in excess of standard inflationary pressures. This can be due to a number of factors including court awards and precedents and social and environmental pressures. This is often termed superimposed inflation and is analysed and forecast separately from wage inflation.

Discount rate

For the estimation of the outstanding claims no allowance has been made for future investment earnings.

Claims Handling Expenses

The Company is responsible for the ongoing management of all claims incurred on or before 31 December 2011. To reflect this expense, an allowance is included in the central estimate of the outstanding claims liability. The indirect claims expense of 5% of net claims has been assumed, the same rate is assumed for outstanding claims. No allowance has been made for discounting of claims costs. The loss ratios applied were the undiscounted loss ratios. This provides a small positive margin.

Ultimate loss ratio

This is the ratio of incurred losses to earned premium (both net of reinsurance) inherent in actual experience to date plus outstanding payments.

Losses for property line were split into attrition and catastrophic losses. Bornhuetter-Ferguson (BF) method is used to project expected ultimate loss ratios for attrition losses. The BF method is appropriate for a line of business or accident/underwriting year for which there is a lack of developed claims experience.

Risk margin

A risk margin at a 75% level of sufficiency has been used to determine the outstanding claims liability on the liability line of business as at 31 December 2011. The minimal risk margin reflects the predominantly short tail nature of the business.

The net claims incurred relating to a reassessment of risks borne in previous reporting periods are not significant. There is no significant concentration of insurance risk due to the nature of the portfolio and the reinsurance programme.

The risk margin is calculated to bring the claim reserve to 75% confidence level using the bootstrap method. The resulting risk margin is 9% for motor and 6% of unpaid losses for property. For risk margin in URR (for liability adequacy test), 1.5 times of that is taken. Thus, risk margin assumption for URR is 13.5% for property and 9% of expected losses and LAE for motor. This is to reflect that cash flow with respect to URR is expected to have higher uncertainty than that of claim reserve.

CHINA TAIPING INSURANCE (NEW ZEALAND) COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

(c) Sensitivity Analysis

The following tables show the methodology, reconciliation and assumptions used in the sensitivity analysis. Since the Company did not record gross premium liability in its balance sheet, sensitivity analysis on gross premium liability is not applicable.

Gross Claim Liability				
Sensitivity Analysis (Gross Claim Liabilities NZ\$K)				
Risk Variables*	Risk Margin		Accident Year 2011 Ultimate Loss ratios	
	105%	95%	101%	99%
Changes in Risk Variables				
Reserve without changes	24,705	24,705	24,075	24,705
Reserve with changes	24,807	24,603	24,779	24,636
Change in Reserve	102	-102	74	-69
*Factors are applied multiplicatively to the assumptions for both motor and property lines.				

Change in risk margin assumptions will cause insurance liability to change by NZD \$102k. Increase or decrease in accident year 2011 ultimate loss ratios by 1% will change insurance liability by about NZD \$74k and – NZD \$69k.

Net Claim Liability				
Sensitivity Analysis (Gross Claim Liabilities NZ\$K)				
Risk Variables*	Risk Margin		Accident Year 2011 Ultimate Loss ratios	
	105%	95%	101%	99%
Changes in Risk Variables				
Reserve without changes	1,995	1,995	1,995	1,995
Reserve with changes	2,002	1,987	2,026	1,966
Change in Reserve	8	-8	31	-29
*Factors are applied multiplicatively to the assumptions for both motor and property lines.				

Change in risk margin assumptions will cause net insurance liability to change by NZD \$ 8k. Increase or decrease in accident year 2011 ultimate loss ratios by 1% will change insurance liability by NZD \$ 31k and –NZ\$ 29k. Since this is at net of reinsurance basis, this will also directly impact insurer's equity.

30. TAXATION

Income tax on pre-tax profit from operations reconciles to income tax expense in the financial statements as follows:

	2011	2010
	\$	\$
(Loss) /Profit before income tax expense	(1,296,692)	718,789
Income tax calculated at 28%(30% for year 2010)	(363,073)	215,636
Non deductible items	5,467	6,245
Deferred tax increase not recognized	161,330	11,129
Utilization of brought forward tax losses	0	(233,010)
Tax loss not recognized for accounting	196,276	0
Income tax recognised in profit and loss	0	0

CHINA TAIPING INSURANCE (NEW ZEALAND) COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

31. FINANCIAL INSTRUMENTS

(a) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition and the basis of measurement applied in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

(b) Capital risk management

The Company manages its capital to ensure that the entities in the Company will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Company consists of cash and cash equivalents and equity, comprising issued capital and retained earnings as disclosed on the statement of changes in equity.

The directors review the capital structure on a regular basis, as part of this review the directors consider the cost of capital and the risks associated with each class of capital. The directors will balance the overall capital structure through the issue of new debt or the redemption of existing debt when required.

(c) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted the policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company's reinsurance recoveries are from a fellow related party, who has maintained a credit rating of A- in the current financial year. The Company's investments are spread across several banks and bond providers, thereby minimizing the credit risks.

(d) Categories of financial assets and financial liabilities

	Loans and receivable	Financial assets at fair value through profit or loss	Financial liabilities at amortized cost	Total
As at 31 December 2011	\$	\$	\$	\$
Assets				
Cash and cash equivalents	2,388,658			2,388,658
Trade and Other Receivables	4,823,356			4,823,356
Reinsurance and other recoveries claimed	31,749,401			31,749,401
Inter-company receivables	11,372			11,372
Investment in term deposit	1,507,713			1,507,713
Investment in bond		2,743,861		2,743,861
Total financial assets	40,480,500	2,743,861		43,224,361
Non-financial assets				3,975,424
Total assets				<u>47,199,785</u>
Liabilities				
Trade and other payables			8,842,164	8,842,164
Reported Claims Liabilities			24,705,000	24,705,000
Total financial liabilities			33,547,164	33,547,164
Non-financial liabilities				6,228,915
Total liabilities				<u>39,776,079</u>

CHINA TAIPING INSURANCE (NEW ZEALAND) COMPANY LIMITED

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	Loans and receivable	Financial assets at fair value through profit or loss	Financial liabilities at amortized cost	Total
	\$	\$	\$	\$
As at 31 December 2010				
Assets				
Cash and cash equivalents	507,918			507,918
Trade and Other Receivables	4,002,628			4,002,628
Reinsurance and other recoveries claimed	8,735,625			8,735,625
Inter-company receivables	15,692			15,692
Investment in term deposit	4,086,560			4,086,560
Investment in bond		2,585,485		2,585,485
Total financial assets	17,348,423	2,585,485		19,933,908
Non-financial assets				3,292,461
Total assets				23,226,369
Liabilities				
Trade and other payables			4,169,466	4,169,466
Reported Claims Liabilities			6,979,053	6,979,053
Total financial liabilities			11,148,519	11,148,519
Non-financial liabilities				5,393,499
Total liabilities				16,542,018

(e) Liquidity risk

Liquidity risk is the risk that payment of obligations may not be met in a timely manner at a reasonable cost. Ultimate responsibility for liquidity risk management rests with the board of directors, who has built a liquidity risk management framework for the management of the company's short, medium and long term investment portfolio, which can be liquidated at short notice. The company has received confirmation from the parent company that the parent will provide short term funding to the Company if required to meet the Company's claim obligations.

The following tables summarise the maturity profile of the company's financial liabilities:

	Weighted Average Interest Rate %	Less than 1 year	1-5 years	5+ years	Total
2011					
Outstanding Claims Liabilities	0	2,474,866	19,576,281		22,051,147
Financial Liabilities					
Non-interest bearing payables	0	8,842,164			8,842,164
		11,317,030	19,576,281		30,893,311
	Weighted Average Interest Rate %	Less than 1 year	1-5 years	5+ years	Total
2010					
Outstanding Claims Liabilities	0	6,979,053			6,979,053
Financial Liabilities					
Non-interest bearing payables	0	4,169,466			4,169,466
		11,148,519			11,148,519

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

(f) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks are currency exchange risk, fair value interest rate risk, cash flow interest rate risk and price risk.

The Company primarily faces interest rate risk due to the nature of its investments and liabilities. The Company manages its exposure to this risk by holding the majority of such assets on short term maturities.

The following table details the Company's expected maturity for its financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets except the Company anticipates that the cash flow will occur in a different period.

	Weighted Average Interest Rate %	Less than 1 year	1-5 years	5+ years	Total
2011					
Non interest bearing					
Cash	0	2,388,658			2,388,658
Trade Debtors	0	4,823,356			4,823,356
Fixed interest rate instruments					
Short term deposits	5.12	1,507,713			1,507,713
Government bonds/others	6.14	155,600	2,853,850		3,009,450
		8,875,327	2,853,850		11,729,177

	Weighted Average Interest Rate %	Less than 1 year	1-5 years	5+ years	Total
2010					
Non interest bearing					
Cash	0	507,918			507,918
Trade Debtors	0	4,002,628			4,002,628
Fixed interest rate instruments					
Short term deposits	5.12	4,086,560			4,086,560
Government bonds/others	6.14	664,925	2,408,200		3,073,125
		9,262,031	2,408,200		11,670,231

32. CONTINGENT LIABILITIES

As at 31st December 2011, there were no contingent liabilities existing at balance date (2010: \$Nil) not otherwise provided for in these financial statements.

33. SUBSEQUENT EVENTS

No subsequent events to note.