

# Business Review



We are a leading insurance group in the PRC that is focused on providing multiple financial products and services to our customers through our multi-channel distribution network. With our principal operating subsidiaries, namely Ping An Life, Ping An Property & Casualty, Ping An Trust, Ping An Securities, Ping An Bank and Ping An Annuity, we offer our customers a wide range of financial products and services in the PRC under a single brand name, with a focus on life and property and casualty insurance products. Our core life insurance and property and casualty insurance businesses accounted for approximately 87.3% and 11.4%, respectively, of our total revenue in 2004.

We are one of the largest insurance companies in the PRC in terms of gross written premiums and policy fees. Our operations primarily consist of the underwriting of life insurance and property and casualty insurance. We had gross written premiums and policy fees of RMB60,049 million in 2004, of which RMB49,899 million, or approximately 83.1%, was from our life insurance business and RMB10,150 million, or approximately 16.9%, was from our property and casualty insurance business.





## LIFE INSURANCE

The following tables set forth certain financial and operating data for Ping An Life as of or for the periods indicated:

<b>For years ended December 31, (in RMB million, except percentages)</b>	<b>2004</b>	2003
Gross written premiums and policy fees	<b>49,899</b>	55,043
Individual life insurance	<b>35,949</b>	34,617
Bancassurance	<b>5,836</b>	10,562
Group insurance	<b>8,114</b>	9,864
Premium deposits	<b>4,830</b>	3,811
Individual life insurance	<b>4,215</b>	2,951
Bancassurance	<b>81</b>	–
Group insurance	<b>534</b>	860
Gross written premiums, policy fees and premium deposits	<b>54,729</b>	58,854
Market share of gross written premiums, policy fees and premium deposits <sup>(1)</sup>	<b>17.2%</b>	19.6%

(1) Based on our PRC GAAP financial data and PRC insurance industry data calculated in accordance with PRC GAAP and published by the National Bureau of Statistics of China.



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<b>As of or for years ended December 31,</b>	<b>2004</b>	2003
Number of customers:		
Individual (in thousands)	<b>28,362</b>	26,880
Corporate (in thousands)	<b>177</b>	188
<b>Total (in thousands)</b>	<b>28,539</b>	27,068
Persistency ratio:		
13-month	<b>87.5%</b>	85.7%
25-month	<b>80.3%</b>	79.6%
Agent productivity:		
First year premiums, policy fees and premium deposits per agent per month	<b>3,245</b>	3,039
New life insurance policies per agent per month	<b>2.3</b>	2.7

We are the second largest life insurance company in the PRC in terms of gross written premiums and policy fees. In 2004, our life insurance business accounted for approximately 17.2% of the gross written premiums, policy fees and premium deposits received by PRC life insurance companies, based on our PRC GAAP financial data and PRC insurance industry data calculated in accordance with PRC GAAP and published by the National Bureau of Statistics of China.

We are one of the most profitable life insurance companies in the PRC. During 2004, we managed our product mix to focus on developing and marketing profitable insurance products, such as regular premium individual life insurance products. As a result, gross written premiums, policy fees and premium deposits from our individual life insurance products accounted for approximately 73.4% of the gross written premiums, policy fees and premium deposits for our life insurance business in 2004, compared to approximately 63.8% in 2003. In particular, substantially all of individual life insurance first year premium were from regular premium products in 2004. Our focus on regular premium individual life insurance products provides us with a stable revenue stream that helps us generate sustainable longer term profits.

In addition, among all the new products that we launched in 2004, universal life insurance products, which were launched in May 2004, experienced significant growth. Gross written premiums, policy fees and premium deposits attributable to universal life insurance products accounted for a substantial portion in the total gross written premiums, policy fees and premium deposits from all our new businesses in the second half of 2004.



*Note:* Calculated based on gross written premiums, policy fees and premium deposits for the year ended December 31, 2004.

In 2004, our group insurance business focused on short-term accident and health insurance businesses. Furthermore, we have managed the sales of our bancassurance products with a view towards maintaining the profitability of our bancassurance business.

In addition, we continued to rationalize our individual life insurance sales force in 2004 and stabilized the number of our individual life insurance sales agents at approximately 200,000. Moreover, through the continued refinement of our sales agents training system, we enhanced the productivity and professionalism of our sales agents. We have also continued our efforts in enhancing customer service. As a result, the 13-month and 25-month persistency ratios for our individual life insurance customers improved to 87.5% and 80.3%, respectively, as of December 31, 2004 from 85.7% and 79.6%, respectively, as of December 31, 2003.

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## Products

Our primary life insurance products include individual life insurance products, bancassurance products and group insurance products.

### *Individual Life Insurance*

We have four principal categories of individual life insurance products: traditional non-participating life insurance, traditional participating life insurance, accident and health insurance as well as non-traditional life insurance. In 2004, gross written premiums, policy fees and premium deposits from our individual life insurance products accounted for approximately 73.4% of the gross written premiums, policy fees and premium deposits received by our life insurance business.

#### Traditional Non-Participating Life Insurance

Our primary traditional non-participating life insurance products include whole life insurance, term life insurance and endowment life insurance. Our whole life insurance products generally provide insurance covering the life span of the insured party in exchange for the periodic payment of a fixed premium during the life span of the insured party or over a pre-determined period. Our term life insurance products generally provide insurance for the insured party over a specified time period in exchange for the periodic payment of a fixed premium. Our endowment life insurance products generally provide insurance for the insured party during the policy period as well as maturity benefits at the end of the policy period.

#### Accident and Health Insurance

Our accident insurance products generally provide a guaranteed benefit in the event of death or disability of the insured party as a result of an accident during the policy period. The disability benefit we pay to the insured party will vary according to the type of disability afflicted upon such insured party. Our health insurance products generally provide for a daily hospital allowance or reimbursement of actual hospital expenses incurred by the insured party. We generally offer our accident and health insurance policies for a term of one year.

#### Traditional Participating Life Insurance

Our primary traditional participating life insurance products include whole life insurance and endowment life insurance. In addition to providing the benefits offered under our traditional non-participating life insurance products, our traditional participating life insurance products also entitle policyholders to receive dividends in the event our participating products have a distributable surplus in any year during the policy period.

## Non-Traditional Life Insurance

Our primary non-traditional life insurance products include investment-linked life insurance and universal life insurance. We offered investment-linked life insurance to our customers from October 1999 to June 2003. An investment-linked life insurance is an insurance policy that provides insurance for the insured party during the policy period and an investment return linked to an investment option selected by the policyholder. In June 2003, the China Insurance Regulatory Commission (the "CIRC") imposed additional regulations on investment-linked life insurance products. As a result of the CIRC regulation, we stopped selling investment-linked life insurance products. However, we continue to collect renewal premiums associated with the investment-linked life insurance policies sold before the end of June 2003. Universal life insurance is another form of permanent life insurance that has either a flexible or single premium. A universal life insurance contract has an adjustable benefit feature that provides the customer with greater flexibility on when to pay any premiums and the amount of the premium. For universal life insurance products, the more a customer pays in premium, the greater the cash value will be. The interest rate at which the cash value accumulates is adjusted periodically. Universal life insurance has a stated minimum interest rate that will be paid on the policy's cash value.

### *Bancassurance*

Our bancassurance products primarily consist of participating endowment life insurance, participating deferred annuities and accident insurance, and are generally single premium insurance products. The participating endowment life insurance products offered as part of our bancassurance products generally have the same characteristics as the endowment life insurance products offered as part of our individual life insurance products, except that the majority of these policies are single premium products with 5 year and 10 year maturities. Holders of our participating deferred annuities contribute premiums during an accumulation period and either the holder or the beneficiary receives either a lump sum payment upon attaining the annuity vesting age or an annual payment beginning upon the attainment of the annuity vesting age and ending upon the death of the holder and dividends to the extent that our participating products have a distributable surplus in the accumulation period. In 2004, gross written premiums, policy fees and premium deposits from our bancassurance products accounted for 10.8% of the gross written premiums, policy fees and premium deposits received by our life insurance business.

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## *Group Insurance*

We have four principal categories of group insurance products: group traditional non-participating life insurance, group accident and health insurance, group traditional participating deferred annuity and group non-traditional deferred annuity. The group traditional non-participating life insurance and group accident and health insurance products generally have similar characteristics as the products offered as part of individual life insurance products. The group traditional participating deferred annuity products generally have similar characteristics as the products offered as part of bancassurance products. The group non-traditional deferred annuity products have a combination of the characteristics of investment-linked insurance products and deferred annuity insurance products. In 2004, gross written premiums, policy fees and premium deposits from our group insurance products accounted for approximately 15.8% of the gross written premiums, policy fees and premium deposits received by our life insurance business.

## *Legacy High Guaranteed Return Products*

Like other major PRC life insurance companies, we offered life insurance products with relatively high guaranteed rates of return equal to or in excess of 5% from 1995 to 1999, primarily as a result of the then prevailing high market interest rates. In June 1999, the CIRC imposed a cap of 2.5% with respect to the guaranteed rate of return a life insurance company may offer on its products. As a result, we have offered guaranteed return products with rates of return equal to or less than 2.5% since June 1999. The policyholders' reserves for life insurance policies with high guaranteed rates of return as calculated based on our PRC GAAP financial data represented 42.0% of our total policyholders' reserves as of December 31, 2004 compared to 45.3% as of December 31, 2003. The average pricing rate for all of our guaranteed return life insurance products decreased to 4.8% in 2004 from 5.0% in 2003. We expect these high guaranteed return life insurance policies to decline as a percentage of our total in-force life insurance policies as our new policies with lower or no guaranteed rates of return continue to grow.

## **Distribution Network**

Our life insurance products are primarily distributed through a distribution network that includes a sales force of approximately 200,000 individual insurance sales agents, approximately 1,600 group insurance sales representatives and approximately 20,000 branch offices of China Post and commercial banks in the PRC that have bancassurance arrangements with us.

The following table sets forth certain information of our life insurance distribution channels as of the dates indicated:

<b>As of December 31,</b>	<b>2004</b>	2003
Number of individual life sales agents	<b>199,997</b>	188,033
Number of group sales representatives	<b>1,605</b>	1,275
Bancassurance outlets	<b>20,023</b>	21,299

*Individual Life Insurance.* We are one of the first PRC insurance companies to introduce an agency-based distribution model for the individual life insurance business. We are also a leader in the PRC insurance industry in managing, training and supporting our individual life insurance sales agents, and we are continuously upgrading our sales management infrastructure to maintain our leadership position.

*Bancassurance.* We have bancassurance arrangements with China Post, the four largest national commercial banks and many other national and regional commercial banks in the PRC for the distribution of our bancassurance products. These arrangements currently extend across the PRC in approximately 130 cities.

*Group Insurance.* Our group insurance sales representatives are based in our various branch and sub-branch offices throughout the PRC. These group sales representatives provide life insurance and retirement planning advice and sell health and other short-term insurance to institutional customers. We also distribute our group insurance products through insurance intermediaries, such as institutional insurance agents, insurance brokers and ancillary agency organizations.

*Cross-Selling.* We have achieved significant success in cross-selling our life insurance products to our property and casualty insurance customers. Life insurance gross written premiums, policy fees and premium deposits obtained through cross-selling to our property and casualty insurance customers have increased 15.4% to RMB540 million in 2004 from RMB468 million in 2003. We expect cross-selling to become an important distribution channel for Ping An Life and make a significant contribution to our future growth.

*Alternative Distribution Channels.* In addition to the distribution channels described above, we distribute our life insurance products through many other alternative distribution channels, including, among others, our nationwide call center 95511, our PA18 Internet financial portal and direct mailing.



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## Customers

As of December 31, 2004, approximately 43.2% of the gross written premiums, policy fees and premium deposits received by our life insurance operations were attributable to customers located in or near Shanghai, Beijing, Nanjing, Guangzhou and Qingdao, which are among the more economically developed areas in the PRC. We believe these and other more economically developed areas will continue to offer greater potential for further profitable growth. As of December 31, 2004, we had approximately 28 million individual customers and approximately 177,000 corporate customers.

## PROPERTY & CASUALTY INSURANCE

The following tables set forth certain financial and operating data for our property and casualty insurance operations as of or for the periods indicated:

<b>For years ended December 31, (in RMB million, except percentages)</b>	<b>2004</b>	2003
Gross written premiums	<b>10,150</b>	8,091
Automobile	<b>6,232</b>	4,589
Non-automobile	<b>3,545</b>	3,351
Accident and health	<b>373</b>	151
Market share of gross written premiums and policy fees <sup>(1)</sup>	<b>9.5%</b>	9.7%

(1) Based on our PRC GAAP financial data and PRC insurance industry data calculated in accordance with PRC GAAP and published by the National Bureau of Statistics of China.

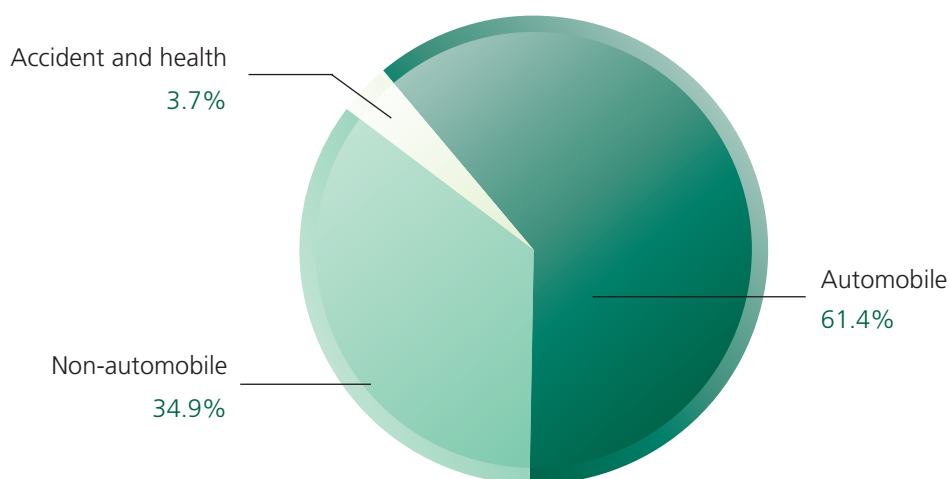
<b>As of or for years ended December 31,</b>	<b>2004</b>	2003
Combined Ratio:		
Expense ratio	<b>20.2%</b>	21.2%
Loss ratio	<b>77.0%</b>	78.5%
Combined ratio	<b>97.2%</b>	99.7%
Number of customers:		
Individual (in thousands)	<b>5,519</b>	3,933
Corporate (in thousands)	<b>613</b>	515
Total (in thousands)	<b>6,132</b>	4,448

Ping An Property & Casualty is the third largest property and casualty insurance company in the PRC in terms of gross written premiums. In 2004, our property and casualty insurance business accounted for approximately 9.5% of the gross written premiums received by PRC property and casualty insurance companies, based on our PRC GAAP financial data and PRC insurance industry data calculated in accordance with PRC GAAP and published by the National Bureau of Statistics of China.

In 2004, based on our detailed customer segmentation, we conducted a trial reform of the corporate structure of our branches for property and casualty insurance business. Under this trial reform, we set up different sales teams for individual customers and corporate customers to accommodate their specific product and service needs. In addition, we have also formulated an improved sales management system, and achieved breakthroughs in cross-selling and new sales channels including, among others, our nationwide call center 95511, our PA18 Internet financial portal and direct mailing.

### Products

Our primary property and casualty insurance products include automobile insurance, non-automobile insurance and accident and health insurance.



*Automobile Insurance.* Automobile insurance is our leading property and casualty insurance product in terms of gross written premiums. Our standard automobile insurance policy is for a term of one year, and covers damages caused to the insured vehicle by collision, fire, explosion, typhoons or mudslides, as well as damages caused when the insured vehicle is stolen. In addition, our standard automobile insurance policy covers liability to the third parties. We also offer a number of riders to our automobile insurance customers that cover losses such as liability to passengers, cargo and vandalism. Gross written premiums from our automobile insurance products were RMB6,232 million, accounting for approximately 61.4% of the gross written premiums received by our property and casualty insurance business in 2004.

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*Non-automobile insurance.* Our primary non-automobile insurance products include, among others, commercial property insurance, homeowners insurance, cargo insurance, liability insurance and hull insurance. Gross written premiums from our non-automobile insurance products were RMB3,545 million, accounting for approximately 34.9% of the gross written premiums received by our property and casualty insurance business in 2004. Commercial property insurance is our second leading property and casualty insurance product in terms of gross written premiums. Our basic commercial property insurance policy covers loss of, or damage to, insured property caused by fire, explosion or lightning. Our comprehensive commercial property insurance policy covers loss of, or damage to, insured property caused by fire, explosion, lightning, flood, typhoon, hailstorm, mudslides, tornado and hurricane. Our commercial all risk property insurance policy covers all causes of loss not specifically excluded from the coverage. Homeowners insurance covers loss of, or damage to, insured property caused by fire, explosion, hailstorm, flood, typhoon and/or burglary. We offer cargo insurance that covers goods in transit by vessel, airplane or any ground vehicle. We offer liability insurance products such as employer's liability, public liability, product liability and professional liability insurance. Our liability insurance policies generally cover losses of third parties due to the misconduct or negligence of the insured party and exclude losses due to fraud or the willful misconduct of the insured party. Hull insurance covers loss of, or damage to, an insured vessel, including its hull, life rafts, machinery, instruments and fuel, caused by earthquake, volcanic explosion, fire, collision and the willful misconduct of crew members.

*Accident and Health Insurance.* Our accident insurance products generally provide a guaranteed benefit in the event of death or disability of the insured party as a result of an accident during the policy period. The disability benefit we pay to the insured party will vary according to the type of disability afflicted upon such insured party. Our health insurance products generally provide for a daily hospital allowance or reimbursement of actual hospital expenses incurred by the insured party. Gross written premiums from our accident and health insurance products accounted for approximately 3.7% of the gross written premiums received by our property and casualty insurance business in 2004.

In addition to the products listed above, we also offer a number of other property and casualty insurance products, including construction personal injury insurance, mortgage guarantee insurance, parcel insurance, container insurance, satellite launch insurance, nuclear power plant insurance and offshore oil drilling insurance.

## Distribution Network

The distribution network for our property and casualty insurance products includes 35 branch offices located in substantially all of the PRC's provinces, autonomous regions and municipalities, together with over 1,000 sub-branches located throughout the PRC. We distribute our property and casualty insurance products primarily through our in-house sales representatives and through various intermediaries, such as banks and automobile dealerships, and insurance brokers.

The following table sets forth certain information of our property and casualty insurance distribution channels as of the dates indicated:

<b>As of December 31,</b>	<b>2004</b>	2003
Number of direct sales representatives	<b>6,975</b>	6,742
Number of insurance agents	<b>6,168</b>	7,589

*Cross-Selling.* We have achieved significant success in cross-selling our property and casualty insurance products to our life insurance customers. Property and casualty insurance premiums obtained through cross-selling to our life insurance customers have increased 97.1% to RMB873 million in 2004 from RMB443 million in 2003. We expect cross-selling to become an important distribution channel for Ping An Property and Casualty and make a significant contribution to our future growth.

## Customers

As of December 31, 2004, approximately 31.8% of the gross written premiums received by our property and casualty insurance business were attributable to customers located in or near Shanghai, Guangzhou, Beijing and Shenzhen, which are among the more economically developed areas in the PRC. We believe these and other more economically developed areas will continue to offer greater potential for further profitable growth. As of December 31, 2004, we had approximately 5.5 million individual customers and approximately 0.6 million corporate customers.

## PING AN TRUST

We provide asset management services to our customers through Ping An Trust. In addition, Ping An Trust acts as an investment holding company for some of our long-term equity investments and provides real estate development, management and leasing services to our other subsidiaries. As of December 31, 2004, trust service assets held in trust increased to RMB1,084 million from RMB189 million as of December 31, 2003. In November 2004, we successfully developed and completed the sales of four trust products with an aggregate amount of RMB960 million. We loaned the proceeds from the sales to borrowers involved in certain infrastructure projects in China, and the repayment obligations of these borrowers are guaranteed by China Development Bank.

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## PING AN SECURITIES

We conduct our securities business through our Ping An Securities, and provide securities services to customers through 22 branch offices nationwide and through our PA18 Internet financial portal. The principal services that we provide to our customers are brokerage services, investment banking services, asset management services and research and consulting services. Brokerage services consist of executing stock and bond trades on the Shanghai and Shenzhen stock exchanges for customers, holding physical securities on behalf of customers and facilitating the payment of dividends and interest repayment of outstanding principal amounts to customers. Investment banking services include securities underwriting, financial advice for mergers and acquisitions and restructurings, securities business training and the provision of market and trading information. Asset management services consist of managing securities portfolios of clients and providing asset management advice. Despite the poor market conditions, Ping An Securities had a net profit of RMB6 million in 2004.

## PING AN BANK

Ping An Bank was formerly known as the Fujian Asia Bank Ltd., a sino-foreign joint venture bank. We currently own 73% of Ping An Bank's equity interest, while The Hongkong and Shanghai Banking Corporation ("HSBC") owns the remaining 27% equity interest. Ping An Bank is primarily engaged in the foreign currency commercial banking business in the PRC. Ping An Bank experienced significant growth in 2004. The balance of Ping An Bank's outstanding loans increased to RMB71 million as of December 31, 2004 from RMB7 million as of December 31, 2003. The balance of Ping An Bank's customer deposits increased to RMB29 million as of December 31, 2004 from RMB2 million as of December 31, 2003. Ping An Bank's net profit increased to RMB3 million in 2004.

We intend to leverage our broad customer base and HSBC's global settlement network to enable Ping An Bank to target potential customers including, among others,

- large and medium-sized companies for the loan businesses,
- medium and small-sized export oriented companies for the loan businesses,
- international settlement businesses,
- foreign-invested enterprises, and
- high net-worth individuals for the foreign currency deposit businesses.

In February 2005, Ping An Bank received approval from the China Banking Regulatory Commission to relocate its headquarters from Fujian to Shanghai.

## RECENT DEVELOPMENTS

We established Ping An Annuity as a wholly-owned subsidiary on December 13, 2004. We are one of the first PRC insurance companies to establish a specialized annuity insurance company, and we are currently in the process of applying for qualifications from the Ministry of Labor and Social Security to engage in retirement fund management.

In September 2004, we received approval from the CIRC for the preparation of establishing Ping An Health to specialize in the health insurance business. Ping An Health is expected to be established in the first half of 2005, and our existing accident and health insurance businesses will be transferred from Ping An Life and Ping An Property & Casualty to Ping An Health.

We believe that specialized insurance companies, such as Ping An Annuity and Ping An Health, allow us to capitalize on the growth opportunities in the PRC retirement fund management and health insurance markets.

Moreover, we have invested heavily in the back-office support centralization project and have completed the initial phase of our national back-office support center in Zhangjiang, Shanghai. Our national back-office support center will consist of an administrative unit, an accounting and operations unit, an information technology unit and integrated business processing centers based on different business lines. The business processing centers aim to centrally process all back-office business operations.

Upon completion, our national back-office support center will become one of the largest financial back-office support centers in Asia and will help us raise the quality and service efficiency of our Group to international standards. In particular, we believe that the new national back-office support center will enhance our marketing capabilities, improve and centralize our management of underwriting and claims for both life insurance and property and casualty insurance, enhance our internal controls and risk management system, increase our management efficiency through proper division of responsibilities among different levels of management, and reduce operating costs and improve our overall profitability.

## Regulatory Developments

In 2004, the CIRC and other relevant PRC regulatory authorities promulgated a series of new insurance regulations relating to, among others, insurance asset management companies, subordinated debt issued by insurance companies, new investment channels of insurance companies, insurance company management and insurance guarantee fund.

### *Provisional Regulations Governing Insurance Asset Management Companies*

On April 21, 2004, the CIRC issued the *Provisional Regulations Governing Insurance Asset Management Companies*, which set forth regulations on the establishment, modification, termination, scope of business, risk control and supervision and administration of insurance asset management companies. According to such regulations, insurance companies and insurance holding companies meeting certain conditions may establish insurance asset management companies, subject to regulatory approvals. These regulations became effective as of June 1, 2004.

### *Provisional Measures Governing Fixed-term Subordinated Debt of Insurance Companies*

On September 29, 2004, the CIRC issued the *Provisional Measures for Administration of Subordinated Term Debts of Insurance Companies*, which permit insurance companies to issue subordinated debt, subject to CIRC approval.

### *Regulations on Investments by Insurance Companies*

On March 29, 2004, the CIRC issued the Notice on Certain Issues Relating to *Investments in Fixed-term Bank Subordinated Debt by Insurance Companies*, which permit insurance companies to invest in the subordinated debt issued by the wholly state-owned banks and joint stock commercial banks with nationwide operations in the PRC.

On July 23, 2004, the CIRC issued the *Notice on Certain Issues Relating to Investments in Convertible Corporate Bonds by Insurance Companies*, which permit insurance companies to invest in the convertible corporate bonds.

On August 9, 2004, the CIRC and the People's Bank of China jointly issued the *Provisional Measures Governing Overseas Use of Insurance Foreign Exchange Funds*, which permit insurance companies meeting certain conditions to invest in, with their foreign exchange funds, the following instruments or products in the overseas market:

- bank deposits;
- foreign government bonds, international financial institution bonds and foreign corporate bonds;
- overseas bonds issued by the PRC government or PRC companies;
- bank notes, large-amount transferrable certificates of deposit and other currency market products; and
- other products or instruments as stipulated by the PRC State Council.

On October 24, 2004, the CIRC and the China Securities Regulatory Commission jointly issued the *Provisional Regulations on Administration of Stock Investment of Insurance Institutional Investors*, which permit insurance companies meeting certain conditions to invest in, directly or indirectly through qualified insurance asset management companies, the following securities products in the PRC:

- Renminbi-dominated ordinary shares;
- convertible corporate bonds; and
- other securities products as stipulated by the CIRC.

On December 30, 2004, the CIRC issued the *Notice on Investments in Insurance Company Fixed-term Subordinated Debt by Insurance Companies and Insurance Asset Management Companies*, which permit eligible insurance companies and insurance asset management companies to invest in subordinated debt issued by PRC insurance companies.

#### *Administrative Regulations for Insurance Companies*

On May 13, 2004, the CIRC issued the updated *Administrative Regulations for Insurance Companies*, which set forth regulations for the insurance institutions, insurance operations, insurance terms and premium rates, insurance funds and supervision and examination. These regulations became effective as of June 15, 2004.

#### *Administrative Measures for Insurance Guarantee Fund*

On December 30, 2004, the CIRC issued the *Administrative Measures for Insurance Guarantee Fund*, under which insurance companies in the PRC are required to make contributions to an insurance guarantee fund, which is managed by the CIRC. Such contributions are to be made on a quarterly basis until the balance of the total contributions by an insurance company reaches a certain percentage of the total assets of such insurance company. The insurance guarantee fund may be used by the CIRC to make payments to policyholders or insurance policy transferees when the license of an insurance company is revoked or when an insurance company is declared bankrupt. These regulations became effective as of January 1, 2005.

#### *Provisional Guidelines for Risk Control Associated with Use of Insurance Funds*

On April 28, 2004, the CIRC issued the *Provisional Guidelines for Risk Control Associated with Use of Insurance Funds*, which set forth requirements for each insurance company to establish a risk control system in connection with the use of insurance funds. These provisional guidelines become effective as of June 1, 2004.



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## *New Development of Third Party Liability Insurance and Compulsory Automobile Third Party Liability Insurance*

On December 26, 2003, the PRC People's Supreme Court issued the Judicial Explanations Regarding Certain Issues with respect to the Application of Laws in Hearing Personal Injury Cases, which became effective as of May 1, 2004. Under such judicial explanations, the amount of remedy that can be awarded in personal injury cases was raised significantly, which in turn increased premium rates as well as claims of our third party liability insurance products.

On October 28, 2003, the National People's Congress promulgated the PRC Road Safety Law, which became effective as of May 1, 2004. Under such road safety law, automobile owners are required to carry third party liability insurance. In the event of an accident, insurance companies are required to pay for damages, up to the policy limits, of the injured third party, regardless of who was at fault for the accident.