

Connected Transactions

To ensure the continual normal operations of the Company's business after the restructuring, the Company, prior to the restructuring, entered into several agreements with CLIC, that document the relationship following the restructuring. In addition, AMC entered into two asset management agreements, one with the Company and one with CLIC. The transactions contemplated under these agreements constitute connected transactions for the Company.

1. POLICY MANAGEMENT AGREEMENT

As part of the Restructuring, CLIC transferred its entire branch services network to the Company. In order to capitalize on the large customer base of CLIC, increase the utilization of our customer service network and increase our revenue sources, CLIC engaged the Company to provide policy administration services relating to the retained policies ("non-transferred policies") after the restructuring.

The Company and CLIC entered into a policy management agreement on September 30, 2003 which sets out the responsibilities and duties of the Company to CLIC under these policy administration arrangements. Pursuant to the policy management agreement, the Company agreed to provide policy administration services to CLIC relating to the non-transferred policies, including day-to-day insurance administration services, customer services, statistics and file management, invoice and receipt management, reinstatement of non-transferred policies, applications for and renewal of riders to the non-transferred policies, reinsurance, and handling of disputes relating to the non-transferred policies. The Company acts as a service provider under the agreement and does not acquire any rights or assume any obligations as an insurer under the non-transferred policies.

In consideration of the services provided by the Company under the agreement, CLIC will pay the Company a service fee based on the estimated cost of providing the services, to which a profit margin is added. The service fee is equal to, for each semi-annual payment period, the sum of (1) the number of non-transferred policies in force as of the last day of the period, multiplied by RMB8.0; (2) 2.50% of the actual premiums and deposits in respect of such policies collected during the period. For these purposes, the number of policies in-force for group insurance policies is equal to the number of individuals covered by the policies (excluding those whose policies have lapsed or matured).

The agreement is for an initial term expiring on December 31, 2005, and, subject to the Listing Rules, will be automatically renewed for successive one year terms, unless terminated by either party by giving to the other party not less than 180 days' prior written notice to terminate the agreement at the expiration of the then current term.

2. ASSET MANAGEMENT AGREEMENTS

The AMC has entered into two asset management agreements, effective on November 30, 2003, one with the Company and one with CLIC. The terms of these two asset management agreements are the same. The material terms of the asset management agreement between CLIC and the AMC are set forth below.

Under the asset management agreement between the AMC and CLIC, the AMC agreed to invest and manage assets entrusted to it by CLIC on a discretionary basis, but subject to the investment guidelines and instructions given by CLIC. In accordance with the agreement, CLIC retains the title of the entrusted assets and the AMC is authorized to operate the accounts associated with the entrusted assets for and on behalf of CLIC.

In consideration of the AMC's services provided under the agreement, CLIC agreed to pay the AMC a monthly service fee. The monthly service fee payable is composed of two parts: (1) the aggregate of the monthly service fee for each specified category of assets and (2) the aggregate of the additional service fee for specific transactions made during that month. The monthly service fee is calculated on a monthly basis, by multiplying the average of net asset value of the assets in each such category under management at the end of any given month and the end of the previous month by the applicable annual rate for that month and divided by 12. The monthly additional service fee comprises service fees for (1) additional term deposits and (2) additional securities purchased in primary markets made during that month, and is calculated by multiplying the net additional asset value of the assets in such category at the end of that particular transaction month by the applicable annual rate.

The AMC will produce an annual report, within 90 days of the conclusion of each fiscal year, setting out the average investment rate of return of the assets managed by it. If the average investment rate of return for the assets managed for a particular year exceeds the investment rate of return as previously agreed between CLIC and the AMC for those assets for that year, by at least ten basis points, the AMC will be entitled to an annual performance bonus fee, the amount of which will be agreed between CLIC and the AMC but shall not exceed 50% of the annual service fees for that year. If the average investment rate of return is less than the investment rate of return as agreed between CLIC and the AMC by at least ten basis points, the AMC will be required to rebate a portion of its fee, the amount of which shall not exceed 25% of the annual service fees for that year.

The service fee under the asset management agreement was determined by CLIC and the AMC based on an analysis of the cost of providing the service, market practice and the size and composition of the asset pool to be managed.

The agreement is for an initial term expiring on December 31, 2005, and, subject to the Listing Rules, will be automatically renewed for successive three years terms, unless terminated by either party giving to the other party not less than 90 days' prior written notice to terminate the agreement at the expiration of the then current term.

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3. PROPERTY LEASING AGREEMENT

The Company entered into a property leasing agreement with CLIC on September 30, 2003, pursuant to which CLIC agreed to lease to the Company (1) 833 properties owned by CLIC, its subsidiaries and affiliates (“Owned Properties”) and (2) 1,764 properties which CLIC is entitled to sublet (“Leased Properties”) for an aggregate initial annual rent (payable quarterly) of approximately RMB335 million. The properties occupied by the Company are mainly used as its office premises. The annual rent payable by the Company to CLIC in relation to CLIC’s Owned Properties is determined by reference to market rent or, where there is no available comparison, by reference to the costs incurred by CLIC in holding and maintaining the properties, plus a margin of approximately 5%. The annual rent payable by the Company to CLIC in relation to CLIC’s Leased Properties will be determined by reference to the rent payable under the head lease plus the actual costs incurred by CLIC arising in connection with the subletting of the properties.

The agreement is for a fixed term expiring on December 31, 2005, unless otherwise required by the Listing Rules. In relation to CLIC’s Leased Properties, the term of such properties will expire at the expiration of the respective head leases, and in any event, will expire no later than December 31, 2005.

Application for waiver from The Hong Kong Stock Exchange

Pursuant to the Listing Rules of the Hong Kong Stock Exchange, the above connected transactions would normally require full disclosure and with prior approval by independent shareholders and/or the Hong Kong Stock Exchange on each occasion it arises, depending on the nature and value of the transaction. The Company, in the course of its application for the listing, has submitted the application for waiver from the Hong Kong Stock Exchange regarding to the full disclosure of the above transactions required by the Listing Rules, and the Hong Kong Stock Exchange has conditionally waived the ongoing disclosure responsibilities of the Company.

Figures for the year ended December 31, 2004

The aggregate value of each of the above connected transactions for the year ended December 31, 2004 is set out below:

Connected Transactions	The aggregate value for the year ended December 31, 2004 (RMB million)
1. Policy management agreement	1,667
2. Asset management agreement	
(a) between CLIC and the AMC	73
(b) between the AMC and the Company	139
3. Property leasing agreement	335

Confirmation of independent non-executive Directors:

Independent non-executive Directors have reviewed the above connected transactions and confirmed that the transactions were:

- (i) entered into in the ordinary and usual course of the business of the Company;
- (ii) conducted either on normal commercial terms or on terms that are fair and reasonable so far as our independent shareholders are concerned;
- (iii) entered into either in accordance with the agreements governing those transactions or where there are no such agreements, on terms no less favorable than those available to or from independent third parties; and
- (iv) within the relevant annual caps as agreed with the Hong Kong Stock Exchange.





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