

SUPERVISION AND REGULATION

INSURANCE BUSINESS

Overview

The insurance industry is heavily regulated in the PRC. The CIRC is the regulatory authority supervising the insurance industry. The applicable laws and regulations governing insurance activities undertaken within the territories of the PRC consist principally of the PRC Insurance Law and rules and regulations promulgated thereunder.

Initial Development of Regulatory Framework

The PRC Insurance Law was enacted in 1995, and provided the initial framework for the regulation of PRC insurance industry. Among other things, the major steps taken under the PRC Insurance Law were the following:

- *Licensing of insurance companies and insurance intermediaries.* The PRC Insurance Law, among other things, established requirements for minimum registered capital levels, form of organization, qualification of senior management and the adequacy of the information systems for insurance companies, insurance agencies and brokers.
- *Separation of life insurance and property and casualty insurance.* The PRC Insurance Law classified insurance between life, accident and health insurance businesses, on the one hand, and property, casualty, liability and credit insurance businesses on the other hand.
- *Regulation of market conduct.* The PRC Insurance Law prohibited fraudulent and other unlawful conduct by market participants.
- *Regulation of insurance products.* The PRC Insurance Law gave insurance regulatory authority the power to approve the policy terms and premium rates for certain insurance products.
- *Financial condition and performance of insurance companies.* The PRC Insurance Law established reserve and solvency standards for insurance companies, imposed restrictions on investment powers and established compulsory reinsurance requirements, and put in place a reporting system to facilitate monitoring by insurance regulatory authority.
- *Supervisory and enforcement powers of the regulatory authority.* The PBOC, the then regulatory authority, was given broad powers under the PRC Insurance Law to regulate the insurance industry.

Establishment of the CIRC and 2002 Amendment to the PRC Insurance Law

The CIRC was established in 1998, and was given the mandate to implement reform in the PRC insurance industry, minimize solvency risk for insurers, broaden the types of investment for insurance companies and promote the development of the PRC insurance market.

On 28 October 2002, the PRC Insurance Law was amended followed by a series of regulations promulgated by the CIRC, which reflected a gradual shift in the regulatory environment to a more transparent regulatory process and a convergent movement toward international practices. Significant changes include:

- the increase in the level of disclosures required to be made to the CIRC by insurance companies;
- more stringent reserve and solvency requirements;
- greater freedom for insurance companies to develop insurance products;
- broader investment channels for insurance companies, including allowing insurers to make equity investments in insurance-related enterprises, such as asset management companies;

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- increased penalties for insurance market misconduct;
- gradual phasing out of compulsory reinsurance as a result of the PRC's accession into the WTO; and
- reduction of barriers to entry into the PRC insurance industry, including allowing property and casualty insurers to provide the accident and short-term health insurance products, and allowing more foreign insurers to enter into the PRC insurance industry.

2009 Amendment to the PRC Insurance Law

On 28 February 2009, the Standing Committee of the National People's Congress promulgated the further amended PRC Insurance Law, effective on 1 October 2009. In order to reflect the changes in the PRC insurance industry, significant amendments have been made to the PRC Insurance Law, including:

- providing more protection for policyholders, such as imposing restrictions on the termination of insurance policies by insurance companies, limiting an insurance company's ability to exonerate itself from claims and benefit payments and defining the procedures and time limits to facilitate claims settlement for the insureds;
- stipulating that, where the object of a property insurance contract is transferred, the transferee shall succeed to the rights and obligations of the insured specified in the property insurance contract;
- greater regulatory oversight by the CIRC, including oversight of related party transactions and supervision of systematic solvency margin management;
- clarifying legal liabilities and promoting legal compliance in the insurance industry;
- broadening the investment channels for insurance funds, including bank deposits, bonds, stocks, securities investment funds, real estate and other channels as provided by the State Council;
- expanding the organizational forms of insurance companies;
- expanding the business scope of insurance companies, including life insurance business, property and casualty insurance business and other insurance-related businesses as approved by the CIRC; and
- eliminating the requirement of giving priority to reinsurers incorporated in the PRC when an insurance company seeks reinsurance.

The CIRC

The CIRC has extensive supervisory authority over insurance companies operating in the PRC, including:

- promulgation of regulations applicable to the PRC insurance industry;
- examination of insurance companies;
- establishment of investment regulations;
- approving the policy terms and premium rates for certain insurance products;
- setting of standards for measuring the financial soundness of insurance companies;
- requiring insurance companies to submit reports concerning their business operations and condition of assets; and
- ordering the suspension of all or part of an insurance company's business.

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Authorization

Under the PRC Insurance Law, the Administrative Regulations for Insurance Companies and other relevant rules and regulations, a permit must be obtained from the CIRC in order to engage in the insurance business. An insurance company is entitled to obtain such permits, subject to, among other things, the following conditions:

- the major shareholder of an insurance company must have good credit standing, be able to sustain its profitability, have no record of material violation of laws and regulations within the past three years, and have net assets of no less than RMB200 million;
- the articles of association of an insurance company must comply with the requirements under the PRC Insurance Law and the PRC Company Law;
- the paid-in registered capital must be no less than RMB200 million;
- directors, supervisors and senior management personnel of an insurance company must have requisite professional knowledge and experience;
- an insurance company must have a sound organization and management system; and
- an insurance company must have business place and office facility suitable for the business development.

Scope of Business Activities

The PRC Insurance Law limits the scope of business activities of insurance companies. Life insurance companies may not engage in property and casualty insurance business in the PRC. Property and casualty insurance companies may not engage in the life insurance business. However, with the approval from the CIRC, a property and casualty insurance company may engage in the short-term health insurance and accident insurance businesses. With the approval of the CIRC, different companies within the same corporate group may separately engage in life insurance and property and casualty insurance businesses. With approval of the CIRC, an insurance company may also engage in other insurance-related businesses. The specific scope of business of an insurance company and the geographic area that an insurance company may operate in must be approved by the CIRC or its designated organizations. Insurance companies may also engage in ceding reinsurance and assuming reinsurance, subject to the CIRC approval.

Under the Interim Administrative Regulations for Foreign Exchange of Insurance Business, an insurance company may engage in foreign exchange insurance business with the approval from the State Administration for Foreign Exchange or its local branches.

Corporate Governance

In accordance with the PRC Company Law, the PRC Insurance Law, the Tentative Guidelines for Standardization of the Corporate Governance Structure, effective as of 5 January 2006, the Opinions on Regulating the Articles of Association of Insurance Companies (關於規範保險公司章程的意見), effective on 1 October 2008, the Guidelines on the Operation of the Board of Directors of Insurance Companies (保險公司董事會運作指引), effective on 1 October 2008, and other relevant regulations, insurance companies are required to establish a corporate governance structure under which management and supervisory powers and responsibilities are divided among the shareholders, the board of directors, the board of supervisors and senior management. Insurance companies are required to appoint at least two independent directors and establish an audit committee and a nomination and remuneration committee of the board of directors. They are also required to establish a supervisory board to oversee and supervise the board of directors, senior management and other officers and to review and supervise the company's financial activities.

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The Tentative Guidelines for Standardization of the Corporate Governance Structure also require insurance companies to establish an audit department, a risk management department and a compliance department. Insurance companies' internal regulations in respect of connected party transactions need to be implemented and filed with the CIRC and material resolutions of the shareholders' meetings and board meetings must be reported to the CIRC within 30 days after the passing of such resolutions. In addition, the board of directors of an insurance company must submit its internal control evaluation report, risk assessment report and compliance report to the CIRC each year. Furthermore, the CIRC may conduct on-site inspection in respect of the corporate governance practices of insurance companies. The Opinions on Regulating the Articles of Association of Insurance Companies regulate the basic contents of the articles of association of an insurance company and specify the procedures for formulating and amending these articles. The CIRC also promulgated the Guidelines for the Operation of Board of Directors of Insurance Companies, which set forth more detailed guidelines on the appointment and removal of directors, director's qualifications and review of directors' discharge of duties. The Guidelines also require the articles of association of insurance companies to specify the ratio between independent directors, outside directors and executive directors on their boards.

On 28 February 2005, the CIRC also promulgated the Guidelines for the Corporate Governance of Insurance Intermediaries (Trial Implementation) and Guidelines for the Internal Control of Insurance Intermediaries (Trial Implementation), both of which set forth criteria for the corporate governance and internal control of insurance intermediaries.

Pursuant to relevant provisions under the Administration of Director and Senior Management Qualifications of Insurance Companies, effective as of 1 September 2006, the CIRC and its agencies have adopted a review and approval system and a reporting system with respect to the qualification of directors and senior management of insurance companies. Exit audits of directors and senior management prior to their departure may be conducted in accordance with the relevant regulations of the CIRC.

Pursuant to the Interim Provisions on Independent Directors of Insurance Companies, effective on 6 April 2007, an insurance company shall have at least two qualified independent directors on its board by 30 June 2007. For insurance companies with total assets of more than RMB5 billion as of the end of 2006, at least one third of the board of directors shall consist of independent directors by 30 December 2007. Independent directors shall be elected and replaced at shareholders' general meetings. In addition to the duties required by the PRC Company Law and other applicable laws and regulations, an independent director has the duty to carefully review, among other things, material related party transactions, nomination, appointment and removal of directors and senior management of the head office, salary and compensation of directors and senior management, profit distribution plans and material transactions that are not covered by the operational plans, as well as issues which may have a material effect on the insurance company, its minority shareholders or the insured.

The newly amended PRC Insurance Law, effective on 1 October 2009, requires an insurance company to establish rules on the management of related party transactions and information disclosure. The controlling shareholders, de facto controlling persons, directors, supervisors and senior management personnel of an insurance company are not allowed to impair the interests of the insurance company through related party transactions. Pursuant to the Interim Provisions on Related Party Transactions of Insurance Companies, effective on 6 April 2007, an insurance company is required to formulate policies on related party transactions and file such policies with the CIRC. An insurance company is also required to file material related party transactions within 15 days of their occurrence, defined as a single transaction with a single related party involving an amount of more than RMB5 million and no less than 1% of the net assets of the insurance company as of the end of the preceding year or transactions with a single related party in a fiscal year involving an aggregate amount of more than RMB50 million and no less than 10% of the net assets of the insurance company as of the end of the preceding year.

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Pursuant to the Tentative Guidance Regarding Internal Audits of Insurance Companies, effective on 1 July 2007, an insurance company shall establish an independent internal audit system that fits its governance structure, management and control model and the nature and scope of its businesses, with its own budget, management and performance review. There shall be an audit committee under the board of directors, an officer in charge of auditing matters and an independent, adequately staffed internal audit department. The internal audit department must conduct a comprehensive evaluation of the comprehensiveness, reasonableness and effectiveness of the company's internal control system each year and issue an internal control evaluation report.

Pursuant to the Risk Management Guidance for Insurance Companies (Trial Implementation), effective on 1 July 2007, an insurance company shall establish a risk management structure that is under the direct leadership of the insurance company's senior management and falls under the ultimate responsibility of the board of directors. The risk management committee or, in the absence of a risk management committee, the audit committee under the board of directors is responsible for monitoring the effectiveness of the risk management system and matters concerning risk management shall be handled by a designated department.

Pursuant to the Guidelines for Compliance Management of Insurance Companies (保險公司合規管理指引), effective on 1 January 2008, and the Notice on Relevant Matters Relating to the Enforcement of the Guidelines for Compliance Management of Insurance Companies (關於《保險公司合規管理指引》具體適用有關事宜的通知), effective on 18 April 2008, the board of directors, supervisors and the general manager of an insurance company are charged with powers and duties concerning compliance management. In addition, an insurance company is required to have a full-time compliance officer who reports to the general manager and the board of directors, and to set up a compliance management department at the head office level. The Guidelines explicitly impose a variety of duties on the compliance officer and compliance department, including formulating and updating compliance policies and handbooks, monitoring, identifying, evaluating and reporting compliance risks, preparing compliance reports, offering compliance trainings and performing other compliance duties.

Terms and Premium Rates of Insurance

Pursuant to the Administration of Insurance Terms and Premium Rates of Property Insurance Companies, effective as of 1 January 2006, the terms and premium rates of the following types of insurance products shall be submitted to the CIRC for review and approval:

- compulsory insurance required by law;
- automobile insurance, including automobile loss insurance, commercial third party liability insurance and corresponding endorsements;
- investment-type insurance; and
- guaranty insurance and credit insurance with an insured period exceeding one year.

The terms and premium rates of Insurance products other than aforementioned types shall be filed with CIRC or its local bureau within 10 days after they have been adopted in the business.

Pursuant to the Administration of Review, Approval and Filing of Life Insurance Products, effective as of 1 July 2004, the terms and premium rates of the following life insurance products must be submitted to the CIRC for review and approval:

- insurance products determined by the CIRC as affecting public interest;
- compulsory insurance required by law; and
- new types of life insurance products as determined by the CIRC.

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Terms and premium rates for all other insurance products must be filed with the CIRC within seven days of their initial sale.

The terms and premium rates of insurance policies shall be plain, clear and easy to understand. Under any of the following circumstances, the CIRC may require insurance companies to modify or stop using the terms and premium rates of insurance policies:

- the terms and premium rates are in violation of laws, administrative regulations or prohibitive rules set forth by the CIRC;
- the terms and premium rates are in violation of relevant state financial policies;
- the terms and premium rates are against public interest;
- the terms and premium rates are obviously unfair or constitute price monopoly or are against the legal interest of the policyholder, the insured or the beneficiary;
- the terms and premium rates are poorly designed, including with unreasonable interest rates, which may endanger the solvency of such insurance company; or
- other circumstances as determined by the CIRC under the principle of prudential supervision.

Compulsory Auto Liability Insurance

Pursuant to relevant provisions of the Regulation on Compulsory Auto Liability Insurance, effective as of 1 July 2006, domestically-invested insurance companies may, upon the approval of the CIRC, conduct compulsory auto liability insurance business. The CIRC may also require an insurance company to conduct such business. A policyholder may not add any terms and conditions other than the terms and premium rates specified in such a policy. The insurance company may not force the policyholder to enter into a commercial insurance contract or require additional terms and conditions. Insurance companies may not rescind the compulsory auto liability insurance contracts, unless the policyholder fails to perform his or her obligation to provide material information truthfully. Upon rescinding the contract, an insurance company shall withdraw the insurance policy and the insurance mark and notify the automobile administration department in writing.

Paid-in Capital

Under the Administrative Regulations for Insurance Companies, the minimum registered capital as well as the paid-in capital for the establishment of an insurance company is RMB200 million. In addition, insurance companies are required to increase their registered capital by RMB20 million for each branch office they apply to open for the first time in each province, autonomous region or directly-administered municipality other than their domicile. Insurance companies with a registered capital of at least RMB500 million may open branches without increasing their registered capital as long as they have Adequate Solvency as defined by the CIRC.

Security Deposit

An insurance company is required by the PRC Insurance Law to deposit, as a security deposit, 20% of its registered capital into a bank designated by the CIRC. This security deposit may not be used for any purpose other than paying off debts during liquidation proceedings. Pursuant to the Provisional Measures for the Administration of Security Deposit of Insurance Companies (保險公司資本保證金管理暫行辦法) and the Notice on Providing for Security Deposit by Insurance Group (Holding) Companies and Mutual Insurance Companies (關於保險集團(控股)公司、相互制保險公司資本保證金提存有關問題的通知) released by the CIRC on 2 August 2007 and 12 August 2008, respectively, insurance group (holding) companies that have no direct insurance operations and insurance liabilities may elect not to make provisions for security deposit.

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Reserves

Pursuant to requirements of the PRC Accounting Standards for Business Enterprises, Administrative Measures on Reserves for Non-Life Insurance Business of Insurance Companies (Tentative) and Implementing Rules of Administrative Measures on Reserves for Non-Life Insurance Business of Insurance Companies (Tentative), insurance companies must make allocations to the following reserves:

- *Future liability reserve*, which represents the reserve allocated at the date of reserve assessment for future liabilities undertaken for non-life insurance policies, including the reserve allocated for future liabilities undertaken for in-force insurance policies of no greater than 12 months in duration and long-term liability reserve allocated for future liabilities undertaken for in-force insurance policies of greater than 12 months in duration. Insurance companies shall adopt the 1/24 method, the 1/365 method or another method that is more prudent and reasonable to assess the future liability reserve for non-life insurance business.
- *Claims reserve*, which represents the reserve allocated for pending liabilities for unsettled claims in connection with non-life insurance (not including long-term health insurance) business, including incurred and reported claims reserve, incurred but not yet reported claims reserve and reserve for loss adjustment expenses. Incurred and reported claims reserve should be allocated prudently using the case-by-case-estimate method, the average loss method or another method recognized by the CIRC. For incurred but not yet reported claims reserve, insurance companies shall apply at least two methods, including the chain ladder method, the average loss method, the reserve progress method and the B-F method, to make a prudent assessment and determine the best estimate of the reserve in accordance with the maximum assessment result derived from using these methods. For reserve for direct loss adjustment expenses, the case-by-case-estimate method shall be used; and for reserve for indirect loss adjustment expenses, a reasonable proportional allocation method shall be used.
- *Life insurance reserve and long-term health insurance reserve*, which represent the reserves allocated for future liabilities undertaken in life insurance policies and long-term health insurance policies, respectively, at an amount determined using actuarial projections of future cash flows.
- *Other reserves as required by the CIRC.*

In addition to the PRC Accounting Standards for Business Enterprises, Administrative Measures on Reserves for Non-Life Insurance Business of Insurance Companies (Tentative) and Implementing Rules of Administrative Measures on Reserves for Non-Life Insurance Business of Insurance Companies (Tentative), allocation to reserves is also regulated by the PRC Company Law, the Administrative Regulation of Solvency of Insurance Companies (保險公司償付能力管理規定), effective on 1 September 2008, the Measurement on Actuarial Practice for Life Insurance Products, Accident Insurance Products and Health Insurance Products issued by the CIRC in June 1999, the Measurement on Actuarial Practice for Individual Participating Life Insurance Products issued by the CIRC in May 2003 and the Measurement on Actuarial Practice for Investment-Linked Life Insurance Products and Universal Life Insurance Products issued by the CIRC in March 2007.

Statutory and Discretionary Revenue Reserve Fund

The PRC Company Law requires a company to set aside 10% of the net profit recorded in its statutory accounts, prepared in accordance with PRC GAAP, for a statutory revenue reserve fund until the fund has reached 50% of the company's registered capital. The company may also make appropriations from its net profit to a discretionary revenue reserve fund, provided the appropriations are approved by shareholders' resolution.

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The statutory revenue reserve fund and the discretionary reserve fund may be used to cover for losses of the company or to expand business operations of the company or may, subject to approval by shareholders' resolution, be transferred to the company's paid-in capital, provided that the remaining portion of such statutory revenue reserve fund shall not be less than 25% of the registered capital of the insurance company prior to the increase. If the statutory revenue reserve fund is insufficient to cover losses of the previous fiscal year, profits in the then-current fiscal year shall be used to cover for such losses before allocations to the statutory revenue reserve fund are made. However, the capital reserve fund may not be used to cover losses of the company.

General Reserve

Pursuant to the Financial Rules for Financial Enterprises (金融企業財務規則), effective on 1 January 2007, and related implementing guide, a financial enterprise engaged in insurance business shall allocate 10% of its net profits each year as general reserve to compensate for exposures to catastrophe risk. Net profits allocated as general reserve may not be used for dividend distribution or capital increase purposes. See note 35(c) to the Accountants' Report set forth in Appendix I to this prospectus for further information about the general reserve of CPIC Life and CPIC Property.

Insurance Guarantee Fund

In accordance with the Administrative Measures on Insurance Guarantee Fund, which came into effect on 11 September 2008, as well as the Notice on Certain Matters Relating to Insurance Guarantee Fund, starting from 1 January 2009, insurance companies shall pay the insurance guarantee fund with respect to insurance businesses within the scope of remedy of the insurance guarantee fund as follows:

- 0.8% of the premium income, in the case of property insurance of a non-investment type, or 0.08% of the premium and deposits, in the case of property insurance of an investment type with guaranteed yield, or 0.05% of the premium and deposits in the case of property insurance of an investment type without guaranteed yield;
- 0.15% of the premium and deposits in the case of life insurance with guaranteed yield, or 0.05% of the premium and deposits in the case of life insurance without guaranteed yield;
- 0.8% of the premium income in the case of short-term health insurance, or 0.15% of the premium income in the case of long-term health insurance; and
- 0.8% of the premium income, in the case of accident insurance of a non-investment type, or 0.08% of the premium and deposits in the case of accident insurance of an investment type with guaranteed yield, or 0.05% of the premium and deposits in the case of accident insurance of an investment type without guaranteed yield.

An insurance company may suspend the payment of the insurance guarantee fund if:

- its balance in the insurance guarantee fund amounts to 6% or more of its total assets, in the cases of property insurance companies; or
- its balance in the insurance guarantee fund amounts to 1% or more of its total assets, in the cases of life insurance companies.

To the extent the ratio of the insurance guarantee fund balance of an insurance company to its total assets falls below the respective percentage set forth in the preceding sentence, due to the decline in the insurance guarantee fund balance or the increase in total assets, the insurance company's obligation to pay the insurance guarantee fund shall resume automatically.

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Solvency Margin

The PRC Insurance Law requires an insurance company to maintain minimum solvency margin commensurate with the scale of its business operations and risk exposures. In addition, on 10 July 2008, the CIRC promulgated the Administrative Regulation of Solvency of Insurance Companies to measure the financial soundness of insurance companies and to provide policyholders with better protection under a proper regulatory system.

Under the Administrative Regulation of Solvency of Insurance Companies, an insurance company is required to have sufficient capital commensurate with its risk exposures and scale of business to ensure a solvency margin ratio of no less than 100%. The solvency margin ratio, i.e., capital adequacy ratio, means the ratio of an insurer's actual capital to its minimum capital. Minimum capital is defined as the amount of capital that an insurance company must maintain to respond to the adverse impact of asset risks and underwriting risks on its solvency margin, while actual capital refers to the margin between the recognized assets and the recognized liabilities of an insurance company. The CIRC requires insurance companies to assess their solvency margin ratio, to calculate their minimum capital and actual capital and to conduct dynamic solvency tests on a regular basis.

Furthermore, the CIRC also requires insurance companies to forecast and evaluate the trends of their solvency under various future circumstances. In cases of occurrence of events that will have significant impact on an insurance company's solvency margin, such as substantial investment losses, significant claims payments and policy cancellations, material litigations, financial crisis or conservatorship by financial regulators of the insurance company's subsidiary, its joint venture or its parent company, the headquarters of a foreign insurance company with a branch office located in the PRC suffering an administrative punishment or supervisory measure or applying for bankruptcy protection due to solvency problems, freeze of major assets by a judicial body or other material administrative punishments by other administrative authorities, the insurance company is required to report to the CIRC within five days of the occurrence of such event. In order to comply with such solvency assessment requirements, an insurance company is required to prepare and file various solvency reports, which include annual, quarterly and interim reports. In particular, an insurance company must submit a report to the CIRC within five working days after discovery of its insolvency.

Based on their solvency margins, the CIRC classifies insurance companies into three categories:

- Inadequate Solvency: insurance companies with solvency margin ratio of less than 100%;
- Adequate Solvency I: insurance companies with solvency margin ratio of between 100% and 150%; and
- Adequate Solvency II: insurance companies with solvency margin ratio of higher than 150%.

For an insurance company in the category of Inadequate Solvency, the CIRC may take one or more of the following supervisory measures: (i) order the insurance company to increase its capital or restrict its distribution of dividends; (ii) limit the compensation and spending of directors and senior managements; (iii) impose restrictions on its advertising; (iv) restrict its establishment of new branches, limit its business scope, or order it to cease starting new business and to transfer or cede its business to other insurance companies; (v) order an auction of the insurance company's assets or restrict it from purchasing additional fixed assets; (vi) restrict the channels for the application of its insurance funds; (vii) change the person in charge and management personnel; (viii) assume control of the insurance company; and (ix) other necessary measures.

The CIRC may require an insurance company in the category of Adequate Solvency I to submit and implement an insolvency prevention plan, which may include a detailed plan to set up a functioning solvency risk prevention mechanism. Where there is any significant insolvency risk in an

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insurance company in the category of Adequate Solvency I or Adequate Solvency II, the CIRC may order it to make a rectification, which may include specific requirements for the insurance company to increase its solvency margin ratio to a specified level, or take other necessary supervisory measures against it.

Use of Insurance Funds

Under the PRC Insurance Law, as amended in 2009, the Interim Provisions Regarding Investment by Insurance Institutional Investors in Bonds (保險機構投資者債券投資管理暫行辦法), effective on 17 August 2005, the Notice on Increasing Bond Investment Choices for Insurance Institutions (增加保險機構債券投資品種的通知), effective on 19 March 2009, the Interim Provisions Regarding Investments by Insurance Companies in Equity Investment Funds (保險公司投資證券投資基金管理暫行辦法), effective on 17 January 2003, the Interim Provisions Regarding Investments by Insurance Institutional Investors in Stocks (保險機構投資者股票投資管理暫行辦法), effective on 24 October 2004, the Notice on Regulating Stock Investments by Insurance Institutional Investors (關於規範保險機構股票投資業務的通知), effective on 18 March 2009, the Pilot Administrative Measures on Indirect Investments in Infrastructure Projects by Insurance Funds (保險資金間接投資基礎設施項目試點管理辦法), effective on 14 March 2006, the Guidelines for the Introduction of Products of Infrastructure Debt Investment Plans (基礎設施債權投資計劃產品設立指引) and the Notice on Investments of Insurance Funds in Infrastructure Debt Investment Plans (關於保險資金投資基礎設施債權投資計劃的通知), both effective on 19 March 2009, the Circular on the Investment in Equity Interests of Commercial Banks by Insurance Institutions (關於保險機構投資商業銀行股權的通知), effective on 16 October 2006, the Interim Provisions Regarding the Management of Offshore Investments of Insurance Funds (保險資金境外投資管理暫行辦法), effective on 28 June 2007 and other related regulations and circulars, the use of insurance funds is limited to the following, subject to the satisfaction of conditions prescribed for each form of investment:

- bank deposits;
- government bonds;
- financial bonds (including central bank notes, policy bank financial bonds, policy bank subordinated bonds, commercial bank financial bonds, commercial bank subordinated bonds, commercial bank subordinated term debts, insurance company subordinated term debts and RMB-denominated bonds issued by international development agencies);
- enterprise (corporate) bonds;
- convertible bonds;
- short-term financing bonds;
- other bonds as approved by relevant government agencies;
- securities investment funds;
- RMB-denominated common shares listed on PRC stock exchanges;
- shares of unlisted commercial banks;
- infrastructure projects;
- real estate;
- offshore investments; and
- other forms of use of capital as stipulated by the State Council.

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Investment in Bonds

Prior to June 2003, PRC insurance companies were only allowed to invest in bonds issued by four types of State-owned enterprises. Since 2004, PRC insurance companies may invest in subordinated bonds issued by the PRC commercial banks, subordinated term debts issued by insurance companies and convertible bonds, as approved by the CIRC, and RMB-denominated common shares listed on PRC stock exchanges.

Under the Interim Administrative Measures on Investments in Bonds by Insurance Institutional Investors, promulgated by the CIRC on 17 August 2005, PRC insurance companies may invest in bonds and subordinated bonds issued by any qualified commercial bank in connection with either a public offering or a private placement. An insurer's total investment in commercial bank bonds and subordinated bonds on a cost basis may not exceed 30% (and 10% in any single bank) of its total assets as of the end of the prior quarter. The total investment in any single issue by a commercial bank with a rating of AA or above may not exceed 20% of the issue, and the balance of such investment may not exceed 5% of the total assets of such insurer as of the end of the prior quarter. The total investment in any single issue by a commercial bank with a rating of A or above may not exceed 10% of the issue, and the balance of such investment may not exceed 3% of the total assets of such insurer as of the end of the prior quarter. PRC insurance companies may also invest in subordinated term debts issued by any qualified insurance company in connection with a private placement. An insurer's total investment in insurance company subordinated term debts on a cost basis may not exceed 20% (and 4% in any single insurance company) of its net assets as of the end of the prior quarter. The total investment in any single issue by an insurance company may not exceed 20% of the issue, and the balance of such investment may not exceed 1% of the net assets of such insurer as of the end of the prior quarter. PRC insurance companies may also invest in qualified enterprise (corporate) bonds, convertible enterprise (corporate) bonds and short-term financing bonds.

Under the Notice on Increasing Bond Investment Choices for Insurance Institutions, PRC insurance companies are now allowed to invest in local government bonds issued and honored by the Ministry of Finance on behalf of local governments, medium-term notes and other debt financing instruments issued in the domestic market by non-financial enterprises, and bonds, convertible debentures and other types of unsecured bonds with required ratings issued in the Hong Kong market by large State-owned enterprises. An insurance company may freely determine the percentage of its total investment and each single investment in local government bonds. However, the balance of its aggregate investments in the relevant unsecured bonds shall not exceed 15% of the insurance company's total assets at the end of the preceding quarter.

Under the Notice on Matters Relating to Investments in Bonds, issued by the CIRC on 22 September 2009, PRC insurance companies are currently permitted to invest up to 40% of their total assets as of the end of the prior quarter in enterprise (corporate) bonds. PRC insurance companies may invest in bonds and convertible bonds issued in the Hong Kong market by large State-owned enterprises, companies with H shares listed on the Hong Kong Stock Exchange and red-chip companies, provided that such bonds and convertible bonds have a long-term credit rating of the equivalent of BBB or above assigned by an internationally recognized credit rating agency.

Securities Investment Funds

Under the Interim Provisions Regarding Investments by Insurance Companies in Equity Investment Funds, insurance companies, subject to the satisfaction of certain conditions, may apply to engage in the securities investment fund business. The securities investment fund business of an insurance company must meet the following requirements:

- on a cost basis, the investment of an insurance company in equity investment funds may not exceed 15% of the total assets of the insurance company as of the end of the previous month;

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- on a cost basis, the amount of investment in a single fund by an insurance company may not exceed 3% of the total assets of the insurance company as of the end of the previous month;
- the amount of investment in a single closed-end fund by an insurance company may not exceed 10% of the fund; and
- the securities investment fund business of an insurance company must be conducted solely by the headquarters of such insurance company, and branches of such insurance company may not engage in equity investment fund trading.

RMB-Denominated Common Shares Listed on PRC Stock Exchanges

Pursuant to the Notice on Regulating Stock Investments by Insurance Institutions, stock investments of insurance companies shall be reported to the CIRC for archival filing. An insurance company shall decide on whether to engage in stock investments directly or through qualified insurance asset management companies according to the Standards for Stock Investments by Insurance Companies (保險公司股票投資能力標準) and the market principle, and report to the CIRC.

An insurance company shall, depending on the characteristics of its insurance funds and its solvency margin, allocate its foreign and domestic stock assets on a uniform basis and reasonably determine the scale and proportion of its stock investments. For insurance companies with solvency margin ratio of above 150%, stock investments can be conducted normally according to the relevant regulations. However, an insurance company with solvency margin ratio of between 100% and 150% in four consecutive quarters may need to adjust its stock investment strategy, and if the solvency margin ratio of an insurance company falls below 100% in two consecutive quarters, no stock investment can be increased and the insurance company shall report the market risk immediately and take effective and preventive measures in dealing with such risk.

According to the Interim Provisions Regarding Investments by Insurance Institutional Investors in Stocks, an insurance institution may not hold 30% or more of RMB-denominated common shares of a listed company.

Under the Circular on Stock Investments by Insurance Institutional Investors promulgated by the CIRC on 7 February 2005, insurance companies' investments in stocks are subject to the following restrictions:

- for traditional insurance products, the balance of stock investments, on a cost basis, may not exceed 5% of the company's total assets (net of assets in relation to investment-linked insurance products and universal life insurance products) at the end of the prior year; the proportion of assets, on a cost basis, of investment-linked insurance products invested in stocks may not exceed 100% of the total assets in each account; for universal life insurance products, the proportion of assets, on a cost basis, invested in stocks may not exceed 80%;
- an insurance company's balance of its investments in listed companies with a public float of less than RMB100 million, on a cost basis, may not exceed 20% of such insurance company's assets eligible for stock investment, including investment-linked products and universal life products;
- the balance of an insurance company's investments in the tradable shares of a single listed company, on a cost basis, may not exceed 5% such insurance company's assets eligible for stock investments;
- the amount of an insurance company's investments in the tradable shares of a single listed company may not exceed 10% of such listed company's tradable equity and 5% of such listed company's share capital; and

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- an insurance company should include its holding of bonds that are convertible into listed company shares in such insurance company's stock investment account for purposes of calculating the proportions of its stock investments.

Pursuant to a notice issued by the CIRC in July 2007, the maximum balance of stock investments, on a cost basis, for traditional insurance products was adjusted from 5% of the company's total assets (net of assets in relation to investment-linked insurance products and universal life insurance products) at the end of the prior year to 10% of the company's total assets (net of assets in relation to investment-linked insurance products and universal life insurance products) at the end of the prior quarter.

Investment in Infrastructure

Under the Pilot Administrative Measures on Indirect Investments in Infrastructure Projects by Insurance Funds, an insurance company may invest in a qualified infrastructure project through a trustee.

The Pilot Administrative Measures on Indirect Investments in Infrastructure Projects by Insurance Funds set forth the provisions governing the administration or disposition, by a third party, of insurance funds that have been invested, in such third-party's name but at the direction of the holder of such insurance funds, in infrastructure projects for the interest of the beneficiaries or any other special purpose. Pursuant to this regulation, no investment shall be made in any infrastructure project involving any of the following circumstances:

- such infrastructure project is prohibited or restricted explicitly by the PRC government;
- such infrastructure project requires legal and valid permits, which haven't been granted;
- such infrastructure project involves legal risks due to uncertain identity or ownership or other reasons;
- the developer of such infrastructure project does not have legal person status; and
- such infrastructure project involves other circumstances specified by the CIRC.

On 19 March 2009, the CIRC issued the Notice on Investments of Insurance Funds in Infrastructure Debt Investment Plans, which provides that qualified insurance companies with solvency margin ratio of above 120% for the most recent two years may invest in infrastructure debt project plans initiated by insurance asset management companies, trust companies and other professional management institutions. An insurance company shall, on the basis of its investment management capacity and risk management capacity, independently decide the manners of its investment in the debt investment plans, and make appropriate filings with the CIRC.

Insurance companies with investments in debt investment plans shall comply with the following percentage requirements:

- The balance of investment in a debt investment plan by a life insurance company shall not exceed 6% of its total assets at the end of the preceding quarter; in the case of a property insurance company, the balance of such investment shall not exceed 4% of its total assets at the end of the last quarter;
- The balance of investment in a single debt investment plan shall not exceed 40% of the assets allocated to be invested in debt investment plans;
- The proportion of investment in a single debt investment plan in the form of Category A or B credit upgrade shall not exceed 50% of the issued amount under the investment plan; and the proportion of investment in a single debt investment plan in the form of Category C credit upgrade shall not exceed 40% of the issued amount under the investment plan;

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- The aggregate proportion of investments made by insurance companies from the same insurance group in a single debt investment plan issued by an affiliated professional management institution shall not exceed 60% of the total issued amount under such investment plan; and
- In the case of State Council approved major projects, the proportion of investment in a single debt investment plan may be adjusted properly.

Investment in Unlisted Commercial Banks

Pursuant to the Circular on the Investment in the Equity Interests of Commercial Banks by Insurance Institutions, promulgated by the CIRC on 16 October 2006, insurance institutions in the PRC may engage in equity investments in qualified unlisted commercial banks, such as State-owned commercial banks, joint-stock commercial banks and city commercial banks, within the PRC, subject to the following conditions:

- an insurance institution's combined balance of "ordinary investments", defined as investments with a total value less than 5% of the share capital or the paid-in capital of the target bank, and "material investments", defined as investments with a total value exceeding 5% of the share capital or the paid-in capital of the target bank, shall not exceed 3% of such insurance institution's total assets as of the end of the prior year;
- the balance of ordinary investments by a single insurance institution in a single bank shall not exceed 1% of such insurance institution's gross assets as of the end of the prior year;
- the balance of material investments by a single insurance institution shall be submitted to the CIRC for approval and its corporate capital tied to material investments shall not exceed 40% of the insurance institution's paid-in capital as of the end of the prior year minus accumulated losses;
- the insurance institutions must meet certain qualifications in terms of their corporate governance, risk management and business operations to be able to make ordinary investments, and must meet higher qualification standards, both quantitative and qualitative, to be able to make material investments;
- ordinary investments shall be filed with the CIRC in advance and material investments must be approved by the CIRC; and
- generally, an insurance institution cannot make material investments in more than two commercial banks.

Offshore Investment

Pursuant to the Interim Provisions Regarding Management of Offshore Investments of Insurance Funds, jointly promulgated by the CIRC, the PBOC and the SAFE on 28 June 2007, PRC insurance asset management companies and other professional investment management institutions may invest in offshore assets for insurance companies, insurance group companies and insurance holding companies incorporated in the PRC. Permitted investments include:

- money market products such as commercial paper, large-amount negotiable deposits, repurchase agreements, reverse repurchase agreements and money market funds, among others;
- fixed income instruments such as bank deposits, structured deposits, bonds, convertible bonds, bond funds, securitization products and trust products, among others;
- equity investments such as stocks, stock investment funds, equities and equity-type products, among others; and
- other investments permitted by the PRC Insurance Law and the State Council.

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An insurance company may determine the amount of its investments in offshore assets in accordance with its needs in asset allocation and risk management, provided that the following conditions are met:

- the aggregate amount invested in offshore assets may not exceed 15% of the insurance company's total assets as of the end of the prior year;
- the aggregate amount actually invested may not exceed the foreign currency investment quota approved by the SAFE; and
- an insurance company must comply with relevant CIRC regulations regarding the proportion of its assets invested in any one single entity.

Changes to specific investment percentage, form or asset type previously approved are subject to application with, and approval by, the CIRC. Material equity investments must be approved by the CIRC.

Under the Guidance on Risk Control for Use of Insurance Funds (Tentative), a CIRC regulation that became effective on 1 June 2004, insurance companies and insurance asset management companies are required to establish comprehensive and effective risk control systems with respect to the use of insurance funds. In particular, such risk control system shall cover, among others, asset-liability management, investment policy management, information technology system management and human resource management. In addition, insurance companies are required to conduct, at least annually, a comprehensive and systematic internal review of the use of insurance funds. The result of such review shall be reported to the board of directors.

Areas Prohibited for Use of Funds of an Insurance Company

The PRC Insurance Law and CIRC regulations have strict limitations on the use of funds by PRC insurance companies. In particular, the PRC Insurance Law and CIRC regulations prohibit PRC insurance companies from, among other things, using their funds to engage in other activities that are outside of the scope permitted and regulated by the CIRC.

Investments in Insurance Industry

Equity investments in insurance companies established in the PRC are subject to the PRC Insurance Law and the Administrative Regulations for Insurance Companies, effective on 1 October 2009, and other relevant rules and regulations. A major shareholder of an insurance company must have good credit standing, be capable of sustained profitability, have no record of material violation of laws and regulations within the past three years and have net assets of no less than RMB200 million.

If the total amount of shares of an insurance company directly held or beneficially owned by a single shareholder (including shares held by related companies of or beneficially owned by such shareholder) will exceed 10% of the total capital of such insurance company, approval from the CIRC must first be obtained.

The Establishment of Insurance Brokering Institutions

In accordance with the PRC Insurance Law and the Measures on the Supervision of Insurance Brokerage Institutions, effective as of 1 October 2009, the establishment of an insurance brokerage institution must meet the following conditions:

- its shareholder or promoter must have good credit standing and have no record of material violation of law within the past three years;
- its registered capital satisfies the minimum required amount and must be paid-in capital in cash;

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- its articles of association comply with applicable laws;
- its chairman, executive directors and senior management personnel satisfy the required qualifications for serving in the relevant positions;
- it has a sound organizational structure and management system;
- it has a regular domicile that is suitable for its business; and
- it has business and financial computer hardware and software suitable for its business operations.

Insurance brokering institutions may engage in:

- proposing insurance plans, choosing insurers, handling insurance matters on behalf of proposers;
- assisting insured or beneficiaries to file insurance claims;
- engaging in the reinsurance brokering business;
- providing consultation services on damage prevention, risk evaluation or risk management for clients; and
- other insurance business determined by the CIRC.

Insurance Agents

Insurance agents are entities or individuals entrusted by an insurer to sell insurance products on behalf of the insurer within the scope of the insurer's authorization and charge commissions to the insurer. Insurance agents include individual insurance agents, full-time institutional insurance agents and ancillary agency organizations. Insurers may not employ institutional or individual insurance agents not certified by the CIRC.

Pursuant to the relevant requirements of the PRC Insurance Law, whenever an agent's services are engaged by an insurance company, the insurance company must enter into an agency agreement, which must stipulate the rights and obligations of the respective parties as well as other matters pertaining to the agency relationship in accordance with the law.

According to the relevant requirements of the PRC Insurance Law, the insurer must be responsible for the actions of an insurance agent in carrying out insurance business activities pursuant to terms of the agency agreement. The insurer shall bear insurance liability for actions of its agent even if the agent has acted in the name of the insurer without engagement, beyond its scope of engagement or after the termination of engagement, provided that the proposer had reason to believe that the agent was acting within its scope of engagement. However, the insurer may bring an action against an agent that has acted beyond the scope of its engagement.

Individual Insurance Agents

Under the Administrative Measures on Individual Insurance Agents, effective on 1 July 2006, in order to engage in insurance agency services, an individual applicant must have a Qualification Certificate for Engaging in Insurance Agency Business, an executed insurance agency agreement with an insurer and an operating certificate issued by such insurer.

Before issuing the operating certificate, an insurer shall register its agents with the local insurance association. An individual insurance agent shall engage in insurance sales activities within the scope authorized by the insurer to which he or she belongs, shall, on his or her own initiative, agree to be managed by the insurer to which he or she belongs, and shall perform the obligations as stipulated in the insurance agency agreement. An individual insurance agent performing life insurance business activities may not be concurrently engaged by more than one insurer.

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Full-Time Institutional Insurance Agents

A full-time institutional insurance agent must possess the qualifications stipulated by the CIRC, obtain a Permit for Insurance Agency Business from the CIRC, register with and obtain a business license from the relevant local bureau of the SAIC, and either deposit a guarantee fund or obtain professional liability insurance coverage. A full-time institutional insurance agent may sell insurance products, collect insurance premiums, perform damage investigations and process claims on behalf of the insurer and engage in other businesses as stipulated by the CIRC.

The Establishment of Full-Time Insurance Agent Institutions

In accordance with the PRC Insurance Law and the Measures on the Supervision of Full-Time Insurance Agent Institutions, effective as of 1 October 2009, the establishment of a full-time insurance agent institution must meet the following conditions:

- its shareholder or promoter of must have good credit standing and have no record of material violation of law within the past three years;
- its registered capital satisfies the minimum required amount and must be paid-in capital in cash;
- its articles of association comply with applicable laws;
- its chairman, executive directors and senior management personnel satisfy the required qualifications for serving in the relevant positions;
- it has a sound organizational structure and management system;
- it has a regular domicile that is suitable for its business; and
- it has business and financial computer hardware and software suitable for its business operations.

Insurance agent institutions may engage in:

- selling insurance products on behalf of insurers;
- collecting insurance premiums on behalf of insurers;
- conducting loss investigations and claims settlement in respect of insurance businesses on behalf of insurers; and
- other insurance agency businesses determined by the CIRC.

Ancillary Agency Organizations

Ancillary agency organizations must have their qualifications approved by the CIRC and must obtain the Permit for the Ancillary Agency Organizations Business. Upon the establishment of an agency relationship, an insurer shall confirm that the ancillary agency organization is in possession of a Permit for Ancillary Agency Organizations Business. An insurer may not engage an ancillary agency organization to issue insurance policies without the approval of the CIRC.

Bancassurance

Commercial banks in the PRC are not permitted to underwrite insurance policies. However, they are allowed to act as agents to sell insurance products through their distribution networks. Commercial banks providing insurance agency services are required to comply with all applicable regulations issued by the CIRC.

Pursuant to the Interim Measures on the Administration of Ancillary Agency Insurance Business, promulgated by the CIRC on 4 August 2000, commercial banks are required to obtain licenses from the CIRC before conducting insurance agency business. In accordance with the Notice Regarding

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Standardization of Insurance Agency Business Conducted by Banks, issued by the CIRC and the CBRC on 15 June 2006, such licenses are required for all tier-1 branches of commercial banks conducting such business.

Pursuant to the Notice Regarding Standardization of Insurance Agency Business Conducted by Banks:

- an insurance company shall not pay any fee, other than the commission charges under the cooperation agreement, to the agency or any of the agency's offices or handlers in any name or any form;
- the training fees of the sales staff of the banks' offices shall be borne by the insurance companies, and the cooperation agreement shall clarify the frequency, method and contents of the trainings as well as the training fee rates; and
- starting from 31 October 2006, each sales staff member engaging in banks' commission insurance business who sells investment-linked products, universal products or other products determined by the regulatory authority must pass the qualification examination for insurance agency practitioners and obtain the Qualification Certificate for Insurance Agency Practitioner.

Establishment of Insurance Asset Management Companies

The Interim Administrative Regulations for Insurance Asset Management Companies set forth regulations on the establishment, modification, termination, scope of business, operation rules, risk control and supervision and administration of the insurance asset management companies. Insurance companies and insurance holding companies meeting certain conditions may establish insurance asset management companies, subject to regulatory approval.

According to the Interim Administrative Regulations for Insurance Asset Management Companies, an insurance assets management company should be set up by at least a qualified insurance company or insurance holding (group) company as the promoter or shareholder. The registered capital of an insurance asset management company should be no less than RMB 30 million or an equivalent amount in other exchangeable currencies. The registered capital should be paid-in capital. Where the registered capital of an insurance asset management company is less than 1‰ of the trustee insurance fund, the registered capital shall be increased to ensure it is no less than 1‰ of the trustee insurance fund or it reaches RMB 500 million.

According to the Interim Administrative Regulations for Insurance Asset Management Companies, an insurance asset management company may engage in the following businesses:

- managing as a trustee and utilizing the insurance funds in Renminbi or in foreign currencies owned by its shareholders;
- managing as a trustee and utilizing the funds owned by the insurance companies controlled by its shareholders;
- managing its own funds in Renminbi or in foreign currencies; and
- other businesses as determined by the CIRC or other departments of the State Council.

Reinsurance Requirement

Under the PRC Insurance Law, the liability of an insurance company for the maximum amount of loss that may be caused by a single insured event, may not be more than 10% of the sum of paid-in capital and the reserve revenue fund. Any part exceeding the 10% limit must be reinsured.

Risk Control in Reinsurance Operations

On 15 November 2007, the CIRC issued the Circular Concerning Safety and Soundness Issues in Reinsurance Operations, which became effective on 1 January 2008. Pursuant to the Circular Concerning Safety and Soundness Issues in Reinsurance Operations, a PRC insurance company

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which cedes reinsurance must establish a sound risk management system and review its reinsurance plans on an annual basis. In addition, the reinsurer to whom a PRC insurance company may cede reinsurance must satisfy the following requirements:

- Except for nuclear insurance and aviation and aerospace insurance, the leading reinsurer (or the reinsurer assuming the largest portion of reinsurance) of treaty reinsurance must be (i) a State-owned or a state-controlled insurance company or (ii) an insurance agency with its latest credit ratings meeting the standards set forth in the Circular Concerning Safety and Soundness Issues in Reinsurance Operations.
- Except for nuclear insurance and aviation and aerospace insurance, the reinsurer must have a paid-in capital of no less than RMB200 million or its equivalent in other currencies. When the lead reinsurer or the reinsurer assuming the largest portion of reinsurance is not a professional reinsurance agency, such reinsurer must have a paid-in capital of no less than RMB1 billion or its equivalent in other currencies.
- The reinsurer must be in compliance with solvency requirements imposed by the local supervision authorities of its place of incorporation.
- The reinsurer must have not committed any material violations of laws or regulations in the two fiscal years immediately preceding the commencement date of the reinsurance contract.

Anti-Money Laundering

According to the PRC Anti-Money Laundering Law and the Anti-Money Laundering Regulations for Financial Institutions and other relevant regulations, financial institutions incorporated in the PRC are subject to the following obligations, among other things:

- A financial institution and each of its branch entities shall establish a sound internal control system of anti-money laundering in accordance with the law;
- A financial institution shall set up and implement a client identification system according to the relevant provisions;
- A financial institution shall properly preserve a client's identification materials and relevant transaction information and documentation, including the amount of a transaction, the relevant voucher and account books, and other materials for a prescribed period of time;
- A financial institution shall report to the China Anti-Money Laundering Monitoring and Analysis Center any large-sum transaction or any suspicious transaction in RMB or in a foreign currency;
- If a financial institution suspects of any criminal activities, it shall timely submit a written report to the local branch of the PBOC and to the local public security bureau;
- A financial institution shall submit anti-money laundering statements and materials to the PBOC in accordance with the law; and
- A financial institution and its staff members have an obligation to assist in the anti-money laundering law enforcement activities.

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MAJOR INSURANCE INDUSTRY COMMITMENTS UPON PRC'S ACCESSION TO THE WTO

The PRC joined the WTO in December 2001. Its WTO accession commitments are summarized in the following table:

<u>Subject matter</u>	<u>The PRC's commitments</u>
Restrictions on Foreign Equity Ownership	<p>Non-Life Insurers</p> <ul style="list-style-type: none"> • Upon accession, foreign non-life insurers permitted to establish as a branch or as a joint venture with up to 51% foreign ownership • Joint venture partners may freely agree to the terms of their engagement, provided they remain within the limits of the commitments contained in WTO commitment schedule • Within two years after accession, foreign insurers permitted to operate through wholly-owned subsidiaries <p>Life Insurers</p> <ul style="list-style-type: none"> • Upon accession, foreign life insurers permitted 50% foreign ownership in a joint venture • Joint venture partners may freely agree to the terms of their engagement, provided they remain within the limits of the commitments contained in WTO commitment schedule <p>Insurance Brokers</p> <ul style="list-style-type: none"> • For insurance and reinsurance brokering of large scale commercial risks and insurance and reinsurance brokering of international marine, aviation, and transport • Upon accession, foreign brokers permitted to establish joint ventures with up to 50% foreign ownership • Within three years after accession, foreign ownership permitted to increase to 51% • Within five years after accession, wholly-owned foreign subsidiaries permitted
Geographic Restrictions	<ul style="list-style-type: none"> • Upon accession, foreign insurers and brokers permitted to provide services in Shanghai, Guangzhou, Dalian, Shenzhen and Foshan • Within two years after accession, foreign life and non-life insurers and insurance brokers permitted to provide services in Beijing, Chengdu, Chongqing, Fuzhou, Ningbo, Shenyang, Suzhou, Tianjin, Wuhan and Xiamen • Within three years after accession, no geographic restrictions

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Subject matter

The PRC's commitments

Business Scope

Non-Life Insurers

- Upon accession, foreign non-life insurers permitted to provide "master policy" insurance of large-scale commercial risks, with no geographic restrictions
- Upon accession, foreign non-life insurers permitted to provide insurance of enterprises abroad as well as property insurance, related liability insurance and credit insurance of foreign-invested enterprises in the PRC
- Within two years after accession, foreign non-life insurers permitted to provide a full range of non-life insurance services (excluding compulsory products) to both foreign and domestic clients

Life Insurers

- Upon accession, foreign insurers permitted to provide individual (not group) insurance to foreigners and PRC citizens
- Within three years after accession, foreign insurers permitted to provide health insurance, group insurance and pension/annuities insurance to foreigners and PRC citizens

Insurance Brokers

- Foreign brokers permitted to provide "master policy" insurance no later than PRC brokers, under conditions no less favorable than PRC insurance brokers

Reinsurance

- Upon accession, foreign insurers permitted to provide reinsurance services for life and non-life insurance as a branch, joint venture, or wholly-owned subsidiary, without geographic or quantitative restrictions on the number of licenses issued

Restrictions on Foreign Equity Ownership

Since the PRC's accession to the WTO on 11 December 2001, foreign property and casualty insurers have been permitted to establish a branch or a joint venture with 51% foreign ownership. Currently foreign property and casualty insurers are permitted to establish wholly-owned subsidiaries. Since the PRC's accession to the WTO, foreign life insurers have been permitted 50% foreign ownership in a joint venture with a partner of their choice. The joint venture partners may freely agree on the terms of their joint venture, provided that the terms remain within the limits of the commitments contained in the WTO schedule.

Currently, foreign investors are permitted to hold up to 51% of ownership in a joint venture insurance brokering company engaging in brokerage business for (i) large scale commercial risks insurance; (ii) reinsurance; and (iii) international marine, aviation and transport insurance and reinsurance. In addition, pursuant to a CIRC announcement on 11 December 2006, foreign insurance brokerage companies are permitted to set up wholly foreign-owned insurance brokerage companies in the PRC within the permitted business scope, subject to qualification requirements. Additional branching of foreign insurance companies will be permitted consistent with the phase-out of geographic restrictions.

Geographic Limitation

Currently, foreign insurance companies are permitted to conduct business throughout the PRC without any geographic restrictions.

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Scope of Business

Since the PRC's accession to the WTO, foreign property and casualty insurers have been permitted to provide master policy insurance (a single insurance policy for a company covering its various properties or liabilities located in different geographic regions) and insurance of large scale commercial risks without geographic restrictions. Foreign property and casualty insurers are permitted to provide property and casualty insurance for foreign enterprises as well as property insurance, related liability insurance and credit insurance for foreign-invested enterprises in the PRC. Beginning on 11 December 2003, foreign property and casualty insurers are permitted to provide the full range of property and casualty insurance services (excluding compulsory products) to both foreign and PRC clients.

Since the PRC's accession to the WTO, foreign life insurers have been permitted to provide individual but not group insurance to foreign persons and PRC citizens. Foreign life insurers are permitted to provide health insurance, group insurance and pension/annuities insurance to foreigners and PRC citizens.

Since the PRC's accession to the WTO, foreign insurers have been permitted to provide reinsurance services for life and property and casualty insurance as a branch, joint venture, or wholly foreign-owned subsidiary, without geographic or quantitative restrictions on the licenses issued.

Scope for Statutory Reinsurance

In accordance with the Circular of the CIRC on Certain Policies Regarding Statutory Reinsurance, which became effective on 28 October 2002, the statutory reinsurance requirement has been removed effective 1 January 2006. Insurance companies shall, however, during the validity period of the statutory reinsurance requirement, reinsure the business it underwrites according to the percentage and schedule required by the CIRC.

Foreign-Funded Insurance Companies

Under the Administrative Regulations on Foreign-Funded Insurance Companies and related implementing rules, foreign insurance companies can, subject to the CIRC's approval, establish foreign-funded insurance companies within the PRC in the form of joint ventures, wholly foreign-owned enterprises or branches.

Foreign insurance companies applying to establish a foreign-funded insurance company shall meet the following requirements:

- having been engaging in the insurance business for at least 30 years;
- having a representative office within the PRC for at least two years;
- having total assets of US\$5 billion or more as of the end of the year prior to the application;
- being subject to effective and comprehensive insurance regulation in their home countries or regions;
- meeting the solvency margin requirements in their home countries or regions;
- having received approvals from the regulatory authorities in their home countries or regions of their applications; and
- meeting other prudent requirements set forth by the CIRC.

Joint venture insurance companies and wholly foreign-owned insurance companies with the minimum registered capital of RMB200 million shall increase their registered capital by at least RMB20 million for each branch they apply to open for the first time in each province, autonomous region or directly-administered municipality other than their place of domicile. Joint venture

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insurance companies and wholly foreign-owned insurance companies with the registered capital of at least RMB500 million are not required to increase their registered capital for establishing branches, as long as they meet the solvency margin requirement.

Representative Offices of Foreign Insurance Companies

According to the Administrative Measures of PRC Representative Offices of Foreign Insurance Institutions, effective as of 1 August 2006, the establishment of a representative office of a foreign insurance company must meet the following requirements:

- in good operating condition;
- having engaged in insurance business for more than 20 years if such a foreign insurance company operates insurance business or having been in existence for more than 20 years in all other cases;
- no material violation of laws within the three years immediately prior to the application; and
- other prudential requirements set by the CIRC, including, among other things, a requirement that the total assets of a foreign insurance company, as of the year end prior to the company's application for registration, be over US\$2 billion.

Prohibited Activities for Foreign-Funded Insurance Companies

Foreign-funded insurance companies are not permitted to engage in compulsory insurance, such as compulsory auto liability insurance, liability insurance for drivers and operators of public transportation vehicles and commercial vehicles.

PRC SECURITIES LAWS AND REGULATIONS

As our A Shares have been listed on the Shanghai Stock Exchange since 25 December 2007, we are subject to PRC Securities Law and the Shanghai Listing Rules. The Shanghai Listing Rules regulate share listing and information disclosure by the listed companies, including us, and seek to maintain the orderly operation of the stock exchange market and protect the interests of the investors. As a company with A Shares listed on the Shanghai Stock Exchange, we are subject to a number of obligations under the Shanghai Listing Rules, including:

- publishing annual, semiannual and quarterly reports;
- disclosing all information that may have a material impact upon our share price;
- making announcements in relation to certain corporate matters; and
- appointing a secretary to our Board, who is responsible for, among other things, certain corporate administration matters and information disclosure matters.

We are also subject to a number of PRC laws governing the securities markets. The CSRC is responsible for drafting regulatory provisions governing securities markets, supervising securities companies, regulating public offerings of securities by public PRC companies, and regulating trading of securities. For example, a listed company is prohibited from using insider information in connection with the issue of or trading in securities. A company that has securities listed in the PRC and overseas must also simultaneously disclose material information to the investing public pursuant to both the laws and regulations of the PRC and the applicable laws and regulations of the other market in which such company's securities are listed. Further information is set forth in Appendix VIII — "Summary of Principal Legal and Regulatory Provisions".

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COMPLIANCE WITH LAWS AND REGULATIONS

As of 30 June 2009, our statutory deposits, insurance reserves, insurance guarantee fund, statutory revenue fund and solvency margin ratios were in compliance with applicable regulatory requirements.

In the opinion of King & Wood PRC Lawyers, our PRC legal counsel, except as described in the sections headed “Risk Factors — Risks Relating to Our Company — If we cannot timely obtain capital to satisfy the regulatory requirements regarding solvency margin, the authorities may impose regulatory sanctions on us, which may have a material and adverse effect on our business and results of operations”, “Risk Factors — Risks Relating to Our Company — Litigation and regulatory investigations and the resulting sanctions or penalties may adversely affect our reputation, business, results of operations and financial condition”, and “Risk Factors — Risks Relating to Our Company — We have not obtained formal title certificates to some of the properties we occupy and some of our landlords lack relevant title certificates for properties leased to us, which may materially and adversely affect our right to use such properties”, we have complied in all material respects with all regulatory requirements, set forth in this section headed “Supervision and Regulation”.