

THE PRC INSURANCE INDUSTRY

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OVERVIEW

The PRC life insurance market is the second largest in Asia after that of Japan and the fifth largest worldwide based on premium volume in 2010, according to the Sigma Report No. 2/2011, a non-commissioned report published by Swiss Re, an independent third party, in 2011. According to data published by the CIRC, gross premium income from life insurance in the PRC in 2010 reached RMB1,050.1 billion, and the compound annual growth rate, or CAGR, of gross premium income reached 24.9% between 2001 and 2010. The PRC life insurance market is also one of the fastest growing life insurance markets in the world, according to the Sigma Report No. 2/2011.

According to data published by the CIRC, as of September 30, 2011, there were 61 life insurance companies (excluding the life insurance business of China United Insurance Holding Company Limited) operating in the PRC, of which 25 were foreign-invested life insurance companies. In the first nine months of 2011, the six largest life insurance companies, including our Company, held a collective market share of 80.8%, as measured by gross premium income, while foreign-invested life insurance companies collectively held a market share of 3.7%. Currently, the PRC life insurance companies distribute products through individual insurance agents, bancassurance, direct sales and other distribution channels, which accounted for 40.0%, 53.1%, 5.4% and 1.5% of the sales of life insurance products in 2010, respectively, according to the Yearbook of China's Insurance 2011.

We believe that the rapid expansion of the PRC life insurance market was primarily due to the economic reform initiatives undertaken by the PRC government over the past three decades, which have led to a significant increase in disposable income per capita and, consequently, a growing demand for insurance products and services. We further believe that the PRC government's efforts in promoting the general development of the insurance industry have been a significant factor in the rapid development of the life insurance industry.

DEVELOPMENT OF THE PRC LIFE INSURANCE MARKET

1. History of the PRC Life Insurance Market

The PRC commercial insurance industry resumed its activities in 1979. The People's Insurance Company of China restarted its life insurance operations in 1982 and spun off its life insurance operations in 1999. Ping An Insurance (Group) Company of China, Ltd., which was originally established in 1988 as Shenzhen Ping An Insurance Company, began underwriting life insurance in 1994. In 1992, American International Assurance Co., Ltd., the first foreign life insurance company to enter the PRC market, received approval to establish its first PRC branch and to conduct life insurance business in China. After 1996, the competitive landscape of the PRC life insurance market began to gradually take shape, in part due to the establishment of several life insurance companies, including our Company, in close succession. As of September 30, 2011, there were 61 life insurance companies (excluding the life insurance business of China United Insurance Holding Company Limited) operating in the PRC, of which 25 were foreign-invested.

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In response to the rapid developments in the insurance market, the NPC promulgated the PRC Insurance Law in 1995, which established the initial regulatory framework for the PRC insurance industry. In 1998, the CIRC was established and assumed the regulatory functions for the insurance industry from the PBC. Under the 1995 PRC Insurance Law, insurance was classified into two categories: life insurance (including life, accident and health insurance) and property and casualty insurance (including property, casualty, liability and credit insurance, among others). The 1995 PRC Insurance Law stipulated that no insurance company was permitted to simultaneously engage in both types of insurance business. As a result, in 1999, The People's Insurance Company of China separated its life insurance business into China Life Insurance Company (now China Life Insurance (Group) Company). In 2002, Ping An separated its life insurance business into Ping An Life and became its controlling shareholder. In 2002 and 2009, the PRC Insurance Law was amended in response to further developments in the PRC insurance industry. For more details on the PRC Insurance Law, see "Supervision and Regulation."

During the initial stages of its development, the PRC life insurance market was characterized by limited product offerings and the use of direct sales as the primary distribution channel. Over time, the PRC life insurance market's distribution channels have also expanded to include individual insurance agent, bancassurance and other distribution channels.

2. Current Condition of the PRC Life Insurance Industry

(1) China is One of the World's Fastest Growing Life Insurance Markets

The PRC life insurance market has been expanding rapidly in recent years. According to the Sigma Report published by Swiss Re, premium volume from the PRC life insurance business grew at a CAGR of approximately 28.0% between 2001 and 2010 (or 24.9% based on gross premium income figures published by the CIRC), compared to 13.8% in Asia (excluding China and Japan), 8.5% in Europe and 2.1% in North America over the same period.

According to the CIRC, gross premium income of the PRC life insurance market increased by 28.9% from 2009 to 2010. At the same time, life insurance density, measured by total life insurance premiums per capita, and life insurance penetration, measured by total life insurance premiums as a percentage of gross domestic product, have both been rising steadily in recent years.

The following table sets forth information relating to the PRC life insurance industry, including gross premium income, life insurance density and life insurance penetration, for each of the past ten years:

	Gross premium income (RMB in billions)	Year-over-year growth	Life insurance density (RMB)	Life insurance penetration
2001	142.4	42.8%	111.6	1.3%
2002	227.5	59.8%	177.1	1.9%
2003	301.1	32.4%	233.0	2.2%
2004	319.4	6.1%	245.7	2.0%
2005	364.6	14.2%	278.9	2.0%
2006	406.1	11.4%	309.0	1.9%
2007	494.9	21.9%	374.6	1.9%
2008	733.8	48.3%	552.5	2.3%
2009	814.4	11.0%	610.2	2.4%
2010	1,050.1	28.9%	783.8	2.6%

Sources: CIRC, National Bureau of Statistics of China.

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In 2010, China's life insurance density and life insurance penetration were lower than those of more economically developed countries and regions. Therefore, we believe that the life insurance industry in China holds significant growth potential. According to data published by Swiss Re, in 2010, China's life insurance density was US\$106, compared to US\$3,473 and US\$1,632 in Japan and the United States, respectively. In 2010, China's life insurance penetration was 2.5% (or 2.6% based on data published by the CIRC and the National Bureau of Statistics of China), compared to 8.0% and 3.5% in Japan and the United States, respectively. The comparatively low life insurance density and life insurance penetration, coupled with certain continuing economic development, improving regulatory environment and favorable demographic trends discussed below, suggest that the PRC life insurance market holds promising growth potential.

The following table presents certain economic and life insurance data for the PRC, the United States and certain selected countries and regions in Asia and Europe in 2010, as published by Swiss Re:

2010 Statistics	Economic indicator			Life insurance indicator		
	GDP (US\$ in billions)	GDP per capita (US\$)	Real growth	Premium volume (US\$ in billions)	Life insurance density (US\$)	Life insurance penetration
China	5,648	4,168	10.4%	143	106	2.5%
United States	14,641	47,199	2.8%	506	1,632	3.5%
Japan	5,519	43,457	4.0%	441	3,473	8.0%
Germany	3,306	40,416	3.4%	115	1,402	3.5%
France	2,580	39,753	1.5%	192	2,938	7.4%
United Kingdom	2,251	36,190	1.3%	214	3,463	9.5%
Italy	2,052	33,974	1.1%	122	1,979	5.8%
India	1,526	1,254	8.4%	68	56	4.4%
South Korea	1,022	20,900	6.1%	71	1,454	7.0%
Switzerland	524	66,329	2.6%	29	3,667	5.5%
Taiwan	415	17,888	10.0%	64	2,757	15.4%
Hong Kong	225	31,690	6.8%	23	3,197	10.1%
Singapore	223	46,458	14.6%	10	2,101	4.6%

Source: Sigma Report No. 2/2011 published by Swiss Re. Because the statistical coverage and currency of Swiss Re's data differ from those of the CIRC, the statistics for life insurance density and life insurance penetration may also differ.

(2) Geographical Distribution of China's Life Insurance Market

The PRC life insurance market exhibits significant geographical variation in its development. According to data published by the CIRC, in 2010, the gross premium income (including accident and health insurance) generated in the five provinces, autonomous regions and directly-administered municipalities with the highest gross premium income, namely Guangdong, Jiangsu, Beijing, Shandong and Shanghai, exceeded RMB420.2 billion and accounted for approximately 39.5% of the total gross premium income in the PRC for that period. In 2010, the top five provinces, autonomous regions and directly-administered municipalities in terms of life insurance penetration were Beijing, Shanghai, Sichuan, Chongqing and Shanxi. In 2010, the top five provinces, autonomous regions and directly-administered municipalities in terms of life insurance density were Beijing, Shanghai, Tianjin, Guangdong and Jiangsu, most of which are more developed coastal cities and provinces. Beijing has the highest life insurance penetration of 5.5% and the highest life insurance density of RMB3,845 among all provinces, autonomous regions and directly-administered municipalities in China.

Compared to the more developed insurance markets in China's eastern region, the insurance markets in the northeastern, central and western regions are smaller with lower life insurance densities, but possess a greater growth potential. Based on data published by the CIRC and the National Bureau of Statistics of China, in 2010, China's western region, central region and

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northeastern region had life insurance densities of RMB507, RMB609 and RMB815, respectively, lower than RMB1,134 in the eastern region. The national average in 2010 was RMB784.

The following table sets forth statistics relating to the life insurance business and economy for various provinces, autonomous regions and directly-administered municipalities in 2010:

Region	Life insurance indicator				Economic indicator	
	Gross premium income (including accident and health insurance) (RMB in billions)	Market share in China	Life insurance penetration	Life insurance density (RMB)	GDP (RMB in billions)	GDP per capita (RMB)
Beijing	75.42	7.1%	5.5%	3,845	1,377.79	70,251
Tianjin	14.89	1.4%	1.6%	1,151	910.88	70,402
Hebei	55.35	5.2%	2.7%	770	2,019.71	28,108
Shanghai	69.46	6.5%	4.1%	3,018	1,687.24	73,297
Jiangsu	85.08	8.0%	2.1%	1,082	4,090.33	52,000
Zhejiang	50.87	4.8%	1.9%	935	2,722.68	50,025
Fujian	29.55	2.8%	2.1%	801	1,435.71	38,914
Shandong	73.90	7.0%	1.9%	771	3,941.62	41,147
Guangdong	116.36	10.9%	2.6%	1,116	4,547.28	43,597
Hainan	3.01	0.3%	1.5%	347	205.21	23,665
Eastern Region	573.89	54.0%	2.5%	1,134	22,938.45	45,317
Shanxi	27.24	2.6%	3.0%	763	908.81	25,448
Anhui	31.86	3.0%	2.6%	536	1,226.34	20,611
Jiangxi	18.40	1.7%	2.0%	413	943.50	21,170
Henan	65.86	6.2%	2.9%	700	2,294.27	24,401
Hubei	40.21	3.8%	2.5%	703	1,580.61	27,615
Hunan	33.78	3.2%	2.1%	514	1,590.21	24,210
Central Region	217.35	20.4%	2.5%	609	8,543.74	23,950
Inner Mongolia	11.93	1.1%	1.0%	483	1,165.50	47,174
Guangxi	12.52	1.2%	1.3%	272	950.24	20,645
Chongqing	25.51	2.4%	3.2%	884	789.42	27,367
Sichuan	57.42	5.4%	3.4%	714	1,689.86	21,013
Guizhou	7.57	0.7%	1.6%	218	459.40	13,221
Yunnan	14.15	1.3%	2.0%	308	722.01	15,707
Tibet	0.09	0.0%	0.2%	32	50.75	16,904
Shaanxi	24.84	2.3%	2.5%	665	1,002.15	26,848
Gansu	10.75	1.0%	2.6%	420	411.95	16,107
Qinghai	1.53	0.1%	1.1%	272	135.04	24,000
Ningxia	3.52	0.3%	2.1%	559	164.34	26,080
Xinjiang	12.79	1.2%	2.4%	586	541.88	24,842
Western Region ...	182.63	17.2%	2.3%	507	8,082.54	22,429
Liaoning	44.27	4.2%	2.4%	1,012	1,827.83	41,782
Jilin	17.84	1.7%	2.1%	649	857.71	31,232
Heilongjiang	27.14	2.6%	2.7%	708	1,023.50	26,715
Northeastern Region	89.24	8.4%	2.4%	815	3,709.04	33,866

Sources: CIRC, National Bureau of Statistics of China.

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(3) Principal Participants in the PRC Life Insurance Market

As of September 30, 2011, there were 61 life insurance companies (excluding the life insurance business of China United Insurance Holding Company Limited) operating in China. As shown in the tables below, the top six life insurance companies collectively held a market share of approximately 80.7% and 80.8% in 2010 and the first nine months of 2011, respectively, in terms of gross premium income. We ranked third with a market share of 8.9% in 2010 and fourth with a market share of 9.7% in the first nine months of 2011. According to data published by the CIRC, foreign-invested life insurance companies accounted for approximately 5.6% and 3.7% of the PRC life insurance market in 2010 and the first nine months of 2011, respectively.

The tables below set forth the respective market shares, in terms of gross premium income, of the principal participants in the PRC life insurance industry in 2010 and the first nine months of 2011:

For the year ended December 31, 2010⁽¹⁾

Rank	Company	Market Share
1	China Life Insurance Company Limited	31.7%
2	Ping An Life Insurance Company of China Limited	15.1%
3	New China Life Insurance Company Ltd.	8.9%
4	China Pacific Life Insurance Co., Ltd.	8.8%
5	Taikang Life Insurance Co., Ltd.	8.3%
6	PICC Life Insurance Company Limited	7.8%
7	Taiping Life Insurance Company Limited	3.1%
8	Sino Life Insurance Co., Ltd.	1.5%
9	Sunshine Life Insurance Co., Ltd.	1.4%
10	China Life Insurance (Group) Company ⁽³⁾	1.4%
	Others	11.9%
Total		100.0%

For the nine months ended September 30, 2011⁽²⁾

Rank	Company	Market Share
1	China Life Insurance Company Limited	34.5%
2	Ping An Life Insurance Company of China Limited	12.3%
3	China Pacific Life Insurance Co., Ltd.	9.7%
4	New China Life Insurance Company Ltd.	9.7%
5	PICC Life Insurance Company Limited	7.4%
6	Taikang Life Insurance Co., Ltd.	7.1%
7	Taiping Life Insurance Company Limited	3.2%
8	Sino Life Insurance Co., Ltd.	2.5%
9	Sunshine Life Insurance Co., Ltd.	1.6%
10	China Life Insurance (Group) Company ⁽³⁾	1.3%
	Others	10.6%
Total		100.0%

(1) Prior to adjustments made in accordance with Interpretation No. 2.

(2) After adjustments made in accordance with Interpretation No. 2.

(3) After the restructuring of China Life Insurance Company, China Life Insurance (Group) Company was formed and it retained certain legacy business.

Source: CIRC.

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The table below sets forth the respective market shares in the individual insurance agent channel, in terms of gross premium income, of the principal participants in the PRC life insurance industry in 2010:

For the year ended December 31, 2010⁽¹⁾

Rank	Company	Market Share
1	China Life Insurance Company Limited	42.7%
2	Ping An Life Insurance Company of China Limited	22.9%
3	China Pacific Life Insurance Co., Ltd	10.0%
4	New China Life Insurance Company Ltd.	8.1%
5	Taikang Life Insurance Co., Ltd	4.5%
6	Taiping Life Insurance Company Limited	2.6%
7	PICC Life Insurance Company Limited	2.0%
8	American International Assurance Co., Ltd.	1.9%
9	Minsheng Life Insurance Co., Ltd.	1.0%
10	Union Life Insurance Co., Ltd.	0.6%
	Others	3.7%
Total		<u>100.0%</u>

The table below sets forth the respective market shares in the bancassurance channel, in terms of gross premium income, of the principal participants in the PRC life insurance industry in 2010:

For the year ended December 31, 2010⁽¹⁾

Rank	Company	Market Share
1	China Life Insurance Company Limited	29.8%
2	PICC Life Insurance Company Limited	13.2%
3	New China Life Insurance Company Ltd.	13.2%
4	Taikang Life Insurance Co., Ltd	10.3%
5	China Pacific Life Insurance Co., Ltd	10.3%
6	Taiping Life Insurance Company Limited	4.7%
7	Sunshine Life Insurance Co., Ltd.	2.7%
8	Sino Life Insurance Co., Ltd.	2.6%
9	Ping An Life Insurance Company of China Limited	2.3%
10	Union Life Insurance Co., Ltd.	1.0%
	Others	9.9%
Total		<u>100.0%</u>

(1) After adjustments made in accordance with Interpretation No. 2.

Source: Yearbook of China's Insurance 2011.

FACTORS AFFECTING INDUSTRY DEVELOPMENT

1. Rapid Economic Growth and Continuously Increasing Income

Since 1978, the PRC government has implemented policies for economic reform and the opening of the market, which has promoted the rapid and sustained growth of China's economy. Since the beginning of its economic reform, the PRC has experienced rapid growth in GDP and GDP per capita. Although its economic growth has slowed since the onset of the global financial

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crisis in late 2008, the PRC has better weathered the crisis and has exhibited a much quicker recovery, compared to most other countries.

The following table sets forth China's nominal GDP, nominal GDP per capita and life insurance gross premium income from 2001 to 2010:

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	CAGR 2001-10
	(RMB in billions, except per capita data)										
Nominal GDP ⁽¹⁾	10,966	12,033	13,582	15,988	18,494	21,631	26,581	31,405	34,090	39,798	15.4%
Nominal GDP per capita (RMB) ⁽¹⁾ ...	8,592	9,368	10,510	12,299	14,144	16,456	20,117	23,648	25,541	29,669	14.8%
Life insurance gross premium income ⁽²⁾	142.4	227.5	301.1	319.4	364.6	406.1	494.9	733.8	814.4	1,050.1	24.9%

Sources: (1) IMF.
(2) CIRC.

The PRC experienced real GDP growth of 9.0% from 2008 to 2009 and 10.4% from 2009 to 2010, compared to 2.6% and 7.0% in the whole of Asia, -2.6% and 4.0% in Japan, -4.4% and 2.1% in the Europe and -2.6% and 2.8% in the United States over the same periods, respectively, according to the Sigma Report published by Swiss Re. GDP per capita in the PRC increased at a CAGR of 14.8% from RMB8,592 in 2001 to RMB29,669 in 2010, while nominal GDP in the PRC increased at a CAGR of 15.4% from 2001 to 2010 (10.7% after adjusting for inflation), according to the IMF.

The rapid development of the PRC economy has led to a significant increase in the per capita annual disposable income of urban households and the per capita annual income of rural households, with a CAGR of 12.1% and 10.7% from 2001 to 2010, respectively.

The following table sets forth China's per capita annual disposable income (urban households) and per capita annual income (rural households) from 2001 to 2010:

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	CAGR 2001-10
Per capita annual disposable income (urban) (RMB)	6,860	7,703	8,472	9,422	10,493	11,760	13,786	15,781	17,175	19,109	12.1%
Per capita annual income (rural) (RMB)	2,366	2,476	2,622	2,936	3,255	3,587	4,140	4,761	5,153	5,919	10.7%

Source: National Bureau of Statistics of China.

2. Continuous Urbanization and High Savings Rate

According to the results of the Sixth National Population Census conducted by the National Bureau of Statistics of China, the PRC's proportion of urban population increased from 36.2% in 2000 to 49.7% in 2010. According to the United Nations Population Division, the proportion of urban population in China is expected to reach 73.2% by 2050, which would translate into 402 million additional urban residents between 2010 and 2050. In comparison, over the same period, the proportion of urban population in the United States will only increase by 8.1% from 82.3% in 2010 to 90.4% in 2050, and the proportion of urban population in Japan will only increase by 13.3% from 66.8% in 2010 to 80.1% in 2050.

With the continued urbanization of the PRC population, the urban economy's already dominant role in the national economy is likely to continue to strengthen. Moreover, the

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increased urbanization is likely to gradually change the PRC consumers' consumption attitude and behavior. In this regard, we expect consumers to pay greater attention to their health and life protection, which is likely to further stimulate the demand for insurance and other financial products.

The PRC's savings rate, which increased from 37.6% in 2001 to 54.0% in 2010, remains high. It is significantly higher than that of the United States (11.6% in 2010) and the United Kingdom (12.4% in 2010), as well as most other Asian countries, such as Korea (31.5% in 2010) and Japan (23.8% in 2010), according to the IMF. Based on the past experience of developed countries with high savings rate, PRC households are expected to demand more insurance products as part of the allocation of the savings.

The following table sets forth the PRC's savings rate from 2001 to 2010:

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Savings rate	37.6%	40.3%	44.0%	46.8%	49.2%	52.3%	52.3%	53.7%	54.2%	54.0%

Source: IMF.

3. Increasingly Aging Population and Continuous Improvement of the PRC Pension System

The PRC is undergoing significant demographic changes. According to the National Bureau of Statistics of China, life expectancy increased from 68.6 years in 1990 to 73.5 years in 2010, and the birth rate decreased from 2.1% in 1990 to 1.2% in 2009. According to the United Nations Population Division, the percentage of the population aged 65 or older in the PRC increased from 8.0% in 2000 to 9.4% in 2010, and this percentage would further increase to 30.8% by 2050, which would translate to an additional 301 million people aged 65 or older between 2010 and 2050.

We believe that the increase in life expectancy and the decrease in birth rate are likely to result in a lower percentage of the working population supporting a growing group of retirees, particularly as the aging population continues to increase. We believe this trend may bring significant growth opportunities for protection-type life insurance and annuity products. At the same time, the PRC government is in the process of establishing a more comprehensive pension system, which includes basic social pension insurance, supplemental corporate pension insurance (or corporate annuities) and commercial pension insurance, which is likely to promote the steady development of pension insurance.

4. Reform of the PRC Health Care System that Encourages the Development of Commercial Insurance

The PRC is currently undergoing health care reform, and has shifted some of the responsibilities for providing health care benefits from the government to enterprises and individuals. The PRC's health care reform, for example, has gradually reduced or eliminated benefits that the government or state-owned enterprises traditionally provided to their employees, such as medical benefits. As a result, the demand for commercial insurance is likely to gradually increase in the PRC. According to data published by the World Health Organization, private insurance as a percentage of private health expenditures in the PRC increased from 1.0% in 2000 to 6.2% in 2009.

In March 2009, the State Council released a series of guidelines and a related implementation plan on health care reform, which encourage commercial insurance companies to develop diversified health insurance products and simplify claims settlement procedures to better serve different health care needs of the population. The PRC government also supports insurance

companies in their participation in basic social medical security services and investment in medical institutions. In addition to offering group and individual insurance products to supplement the health care system, insurance companies are permitted to cooperate with medical institutions in providing innovative medical services and medical risk management.

5. Government Support for the Insurance Industry

In June 2006, the State Council promulgated its Certain Opinions on the Development and Reform of the Insurance Industry, or the Certain Opinions. Under the Certain Opinions, the PRC is expected to establish a multi-tier social security system that encourages insurance companies to offer commercial pension insurance, health insurance and liability insurance products to meet the insurance needs of both urban and rural residents of different income levels and different occupations. In October 2010, the NPC passed the PRC Social Security Law (中華人民共和國社會保險法), which took effect on July 1, 2011. This law sets forth the framework for the future PRC social security system. We expect these social welfare reform initiatives to further stimulate demand for life insurance, health insurance, pension plans and other insurance-related products and to create new opportunities for the further development of the PRC life insurance industry.

The PRC 12th Five-Year Plan for National Economic and Social Development, or the 12th Five-Year Plan, which was promulgated in March 2011, has outlined some of the PRC government's goals for the insurance industry, such as implementation of a new rural social pension insurance plan, basic social pension insurance coverage for 357 million urban residents, and the increase of enrollment rate in basic medical insurance in urban and rural areas by three percentage points. We believe that the guiding principles, overall objectives and major tasks set forth in certain PRC government policies indicate strong governmental support for the insurance industry and in turn present growth opportunities for PRC life insurance companies.

6. Improving Supervision and Regulation

The insurance industry is heavily regulated in the PRC. Established in 1998, the CIRC has since promulgated a number of rules and regulations that regulate the market behavior of life insurance companies, property and casualty insurance companies and insurance intermediaries in the PRC to prevent and manage risks that may arise in the insurance market.

The legal and regulatory framework of the PRC insurance industry mainly consists of the PRC Insurance Law enacted in 1995, which was amended twice in 2002 and 2009, as well as other relevant rules and directives. A modern regulatory system for the insurance industry in line with international standards is gradually taking shape in the PRC, with a strong focus on solvency margins, corporate governance and market behavior of insurance companies. The improving supervision and regulation of the PRC insurance industry is likely to encourage insurance companies to improve their risk management.

On July 10, 2008, the CIRC promulgated the Administrative Provisions on the Solvency Margin of Insurance Companies to assess the financial soundness of insurance companies and to provide policyholders with better protection under a proper regulatory system.

Since 2006, the CIRC has also focused on insurance companies' corporate governance, risk management, internal controls and compliance. The CIRC promulgated the Tentative Guidelines for Standardization of the Corporate Governance Structure of Insurance Companies in 2006, the Opinions on Regulating the Articles of Association of Insurance Companies and the Guidelines on the Operation of the Board of Directors of Insurance Companies in 2008, and the Administration of Director, Supervisor and Senior Management Qualifications of Insurance Companies in 2010.

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In 2009, the PRC Insurance Law was further amended to impose more regulatory requirements on the related party transactions of insurance companies and impose restrictions on activities of insurance companies that fail to meet solvency requirements. These restrictions include, among others, restrictions on capital adjustment, reinsurance, dividends and business scope. In 2010 and 2011, the CIRC and the CBRC strengthened their supervision over bancassurance business. For more details on current supervision and regulations relating to the PRC insurance industry, see "Supervision and Regulation."

INDUSTRY TRENDS

1. Differentiation in Insurance Products and Services Driven by Diverse Customer Needs

We believe that along with the rise in their income, life insurance customers in the PRC have paid closer attention to their risk protection, and at the same time their demands for insurance products have become more diversified. Since the global financial crisis began in late 2008, the market has seen rising demand for risk protection-type and savings-type life insurance products. Meanwhile, the CIRC also encourages PRC life insurance companies to adjust their product mix from investment-type products to risk protection-type and long-term savings-type products. As a result, the proportion of participating products, which have savings features, has gradually increased in recent years, and in the first six months of 2011, participating products accounted for 91.6% of gross premium income from the PRC life insurance market, according to the CIRC. At the same time, the proportions of unit-linked products and universal products, in terms of gross premium income, have fallen from 5.9% and 20.4% (prior to adjustments made in accordance with Interpretation No. 2) in 2008 to 0.1% and 1.0% (after adjustments made in accordance with Interpretation No. 2) in 2010, respectively, according to the Yearbook of China's Insurance.

The following table sets forth the proportion of various product types, in terms of gross premium income, in the PRC insurance market in 2008, 2009 and 2010:

<u>Product Type</u>	<u>For the year ended December 31,</u>		
	<u>2008⁽¹⁾</u>	<u>2009⁽¹⁾</u>	<u>2010⁽²⁾</u>
Traditional life insurance	11.5%	10.5%	9.7%
Participating life insurance	53.1%	66.9%	81.7%
Universal life insurance	20.4%	12.6%	1.0%
Unit-linked insurance	5.9%	1.4%	0.1%
Accident and health insurance	9.1%	8.6%	7.5%
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

(1) Prior to adjustments made in accordance with Interpretation No.2.

(2) After adjustments made in accordance with Interpretation No.2.

Source: Yearbook of China's Insurance.

As PRC insurance companies have become increasingly sophisticated in their product and service offerings in recent years, they have shifted their product development and marketing strategies from a product-driven approach to a demand-oriented approach, with an increasing focus on customer segmentation. PRC insurance companies are also increasingly focused on the training and development of their sales teams, enhancing the sales teams' capabilities in identifying customer needs and adding value by providing customers with products that are tailored to their needs. Customers of insurance products in the PRC are also becoming more sophisticated and are increasingly focused on the services that insurance companies provide. As a

result, we believe that insurance companies that have the capability to offer value-added products and integrated services will stand out from the competition in the future.

2. Significant Growth Potential in Senior Care Services

The PRC senior care industry is currently in the early stage of development. As the aging of the PRC's population becomes increasingly evident, the senior care and health care industry are expected to be presented with significant growth opportunities. According to statistics and forecasts by the United Nations Population Division, the proportion of the population aged 65 or older in the PRC was 9.4% in 2010, and by 2030 that proportion will likely double and reach 18.7%. According to the "Report of the Development Trends and Forecasts on the Aging of the PRC Population," published by the China National Committee on Aging and the forecast of United Nations, the proportion of the population aged 65 or older is forecasted to double, from 7% to 14% in only 28 years from 1993 to 2021 as compared to at least 45 years in the majority of developed countries.

According to the National Bureau of Statistics of China, life expectancy in the PRC increased from 68.6 years in 1990 to 73.5 years in 2010. Although the elderly in the PRC have traditionally lived with their children in the same households and rely on their children for care, more are living apart from their children in separate households as urbanization increases. As a result, the elderly have to rely less on traditional home care and have to increasingly rely on institutional senior care.

In response to such trends, the PRC government has introduced various policies relating to senior care services. In February 2011, the Ministry of Civil Affairs issued a draft of "The Establishment of Social Senior Care Services System Under the 12th Five-Year Plan," in which it proposed establishing objectives for the improvement of the senior care system, which includes home-based, community-backed and institution-supported services to meet the needs of the aging population while being compatible with the country's economic and social development. More specifically, by 2015, the PRC plans to have in place a comprehensive network of home-based and community-backed senior care services. We believe that there will be significant opportunities for insurance companies in this sector given the continued expansion of the market for senior care services and strong government support.

3. Expected Fast Growth in the Health Care Industry

Based on data published by the CIRC, the gross premium income from health insurance in the PRC has increased at a CAGR of 15.8% from RMB37,700 million in 2006 to RMB67,700 million in 2010. With the continuing increase in PRC residents' income and the increasing focus on health care in China, the demand for health care products and services is expected to continue to expand. At the same time, the PRC government has taken steady steps to reform the health care system. The PRC government's health care policy has gradually shifted from a treatment-oriented policy to a prevention-oriented policy, promoting public awareness of health issues and the cultivation of healthy lifestyles. Under such a policy, the health care industry is likely to experience a period of rapid expansion.

Despite having attracted significant investments from various sources, the PRC health care industry is still evolving. In particular, health care businesses operated directly by insurance companies are still at a preliminary stage of development. Under the Certain Opinions promulgated by the State Council in 2006, the CIRC would support the insurance industry's participation in the development of a multi-tier health care system, as well as insurance companies' investment in medical institutions. In 2009, the Opinions of the Central Committee of the Communist Party of China and the State Council on Deepening the Reform of the Medical and Health Care System were issued. Such opinions encouraged commercial insurance entities to

develop health insurance products to meet different customer demands. It also encouraged enterprises and individuals to fulfill their medical needs through various commercial insurance and supplementary insurance that go beyond the basic medical and health care system. We believe that insurance companies will play an increasingly important role in the PRC health care industry in the future as their capability to provide health care related products will enable them to better serve their clients by offering a comprehensive suite of products and services.

4. Increasing Diversification in Distribution Channels

Currently, life insurance companies operating in the PRC primarily rely on individual insurance agents, bancassurance and direct sales to distribute their insurance products. In recent years, various new distribution channels, such as wealth management, telemarketing and Internet sales, have emerged. The telemarketing and Internet sales distribution channels, through which life insurance companies primarily sell health insurance, accident insurance and other relatively standardized insurance products, have demonstrated considerable growth in recent years. At the end of 2010, more than 30 PRC insurance companies carried out Internet sales. Some insurance companies are also exploring other new distribution channels beyond wealth management, telemarketing and Internet sales. For example, they have begun collaborating with retailers, social groups and other entities to expand sales through sharing client resources.

5. Broadening Investment Channels

Since 2003, the CIRC has gradually eased its regulatory requirements regarding investments by insurance companies, enabling insurance companies to diversify their investments to achieve higher investment returns and better asset-liability management.

The CIRC promulgated the Interim Provisions Regarding Investments by Insurance Companies in Securities Investment Funds in 2003 and the Interim Measures for the Administrative of Stock Investments of Insurance Institutional Investors in 2004, which permitted qualified insurance companies and insurance asset management companies to invest in stocks and securities investment funds. The CIRC promulgated the Administrative Measures on Pilot Indirect Investments in Infrastructure Projects by Insurance Funds in 2006 and jointly with several ministries and commissions promulgated the Interim Provisions Regarding the Measures for the Overseas Investment with Insurance Funds in 2007. In March 2009, the Standing Committee of the NPC amended the PRC Insurance Law, which for the first time permits PRC insurance companies to invest in real estate. On July 31, 2010, the CIRC issued the Notice of China Insurance Regulatory Commission on Adjusting the Investment Policies for Insurance Funds and on August 31, 2010, it issued the Interim Measures for the Administration of Utilization of Insurance Funds to further broaden the investment channels available for insurance funds. For example, the CIRC raised the proportion of investment funds available for investment in stocks and equity funds to 20% of an insurance company's total assets, and allowed insurance companies to invest insurance funds in new investment areas such as unsecured corporate bonds, infrastructure debt investment plans, unlisted equity securities, real estate and overseas investments. For more details on current supervision and regulation relating to investments of insurance funds, see "Supervision and Regulation — Use of Insurance Funds."

In addition, the CIRC continues to promote the reform of the insurance asset management system, resulting in the establishment of a number of insurance asset management companies. As of December 31, 2010, there were nine domestic insurance asset management companies and one foreign insurance asset management center operating in the PRC. As of December 31, 2010, PRC insurance investment funds totaled RMB4.6 trillion in value, of which 80.1% were fixed income investments and 16.8% were equity investments, and the average rate of return on the use of insurance funds was 4.8% in 2010, according to the Yearbook of China's Insurance 2011.