OVERVIEW

We have achieved rapid and higher than industry average growth since our inception in 1988, and have transformed ourselves from a regional property and casualty insurance company into a leading insurance group in the PRC with the ability to provide multiple financial services and products that allows us to capture future growth opportunities in the PRC financial services sector. With our principal operating subsidiaries, namely Ping An Life, Ping An Property & Casualty, Ping An Trust and Ping An Securities, we are a multiple financial services provider in the PRC operating under one single brand name, with unified and centralized management, customer database, financial and information technology systems. We offer our customers a wide range of financial products and services with a focus on life and property and casualty insurance products through our multi-channel distribution network.

Our core life insurance and property and casualty insurance operations accounted for approximately 90.0% and 9.3%, respectively, of our total revenue in 2003. The following table sets forth the breakdown of our total revenue by business segment for the periods indicated:

	For the year ended December 31,		
	2001	2002	2003
	(in millions of RMB)		
Life insurance	37,756	53,563	59,958
Property and casualty insurance	3,951	5,130	6,225
Other(1)	127	55	440
Total	41,834	58,748	66,623

(1) Consists of certain interest income and other businesses other than life insurance and property and casualty insurance, including our trust business and the securities services we provide to our customers through Ping An Trust and Ping An Securities, respectively.

Based on the latest published data from the CIRC, we were the second largest insurance company, in terms of gross written premiums and policy fees, operating in 2002 in the PRC, which is one of the fastest growing insurance markets in the world. Our business operations primarily consist of the underwriting of life insurance and property and casualty insurance. We had gross written premiums and policy fees of RMB63,134 million in 2003, of which RMB55,042 million, or approximately 87.2%, was from our life insurance operations and RMB8,091 million, or approximately 12.8%, was from our property and casualty insurance operations.

Based on our PRC GAAP financial data and PRC insurance industry data calculated in accordance with PRC GAAP and published by the National Bureau of Statistics of China and the CIRC:

- We had the second largest market share in the PRC life insurance market in 2002. In addition, we had approximately 19.6% of all the gross written premiums and policy fees received by PRC life insurance companies in 2003;
- We had the third largest market share in the PRC property and casualty insurance market in 2002. In addition, we had approximately 9.7% of the gross written

premiums and policy fees received by PRC property and casualty insurance companies in 2003;

- Our net profit in 2001 and 2002 were the highest among all PRC insurance companies; and
- Our total assets as of December 31, 2002 were the second highest among all PRC insurance companies.

We have experienced strong growth in our overall insurance operations over the past three years. In particular, our gross written premiums and policy fees increased 42.6% in 2002 to RMB58,420 million from RMB40,955 million in 2001, and increased a further 8.1% in 2003 to RMB63,134 million.

Since our establishment in 1988, we have built one of the most recognized brand names in the PRC insurance industry. As of December 31, 2003, we had over 27 million life insurance customers and 4 million property and casualty insurance customers. A substantial majority of our customers are located in and near large cities such as Shanghai, Beijing, Nanjing, Guangzhou and Qingdao, which are among the most economically developed areas of the PRC, with a combined weighted average GDP per capita of approximately RMB28,600 in 2002 compared to average GDP per capita of RMB8,214 for the PRC as a whole. We expect future growth in our life insurance and property and casualty insurance businesses to be concentrated in these and other major cities, as well as their surrounding areas.

We have one of the largest insurance distribution networks in the PRC. As of December 31, 2003, the key components of our distribution network in the PRC include:

- 35 life insurance and 35 property and casualty insurance branch offices;
- over 2,600 life insurance and over 1,000 property and casualty insurance sub-branch offices located throughout the PRC;
- more than 180,000 sales agents for our individual life insurance products;
- more than 21,000 postal and commercial bank branch offices through which we distribute our bancassurance products; and
- over 8,000 employees engaged in sales and marketing activities for group life and property and casualty insurance products.

We believe that our strong market position, our premier brand name, our extensive multi-channel distribution network and our profitability are attributable to our constant search for new and innovative ways to better serve our customers. Our innovation has not only allowed us to capture market opportunities, but also enabled us to quickly adapt to the rapidly changing market conditions in the PRC. For example, we are the first PRC domestic insurance company to introduce an agency-based distribution model for the individual life insurance business. Furthermore, we are the first PRC insurance company to develop and adopt a comprehensive automobile insurance pricing table, and we have established an efficient claim settlement procedure through the Internet for automobile insurance claims. In addition, we are the first PRC insurance company to offer **investment-linked life insurance**. Moreover, we believe our product development and distribution expertise, professional underwriting and claims management systems, superior and innovative customer service and ability to innovate help us maintain our leading market position and capture the growing demand for insurance services in the PRC.

We have received numerous awards and recognition for our achievements, including most recently:

- our being selected the most competitive brand name in the PRC in 2003 by China Market and Media Study, a joint study conducted by Sinomonitor and British Market Research Bureau;
- our being selected as the most innovative PRC enterprise in 2003 by the Twenty-First Century Economics Forum organized by Twenty-First Century Economics Journal, which is one of the leading business and finance journals in the PRC;
- our being selected as one of the most respected enterprises in the PRC by Economics Observer magazine in conjunction with Beijing University Management Research Center in 2001, 2002 and 2003, the only insurance company selected in all three years;
- our being recognized as the best customer relationship management practice in the PRC insurance sector in 2002 and 2003 by the Greater China Customer Relationship Management Association;
- our being recognized as having the best call center in the PRC in 2003 by China Federation of Information Technology Promotion, a national organization recognized by the Ministry of Information Industry of the PRC;
- our being selected as the best e-financial institution in 2003 by the E-finance Forum of the PRC, which was organized by the Customer Relation Management Research Center of China;
- Mr. Cheung Chi Yan Louis, our then Chief Information Officer, and our current Chief Operating Officer and Chief Financial Officer being recognized as an excellent Chief Information Officer in 2002 by CEO & CIO in Information Times, which is one of the leading information technology journals in the PRC; and
- our being ranked first in information technology capabilities among PRC insurance companies in the 2003 IPower 500 survey organized by the National Informatization Evaluation Center, a PRC government sponsored organization.

RECENT DEVELOPMENTS

On September 29, 2003, Ping An Trust entered into a share transfer agreement with Bank of China, pursuant to which Ping An Trust agreed to acquire Bank of China's 50% equity interest in Fujian Asia Bank Ltd. for US$18.3 million. HSBC and BCA Finance Limited had previously entered into a separate share transfer agreement, pursuant to which HSBC agreed to acquire BCA Finance Limited's 50% equity interest in Fujian Asia Bank Ltd. Ping An Trust and HSBC subsequently entered into a joint venture contract, pursuant to which Ping An Trust agreed to make a capital contribution of US$23 million for an additional 23% equity interest in Fujian Asia Bank Ltd. Fujian Asia Bank Ltd., which has been renamed Ping An Bank Limited, became a 73% owned subsidiary of Ping An Trust on February 19, 2004.

Fujian Asia Bank Ltd. is a joint venture bank established in 1993 by Bank of China and BCA Finance Limited, with each party holding a 50% equity interest. As of December 31, 2003, Fujian Asia Bank Ltd. had total assets of US$56.0 million and total liabilities of US$23.4 million. As of the same date, it had one office located in Fujian province, the PRC, with approximately 20 employees that are primarily engaged in foreign currency commercial banking businesses in the PRC. We intend to leverage Fujian Asia Bank Ltd. to develop a consumer banking business, including offering credit card and real estate mortgage lending services, as and when laws and regulations permit. We believe this transaction will enhance our ability to provide our customers with multiple financial services, including insurance, securities, banking, pension fund management and credit cards. See "— Our Strategy".

Our purchase of an equity interest in Fujian Asia Bank Ltd. is not expected to result in any material change to our current business operations or financial condition, and is not expected to make a material contribution to our net profit in the near future.

MARKET OPPORTUNITIES

During the past decade, the PRC insurance market has been one of the fastest growing insurance markets in the world, with industry-wide insurance premiums increasing from RMB50 billion in 1994 to RMB388 billion in 2003 based on data published by the National Bureau of Statistics of China. In particular, significant growth was recorded since 2000, with industry-wide insurance premiums increasing by 44.7% to RMB305 billion and 27.2% to RMB388 billion in 2002 and 2003, respectively.

The table below sets forth gross written premiums, based on PRC GAAP financial data published by the National Bureau of Statistics of China, of PRC life and property and casualty insurance companies from 2001 to 2003:

	2001	2002	2003
	(in billions of RMB)		
Life insurance	142.4	227.5	301.1
Property and casualty insurance	68.5	77.8	86.9

Despite the substantial growth in premiums in recent years, the industry-wide life and property and casualty insurance premiums represented only 2.6% and 0.7%, respectively, of the PRC's GDP in 2003. These low penetration rates indicate that the PRC insurance market has substantial potential for further significant growth. Furthermore, penetration rates in the PRC insurance market are significantly lower than those in the more developed markets in Asia, Europe and North America. See the section headed "The PRC Insurance Industry — Overview".

The PRC is in the midst of an economic as well as a demographic transformation, which we believe will continue to create significant growth opportunities in the PRC insurance market. In particular, the PRC government is transforming the economic system from one that is centrally-planned to one that is more market-oriented. This transformation involves, among other things, the gradual reform of state-owned enterprises and the reduction of government or employer sponsored benefits that those enterprises traditionally provided to their employees, such as housing, medical and retirement benefits. At the same time, the expanding private sector in the PRC is giving rise to a middle class that has growing levels of disposable income and is increasing its spending on insurable property, such as automobiles and residential housing. This rising middle class may not have the same level of housing, medical or retirement benefits that were once provided by the state-owned enterprises and may need to find alternative arrangements, such as insurance policies, for such benefits and coverage. Moreover, the PRC is undergoing a demographic transformation, due to an increase in life expectancy and a decrease in birthrate, that is expected to result in an increase in the percentage of the population age 65 or older. As a result, demand is increasing for insurance-related products such as life insurance, health insurance and pension plans, which provides an opportunity for further significant expansion and development of the PRC insurance industry.

Moreover, we believe the economic transformation in the PRC will create opportunities for other consumer financial products and services, such as credit cards and home mortgages. In addition, we expect to see an increase in demand for more sophisticated and diversified consumer financial products and services, such as trust, securities and related services. We believe that, as one of the leading PRC insurance companies, we are well-positioned to capture these opportunities.

OUR STRENGTHS

We are one of the largest and most profitable and most innovative insurance companies in the PRC. Our principal strengths include:

- **Leading insurance franchise with a well-recognized brand name.** We are the second largest insurance company in the PRC in terms of gross written premiums and policy fees in 2002. As of December 31, 2002, we had the second largest market share in the life insurance market and the third largest market share in the property and casualty insurance market in terms of gross written premiums and policy fees. Furthermore, we have enjoyed rapid growth over the past three years, with gross written premiums and policy fees growing by approximately 52.9%, 42.6% and 8.1% in 2001, 2002 and 2003, respectively. As the second largest PRC insurance company, we have also developed an extensive customer base in the PRC with over 27 million life insurance customers and 4 million property and casualty customers as of December 31, 2003, and we have one of the most recognized brands in the PRC insurance industry. Based on a customer survey of 1,251 individuals in 8 major cities in the PRC conducted by Gallup in September 2002, we had the highest brand recognition by first mention and we were considered the most liked insurer in the PRC. Moreover, we have focused our business primarily on the more economically developed coastal areas in the PRC, including Beijing, Shanghai, Tianjin, Jiangsu, Zhejiang, Guangdong, Shandong and Liaoning. Based on data published by the CIRC, approximately 70% of our gross written premiums and policy fees were from these areas in 2002, which was substantially higher than the industry average of approximately 57%. As a result of our focused geographic expansion approach, we have established and maintained the leading market position in some of the most competitive life insurance markets in the PRC, such as Beijing and Shanghai with market shares of approximately 32.7% and 36.1%, respectively, in terms of gross written premiums and policy fees in 2003, based on our PRC GAAP financial data and PRC insurance industry data calculated in accordance with PRC GAAP.

- **Corporate culture that is focused on shareholder value and on effective adoption of international practices.** Our corporate culture is focused on the creation of shareholder value and the adoption of international practices in product management, customer service, distribution and corporate governance. We believe that our corporate culture has been and will continue to be the cornerstone of our success. In particular, based on our PRC GAAP financial data and PRC insurance industry data calculated in accordance with PRC GAAP and published by the National Bureau of Statistics of China, our net profit in 2001 and 2002, were the highest among all PRC insurance companies. Our corporate culture has also allowed us to focus quickly on business opportunities that offer potential for both profitability and growth.

- **Sound corporate governance and effective internal controls.** As the first insurance company in the PRC to attract foreign investment, we have made significant progress in improving our corporate governance according to international practices following investments by the GS Investor and the MS Investor in our Company in 1994. We are the first major PRC insurance company to engage an international accounting firm as our external independent auditors, and we have established a centralized financial system to enable real-time and accurate financial reporting. We have engaged an international actuarial consulting firm to conduct independent reviews of policyholders' reserves since 1995. Moreover, we have put in place a firm-wide risk management framework, and have set up a risk management committee at the Group level responsible for establishing and overseeing our risk management policies. Following HSBC Insurance's investment in our Company in 2002, we have further improved our internal controls, agent monitoring and supervision and risk management. In addition, we have strengthened our corporate governance through the appointment of three independent non-executive Directors to our Board, and the establishment of an audit committee that consists of three non-executive Directors.

- **Experienced and strong management team that combines international expertise with extensive operating experience in the PRC insurance industry.** Our commitment to a value-driven corporate culture that is based on merit has allowed us to attract and retain an experienced and strong management team. As early as 1996, we have been recruiting and retaining management personnel from both within and outside the PRC. We have a very experienced management team in the PRC insurance industry. In particular, more than half of our top ten senior managers and approximately one-third of our top 50 managers have experience in the international insurance industry. As a result, our management team brings substantial international expertise to the day-to-day management of our operations. At the same time, our management team effectively combines their international expertise with extensive working knowledge of the needs and practices of the PRC insurance industry. This combination has enabled us to stay in the forefront of innovation, as well as better adapt ourselves to the rapidly changing market environment in the PRC, by developing and introducing a range of product and service initiatives, distribution strategies, underwriting techniques and management practices that have been developed by insurance companies worldwide. For example, we are the first PRC domestic insurance company to introduce an agency-based distribution model for the individual life insurance business as well as the first to offer investment-linked life insurance. In addition, we are the first PRC insurance company to develop and adopt a comprehensive automobile insurance pricing table, and we have established an efficient claim settlement procedure through the Internet for automobile insurance claims. We believe that our management team is well-prepared to capitalize on the growth opportunities in the PRC insurance market.

- **Strong multi-channel distribution capability.** We have developed one of the largest insurance distribution networks in the PRC, with 70 branch offices, over 3,600 sub-branch offices, more than 180,000 sales agents for our individual life insurance products and over 8,000 employees engaged in sales and marketing activities of our group life and property and casualty insurance products as of December 31, 2003. This multi-channel distribution network has enabled us to sell a full range of insurance and other financial products to our customers throughout the PRC. Furthermore, we have bancassurance arrangements with China Post, the four largest national commercial banks and many other national and regional commercial banks in the PRC. These arrangements provide us with important additional distribution channels for our products through the participating branch offices of China Post and these commercial banks, which totaled over 21,000 as of December 31, 2003. In addition, we have launched a series of new innovative distribution initiatives, such as the distribution of cargo, automobile, homeowners and accident insurance products through our PA18 Internet financial portal and our nationwide call centers.

- **Focus on more profitable regular premium individual life insurance products.** We focus on the development and marketing of regular premium individual life insurance products that provide a stable revenue stream and higher profit margins, such as participating whole life insurance and participating endowment life insurance. In 2003, renewal premiums from individual life insurance products accounted for approximately 46.5% of the gross written premiums and policy fees for our life insurance business. In particular, approximately 73.9% of our gross written premiums from our individual life insurance products were attributable to renewal premiums in 2003. In addition, over 94% of the first year premiums from our individual life insurance products were attributable to regular premium products. We believe these figures were among the highest for PRC insurance companies. We believe our focus on regular premium individual life insurance products provides us with a competitive advantage over our competitors that rely significantly on less profitable single premium insurance products. In particular, the stable revenue stream generated by our product mix focused on renewal premium enables us to focus on longer term sustainable growth opportunities.

- **Leading and innovative customer service.** Our advanced information technology system, including our centralized customer database, unified information technology platform and web-enabled applications, allows us to provide superior and innovative services to our customers. In particular, we are able to serve our customers at all times and in various locations in the PRC through our centralized nationwide call center, our PA18 Internet financial portal, our branch and sub-branch offices and our sales force. Moreover, we have established a nationwide automobile insurance claims processing service.

- **Strong investment management capability.** As early as 1997, we have centralized our investment management activities and have put in place an investment management structure in line with international practices. In particular, we have established an investment management committee that consists of our most experienced investment, financial and actuarial professionals, and the principal executive officers of our life and property and casualty insurance businesses. This committee is responsible for formulating our overall asset allocation strategy, medium- to long-term investment strategy and risk limits. Our investment management center, led by our chief investment officer, consists of an experienced team of portfolio managers and asset managers, and is responsible for the daily execution of our asset allocation and investment strategies. We ensure that a proper risk management mechanism is in place by, among other things, separating the investment activities from the risk control and back office operations. We have also created separate asset portfolios for businesses and products with distinct return characteristics and liability structures to ensure that, to the extent possible, the return and risk profile and asset liability duration are properly matched.

- **Leading information technology systems.** We have made significant investments in our information technology, and we believe we are the information technology leader in the PRC insurance industry. In the 2003 IPower 500 survey organized by the National Informatization Evaluation Center to assess the information technology capabilities of PRC enterprises, we were ranked first in the insurance sector. Our unified information technology platform, web-enabled applications and uniform technology standards allow us to centralize customer information and develop solutions quickly and efficiently to meet the needs of our customers, as well as offer our customers innovative products and services.

- **Ability to provide multiple financial services and products to capture new business opportunities.** We are a leading PRC insurance company that has established a multiple financial services platform, offering a wide range of products and services including insurance, asset management, trust and securities business. We offer these products and services through our four principal subsidiaries, Ping An Life, Ping An Property & Casualty, Ping An Trust and Ping An Securities. We believe we are in a position to fully capitalize new growth opportunities in other non-insurance related financial services because of our premier single brand name, multiple product offering capability, multi-channel distribution network and unified database enabled by our advanced information technology system. We have also taken initiatives to facilitate cross-selling of our products to our customers by leveraging our multi-channel distribution network. In particular, property and casualty insurance premiums collected by our life insurance agents increased to RMB253 million in 2002 from RMB97 million in 2001, and increased to RMB443 million in 2003.

OUR STRATEGY

Our strategy is to offer our customers a broad range of financial products and services under one brand, with a focus on life and property and casualty insurance products, through our multi-channel distribution channels. We will undertake strategic initiatives focused on enhancing our competitiveness in our core life and property and casualty insurance businesses, pursuing our multiple financial services business model and building strong back office and risk management support. In particular, we will:

- **Pursue profitable growth through the strengthening of our distribution channels.** We intend to pursue profitable growth by improving the productivity and efficiency of our distribution channels. We seek to achieve this objective by:

  — further professionalizing our individual life insurance sales agents to improve productivity and quality by rolling out skill improvement programs in key cities, and significantly upgrading our sales management and support infrastructure;

  — improving the productivity and quality of our group sales representatives through redesigning the compensation structure and upgrading of sales management and support;

  — optimizing our bancassurance network to increase profitability, including pursuing exclusive cooperation arrangements with selected commercial bank partners and developing an insurance consultancy business model;

  — redesigning the compensation structure and sales management system of the various distribution channels in our property and casualty insurance business to enhance productivity, operational efficiency and profitability, as well as strengthen relationships with insurance intermediaries; and

  — developing new distribution channels to capture additional revenue, such as our nationwide call centers, as well as expanding the use of our PA18 Internet financial portal and direct mailing.

- **Enhance our profitability through product mix optimization and more rigorous and disciplined underwriting.** We seek to enhance our profitability by optimizing our life insurance product mix, as well as adopting a more rigorous and disciplined approach to the underwriting of property and casualty insurance policies. We intend to achieve this objective by:

  — continuing to focus on more profitable individual regular premiums products;

  — adjusting product features, optimizing the product mix within our group insurance and bancassurance products to enhance our profitability; and

  — enhancing our underwriting discipline and improving our risk selection and risk-based pricing capacity for our property and casualty insurance business.

- **Continue to focus on and enhance product offerings and customer service.** We seek to further improve our customer retention and persistency rate and attract new customers by continuing to focus on and enhance our product offerings and customer service. We plan to achieve this objective by:

— developing product offerings that are profitable, such as accident and health insurance products, and targeted at key customer segments;

— enhancing our ability to serve our customers at all times and in various locations in the PRC by leveraging our nationwide call center, our PA18 financial portal, our centralized customer database, our advanced information technology system, our distribution network and our sales force;

— standardizing service counter processing procedures to provide efficient customer service; and

— increasing the customer service role of our sales agents by encouraging them to maintain regular contact with customers to whom they have sold insurance policies.

- **Maximize cross-selling opportunities by leveraging our broad customer base and diverse product offerings.** We plan to leverage our broad customer base and our advanced information technology capacity to maximize cross-selling opportunities. We intend to achieve this objective by:

— utilizing our unified database of over 27 million life insurance and 4 million property and casualty insurance customers to facilitate our cross-selling activities;

— adopting performance-driven incentive mechanisms and implementing effective performance measure systems that emphasize and reward cross-selling; and

— conducting extensive training for our sales force to enhance their product knowledge as well as their sales and marketing skills to further improve their cross-selling productivity.

- **Further develop a multiple financial services platform by pursuing potential new business opportunities.** We plan to utilize our leading position in the PRC insurance market to further develop a multiple financial services platform for our customers. We plan to achieve this objective by:

— leveraging our customer base, distribution channels and well-recognized brand name in our development of multiple financial services; and

— selectively exploring opportunities in other financial services sectors, including, subject to receipt of applicable regulatory approvals, consumer banking, credit card, real estate mortgage lending and pension fund management.

- **Further centralize our key processing functions to control operating costs and improve operational efficiency.** We intend to achieve this objective by:

— reducing operating costs through consolidation and streamlining of back office processing operations, including underwriting and claim processing, and through obtaining advice and guidance from HSBC Insurance in accordance with the terms of the technical assistance and services agreement referred to on page 155 of this prospectus;

— redesigning and standardizing our internal work flow procedures; and

— leveraging our unified information technology platform to increase operational efficiency.

LIFE INSURANCE

Overview

We are the second largest life insurance company in the PRC in terms of gross written premiums and policy fees in 2002. Our life insurance business accounted for approximately 19.6% of the gross written premiums and policy fees received by PRC life insurance companies in 2003, in each case based on our PRC GAAP financial data and PRC insurance industry data calculated in accordance with PRC GAAP and published by the National Bureau of Statistics of China. We started underwriting individual life insurance policies in 1994. Since the completion of our reorganization in 2002, we have conducted our life insurance operations through our 99% owned subsidiary, Ping An Life. Gross written premiums and policy fees received by our life insurance operations increased from RMB306 million in 1994 to RMB55,042 million in 2003. We have achieved higher than industry average growth rate since 1994. Based on the latest information published by the CIRC, we were the most profitable life insurance company in the PRC in 2001 and 2002. In addition, we have managed the growth of our life insurance business to focus on the development and marketing of more profitable insurance products, such as regular premium individual life insurance products.

We offer a variety of products to our individual and group insurance customers. We focus on underwriting more profitable individual regular premium life insurance products, which offer a stable source of revenue as well as higher profitability. Furthermore, we seek to optimize our product mix and enhance our profitability. We believe we are a leader in product innovation, and our product development efforts are supported by our experienced actuarial team. For example, we are the first PRC insurance company to offer investment-linked life insurance products.

We believe we are the leader in the PRC insurance industry in managing, training and supporting our individual life insurance sales agents, and we are continuously upgrading our sales management infrastructure to maintain our leadership position. We are the first PRC insurance company to introduce an agency-based distribution model for the individual life insurance business. Moreover, of the 708 sales agents in the PRC who have qualified for the Million Dollar Round Table, which is an international association of top life insurance sales agents, in 2002, 660 were our sales agents. Our life insurance products are primarily distributed through sales agents, group sales representatives and branch offices of China Post and commercial banks in the PRC that have bancassurance arrangements with us. The distribution network for our life insurance products includes our sales force of over 180,000 individual insurance sales agents and over 1,200 group sales representatives. In addition, we have 35 life insurance branch offices and over 2,600 sub-branch offices located throughout the PRC. Furthermore, as of December 31, 2003, over 21,000 branch offices of China Post and commercial banks in the PRC had bancassurance arrangements with us. As of the same date, we had approximately 27 million individual and 188,000 corporate life insurance customers.

We believe we are a leader in customer service in the PRC insurance industry. Our advanced information technology system, centralized customer database and leading call center services all enhance our customer service and customer persistency.

We currently generate a significant portion of our life insurance premiums from the more economically developed areas of the PRC. In particular, the gross written premiums and policy fees attributable to our life insurance customers in our leading ten branch offices accounted for approximately 64.0% of the gross written premiums and policy fees received by our life insurance operations in 2003. Furthermore, based on our PRC GAAP financial data and PRC insurance industry data calculated in accordance with PRC GAAP, our gross written premiums and policy fees derived from Beijing and Shanghai were the largest among PRC life insurance companies operating in these cities, and accounted for approximately 32.7% and 36.1%, respectively, of the gross written premiums and policy fees received by PRC life insurance companies in these cities in 2003.

We manage our life insurance business with a focus on profitable growth, taking into account the changing market conditions and increasing competition in the PRC insurance industry. In particular, we have implemented various measures to further focus on the more profitable individual regular premium life insurance products, manage the growth of our group insurance and bancassurance business to achieve higher profitability, and further professionalize our sales force.

The following table sets forth certain financial and operating data for our life insurance operations as of the dates or for the periods indicated:

	As of or for the year ended December 31,		
	2001	2002	2003
	(in millions of RMB, except percentages)		
Gross written premiums and policy fees	34,952	50,582	55,042
Individual life insurance	27,844	32,329	34,616
Bancassurance	2,837	9,633	10,562
Group insurance	4,271	8,620	9,864
Market share of gross written premiums and policy fees(1)	28.1%	23.5%	19.6%
First year premiums and policy fees	16,758	28,463	28,295
Renewal premiums and policy fees	18,194	22,119	26,747

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

Business Initiatives

We intend to further develop our life insurance business and implement our overall strategy with respect to our life insurance operations by adopting the following business initiatives:

- **Further professionalize our individual life sales force to enhance productivity and quality.** We are implementing a number of measures to enhance the productivity and professionalism among our sales force. We intend to achieve this objective by:

— rolling out intensive selling and service skill improvement programs for our sales agents and managers in key cities;

— upgrading our sales management and support process and infrastructure, including recruiting, training and information technology support; and

— continuously reviewing and improving our sales force, with a view towards identifying and replacing under-performing sales agents.

Through these measures as well as other initiatives, we intend to continue retaining our most productive sales agents and enhancing our overall productivity.

- **Build on our competitive brand position by further improving our product offerings and customer service.** We seek to attract and retain customers by enhancing our product offerings and customer service. In particular, we aim to achieve this objective by:

— developing product offerings that are profitable and tailored to the needs of our customers;

— leveraging our nationwide call center and centralized customer database to improve our customer service capability;

— providing additional training to our sales force and restructuring the compensation structure of our sales agents to improve the level of services they provide to our customers; and

— standardizing customer interface, work flow and service procedures at our service centers.

- **Pursue profitable growth in our individual life insurance business by focusing on the more economically developed areas in the PRC and on high net worth customers.** We are a leading life insurance company in the individual life insurance market in the PRC. We believe this market offers significant opportunities for our continued revenue growth. In particular, we plan to take advantage of these market opportunities by:

— encouraging our sales agents to increase the use of riders to supplement our standard policies in promoting and selling our individual life insurance products;

— continuing to focus on the sales of our regular premium products and the training of our sales force to market regular premium products;

— continuing to target customers located in Shanghai, Beijing, Nanjing, Guangzhou and Qingdao and other more economically developed areas of the PRC, which offer significant growth potential; and

— targeting high net worth individuals with varying insurance-related needs through the implementation of product pricing, service and retention strategies that are tailored to attract and retain such individuals as customers.

- **Improve the profit margin of our group insurance business.** We are a leading group insurance company in the PRC, providing group life insurance and annuity products to the employees of many of largest companies and institutions. We intend to improve the profit margin of our group insurance business by:
  - — strengthening our multi-channel distribution network, including direct sales, cross-selling, brokers and other distribution channels, and further professionalizing our group sales representatives through better sales management;
  - — adjusting our product mix to focus on products with higher profit margin and encouraging the sales of short-term group insurance products, such as accident and health insurance products;
  - — establishing a performance monitoring system for our branch and sub-branch offices and closing down branch and sub-branch offices with low profit potential; and
  - — implementing more stringent underwriting procedures.
- **Improve the profitability of our bancassurance operations.** We currently have bancassurance arrangements with China Post, the four largest national commercial banks and many other national and regional commercial banks in the PRC for the distribution of our bancassurance products. We intend to improve the profitability of our bancassurance operations by:
  - — forming business alliances with institutions that have strong bancassurance relationships with us to develop new distribution models, such as insurance consultants for the distribution of bancassurance products;
  - — continuing to develop exclusive bancassurance business model, as these arrangements tend to offer higher margins and lower selling commissions for our insurance products;
  - — focusing on the sale of higher margin insurance products, such as accident insurance products, and expanding the sale of regular premium bancassurance products; and
  - — improving productivity of bank branches that sell our bancassurance products by optimizing the distribution network and upgrading the selling skills of bank employees.
- **Increase cross-selling to our extensive customer base.** Our large customer base, centralized customer database and extensive distribution network enable us to cross-sell products in a cost-effective manner, and we intend to capitalize on this competitive advantage by increasing the cross-selling activities between our life and property and casualty insurance businesses. In particular, we intend to achieve this objective by:
  - — intensifying the marketing by our property and casualty in-house sales representatives of group insurance products, such as group term life insurance products and group annuity insurance products, to their customers; and

— increasing the amount of cross-selling between our individual life insurance business and our group insurance business, such as the marketing of group term life insurance products and group annuity insurance products to our individual life insurance customers who are in decision-making positions within their organizations.

- **Further centralizing the processing of underwriting, claims and policy administration.** We plan to centralize the key underwriting, claims and policy administration processing functions to strengthen risk control, improve operational efficiency and enhance standardization of customer service.

Individual Life Insurance

We are the first PRC insurance company to introduce an agency-based distribution model to market the individual life insurance products. We have focused on underwriting the more profitable regular premium individual life insurance products, and over 94% of our individual life insurance first year premiums in 2003 were attributable to regular premium products. We have a very profitable individual life insurance business. In addition, we believe that we provide superior customer service, including our being recognized as having the best call center in the PRC in 2003 by China Federation of Information Technology Promotion.

Products

Our individual life insurance products generally fall into four principal categories: traditional non-participating life insurance, traditional participating life insurance accident and health insurance and non-traditional life insurance. In 2003, gross written premiums and policy fees from our individual life insurance products accounted for approximately 62.9% of the gross written premiums and policy fees received by our life insurance operations.

Traditional Non-Participating Life Insurance

Our primary traditional non-participating life insurance products include **whole life insurance, term life insurance** and **endowment life insurance.** In 2003, gross written premiums and policy fees from our individual traditional non-participating life insurance products accounted for approximately 28.3% of the gross written premiums and policy fees received by our life insurance operations.

Whole Life Insurance. Our whole life insurance products generally provide insurance for the insured party's entire life in exchange for the periodic payment of a fixed premium over the life of the insured or over a pre-determined period. The face amount of the policy is paid upon the death of the insured party and all of our whole life insurance policies provide for a **cash surrender value** to be paid upon early termination of the policy. Our dread disease insurance products provide an accelerated and guaranteed benefit of 80% or 20% of the sum insured during the policy period depending on the seriousness of the dread disease, with the remaining benefit paid upon death of the insured party.

Term Life Insurance. Our term life insurance products generally provide insurance for the insured party for a specified time period in exchange for the periodic payment of a fixed premium. Term life insurance products normally do not include any savings or investment component, and term life insurance contracts generally expire without value if the insured party is still alive at the end of the coverage period.

Endowment Life Insurance. Our endowment life insurance products generally provide insurance for the insured party during the policy period as well as maturity benefits at the end of the policy period. The face amount of the policy is paid upon the death of the insured party. Maturity benefits are paid if the insured party survives the term of coverage.

Accident and Health Insurance

Our accident insurance products generally provide a guaranteed benefit in the event of death or disability of the insured party as a result of an accident during the policy period. The disability benefit we pay to the insured party will vary according to the type of disability afflicted upon such insured party. Our health insurance products generally provide for a daily hospital allowance or reimbursement of actual hospital expenses incurred by the insured party. We generally offer our accident and health insurance polices for a term of one year. In 2003, gross written premiums and policy fees from our individual accident and health insurance products accounted for approximately 4.4% of the gross written premiums and policy fees received by our life insurance business.

Traditional Participating Life Insurance

Our primary traditional participating life insurance products include whole life insurance and endowment life insurance. In addition to providing the benefits offered under our traditional non-participating life insurance products, our traditional participating life insurance products also entitle policyholders to receive dividends in the event our participating products have a distributable surplus in any year during the policy period. For any given year, a distributable surplus will generally exist if actual mortality rates and investment yields for a particular participating life insurance product are more favorable than the assumptions used in the pricing of such product. We are required by the CIRC to allocate at least 70% of the annual distributable surplus for our participating life insurance products for the benefit of policyholders. Depending on each policyholder's preference, any such allocated surplus may be distributed to policyholders either in the form of cash, as a cash deposit to accrue interest, as an offset against premiums or as an increase in policy amounts. We are not required under applicable CIRC regulations to distribute the whole annual surplus for a particular year. If we choose to distribute part of the annual surplus, the rest will be accumulated into a special dividend reserve, which can be distributed in future years. Each year, we make a determination on the annual surplus to be distributed according to the amount of annual surplus of that particular year and the availability of the accumulated special dividend reserve. The allocation of the annual surplus distributed among policyholders is based on equitable contribution principles.

In 2003, gross written premiums and policy fees from our individual traditional participating life insurance products accounted for approximately 26.9% of the gross written premiums and policy fees received by our life insurance operations.

Non-Traditional Life Insurance

In the past, we offered only one type of non-traditional life insurance product, which is the investment-linked life insurance. We initially offered investment-linked life insurance to our customers from October 1999 to June 2003. In June 2003, the CIRC issued a regulation that imposed new requirements on investment-linked life insurance products. As a result of the CIRC regulation, PRC insurance companies, including us, temporarily stopped selling investment-linked life insurance products. The validity of approximately 1,100,000 investment-linked life insurance policies sold before the end of June 2003 is not affected by the CIRC regulation. We have submitted an application to the CIRC in November 2003 relating to new investment-linked and universal life insurance products that are structured in compliance with the CIRC regulation. We will begin to sell these new products after we have received the relevant CIRC approvals. In 2003, gross written premiums and policy fees from our individual investment-linked life insurance products accounted for approximately 3.3% of the gross written premiums and policy fees received by our life insurance operations. Holders of our investment-linked life insurance products may determine the allocation of their investment premiums among three different investment portfolios: conservative portfolio, balanced portfolio and growth portfolio.

The following table sets forth certain financial and operating data for our principal individual life insurance product categories as of the dates or for the periods indicated:

	As of or for the year ended December 31,		
	2001	2002	2003
	(in millions of RMB)		
Traditional non-participating:			
Gross written premiums and policy fees	15,940	15,455	15,561
First year premiums and policy fees	660	758	1,245
Renewal premiums and policy fees	15,280	14,697	14,316
Accident and health:			
Gross written premiums and policy fees	1,736	2,230	2,433
First year premiums and policy fees	1,736	2,230	2,433
Renewal premiums and policy fees	—	—	—
Traditional participating:			
Gross written premiums and policy fees	5,239	11,014	14,801
First year premiums and policy fees	4,374	6,853	5,249
Renewal premiums and policy fees	865	4,161	9,552
Non-traditional:			
Gross written premiums and policy fees	4,929	3,630	1,821
First year premiums and policy fees	4,002	949	96
Renewal premiums and policy fees	927	2,681	1,725
Total gross written premiums and policy fees	27,844	32,329	34,616
Total first year premiums and policy fees	10,772	10,790	9,023
Total renewal premiums and policy fees	17,072	21,539	25,593

Distribution

We believe we are the leader in the PRC insurance industry in managing, training and supporting our individual life insurance sales agents, and we are continuously upgrading our sales management infrastructure to maintain our leadership position. In 2003, we were selected, for the third time, as one of winners for the Excellence in Education Award, by Life

Office Management Association, or LOMA, an international association through which more than 1,250 insurance and financial services companies from over 70 countries engage in research and educational activities to improve company operations. In addition, in 2004, we were selected, for the fifth time, as one of the winners for the Educational Achievement Award, which recognizes fifteen companies worldwide with the greatest participation in LOMA's education programs based on the total number of enrollments during the previous calendar year. We are the first PRC insurance company to introduce an agency-based distribution model for the individual life insurance business. Moreover, of the 708 sales agents in the PRC who have qualified for the Million Dollar Round Table, which is an international association of top life insurance sales agents, in 2002, 660 were our sales agents.

We currently have over 180,000 **captive sales agents** to market these products. Our sales agents, including our sales agent management team, are not our direct employees, but each sales agent enters into an exclusive agency agreement with us every three years. In addition, the PRC Insurance Law prohibits individual sales agents from accepting **commissions** from more than one life insurance company concurrently.

Our sales agent management team consists of approximately 20,000 sales directors, approximately 2,200 sales operations directors and approximately 570 sales operations supervisors. Sales directors report to sales operations directors and, in addition to performing the tasks of a sales agent, are responsible for managing and coaching sales agents. Sales operations directors manage and train sales directors and report to sales operations supervisors. Sales operations supervisors oversee the sales operations in their district and report to the central life insurance sales departments located in our branch offices.

We are a leading PRC insurance company in providing training to our sales agents. In particular, we consider the ongoing training of our sales agents an important part of our business initiative to enhance the productivity and professionalism of our sales force. Accordingly, we require our sales agents to participate in various training programs on an ongoing basis. We offer courses that are required for promotion from sales agent to a sales management position and courses that are optional for agents who want to enhance their technical and marketing skills. We currently offer six required courses and eight optional courses. We intend to offer additional courses in 2004, including a marketing technique course, to sales agents who meet certain length of service and productivity requirements. In collaboration with the Life Insurance Marketing Research Association, or LIMRA, we have also established training courses for our sales management team members. In 2003, LIMRA awarded international quality assurance qualifications to approximately 8,000 of our sales agents.

Prior to becoming one of our certified sales agents, each candidate must complete our training program, which last approximately 11 weeks and is divided into three primary phases: preliminary training, pre-employment training and transition training. The preliminary training phase lasts four weeks and is designed to assist candidates in preparing for the government license examination. After completing the examination, the candidates participate in a week-long pre-employment training program, a five-week transition training program and a final three-day training program before they become our certified sales agents. In order to enhance the efficiency of our recruiting efforts, we established an agent selection system in June 2002 that utilizes the LASS test designed by LIMRA and individual interviews.

We are a leading PRC insurance company in providing support to our sales agents to increase their productivity. We provide support to our sales agents through branch sales support applications, call center and our PA18 Internet financial portal. Our sales agents can create customized insurance proposals, manage the sales activities and synchronize with our centralized database the latest information of our customers through a purpose-built sales support application running on their laptops. Moreover, we introduced a personal digital assistant version of the application in September 2003 to increase the level of support enabled by our advanced information technology system. We also utilize short messaging services to assist our sales agents in their marketing efforts.

The following table sets forth certain productivity measures for our sales agents for the periods indicated:

	For the year ended December 31,		
	2001	2002	2003
	(in RMB, except policy numbers)		
Average monthly first year premium per agent	3,884	2,786	3,036
New life insurance policies per agent per month	2.4	2.1	2.6

Our average monthly first year gross written premiums and policy fees per agent decreased 28.3% to RMB2,786 in 2002 from RMB3,884 in 2001. This decrease was primarily due to our decreased sales of investment-linked life insurance products. The decrease of the sales of our investment-linked life insurance products was principally a result of the significant downturn of the securities market of the PRC in 2001 and 2002, which made our investment-linked life insurance products less attractive to our potential customers. Our average monthly first year gross written premiums and policy fees per agent increased 9.0% to RMB3,036 in 2003 from RMB2,786 in 2002. This increase was primarily due to the increase of productivity and rationalization of our sales agents.

In 2003, we initiated the process of restructuring the compensation structure for our sales agents so that individual compensation will be tied more closely to, among other things, the volume and persistency level of insurance policies sold by the relevant agent. We believe that the new compensation structure will provide incentives to our sales agents to increase their productivity, as well as improve our retention of top agents, which we expect would result in more efficient utilization of our resources.

In addition to our regular sales agents, we have a dedicated team of approximately 16,000 home service agents based in our various branch and sub-branch offices that focus primarily on marketing new life insurance products to and servicing holders of **orphan policies,** which are life insurance policies that were originally sold by an agent who is no longer associated with us. Our home service agents provide premium collection as well as claim handling services for holders of orphan policies.

We believe as the PRC insurance industry further develops, we need to upgrade our sales management capability to further professionalize and upgrade the quality of our sale force and enhance productivity in order to remain competitive. We are in the process of rolling out skill improvement programs for our sales agents and managers, and further upgrading our sales management and support infrastructure, such as training, marketing and information technology support.

Bancassurance

We started offering participating bancassurance products in August 2000. Our bancassurance business has achieved substantial growth since the introduction of our bancassurance products. During 2003, we decided to manage the growth of our bancassurance business and focus on increasing the profit margin by adjusting our product mix towards regular premium and short-term insurance products, optimizing the existing bank distribution network, and developing a more profitable model of distribution through banks.

Products

Our bancassurance products primarily consist of participating endowment life insurance, participating deferred annuities and accident insurance, and are generally single premium insurance products. In 2003, gross written premiums and policy fees from our bancassurance products accounted for approximately 19.2% of the gross written premiums and policy fees received by our life insurance operations.

Participating Endowment Life Insurance

The participating endowment life insurance products offered as part of our bancassurance products generally have the same characteristics as the endowment life insurance products offered as part of our individual life insurance products, except that the majority of these policies are single premium products with 5 year and 10 year maturities. For a description of these characteristics, please see the section headed ''— Individual Life Insurance — Products — Traditional Participating Life Insurance''.

Participating Deferred Annuity

We have been offering a participating **deferred annuity** as part of our bancassurance products since June 1, 2003. Holders of our participating deferred annuities contribute premiums during an accumulation period and either the holder or the beneficiary receives the following benefits:

- either a lump sum payment upon attaining the annuity vesting age or an annual payment beginning upon the attainment of the annuity vesting age and ending upon the death of the holder;
- a lump sum payment if the death of the holder occurs before the annuity vesting age; and
- dividends to the extent that our participating products have a distributable surplus in the accumulation period.

Accident Insurance

We have been offering accident insurance as part of our bancassurance products since June 1, 2003. These products generally have the same characteristics as the accident insurance products offered as part of our individual life insurance products. For a description of these characteristics please see the section headed ''— Individual Life Insurance — Products — Accident and Health Insurance''.

The following table sets forth certain financial and operating data for our bancassurance products as of the dates or for the periods indicated:

	As of or for the year ended December 31,		
	2001	2002	2003
	(in millions of RMB)		
Traditional participating:			
Gross written premiums and policy fees	2,837	9,633	10,560
First year premiums and policy fees	2,837	9,599	10,441
Renewal premium and policy fees	—	34	119
Accident and health:			
Gross written premiums and policy fees	—	—	2
First year premiums and policy fees	—	—	2
Renewal premium and policy fees	—	—	—
Total gross written premiums and policy fees	2,837	9,633	10,562
Total first year premiums and policy fees	2,837	9,599	10,443
Total renewal premiums and policy fees	—	34	119

Distribution

We have bancassurance arrangements with China Post, the four largest national commercial banks and many other national and regional commercial banks in the PRC for the distribution of our bancassurance products. Pursuant to our bancassurance arrangements with these institutions, our products are marketed to their customers through their employees and through direct mail and telemarketing in exchange for sales commissions that we pay to China Post and the commercial banks. We believe that the bancassurance distribution channel offers opportunity for growth due to the large number of postal and bank customers in the PRC. As of December 31, 2003, we had bancassurance arrangements with over 21,000 China Post and commercial bank branches in over 130 cities across the PRC. In 2003, gross written premiums and policy fees generated by our bancassurance arrangements accounted for approximately 19.2% of the gross written premiums and policy fees received by our life insurance business.

As of December 31, 2003, we had over one million bancassurance customers. Our customers may generally access our bancassurance products through service counters located at participating China Post and commercial bank branches. In addition, financial service centers at certain participating commercial bank branches are available to assist middle to high-end bank customers with their bancassurance product needs.

Our bancassurance arrangements generally do not prohibit participating China Post and bank branches from selling the products of other insurance companies. However, we have implemented a number of measures to encourage these entities to sell our insurance products in preference to those of other insurance companies, including providing training and computer software and entering into cooperation agreements with several banks.

Employees from participating China Post and commercial bank branches are required to attend a training program conducted by us, through which these employees are trained on product features and sales techniques. We are also in the process of linking computers at participating China Post and commercial bank branches to our centralized underwriting information technology system, which facilitates the electronic submission of policy applications and the issuance of insurance policies at these branches. We have over 1,000 bancassurance specialists providing support to the employees of the participating China Post and commercial bank branches. These bancassurance specialists provide consultation to the employees of participating China Post and commercial bank branches regarding bancassurance products and sales techniques. These bancassurance specialists also visit the participating China Post and commercial bank branches to collect insurance applications and deliver approved insurance policies.

We entered into cooperation agreements with ICBC and Bank of China in June 2000 and October 2002, respectively, with respect to our bancassurance business. Our branch offices have entered into bancassurance agreements with the corresponding branches of ICBC and Bank of China that provide for the sale of our bancassurance products. We have not entered into cooperation agreements with China Post and the remaining two largest national commercial banks with respect to our bancassurance business. However, our branch offices have entered into bancassurance agreements with the corresponding branches of China Post and the remaining two largest national commercial banks that provide for the sale of our bancassurance products. The cooperation agreements with ICBC and Bank of China do not require us to maintain a minimum level of businesses with ICBC and Bank of China, respectively.

In 2003, sales of our bancassurance products through the participating branches of ICBC and Bank of China accounted for approximately 42% and 25%, respectively, of the gross written premiums and policy fees generated by our bancassurance arrangements. See the section headed "Risk Factors — Risks Relating to Our Insurance Operations — The termination or disruption of our bancassurance arrangements in the PRC may have a material adverse effect on our competitiveness and result in a decline in our revenues and profits".

Group Insurance

We are a leading PRC insurance company in providing group insurance products to large state-owned enterprises, foreign-invested enterprises, privately held PRC companies and municipal and county governments in the PRC.

Products

Our primary group insurance products generally fall into four principal categories: group traditional non-participating life insurance, group accident and health insurance, group traditional participating deferred annuity and group non-traditional deferred annuity. In 2003, gross written premiums and policy fees from our group insurance products accounted for approximately 17.9% of the gross written premiums and policy fees received by our life insurance operations.

Traditional Non-Participating Life Insurance

Our primary group traditional non-participating life insurance products include group whole life and group term life insurance products. These products generally have the same characteristics as the products offered as part of individual life insurance products. For a description of these characteristics, please see the section headed "— Individual Life

Insurance — Products — Traditional Non-Participating Life Insurance''. In 2003, gross written premiums and policy fees from our group traditional non-participating life insurance products accounted for approximately 4.2% of the gross written premiums and policy fees received by our life insurance operations.

Accident and Health Insurance

Our primary group accident and health insurance products include group accident and group health insurance products. These products generally have the same characteristics as the products offered as part of individual life insurance products. For a description of these characteristics, please see the section headed ''— Individual Life Insurance — Products — Accident and Health Insurance''. In 2003, gross written premiums and policy fees from our group accident and health insurance products accounted for approximately 2.3% of the gross written premiums and policy fees received by our life insurance operations.

Traditional Participating Deferred Annuity

We currently offer a group participating deferred annuity. This product generally has the same characteristics as the participating deferred annuity offered as part of our bancassurance products. For a description of these characteristics please see the section headed ''— Bancassurance — Products — Participating Deferred Annuity''.

We generally offer these products to entities with more than eight employees. In 2003, gross written premiums and policy fees from our group traditional participating life insurance products accounted for approximately 11.4% of the gross written premiums and policy fees received by our life insurance operations.

Non-Traditional Deferred Annuity

We currently offer a group investment-linked deferred annuity, which has a combination of the characteristics of investment-linked insurance products and deferred annuity insurance products. Our group investment-linked deferred annuity insurance product provides insurance for the insured party during the policy period and an investment return linked to an investment option selected by the policyholder. Premiums are allocated partly to the insurance account and partly to investment portfolios according to a fixed schedule. Policyholders may determine the allocation of their investment premiums among three different investment portfolios: conservative portfolio, balanced portfolio and growth portfolio.

The deferred annuity feature of our group investment-linked deferred annuity insurance product provides a lump sum payment or an annual payment for the life of the holder. Holders of participating deferred annuities contribute premiums during an accumulation period and either the holder or the beneficiary receives the following benefits:

- either a lump sum payment upon attaining the annuity vesting age or an annual payment beginning upon the attainment of the annuity vesting age and ending upon the death of the holder;
- a lump sum payment if the death of the holder occurs before the annuity vesting age; and
- a lump sum payment if the holder is disabled before the annuity vesting age.

The following table sets forth certain financial and operating data for our principal group insurance product categories as of the dates or for the periods indicated:

	As of or for the year ended December 31,		
	2001	2002	2003
	(in millions of RMB)		
Traditional non-participating:			
Gross written premiums and policy fees	2,778	1,261	2,314
First year premium and policy fees	1,656	739	1,774
Renewal premiums and policy fees	1,122	522	540
Accident and health:			
Gross written premiums and policy fees	631	976	1,245
First year premium and policy fees	631	976	1,245
Renewal premiums and policy fees	—	—	—
Traditional participating:			
Gross written premiums and policy fees	836	6,215	6,270
First year premium and policy fees	836	6,206	5,777
Renewal premiums and policy fees	—	9	493
Non-traditional:			
Gross written premiums and policy fees	26	168	35
First year premium and policy fees	26	153	33
Renewal premiums and policy fees	—	15	2
Total gross written premiums and policy fees	4,271	8,620	9,864
Total first year premiums and policy fees	3,149	8,074	8,829
Total renewal premiums and policy fees	1,122	546	1,035

Distribution

We have over 1,200 group sales representatives located in our various branch and sub-branch offices throughout the PRC. These group sales representatives provide life insurance and retirement planning advice and sell health and other short-term insurance to institutional customers. These sales representatives receive performance based bonuses in addition to a base salary. Although we are currently shifting our product mix toward health and other short-term insurance products, we believe that the ongoing transformation of the PRC economy will continue to provide additional market opportunities for our group annuity products. See the section headed "— Market Opportunities".

As part of our marketing effort, we offer information technology services to assist our large institutional life insurance customers in developing an information technology platform to manage their pension plans. Through our PA18 Internet financial portal, we are able to quickly create customized solutions for our largest group life insurance customers. Our quick response to customer needs is one of the key reasons we are able to attract and retain these customers.

Insurance Intermediaries

We also distribute our group insurance products through insurance intermediaries such as institutional insurance agents, insurance brokers and ancillary agency organizations.

Institutional insurance agents primarily distribute our group participating deferred annuity products. Ancillary agency organizations primarily distribute our group accident insurance products such as travel accident insurance. We believe that these insurance intermediaries will play a more important role in the future for the distribution of our group insurance products.

Alternative Distribution Channels

An additional distribution channel for our life insurance products is through the cross-selling of these products by our property and casualty insurance business. In particular, decisions with respect to insurance coverage at state-owned enterprises and privately held companies in the PRC are often made by the same person irrespective of the type of insurance coverage sought. As a result, we also use the in-house sales representatives from our property and casualty insurance business to market our group insurance products to existing commercial property and casualty insurance customers. In addition, we have started to market our life insurance products through our nationwide call center 95511 and our PA18 Internet financial portal.

Furthermore, we also take advantage of cross-selling opportunities within our life insurance business by using sales agents from our life insurance business to market our group insurance products to individual life insurance customers who hold decision-making positions at large state-owned enterprises or municipal and county governments in the PRC.

The following table sets forth certain data relating to cross-selling of our life insurance products to our property and casualty insurance customers as of the dates indicated:

	As of December 31,		
	2001	2002	2003
	(in millions of RMB)		
Gross written premiums and policy fees from property and casualty insurance customers purchasing life insurance	28	247	468

Negative Interest Rate Spread on Legacy High Guaranteed Return Products

Like other major PRC life insurance companies, we offered life insurance products, including among others, whole life insurance, endowment life insurance and deferred annuities, with relatively high guaranteed rates of return from 1995 to 1999, primarily as a result of the then prevailing high market interest rates. As market interest rates in the PRC have generally decreased over the past few years, interest rates earned by us for those products have fallen below the assumed interest rates used in the calculation of premiums and policy fees. As a result, the substantial shortfall between the market interest rates and the guaranteed return rates have resulted in a negative interest rate spread. However, since the assumed mortality and morbidity rates and administrative expenses used in calculating premiums for our insurance products are relatively conservative, the difference between actual and assumed mortality and morbidity rates and expense experience have to date generally offset some effects of the negative interest rate spread. See the section headed “Financial Information — Negative Interest Rate Spread on Legacy High Guaranteed Return Products”.

Customers

As of December 31, 2003, our life insurance customer base included over 27 million life insurance customers. The following table sets forth the number of our individual and corporate customers as of the dates indicated:

	As of December 31,		
	2001	2002	2003
	(in thousands)		
Individual customers	15,531	21,218	26,880
Corporate customers	73	119	188
Total	15,604	21,337	27,068

Approximately 45.8% of the gross written premiums and policy fees received by our life insurance operations in 2003 were attributable to customers located in or near Shanghai, Beijing, Nanjing, Guangzhou and Qingdao, which are among the more economically developed areas in the PRC. We believe these and other more economically developed areas will continue to offer greater potential for further profitable growth. As a result, we will continue to focus our sales and marketing efforts on these and other more economically developed areas, including the Bo Hai Bay area near Beijing and Tianjin, the Yangtze River delta area near Shanghai and the Pearl River delta area near Guangzhou. We also plan to increase our focus on high net worth individuals in Shanghai, Beijing, Nanjing, Guangzhou and Shenzhen.

The table below sets forth the geographic distribution of the gross written premiums and policy fees received by our life insurance operations for the periods indicated:

	For the year ended December 31, 2003	
	Amount	% of total
	(in millions of RMB, except percentages)	
Shanghai	7,525	13.7%
Beijing	6,642	12.1
Nanjing	4,154	7.5
Guangzhou	3,518	6.4
Qingdao	3,328	6.0
Shenyang	2,744	5.0
Hangzhou	2,229	4.0
Chengdu	1,773	3.2
Harbin	1,689	3.1
Fuzhou	1,672	3.0
All other areas(1)	19,768	36.0
Total	55,042	100.0%

(1) Each of these areas individually accounted for less than 3.0% of the gross written premiums and policy fees received by our life insurance operations in 2003.

We believe the gross written premiums and policy fees received by our life insurance operations are more concentrated in these more economically developed areas in the PRC as compared to the other major PRC insurance companies.

Customer Service

We are committed to providing quality customer service. In addition to basic customer service such as claim settlement and inquiry, we also provide our customers with worldwide accident assistance. Our primary customer service channels include our nationwide call center, our PA18 Internet financial portal, our sales office service outlets and our team of sales agents. Our ability to provide quality customer service is supported by our advanced information technology platform. In particular, our centralized database contains information on the insurance policies issued to over 27 million life insurance and 4 million property and casualty insurance customers. We believe we provide superior quality of customer service among PRC insurance companies as a result of these and other efforts.

The following table sets forth 13-month and 25-month persistency ratios for our individual life insurance customers as of the dates indicated:

	As of December 31,		
	2001	2002	2003
Individual life insurance customer 13-month persistency ratio(1)	83.4%	86.1%	85.7%
Individual life insurance customer 25-month persistency ratio(2)	80.8%	75.5%	79.6%

(1) Percentage of in-force life insurance policies 13 months after their issuance.

(2) Percentage of in-force life insurance policies 25 months after their issuance.

The decrease in our 25-month persistency ratio between 2001 and 2002 was primarily due to the increasing proportion of our life insurance policies with a guaranteed rate of return equal to or lower than 2.5%. In particular, these policies generally have a lower renewal rate compared to that of our legacy high guaranteed return products. Our 13-month and 25-month persistency ratios were 85.7% and 79.6%, respectively, as of December 31, 2003, compared to 86.1% and 75.5%, respectively, as of December 31, 2002. We expect to improve these levels of persistency ratios given our continuing efforts at enhancing customer service.

We have cooperated with accident assistance providers, such as AXA Assistance since January 1, 2001 and International SOS (Hong Kong) Ltd. since January 1, 1998, to provide accident assistance to our customers both within and outside the PRC. In particular, our accident assistance programs provide support services for our customers in the event that they become ill or have an accident. These services include medical consultations, medical evacuation and facilitating visits from family members in the event that the insured cannot be evacuated.

In addition, we established in July 2000 a centralized nationwide insurance call center in the PRC, which is accessible throughout the PRC using a single telephone number, 95511. The call center is available to serve our existing and potential customers 24 hours a day, seven days a week. Our call center provides our customers with a convenient way of inquiring about their life insurance products and reporting complaints. Our potential customers can also access the call center to discuss their insurance needs and be referred to our sales agents, group sales representatives or China Post and commercial bank branches that have bancassurance arrangements with us. We employ approximately 270 operators organized into different groups based upon the Chinese dialects that the operators speak to accommodate the needs of our diverse customers. The call center handled an average of approximately 30,000 calls per day in 2003. Approximately 90% of all calls are picked up within twelve seconds and most inquiries from our existing and potential customers are answered within 24 hours. In February 2002, our call center was the first financial call center in the PRC to receive an ISO quality certification.

In 2000, we established our PA18 Internet financial portal to provide our customers with Internet-based services. Through our PA18 Internet financial portal, our customers are able to access the most recent information about us, as well as learn about the various products and services that we offer. In addition, our customers may purchase certain products and make premium payments through our PA18 Internet financial portal.

We have also established customer service outlets at our sub-branch offices throughout the PRC, and employed a service team of over 2,800 employees as of December 31, 2003 to handle customer inquires in these offices. We have taken measures aimed at improving the efficiency of our customer service counters nationwide by standardizing the service counter processing procedures. These procedures have been rolled out in 35 major cities in the PRC, and have increased our customer service counter capacity in these cities and lowered the cost of providing these services accordingly. In particular, the average waiting time at our customer counters is under five minutes. Furthermore, we have taken initiatives to increase the customer service role of our sales agents by encouraging them to maintain regular contact with customers who have purchased insurance policies from these agents. In particular, we require our sales agents to contact each of their customers at least once a year. By having sales agents who are already familiar with customer needs take a more active role in providing customer service, we are able to improve our service and strengthen our customer relationships.

Underwriting, Pricing and Claim Settlement

In order to be able to underwrite insurance policies or conduct claims processing, each of our underwriters and claims adjusters has to attend a series of trainings and pass our internal qualification exams. The performance of each of our underwriters and claims adjusters is closely monitored according to standards and procedures outlined in the professional qualification system. In addition, our advanced information technology platform provides support to our underwriters and claims adjusters to ensure the quality of their work. In particular, our centralized database allows us to check the risk exposure of a life insurance customer in all of our branches. Moreover, our advanced information technology platform allows us to set limits for maximum underwriting and claims processing for each of our underwriters and claims adjusters. We believe the quality of our underwriting and claims processing staff and the support we provide to them are among the best in the PRC insurance industry.

Our life insurance underwriting process involves an application and risk evaluation process that determines whether the risk related to a particular applicant, including both mortality risk and risk of insurance fraud, is consistent with the amount of risk that we are willing to accept. During this process, we consider the risk characteristics of the individual to be insured, including medical condition, occupation and financial profile. Depending on the amount of risk to be assumed under a particular insurance policy, underwriting decisions are made by a team of underwriters based in our central underwriting department in Shenzhen, the relevant branch office or the relevant sales office.

We maintain strict guidelines regarding the extent of the review that we conduct with respect to an applicant depending on the type and amount of the policy that the applicant is applying for. For example, in the case of policies that provide benefits to policyholders above a certain amount, the insured party must undergo a medical examination performed by one of the physicians that we employ or designate. Applicants who are not rejected on the basis of their medical examination but who have substandard health are charged an additional premium for life insurance. We conduct additional investigations of the applicant if the amount of the policy that the applicant is applying for exceeds RMB500,000.

We establish per policy underwriting limits for each of our underwriters based upon their experience and qualification. To ensure that underwriters do not exceed their policy limits, we have implemented a centralized underwriting information technology system that will not accept a policy for underwriting if the amount of the policy exceeds the limit of the underwriter that submitted the policy. This system forwards such policies to the lead underwriter located in the same branch office as the submitting underwriter. If the policy amount is less than the underwriting limit of the lead underwriter, the lead underwriter may approve the policy. Otherwise, this system will forward the policy to our central underwriting department. See the section headed "— Information Technology".

Our actuarial team makes our pricing decisions based on the applicable CIRC regulations and actuarial calculations based on our own experience and assumptions. We also take into account data provided by our reinsurers. Our actuarial team consists of six actuaries with international qualifications, including the Society of Actuaries, the Casualty Actuarial Society in the United States and the Institute of Actuaries in the United Kingdom. In addition, our actuarial team consists of 15 actuaries who are in the advanced stages of an international qualification process, two PRC qualified actuaries and over 40 additional actuarial staff. Those members of our actuarial team who have actuarial qualifications have served with us on average over five years, compared to the corresponding average of three and half years for our entire actuarial team.

We price our life insurance products primarily on the basis of assumptions with respect to mortality rates. Furthermore, we also take into account the interest rates, expected administrative expenses, commission fees and profit margins for the particular product. The mortality rate assumptions for individual traditional participating life insurance, life insurance with a term in excess of one year and one year term life insurance with a guaranteed renewal option are set by the CIRC. In addition, interest rates, our administrative expense charges and commission fees for our life insurance products, including individual traditional participating life insurance, individual investment-linked life insurance, individual endowment life insurance and accident insurance, may not exceed the limits established by the CIRC. Our mortality and morbidity rate assumptions for accident and health insurance policies are based upon our own experience and data from reinsurance companies.

We have established a professional claims processing system, under which life insurance claims are processed by our team of over 1,000 life claim adjusters at either our central claims settlement department in Shenzhen or our branch offices. Each of our claims adjusters must have passed our internal qualification examinations and over 80% of our claim adjusters have a bachelor's degree. We have established claim settlement limits for each of our claim adjusters, and claims that exceed the relevant limit must be reviewed by our central claims settlement department, which consists of senior managers of key business units, for approval. To ensure that claim adjusters do not exceed their policy limits, we have implemented a centralized claims settlement information technology system that will not accept a claim for settlement from a claim adjuster if the amount of the claim exceeds the limit for that claim adjuster. This system forwards such claims to the lead claim adjuster located in the same branch office as the submitting claim adjuster. If the claim amount is less than the claim limit of the lead claim adjuster, the lead claim adjuster may approve the claim for settlement. Otherwise, this system will forward the claim to our central claim department. See the section headed ''— Information Technology''.

Our life insurance claim adjusters use a standardized set of rules and procedures when settling claims, which helps ensure the quality, consistency and efficiency of our claims settlement process. To enhance our claims settlement efficiency, we classify our life insurance claims into three different categories: simple, normal and complex. The settlement of each of these categories of claims is handled through a separate set of procedures. We measure the efficiency of our claims settlement procedures by the percentage of claims that are settled within 10 days of the date upon which the claim was reported. In 2003, we settled approximately 90% of our life insurance claims within 10 days of the date upon which the claim was reported.

As part of our professional claims processing system, we conduct an audit of our claims settlement decisions annually, and each audit includes a review of each of the claim adjusters at our branch offices. During the audit, our central claims settlement department reviews the claims settlement records of the branch offices and the branch office claim adjusters, determines if our claims settlement procedures have been complied with and evaluates the performance of the branch office and the branch office claim adjusters. In addition, our central claims settlement department also reviews the claims settlement records of selected sub-branch offices during the annual audit process. Personnel from each of our branch offices will also review the claims settlement records of selected sub-branch offices under their supervision. In 2001, our life insurance claims processing system received an ISO 9001: 2000 certification.

Actuarial Practices

We have approximately 60 actuarial staff, approximately one-third of whom have international or PRC actuarial qualification. This team of actuaries provides actuarial support to other key business units of the Company.

We have established a product management committee consisting of our chief actuary and other senior management members to oversee the product development strategy. We have also established a set of comprehensive procedures and actuarial assumption standards for our product development process. After a new product is introduced to the market, our product management department monitors the sales and actual experience of the product and provides feedbacks to relevant personnel. We believe that our comprehensive product development procedures and our team of actuarial professionals enable us to maintain our competitive position.

We conduct company experience studies in mortality, morbidity, expense and lapse periodically. These studies will form the basis for our assumption setting in pricing, reserving and projection.

Our actuarial staff are also responsible for conducting analysis and recommendation to our agency compensation system to keep the compensation system competitive and cost effective.

Our actuarial team conducts periodic reviews of our reserves under both IFRS and PRC GAAP to ensure that our reserves, including policyholders reserves, claim reserves and unearned premium reserves will meet our future obligations. In addition, our actuarial team monitors our solvency margin on a regular basis.

Reserves

The following discussion relates to the determination of our life insurance reserves for purposes of our consolidated financial statements included in the Accountants' Report set forth in Appendix I, which are prepared in accordance with IFRS. We are also required to maintain, for purposes of our PRC statutory accounts, statutory reserves that are determined pursuant to the PRC Insurance Law as well as PRC statutory accounting standards, which are different in certain material respects from our reserves determined for purposes of our consolidated financial statements prepared in accordance with IFRS. See the section headed "Supervision and Regulation — Insurance Business — Reserves".

We maintain reserves to provide for our future benefit obligations under our traditional non-participating life insurance policies and our traditional participating life insurance policies. The principal types of reserves we maintain are policyholders' reserves, **claim reserves** and **unearned premium reserves**. During the last three years, our life insurance reserves determined for IFRS reporting purposes were higher than those for PRC GAAP reporting purposes. In addition, we may also maintain a premium deficiency reserve under certain circumstances.

Assets supporting policy liabilities of our investment-linked life insurance policies are maintained in separate and general accounts. The portion of assets maintained in the separate account is equal to the accumulated cash value of the investment-linked life insurance policies. The portion of assets maintained in the general account is for other future policy benefits to the extent these benefits are not covered by the funds in the separate accounts. See note 4 to our consolidated financial statements included in the Accountants' Report set forth in Appendix I.

Policyholders' Reserves

IFRS. We maintain policyholders' reserves to meet the future benefit obligations under our life insurance policies. Our policyholders' reserves are calculated on the basis of actuarial assumptions relating to mortality and morbidity rates, interest rates and administrative expenses. The assumptions used in the calculations are established upon the issuance of a policy, and remain unchanged except where a premium deficiency occurs with respect to the policy. We follow the **net level premium method** in calculating our policyholders' reserves. This method assumes a constant amount of pure insurance premiums over the terms of the relevant policy in calculating the amount of reserves to fund all future policy benefits.

PRC GAAP. Policyholders' reserves under our PRC statutory accounts are calculated on the basis of actuarial assumptions relating to mortality and morbidity rates, interest rates and administrative expenses. All of these assumptions, with the exception of our assumption on morbidity rates, are required to be based on the applicable rates that are set by the CIRC. Under CIRC regulations, premium deficiency reserves are required if the net premium is higher than the gross premium. We have generally maintained policyholders' reserves for purposes of our PRC statutory accounts at a level that is higher than the minimum required level under the PRC statutory accounting standards.

Claim Reserves

IFRS. Claim reserves comprise our best estimate of benefit obligations under our short-term life insurance policies, and represent the accumulation of estimates for ultimate losses. We calculate reserves for reported but not settled claims and incurred but not yet reported (**"IBNR"**) claims either case-by-case or by approximation to this method on the basis of experience. We continually review and update the methods for determining these estimates and maintaining the resulting reserves.

PRC GAAP. Reserves for reported but not settled claims under our PRC statutory accounts are set at 100% of the claim amount. Our reserves for IBNR claims are set at 4% of actual payments made under our life insurance policies during a particular year.

Unearned Premium Reserves

IFRS. We maintain unearned premium reserves with respect to our short-term life insurance policies. We calculate these reserves on a pro rata basis over the term of the related policy coverage, which is generally a period of 365 days, and the unearned premium reserve represents the portion of net written premiums relating to unexpired periods of coverage.

PRC GAAP. Unearned premium reserves under our PRC statutory accounts are calculated on a pro rata basis over the term of the related policy coverage, which is generally 365 days, and the unearned premium reserve represents the portion of net premiums relating to unexpired periods of coverage. However, we are required to maintain unearned premium reserves for our accident and health insurance policies at the CIRC prescribed level of 50% of net written premiums received under those policies.

Premium Deficiency Reserves

IFRS. Under certain circumstances, we maintain premium deficiency reserves with respect to our short-term life insurance policies. We assess premium deficiency reserves on the basis of estimates of future benefit obligations, costs, premiums earned and investment income. Premium deficiency reserves are included as a component of policyholders' reserves where applicable.

PRC GAAP. Under CIRC regulations, premium deficiency reserves are required if the renewal net premium is higher than the gross premium. Premium deficiency reserves are included in policyholders' reserves for purposes of our PRC statutory accounts.

Due to the nature of the underlying risks and the high degree of uncertainty associated with determination of our future insurance benefit obligations, we cannot precisely determine the amounts that we will ultimately pay with respect to these obligations. However, we generally provide reserves in greater amounts than required by the applicable PRC regulations. We review our estimates for future benefit obligations annually, and compare them with our actual experience to ensure that these estimates reflect our most recent experience. We revise our estimates when we determine that expected future experience differs from estimates used in the development of our reserves. If the reserves originally recorded subsequently prove to be inadequate, we would be required to increase our reserves, which may have a material adverse effect on our business, financial condition and results of operations. See the section headed ''Risk Factors — Risks Relating to Our Insurance Operations — Differences between actual benefits and claims experience and underwriting and reserving assumptions may require us to increase our reserves''.

Reinsurance

We reinsure a portion of the risk that we assume under our life insurance policies to reduce our exposure to loss, stabilize our earnings and protect our capital resources. We cede to reinsurers a portion of these risks in exchange for a portion of the premiums we receive with respect to these policies. In addition, we are required by applicable PRC regulations to cede 10% of the gross written premiums received under our individual accident and health insurance policies with a term of one year or less to China Reinsurance Company, although we may choose to cede a higher amount. This requirement will, however, be phased out by December 2005. We also purchase additional reinsurance based upon our risk management needs. With respect to our long-term life insurance policies, we have purchased reinsurance coverage for loss above a specified aggregate retention level.

To reduce our reinsurance concentration risk, we have established reinsurance programs with various leading international reinsurers. Our criteria for selecting reinsurers include financial strength, service, terms of coverage, claims settlement efficiency and price. In addition to China Reinsurance Company, our life insurance reinsurers include Munich Reinsurance Company and Swiss Reinsurance Company. We monitor the financial condition of our reinsurers on an ongoing basis and review our reinsurance arrangements periodically. With the exception of China Reinsurance Company, all of our reinsurers were rated A- or above by Standard and Poor's at the time they entered into reinsurance agreements with us.

In 2003, we ceded RMB12 million of the gross written premiums and policy fees relating to our long-term life insurance policies, and RMB968 million of the gross written premiums and policy fees relating to our short-term life insurance policies, including disease insurance and accident insurance, to reinsurers. As of December 31, 2003, none of these reinsurers have defaulted on, or have been delinquent in, the payment of any reinsurance obligation.

PROPERTY AND CASUALTY INSURANCE

Overview

We are the third largest property and casualty insurance company in the PRC in terms of gross written premiums and policy fees in 2002, and our property and casualty insurance business accounted for approximately 9.7% of the gross written premiums and policy fees received by PRC property and casualty insurance companies in 2003, in each case based on our PRC GAAP financial data and PRC insurance industry data calculated in accordance with PRC GAAP and published by the National Bureau of Statistics of China. We have been engaged in the underwriting of property and casualty insurance since our inception in 1988.

Since the completion of our reorganization in 2002, we have conducted our property and casualty operations through our 99%-owned subsidiary, Ping An Property & Casualty. Gross written premiums and policy fees received by our property and casualty insurance operations increased from RMB6 million in 1988 to RMB8,091 million in 2003. The market share of our property and casualty insurance operations, based on our PRC GAAP financial data and PRC insurance industry data calculated in accordance with PRC GAAP and published by the National Bureau of Statistics in China, increased from 7.7% in 1998 to 9.7% in 2003.

We offer over 300 different types of products and riders to our individual and commercial property and casualty insurance customers. Our property and casualty insurance products are distributed through direct sales by our team of approximately 6,700 direct sales representatives and through sales by various intermediaries, including agents and brokers. Our distribution network also includes 35 branch offices and over 1,000 sub-branch offices located throughout the PRC. In addition, we have made substantial progress in the cross-selling of property and casualty insurance products by sales agents from our life insurance operations. Furthermore, we are developing alternative distribution channels such as our PA18 Internet financial portal, our nationwide call center and direct mailing.

We had over 4 million property and casualty insurance customers as of December 31, 2003. We currently generate a significant portion of our property and casualty insurance premiums from the more economically developed areas of the PRC. In particular, the gross written premiums and policy fees attributable to our property and casualty insurance customers in Shanghai, Shenzhen and Guangzhou accounted for approximately 9.0%, 8.8% and 8.3%, respectively, of the gross written premiums and policy fees received by our property and casualty insurance operations in 2003.

We have strong pricing and underwriting capability due to our value-driven corporate culture, centralized control structure, experienced actuarial team and professionalism of our underwriting staff. Moreover, we believe our information technology platform, centralized customer database and professionalism of our claims processing staff enable us to be more competitive in the areas of customer service and claims control.

Due to the increasing competition as well as ongoing deregulation in the PRC insurance industry, we have implemented various measures to improve the overall profitability of our property and casualty insurance business.

The following table sets forth certain premium data for our property and casualty insurance operations for the periods indicated:

	For the year ended December 31,		
	2001	**2002**	**2003**
	(in millions of RMB, except percentages)		
Gross written premiums and policy fees	6,003	7,838	8,091
Growth rate[(1)]	34.4%	30.6%	3.2%
Market share of gross written premiums and policy fees[(2)]	9.7%	10.6%	9.7%

(1) Compared to the same period in the prior year.

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

Business Initiatives

We intend to develop our property and casualty insurance business and implement our overall strategy with respect to our property and casualty insurance operations by adopting the following business initiatives:

- **Increase our profitability through product mix optimization and rigorous and disciplined underwriting and careful selection of risk exposures.** Our approach to property and casualty insurance underwriting is focused on risk selection, and we intend to avoid competing for customers solely on the basis of price. In particular, we intend to enhance our profitability in the property and casualty insurance business by:

  — utilizing our actuarial expertise to continually upgrade our automobile and commercial property underwriting capabilities, including leveraging our proprietary comprehensive automobile insurance pricing table, the first developed by a PRC insurance company, to improve our pricing and selection of risk exposures;

  — encouraging our sales representatives to sell accident insurance products, which generally offer higher margins than our other property and casualty insurance products;

  — leveraging the expertise of our reinsurers to enhance our risk assessment and risk management; and

  — proactively managing our risk exposure by offering our customers risk control and prevention advice, which we believe will help reduce the number and size of their insurance claims, thereby improving our underwriting profit.

- **Further strengthen our claims management and enhance customer service.** We intend to further strengthen our claims management and enhance our customer service. We intend to achieve this objective by:

  — leveraging our centralized customer information and processing infrastructure to provide standardized and customized services to different customers;

  — extending our service network to improve services and control cost by building stronger relationships and enhancing management of third party hospitals and automobile repair shops; and

  — strengthening claims investigation and fraud prevention functions to control claims costs.

- **Enhance our ability to offer products and services that are tailored to the specific needs of our customers.** We intend to achieve this objective by emphasizing customer segmentation and further developing our multi-channel distribution network. In particular, we segment our customer base into large corporate customers, medium and small corporate customers and individual customers, and have reorganized our distribution network to reflect this segmentation. We aim to offer tailored products and services to each customer segment through a differentiated, multi-channel distribution network. In particular, we intend to achieve this objective by:

— offering risk management advice through our corporate clients department to assist our large corporate customers in developing comprehensive risk solutions that match their specific needs; and

— offering a range of property and casualty insurance products to our individual customers through the various distribution channels that are managed by our channel management department.

- **Strengthen our distribution channels.** We plan to expand our corporate customer base by strengthening our direct sales force, capture additional opportunities in the rapidly growing personal line market by offering alternative distribution channels, and capitalizing on our existing customer base to increase cross-selling. We intend to achieve this objective by:

— improving our direct sales capability by providing better sales support and by upgrading our sales management process;

— leveraging our information technology and customer base to push the development of alternative distribution channels, including our nationwide call center, our PA18 Internet financial portal and direct mailing;

— encouraging sales agents from our life insurance operations to actively promote our personal property and casualty insurance products, such as automobile insurance; and

— increasing the efforts of group sales representatives from our life insurance operations to market our commercial property and casualty insurance products.

- **Focus our business expansion on the more economically developed areas of the PRC.** We are a leading property and casualty insurance company in the PRC. We believe this market offers significant opportunities for continued revenue growth. In particular, we plan to take advantage of these market opportunities by:

— continuing to target customers located in Shanghai, Beijing, Nanjing, Guangzhou and Qingdao and the other more economically developed areas of the PRC, which offer significant growth potential as a result of low insurance penetration rates in these areas; and

— focusing our future business expansion and the development and offering of new products in these more economically developed areas of the PRC.

- **Further enhance our risk management, improve our expense ratio and increase our operational efficiency.** We plan to increase our profit by further improving our risk management, controlling our expenses and increasing our operational efficiency. We intend to achieve this objective by:

— centralizing underwriting and claims processing decisions;

— reducing operating cost through consolidation and streamlining of back office processing operations, including underwriting and claim processing; and

— closing down sub-branches with low profit potential and rationalizing unproductive in-house sales representatives.

Property and Casualty Insurance Products

We offer a broad range of property and casualty insurance products. Our primary property and casualty insurance products include automobile insurance, commercial property insurance, homeowners insurance, hull insurance, cargo insurance, liability insurance and accident and health insurance. We generally offer our property and casualty products for a term of one year. We distribute these products primarily through direct sales by our in-house sales representatives and through various intermediaries, such as banks and automobile dealerships, and insurance brokers.

Automobile Insurance

Automobile insurance is our leading property and casualty insurance product in terms of gross written premiums and policy fees. Gross written premiums and policy fees from our automobile insurance products were RMB4,705 million, accounting for approximately 58.2% of the gross written premiums and policy fees received by our property and casualty insurance business in 2003. Our standard automobile insurance policy is for a term of one year, and covers damages caused to the insured vehicle by collision, fire, explosion, typhoons or mudslides, as well as damages caused when the insured vehicle is stolen. In addition, our standard automobile insurance policy covers liability to third parties. We also offer a number of riders to our automobile insurance customers that cover losses such as liability to passengers, cargo and vandalism.

Automobile insurance is the largest segment of property and casualty insurance in the PRC in terms of gross written premiums. Prior to January 2003, property and casualty insurance companies in the PRC focused on increasing market share in the automobile insurance market and competed primarily on the basis of price. As part of our business initiatives, we have implemented more stringent underwriting procedures with a focus on profitability since January 2003. In addition, as part of our strategy to increase profitability through rigorous and disciplined underwriting and careful selection of risk exposures, we have been controlling the growth of our automobile insurance business.

We also offer automobile loan credit insurance to cover credit risk with respect to loans provided by commercial banks. If the borrower defaults on payments due under the loan for three consecutive months, we will make a payment to the lender for the overdue principal and any related interest.

In recent years, PRC property and casualty insurance companies have experienced losses associated with automobile loan credit insurance policies as a result of automobile loan defaults as well as insurance fraud. In particular, some individuals do not repay their automobile loans while others fraudulently obtained multiple loans from different banks for a single automobile. We have experienced higher losses in our underwriting of these products. We have since implemented more stringent underwriting procedures and significantly reduced losses associated with our automobile loan credit insurance policies. Gross written premiums and policy fees from these products accounted for approximately 1.9% and 0.7% of the gross written premiums and policy fees for our property and casualty insurance business in 2002 and 2003, respectively.

On January 15, 2004, the CIRC published new requirements relating to the terms and rates of automobile loan credit insurance products, which will come into effect on April 1, 2004. The new requirements provide for, among other things, a 10% deductible to be paid by the insured in the case of a default, and the liability of the insurance company to be limited to the amount of unpaid automobile loan net of the amount of guaranty provided by a third party guarantor of such loan. We have stopped selling our current automobile loan credit insurance products as of April 1, 2004, and re-evaluate our strategy with respect to this business. As the gross written premiums and policy fees from our automobile loan credit insurance products accounted for less than 0.8% of the gross written premiums and policy fees received by our property and casualty insurance business in 2003, we do not expect the new CIRC requirements to materially and adversely affect our current financial condition and results of operations.

Commercial Property Insurance

Commercial property insurance is our second leading property and casualty insurance product in terms of gross written premium and policy fees. Gross written premiums and policy fees from our commercial property insurance products were RMB1,329 million, accounting for approximately 16.4% of the gross written premiums and policy fees received by our property and casualty insurance business in 2003. Our basic commercial property insurance policy covers loss of, or damage to, insured property caused by fire, explosion or lightning. Our comprehensive commercial property insurance policy covers loss of, or damage to, insured property caused by fire, explosion, lightning, flood, typhoon, hailstorm, mud slide, tornado and hurricane. Our commercial all risk property insurance policy covers all causes of loss not specifically excluded from the coverage. Property eligible for commercial property insurance coverage includes buildings, furniture, fixtures, fittings, personal effects, tools and equipment.

Homeowners Insurance

Homeowners insurance covers loss of, or damage to, insured property caused by fire, explosion, hailstorm, flood, typhoon and/or burglary. Gross written premiums and policy fees from our homeowners insurance products were RMB625 million, accounting for approximately 7.7% of the gross written premiums and policy fees received by our property and casualty insurance business in 2003. Property eligible for homeowners insurance coverage includes buildings, furniture, fixtures, fittings, personal effects and electronic appliances.

Cargo Insurance

We offer cargo insurance that covers goods in transit by vessel, airplane or any ground vehicle. Gross written premiums and policy fees from our cargo insurance products accounted for approximately 3.7% of the gross written premiums and policy fees received by our property and casualty insurance business in 2003. We generally enter into master insurance agreements with shippers, and then insure individual shipments pursuant to such agreements upon registration of the shipment. Shippers can register shipments by using our PA18 Internet financial portal.

Liability Insurance

We offer liability insurance products such as employer's liability, public liability, product liability and professional liability insurance. Gross written premiums and policy fees from our liability insurance products accounted for approximately 4.6% of the gross written premiums and policy fees received by our property and casualty insurance business in 2003. Our liability insurance policies generally cover losses of third parties due to the misconduct or negligence of the insured party and exclude losses due to fraud or the willful misconduct of the insured party.

Hull Insurance

Hull insurance covers loss of, or damage to, an insured vessel, including its hull, life rafts, machinery, instruments and fuel, caused by earthquake, volcanic explosion, fire, collision and the willful misconduct of crew members.

Accident and Health Insurance

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

In addition to the products listed above, we offer a number of other property and casualty insurance products, including construction personal injury insurance, mortgage guarantee insurance, parcel insurance, container insurance, satellite launch insurance, nuclear power plant insurance and offshore oil drilling insurance. We are required under applicable PRC regulations to underwrite satellite launch insurance as part of insurance pools that are mandated by the PRC government. The majority of this exposure and our offshore oil drilling insurance exposure is ceded to reinsurers.

The following table sets forth our gross written premiums and policy fees for each of our principal property and casualty insurance products for the periods indicated:

	For the year ended December 31,		
	2001	2002	2003
	(in millions of RMB)		
Automobile	3,541	4,901	4,705
Commercial property	1,177	1,453	1,329
Homeowners	600	686	625
Cargo	250	289	302
Liability	149	234	372
Hull	47	23	11
Accident and health	—	—	151
Other	239	252	596
Total	6,003	7,838	8,091

The following table sets forth the expense, loss and **combined ratios** for our property and casualty insurance business for the periods indicated:

	For the year ended December 31,		
	2001	2002	2003
Expense ratio	50.1%	41.3%	31.2%
Loss ratio	66.9%	57.1%	68.2%
Combined ratio	117.0%	98.3%	99.5%

The following table sets forth the **loss ratios** for each of our principal property and casualty insurance product categories for the periods indicated. We do not calculate expense or combined ratios for each of our principal property and casualty insurance product categories because we do not allocate the general expenses of our property and casualty business among our various property and casualty insurance product categories.

	For the year ended December 31,		
	2001	2002	2003
Automobile	75.6%	63.1%	76.4%
Commercial property	34.7%	35.8%	49.0%
Homeowners	9.3%	13.2%	21.2%
Cargo	46.7%	31.6%	37.4%
Liability	41.9%	51.5%	49.5%
Hull	193.8%	151.1%	(200.4)%
Accident and health	—	—	33.9%
Other	145.9%	58.5%	69.4%

Distribution Network

The distribution network for our property and casualty insurance products includes 35 branch offices located in substantially all of the PRC's provinces, autonomous regions and municipalities, together with over 1,000 sub-branches located throughout the PRC. We distribute our property and casualty insurance products primarily through our in-house sales representatives and through various intermediaries, such as banks and automobile dealerships, and insurance brokers. We also sell certain property and casualty insurance products directly to customers through our PA18 Internet financial portal and our nationwide call center. In addition, sales agents from our life insurance operations cross-sell our personal property and casualty products to individual life insurance customers, while group sales representatives from our life insurance operations cross-sell our commercial property and casualty insurance products to group insurance customers.

The following table sets forth the gross written premiums and policy fees for our property and casualty insurance business by distribution channel for the periods indicated:

	For the year ended December 31,[1]					
	2001		2002		2003	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Direct sales	2,581	43.0%	3,040	38.8%	2,786	34.4%
Insurance agents	3,378	56.3	4,664	59.5	5,208	64.4
Insurance brokers	44	0.7	134	1.7	97	1.2
Total	6,003	100.0%	7,838	100.0%	8,091	100.0%

(1) Includes gross written premiums and policy fees generated through cross-selling.

Direct Sales

Direct sales of our property and casualty insurance products include sales through our in-house sales representatives, our PA18 Internet financial portal and our nationwide call center.

In order to better serve the differentiated needs of our customers and market tailored products and services more effectively, we reorganized our in-house sales representatives in 2002 into three departments: the corporate clients department, the sales department and the distribution channel management department. Our corporate clients department markets our commercial property and casualty insurance products to large corporate customers, such as state-owned enterprises and other corporate entities. In addition, our corporate clients department offers risk management advice to our large customers and provides assistance in the development of comprehensive risk solutions that match their specific needs. The sales department focuses its marketing efforts upon medium- and small-sized customers, including privately held companies. The distribution channel management department markets our personal property and casualty insurance products to individual customers and is responsible for managing our other direct sales distribution channels including our PA18 Internet financial portal, our nationwide call center and the cross-selling activities by our life insurance operations. The distribution channel management department is also responsible for managing our insurance agents distribution channel.

Gross written premiums and policy fees generated by our direct sales channel accounted for approximately 34.4% of the gross written premiums and policy fees received by our property and casualty insurance business in 2003. As of December 31, 2003, we had approximately 6,700 direct sales representatives. Our direct sales representatives receive performance based bonuses in addition to a base salary.

We established our PA18 Internet financial portal in 2000 and currently sell certain property and casualty insurance products directly to our customers through this Internet financial portal, including cargo, automobile, travel and accident insurance. Gross written premiums and policy fees generated through our PA18 Internet financial portal accounted for approximately 9.0% of the total gross written premiums and policy fees received by our property and casualty insurance operations in 2003.

Furthermore, we established a nationwide property and casualty insurance call center in the PRC in December 2003, which is accessible throughout the PRC. The call center provides a variety of services including policy inquiry, policy renewal, insurance claims processing, and insurance products marketing. The call center is available to serve our customers 24 hours a day, seven days a week.

Insurance Agents

The insurance agents that sell our property and casualty insurance products include ancillary agency organizations, such as commercial banks and automobile dealerships, institutional insurance agents and individual insurance agents. Insurance agents are compensated on a commission basis. The distribution channel management department of Ping An Property & Casualty manages our relationships with these insurance agents. These insurance agents do not make underwriting decisions with respect to our property and casualty insurance products.

Ancillary agency organizations sell property and casualty insurance products that relate to their primary business activity as an ancillary component of their business, and are one of our most important distribution channels in terms of gross written premiums and policy fees. These organizations include, among others, commercial banks and automobile dealerships. We seek to leverage the branch networks of commercial banks to sell our homeowner insurance products to individuals who are seeking mortgage financing for the purchase of a home. Similarly, we offer insurance products to purchasers of automobiles through automobile dealerships. As of December 31, 2003, approximately 7,300 ancillary agency organizations and 200 institutional insurance agents sold our property and casualty insurance products in the PRC.

Gross written premiums and policy fees generated through these insurance agents accounted for approximately 64.4% of the gross written premiums and policy fees received by our property and casualty insurance operations in 2003.

Insurance Brokers

We also sell our property and casualty insurance products through insurance brokers, who generally represent the purchasers of insurance products. Substantially all of our sales through this distribution channel relate to commercial property and casualty products. In particular, large construction projects in the PRC often retain insurance brokers to provide assistance in the purchase of appropriate insurance coverage. Gross written premiums and policy fees generated through insurance brokers accounted for approximately 1.2% of the gross written premiums and policy fees received by our property and casualty insurance operations in 2003.

Insurance agents and insurance brokers are typically allowed to market and sell the property and casualty insurance products of multiple insurance companies. As a result, we continue to develop our direct sales distribution channel, including our in-house sales representatives and our PA18 Internet financial portal, as an alternative to insurance agents and insurance brokers.

Cross-Selling

An additional distribution channel for our property and casualty insurance products is available through the cross-selling of these products by our life insurance business. In particular, we use sales agents from our life insurance operations to market automobile insurance to life insurance customers, which accounted for approximately 78% of total sales of property and casualty insurance products by these sales agents in 2003. In addition, our distribution channel management department regularly conducts training programs to enhance the property and casualty insurance product knowledge of these sales agents.

We have made substantial progress in the cross-selling of property and casualty insurance products through this distribution channel. In particular, gross written premiums and policy fees generated by this distribution channel increased from RMB253 million in 2002 to RMB443 million in 2003. We intend to further leverage this distribution channel to target individual life insurance customers.

The following table sets forth certain cross-selling data for our property and casualty insurance products for the periods indicated:

	For the year ended December 31,		
	2001	2002	2003
	(in millions of RMB)		
Property and casualty insurance gross written premiums and policy fees generated by life insurance sales agents	97	253	443

Customers

As of December 31, 2003, approximately 38.4% of the gross written premiums and policy fees received by our property and casualty insurance operations were attributable to customers located in or near Shanghai, Shenzhen, Guangzhou, Beijing and Hangzhou, which are among the more economically developed areas in the PRC. We believe these and other more economically developed areas will continue to offer greater potential for further profitable growth. As a result, our sales and marketing efforts will continue to focus on these more economically developed areas, including the Bo Hai Bay area near Beijing and Tianjin, the Yangtze River delta area near Shanghai and the Pearl River delta area near Guangzhou. As of December 31, 2003, we had approximately 4 million individual property and casualty insurance customers and approximately 515,000 corporate property and casualty insurance customers.

The table below sets forth the geographic distribution of the gross written premiums and policy fees received by our property and casualty insurance business for the period indicated:

	For the year ended December 31, 2003	
	Amount	% of total
	(in millions of RMB, except percentages)	
Shanghai	731	9.0%
Shenzhen	712	8.8
Guangzhou	674	8.3
Beijing	595	7.4
Hangzhou	393	4.9
Chengdu	316	3.9
Qingdao	309	3.8
Nanjing	292	3.6
Shijiazhuang	281	3.5
Hefei	267	3.3
All other areas[1]	3,521	43.5
Total	8,091	100.0%

(1) Each of these areas individually accounted for less than 3.3% of the gross written premiums and policy fees received by our property and casualty insurance operations in 2003.

The following table sets forth certain data relating to our individual and commercial property and casualty insurance customers as of the dates indicated:

	As of December 31,		
	2001	2002	2003
	(in thousands)		
Number of individual customers	1,994	3,546	3,933
Number of corporate customers	435	531	515

Pricing and Underwriting

We have strong pricing and underwriting capability due to our value-driven corporate culture, centralized control structure, experienced actuarial team and professionalism of our underwriting staff. Pricing for our property and casualty insurance products is based on generally accepted actuarial principles and techniques. Actuarial pricing is led by our internationally accredited actuaries.

We price our property and casualty insurance products primarily on the basis of expected losses, expenses and target margins. Pricing for our personal property and casualty insurance products is generally based upon a pricing formula or comprehensive pricing tables. Pricing for commercial property and casualty insurance products, while also based on expected losses, expenses and target margins, is generally subject to negotiation. For both personal and commercial property and casualty insurance products, our pricing decisions are guided by the data that we have accumulated since we began underwriting property and casualty insurance in 1988 and by the practices of our international reinsurers. For example, we price our nuclear power plant insurance and catastrophe insurance based in part on schedules provided by our international reinsurers. In addition, we conduct an analysis of the loss ratios associated with our various property and casualty insurance products on a monthly basis. If a loss ratio with respect to a particular product exceeds a certain predetermined threshold, we will reevaluate the pricing for that product.

The pricing of our property and casualty insurance products that are sold to renewing policyholders is based on the same factors upon which pricing of the original products was based, as well as the claims history of the specific renewing policyholder. For personal automobile insurance products and commercial property and casualty insurance products, if the renewing policyholder has not made any claims under the policy to be renewed, we may offer a discount from the original premium paid by the renewing policyholder. If a renewing policyholder has made a claim under the policy, we may offer a lower or no discount from the original premium paid by the renewing policyholder, increase the deductible to be paid by the renewing policyholder in the event of a subsequent claim or decide not to renew the policy.

Depending on the amount of risk to be assumed under a particular insurance policy, underwriting decisions are made by a team of underwriters based in our central underwriting department in Shenzhen, the relevant branch or sales office. Each member of the team has passed our internal underwriting qualification examination. We establish policy underwriting authority for each of our underwriters based upon their work performance, which is reevaluated from time to time. To ensure that underwriters do not exceed their underwriting authority, we have implemented a centralized underwriting information technology system that will not accept a policy for underwriting if the amount of the policy exceeds the limit of the underwriter that submitted the policy. See the section headed ‘‘— Information Technology’’. Our central underwriting system forwards such policies to the lead underwriter located in the same branch office for approval. If the policy amount is less than the underwriting authority of the lead underwriter, the lead underwriter may approve the policy. Otherwise, this system will forward the policy to our central underwriting department for approval. In addition, we establish branch office aggregate underwriting limits for our engineering insurance earthquake damage rider to limit concentration risk. Once a branch office has reached its aggregate limit, the branch office may not underwrite any additional earthquake risk.

In order to be able to underwrite insurance policies, each of our underwriters has to attend a series of trainings and pass our internal qualification exams. The performance of each of our underwriters is closely monitored according to standards and procedures outlined in the professional qualification system. In addition, our advanced information technology platform provides support to our underwriters to ensure the quality of their work. Moreover, our advanced information technology platform allows us to set limits for maximum underwriting and claims processing for each of our underwriters.

We have adopted various measures to minimize our exposure to catastrophic losses relating to earthquakes. In particular, the prior approval of the senior management of Ping An Property & Casualty is required before a branch office can issue a property and casualty insurance policy providing earthquake coverage. Moreover, for commercial property and construction engineering insurance, we generally purchase earthquake reinsurance treaties for amounts in excess of our retention level in addition to other regular reinsurance arrangements. Under such treaties, we cede to reinsurers a portion of our gross written premiums in exchange for such reinsurers assuming the risk of loss arising from an earthquake in the amount of, and including, US$20 million up to US$100 million. We remain liable for any amounts below and above such reinsurance amounts. However, we have never been exposed to claims for catastrophic losses relating to earthquakes in excess of the reinsurance amounts.

With respect to catastrophic losses relating to floods, we minimize our exposure by not providing insurance coverage in lowland areas along rivers that are below the warning water level or within the flood discharge or flood storage areas. With respect to catastrophic losses relating to typhoons, we do not provide insurance coverage for non-concrete structures or the personal property within these structures. For both flood and typhoon insurance policies, we conduct site visits before agreeing to underwrite these policies. Moreover, our risk control personnel conducts regular inspections of the insured properties and takes appropriate measures to minimize the risk of catastrophic losses. Furthermore, we generally cede a portion of the gross written premiums from flood and typhoon insurance policies to reinsurance companies to control our risk exposure. With respect to the risk of loss arising from a flood, our reinsurance companies assume the risk in the amount of, and including, US$5 million up to US$10 million. We remain liable for any amounts below and above such amounts. However, we have never been exposed to claims for catastrophic losses relating to floods in excess of our reinsurance amounts.

The amounts ceded to our reinsurance companies in relation to our earthquake and flood insurance policies are established in consultation with international reinsurance brokers, who have determined on the basis of risk analysis that such amounts are adequate to minimize our exposure to loss, stabilize our earnings and protect our capital resources.

We conduct audits of our underwriting decisions annually, and each audit includes a closed file review of each of the underwriters at our branch offices. During the audit, our central underwriting department reviews the underwriting records of the branch offices and the branch office underwriters, determines if our underwriting procedures have been complied with and evaluates the performance of the branch offices and the branch office underwriters based on claim ratio. In addition, our central underwriting department also reviews the underwriting records of selected sub-branch offices during the annual audit process. Personnel from each of our branch offices will also review the underwriting records of selected sub-branch offices under their supervision. We will lower the underwriting limits of underwriters who violate our underwriting procedures or who receive negative reviews. We may require such underwriters to undergo additional training and, in the event of a serious violation, we may terminate their employment.

We have adopted a profit-driven approach to insurance underwriting that leverages both the scale of our property and casualty insurance operations and the data that we have accumulated since the inception of our property and casualty insurance operations in 1988. Going forward, increasing profitability will be a key focus of our underwriting activities, and we intend to avoid competing for customers based solely on price. Among other things, we intend to utilize our proprietary comprehensive automobile insurance pricing system, which covers factors such as the model and the intended use of the automobile involved as well as the age and claim history of the insured party, to improve our pricing and risk exposure selection. In addition, we proactively manage our risk exposures by offering risk control and prevention advice to our corporate property and casualty insurance customers, which we believe will help reduce the number and size of their insurance claims, thereby improving our underwriting profit.

Customer Service and Claims Settlement

We believe our information technology platform, centralized customer database and professionalism of our claims processing staff enable us to be more competitive in the areas of customer service and claims control. We believe handling claims settlement efficiently and accurately is a critical component of our customer service and claims control, and is important not only to retaining existing customers, but also to attracting new customers. In addition, we believe our claims settlement policies and guidelines facilitate the efficient and accurate resolution of our customers' claims. Customers' claims are generally processed by our internal claim adjusters except for complex commercial property and casualty insurance claims, for which, we consult external independent loss adjusters in assessing the claims and providing adequate claim reserves.

Property and casualty insurance claims, with the exception of those handled by external loss adjusters, are processed by a team of property and casualty claim adjusters at our central claims settlement department in Shenzhen and at our branch offices. Each of our claims adjusters must have passed our internal qualification examinations, and their performance is reviewed on an annual basis. We have established claims settlement limits for each of our 35 branch offices, and claims that exceed the relevant branch office limit must be approved by our central claims settlement department. To ensure that branch office claims settlement limits are strictly observed, we have implemented a centralized claims settlement information technology system that will not accept a claim for settlement from a branch office if the amount of the policy exceeds the limit for that branch office. See "— Information Technology".

We conduct an audit of our claims settlement decisions annually, and each audit includes a closed file review of each of the claim adjusters at our branch offices. During the audit, our central claims settlement department reviews the claims settlement records of the branch offices and the branch office claim adjusters, determines if our claims settlement procedures have been complied with and evaluates the performance of the branch offices and the branch office claim adjusters. In addition, our central claims settlement department also reviews the claims settlement records of selected sub-branch offices during the annual audit process.

Our customers may report claims through our nationwide call center using a single telephone number, 95512. Our nationwide call center operates 24 hours a day, seven days a week. In addition, we believe that Ping An Property & Casualty was the first property and casualty insurance company in the PRC that provides a nationwide claims settlement service to our automobile insurance policyholders. Our automobile insurance policyholders can report accidents through our nationwide call center and have the claims settled with the branch offices nearest to the scene of accident. In addition, our call center provides customers with product inquiry, policy renewal and complaint handling services.

We have established an efficient claims settlement procedure through the Internet for automobile insurance claims to reduce the time required to settle such claims. In particular, we have equipped over 500 vehicles, which are known as mobile claims adjusters, and over 400 participating automobile service stations with digital cameras and notebook computers that are linked to one of our claims settlement centers. When a claim is reported, a mobile claims adjuster could be quickly dispatched to photograph the insured vehicle and electronically submit the photo and claim details to one of our claims settlement centers. In large cities, the job assignment of our mobile claims adjusters is assisted by a global positioning system. Moreover, a policyholder may also take the insured automobile to a participating automobile service station for submission of a photograph and claim details. In addition, within each branch, we have a centralized database relating to automobile parts pricing to control claims costs. We are able to process these types of claims promptly and policyholders are able to receive payment directly from the mobile claims adjuster or the participating service station. In 2003, all of our automobile insurance claims were processed using this Internet based claim settlement procedures, and the average time between submission of a claim for less than RMB10,000 and settlement of that claim was seven days.

Reserves

The following discussion relates to the determination of our property and casualty reserves for purposes of our consolidated financial statements included in the Accountants' Report set forth in Appendix I, which are prepared in accordance with IFRS. We are also required to maintain, for purposes of our PRC statutory accounts, statutory reserves that are determined pursuant to the PRC Insurance Law as well as PRC statutory accounting standards, which are different in certain material respects from our reserves determined for purposes of our consolidated financial statements prepared in accordance with IFRS. See the section headed "Supervision and Regulation — Insurance Business — Reserves". During the last three years, our property and casualty insurance reserves determined for IFRS reporting purposes were higher than those for PRC GAAP reporting purposes.

Claim Reserves

IFRS. When claims are made by or against our policyholders, any amounts that our property and casualty insurance business pays or expects to pay the claimant are referred to as losses, and the costs of investigating, resolving and processing these claims are referred to as loss adjustment expenses (**"LAE"**). We establish claim reserves for payment of losses and LAE for claims that arise from our property and casualty insurance policies by product, coverage and year. These reserves are determined based on actuarial assumptions, appropriate actuarial methods and statistical procedures, using historical loss experience and adjusting for future trends. We do not plan on changing our basis for determining our loss and LAE reserves. In accordance with IFRS, no specific claim reserves for loss and LAE are established until a loss occurs, including a loss from a catastrophe. A loss occurs upon the happening of the event or accident giving rise to the loss.

Our claim reserves are segmented into two major categories: reserves for reported but not settled claims and IBNR reserves. Reserves for reported but not settled claims are based on estimates of future payments that will be made in respect of claims, including expenses relating to such claims. These estimates are made on a case-by-case basis, based on the facts and circumstances at the time the reserves are established. The estimates reflect the informed judgment of our claims personnel based on general insurance reserving practices and knowledge of the nature and value of a specific type of claim. In accordance with our internal insurance reserving guidelines, we establish a reserve after an accident has occurred and is reported to us, if it is determined by our claims personnel that we are responsible for the loss and there is enough information available to estimate the amount of such loss. Our senior claims adjustment personnel provide guidance to our branches in setting reserves for large losses. We also consider historic trends of disposition patterns and loss payments, pending levels of unpaid claims and types of coverage. In addition, judicial decisions, economic conditions and public attitudes affect the estimation of reserves, as well as ultimate costs of claims.

IBNR reserves are established to recognize the estimated cost of losses for claims that have occurred but about which we have not yet been notified. We establish these reserves, like the reserves for reported but not settled claims, to recognize the estimated costs, including related expenses, necessary to bring claims arising out of losses to final settlement. Since nothing is known about the occurrence, we rely on past experience adjusted for current trends and any other factors that would modify past experience to estimate the IBNR liability. These reserves are estimates that involve actuarial and statistical projections of the expected cost of the ultimate settlement and administration of claims. We base our analyses on facts and circumstances known at the time, predictions of future events, estimates of future inflation and other societal and economic factors. In addition, we consider other factors, such as reported claim trends, claim severity, exposure growth and future inflation, in projecting our IBNR reserve requirements. We review and revise these reserves periodically as additional information becomes available and actual claims are reported.

The time required to learn of and settle claims is also an important consideration in establishing reserves. Short-tail claims, such as automobile and property damage claims, are reported within a few days or weeks and are generally settled within eight weeks. As of December 31, 2003, we did not have any material long-tail claims.

The ultimate cost of loss and LAE is subject to a number of highly variable circumstances. As time passes between when a claim is reported to the final settlement of the claim, circumstances can change that may require established reserves to be adjusted either upwards or downwards. Items such as changes in the legal environment, results of litigation and changes in medical costs, costs of automobile and home repair materials and labor rates can substantially impact claim costs. These factors can cause actual developments to vary from expectations, perhaps materially. We review and update claim reserve estimates periodically, using the most current information available to management, and reflect any adjustments resulting from changes in reserve estimates in our results of operations. On the basis of our internal procedures, management believes, based on currently available information, that our claim reserves are reasonable. However, the establishment of claim reserves is an inherently uncertain process, and accordingly, we cannot assure you that ultimate losses will not differ from our initial estimates. See the section headed ''Risk Factors — Risks Relating to Our Insurance Operations — Differences between actual benefits and claims experience and underwriting and reserving assumptions may require us to increase our reserves''.

PRC GAAP. Reserves for reported but not settled claims under our PRC statutory accounts are determined using the same method for determining these reserves in accordance with IFRS. IBNR reserves under our PRC statutory accounts are calculated based on the CIRC prescribed formula of 4% of actual payments made under our property and casualty insurance policies during a particular year.

The following table sets forth a summary reconciliation of our beginning and ending claim reserves, including the effect of reinsurance ceded, for our property and casualty insurance policies for the periods indicated:

	For the year ended December 31,		
	2001	2002	2003
	(in millions of RMB)		
Balance as of January 1	1,263	2,100	2,263
Loss reserve	1,181	1,966	2,144
LAE	82	135	149
Less reinsurance recoverable	402	658	703
Net	861	1,442	1,560
Plus incurred losses related to:			
Current period	1,994	2,857	3,765
Prior periods	362	(214)	(18)
Total incurred losses	2,356	2,643	3,747
Less claims paid related to:			
Current period	1,286	1,757	2,467
Prior periods	489	768	863
Total claims paid	1,775	2,525	3,330
Net balance at end of period	1,442	1,560	1,977
Plus reinsurance recoverable	658	703	1,178
Balance as of end of period	2,100	2,263	3,155
Loss reserve	1,966	2,114	3,002
LAE	135	149	153

Unearned Premium Reserves

IFRS. We calculate unearned premium reserves with respect to our property and casualty insurance policies on a pro rata basis over the term of the related policy coverage, which is generally 365 days, and the unearned premium reserve represents the portion of net premiums relating to unexpired periods of coverage.

PRC GAAP. Unearned premium reserves under our PRC statutory accounts are calculated on a pro rata basis over the term of the related policy coverage, which is generally 365 days. For short-term property and casualty insurance policies, the unearned premium reserve represents the portion of premiums relating to unexpired periods of coverage. For long-term property and casualty insurance policies, the unearned premium reserve represents the portion of premiums net of relevant costs incurred relating to unexpired periods of coverage.

Premium Deficiency Reserves

IFRS. Under certain circumstances, we maintain premium deficiency reserves with respect to our property and casualty insurance policies. Premium deficiency reserves are established when the anticipated losses, LAE, commissions and other acquisition and maintenance costs exceed the recorded unearned premium reserves. The premium deficiency reserves are recognized by reducing deferred acquisition costs to the extent required to eliminate the deficiency. If the premium deficiency is greater than the deferred acquisition costs, a provision is made for the excess deficiency. The amount of provision is made for each line of business separately. We assess premium deficiency reserves on the basis of estimates of future claims, costs, premiums earned and investment income. Premium deficiency reserves are disclosed, when material, as a separate provision.

PRC GAAP. We do not maintain premium deficiency reserves with respect to our property and casualty insurance policies.

Reinsurance

We reinsure a portion of the risk that we assume under our property and casualty insurance policies to reduce our exposure to loss, stabilize our earnings and protect our capital resources. We cede to reinsurers a portion of these risks in exchange for a portion of the premiums we receive with respect to these policies. In addition, we are required under applicable PRC regulations to cede 10% of the gross written premiums under our property and casualty insurance policies to reinsurers. This requirement will, however, be phased out by December 2005. Furthermore, we are required to purchase reinsurance for the portion of total policy coverage for any single insured event that would exceed 10% of our paid-in capital and statutory reserve fund. Moreover, we purchase additional catastrophic reinsurance treaties to cover earthquake, flood and windstorm for amounts in excess of our retention levels to ensure sufficient reinsurance coverage and manage our risk exposure.

We are required under applicable PRC regulations to cede 10% of gross written premiums under each of our property and casualty policies to China Reinsurance Company, although we may choose to cede a higher amount. This requirement will, however, be phased out by December 2005. See the section headed ''Supervision and Regulation — Major Insurance Industry Commitments Upon PRC's Accession to the WTO — Scope of Statutory Reinsurance''. To reduce our reinsurance concentration risk, we have established reinsurance programs with various leading international reinsurance companies. Our criteria for selecting reinsurers include financial strength, service, terms of coverage, claim settlement efficiency and price. We monitor the financial condition of our reinsurers on an ongoing basis and review our reinsurance arrangements periodically. With the exception of China Reinsurance Company, all of our reinsurance companies that we have entered into treaty reinsurance agreements with were rated A– or above by Standard and Poor's at the time we entered into such agreements. See ''— Risk Management — Credit Risk Management''.

In 2003, we ceded RMB2,819 million, or approximately 34.8%, of the gross written premiums and policy fees from our property and casualty insurance policies to reinsurers. As of December 31, 2003, only one of our property and casualty reinsurers has defaulted on, or has been delinquent in, the payment of any reinsurance obligation. In particular, as of December 31, 2003, HIH Casualty & General Insurance Ltd. (**''HIH''**) has defaulted on payments to us of approximately US$555,000 pursuant to a reinsurance contract relating to our cargo insurance products and certain discontinued automobile loan credit insurance products. HIH has entered into bankruptcy proceedings and we do not expect to recover a significant portion of the this sum from HIH. We have made appropriate provisions for the expected loss. HIH's default does not have a material adverse effect on our business, financial condition and results of operations.

Approximately 60% of the RMB2,819 million gross written premiums we ceded to reinsurers in 2003 were ceded to China Reinsurance Company.

The following table sets forth our maximum retention amounts per insured risk for selected property and casualty insurance risks as of December 31, 2003:

Risk	Maximum retention
Cargo	US$1 million
Construction all risk	US$6 million
Machine insurance	US$1 million
Industrial property	US$4 million
Commercial property	US$6 million

TRUST

Overview

We conduct our trust business through our 99% owned subsidiary, Ping An Trust, which we acquired in 1996. In February 2002, Ping An Trust received approval from the PBOC to register as a trust company in connection with the PRC government's restructuring of the PRC trust industry. See the section headed "Our Reorganization". Ping An Trust also acts as an investment holding company for some of our long-term equity investments. In addition, Ping An Trust provides real estate development, management and leasing services to our other subsidiaries. We consider Ping An Trust to be an important component of our strategy to provide multiple financial services to our customers. In particular, we expect Ping An Trust to continue focusing on its core business of providing trust services, and we intend to improve the financial results of this business by increasing the amount of assets under management, thereby decreasing average costs. Ping An Trust had a net profit of RMB65 million in 2003.

Trust Business

Our trust business consists of short-term trading of stocks, equity investment funds and bonds, long-term equity investments and property leasing as well as managing assets in accordance with the instructions of the trust settlors for the benefit of the beneficiaries or for other specific purposes. As of December 31, 2003, trust service assets held in trust was RMB189 million.

The following table sets forth certain financial information of Ping An Trust for the periods indicated:

	For the year ended December 31,		
	2001	2002	2003
	(in millions of RMB)		
Revenue	(170)	26	125
Net profit	230	(138)	65

Fujian Asia Bank Ltd.

On September 29, 2003, Ping An Trust, entered into a share transfer agreement with Bank of China, pursuant to which Ping An Trust would acquire Bank of China's 50% equity interest in Fujian Asia Bank Ltd., which is a joint venture bank primarily engaged in foreign currency commercial banking businesses in the PRC, for US$18.3 million. HSBC and BCA Finance Limited had previously entered into a separate share transfer agreement, pursuant to which HSBC agreed to acquire BCA Finance Limited's 50% equity interest in Fujian Asia Bank Ltd. Ping An Trust and HSBC subsequently entered to a joint venture contract, pursuant to which Ping An Trust agreed to make a capital contribution of US$23 million for an additional 23% equity interest in Fujian Asia Bank Ltd.

Fujian Asia Bank Ltd., which has been renamed Ping An Bank Limited, became a 73% owned subsidiary of Ping An Trust on February 19, 2004. We intend to leverage Ping An Bank Limited to develop a consumer banking business, including offering credit card and real estate mortgage lending services, as and when laws and regulations permit. We believe this transaction will enhance our ability to provide our customers with multiple financial services, including insurance, securities, banking, pension fund management and credit cards. See "— Recent Developments".

Ping An Bank Limited received a renewed business license on February 19, 2004, which allows the bank to provide all foreign exchange related services. Ping An Bank Limited, as a joint venture bank, is subject to applicable PRC laws and regulations, including the PRC Administration of Foreign-Funded Financial Institutions Regulations. As of March 31, 2004, Ping An Bank Limited had one office located in Fujian province, the PRC, with approximately 20 employees that are primarily engaged in foreign currency commercial banking businesses for foreign-invested enterprises in the PRC. Ping An Bank Limited is under the supervision of the CBRC.

The following table sets forth certain financial information of Fujian Asia Bank Ltd. for the periods indicated:

	For the year ended December 31,		
	2001	2002	2003
	(in millions of RMB)		
Revenue	11.9	5.0	3.3
Net profit	7.7	0.7	1.6

Please see note 8 to our consolidated financial statements included in the Accountants' Report set forth in Appendix I to this prospectus for further information.

SECURITIES

Overview

Ping An Securities was established on July 18, 1996 after receiving the approval of the PBOC, with Ping An Trust and Shenzhen Ping An Industries Co., Ltd., each at the time our wholly owned subsidiary, holding 61.0% and 5.0%, respectively, of Ping An Securities' equity interest. In addition, Shenzhen New Horse Investment Development Co., Ltd., or New Horse Development, and Shenzhen Anxing Industry Development Co., Ltd., an associated company of Shenzhen Ping An Industries Co., Ltd., held on our behalf 30.0% and 4.0%, respectively, of Ping An Securities' equity interest. The registered capital of Ping An Securities was increased in May 2001 pursuant to the requirement promulgated in 1998 under the PRC Securities Law that a full service securities company have a minimum registered capital of RMB500 million. As a result, Ping An Trust's equity interest in Ping An Securities was reduced to 30.0% after the capital increase by Ping An Securities. Furthermore, New Horse Development purchased from us in March 2001 the equity interest in Ping An Securities that it had held on our behalf, which was diluted to 18.0% as a result of the increase capital by Ping An Securities. Moreover, in March 2001, Shenzhen Anxing Industry Development Co., Ltd. sold to third party investors on our behalf the equity interest in Ping An Securities it had held on our behalf.

In March 1999, the applicable CSRC regulations imposed a 20% limitation on the ownership of a PRC securities company by a single shareholder without the prior approval of the CSRC. Ping An Trust had applied and received approval from the CSRC in May 2001 to hold a 30.0% equity interest in Ping An Securities. This 20% ownership limitation was subsequently repealed by the CSRC in November 2001, and Ping An Trust increased its equity interest in Ping An Securities to 64.1% in October 2003.

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 securities or other activities that are outside of the scope of normal insurance operations. As a result, we may have used our funds in a manner that is inconsistent with, or impermissible under, the applicable limitations set forth in the PRC Insurance Law and CIRC regulations in connection with the establishment of Ping An Securities in 1996. We have in the past included information relating to our direct and indirect ownership of Ping An Securities in our periodic filings with the PBOC, CIRC and CSRC. To date, we have not been subject to any administrative sanctions, fines or other penalties for such use of our funds. Moreover, we believe we have rectified the situation in March 2001. However, we cannot assure you that the relevant regulatory authorities would not take action against us in the future. In particular, we cannot predict the effect any future administrative sanctions, fines or other penalties might have on our business, financial condition and results of operations.

The legal and regulatory framework for PRC insurance companies is still evolving and undergoing significant change. Some of these changes may, among other things, require that we take additional steps to comply with new laws and regulations. We have in the past taken, and intend to continue to take, various measures to comply, as soon as reasonably practicable, with such new laws and regulations, although it generally takes a significant period of time for us and other PRC insurance companies to achieve full compliance with such new laws and regulations. Please see the section headed ''Risk Factors — Risks Relating to the PRC Insurance Industry — The further development of regulations in the PRC may impose additional costs and restrictions on our activities''.

Ping An Securities provides securities services to customers through its nationwide network of 22 branch offices and through our PA18 Internet financial portal. The principal services that we provide to our customers through Ping An Securities are brokerage services, investment banking services and asset management services.

Brokerage

Brokerage services consist of executing stock and bond trades on the Shanghai and Shenzhen stock exchanges for customers, holding physical securities on behalf of customers and facilitating the payment of dividends and interest and repayment of outstanding principal amounts from issuers to customers. As of December 31, 2003, Ping An Securities had over 280,000 brokerage customers. Approximately 32.4% of the total brokerage transactions handled by Ping An Securities in 2003 in terms of transaction value were placed through our PA18 Internet financial portal.

Prior to April 2002, brokerage commission rates were fixed by the CSRC. Beginning in May 2002, however, the CSRC established 0.3% as the maximum brokerage commission rate without establishing a minimum brokerage commission rate. The regulatory change gave rise to price competition resulting in a reduction in the average brokerage commission rates.

Investment Banking

Investment banking services include securities underwriting, financial advice for mergers and acquisitions and restructurings, securities business training and the provision of market and trading information.

Asset Management

Asset management services consist of managing securities portfolios of clients and providing asset management advice. We intend to develop additional services for our customers.

The following table sets forth certain financial information of Ping An Securities for the periods indicated:

	For the year ended December 31,		
	2001	2002	2003
	(in millions of RMB)		
Revenue	109	42	291
Net profit/(loss)	(392)	(197)	21

We do not expect the increase of additional equity interest in Ping An Securities in October 2003 to result in any material change to our current business operations or financial condition, or to make a material contribution to our net profit in the near future.

OVERSEAS OPERATIONS

Our overseas operations are held through our wholly owned subsidiary, Ping An Overseas. We commenced our overseas operations in 1992, and these operations are principally focused on the Hong Kong property and casualty insurance market. Our Hong Kong operations primarily focus on providing cargo insurance, home owner insurance, fire insurance and other types of personal accident insurance.

INVESTMENT PORTFOLIO

Investment Policy and Internal Controls

We invest the written premiums and policy fees received from our life insurance and property and casualty insurance businesses, and we manage these investments to ensure that we meet the liabilities associated with the insurance policies that we underwrite. In order to properly match our investments with the particular liability characteristics of our insurance products, we maintain separate investment accounts for our life insurance and property and casualty insurance businesses. Moreover, because of the varying characteristics of our life insurance products, we maintain separate investment accounts for our traditional non-participating, traditional participating and non-traditional life insurance products.

As a result of the current PRC regulatory restrictions on investments by insurance companies, substantially all of our investment assets are concentrated in a limited number of investments that are located in the PRC. A detailed discussion of these restrictions is set forth in the section headed ''Supervision and Regulation — Insurance Business — Use of Insurance Funds''. Although our investment opportunities are limited by applicable PRC regulations, we intend to diversify our investment portfolio to the extent permitted by any regulatory changes.

We seek to optimize the returns of our investment portfolio and at the same time limit our overall risk exposure to an acceptable level. We have adopted a specific investment policy and implemented internal controls to help us achieve this objective. Our investment policy and internal controls, as well as the performance of our investment portfolio, are reviewed and amended to the extent appropriate on an ongoing basis. Furthermore, in order to better manage the different risk exposures arising under our insurance business, we manage the investment assets associated with our life insurance operations separately from those associated with our property and casualty insurance operations. See also ''— Risk Management''.

The principal features of our investment policy and internal controls include the following:

- matching investment assets against the liability characteristics of our insurance products, such as interest rate, duration and cash flow;
- limiting our investment portfolio's exposure to interest rate, credit, liquidity and other risks to within specified aggregate limits;
- diversifying our investment portfolio to the extent permissible under the applicable PRC regulations; and
- maintaining strict limits on our investment exposure to any single company or a group of related companies.

We seek to match our assets with our liabilities on the basis of duration, yield as well as liquidity. In the current regulatory and market environment, however, we have limited ability to invest in assets that have durations of sufficient length to match the duration of our life insurance liabilities. We intend to lengthen the duration of our investment assets as and when regulatory and market conditions permit, such as through purchases of longer term fixed income securities.

We have been conducting internal research on a number of investment alternatives that may become available to insurance companies in the PRC in the near term, such as a wider range of corporate bonds and mortgages. In particular, we have developed internal expertise in evaluating and managing these potential investment alternatives.

The responsibility for setting and executing our investment policy and internal controls is allocated in the following manner:

- *Investment Management Committee.* Our investment management committee sets our overall asset allocation strategy, mid-to-long term investment strategy and risk limits. This committee conducts monthly reviews of investment-related operations of our Company and monitors the regulatory restrictions, market opportunities for and returns on various types of investments. In addition, this committee is responsible for reviewing and approving projects that involve a substantial amount of investment.
- *Investment Management Center.* Our investment management center, which consists of an experienced team of portfolio managers, asset managers, investment risk managers and back office staff, is responsible for the day-to-day implementation of our asset allocation and investment strategies. The activities of the investment management center are led and supervised by our chief investment officer.

Portfolio Composition

We had total assets of RMB203.5 billion as of December 31, 2003. Due to current PRC regulatory restrictions on investments by insurance companies, substantially all of our investments are concentrated in a limited number of investments that are located in the PRC. In particular, as of December 31, 2003, fixed deposits at commercial banks, government bonds, finance bonds for government projects, corporate bonds and equity investment funds accounted for approximately 50.2%, 24.5%, 12.3%, 6.9% and 2.9%, respectively, of our total investment assets. Subject to compliance with applicable PRC regulations, we intend to diversify our investment portfolio by increasing our investments in government bonds, finance bonds, corporate bonds and potential new investment vehicles, particularly those with a longer maturity, and reducing the level of our fixed deposits.

The following table sets forth certain information regarding the composition of our investment portfolio as of the dates indicated:

	As of December 31,					
	2001		2002		2003	
	Carrying value	% of total	Carrying value	% of total	Carrying value	% of total
	(in millions of RMB, except percentages)					
Fixed deposits	45,923	57.1%	73,439	58.1%	78,233	50.2%
Fixed-maturity investments						
Government bonds	16,904	21.0	27,191	21.5	38,248	24.5
Finance bonds	3,990	5.0	7,253	5.7	19,154	12.3
Corporate bonds	2,861	3.6	4,302	3.4	10,774	6.9
Placements and loans	6,204	7.7	9,542	7.5	3,285	2.1
Equity investment funds	2,416	3.0	2,836	2.2	4,648	2.9
Investment properties	1,523	1.9	1,494	1.2	1,333	0.9
Other investment assets(1)	571	0.7	473	0.4	245	0.2
Total	80,392	100.0%	126,530	100.0%	155,920	100.0%

(1) Other investment assets primarily consist of an investment in an associated company and other equity investments.

The following tables set forth certain information relating to our investment assets for the periods indicated:

	For the year ended December 31,					
	2001		2002		2003	
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount
	(in millions RMB, except yields)					
Fixed and other bank deposits						
Interest income	5.7%	2,099	5.1%	3,055	4.6%	3,520
Fixed-maturity investments						
Interest income	4.4%	942	3.2%	990	4.0%	2,142
Net realized and unrealized gains/(losses)		(190)		(176)		387
Total		752		814		2,529
Placements and loans						
Investment income	1.2%	49	2.1%	163	1.8%	118
Equities investment funds						
Dividend income	27.4%	756	3.9%	103	1.8%	69
Net realized and unrealized gains/(losses)		(65)		(121)		3
Total		691		(18)		72
Investment properties						
Investment income	8.0%	105	7.8%	117	7.0%	99
Gain on disposal of subsidiaries		69		4		5
Total investment income	5.6%	3,765	4.0%	4,135	4.5%	6,343

(1) Ratio of investment income to average investments at the beginning and end of the year.

Fixed Deposits

As of December 31, 2003, approximately 50.2% of our investment assets were deposited with state-owned and other commercial banks in the PRC. We generally deposit funds with banks for fixed terms of over five years. In 2002 and 2003, our yield on fixed deposits was approximately 5.1% and 4.6%, respectively, while the average yield for the PRC insurance industry was approximately 3.4% in 2002. To the extent the current low interest rate environment in the PRC persists, we would expect our yield and reinvestment rate on fixed deposits to continue to decrease. We intend to reduce the level of our fixed deposits as a percentage of our investment assets over time.

The following table sets forth the top five commercial banks in the PRC in terms of fixed deposits placed by us as of the dates indicated:

	As of December 31,					
	2001		2002		2003	
	Deposit	% of total	Deposit	% of total	Deposit	% of total
	(in millions of RMB, except percentages)					
Bank of China	7,841	17.1%	12,647	17.2%	10,167	13.0%
China Construction Bank	—	—	8,770	11.9	9,700	12.4
China Minsheng Banking Corp.	3,045	6.6	5,595	7.6	8,847	11.3
Guangdong Development Bank	7,437	16.2	9,509	13.0	8,381	10.7
CITIC Industrial Bank	5,933	12.9	6,133	8.4	6,402	8.2
Other banks	21,667	47.2	30,785	41.9	34,736	44.4
Total	45,923	100.0%	73,439	100.0%	78,233	100.0%

The following table sets forth a breakdown of our fixed deposits by maturity as of the dates indicated:

	As of December 31,					
	2001		2002		2003	
	Book value	% of book value	Book value	% of book value	Book value	% of book value
	(in millions of RMB, except percentages)					
Due in one year or less	2,447	5.3%	6,500	8.8%	3,689	4.7%
Due in 1 year through 5 years	28,308	61.7	55,952	76.2	62,971	80.5
Due after 5 years	15,168	33.0	10,987	15.0	11,573	14.8
Total	45,923	100.0%	73,439	100.0%	78,233	100.0%

Government Bonds

PRC government bonds represented approximately 24.5% of our investment assets as of December 31, 2003. Government bonds have maturities of up to 30 years and pay interest that is tax exempt. We invest in both listed and unlisted government bonds. As PRC regulations do not restrict the amount of our investment assets that may be invested in government bonds, and as the interest earned on government bonds is tax exempt, which results in higher after-tax yield as compared to some other investment options, we may further increase the proportion of government bonds in our investment portfolio and enhance our investment returns. In addition, our investments in government bonds help us match the asset and liability duration gap because of their longer duration compared to our other investment assets.

The following table sets forth a breakdown of our investments in government bonds by maturity as of the dates indicated:

	Face value	% of face value	Estimated fair value
	(in millions of RMB, except percentages)		
As of December 31, 2001:			
Due in one year or less	1,536	10.6%	1,747
Due in 1 year through 5 years	8,545	58.6%	10,357
Due in 5 years through 10 years	4,243	29.1%	4,580
Due after 10 years	250	1.7%	331
As of December 31, 2002:			
Due in one year or less	4,554	18.5%	5,859
Due in 1 year through 5 years	6,844	27.9%	7,426
Due in 5 years through 10 years	11,142	45.4%	11,681
Due after 10 years	2,021	8.2%	2,291
As of December 31, 2003:			
Due in one year or less	1,519	4.2%	1,745
Due in 1 year through 5 years	8,508	23.4%	8,924
Due in 5 years through 10 years	11,921	32.7%	12,042
Due after 10 years	14,471	39.7%	14,697

The fair value of our listed bond investments is assessed as of the balance sheet date with reference to the quoted prices on the last trading day on the relevant exchanges. The fair values of bonds traded in the tertiary trading market are assessed each year at the balance sheet date with reference to the last transacted price. If the last transaction price is not current, or if a tertiary trading market is not available, the fair values are determined by discounted cash flow analysis. The discount rates are determined with reference to yield rates of similar listed bonds at the balance sheet date.

Finance Bonds

Finance bonds are primarily bonds that are issued by China Development Bank, China Import & Export Bank and China Agriculture Development Bank, three state-owned policy banks of the PRC, to fund specific projects, which are typically related to, among others, infrastructure. These bonds are generally unlisted and are traded through the interbank markets. As of December 31, 2003, finance bonds represented approximately 12.3% of our investment assets. The applicable PRC regulations do not restrict the amount of our investment assets that may be invested in finance bonds.

The following table sets forth a breakdown of our investments in finance bonds by maturity as of the dates indicated:

	Face value	% of face value	Estimated fair value
	(in millions of RMB, except percentages)		
As of December 31, 2001:			
Due in one year or less	10	0.3%	10
Due in 1 year through 5 years	140	3.5%	148
Due in 5 years through 10 years	3,825	95.9%	3,951
Due after 10 years	10	0.3%	16
As of December 31, 2002:			
Due in one year or less	20	0.3%	20
Due in 1 year through 5 years	160	2.2%	164
Due in 5 years through 10 years	6,059	84.2%	6,129
Due after 10 years	960	13.3%	997
As of December 31, 2003:			
Due in one year or less	721	3.7%	713
Due in 1 year through 5 years	1,852	9.6%	1,902
Due in 5 years through 10 years	11,350	58.8%	11,638
Due after 10 years	5,397	27.9%	5,450

The fair value of our finance bonds is estimated using the same method for the fair value assessment of government bonds.

Corporate Bonds

Since June 2003, PRC insurance companies, such as us, may invest up to 20% of their total assets as of the end of the previous month in corporate bonds issued by PRC companies that are rated AA or above by a CIRC approved credit rating agency, calculated on the basis of cost. Prior to June 2003, PRC insurance companies were not permitted to invest more than 10% of their total assets in corporate bonds. As of December 31, 2003, a majority of the corporate bonds we held were listed on a stock exchange in the PRC. As of December 31, 2003, corporate bonds represented approximately 6.9% of our investment assets. We intend to further increase the proportion of corporate bonds in our investment portfolio to enhance our investment returns.

The following table sets forth a breakdown of our investments in corporate bonds by maturity as of the dates indicated:

	Face value	% of face value	Estimated fair value
	(in millions of RMB, except percentages)		
As of December 31, 2001:			
Due in one year or less	3	0.1%	3
Due in 1 year through 5 years	117	4.2%	155
Due in 5 years through 10 years	2,052	74.0%	2,093
Due after 10 years	600	21.7%	609
As of December 31, 2002:			
Due in one year or less	113	2.7%	188
Due in 1 year through 5 years	517	12.4%	528
Due in 5 years through 10 years	1,786	43.0%	1,859
Due after 10 years	1,742	41.9%	1,791
As of December 31, 2003:			
Due in one year or less	5	0.1%	3
Due in 1 year through 5 years	793	8.0%	802
Due in 5 years through 10 years	3,285	33.0%	3,358
Due after 10 years	5,861	58.9%	5,868

The fair value of our corporate bonds is estimated using the same method for the fair value assessment of government bonds.

Equity Investment Funds

Since December 2000, PRC insurance companies, such as us, have been permitted to invest through equity investment funds up to 15% of their total assets in shares of PRC companies listed on the Shanghai or Shenzhen stock exchange. The value of shares traded on the Shanghai and Shenzhen stock exchanges have generally experienced significant volatility. As a result, we do not expect to significantly increase our holdings of equity investment funds in the foreseeable future. As of December 31, 2003, equity investment funds represented approximately 2.9% of our investment assets.

Due to the significant market downturn of the stock exchanges in the PRC during 2001 and 2002, we incurred significant unrealized investment losses in our equity investment fund portfolio. Our unrealized investment loss associated with our investments in equity investment funds was RMB775 million and RMB400 million, respectively, in 2002 and 2003. See the section headed ''Risk Factors — Risks Relating to Our Investment Portfolio — Fluctuations in share values resulting from the volatility of the PRC securities market may materially and adversely affect the value of our investment portfolio and our financial condition and results of operations''.

The following table sets forth the market value relating to our equity investment fund portfolio as of the dates indicated:

	As of December 31,		
	2001	2002	2003
	(in millions of RMB)		
Equity investment funds	2,416	2,836	4,648

Unlisted Equity Investments

We have made equity investments in several unlisted PRC companies, as well as investments in unlisted legal person shares of listed PRC companies. These equity investments do not have a quoted market price in an active market and their fair value cannot be reliably measured. They are recorded in the accounts at their cost and are adjusted for provisions for impairment, if any. We are in the process of disposing these investments on commercially reasonable terms. We believe the disposal of these investments would not have a material impact on our financial position and results of operations.

Placements and Loans

Placements and loans include loans granted under repurchase agreements, interbank placements, policy loans, entrusted loans and other loans. As of December 31, 2003, placements and loans represented approximately 2.1% of our investment assets.

Investment Properties

We invest in real properties and earn lease income from such investments. As of December 31, 2003, investment properties represented approximately 0.9% of our investment assets.

RISK MANAGEMENT

Overview

Management of risk exposure is fundamental to our operations. We have established a comprehensive, integrated enterprise-wide risk management framework to manage risks across our operations on a continuous basis.

Our risk management framework is designed to foster a strong and well-informed risk management culture across our operations and to support our business decisions. Our risk management activities are centrally undertaken and monitored by a risk management committee. Members of the risk management committee consist of key personnel from our finance, investment, actuarial and internal audit department as well as the business heads of our principal subsidiaries. The risk management committee is responsible for identifying and reviewing the major areas of risk across the Group and all of our operating principles, and for approving, and ensuring compliance with key financial and operational risk management policies. Periodical risk analysis reports are prepared using appropriate risk management techniques.

Product Risk Management

Product risk is the risk of potential loss arising with respect to a particular insurance product as a result of actual market conditions and loss experience being different from the assumed market conditions and loss experience used when designing and pricing the product. We manage product risk through a product center, headed by the chief actuary and heads of key business units. Our product center establishes standards and guidelines designed to ensure that our level of product risk for a particular product is within an acceptable range and consistent with the designed profile of the product. The standards and guidelines cover, among other things, product design, pricing methods, assumption setting, capital requirement, profit margin objectives, documentation, approval processes and loss experience monitoring programs.

Designated pricing officers in each of Ping An Life and Ping An Property & Casualty are responsible for all design and pricing activities for our insurance products. Our chief actuary and the chief executive officers of each of Ping An Life and Ping An Property & Casualty review and approve the design and pricing of each product to ensure that the relevant standards are met and guidelines are followed. To reduce our product risk, our underwriting and claim processing departments follow closely the relevant underwriting and claim processing policies and procedures. In addition, we set aggregate retention limits and purchase reinsurance to further reduce our product risk.

Asset and Liability Management

The objective of our asset and liability management is to match our assets with our liabilities on the basis of duration. In the current regulatory and market environment, however, we are unable to invest in assets that have a duration of sufficient length to match the duration of our life insurance liabilities. See the section headed ‘‘Risk Factors — Risks Relating to Our Overall Business — Due to the limited availability of long-term fixed income securities in the PRC capital markets and the legal and regulatory restrictions on the types of investments we may make, we are unable to match closely the duration of our assets and liabilities, which increases our exposure to interest rate risk’’. We currently monitor the duration gap between our assets and liabilities closely, and cash flows from the asset and liability side are projected on a timely basis. Our actuaries from the business units and our investment experts have monthly meetings to communicate on relevant issues. We intend to reduce the level of our asset-liability mismatch by:

- working within the current regulatory framework and market environment to move assets into long-term fixed income securities, such as long-term corporate bonds;
- encouraging the sales of our short-term accident and health insurance products;
- monitoring developments by the CIRC to lessen regulatory restrictions governing investment channels by insurance companies and capitalizing on any new investment options that become available; and
- monitoring the development of PRC capital markets with a view to diversifying our investment portfolio and optimizing our return on investments.

Market Risk Management

Market risk is the risk of potential loss to future earnings, fair values or future cash flows that may result from changes in the value of a financial instrument as a result of changes in interest rates, market prices and other factors that affect market risk sensitive instruments. Market risk is attributed to all market risk sensitive financial instruments. The principal objectives of our market risk management activities are to:

- manage potential market losses within acceptable levels and contribute to earnings stability through independent identification, assessment and understanding of the market risks inherent to our business;
- assist us in setting a unified standard for controlling market risk throughout our organization; and
- establish limits for equity risk exposures.

See also the section headed ''Financial Information — Quantitative and Qualitative Disclosure about Market Risk''.

Credit Risk Management

Credit risk is the risk of economic loss resulting from the failure of one of our obligors to make any payment of principal or interest when due, in the case of fixed income investments or, in the case of an equity investment, the loss in value resulting from a corporate failure. We are exposed to credit risks primarily associated with our deposit arrangements with commercial banks, our investments in bonds issued by PRC companies and our reinsurance arrangements with reinsurers. We mitigate credit risk by utilizing detailed credit control policies, by undertaking credit analysis on potential investments, and by imposing aggregate counter party exposure limits within our investment portfolio. Our investment guidelines also require that the risk levels of the various investment sectors be continuously monitored with allocations adjusted accordingly. For investment assets carried at historical cost, whenever it is probable that we will not be able to collect all the amounts due according to applicable contractual terms, an impairment or loss is recognized in our financial results. To reduce the credit risk associated with our reinsurance agreements, specific counterparty exposure measures and limits are imposed. In addition, we monitor the financial condition of our reinsurers on an ongoing basis and review our reinsurance agreements periodically. In addition, we regularly review overdue balances and makes provision for doubtful debts covering both general and specific provisions based on the aging of the premium receivables. The Group seeks to maintain strict control over its outstanding premium receivables and has credit control functions to minimize its exposure to credit risk.

Liquidity Risk Management

Liquidity risk is the risk of not having access to sufficient funds to meet our obligations as they become due. We are exposed to liquidity risk on insurance policies that permit surrender, withdrawal or other forms of early termination. We seek to manage our liquidity risk by matching to the extent possible the duration of our investment assets with the duration of our insurance policies.

We rely on a broad range of liquidity sources to meet our funding needs. We fund our operations principally from the receipt of written premiums and policy fees from policyholders and the related investment income. We may also obtain short-term borrowings in the form of repurchase agreements, as well as raise funds through the sale of investments from time to time.

The primary goal of our asset and liability management activities is to achieve an optimal return while maintaining adequate levels of liquidity and capital and limiting our overall risk exposure. In particular, we have implemented various measures to:

- design insurance products with a view towards reducing the possibility of unexpected liquidity demands;
- monitor our liquidity position in compliance with regulatory and our internal requirements;
- prepare regular maturity gap analysis to enable management to review and monitor our liquidity position on a timely basis;
- prepare monthly cash flow forecast for the next 24 months and annual cash flow forecast for the next three years, as well as conduct monthly liquidity analysis of our investment portfolios; and
- establish a range of factors to be monitored and a liquidity risk warning index system to detect early signs of any irregularities.

Concentration Risk Management

Concentration risk is the risk of incurring a major loss as a result of having a significant portion of our investments concentrated in a single entity, group of related entities or industry segment. We seek to control our concentration risk by limiting the amount of investment in any single entity or group of related entities, and we review and amend these limits at least annually.

Due to current PRC regulatory restrictions on investments by insurance companies, substantially all of our investments are concentrated in a limited number of investments that are located in the PRC. As of December 31, 2003, fixed deposits at commercial banks, government bonds, finance bonds for government projects, corporate bonds of state-owned companies and equity investment funds accounted for approximately 50.2%, 24.5%, 12.3%, 6.9% and 2.9%, respectively, of our investment assets. In particular, as of December 31, 2003, RMB43,497 million, or approximately 55.6% of our fixed deposits or approximately 27.9% of our investment assets, were concentrated in five commercial banks. See the section headed ''Risk Factors — Risks Relating to Our Investment Portfolio — Applicable PRC regulations limit our ability to diversify our investment portfolio as well as seek an optimal return on our investments; as a result, a decrease in the value of a particular type of investment could have a material adverse effect on our financial condition and results of operations''. Subject to compliance with applicable PRC regulations, we intend to diversify our investment portfolio by increasing our investments in government bonds, finance bonds, corporate bonds and potential new investment options, particularly those with a longer maturity, and reduce the level of our fixed deposits.

Foreign Currency Risk Management

Foreign currency risk is the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between the Renminbi and other currencies in which we conduct business may affect our financial condition and results of operations. We seek to limit our exposure to foreign currency risk by minimizing our net foreign currency position.

We generate substantially all of our revenue from, and substantially all of our expenses are attributable to, our business activities in the PRC. As a result, we have historically had an insignificant net foreign currency position. As a result of the US$600 million investment by HSBC Insurance in November 2002, however, fluctuations in the exchange rate used to translate US dollars into Renminbi are likely to affect our reported financial position and results of operations from year to year.

Operational Risk Management

Operational risk is the risk of loss resulting from breakdowns in information, communication, transaction processing, settlement systems and procedures. Operational risks include failure to obtain proper internal authorizations or to properly document transactions, equipment failure, inadequate training or errors by employees. We manage operational risk by establishing clear policies, requiring processes to be well documented and ensuring that transactions are reconciled and monitored.

Our management of operational risk begins with the managers of our respective business lines. These managers take initial responsibility for supervising our operating personnel for compliance with the control standards established by our respective businesses as well as applicable laws and regulations. Their efforts to manage operational risk are overseen by our senior management. Moreover, our internal audit department reviews annually our operations and conducts audits according to an audit schedule approved by our audit committee to determine whether our operations are conducted in accordance with our centralized policies and procedures. See ''— Internal Audit''.

Internal Audit

Our internal audit department assists our management in the day-to-day operations by evaluating the adequacy and effectiveness of our internal controls and procedures, recommending improvements to these controls and procedures and supervising and monitoring the implementation of such improvements. Our internal audit department reports directly to our audit committee, which has overall oversight responsibility for the internal controls and procedures of our Company, our principal subsidiaries and our branch and sub-branch offices.

Our internal audit department is staffed and administered at our Company headquarters level, and is responsible for audits of our operations throughout the PRC. We believe that this structure ensures that there is direct, independent, comprehensive and reliable reporting of audit findings at all levels of our operations to our internal audit department, our audit committee and our Board. Our internal audit department is also responsible for overseeing the periodic review of the integrity of our information technology system and the proper functioning of all major system applications.

INFORMATION TECHNOLOGY

We believe that the development and use of information technology is critical to the efficient operations of our business and is a key contributor to our success. Important functions that rely upon information technology include our back office operations such as actuary, underwriting and claims settlement, sales support, financial management, management information reporting, customer service support and our e-commerce portal. We have made significant investments in our information technology, and we believe we are the information technology leader in the PRC insurance industry. In the 2003 IPower 500 survey organized by the National Informatization Evaluation Center to assess the information technology capabilities of PRC enterprises, we were ranked first in the insurance sector.

Our centralized information technology team consists of approximately 440 employees. Approximately 240 of these employees focus upon the development of new applications and information technology infrastructure, while the remaining employees are dedicated to maintaining the operation of our existing applications and information technology infrastructure. Substantially all of our information technology employees have a bachelor's degree or a more advanced degree.

We have developed our own unified information technology platform that is used by all of our businesses and throughout our branch and sales office network. Our unified platform facilitates the sharing of information between different applications as well as among our businesses and our branch and sales office network. This unified platform also enables the centralization of our back office operations, such as underwriting and claims processing, as well as our management information system, which helps us ensure that management receives financial and operational data on a timely basis. We have developed our information technology system internally and we believe this makes us more responsive to the evolving conditions in the PRC insurance market, and less dependent upon third party information technology consultants, developers and vendors.

Since 2001, we have begun to web-enable all of our applications. In particular, through a web browser, our employees are able to access all applications internally through our intranet, while our customers and business partners are able to access all applications through the Internet and a virtual private network. Furthermore, our customer service personnel in the call center and the branch offices are able to access the up-to-date customer information and coordinate remotely to serve our customers. In addition, we deploy other advanced technology to improve our efficiency to lower our unit cost of operations and to enhance our risk control capability. For example, our management information system is able to report key performance indices at all levels, such as from a sales office to the entire life insurance and property and casualty insurance businesses. Moreover, we will deploy advanced imaging workflow technology to facilitate the centralization of our back office operations and rule-engine software to automate the underwriting rules and speed up the time required to support a new product in our system.

Whenever possible, we apply the same set of technology standards in developing our systems. For example, all of our database management systems are developed by Oracle Corporation, all our servers are Unix-based open systems and all our new applications are written in Java computer language. This makes us cost-effective, flexible and responsive to the changing business needs as we avoid integration problems relating to incompatible hardware systems and are not locked in by a particular hardware vendor. As illustrated by the speed in which we are able to consolidate our customer information from different software systems into a centralized database, we believe we can upgrade and add functions for services and further sales more easily, more efficiently and more cost effectively.

In order to avoid over-reliance on a particular vendor, we use technology standards that are open standards where conforming solutions from different vendors are available. For example, our Unix-based open system machines are supplied by Hewlett-Packard, Sun and IBM; our LINUX machines are supplied by IBM, Dell and Hewlett-Packard; our J2EE middleware platform is supplied by BEA and Oracle. Our relational database is from Oracle, but we can also source relational database solutions from other vendors such as IBM and Informix.

We maintain good working relationships with these vendors, which we review every 3-5 years. Since all of our vendors conform to the same open standards, the conversion barrier from one vendor to the other is manageable.

For technology that is important to our business, such as the Oracle relational database, we use a very conservative approach to system upgrades, which entails careful testing and planning.

During the last three years, we have not experienced a material system failure caused by software or hardware defects that resulted in widespread and substantial loss of service.

The effectiveness of our information technology system is highlighted by the following:

- We have consolidated our business data into two mutually backup data centers in Shenzhen and Shanghai. Through a combination of backup communication lines and standby systems, we ensure the availability of our service to over 3,600 branch and sub-branch offices. Maintaining the uninterrupted availability of our information technology system throughout our nationwide branch network is important for providing effective customer service.

- We established a 24-hour nationwide life insurance customer call center in 2000. During 2003, the call center handled an average of 30,000 calls per day, or approximately 65% of all daily life insurance customer inquiries. Our centralized operations help us deliver a uniform service quality nationwide and control cost through economies of scale. In addition, a 24-hour nationwide property and casualty insurance customer call center became operational in 2003.

- We have a centralized customer database that contains information relating to over 27 million life insurance and 4 million property and casualty insurance customers. Our database tracks all of the life and property and casualty insurance policies associated with a customer. Furthermore, our database allows us to cross check the risk exposure of a life insurance customer in all our branches, and also provides our customer service representatives at our call centers with the most up-to-date customer information and their latest requests.

- We established our PA18 Internet financial portal in 2000. Apart from acting as an e-commerce platform to serve our customers, our PA18 Internet financial portal is also an entry point to our Internet-enabled business support systems and a portal to support our sales agents. Our customers may also trade securities through our PA18

Internet financial portal. In 2003, approximately 32.4% of our securities trading by value were executed through this channel. Our PA18 Internet financial portal also supports the sale of life insurance and property and casualty insurance products in a variety of ways, such as a direct sale on-line or the activation of fixed-value insurance cards. In particular, the sale of cargo insurance with low premiums becomes cost effective through our PA18 Internet financial portal. A shipping customer can register a shipment on our PA18 Internet financial portal, and the rest of the processing is done automatically with relatively little additional expense.

- Using our PA18 Internet financial portal, we are able to quickly create tailor-made services for our largest group life insurance customers. Our quick response to customer needs is one of the reasons we are able to attract and retain these customers.
- Using our PA18 Internet financial portal as the entry point, our automobile insurance claims processing system provides a unified platform to coordinate our call center, our damage assessors, our partner repair shops and our back office to provide speedy claim processing services. Using this system, our automobile insurance customers can have their claims processed locally when they travel anywhere in the PRC.
- We support our life insurance sales agents through our PA18 Internet financial portal. In addition to the Internet service, our sales agents can use a purpose-built sales support application running on their laptops to create proposals, manage their sales activities, and synchronize with the centralized database the latest information about their clients and their policies. Over 20,000 of our life insurance sales agents have used this support application since 2002. We introduced a personal digital assistant version of this sales support application in September 2003, and provided over 4,000 copies of this application to our life insurance sales agents for a nominal fee.

RATINGS

Measures of financial strength are an important factor affecting public confidence in our insurance products and, as a result, our competitiveness. One measure of our financial strength is our financial strength rating. In 2003, we received a financial strength rating of AAA from both China Chengxin International Credit Rating Company, an affiliate of Fitch International Limited, and Dagong Global Credit Rating Co., Ltd., an affiliate of Moody's Investors Service. See the section headed "Risk Factors — Risks Relating to Our Overall Business — A perceived reduction in our financial strength or a downgrade in our rating could increase policy surrenders and withdrawals and damage our relationship with our creditors, our counterparties and the distributors of our products".

The foregoing ratings reflect each rating agency's opinion of our financial strength, operating performance and ability to meet our obligations to policyholders, and are not evaluations directed towards holders of our H Shares or ADSs, and do not in any way reflect evaluations of the safety and security of our H Shares or ADSs. You should not rely upon these ratings in making an investment decision regarding our H Shares or ADSs.

COMPETITION

We face competition in each of our business lines as well as in our overseas operations. Competition in the insurance industry is based on many factors, including sales force strength and abilities, product design features, customer service, financial strength ratings assigned by independent rating agencies, claims services, reputation, perceived financial strength and the experience of the insurance company in the line of insurance to be written.

Our primary competitors include both domestic and foreign-invested life insurance and property and casualty insurance companies, mutual fund companies and other financial services providers. Some of these companies may have greater financial, management and other resources than we do, and may have more extensive operating experience than us. Furthermore, these companies may be able to offer a broader range of products and services, as well as establish their reserves more adequately, than us. In addition, some of our domestic competitors have benefited from favorable government treatment that was only applicable to them. For example, PICC, the largest property and casualty insurance company in the PRC, was permitted to establish a nationwide distribution network when it was re-established in 1983, while we did not receive permission to establish such a network until 1992. In addition, China Life, the largest life insurance company in the PRC, has also benefited from a nationwide distribution network that was established before we received permission to establish such a network.

The presence of foreign insurance companies in the PRC market has continued to increase in recent years, and their business activities are expected to expand as the industry becomes more open to foreign competition as a result of the PRC's commitments pursuant to its WTO accession agreement. In particular, some new foreign entrants may be able to commence operations rapidly by forming alliances and joint ventures with other PRC insurance companies and by employing products and skills developed in their home markets. Moreover, some of these new foreign entrants may adopt pricing strategies that are more aggressive than the major PRC insurance companies, including us.

In addition, recent changes in PRC investment regulations relaxing rules on the formation of mutual funds and sales of securities have led to greater availability and variety of financial investment products. These products may be more attractive to the public and adversely affect the sale of some of our products, including participating life insurance and investment-linked products. See the section headed "Risk Factors — Risks Relating to Our Insurance Operations — Competition in the PRC insurance industry is increasing and our business and prospectus will be harmed if we are not able to compete effectively".

Life Insurance

As of December 31, 2003, there were 32 licensed PRC life insurance companies. In addition, as of the same date, there were 23 foreign life insurance companies licensed to conduct insurance business in the PRC through joint ventures and other arrangements with PRC companies. Based on data published by the CIRC, China Life Insurance (Group) Company, our Company and China Pacific Life Insurance Company, Ltd. accounted for approximately 56.6%, 23.5% and 11.0%, respectively, of the gross written premiums and policy fees received by PRC life insurance companies in 2002.

We believe that we hold a solid competitive position in the PRC life insurance industry. Rather than focusing solely on the growth of gross written premiums and policy fees, we have developed a strategy that emphasizes more profitable insurance products that provide a more sustainable premium income stream, such as regular premium insurance and short-term life insurance products. Although our gross written premiums and policy fees have increased at a rate that is lower than the rate for the PRC life insurance industry, we believe our renewal premiums, which accounted for over 48.6% of our gross written premiums and policy fees in 2003, are the highest among all major PRC life insurance companies.

Property and Casualty Insurance

As of December 31, 2003, there were 24 licensed property and casualty insurance companies. In addition, as of the same date, there were 14 foreign property and casualty insurance companies licensed to conduct business in the PRC. Based on data published by the CIRC, PICC, China Pacific Property Insurance Company, Ltd. and our Company accounted for approximately 70.9%, 13.2% and 10.6%, respectively, of the gross written premiums and policy fees received by PRC property and casualty insurance companies in 2002.

We believe that we have a competitive advantage in the PRC property and casualty insurance industry. Our approach to property and casualty insurance underwriting is increasingly focused on profitability, and we intend to avoid competing for customers solely on the basis of price. We intend to continue focusing our efforts on the acquisition of higher quality property and casualty insurance customers.

Trusts

As a result of the PRC government's restructuring of the PRC trust industry in 1999, the number of trust companies conducting business decreased from over 230 in 1999 to 55 as of December 31, 2003. We expect future liberalization of the PRC financial services industry to lead to competition among trust companies, commercial banks, securities firms and equity investment fund companies. We seek to enhance the competitive position of our trust business by leveraging the extensive customer base and distribution network, specialized personnel and management and the well-recognized brand name of our insurance business.

Securities

As of December 31, 2003, there were 128 licensed securities firms in the PRC. In 2003, Ping An Securities was ranked twenty third in the PRC in terms of the value of securities traded. We believe that Ping An Securities is able to enhance its competitive position through its association with our Company by taking advantage of our extensive customer base and distribution network, specialized personnel and management and well-recognized brand name. The principal competitors of Ping An Securities include China Galaxy Securities Co., Ltd., Guotai Junan Securities Co., Ltd. and Haitong Securities Co., Ltd.

Impact of PRC Accession to the WTO

As a result of the PRC joining the WTO in December 2001, the PRC government is gradually reducing restrictions on foreign participation in the PRC insurance market. We expect the PRC government to continue reducing these restrictions. This will result in the further opening of the PRC insurance market to foreign insurance companies and could erode any competitive advantages that we currently enjoy. In particular, the PRC has undertaken in the accession agreement relating to its entry into the WTO to, over a period of five years:

- eliminate geographic restrictions on business activities of foreign-invested insurance providers;
- eliminate scope of business and ownership restrictions for foreign-invested property and casualty insurance providers;
- eliminate scope of business restrictions for foreign-invested life insurance providers; and
- increase the foreign ownership limit for life insurance providers to 50%.

The opening of the PRC insurance market to foreign insurance companies may adversely affect our business as well as our future profitability.

Applicable PRC regulations require that the CIRC approve the establishment as well as the commencement of operations of a foreign-invested insurance company. In 2003, the CIRC granted approval for the establishment of three foreign-invested insurance companies. In addition, 128 foreign insurance companies had established 192 representative offices in the PRC as of December 31, 2003. Although these companies are expected to increase competition in the PRC insurance industry, we believe the increased competition will also help accelerate the development and expansion of the PRC insurance market.

Since July 2002, the CSRC has allowed the establishment of Sino-foreign joint venture securities companies, with a foreign equity ownership ceiling of 33%. Sino-foreign joint venture securities companies are permitted to underwrite share offerings in the PRC, to engage in customer and proprietary trading of PRC government and corporate bonds and to conduct trading of B shares and H Shares on behalf of customers. Applicable PRC regulations require that the CSRC approve the establishment as well as the commencement of operations of a Sino-foreign joint venture securities company. As of December 31, 2003, the CSRC had granted approval for the commencement of operations to three Sino-foreign joint venture securities companies. We expect the level of competition in the PRC securities market to increase as additional Sino-foreign joint venture companies receive CSRC approval for the commencement of operations.

Overseas Operations

Our overseas operations are principally focused on the Hong Kong insurance market, and we primarily compete with international insurance companies, some of which have greater financial, management and other resources than we do, and may have more extensive operating experience than us.

OVERSEAS INVESTORS

Each of the GS Investor and the MS Investor purchased a 5.56% equity stake in our Company pursuant to the subscription agreements entered into between each of the GS Investor and the MS Investor and our Company in 1994. As a result of our rights offering in January 1997, the equity interest held by each of the GS Investor and the MS Investor was increased to 7.63%, but was subsequently diluted to 6.86% following an investment by HSBC

Insurance in our Company in November 2002 as described below. In March 2003, the MS Investor transferred a 1% equity stake in our Company to Dai-Ichi Mutual Life Insurance Company after receiving the requisite approvals from the CIRC.

As a result of our reorganization in December 2002, the GS Investor and an affiliate of the MS Investor also own 0.001% and 0.09%, respectively, of the share capital of each of Ping An Life and Ping An Property & Casualty. See the section headed ''Our Reorganization''.

Pursuant to the respective subscription agreements entered into between us and the GS Investor and the MS Investor, subject to obtaining the relevant government approvals, it was agreed that we would endeavor to list our Shares by way of an initial public offering. We have also agreed that under appropriate circumstances, we would use our best endeavors to include the Shares owned by the GS Investor and the MS Investor in such offering so as to facilitate the transfer of these Shares to the public. Should an initial public offering fail to occur after five years from the date of purchase of our Shares by the GS Investor and the MS Investor, we would be obligated under these subscription agreements to use our best efforts to enable each of them to receive or realize promptly the value of their interests in respect of the Shares. In particular, we have obtained regulatory approvals from the CIRC and the CSRC for the Unlisted Foreign Shares owned by the GS Investor, the MS Investor, HSBC Insurance and Dai-Ichi Mutual Life Insurance Company to be converted into H Shares and an application has been made to the Listing Committee of the Hong Kong Stock Exchange for such H Shares to be listed on the Hong Kong Stock Exchange.

Pursuant to the relevant subscription agreements, if we issue or transfer interests in the equity of the Company, the GS Investor and the MS Investor shall have the right to participate in the relevant transactions under same terms and conditions so as to maintain their shareholding percentage in us, except that this will not apply:

- following an initial public offering and listing of our Shares on a major securities exchange pursuant to which at least 25% our outstanding Shares following such offering are sold to the public and listed;
- to an issuance or sale of our Shares pursuant to and for the purpose of converting any of our subsidiaries into a branch that, including all other prior such issuances, transfers or sales of Shares, does not exceed 10% of the aggregate number of our Shares outstanding at the closing of the relevant subscription agreement; or
- to an issuance or sale of our Shares or other transfers relating to our Shares which: (i) our Directors have determined by written resolution is in the best interest of our Company; (ii) will be made for a price not less than the greater of (a) the fair market value of our Shares at the relevant time, and (b) the price per Share paid by such investor(s) as adjusted by any stock split, distribution, dividend and other similar events declared or approved or made to our Shares after December 31, 1993; and (iii) together with all other prior such issuance, sale or other transfers, will not exceed the lower of (x) three times of the highest number of Shares currently or previously owned, directly or indirectly, by the GS Investor and the MS Investor, respectively and (y) 15% of our total number of Shares outstanding at the time of the proposed issuance.

Pursuant to the relevant subscription agreements, we have agreed that we shall not take any action so as to dilute the Shares held by the GS Investor and the MS Investor, respectively, to be less than 3.75% of our total issued Shares at the relevant time. Each of the GS Investor and the MS Investor has waived the right to maintain their respective shareholding percentage as well as the right to prevent their respective shareholding percentage from being diluted to be less than 3.75% of our total issued Shares, and such anti-dilution rights under the subscription agreements will lapse and cease to apply upon the Listing Date and thereafter notwithstanding that the subscription agreements will continue to be effective after the Listing Date. Each of the GS Investor and the MS Investor has waived, with effect from the Listing Date, rights which are conferred upon it as a shareholder of the Company pursuant to and arising out of the relevant subscription agreement which are not generally available to other shareholders of the Company after our H Shares are first listed.

The Unlisted Foreign Shares held by each of the GS Investor, the MS Investor, HSBC Insurance and Dai-Ichi Mutual Life Insurance Company will be converted into H Shares at the time the H Shares offered in the Global Offering are issued. Each of the GS Investor and the MS Investor has agreed that it will not sell its respective converted H Shares for one year following the Listing Date. Furthermore, each of HSBC Insurance and Dai-Ichi Mutual Life Insurance Company has agreed not to sell any of its respective converted H Shares for three years following the Listing Date.

In November 2002, HSBC Insurance subscribed for a 10% equity interest (as enlarged by the subscription), in the form of legal person shares, in our Company for US$600 million. Pursuant to the articles of association of our Company, HSBC Insurance has the right to nominate one Director to serve on our Board for every 5% equity interest it owns. We have adopted new Articles of Association on March 9, 2004, which will become effective on the Listing Date. For a summary of our Articles of Association, please see Appendix VII to this prospectus. In addition, pursuant to the technical assistance and services agreement between HSBC Insurance and the Company, one of the Directors nominated by HSBC Insurance has been serving on our audit committee.

Under the terms of the subscription agreement relating to HSBC Insurance's investment in our Company, if we issue any additional Shares, or we launch an initial public offering (including a sale of existing Shares in the initial public offering), during a three year period ending October 7, 2005 at a price per share that is below the price per share paid by HSBC Insurance for the 10% equity interest in our Company, we must make cash payments and/or bonus Shares to HSBC Insurance, the amount of which shall be calculated by reference to the difference between the price paid by HSBC Insurance under the subscription agreement and the price for the same number of new Shares under the new issue or initial public offering (the **"HSBC Price Adjustment Top-Up"**). Any cash payment received by HSBC Insurance pursuant to this agreement must be used to subscribe for additional Shares in the relevant new issue or initial public offering up to the then legally permissible investment limit, and HSBC Insurance may retain any excess cash payment.

Pursuant to a memorandum of understanding between us and HSBC Insurance, HSBC Insurance has the right (but not the obligation) to, among other things, cooperate with us on the establishment of strategic initiatives and alliances in financial services, including credit card and debit card business and real estate mortgage lending business as and when PRC laws and regulations permit. Such rights shall lapse on December 31, 2008, unless by December 31, 2006, foreign financial institutions have not been permitted under PRC laws and regulations to participate in the businesses as contemplated under the memorandum of understanding, in which case the termination date shall be extended to December 31, 2009.

Pursuant to a technical assistance and services agreement between us and HSBC Insurance, HSBC Insurance will provide us with advice and guidance in relation to international practices in several areas at such times and in such forms as shall be regarded as appropriate by HSBC Insurance, including:

- internal audit and compliance;
- agent monitoring and supervision in connection with the sale of insurance products and other financial services;
- bancassurance arrangements; and
- risk management, including underwriting and claims management and the establishment of a cost-effective and robust reinsurance program.

The term of the technical assistance and services agreement is for a period of 6 years (unless terminated in the event that HSBC Insurance's shareholding in the Company falls to 6% or less).

HSBC Insurance has waived, with effect from the Listing Date, the following rights which are rights conferred upon HSBC Insurance as a shareholder of the Company pursuant to and arising out of HSBC Insurance's subscription of shares in the Company in 2002 and which will not be made generally available to other H shares shareholders after our H Shares are first listed:

(1) the HSBC Price Adjustment Top-Up;

(2) the right to include at least one director nominated by HSBC Insurance to the Company's audit committee; and

(3) the right to have the quorum of the Company's audit committee to consist of at least one director nominated by HSBC Insurance.

The other rights of HSBC Insurance pursuant to its subscription in 2002, which we and HSBC Insurance have agreed are contractual rights as a strategic partner and not rights granted in its capacity as a shareholder of the Company, shall remain unchanged. For the avoidance of doubt, such waiver shall not cover the rights of HSBC Insurance exercisable on or as part of the listing of our H Shares including the exercise of the Over-allotment Option.

Pursuant to our existing articles of association (which will be replaced by our Articles of Association upon the listing of our H Shares on the Hong Kong Stock Exchange), if the Company should, among other things, issue new Shares, all shareholders of the Company shall, subject to all applicable laws and regulations, have the right to purchase or subscribe for such number of additional Shares to be issued by the Company so as to maintain their respective percentage of shareholding held immediately prior to such issuance of additional Shares. Each of the GS Investor, the MS Investor and the Dai-Ichi Mutual Life Insurance Company has waived such right.

Pursuant to such right under the Company's existing articles of association, HSBC Insurance has advised the Company of its interest to subscribe for additional number of H Shares to be issued by the Company under the International Offering but will maintain its shareholding interest in the Company at a level below 10% following completion of the Global Offering. Moreover, HSBC Insurance has agreed not to sell any H Shares subscribed by it pursuant to such right under the Company's existing articles of association for three years following the Listing Date. Assuming HSBC Insurance will subscribe for additional H Shares to maintain its shareholding interest in the Company at approximately 9.99%, upon completion of the Global Offering and the conversion of the Unlisted Foreign Shares into H Shares, it is expected that HSBC Insurance will own 618,886,334 H Shares, representing approximately 9.99% of the enlarged issued share capital of our Company (but not taking into account any additional Shares that may be issued under the Over-allotment Option or under the HSBC Price Adjustment Top-Up). If the Over-allotment Option is exercised, HSBC Insurance would have the right to subscribe for additional H Shares to be issued under the Over-allotment Option so as to maintain its shareholding interest at a level below 10%. Assuming HSBC Insurance will, in the event that the Over-allotment Option is exercised, subscribe for additional H Shares to maintain its shareholding interest in the Company at approximately 9.99%, it is expected that upon completion of the Global Offering and the conversion of the Unlisted Foreign Shares into H Shares, HSBC Insurance will own 637,793,334 H Shares, representing approximately 9.99% of the enlarged issued share capital of our Company (but not taking into account additional Shares that may be issued under the HSBC Price Adjustment Top-Up). Any H Shares so subscribed by HSBC Insurance will be subscribed under the same terms as those generally offered to other investors under the International Offering.

HSBC Insurance, the GS Investor and the MS Investor are respective affiliates of the Co-Sponsors and three of the Underwriters. See the section headed ''Underwriting — Hong Kong Underwriters' Interests in the Company'' for further information.

CONNECTED TRANSACTIONS

Upon the listing of the H Shares on the Hong Kong Stock Exchange and as a consequence of the reorganization set out in the section headed ''Our Reorganization'', a number of transactions which we have entered into will constitute connected transactions within the meaning of the Hong Kong Listing Rules. For the purpose of this section, the term ''connected person'' shall have the meaning as defined under Chapter 14A of the Hong Kong Listing Rules.

A. Exempt Continuing Connected Transactions

Details of the continuing connected transactions of the Group which are exempt from the reporting, announcement and independent shareholders' approval requirements prescribed under Chapter 14A of the Hong Kong Listing Rules are set forth below:

1. Intra-Group Transactions

(a) Intra-Group Tenancy Agreements and Provision of Property Management Services

The subsidiaries of the Company have entered into various tenancy agreements with Ping An Securities in respect of leased properties for use as business premises on normal commercial terms. These properties are located throughout the service regions of Ping An Securities. Certain subsidiaries of the Company have also provided property management services to Ping An Securities pursuant to the respective property management services agreements entered into between these subsidiaries and Ping An Securities on normal commercial terms. It is anticipated that Ping An Securities will continue to enter into these types of leases and receive this type of property management services from subsidiaries of the Company in the future. Sallmanns (Far East) Limited, an independent property valuer, has confirmed that the rental paid and payable by Ping An Securities were and are at market rates and fair and reasonable. Ping An Securities is a non wholly owned subsidiary of the Company. New Horse Development, a Promoter, is a substantial shareholder of Ping An Securities.

For the three years ended December 31, 2001, 2002 and 2003, the annual rental and management fee paid by Ping An Securities were approximately RMB8 million, RMB3 million and RMB2 million, respectively. The annual rental and management fee payable by Ping An Securities to the relevant subsidiaries of the Company under existing agreements is approximately RMB8 million in aggregate. The existing tenancy agreements and property management services agreements between Ping An Securities and the subsidiaries of the Company fall within the de minimus threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules.

(b) Licensing of Trademarks

Pursuant to a licensing agreement entered into between the Company and Ping An Securities in 2004, a non-exclusive license was granted by the Company to Ping An Securities for use of our trademarks in connection with its business operations on a royalty-free basis. The above non-exclusive license is for a term of 10 years subject to termination by mutual agreement or where the licencee ceases to do business, becomes insolvent or is dissolved.

The licensing agreement is on normal commercial terms as the relevant trademarks were originally registered in the name of Ping An Securities and later transferred to the Company. The licensing agreement falls within the de minimus threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules.

(c) Reinsurance Arrangement

Ping An Hong Kong has entered into certain facultative reinsurance agreements with Ping An Property & Casualty (or the Company before the establishment of Ping An Property & Casualty) on normal commercial terms. Pursuant to these agreements, one party agreed to act as reinsurer to the other party and accept certain risks in return for agreed premiums. Commission expenses are also paid by the party acting as reinsurer to the other party calculated at a fixed percentage of the gross written premiums received by the reinsurer. Ping An Hong Kong and Ping An Property & Casualty will continue to underwrite facultative reinsurance business for each other after the listing of our H Shares on normal commercial terms.

Ping An Hong Kong, of which ICBC (Asia) is a substantial shareholder, is a non wholly owned subsidiary of the Company. ICBC (Asia) is a non wholly owned subsidiary of ICBC, one of our Promoters.

The following table sets forth gross written premiums received by Ping An Hong Kong from Ping An Property & Casualty (or the Company before the establishment of Ping An Property & Casualty) and reinsurance commission paid by Ping An Hong Kong to Ping An Property & Casualty (or the Company before the establishment of Ping An Property & Casualty) for the periods indicated:

	For the year ended December 31,		
	2001	2002	2003
		(in HK$)	
Gross written premium received	46,106	—	—
Reinsurance commission paid	15,197	—	—

The following table sets forth gross written premiums ceded by Ping An Hong Kong to Ping An Property & Casualty (or the Company before the establishment of Ping An Property & Casualty) and reinsurance commission received by Ping An Hong Kong from Ping An Property & Casualty (or the Company before the establishment of Ping An Property & Casualty) for the periods indicated:

	For the year ended December 31,		
	2001	2002	2003
		(in HK$)	
Gross written premium ceded	807,080	—	598,158
Reinsurance commission received	208,909	—	149,254

The facultative reinsurance agreements between Ping An Property & Casualty (or the Company before the establishment of Ping An Property & Casualty) and Ping An Hong Kong fall within the de minimus threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules.

2. Life Insurance and Property and Casualty Insurance Products

The Group and certain connected persons of the Company have purchased life insurance products and property and casualty insurance products from Ping An Life, Ping An Property & Casualty and Ping An Hong Kong, respectively, as follows:

(a) Group Insurance

Ping An Life has sold group insurance products to certain of our connected persons on normal commercial terms in the ordinary course of business. These insurance products are available to independent third parties. Our connected persons do not receive any preferential treatment for purchasing these insurance products. The premiums paid by such connected persons are comparable to those paid by independent third parties for similar types of insurance products or to the prevailing market prices. The group insurance policies sold include term life insurance, health insurance and annuities.

The sale of group insurance products by Ping An Life to the connected persons fall within the de minimus threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules.

(b) Individual Life Insurance

Ping An Life has sold individual life insurance products to certain of our connected persons including certain directors, supervisors and chief executives of the Group and their respective associates on normal commercial terms in the ordinary course of business. These insurance products are available to independent third parties. Our connected persons purchase these insurance products for private use and do not receive any preferential treatment for purchasing these insurance products. The premiums paid by such connected persons are comparable to those paid by independent third parties for similar types of insurance products or to the prevailing market prices. The individual life insurance policies sold include life insurance, accident insurance and health insurance.

The sale of individual life insurance products by Ping An Life to the connected persons are acquisitions by the connected persons of consumer goods provided by it for their own private use on normal commercial terms in the ordinary course of business, and thus fall within the exemption as stipulated under Rule 14A.33(1) of the Hong Kong Listing Rules.

(c) Property and Casualty Insurance

Ping An Hong Kong has sold property and casualty insurance products to certain members of the Group on normal commercial terms in the ordinary course of business. In addition, Ping An Property & Casualty and Ping An Hong Kong have sold property and casualty insurance products to certain of our connected persons, including Ping An Securities, Ping An Hong Kong, certain directors, supervisors and substantial shareholders of the Group and their respective associates, on normal commercial terms in the ordinary course of business. These insurance products are available to independent third parties. Our connected persons purchase these insurance products for private use and do not receive any preferential treatment for purchasing these insurance products. The premiums paid by such connected persons are comparable to those paid by independent third parties for similar types of insurance products or to the prevailing market prices. The property and casualty insurance policies sold include automobile insurance, directors' and officers' liability insurance, bankers blanket bond and electronic & computer crime insurance and commercial property insurance.

The sale of property and casualty insurance products by us to our connected persons which are corporations fall within the de minimus threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules. The sale of property and casualty insurance products by us to our connected persons who are individuals are acquisitions by such connected persons of consumer goods provided by us for their own private use on normal commercial terms in the ordinary course of business, and thus fall within the exemption as stipulated under Rule 14A.33(1) of the Hong Kong Listing Rules.

3. Trust Services Provided by Ping An Trust to our Connected Persons

Two trust deeds in respect of collective funds for automobile loans dated December 30, 2002 and October 23, 2002 were respectively entered into between Ping An Trust as trustee and a former director of our subsidiary and an associate of a director of our subsidiary as settlors who are also the beneficiaries under the trust deeds on normal commercial terms. Pursuant to the two trust deeds, that former director agreed to contribute a sum of RMB200,000 to a trust and the associate agreed to contribute RMB100,000 to another trust (collectively, the **"Trusts"**), which are valid for a term of 36 months commencing from January

2003 and November 2002, respectively. Ping An Trust as the trustee has also entered into other similar trust deeds with other independent third parties as settlors, pursuant to which each of the settlors agreed to contribute respective sums to the Trusts. Ping An Trust as the trustee shall primarily use the collective trust funds to advance loans to individuals for automobile purchase. Under the trust deeds, Ping An Trust will receive an annual trust administrative fee deducted from the trust income arising from the management of the funds of the trusts, and the beneficiaries of the Trusts will receive annual trust interests.

The two trust deeds between Ping An Trust and the two connected persons of the Company fall within the de minimus threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules.

4. Securities Brokerage Services

Ping An Securities provides brokerage services to us and certain of our connected persons on normal commercial terms in the ordinary course of business. In addition, Ping An Securities accepts cash deposits in the securities trading accounts opened by us and our connected persons and makes interest payments on such deposits at the interest rate quoted by the PBOC or at inter-bank deposit rate. Ping An Securities also receives brokerage commissions determined at prevailing market rate from us and such connected persons with respect to the securities brokerage services provided.

The transactions between Ping An Securities and us or our connected persons which are corporations in relation to the securities brokerage services fall within the de minimus threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules. The transactions between Ping An Securities and our connected persons who are individuals in relation to the securities brokerage services are acquisitions by such connected persons of consumer services provided by Ping An Securities for their own private use on normal commercial terms in the ordinary course of business, and thus fall within the exemption as stipulated under Rule 14A.33(1) of the Hong Kong Listing Rules.

5. Purchase of Products from Connected Person

Since 2001, the Group has been purchasing promotional items and souvenirs from New Horse Development. There is no long term supply contract between any member of the Group and New Horse Development and purchase orders are placed with New Horse Development from time to time. The prices and terms upon which the promotional items and souvenirs are purchased by the Group from New Horse Development are determined on normal commercial terms which are no less favorable to the Group compared to the terms available to independent third parties. The Group will continue to purchase promotional items and souvenirs from New Horse Development in the future on normal commercial terms in the ordinary course of business.

For the three years ended December 31, 2001, 2002 and 2003, the total amount paid by the Group to New Horse Development for the purchase of promotional items and souvenirs was approximately RMB1 million, RMB3 million and RMB3 million, respectively. The sale of promotional items and souvenirs by New Horse Development falls within the de minimus threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules.

6. Transactions with HSBC and its Associates

(a) Memorandum of Understanding

On November 25, 2002, we entered into a memorandum of understanding with HSBC Insurance, an associate of HSBC on normal commercial terms. Pursuant to the memorandum of understanding, HSBC Insurance has the right (but not the obligation) to, among other things, cooperate with us on the establishment of strategic initiatives and alliances in financial services as and when PRC regulations permit.

The memorandum of understanding does not contain any specific terms on the capital, term or management with respect to the establishment of strategic initiatives and alliances in financial services. As it merely provides a framework for further co-operations between the parties and as a result, no consideration has been passed from one party to the other pursuant to it. The memorandum of understanding thus falls within the de minimus threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules.

(b) HSBC China Hospital Guarantee Card

Ping An Property & Casualty entered into a service agreement with respect of HSBC China Hospital Guarantee Card with the associates of HSBC Insurance (the **''HSBC Guarantee Card Agreement''**) on January 12, 2004 on normal commercial terms in the ordinary course of business of Ping An Property & Casualty for a continuous term until terminated by either party at any time by giving 180 days prior written notice to other party. Pursuant to the HSBC Guarantee Card Agreement, Ping An Property & Casualty will provide China hospital deposit guarantee service to individuals who have purchased certain insurance policies from the associates of HSBC Insurance when they have to be hospitalized as a result of an accident in the PRC. Ping An Property & Casualty will help those individuals to go to its co-operating hospitals and, after obtaining the confirmation of the relevant associate of HSBC Insurance, guarantee the payment of their medical cost for the first three days.

The transactions under the HSBC Guarantee Card Agreement are expected to fall within the de minimus threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules.

(c) Technical Assistance and Services Agreements

We entered into a technical assistance and services agreement with HSBC Insurance on November 25, 2002, and a supplemental agreement on January 1, 2003 (together the **''TAS Agreements''**) for a period of six years on normal commercial terms in the ordinary course of business. Pursuant to the TAS Agreements, HSBC Insurance will, among other things, provide us with technical assistance and services in various aspects of our insurance business in the PRC at such times and in such forms as shall be regarded by HSBC Insurance as appropriate. Please refer to page 149 of this prospectus for further details of the technical assistance and services agreement. Ping An Bank Limited entered into a technical assistance agreement with HSBC on March 17, 2004 for a period of 30 months on normal commercial terms in the ordinary course of business, pursuant to which HSBC will, among other things, provide Ping An Bank Limited with technical assistance in various aspects of its banking business at such times and in such forms as shall be reasonably regarded as necessary and appropriate by HSBC.

For the two years ended December 31, 2002 and 2003, the aggregate amount paid by the Group to HSBC Insurance pursuant to the TAS Agreements was approximately nil and RMB3 million, respectively. The transactions under the TAS Agreements and the technical assistance agreement with HSBC are expected to fall within the de minimus threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules.

(d) Cooperation in Insurance and Reinsurance Businesses

Ping An Hong Kong cooperates with an associate of HSBC Insurance in the insurance and reinsurance businesses on normal commercial terms. Through the introduction of HSBC Insurance's associate, Ping An Hong Kong provides insurance coverage to the clients of such associate and pays to such associate introduction fees and commissions. Moreover, reinsurance is ceded to such associate by Ping An Hong Kong, which in turn receives commissions.

For the three years ended December 31, 2001, 2002 and 2003, the aggregate amount paid by the Group to HSBC Insurance's associate in respect of their co-operation in insurance and reinsurance businesses was approximately nil, nil and HK$1 million, respectively. The transactions under the co-operation between Ping An Hong Kong and HSBC Insurance's associate are expected to fall within the de minimus threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules.

7. Transactions with ICBC and its Associate

Our Company and certain members of our Group conduct transactions with ICBC and one of its associates. ICBC was a Promoter at the time when we were established. None of ICBC and its subsidiaries currently owns any Shares in our Company. However, due to its status as a Promoter, all transactions we conduct with ICBC and its associates constitute ''connected transactions'' under the Hong Kong Listing Rules.

(a) Comprehensive Cooperation Agreement

The Company and ICBC entered into a comprehensive cooperation agreement (the **''Cooperation Agreement''**) on June 29, 2000 for a term of five years commencing from June 29, 2000, which may be terminated by both parties reaching agreement in writing. The terms of the Cooperation Agreement were negotiated on an arm's length basis. Pursuant to the Cooperation Agreement, among other things:

- both parties would provide resources and services for the business development of the other party;
- ICBC agreed to be our insurance agent and provide services of selling our insurance products and collecting insurance premiums;
- ICBC agreed to provide mortgage loans and other financing services to us;
- the Company agreed to appoint ICBC as one of its primary settlement banks;
- both parties agreed to cooperate in the businesses of securities and credit card services and the development of e-commerce;
- the Company agreed to sell (1) our property and casualty insurance and life insurance products to ICBC and its employees and (2) mortgaged property

insurance to the customers of ICBC on favorable terms, and ICBC agreed to provide business loans and mortgage loans to us and our employees on favorable terms;

- ICBC agreed to provide insurance policies mortgage loans to the customers of the Company subject to the applicable laws and regulations; and
- specific agreements would be entered into between the respective branches of the Company and ICBC in respect of the cooperative businesses set out in the Cooperation Agreement.

The Cooperation Agreement primarily provides a framework for further cooperation between ICBC and us, and does not contain any specific pricing terms. As a result, no consideration has been passed from one party to the other pursuant to the Cooperation Agreement and it thus falls within the de minimus threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules.

(b) Peony Ping An Card

The Company and ICBC entered into a cooperation agreement in respect of the issue of Peony Ping An Card (the "**Card Agreement**") on November 7, 2000. The terms of the Card Agreement were negotiated on an arm's length basis. Pursuant to the Card Agreement, both parties agreed to cooperate in the issue of Peony Ping An Card comprising Peony Ping An Credit Card and Peony Ping An Ordinary Card, which would provide services to the cardholders including deposit, withdrawal, transfer, credit purchase, telephone banking, emergency assistance and various insurance coverages. ICBC agreed to be responsible for the costs of the manufacture of the Peony Ping An Card and both parties agreed to be responsible jointly for the promotional expenses and severally for the training expenses of their own personnel.

As neither the Company nor ICBC has proceeded under the Card Agreement, the Company has not paid to or received from ICBC any consideration pursuant to the Card Agreement for the three years ended December 31, 2001, 2002 and 2003. The Card Agreement is expected to fall within the de minimus threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules.

(c) E-Commerce

The Company and ICBC entered into a cooperation agreement with respect to e-commerce (the "**E-Commerce Agreement**") on November 7, 2000 for a term of five years. The terms of the E-Commerce Agreement were negotiated on an arm's length basis. Pursuant to the E-Commerce Agreement, both parties agreed to cooperate in developing on-line securities trading, selling insurance policies, on-line funds transfer, exploring new e-commerce businesses, and the promotion of the e-commerce businesses, and the Company agreed to give ICBC 50% of the agency fee received for each on-line sale of insurance policies in consideration for ICBC acting as agent of the Company.

As neither the Company nor ICBC has proceeded under the E-Commerce Agreement, the Company has not paid to or received from ICBC any consideration pursuant to the E-Commerce Agreement for the three years ended December 31, 2001, 2002 and 2003. The E-Commerce Agreement is expected to fall within the de minimus threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules.

(d) Property Leasing Arrangements

Ping An Trust as landlord has entered into a rental agreement with ICBC as tenant on normal commercial terms. In addition, we as tenant have entered into 51 rental agreements with ICBC as landlord in respect of leasing from ICBC for use as business premises, and/or offices. These properties are located throughout our service regions. Sallmanns (Far East) Limited, an independent property valuer, has confirmed that the rental paid and payable by us or ICBC were and are at market rates and fair and reasonable to the Group.

For each of the three years ended December 31, 2001, 2002 and 2003, the aggregate rental paid per annum by ICBC to the Group under the rental agreements was approximately RMB2 million. For each of the three years ended December 31, 2001, 2002 and 2003, the aggregate rental paid by the Group to ICBC under the rental agreements was approximately RMB1 million, RMB2 million and RMB3 million. The rental agreements fall within the de minimus threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules.

(e) Commission Arrangements

Pursuant to an agreement dated February 7, 2002 entered into between ICBC (Asia) and Ping An Hong Kong on normal commercial terms (the "**Agency Agreement**"), among other things, ICBC (Asia) was appointed to act as an agent of Ping An Hong Kong for the purpose of introducing property and casualty insurance business to Ping An Hong Kong. In consideration, Ping An Hong Kong agreed to pay ICBC (Asia) commissions in respect of policies issued and renewed through the agency of ICBC (Asia). The commissions are calculated at different fixed rates as set out in the Agency Agreement for different polices or decided upon by Ping An Hong Kong from time to time and notified to ICBC (Asia), or as may otherwise be specifically agreed between the parties prior to the issue of a policy. Either party may terminate the Agency Agreement at any time by giving a 30 days' prior written notice. The terms of the Agency Agreement were negotiated on an arm's length basis.

For each of the three years ended December 31, 2001, 2002 and 2003, the aggregate commissions paid by Ping An Hong Kong to ICBC (Asia) under the Agency Agreement were approximately HK$3 million, HK$3 million and HK$2 million, respectively. The transactions under the Agency Agreement fall within the de minimus threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules.

8. Renovation Services

Since 1995, Anxing Renovation Company Limited ("**Anxing Renovation**"), an associate of Shenzhen Jiangnan Industrial Development Co., Ltd. ("**Jiangnan Industrial**"), which is one of the promoters of Ping An Life and Ping An Property & Casualty, has been providing building and renovation services to the Group for various construction projects on normal commercial terms negotiated on an arm's length basis.

There is no long-term building and renovation services contract between the Group and Anxing Renovation. After the listing of our H Shares on the Hong Kong Stock Exchange, we will enter into building and renovation services contracts with contractors by way of public bidding. The prices and terms upon which the building and renovation services will be rendered by such contractors to us will be carried out on normal commercial terms. Anxing

Renovation may bid for these services and, if successful, will become a contractor providing building and renovation services to us.

For each of the three years ended December 31, 2001, 2002 and 2003, the aggregate amount paid by the Group to Anxing Renovation for the building and decoration services in various projects was approximately RMB44 million, RMB46 million and RMB20 million, respectively. Any provision of building and renovation services by Anxing Renovation to the Group is expected to fall within the de minimus threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules.

9. Securities Trading Accounts with a Connected Person

Ping An Hong Kong also maintains securities trading accounts with Morgan Stanley and one of its associates for the purpose of securities trading on normal commercial terms. Interest is accrued on such deposits in the securities trading accounts based on the prevailing savings rate in Hong Kong, and commissions calculated at a prevailing market rate of 0.25% are paid by Ping An Hong Kong for the securities trading service provided by Morgan Stanley and its associate. Morgan Stanley is an associate of the MS Investor, a promoter of Ping An Life and Ping An Property & Casualty.

As of December 31, 2001, 2002 and 2003, the aggregate amount maintained by Ping An Hong Kong in the securities trading accounts with Morgan Stanley and its associate was approximately HK$125 million, HK$59 million and HK$20 million, respectively. For the three years ended December 31, 2001, 2002 and 2003, the commission paid to Morgan Stanley and its associate were approximately HK$10,000, HK$59,000 and HK$390,000, respectively. The cash balances maintained by Ping An Hong Kong in the securities trading accounts with Morgan Stanley and its associate and the commission paid by Ping An Hong Kong to Morgan Stanley and its associate are expected to fall within the de minimus threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules.

B. Non-exempt Continuing Connected Transactions

Details of the continuing connected transactions of the Group which are subject to the reporting, announcement and independent shareholders' approval requirements prescribed under Chapter 14A of the Hong Kong Listing Rules are set out below:

1. Bank Deposits Arrangements with HSBC

We maintain bank balances with HSBC on normal commercial terms in the ordinary course of our business (**"Bank Deposits with HSBC"**). The relevant banking documents executed by us with HSBC do not provide for our bank accounts with HSBC to be maintained for any fixed period of time. The Sponsor and the Co-Sponsors are of the view that it is normal business practice that this type of bank accounts can be maintained for a period longer than three years. Interests are accrued on such bank balances at prevailing market rates. As of December 31, 2001, 2002 and 2003, the aggregate bank balances maintained by us with HSBC were approximately nil, nil and US$1 million, respectively.

Cap

As one of the requirements for these transactions to be exempted from the reporting, announcement and independent shareholders' approval requirements under Rules 14A.35(2) and 14A.36(1) of the Hong Kong Listing Rules, the aggregate annual value of the above continuing connected transaction shall not exceed the annual cap set forth below:

Transaction	Proposed annual limit
Bank Deposits with HSBC	2004-2006: maximum balance of US$2,336 million on any given day

The Company has set counterparty limits for banks with which the Group places deposits, calculated by multiplying a bank's counterparty base (which is determined by its net asset value) and a counterparty ratio (which is determined by its credit standard set by the Company).

For HSBC, its net asset value as disclosed in its annual report for the fiscal year ended December 31, 2002 was HK$91,134 million, multiplying its counterparty ratio of 0.2 gives the counterparty limit of HK$18,227 million, which was approximately US$2,336 million.

In arriving at the cap for bank deposits with HSBC, the Company has used the counterparty limit set by it for HSBC after having taken into account (i) the estimated net proceeds of the Global Offering which or a substantial part of which may be placed with HSBC and (ii) any possible increase in the cash inflows of the Group.

2. Bancassurance

The Company and ICBC entered into a cooperation agreement in respect of insurance agency services (the **"ICBC Bancassurance Agreement"**) on August 6, 2001 on normal commercial terms in the ordinary course of business. The ICBC Bancassurance Agreement expired in June 2003 and was renewed for two years automatically upon its expiry pursuant to its terms as the parties had no objection to the renewal. Pursuant to the ICBC Bancassurance Agreement:

- ICBC agreed to provide insurance agency services to us through its branches and other channels for our insurance products, which include marketing insurance products and collecting premiums for us (the **"Services"**);
- both parties agreed to cooperate in developing new insurance products for the Services which are complementary to the services and products of ICBC and suitable to ICBC's customers;
- the Company agreed to pay agency fees to ICBC for the Services on terms not less favorable than those agreed with other banks providing insurance agency services to us;
- the Company agreed to provide training to the staff of ICBC for promoting the Services; and
- specific agreements have been and may continue to be entered into between the respective branches of the Company and ICBC in respect of the particular terms of the bancassurance products, the implementation of the services and the determination and payment of the agency fees.

The terms of the Bancassurance Agreement and the relevant specific agreements between the respective branches of the Group and ICBC were and will continue to be negotiated on an arm's length basis. The rates of the agency fees charged by ICBC under the Services vary depending on the types of bancassurance products and are determined after arm's length negotiations. The rates of the agency fees charged by ICBC to us for the Services are comparable to those rates charged by other banks to us for bancassurance arrangements.

For the three years ended December 31, 2001, 2002 and 2003, the aggregate agency fees, which were determined at a fixed percentage of the net premiums, paid by the Group to ICBC in respect of the Services pursuant to the specific agreements entered into between the respective branches of the Group and ICBC were approximately RMB13 million, RMB79 million and RMB96 million, respectively.

Cap

As one of the requirements for these transactions to be exempted from the reporting, announcement and independent shareholders' approval requirements under Rules 14A.35(2) and 14A.36(1) of the Hong Kong Listing Rules, the aggregate annual value of the above continuing connected transaction shall not exceed the annual cap set forth below:

Transaction	Proposed annual limit
Bancassurance	2004 – 2006 agency fee: RMB150 million

For the two years ended December 31, 2002 and 2003, the premiums generated by bancassurance arrangement with ICBC were approximately RMB5,480 million and RMB4,390 million, respectively.

The Company arrived at the cap for bancassurance on the basis of the estimated premiums generated by its bancassurance arrangement with ICBC which is RMB5,000 million in each of the three years ending December 31, 2004, 2005 and 2006, which we believe will provide the Company with sufficient flexibility for its future bancassurance arrangement with ICBC.

3. Bank Deposits with ICBC and its Associate

In our ordinary course of business, we place deposits with various commercial banks, including ICBC, in order to generate interest returns. A more detailed description of the investment portfolio of the Group is set out in the section headed "— Investment Portfolio".

Pursuant to an agreement and a supplemental agreement entered into on October 26, 2000 between the Company and ICBC on normal commercial terms in the ordinary course of business (the **"Deposit Agreement"**), the Company agreed to maintain a bank deposit amounting to RMB5,000 million with ICBC for a period of seventy one months.

In addition to the above bank deposits placed by us with ICBC in Renminbi, we maintain other term deposits and bank balances in Renminbi, Hong Kong dollars and US dollars with ICBC or ICBC (Asia) on normal commercial terms in the ordinary course of our business. The relevant banking documents executed by us with ICBC and ICBC (Asia) do not provide for our bank accounts with ICBC and ICBC (Asia) to be maintained for any fixed period of time. The Sponsor and the Co-Sponsors are of the view that it is normal business practice that this type of bank accounts can be maintained for a period longer than three years. As of December 31, 2001, 2002 and 2003, the aggregate deposits (including the bank deposit amounting to RMB5,000 million pursuant to the Deposit Agreement) maintained by us with ICBC in Renminbi were approximately RMB8,742 million, RMB6,670 million and RMB6,507 million, respectively.

As of December 31, 2001, 2002 and 2003, the aggregate deposits maintained by us with ICBC in Hong Kong dollars and US dollars were approximately HK$43 million, HK$20 million and HK$16 million, respectively and US$14 million, US$2 million and US$1 million, respectively. As of December 31, 2001, 2002 and 2003 the aggregate deposits maintained by us with ICBC (Asia) were approximately HK$47 million, HK$19 million and HK$32 million, respectively. As of December 31, 2001, 2002 and 2003 the aggregate deposits (including the bank deposit amounting to RMB5,000 million pursuant to the Deposit Agreement) maintained by us with ICBC and ICBC (Asia) in Renminbi, Hong Kong dollars and US dollars amounted to approximately RMB8,953 million, RMB6,728 million and RMB6,568 million, respectively.

Cap

As one of the requirements for these transactions to be exempted from the reporting, announcement and independent shareholders' approval requirements under Rules 14A.35(2) and 14A.36(1) of the Hong Kong Listing Rules, the aggregate annual value of the above continuing connected transaction shall not exceed the annual cap set forth below:

Transaction	Proposed annual limit
Bank Deposits with ICBC and its Associate	2004-2006: maximum balance of RMB24,900 million on any given day

For ICBC, its net asset value as disclosed in its annual report for the fiscal year ended December 31, 2002 was approximately RMB177,855 million. Due to the size of the amount, the Company has chosen to discount it by 30%, and hence the counterparty base for ICBC is RMB124,499 million. As the counterparty ratio for ICBC is 0.2, the counterparty limit is RMB24,900 million.

In arriving at the cap for bank deposits with ICBC and its associate, the Company has used the counterparty limit set by it for ICBC after having taken into account (i) the aggregate deposits maintained by the Group with ICBC and ICBC (Asia) in all currencies during the three years ended December 31, 2003, (ii) the estimated net proceeds of the Global Offering which or a substantial part of which may be placed with ICBC or its associate, and (iii) any possible increase in the cash inflows of the Group.

Waivers from the Stock Exchange

The non-exempt continuing connected transactions, described in the sections headed "— Bank Deposits Arrangements with HSBC", "— Bancassurance" and "— Bank Deposits with ICBC and its Associate", will constitute continuing connected transactions (the "**Continuing Connected Transactions**") for us under the Hong Kong Listing Rules once the H Shares are listed on the Stock Exchange. In the opinion of the Directors, including our independent non-executive Directors, the Continuing Connected Transactions are entered into in our ordinary and usual course of business and on normal commercial terms or on terms that are fair and reasonable so far as our independent shareholders are concerned. As we believe full disclosure and/or, where required under the Hong Kong Listing Rules, prior approval from independent shareholders of the Continuing Connected Transactions in full compliance with the Hong Kong Listing Rules would be unduly burdensome, impracticable and add additional administrative costs to us, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has indicated that it will grant, a waiver under Rule 14A.42(3) of the Hong Kong Listing Rules from strict compliance with the announcement and independent shareholders' approval requirements of the Hong Kong Listing Rules in respect of the Continuing Connected Transactions for a period of three years ending December 31, 2006. In addition, we will comply with the applicable provisions under Rules 14A.35(1), 14A.35(2), 14A.36, 14A.37, 14A.38, 14A.39 and 14A.40 of the Hong Kong Listing Rules.

Sponsor's and Co-Sponsors' Opinion

The Sponsor and the Co-Sponsors have reviewed all documentation, information and historical figures provided by the Company in relation to the Continuing Connected Transactions (including the report of Sallmanns (Far East) Limited), and have also conducted additional due diligence by interviewing and discussing with the Company and its advisers, including its legal advisers, auditors and the property valuer, and have obtained the necessary representations and confirmations from the Company to satisfy themselves of the accuracy and completeness of the information provided. Based on their due diligence, the Sponsor and the Co-Sponsors are of the view that the Continuing Connected Transactions have been entered into in the ordinary and usual course of our business, on normal commercial terms and on terms that are fair and reasonable as far as the shareholders of the Company are concerned.

However, it should be noted that (i) the Sponsor and the Co-Sponsors have, in reaching their above opinion and their opinions in the sections headed ''— Connected Transactions — B. Non-exempt Continuing Connected Transactions — 1. Bank Deposits Arrangements with HSBC'' and ''— Connected Transactions — B. Non-exempt Continuing Connected Transactions — 3. Bank Deposits with ICBC and its Associate'', assumed and relied, without conducting any independent verification, confirmation, evaluation, appraisal or investigation, upon the accuracy and completeness of the documentation, information, historical figures, representations and confirmations at the time they were supplied and that they will continue to be accurate and complete at the time of this prospectus; (ii) no independent valuation or appraisals of the assets and liabilities of the Company have been performed by the Sponsor and the Co-Sponsors nor have they been furnished with any such appraisals, other than the real property valuation prepared by the independent property valuer; and (iii) the view of the Sponsor and the Co-Sponsors referred to above represents their view as at the date of this prospectus and such view is necessarily based on, and assumes no change in, the economic, market and other conditions in effect on, and the information made available to them for the purposes hereof, and as at the date of this prospectus.

LEGAL AND REGULATORY PROCEEDINGS

We are involved in legal and regulatory proceedings in the ordinary course of our business. As of the date of this prospectus, we are not involved in any litigation, arbitration or administrative proceedings that would, individually or in the aggregate, have a material adverse effect on our financial condition and results of operations.

Policyholders Lawsuits

In 2003, 33 cases were brought against us by policyholders alleging that certain of our sales agents misled them in connection with their purchase of investment-linked life insurance products. We have settled 21 of these cases, obtained verdicts in our favor in the other seven cases and have five cases pending trial.

Administrative Proceedings

From time to time, the Group is subject to periodic examinations by PRC regulatory authorities. In the past, the Group has from time to time been found to have violated certain laws and regulations in connection with our normal business operations. As a result, the Group has been subject to penalties, including, among others, fines. During the three years ended December 31, 2003, the Group was fined approximately 740 times totaling approximately RMB32 million by PRC regulatory authorities, including, but not limited to, the local bureaus of the CIRC, the local bureaus of the SAIC, the finance bureau, the tax bureau, the auditing bureau, the statistics bureau, the labor bureau and the price bureau. These fines covered violations relating to, among other things, improper payments in connection with sales of insurance products, accounting irregularities (including improper booking of accounting entries at our branch and sub-branch offices), misrepresentation by sales agents when marketing insurance products and late payment of income taxes. Sixty-eight fines each involved amounts of RMB100,000 or more, and the largest fine totaled approximately RMB2.5 million and was levied by the Guangzhou branch of the State Taxation Bureau in May 2002 against Ping An Property & Casualty for unpaid enterprise taxes and related late payment fees. These penalties have not had a material adverse effect on our business, financial condition and results of operations. See the section headed ''Risk Factors — Risks Relating to Our Overall Business — Future periodic examinations by PRC regulatory authorities may result in fines, other penalties or actions that could materially and adversely affect our business, financial condition and results of operations as well as our reputation''.

These fines were primarily due to misinterpretation of the relevant laws and regulations as well as less than satisfactory internal supervision. In addition, the legal and regulatory framework governing the operations of PRC insurance companies is still evolving and undergoing significant change. We may require a significant period of time before we are able to achieve full compliance with certain new laws and regulations. Furthermore, our growth and expansion has strained our management and other resources and has from time to time affected our ability to maintain stringent internal controls at all times. We have taken a number of measures to prevent future breaches of laws and regulations. In particular, we restructured our internal audit department in 2003 to set up three regional internal audit operations in each of Beijing, Shanghai and Shenzhen in 2003. Our internal audit personnel conduct annually regular audits on our life insurance and property and casualty insurance operations throughout all of our branch offices in the PRC. In addition, our internal audit personnel work closely with external independent professionals on areas where specialized skills are required, such as information technology audit. Furthermore, we have adopted a set of internal procedures that would impose sanctions, fines and other penalties on the employees and sales agents for irregular conduct in the course of their employment that is not in compliance with any applicable laws and regulations. Moreover, our training and development department has introduced courses and seminars, which are given on a regular basis, to keep our employees and sales agents up to date on the evolving legal and regulatory framework of the PRC insurance industry.

PROPERTIES

Executive Office

Our head office building is located in Shenzhen, PRC. Pursuant to the Building Ownership Certificate Shen Fang Zi Di No. 3000172401, we have the legal title and right to occupy, mortgage, sub-let and dispose of the building and related property without payment of any premium or transfer fees.

Owned Properties

We currently own and occupy approximately 267,533 sq.m. of land and 612 buildings and structures with an aggregate gross floor area of approximately 682,565 sq.m. throughout our service regions in the PRC and Hong Kong for offices, retail outlets and staff quarters purposes. The ownership of most of the land and buildings is currently registered under our former name "Ping An Insurance Company of China, Ltd.". Commerce & Finance Law Offices, our PRC legal counsel, has advised us that the registration of our former name with respect to the ownership of these lands and buildings does not affect the validity of our ownership. We have taken steps to effect the name change registration with the relevant authorities with respect to the ownership of these lands and buildings and expect such name change registration to be completed within one year after the Global Offering.

Sallmanns (Far East) Limited, an independent valuer appointed by the Company for the purpose of the listing, has valued the owned property interests as at March 31, 2004 at approximately RMB3,569 million, including those properties for which we have not yet obtained the formal title certificates. The text of the letter and the valuation certificates issued by Sallmanns (Far East) Limited are set out in the Property Valuation Report set forth in Appendix III to this prospectus.

Leased Properties

We have leased approximately 2,920 properties with an aggregate gross floor area of approximately 1,766,802 sq.m. from independent third parties and connected parties throughout our service regions in the PRC and Hong Kong.

The Company has not obtained a valuation of those leased properties for which no formal lease agreements have been entered into (with an aggregate gross floor area of approximately 51,336 sq.m.). We have leased properties for which the lessors have not obtained the requisite title certificates (with an aggregate gross floor area of approximately 519,000 sq.m.). Sallmanns (Far East) Limited is of the view that these properties have no commercial value. We are of the view that such leased properties, with an aggregate gross floor area of approximately 570,336 sq.m., occupied by us can, if necessary, be replaced by other comparable alternative premises for the relevant use without any material adverse effect to our operations.

Property Titles

As of the date of the valuation report set forth in Appendix III to this prospectus, we owned approximately 605 buildings with an aggregate gross floor area of approximately 682,565 sq.m. (including our head office building located in Shenzhen, PRC with an aggregate gross floor area of approximately 37,587 sq.m.), out of which 599 buildings with an aggregate gross floor area of approximately 682,220 sq.m. were located in the PRC and 6 buildings, with an aggregate gross floor area of approximately 345 sq.m. were located in Hong Kong. We hold the relevant title deeds for 456 buildings with an aggregate gross floor area of approximately 404,570 sq.m., representing a fair/open market value of approximately RMB3,569 million as of March 31, 2004. We do not have the relevant title deeds for 149 buildings with an aggregate gross floor area of approximately 277,995 sq.m., representing no commercial value as of March 31, 2004, situated in the PRC. We are in the process of applying for the relevant title deeds that we do not yet hold. We have building ownership certificates for 34 defective properties with an aggregate gross floor area of approximately 86,515 sq.m. We can occupy and use these properties. However, we do not have the right to transfer or mortgage such properties. With respect to the remaining 115 defective properties with an aggregate gross floor area of approximately 191,480 sq.m., for which we have neither building ownership certificates nor long-term granted land use right certificates, we may lose the right of occupation or usage of these properties. For the 149 defective properties, 47 commercial premises are currently occupied by us for our business operations, which can be, if necessary, replaced by other comparable alternative premises for the relevant uses without any material adverse effect to our business operations and 77 residential premises are currently occupied by our employees as staff quarters, which are of no significance to our business operations. In addition, the Group has leased 25 defective properties to various tenants and collected RMB25 million in rents (including prepaid rents) in 2003, representing 0.0375% of our total revenue in 2003, which was insignificant. In the event the relevant tenancy agreements are terminated due to our lack of the relevant title deeds, we may be required to repay part of the prepaid rents back to the tenants. We are of the view that the above 149 defective properties are not crucial to our business operations. Upon obtaining the title deeds for a defective property, we will have the lawful rights to occupy, let, transfer and mortgage such property. We are of the view that we may be able to obtain the relevant title deeds for 85 defective properties with an aggregate gross floor area of approximately 158,591 sq.m. within one year after the Global Offering for an estimated consideration and/or expenses in the amount of approximately RMB36 million. We may have great difficulties in obtaining the relevant title deeds for the remaining 64 defective properties with an aggregate gross floor area of approximately 119,404 sq.m. For these 64 defective properties, it is either not commercially justifiable to obtain the relevant title deeds or it is out of our reasonable ability to do so. We believe the lack of such title deeds will not have a material adverse effect on our business, financial condition and results of operations as the relevant properties represent a de minimus portion of the total value of our properties. See the section headed "Risk Factors — Risks Relating to Our Overall Business — We do not possess the title deeds in respect of some of the properties owned by us."

INTELLECTUAL PROPERTY

The Group conducts business under the "Ping An of China" and "中国平安" brand names and logos. The Group has registered, or is in the process of applying for registration, these brand names and logos and the other related logos in the PRC and Hong Kong. The Group is also the registered owner of two domain names namely ''www.pa18.com'' and ''www.pa18.com.cn''. Details of the intellectual property rights of the Group are set out in the paragraph headed ''Our Intellectual Property Rights'' under the section headed ''Further information about our business'' in Appendix VIII to this prospectus.