INSURANCE BUSINESS

Overview

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

Initial Development of Regulatory Framework

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

- *Licensing of insurance companies and insurance intermediaries.* The PRC Insurance Law, among other things, establishes requirements for minimum registered capital levels, form of organization, qualification of senior management and the adequacy of the information systems for insurance companies, insurance agencies and brokers.

- *Separation of life insurance and property and casualty insurance.* The PRC Insurance Law classified insurance between life, accident and health insurance businesses, on the one hand, and property, casualty, liability and credit insurance businesses on the other hand.

- *Regulation of market conduct.* The PRC Insurance Law prohibited fraudulent and other unlawful conduct by market participants.

- *Regulation of insurance products.* The PRC Insurance Law gave insurance regulatory authority the power to approve the policy terms and premium rates for certain insurance products.

- *Financial condition and performance of insurance companies.* The PRC Insurance Law established reserve and solvency standards for insurance companies, imposed restrictions on investment powers and established compulsory reinsurance requirements, and put in place a reporting system to facilitate monitoring by insurance regulatory authority.

- *Supervisory and enforcement powers of the regulatory authority.* PBOC, the then regulatory authority, was given broad powers under the PRC Insurance Law to regulate the insurance industry.

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

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

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

- the increase in the level of disclosures required to be made to the CIRC by insurance companies;
- more stringent reserve and solvency requirements;
- greater freedom for insurance companies to develop insurance products;
- broader investment channels for insurance companies, including allowing insurers to make equity investments in insurance-related enterprises, such as asset management companies;
- increased penalties for insurance market misconduct;
- gradual phasing out of compulsory reinsurance as a result of the PRC's accession into WTO; and
- reduction of barriers to entry into the PRC insurance industry, including allowing property and casualty insurers to provide the accident and short-term health insurance products, and allowing more foreign insurers enter into the PRC insurance industry.

The CIRC

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

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

Authorization

Under the PRC Insurance Law, the Administrative Regulations for Insurance Companies, which are expected to become effective on June 15, 2004, and other relevant rules and regulations, a permit must be obtained from the CIRC in order to engage in the insurance business. As a general matter, only companies organized as either a company limited by shares or a wholly state-owned company are entitled to obtain such permits, subject to, among other things, the following conditions:

- an insurance company must have qualified investors and a reasonable shareholding structure;

- the articles of association of an insurance company must comply with the requirements under the PRC Insurance Law and the PRC Company Law;
- the paid-in registered capital must be no less than RMB200 million;
- senior management personnel of an insurance company must meet the qualification requirements set forth by the CIRC;
- an insurance company must have a sound organization and management system; and
- an insurance company must have business place and office facility suitable for the business development.

Scope of Business Activities

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

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

Terms and Premium Rates of Insurance

Terms and premium rates of insurance products that affect the public interest, insurance products for compulsory insurance and new types of life insurance products must be submitted to the CIRC for its review and approval before these products are sold in the market. Terms and premium rates for all other insurance products must be filed with the CIRC and may be adopted if the CIRC raises no objection within thirty (30) days of filing.

Under the Administrative Regulations for Insurance Companies, which are expected to become effective on June 15, 2004, the terms and premium rates of insurance policies shall be plain, clear and easy to understand. Under any of the following circumstances, the CIRC may require insurance companies to modify or stop using the terms and premium rates of insurance policies:

- the terms and premium rates are in violation of laws, administrative regulations or prohibitive rules set forth by the CIRC;
- the terms and premium rates are in violation of relevant state financial policies;
- the terms and premium rates are against public interest;

- the terms and premium rates are obviously unfair or constitute price monopoly or are against the legal interest of the policyholder, the insured or the beneficiary;
- the terms and premium rates are poorly designed, including with unreasonable interest rates, which may endanger the solvency of such insurance company; or
- other circumstances as determined by the CIRC under the principle of prudential supervision.

Paid-in Capital

Under the Administrative Regulations for Insurance Companies, which are expect to become effective on June 15, 2004, the minimum registered capital as well as the paid-in capital for the establishment of an insurance company is RMB200 million. In addition, insurance companies are required to increase their registered capital by RMB20 million for each branch office they apply to open for the first time in each province, autonomous region or directly-administered municipality other than their domicile. Insurance companies with a registered capital of at least RMB500 million may open branches without increasing their registered capital as long as they have adequate solvency.

Security Deposit

An insurance company is required to deposit, as a security deposit, 20% of its registered capital into a bank designated by the CIRC. This security deposit may not be used for any purpose other than paying off debts during liquidation proceedings.

Reserves

Pursuant to requirements of the PRC Financial Regulations for Insurance Companies, insurance companies must make allocations to the following reserves:

- *Unearned premium reserve*, which represents the payment reserve allocated for liabilities undertaken annually for non-life insurance policies with a profit/loss settlement period of no longer than one year, at 50% of the net written premiums in such period.
- *Long-term premium reserve*, which represents the reserve allocated for non-life insurance policies of greater than 12 months in duration, at an amount resulting from subtracting accrued payment expense from the accrued premium income before the end of the fiscal year.
- *Life insurance reserve and long-term health insurance reserve*, which represent the reserves allocated for future liabilities undertaken in life insurance policies and long-term health insurance policies, respectively, at an amount determined using actuarial projections of future cash flows.
- *Claim reserve*, which represents the reserve allocated for pending payments for both reported but not settled claims and IBNR claims. For reported but not settled claims, the allocation may not exceed the claim amount or the payout amount. For IBNR claims, the allocation may not exceed 4% of the actual payment expense for the fiscal year.

In addition to the PRC Financial Regulations for Insurance Companies, allocation to reserves is also regulated by the PRC Company Law, the Administrative Regulations for Insurance Companies, the Administrative Rules on Solvency Margin and Supervision Standards of Insurance Companies, the Provisional Rules on Administration of Investment in Corporate Bonds by Insurance Companies, the Measurement on Actuarial Practice for Life Insurance Products, Accident Insurance Products and Health Insurance Products issued by the CIRC in June 1999 and the Measurement on Actuarial Practice for Individual Participating Life Insurance Products, Individual Investment-Linked Life Insurance Products and Individual Endowment Life Insurance Products issued by the CIRC in May 2003.

Statutory and Discretionary Revenue Reserve Fund

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

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

Statutory Common Welfare Fund

The PRC Company Law requires a company to set aside 5% to 10% of the net profit recorded in its statutory accounts, prepared in accordance with PRC GAAP, for a statutory common welfare fund. The statutory common welfare fund is used for the collective welfare of the staff of the company.

Insurance Guarantee Fund

The PRC Financial Regulations for Insurance Companies and the Administrative Regulations for Insurance Companies, which are expected to become effective on June 15, 2004, require that an insurance company provide for an insurance guarantee fund equal to 1% of its annual net written premiums from property and casualty insurance, accident insurance, short-term health insurance and reinsurance. No provisions for the insurance guarantee fund are required with respect to premiums from life insurance or long-term health insurance, and no additional provision for the insurance guarantee fund will be required once the total provided amount reaches 6% of the total assets of the insurance company.

Solvency Margin

The PRC Insurance Law requires an insurance company to maintain minimum solvency margin commensurate with the scale of its business operations. In addition, in March 2003 the CIRC introduced a new standard, the solvency ratio, to measure the financial soundness of life insurance companies to provide better policyholder protection under a system of corrective regulatory action.

For property and casualty insurance and short-term life insurance businesses, the minimum solvency margin is the *greater of*:

- 18% of the portion of the net written premium in the current fiscal year net of business tax and other surcharges not in excess of RMB100 million plus 16% of the portion in excess of RMB100 million; or
- 26% of the portion of the average annual net claims incurred for the last three years that is less than RMB70 million plus 23% of the portion in excess of RMB70 million.

For an insurance company in the property and casualty insurance and short-term life insurance businesses with an operating history of less than three years, the first method applies.

For long-term life insurance businesses, the minimum solvency margin is the *sum of*:

- 4% of the life insurance reserve for life insurance business at the end of the fiscal year plus 1% of the life insurance reserve for investment-linked insurance business at the end of the fiscal year; and
- 0.1% of the sum assured at death on term life insurance policies with insurance periods of less than three years, plus 0.15% of the sum assured at death on term life insurance policies with insurance periods between three years to five years, plus 0.3% of the sum assured at death on term life insurance policies with insurance periods of more than five years and on other types of term life insurance policies. For term life insurance policies not classified as to time, a standard 0.3% of the sum assured at death shall be taken in calculations.

If the actual solvency margin of an insurance company falls below the prescribed minimum solvency margin, the legal representative, actuarial officer, financial officer and other officers of the company are required to promptly report such finding to the CIRC. The CIRC may put the company under special supervision and take additional actions depending on the circumstances.

- *If the actual solvency margin of an insurance company is between 70% and 100% of the prescribed minimum solvency margin:* The CIRC may ask the insurance company to take prompt corrective measures to meet the minimum solvency margin requirement within a specified period of time. If the insurance company fails to meet the minimum solvency margin requirement within the specified period of time, the CIRC has the authority to order the insurance company to increase its paid-in capital, cede reinsurance, limit the scope of its business, limit dividends payouts, limit the purchase of fixed assets, limit its operation expenses and limit the establishment of additional branches until such time as the insurance company meets the minimum solvency margin requirement.
- *If the actual solvency margin of an insurance company is between 30% and 70% of the prescribed minimum solvency margin:* In addition to the measures set forth above, the CIRC may order the insurance company to sell non-performing assets, transfer its insurance business to other insurance companies, limit the level of

compensation for its senior executives, limit its commercial advertisement and suspend the development of new businesses or take other appropriate measures.

- *If the actual solvency margin of an insurance company falls below 30% of the minimum solvency margin:* In addition to the measures set forth above, the CIRC may assume control of the operations of the insurance company.

Use of Insurance Funds

Under the Administrative Regulations for Insurance Companies, which are expected to become effective on June 15, 2004, and the Interim Provisions Regarding Investment by Insurance Companies in Corporate Bonds, the use of insurance funds is be limited to the following:

- bank deposits;
- the trading of government bonds;
- the trading of financial bonds;
- the trading of corporate bonds;
- the trading of equity investment funds; and
- other forms of use of capital as stipulated by the State Council.

Prior to June 2003, PRC insurance companies were only allowed to invest in bonds issued by four types of state-owned enterprises. Since June 2003, PRC insurance companies 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.

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

- based on the purchase price, the investment of an insurance company in equity investment funds may not exceed 15% of the total assets of the insurance company as of the end of the previous month;
- based on the purchase price, the amount of investment in a single fund by an insurance company may not exceed 3% of the total assets of the insurance company as of the end of the previous month;
- the amount of investment in a single closed-end fund by an insurance company may not exceed 10% of the fund; and
- the equity investment fund business of an insurance company must be conducted solely by the headquarters of such insurance company, and branches of such insurance company may not engage in equity investment fund trading.

On January 31, 2004, the State Council released Certain Opinions on Promoting the Reform, Opening and Steady Growth of the Capital Market, in which, the State Council encourages, among other things, investment of insurance funds in the capital market.

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

Areas Prohibited for Use of Funds of an Insurance Company

The PRC Insurance Law and CIRC regulations have strict limitations on the use of funds by PRC insurance companies. In particular, the PRC Insurance Law and CIRC regulations prohibit PRC insurance companies from, among other things, using their funds to engage in securities or other activities that are outside of the scope of normal insurance operations. We may have in the past used our funds in a manner that is inconsistent with, or impermissible under, the applicable limitations set forth under the PRC Insurance Law and CIRC regulations. These activities may have included providing funds for, among other things, the establishment of a securities business, the investment in unlisted equity securities and the development of real estate projects. In particular, we used approximately RMB2,340 million in the past to develop certain real estate projects. However, we rectified the situation with respect to the real estate investments in 2000. In addition, as of December 31, 2003, the book value of our securities investments, including our investment in unlisted equity securities, outside of the scope of normal insurance operations was approximately RMB200 million. We are in the process of rectifying these activities. To date, we have not been subject to any material administrative sanctions, fines or other penalties for such use of our funds. We believe, based on the advice of our PRC legal counsel, Commerce & Finance Law Offices, that the probability of any additional administrative proceedings that could result in a material adverse effect on our business, financial condition and results of operations is remote. However, we cannot assure you that the relevant regulatory authorities would not take additional actions against us in the future. See the section headed "Risk Factors — Risks Relating to Our Overall Business — We may be subject to administrative sanctions, fines and other penalties for using 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".

Investments in Insurance Industry

Equity investments in insurance companies established in the PRC are subject to the PRC Insurance Law and the Administrative Regulations for Insurance Companies, which are expected to become effective on June 15, 2004, and other relevant rules and regulations. Enterprise legal persons meeting the following conditions can, subject to CIRC approval, invest in insurance companies:

- complying with laws and administrative regulations;
- having lawful investment capital and being in good standing; and
- other conditions as determined by the CIRC under the principle of prudential supervision.

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

Under Administrative Regulations for Insurance Companies, which are expected to become effective on June 15, 2004, equity investment in an insurance company by a single enterprise legal person or other entity (including related companies) shall not exceed 20% of the total issued share capital of such company. This 20% ownership limitation does not apply to investors that are insurance holding companies and insurance companies approved by the CIRC. An insurance company is required to report to the CIRC in written form if certain shareholders of such company are related to each other.

Foreign financial institutions can invest in insurance companies, subject to CIRC approval. The aggregate equity investment in an insurance company by foreign financial institutions shall not exceed 25% of the total issued share capital of such company. In the case of the aggregate investment in excess of 25% in an insurance company, such company is subject to relevant administrative regulations applicable to foreign-funded insurance companies. This limitation does not apply to investments made by foreign shareholders making investments in listed insurance companies.

In connection with our Global Offering, the CIRC issued an approval on December 31, 2003, allowing foreign investors to own up to 50% of the issued share capital of our Company after the Global Offering. Commerce & Finance Law Offices, our PRC legal counsel, has advised us that, based on such CIRC approval, the Company's shareholding structure after the Global Offering will be in full compliance with the requirements under the relevant PRC laws and regulations.

The Establishment of Insurance Brokering Companies

The establishment of insurance brokering companies must meet the following conditions:

- valid shareholders or promoters;
- valid articles of association;
- a registered (paid-in) capital of no less than RMB10 million;
- have a company name, established organizations and a legal address;
- no less than half of the staff in possession of the Qualification Certificate of Personnel Engaging in Insurance Brokering Business;
- senior management personnel fulfilling requirements of appointment qualifications set forth by the CIRC; and
- other conditions required by applicable laws and regulations.

Insurance brokering companies may engage in:

- drafting insurance policies, choosing insurers, handling insurance matters on behalf of proposers;
- assisting insured or beneficiaries to file insurance claims;

- engaging in the reinsurance brokering business;
- providing consultation services on damage prevention, risk evaluation or risk management for trustees; and
- other insurance business approved by the CIRC.

Insurance Agents

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

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

According to the relevant requirements of the PRC Insurance Law, the insurer must be responsible for the actions of an insurance agent in carrying out insurance business activities pursuant to terms of the agency agreement. The insurer shall bear insurance liability for actions of the agent even if the agent has acted beyond its scope of engagement, provided that the proposer had reason to believe that the agent was acting within its engagement. However, the insurer may bring an action against an agent that has acted beyond the scope of its engagement.

Individual Insurance Agents

Under the Tentative Administrative Regulations for Insurance Agents, in order to engage in insurance agency services, an individual applicant must have a qualification certificate, an executed insurance agency agreement with an insurer and an operating certificate issued by such insurer, and file such documents through such insurer with the local branch of the CIRC. We have in the past issued the operating certificates to certain individual insurance sales agents who did not possess the qualification certificate, which was contrary to the Tentative Administrative Regulations for Insurance Agents. Approximately 28% of our individual insurance agents had not obtained such a certificate as of December 31, 2003. We believe the CIRC has not, to date, taken any action against an insurance company or its individual insurance agents for failing to be so qualified. See the section headed "Risk Factors — Risks Relating to the PRC Insurance Industry — All of our insurance agents are required to obtain a qualification certificate from the CIRC and register with the relevant local bureau of the SAIC; if the regulatory authorities decide to enforce these qualification and registration requirements, our business may be materially and adversely affected." In addition, the CIRC issued a regulation in January 2003 giving the local bureaus of the CIRC the flexibility to determine the deadline for compliance with the agent qualification requirement. In May 2004, the CIRC issued a circular requiring insurance companies to adopt effective measures in carrying out the qualification certificate requirement. In Shanghai, where the individual insurance agent qualification requirement is strictly enforced by the local bureau of the CIRC, substantially all of our individual insurance sales agents have obtained the required qualification certificates. We are in the process of providing training to the unqualified individual insurance agents in other branch offices and organizing these agents to take the insurance agent qualifying examination.

An individual insurance agent is also required to register with, and obtain a business license from, the relevant local bureau of the SAIC. The business scope of individual insurance agents is limited to agency services in marketing insurance products and collecting insurance premiums. Individual insurance agents may not engage in corporate property and casualty insurance and group insurance businesses. Individual insurance agents may not issue insurance policies. An individual insurance agent performing life insurance business activities may not be concurrently engaged by more than one insurer.

Institutional Insurance Agents

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

Ancillary Agency Organizations

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

Reinsurance Requirement

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

Restrictions on Reinsurance Business

Under the PRC Insurance Law and the Administrative Regulations for Insurance Companies, an insurance company seeking reinsurance must give priority to reinsurers within the territories of the PRC.

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

The PRC's WTO accession commitments are summarized in the following table:

Subject matter	The PRC's commitments
Restrictions on Foreign Equity Ownership	**Non-Life Insurers** • Upon accession, foreign non-life insurers permitted to establish as a branch or as a joint venture with up to 51% foreign ownership • Joint venture partners may freely agree to the terms of their engagement, provided they remain within the limits of the commitments contained in WTO commitment schedule • Within two years after accession, foreign insurers permitted to operate through wholly owned subsidiaries **Life Insurers** • Upon accession, foreign life insurers permitted 50% foreign ownership in a joint venture • Joint venture partners may freely agree to the terms of their engagement, provided they remain within the limits of the commitments contained in WTO commitment schedule **Insurance Brokers** • For insurance and reinsurance brokering of large scale commercial risks and insurance and reinsurance brokering of international marine, aviation, and transport • Upon accession, foreign brokers permitted to establish joint ventures with up to 50% foreign ownership • Within three years after accession, foreign ownership permitted to increase to 51% • Within five years after accession, wholly owned foreign subsidiaries permitted

Subject matter	The PRC's commitments
Geographic Restrictions	• Upon accession, foreign insurers and brokers permitted to provide services in Shanghai, Guangzhou, Dalian, Shenzhen and Foshan • Within two years after accession, foreign life and non-life insurers, and insurance brokers permitted to provide services in Beijing, Chengdu, Chongqing, Fuzhou, Ningbo, Shenyang, Suzhou, Tianjin, Wuhan and Xiamen • Within three years after accession, no geographic restrictions
Business Scope	**Non-Life Insurers** • Upon accession, foreign non-life insurers permitted to provide "master policy" insurance of large-scale commercial risks, with no geographic restrictions • Upon accession, foreign non-life insurers permitted to provide insurance of enterprises abroad as well as property insurance, related liability insurance and credit insurance of foreign-invested enterprises in the PRC • Within two years after accession, foreign non-life insurers permitted to provide a full range of non-life insurance services to both foreign and domestic clients **Life Insurers** • Upon accession, foreign insurers permitted to provide individual (not group) insurance to foreigners and PRC citizens • Within three years after accession, foreign insurers permitted to provide health insurance, group insurance and pension/annuities insurance to foreigners and PRC citizens **Insurance Brokers** • Foreign brokers permitted to provide "master policy" insurance no later than PRC brokers, under conditions no less favorable **Reinsurance** • Upon accession, foreign insurers permitted to provide reinsurance services for life and non-life insurance as a branch, joint venture, or wholly owned subsidiary, without geographic or quantitative restrictions on the number of licenses issued

Restrictions on Foreign Equity Ownership

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

Since the PRC's accession to the WTO, insurance brokering joint ventures with a foreign equity share of no more than 50% have been permitted to engage in brokering large scale commercial insurance, reinsurance, international marine, aviation and cargo insurance. By December 2004, joint ventures with foreign equity share of up to 51% will be permitted. By December 2006, wholly foreign-owned subsidiaries will be permitted. Additional branching of foreign insurance companies will be permitted consistent with the phase-out of geographic restrictions.

Geographic Limitation

Since the PRC's accession to the WTO, foreign life and property and casualty insurers have been permitted to provide services in Beijing, Chengdu, Chongqing, Dalian, Dongguan, Foshan, Fuzhou, Guangzhou, Haikou, Jiangmen, Ningbo, Shanghai, Shenyang, Shenzhen, Suzhou, Tianjin, Wuhan and Xiamen. By December 2004, foreign insurers will be able to conduct business in the PRC without any geographic restrictions.

Scope of Business

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

Since the PRC's accession to the WTO, foreign life insurers have been permitted to provide individual but not group insurance to foreign persons and PRC citizens. By December 2004, foreign life insurers will be permitted to provide health insurance, group insurance and pension/annuities insurance to foreigners and PRC citizens.

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

Scope for Statutory Reinsurance

Since the PRC's accession to the WTO in December 2001, a compulsory 20% cession reinsurance with a designated PRC reinsurance company has been required. As part of PRC's commitment with respect to its insurance industry in connection with its accession to the WTO, the PRC agreed to gradually lower and eventually eliminate the compulsory reinsurance requirement as follows:

- as of December 2002, the compulsory reinsurance percentage was reduced to 15%;
- as of December 2003, the compulsory reinsurance percentage was reduced to 10%;
- by December 2004, the compulsory reinsurance percentage will be reduced to 5%; and
- by December 2005, there will be no compulsory reinsurance requirement.

Foreign-Funded Insurance Companies

Under the Implementing Rules of Administrative Regulations on Foreign-Funded Insurance Companies, which are expected to become effective on June 15, 2004, and the Administrative Regulations of Foreign-Funded Insurance Companies, foreign insurance companies can, subject to the CIRC's approval, establish foreign-funded insurance companies within the PRC in the form of joint ventures, wholly foreign-owned enterprises or branches.

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

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

Joint venture insurance companies and wholly foreign-owned insurance companies with the minimum registered capital of RMB200 million shall increase their registered capital by at least RMB20 million for each branch they apply to open for the first time in each province, autonomous region or directly-administered municipality other than their place of domicile. Joint venture insurance companies and wholly foreign-owned insurance companies with the registered capital of at least RMB500 million are not required to increase their registered capital for establishing branches, as long as they meet the solvency margin requirement.

Prohibited Activities for Foreign-Funded Insurance Companies

Foreign-funded insurance companies are not permitted to engage in third party liability insurance for automobiles, liability insurance for drivers and operators of public transportation vehicles and commercial vehicles.

Recent Developments of Insurance Related Regulations

In addition to the Administrative Regulations for Insurance Companies and the Implementing Rules of Administrative Regulations on Foreign-Funded Insurance Companies, which are expected to become effective on June 15, 2004, the Trial Measures on the Management of Enterprise Pension Funds and the Interim Administrative Regulations for Insurance Asset Management Companies became effective on May 1, 2004 and June 1, 2004, respectively.

The Trial Measures on the Management of Enterprise Pension Funds set forth regulations on trust management, account management, entrustment and investment management in relation to enterprise pension funds. Subject to relevant regulatory approvals, insurance companies can become the trustees of, and insurance asset management companies can become the investment managers for, enterprise pension funds.

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

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

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

TRUST BUSINESS

The PBOC had been responsible for the supervision of the trust business in the PRC until April 28, 2003. Beginning on April 28, 2003, the CBRC has assumed the responsibility for the supervision of the trust business in the PRC. Since 1999, trust and investment companies in the PRC have undergone re-registration upon qualification examination by the PBOC. Current laws and regulations applicable to trust and investment companies in the PRC are, among other things, the Trust Law, the Administrative Provisions for Trust and Investment Companies. A trust and investment company must have a registered capital of no less than

RMB300 million. A trust and investment company engaging in foreign exchange business shall have no less than the equivalent of US$15 million in foreign exchange as part of its registered capital. Upon the approval of the CBRC, a trust and investment company may engage in Renminbi and foreign exchange businesses and charitable trusts business. Without the approval of the CBRC, no entity or individual may engage in the trust business and no business entity may use the words "trust and investment" as part of its name.

SECURITIES BUSINESS

Prior to June 1998, PRC securities firms were under a two-tier supervisory system, with securities firms managed by the PBOC and the CSRC. After June 1998, securities firms are under the sole supervision of the CSRC. China Securities Association, securities exchanges and other industry self-disciplinary organizations are responsible for the self-discipline of their members.

Securities firms are classified into two different categories: comprehensive securities firms and brokerage firms. A comprehensive securities firm must have a registered capital of at least RMB500 million and may engage in, among other things, securities brokerage services, securities investment on its own behalf and underwriting business. A brokerage firm must have a registered capital of at least RMB50 million and may engage only in securities brokerage service.

Financial Risk Control

- The net capital of a comprehensive securities firm shall be no less than RMB200 million. The total amount of operating capital appropriated for branches or securities departments must not exceed 40% of its registered capital.
- The net capital of a brokerage firm must be no less than RMB20 million. The total amount of operating capital appropriated for branches or securities departments shall not exceed 80% of its registered capital.
- The current assets must be no less than the current liabilities (not including trading settlement capital deposited by clients and trust investment managed capital).
- Outside liabilities of a comprehensive securities company (not including trading settlement capital deposited by clients and trust investment managed capital) may be no more than nine times its net assets.
- Outside liabilities of a brokerage securities company (not including trading settlement capital deposited by clients) may be no more than three times its net assets.

Qualifications of Securities Industry Personnel

Senior managers and personnel engaged in the securities industry must fulfill requirements set forth in the Interim Administrative Provisions Regarding the Qualifications of Senior Managers of Securities Firms and the Interim Administrative Provisions Regarding the Qualifications of Personnel Engaging in Securities Industry.

Compliance with Laws and Regulations

The following table sets forth certain of our financial information extracted from the Accountants' Report set forth in Appendix I to this prospectus as of the date indicated:

	As of December 31, 2003
	(in millions of RMB, except percentages)
Statutory deposits	1,200
Unearned premium reserves	5,781
Policyholders' reserves	159,945
Claim reserves	4,817
Insurance guarantee fund	711
Statutory revenue reserve fund[1]	1,124
Statutory common welfare fund	487
Solvency margin ratio:	
Ping An Life[2]	109.4%
Ping An Property & Casualty[2]	177.8%

(1) Extracted from our management accounts.

(2) Extracted from our statutory solvency reports filed with the CIRC.

As of December 31, 2003, our statutory deposits, unearned premium reserves, policyholders' reserves, claim reserves, insurance guarantee fund, statutory revenue fund and common welfare fund were in compliance with applicable regulatory requirements.

Our management confirms that, based on the opinion of Commerce & Finance Law Offices, our PRC legal counsel, except as described in the sections headed ''Risk Factors — Risks Relating to the PRC Insurance Industry — All of our insurance agents are required to obtain a qualification certificate from the CIRC and register with the relevant local bureau of the SAIC; if the regulatory authorities decide to enforce these qualification and registration requirements, our business may be materially and adversely affected.'', ''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'', ''Risk Factors — Risks Relating to Our Overall Business — Future periodic examinations by PRC regulatory authorities may result in fines, other penalties or actions that would materially and adversely affect our business, financial condition and results of operations as well as our reputation'' and ''Risk Factors — Risks Relating to Our Overall Business — We may be subject to administrative sanctions, fines and other penalties for using 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'', we have complied in all material respects with all applicable regulatory requirements set out above.