OVERVIEW

We are the second largest insurance company, in terms of gross written premiums and policy fees in 2002, operating 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 was from our life insurance operations and RMB8,091 million was from our property and casualty insurance operations. We also offer our customers a variety of other financial services, including trust and securities services. We conduct our life insurance and property and casualty insurance operations through Ping An Life and Ping An Property & Casualty, respectively, each a 99% owned subsidiary of the Company. We operate our trust business through Ping An Trust, our 99.3% owned subsidiary. We provide securities services through Ping An Securities, in which we indirectly hold a 63.6% equity interest.

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 further enhance our ability to provide our customers with multiple financial services, including insurance, securities, banking, pension fund management and credit cards. See the section headed "Business — Recent Developments".

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.

Business Environment

Our financial condition and results of operations, as well as the period-to-period comparability of our financial results, are significantly affected by a number of external factors, most of which are beyond our control, including:

- economic and demographic conditions and socioeconomic policies in the PRC;
- regulatory environment for PRC insurance companies;
- fluctuations in market interest rates;
- conditions in the PRC securities markets; and
- ongoing development and evolution of the PRC financial services market.

Economic and Demographic Conditions and Socioeconomic Policies in the PRC

The PRC is in the midst of an economic and demographic transformation, which we believe will continue to create significant 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, and this has resulted in significant growth in the PRC economy over the past decade. One aspect of this continuing economic transformation has been a reduction of government or employer sponsored employee benefits, such as retirement, medical and other social benefits, which we believe will increase opportunities for private sector providers of life and other social benefits-related insurance products. Moreover, demographic studies suggest that, over the next decade, the expanding private sector in the PRC will continue to give rise to a middle class that has growing levels of disposable income, which we expect to also contribute to the continued growth of the PRC insurance industry. We believe that our broad customer base, extensive distribution network, the quality and diversity of our products and our investment and underwriting risk management expertise position us to benefit from these developments.

Regulatory Environment for PRC Insurance Companies

Our business operations, which are conducted primarily in the PRC, are highly regulated. In particular, our life insurance and property and casualty insurance operations are regulated primarily by the CIRC. Under the applicable CIRC regulations, investments by PRC insurance companies are currently limited to bank deposits, PRC government bonds, finance bonds for government projects, corporate bonds issued by PRC companies that are rated AA or above by a CIRC approved credit rating agency and equity investment funds. See the section headed ''Supervision and Regulation — Insurance Business — Use of Insurance Funds''. As a result, substantially all of our investment assets are concentrated in a limited number of investments that are located in the PRC, and our ability to diversify our portfolio as well as seek an optimal return on our investments is limited. Our inability to diversify our investment portfolio also exposes us to a significant level of risk associated with these types of investments. See the sections headed ''— Investment Income'' and ''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''.

Our ability to price our insurance products is also directly or indirectly regulated by the CIRC to a significant extent. Under the applicable CIRC regulations, we must submit to the CIRC for its review and approval:

- new types of life insurance products;
- insurance products relating to compulsory insurance; and
- the terms and premium rates of insurance products that affect the public interest.

See the section headed ''Supervision and Regulation — Insurance Business — Terms and Premium Rates of Insurance''. We may have to incur significant costs and expenses to comply with, and our prospects may be adversely affected by, the applicable laws, rules and regulations, which may reduce our profitability as well as affect our future growth.

Fluctuations in Market Interest Rates

As a general matter, our results of operations are affected by fluctuations in market interest rates in the PRC. In particular, movements in interest rates may affect the level and timing of recognition of gains and losses on securities and other investments held in our investment portfolio. A sustained period of lower interest rates would generally reduce the investment yield of our investment portfolio over time as higher yielding investments mature or are redeemed and proceeds are reinvested in new investments with lower yields. However, declining interest rates would also increase realized and unrealized gains on our existing investments. Conversely, rising interest rates should over time increase our investment income, but may reduce the market value of our investment portfolio.

A substantial portion of the life insurance policies sold in the PRC, including those sold by us, are participating life insurance policies. Holders of these policies are credited with a portion of the investment returns earned by the invested assets that support these types of life insurance policies. Since a substantial portion of these invested assets consist of fixed income securities, their returns are affected to a significant degree by fluctuations in market interest rates in the PRC. In addition, as some of our life insurance products provide guaranteed returns to policyholders, we are exposed to the risk that changes in market interest rates will reduce our interest rate spread, or the difference between the amounts that we are required to pay under these policies and the rate of return we are able to earn on our investments intended to support our obligations under these policies. See the section headed "— Negative Interest Rate Spread on Legacy High Guaranteed Return Products". Moreover, a negative interest rate spread may require us to take impairment charges on some of our investment assets, which may exacerbate any mismatches in our asset-liability position in a declining interest rate environment. Subject to compliance with applicable PRC regulations, we intend to continue diversifying our investment portfolio, among other risk management techniques, to moderate the effect of movements in market interest rates.

Conditions in the PRC Securities Markets

The PRC securities markets are smaller and can be more volatile than securities markets in the United States and in certain European countries. In particular, the Shanghai Stock Exchange and the Shenzhen Stock Exchange have experienced substantial fluctuations in the prices and trading volume of listed securities, and there are currently limits on the range of daily price movements. As of December 31, 2003, approximately 2.9% of our investment portfolio was invested in equity investment funds that invest in shares of companies that are listed in the PRC. Conditions in the PRC securities markets have in the past, and may in the future, adversely affect the value of these equity investment funds. If the value of these equity investment funds decreases, the value of our investment portfolio would also decrease. Any decline in value of our investment portfolio may reduce our net income due to reduced realized and unrealized gains and possible impairment charges, and may also lead to a decrease in the sales of our investment-linked life insurance products.

Ongoing Development and Evolution of the PRC Financial Services Market

The PRC insurance market is still in a relatively early stage of development, and our ability to develop products that meet the evolving needs of this market will have a significant impact on our profitability. For example, in response to the developing needs of our life insurance customers, we were the first PRC insurance company to offer investment-linked life insurance products. We also use a variety of riders to supplement our basic insurance policies to meet the different needs of customers. Moreover, we believe the continuing economic transformation in the PRC will create opportunities for other consumer financial products and services, such as credit cards and residential mortgages. In addition, we expect to see an increase in demand for more sophisticated and diversified consumer financial products and services, such as trust and securities services. As a result, we expect our future results of operations to be affected to a significant extent by our ability to develop and distribute new products and services to meet the evolving needs of the PRC financial services market.

Revenue and Expenses

We derive our revenue primarily from:

- premiums from individual and group insurance policies;
- policy fees, as well as to a more limited extent management fees, from our investment-linked life insurance products;
- premiums from property and casualty insurance policies; and
- investment income and realized and unrealized investment gains from our investment portfolio.

Our operating expenses consist primarily of:

- increases in policyholders' reserves;
- insurance benefits and claims paid to policyholders;
- increases in gross claim reserves and unearned premium reserves;
- commission expenses;
- general and administrative costs relating to our products, including employee salaries and benefits, advertising, marketing and related expenses, training expenses, rental expenses, impairment losses and depreciation and amortization; and
- changes in deferred policy acquisition costs, which represent acquisition costs deferred less amortization of deferred acquisition costs.

Profitability

Our profitability depends principally on our ability to price and manage risk on insurance products, our ability to attract and retain new customers, and our ability to manage expenses. Specific drivers of our profitability include:

- Our ability to price our insurance products at a level that enables us to earn a margin over the cost of providing benefits and the expense of acquiring new policies and administering those products. The adequacy of our product pricing is primarily a function of:

- — our mortality and morbidity experience on individual and group insurance;
- — the adequacy of our methodology for underwriting insurance policies and establishing reserves for future policyholder benefits and claims;
- — our persistency experience, which affects our ability to recover the cost of acquiring new policyholders over the lives of the insurance policies;
- — our management of exposure to catastrophic and other losses on our property and casualty insurance products; and
- — our ability to manage expenses in accordance with pricing assumptions.

- The amount and composition of our investment assets and our ability to manage our portfolio and seek an optimal return within our risk parameters.
- Our ability to maintain the target margins for our insurance products.

We have historically achieved mortality gains for our life insurance business based on the differences between our assumed mortality rates and our actual experience relating to the payment of benefit obligations. Our ability to manage the mortality rates is due to our effective underwriting process, which is designed to minimize mortality risks. Moreover, we have achieved expense gains and we expect to continue enjoying expense gains by leveraging the economies of scale achieved as our business operations continue to grow. In addition, our results of operations are affected by any interest rate gains we are able to achieve, which are a function of fluctuations in market interest rates. The sustained decline in market interest rates over the past three years has limited our ability to achieve interest rate gains.

Premium and Policy Fee Income

Premium income, which forms the core of our revenue, consists largely of premium income from new and renewal insurance policies and annuity contracts. Historically, life insurance, including whole life and term life insurance, have accounted for the majority of our premium income. In addition, we earn policy fees from our investment-linked insurance products.

The following table sets forth our gross written premiums and policy fees derived from the products shown for the periods indicated:

	For the year ended December 31,		
	2001	2002	2003
	(in millions of RMB)		
Life Insurance			
Traditional participating[1]	8,912	26,862	31,631
Traditional non-participating	18,718	16,716	17,875
Accident and health[1]	2,367	3,206	3,680
Non-traditional	4,955	3,798	1,856
Sub-total	34,952	50,582	55,042
Property and Casualty Insurance			
Automobile	3,541	4,901	4,705
Commercial property	1,177	1,453	1,329
Cargo	250	289	302
Homeowners	600	686	625
Liability	149	234	372
Hull	47	23	11
Accident and health	—	—	151
Other	239	252	596
Sub-total	6,003	7,838	8,091
Total	40,955	58,420	63,134

(1) Includes sales of life insurance products from our bancassurance distribution channel.

In calculating the premiums and policy fees to be charged, we estimate our expenses associated with acquiring and administering each policy. Our expenses include commissions we pay to agents and expenses incurred to underwrite, issue and service our policies. Our actual expenses, however, could be higher than our estimated expenses if, among other things, actual inflation is higher than estimated inflation or the cost of administering a product is greater than was expected. We intend to further control and reduce our expenses by:

- redesigning the compensation system for our life insurance sales agents;
- further strengthening our budgeting and control process;
- rationalizing our employees; and
- streamlining our back office functions and further leveraging our economies of scale.

Our net written premiums and policy fees are the amount of premiums and policy fees we keep after ceding a portion of our gross premiums to our reinsurers. Premiums ceded to reinsurers were RMB2,700 million, RMB3,720 million and RMB3,800 million, or approximately 6.6%, 6.4% and 6.0% of our gross written premiums and policy fees, in 2001, 2002 and 2003, respectively. Our **net earned premiums** are equal to our net written premiums and policy fees after taking into account any increase in our unearned premium reserves. See the sections headed ''— Reserves — Life Insurance — Unearned Premium Reserves'' and

"— Reserves — Property and Casualty Insurance — Unearned Premium Reserves" for a discussion of our unearned premium reserves. Our net earned premiums were RMB36,992 million, RMB53,297 million and RMB58,849 million, or approximately 88.4%, 90.7% and 88.3% of our total revenue, in 2001, 2002 and 2003, respectively.

Investment Income

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. In particular, fixed deposits at commercial banks, government bonds, finance bonds for government projects, corporate bonds issued by PRC companies that are rated AA or above by a CIRC approved credit rating agency and equity investment funds investing in shares of companies listed on the Shanghai and Shenzhen stock exchanges accounted for approximately 50.2%, 24.5%, 12.3%, 6.9% and 2.9%, respectively, of our total investment assets as of December 31, 2003. As a result, we currently generate most of our investment income from interest paid on fixed deposits and bond investments. Our inability to diversify our investments not only exposes us to investment risk, but also adversely affects our ability to achieve an optimal return on our investments. See the section headed "Business — Investment Portfolio — Portfolio Composition". Subject to compliance with applicable PRC regulations, we intend to increase our investment income by increasing our investments in government bonds, finance bonds and corporate bonds, especially those with a longer maturity, and reducing the percentage of our fixed deposits in our investment portfolio. Our investment income and other income were RMB3,914 million, RMB4,256 million and RMB6,527 million, or approximately 9.4%, 7.2% and 9.8% of our total revenue, in 2001, 2002 and 2003, respectively.

Reserves

Our reserve movements are a significant component of our operating results, and increases or decreases in our reserves could have a material impact on our financial condition and results of operations.

An actuarial team of each of Ping An Life and Ping An Property & Casualty calculates life insurance reserves and property & casualty insurance reserves separately on a monthly basis. As Ping An Life and Ping An Property & Casualty, each a subsidiary of the Company, are two separate insurance companies, reserves for Ping An Life and Ping An Property & Casualty are determined and maintained separately. In addition, different reserve items, such as unearned premium reserves, policyholders' reserves and claim reserves, are calculated for different lines of products. Each of Ping An Life and Ping An Property & Casualty makes an annual filing of their respective statutory reserve reports with the CIRC. In addition, our external auditors conduct audit procedures on our reserves as part of the audit of financial statements prepared under statutory and IFRS requirements.

Life Insurance

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. In addition, a premium deficiency reserve will be maintained if needed. Assets relating to our investment-linked life insurance policies are maintained in separate accounts.

Set forth below is a brief summary of how we calculate 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:

- *Policyholders' Reserves.* Our policyholders' reserves are calculated on the basis of actuarial assumptions relating to mortality and morbidity rates, persistency rates, interest rates and administrative expenses, and we follow the methodology prescribed under US GAAP.
- *Claim Reserves.* We calculate reserves for reported but not settled claims and IBNR claims either case-by-case or by approximation to this method on the basis of experience.
- *Unearned Premium Reserves.* We calculate these reserves 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.
- *Premium Deficiency Reserves.* We assess premium deficiency reserves, if any, on the basis of estimates of future claims, costs, premiums earned and investment income. Where applicable, these amounts are included as a component of policyholders' reserves.

Please see the section headed "Business — Life Insurance — Reserves" for a more detailed discussion of our life insurance reserves determined for purposes of our consolidated financial statements included in the Accountants' Report set forth in Appendix I, which are prepared in accordance with IFRS.

Due to the nature of the underlying risks and the high degree of uncertainty associated with the determination of our future insurance benefit obligations, we cannot precisely determine the amounts that we will ultimately pay with respect to these obligations. 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".

Property and Casualty Insurance

We maintain reserves for payment of losses and LAE that arise from our property and casualty insurance policies. We also maintain unearned premium reserves and premium deficiency reserves, if any, with respect to our property and casualty insurance policies. Set forth below is a brief summary of how we calculate our property and casualty 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:

- *Claim Reserves.* Reserves for reported but not settled claims are based on estimate 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. Reserves for IBNR claims are established to recognize the estimated costs, including expenses, necessary to bring claims arising out of losses to final settlement. These reserves are estimates that involve actuarial and statistical projections of the expected cost of the ultimate settlement and administration of claims.

- *Unearned Premium Reserves.* We calculate these reserves 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 written premiums relating to unexpired periods of coverage.

- *Premium Deficiency Reserves.* We assess premium deficiency reserves, if any, on the basis of estimates of future claims, costs, premiums earned and investment income. Premium deficiency reserves are disclosed in our consolidated financial statements, when material, as a separate provision. We did not have to provide for any premium deficiency reserves in 2001, 2002 and 2003.

Please see the section headed "Business — Property and Casualty Insurance — Reserves" for a more detailed discussion of our property and casualty insurance reserves determined for purposes of our consolidated financial statements included in the Accountants' Report set forth in Appendix I, which are prepared in accordance with IFRS.

The establishment of 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 Statutory Reserves

As we are a PRC insurance company, we are required to maintain, for purposes of our PRC statutory accounts, statutory reserves that are determined pursuant to PRC Insurance Law as well as PRC statutory accounting standards. These statutory reserves may be different, in certain material respects, from our reserves determined for purposes of our consolidated financial statements included in the Accountants' Report set forth in Appendix I, which are prepared in accordance with IFRS. See the sections headed "Business — Life Insurance — Reserves" and "Business — Property and Casualty Insurance — Reserves" for a discussion of our PRC statutory reserves.

Claims, Surrenders, Annuities and Maturities

Our claims, surrenders, annuities and maturities totaled RMB7,274 million, RMB12,693 million and RMB13,585 million in 2001, 2002 and 2003, respectively. Our claims, surrenders, annuities and maturities have generally increased as our business has expanded. These benefits accounted for approximately 17.8%, 21.7% and 21.5% of our gross written premiums and policy fees in 2001, 2002 and 2003, respectively. While claims, policy surrenders and maturities and payments on annuities generally have an adverse effect on our results of operations in any particular year, this impact on our results of operations is partially offset by the release in such year of the portion of the reserves relating to surrendered and matured policies.

The following table summarizes total amounts paid pursuant to claims, annuities and maturities, surrenders, and death and other benefits under our life insurance policies and our property and casualty insurance policies, as applicable, for the periods indicated:

	For the year ended December 31,					
	2001		2002		2003	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Claims	3,082	42.4%	3,991	31.4%	5,812	42.8%
Annuities and maturities	2,294	31.5	5,708	45.0	4,114	30.2
Surrenders	1,557	21.4	2,528	19.9	3,010	22.2
Death and other benefits	341	4.7	466	3.7	649	4.8
Total	7,274	100.0%	12,693	100.0%	13,585	100.0%

Persistency is important to the operating results of most life insurance products because policies that are surrendered or lapse in the first several years may not generate enough revenue to recover our acquisition costs. As is true for the life insurance industry in general, our first year acquisition costs are generally higher than those in subsequent years, due to commissions and one-time underwriting and issuance expenses. Continued high levels of surrenders would have an adverse effect on our financial condition and results of operations. Policy terms of our life insurance products generally include surrender and withdrawal provisions that mitigate the risk of loss due to early withdrawals. These provisions generally limit the amount of penalty-free withdrawals, limit the circumstances under which withdrawals are permitted or assess a surrender charge. In addition, our life insurance policies generally do not permit partial withdrawal of policy proceeds, although the terms of these policies generally permit the policyholder to obtain a loan up to a certain percentage of reserves.

Deferred Policy Acquisition Costs

The costs of acquiring new policies, including commissions, underwriting, marketing and policy issuance expenses, which vary with and are directly related to the production of the new business, are deferred. The carrying value and amortization of the Group's deferred policy acquisition costs are mainly affected by the following factors:

- For traditional life insurance and annuity policies having regular premium payments, deferred policy acquisition costs are amortized over the expected life of the insurance contracts as a constant percentage of expected premiums, which is estimated at the date of policy issuance and is consistently applied throughout the life of the policy;
- For investment type contracts, such as investment-linked contracts, deferred policy acquisition costs are amortized over the expected life of the contracts based on a constant percentage of the present value of estimated gross profits that are expected to be realized over the life of the policy;
- For property and casualty and short-term life insurance policies, acquisition costs are deferred and amortized over the period in which the related written premiums are earned and which is generally over a twelve month period or less. The carrying value of deferred policy acquisition costs for policies of this nature is usually only affected if a premium deficiency arises. A premium deficiency may arise if it is expected that the

claim experience on the unexpired portion of the insurance policies in force will exceed (a) the profit margin expected and (b) any deferred acquisition costs incurred in selling the insurance policies in question. When such situations arise, the amortization of deferred policy acquisition costs is accelerated until the relevant amounts are totally written off and, when necessary, a premium deficiency reserve is established; and

- For long-term life insurance policies, deferred policy acquisition costs are subject to recoverability testing at policy issuance and periodic loss recognition testing thereafter. In general, the risk factors affecting the carrying value of deferred policy acquisition costs will largely depend on the actual experience from time to time against those assumptions, including, among others, mortality, morbidity, investment return, lapse and inflation, assumed by the actuary at policy issuance. If such experience analysis in the aggregate for a class of business produces an unfavorable result which indicates that balance of deferred policy acquisition costs cannot be recovered from future profits, then in similar fashion to the paragraph above, an accelerated write down of deferred policy acquisition costs will incur, which is followed by the establishment of additional reserves. Should the actual experience be favorable, on the other hand, there is no deceleration of the amortization of deferred policy acquisition costs for long-term life insurance policies.

Negative Interest Rate Spread on Legacy High Guaranteed Return Products

Like other major PRC life insurance companies, we offered life insurance products with relatively high guaranteed rates of return from 1995 to 1999, primarily as a result of the then prevailing high market interest rates. As of December 31, 2003, based on an assumed discount rate equal to the earned rate or 10.0%, the earned rate or 12.5% and the earned rate or 15.0%, without deducting the cost of holding required solvency margin, our central estimate of the value of in-force business written prior to June 1999 was negative RMB25,129 million, negative RMB22,102 million and negative RMB19,504 million, respectively. As of the same date, based on an assumed discount rate equal to the earned rate or 10.0%, the earned rate or 12.5% and the earned rate or 15.0%, without deducting the cost of holding required solvency margin, our central estimate of the value of in-force business written after June 1999 was RMB33,057 million, RMB29,752 million and RMB26,884 million, respectively. See the section headed “Composition of the Value of In-force Business” in the Consulting Actuaries’ Report set forth in Appendix IV. 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. Since the assumed mortality and morbidity rates and administrative expenses used in calculating premiums for our insurance products are estimated conservatively, the difference between actual and assumed mortality and morbidity rates and expense experience have to date generally offset some shortfall in interest rates. As a result, the substantial shortfall between the market interest rates and the guaranteed return rates have resulted in a negative interest rate spread, which has adversely affected our results of operations in the following primary respects:

- *Rendered our guaranteed return products unprofitable.* Gains from lower than expected mortality and morbidity rates and administrative expenses have not been sufficient to cover the negative interest rate spread attributable to these products. This has resulted in our guaranteed return products becoming unprofitable, and has caused us to incur a net loss with respect to these products. As of December 31, 2001, 2002 and 2003, policyholders' reserves for life insurance policies with guaranteed rates of return equal to or in excess of 5%, as calculated based on our PRC GAAP financial data, were approximately RMB51,123 million, RMB57,718 million and RMB67,528 million, respectively, and represented 68.5%, 53.3% and 45.3% of our total policyholders' reserves, respectively. The increase of the policyholders' reserves for life insurance policies with guaranteed rates of return equal to or in excess of 5% from 2001 to 2003 was primarily due to renewal premiums we collected from these existing policies.

- *Reduced our operating profit through acceleration of the amortization of deferred policy acquisition costs.* The negative interest rate spread will generally adversely affect the projected profitability of the guaranteed return products, which may require us to accelerate the amortization of deferred policy acquisition costs relating to such products, thereby reducing our operating profit.

In 2003, the average pricing rate for our guaranteed return life insurance policies issued prior to June 1999 was approximately 6.9%. In June 1999, the CIRC imposed a cap of 2.5% with respect to the guaranteed rate of return a life insurance company may offer on its products. As a result, we have offered guaranteed return products with rates equal to or less than 2.5%, which has partially reduced the overall impact of the negative interest rate spread on our results of operations. In addition, we have changed our product portfolio mix to increasingly emphasize products that are less sensitive to interest rate movements, such as investment-linked and participating life insurance products. The average pricing rate for all of our guaranteed return life insurance products was approximately 5.8%, 5.3% and 5.0% in 2001, 2002 and 2003, respectively, while our average investment return was approximately 5.8%, 4.1% and 4.4% in 2001, 2002 and 2003, respectively. We expect these high guaranteed return insurance policies to decline as a percentage of our total in-force life insurance policies as our new policies that have lower guaranteed rates of return or do not offer guaranteed rates of return continue to grow.

Ping An Securities

Prior to May 2001, we directly and indirectly held a 100% interest in Ping An Securities. On May 22, 2001, in connection with an increase in the registered capital of Ping An Securities and as required by the CRSC, our indirect equity interest in Ping An Securities was reduced to 30.0%. On October 22, 2003, Ping An Trust acquired an additional 34.1% equity interest of Ping An Securities resulting in our indirect equity interest in Ping An Securities increased to 63.6%. The goodwill arising from such acquisition amounted to RMB245 million. As a result, the results of Ping An Securities were reflected in our results of operations as an investment income (after the Group's indirect equity interest was reduced to 30.0%) in an associated company from May 22, 2001 to October 21, 2003, and since October 22, 2003, we have consolidated the financial results of Ping An Securities in our financial statements.

IFRS 4 — Insurance Contracts

On March 31, 2004, the IASB issued IFRS 4, ''Insurance Contracts'', which would apply to insurance contracts that an entity issues and reinsurance contracts that it holds, except for specified contracts covered by other IFRSs. IFRS 4 will be applicable for our IFRS financial statements for the year ending December 31, 2005. Our current accounting policies are in compliance with majority of the requirements of IFRS 4. We believe the adoption of IFRS 4 in 2005 will not have a material impact on our financial condition and results of operations. See the section headed ''Basis of Presentation'' in the Accountants' Report set forth in Appendix I to this prospectus.

TRADING RECORD

You should read the selected consolidated financial and operating information set forth below in conjunction with our consolidated financial statements included in the Accountants' Report set forth in Appendix I, which are prepared in accordance with IFRS. The selected consolidated results for the three years ended December 31, 2003, and the selected balance sheet information as of December 31, 2001, 2002 and 2003, set forth below are derived from the Accountants' Report set forth in Appendix I to this prospectus. The basis of presentation is set forth in note 1(2) to the Accountants' Report. For a description of the nature of unearned premium reserves, policyholders' reserves, deferred policy acquisition costs and claim reserves, see notes 2(16), 2(15), 2(10) and 2(16), respectively, to the Accountants' Report set forth in Appendix I to this prospectus.

	For the year ended December 31,		
	2001	2002	2003
	(in millions of RMB, except per share data)		
Income Statement Data			
Gross written premiums and policy fees, net of business tax and surcharges	40,955	58,420	63,134
Less: premiums ceded to reinsurers	(2,700)	(3,720)	(3,800)
Net written premiums and policy fees	38,255	54,699	59,334
Increase in unearned premium reserves(1)	(1,264)	(1,402)	(485)
Net earned premiums	36,992	53,297	58,849
Reinsurance commission income	928	1,195	1,248
Investment income and other income	3,914	4,256	6,527
Total revenue	41,834	58,748	66,623
Policy acquisition costs deferred	7,184	8,320	7,483
Amortization of deferred policy acquisition costs	(2,654)	(3,301)	(4,598)
Change in deferred policy acquisition costs(2)	4,530	5,019	2,885
Claims, surrenders, annuities and maturities	(7,274)	(12,693)	(13,585)
Policyholder dividends and reserves	(118)	(131)	(988)
Increase in policyholders' reserves(3)	(24,814)	(35,648)	(40,417)
Commission expenses	(5,680)	(6,692)	(5,676)
General and administrative expenses	(4,471)	(5,596)	(5,718)
Finance costs	(23)	(175)	(224)
Provision for insurance guarantee fund	(65)	(80)	(84)
Total expenses	(37,915)	(55,995)	(63,807)
Operating profit	3,919	2,753	2,816
Share of profits (losses) of associates	(65)	(59)	5
Income taxes	(900)	(689)	(494)
Net profit before minority interests	2,954	2,005	2,327
Minority interests	(2)	12	(7)
Net profit attributable to shareholders	2,952	2,017	2,320
Dividends	266	266	493
Dividends per Share	0.06	0.06	0.10
Basic earnings per Share	0.66	0.45	0.47

	As of December 31,		
	2001	2002	2003
	(in millions of RMB)		
Balance Sheet Data			
Assets			
Investments			
Held-for-trading investments	3,534	3,437	6,799
Available-for-sale investments	18,657	22,686	14,764
Held-to-maturity investments	—	9,991	32,332
Loans and receivables originated by the enterprise			
Bonds	4,170	5,667	19,170
Fixed deposits	45,923	73,439	78,233
Placements and loans	6,204	9,541	3,285
Investment in an associate	381	275	3
Investment properties, net	1,523	1,494	1,333
Total investments	80,392	126,530	155,920
Other Assets			
Cash and cash equivalents	4,955	3,815	8,017
Premium receivables, net	401	392	439
Interest receivables, net	144	394	316
Claims recoverable	687	775	1,338
Deferred policy acquisition costs	12,457	17,476	20,361
Statutory deposits	444	444	1,200
Property, plant and equipment, net	2,470	2,704	3,147
Construction-in-progress, net	207	143	146
Land use rights, net	494	847	924
Goodwill	—	—	241
Deferred tax assets	269	199	293
Other assets	815	872	1,078
Separate account (investment-linked) assets	4,979	8,006	10,059
Total other assets	28,322	36,066	47,559
Total assets	108,714	162,596	203,479

	As of December 31,		
	2001	2002	2003
	(in millions of RMB)		
Equity and Liabilities			
Equity			
Paid-in-capital	2,220	2,467	4,933
Reserves	4,180	9,322	7,667
Retained profits/(accumulated deficits)	(1,130)	(102)	352
Total equity	5,270	11,687	12,952
Minority interests	101	113	337
Liabilities			
Customers' deposits	—	—	2,304
Short term borrowings	3,001	8,313	200
Premiums received in advance	1,499	2,604	2,129
Commission payable	576	544	497
Claim reserves(4)	2,248	2,836	4,817
Payable to reinsurers	21	283	270
Dividends payable to shareholders	—	—	—
Policyholder dividends payable and reserves	118	237	1,189
Deposits from policyholders	80	68	49
Deposits from reinsurers	268	283	130
Unearned premium reserves	3,895	5,296	5,781
Policyholders' reserves	83,880	119,528	159,945
Taxes payable	608	618	326
Insurance guarantee fund	538	618	711
Other liabilities	1,629	1,561	1,785
Separate account (investment-linked) liabilities	4,979	8,006	10,059
Total liabilities	103,342	150,796	190,190
Total equity and liabilities	108,714	162,596	203,479

(1) A change in the unearned premium reserves is required where there is a change in the premium income from general and short-term life insurance policies, or premiums for general and short-term life insurance policies are written at different dates, even if the total premiums written do not differ materially between each year.

(2) Consists of policy acquisition costs deferred and amortization of deferred policy acquisition costs. A change in deferred policy acquisition costs is required where there is a change in acquisition costs incurred, which are eligible for deferral due primarily to a change in the premium income and/or its mix from the individual life insurance business, or there is a change in the cost structure or a change in the estimates following the application of a loss recognition test.

(3) A change in the policyholders' reserves is required where there is a change in: (i) the number of in-force policies, (ii) valuation interest rates, or (iii) assumptions, including mortality and morbidity assumptions. A change in reserves is also required where payments of maturities and annuities are charged to the income statement.

(4) A change in claim reserves is required where there is (i) a change in the number and/or amount of material claims reported but not settled, (ii) a change in claims experience or expectations or (iii) a change in the timing for settlement of claims.

	For the year ended December 31, 2001	2002	2003
Financial and Operating Ratios			
Group			
Return on average equity	75.1%	23.8%	18.8%
Return on average assets	3.2%	1.5%	1.3%
Investment yield(1)	5.6%	4.0%	4.5%
Life Insurance			
Operating expense ratio(2)	9.4%	7.9%	7.4%
Commission ratio(3)	14.4%	11.2%	8.7%
Benefit ratio(4)	87.9%	93.2%	95.2%
Investment yield(1)	5.8%	4.1%	4.4%
Property and Casualty Insurance			
Retention ratio(5)	66.3%	67.3%	65.2%
Loss ratio(6)	66.9%	57.1%	68.2%
Expense ratio(7)	50.1%	41.3%	31.2%
Combined ratio(8)	117.0%	98.3%	99.5%
Investment yield(1)	5.5%	3.8%	5.1%

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

(2) Ratio of operating expense, including non-commission acquisition costs, to net earned premiums.

(3) Ratio of commission expense to net earned premiums.

(4) Ratio of life insurance policy benefits, surrender benefits, policyholder dividends, and increase in policyholders' reserves to net earned premiums.

(5) Ratio of net written premiums to gross written premiums.

(6) Ratio of incurred losses and reinsurance losses net of reinsurance recoverable and prior incurred losses recoverable to net earned premiums, before deduction of business tax and surcharges.

(7) Ratio of operating expense, business tax and surcharges, commission expense, reinsurance commission expense, provision for insurance guarantee fund, net of reinsurance commission income and change in deferred policy acquisition costs, to net earned premiums.

(8) The sum of loss ratio and expense ratio.

The decline in the return on average equity ratio from 2001 to 2002 and from 2002 to 2003 was primarily caused by a capital injection from HSBC Insurance at the end of 2002, which increased the denominator used to compute the ratio in 2002 and 2003. The decline in the commission ratio in the corresponding period was primarily due to our implementation of our cost control initiatives that reduced commission expense and a change in our product mix because the proportion of new business from the group life insurance and bancassurance business was higher in 2002 and 2003 than in 2001. Since group life insurance and bancassurance are mainly single premium products, the commission rates for these products are generally lower than regular premium products. The decline in the loss ratio from 2001 to 2002 was primarily attributable to significantly lower losses in 2002 in our automobile loan credit insurance, cargo insurance and other insurance policies. These reductions were achieved, in part, through our implementation of more stringent underwriting procedures with a focus on profitability through careful selection of risk exposure. The increase in the loss ratio from 2002 to 2003 was primarily attributable to an increase in losses associated with our automobile, commercial property and homeowners' insurance policies, which represent a significant portion of our property and casualty insurance business. The decline in expense ratio from 2001 to 2002 and from 2002 to 2003 was primarily caused by (i) our implementation of cost control initiatives that reduced general and administrative expenses and commission expense and (ii) the reduction of the business tax rate from 7% in 2001 to 5% in 2003 resulting from a change in the relevant PRC tax law.

CRITICAL ACCOUNTING POLICIES

Accounting estimates are an integral part of our consolidated financial statements and are based upon our management's current judgments. Note 2 to the Accountants' Report set forth in Appendix I includes a summary of principal accounting policies used in the preparation of our consolidated financial statements. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting the estimates may differ significantly from management's current judgments. Estimates related to critical accounting policies involve significant judgment. The determination of these critical accounting policies is fundamental to our financial condition and results of operations, and requires management to make complex judgments based on information and data that may change in future periods. As a result, determinations regarding these items necessarily involve the use of assumptions and subjective judgments as to future events and are subject to change, and the use of different assumptions or data could produce materially different results. In addition, actual results could differ from estimates and may have a material adverse effect on our business, financial condition, results of operations or cash flows. We believe the following represents our critical accounting policies.

Investments

Investments are classified by management into the following categories: held-for-trading investments; loans and receivables originated by the enterprise; held-to-maturity investments; and available-for-sale investments. Investments acquired principally for the purpose of generating a profit from short-term price fluctuations are classified as held-for-trading investments. Loans and receivables originated by us by providing money, goods, or services directly to a debtor, other than those that are originated with the intent to be sold immediately or in the short-term, are classified as loans and receivables originated by the enterprise. Investments with fixed or determinable payments and fixed maturity that we have the positive intent and ability to hold to maturity, other than loans and receivable originated by the enterprise, are classified as held-to-maturity investments. All other investments are classified as available-for-sale investments.

All purchases and sales of investments are recognized on the trade date.

Investments are initially measured at cost, which is the fair value of the consideration given for them, including transaction costs.

Held-for-trading investments and available-for-sale investments are subsequently carried at fair value, except for certain equity investments (categorized as available-for-sale investments) that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. Such equity investments are measured at their cost less any provision for impairment losses. We consider this treatment appropriate because there is no reliable open market value for these securities, there is uncertainty as to their future cash flows, the variability in the range of reasonable fair value estimates is significant and, as a result, the probabilities of the various outcomes are difficult to assess.

The fair values of listed bond investments, listed equity securities and listed equity investment funds are assessed at the balance sheet date with reference to the quoted prices on the last trading day on the applicable 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 by reference to yield rates of similar listed bonds at the balance sheet date.

Changes in the fair values of held-for-trading investments are included in our consolidated results.

Changes in the fair values of available-for-sale investments, net of deferred tax, are recognized as a separate component of equity until the investment is de-reorganized, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in our consolidated results. We de-recognize a financial asset or a portion of a financial asset when, and only when, we lose control of the contractual rights that comprise the financial asset (or a portion of the financial asset). A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount.

Loans and receivables originated by the enterprise and held-to-maturity investments are subsequently measured at amortized cost less any impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity, using the effective interest rate method. For investments carried at amortized cost, gains and losses are recognized in income when the investments are de-recognized or impaired, as well as through the amortization process.

Deferred Policy Acquisition Costs

Some of the costs that are directly related to the acquisition of new long-term life insurance policies and investment-linked life insurance policies are deferred. These costs include commissions, underwriting, marketing and policy issue expenses. These deferred policy acquisition costs are subject to recoverability testing at the time of the issue of the policy and at the end of each accounting period.

For traditional life insurance and annuity policies, deferred policy acquisition costs are amortized over the expected life of the policies as a constant percentage of expected premiums, which are estimated at the date of the issue of the policy and are consistently applied throughout the life of the policy, unless premium deficiency occurs.

For investment-linked life insurance policies, deferred policy acquisition costs are amortized over the expected life of the policies based on a constant percentage of the present value of estimated gross profits expected to be realized over the life of the policies. Estimated gross profits include expected amounts to be assessed for mortality, administration, investment and surrender, less benefit claims in excess of policyholder balances, administrative expenses and interest credited. Estimated gross profits are revised regularly and the interest rate used to compute the present value of revised estimates of expected gross profits is the latest revised rate applied to the remaining benefit period. Deviations of actual results from estimated experience are reflected in our net profit.

For our short-term life and property and casualty insurance policies, acquisition costs are mainly represented by commissions and premium taxes, which vary with and are directly related to the acquisition of business. These costs are deferred and amortized over the period in which the related written premiums are earned. Deferred policy acquisition costs are periodically reviewed to determine that they do not exceed recoverable amounts, after considering expected future investment income. Contributions received from reinsurers towards acquisition costs are deferred in an identical manner.

Reserves for Long-Term Life Insurance Policies

Long-term life insurance policies are not subject to unilateral changes in their provisions and require the performance of various functions and services (including insurance protection) for an extended period. Participating life insurance policies, traditional life insurance polices and annuity products are usually considered as long-term life insurance policies.

Future life policyholders' benefits liabilities for other traditional life insurance policies are calculated using a net level premium valuation method based on actuarial assumptions as to mortality, persistency, expenses and investment return, including a margin for adverse deviation. The assumptions are established at the issue of the policy and remain unchanged except where premium deficiency occurs.

For policies where the premium payment period is less than the policy term, an extra reserve, often known as deferred profit liability, is also included in policyholders' reserves. The deferred profit liability ensures a profit emergence in a constant relationship to the amount of our total in-force insurance policies.

Reserves for Short-Term Life and Property and Casualty Insurance Policies

Short-term life insurance and property and casualty insurance policies provide insurance coverage for a fixed period of short duration and the policy terms enable the insurer to cancel the policy or to adjust the provisions of the policy at the end of any policy period.

Claim reserves comprise a best estimate of short-term life and property and casualty insurance provisions for losses and loss adjustment expenses. They represent the accumulation of estimates for ultimate losses less a deduction for the estimated value of salvage and subrogation and include provisions for IBNR losses. Methods used for determining these estimates and establishing the resulting reserves are continually reviewed and updated. Adjustments for claim reserves are reflected in our net profit for the current period. We do not discount our claim reserves to their present value.

Premium deficiency reserves are assessed for short-term life and property and casualty insurance policies on the basis of estimates of future claims, costs, premiums earned and proportionate investment income. Where applicable, such accounts are included as a component of policyholders' reserves. Premium deficiency reserves assessed on property and casualty insurance policies are disclosed, when material, as a separate provision.

Investment-Linked Life Insurance Policies

Revenue from investment-linked life insurance policies consists of policy fees and annual management fees. Policy fees represent the cost of insurance and front-end subscription fees. Annual management fees are charged at a rate predetermined in the policies. Amounts received other than policy fees collected as premiums and management fees from these policies are reported as separate account (investment-linked) assets. Policy benefits and claims incurred in the period are charged to claim expenses in our consolidated results, to the extent such amounts are not covered by separate account funds.

Separate account (investment-linked) assets and liabilities represent funds maintained to meet specific investment objectives of policyholders who bear the investment risk. The net investment income on separate account assets accrues directly to the policyholders. The assets and liabilities of each investment-linked fund are carried at market value and are segregated from each other and from the rest of our invested assets. Subscriptions, withdrawals, net investment income and management fees expense are included in the separate account assets and liabilities and are not reflected in our consolidated results.

Revenue Recognition

We recognize revenue when it is probable that the economic benefits associated with the transaction will flow to us and the amount of the revenue can be measured reliably. We have four principal sources of revenue: insurance premium income; policy fees and management fees from investment-linked life insurance policies; interest, dividend, realized gains and changes in the fair value of investment assets; and rental income from our investment portfolio.

Long-term life insurance premiums from traditional and participating life insurance policies are recognized as revenue upon the inception of the policies when premiums are due from the policyholders. Premiums from long-term property and casualty insurance policies are recognized as revenue when due from policyholders. Short-term life insurance and property and casualty insurance premiums are recognized as revenue upon the inception of the policies.

Policy fees from investment-linked life insurance policies are equal to the difference between premiums received for investment-linked life insurance policies and the amount of premiums allocated to separate account (investment-linked) assets and liabilities. Annual management fees are computed at the predetermined contract rate and charged at the end of each month.

Interest income from investment assets is recognized on an accrual basis. Dividends from investment assets are recognized when the right to receive payment is established. Trading income comprises realized gains and losses from all investment assets and all unrealized gains and losses from investments assets classified as held-for-trading.

Rental income from investment properties (after deduction of the aggregate cost of incentives granted to lessees) is recognized as income on the straight-line basis over the lease terms.

RESULTS OF OPERATIONS

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Written Premiums and Policy Fees. Our gross written premiums and policy fees, after excluding amounts allocated to separate account (investment-linked) assets as well as business tax and surcharges, increased 8.1% to RMB63,134 million in 2003 from RMB58,420 million in 2002. This increase was primarily due to the continued increase in demand for our insurance products resulting from the continued economic growth, as well as the ongoing economic and demographic transformation, in the PRC. The growth in our gross written premiums and policy fees in 2003 was slower as compared to 2002, as we decided to manage the growth of our overall business in 2003, with a view towards optimizing our product mix and enhancing our profit margins. Our business tax and surcharges decreased 14.3% to RMB552 million in 2003 from RMB644 million in 2002. This decrease was principally a result of a decrease in the applicable business tax rate to 5% in 2003 from 6% in 2002, which was partially offset by the increase in our gross written premiums and policy fees for short-term life and property and casualty insurance policies in 2003.

Premiums ceded to reinsurers increased 2.2% to RMB3,800 million in 2003 from RMB3,720 million in 2002. This increase was primarily due to the increase in our gross written premiums and policy fees for short-term life and property and casualty insurance policies in 2003. After taking into account premiums ceded to reinsurers, our net written premiums and policy fees increased 8.5% to RMB59,334 million in 2003 from RMB54,699 million in 2002.

Net Earned Premiums. Our net earned premiums increased 10.4% to RMB58,849 million in 2003 from RMB53,297 million in 2002. This increase was primarily due to an increase in our net written premiums and policy fees and a lower increase in unearned premium reserves in 2003 compared to 2002. In particular, the lower increase in our unearned premium reserves was RMB485 million in 2003 compared to RMB1,402 million in 2002. This lower increase in unearned premium reserves was mainly attributable to slower growth of our gross written premiums and polices fees of 8.1% in 2003 compared to 42.6% in 2002. Our net earned premiums as a percentage of our total revenue decreased to 88.3% in 2003 from 90.7% in 2002.

Reinsurance Commission Income. Our reinsurance commission income, which we receive from reinsurers to whom we cede premiums, increased 4.4% to RMB1,248 million in 2003 from RMB1,195 million in 2002. This increase was primarily due to the increase in premiums ceded to reinsurers resulting from the increase in our gross written premiums and policy fees.

Investment Income and Other Income. Our investment income and other income increased 53.4% to RMB6,527 million in 2003 from RMB4,256 million in 2002. This increase was primarily due to an increase in our interest income from fixed and other bank deposits and a significant increase in the fair value of our equity investments, which was partially offset by a net realized loss on our investments in 2003, lower interest income from collateralized placements and a decrease in dividend income. Our investment income and other income increased as a percentage of our total revenue to 9.8% in 2003 from 7.2% in 2002.

Interest income from bonds increased 116.4% to RMB2,142 million in 2003 from RMB990 million in 2002. This increase was primarily due to a significant increase in our bonds to RMB68,176 million as of December 31, 2003 from RMB38,746 million as of December 31,

2002. Interest income from fixed and other bank deposits increased 15.2% to RMB3,520 million in 2003 from RMB3,055 million in 2002. This increase was primarily due to the increase in our fixed deposits to RMB78,233 million in 2003 from RMB73,439 million in 2002. The increase in the fair value of our held-for-trading investments (unrealized gain) was RMB407 million in 2003, compared to a decrease in the fair value of our held-for-trading investments (unrealized loss) in the amount of RMB535 million in 2002. The increase in the fair value was principally a result of an upturn in the PRC securities markets in 2003. Interest income from collateralized placements decreased 27.6% to RMB118 million in 2003 from RMB163 million in 2002. This decrease was mainly due to a decrease in our collateralized placements, which primarily consists of reverse repurchase agreements. Our dividend income decreased 33.0% to RMB69 million in 2003 from RMB103 million in 2002. This decrease was mainly due to lower distributions by the equity investment funds in our investment portfolio. Net realized loss from our investments was RMB17 million in 2003 compared to a net realized gain of RMB238 million in 2002.

Total Revenue. As a result of the foregoing, our total revenue increased 13.4% to RMB66,623 million in 2003 from RMB58,748 million in 2002.

Change in Deferred Policy Acquisition Costs. The change in our deferred policy acquisition costs was RMB2,885 million in 2003 compared to RMB5,019 million in 2002. The change in our deferred policy acquisition costs decreased as a percentage of our gross written premiums and policy fees to 4.6% in 2003 from 8.6% in 2002. These decreases were primarily due to a decrease in the first year premiums from our individual life insurance products. In addition, group insurance and bancassurance products, on which we generally have lower policy acquisition costs, accounted for a larger portion of our gross written premiums and policy fees in 2003. In 2003, the amortization of our deferred policy acquisition costs relating to our group insurance business was accelerated due to loss recognition, in which the deferred policy acquisition costs balance of RMB5 million was written down to zero balance as of December 31, 2003.

Claims, Surrenders, Annuities and Maturities. Our claims, surrenders, annuities and maturities increased 7.0% to RMB13,585 million in 2003 from RMB12,693 million in 2002. This increase was primarily due to increases in: (1) payments relating to claims, (2) payments made upon the surrender of insurance policies and (3) death and other benefits paid. In addition, there was a significantly larger increase in our gross claim reserves in 2003 compared to 2002. Claims, surrenders, annuities and maturities decreased as a percentage of our gross premiums and policy fees to 21.5% in 2003 from 21.7% in 2002. See the sections headed ''— Segmental Operating Results — Life Insurance — Year Ended December 31, 2003 Compared to Year Ended December 31, 2002 — Claims, Surrenders, Annuities and Maturities'' and ''— Segmental Operating Results — Property and Casualty Insurance — Year Ended December 31, 2003 Compared to Year Ended December 31, 2002 — Claims''.

Policyholder Dividends and Reserves. Policyholder dividends and reserves increased significantly to RMB988 million in 2003 from RMB131 million in 2002. This increase was primarily due to a substantial increase in the policyholders' reserves for our participating life insurance policies and an increase in investment returns for these policies as well as a significant increase in the total number of our in-force participating life insurance policies. In particular, the statutory policyholders' reserves from our participating life insurance policies increased to RMB51,826 million as of December 31, 2003 from RMB27,030 million as of December 31, 2002.

Increase in Policyholders' Reserves. The increase in our policyholders' reserves was RMB40,417 million in 2003 compared to RMB35,648 million in 2002. The larger increase in 2003 was mainly due to an increase in gross written premiums attributable to our long-term life insurance policies. The increase in our policyholders' reserves represented 64.0% and 61.0% of our gross written premiums and policy fees in the 2003 and 2002, respectively.

Commission Expenses. Our commission expenses, which we pay primarily to agents that sell our insurance products, decreased 15.2% to RMB5,676 million in 2003 from RMB6,692 million in 2002. Our commission expenses decreased as a percentage of our gross written premiums and policy fees to 9.0% in 2003 from 11.5% in 2002. These decreases were principally a result of group insurance and bancassurance products, on which we generally pay lower commissions, accounting for a larger portion of our gross written premiums and policy fees in 2003, as well as a general decrease in commission rates of our property and casualty insurance business.

General and Administrative Expenses. Our general and administrative expenses increased 2.2% to RMB5,718 million in 2003 from RMB5,596 million in 2002. Our general and administrative expenses decreased as a percentage of our gross written premiums and policy fees to 9.1% in 2003 from 9.6% in 2002. This decrease was primarily due to increasing economies of scale and the implementation of cost control initiatives.

Finance Costs. Our finance costs increased to RMB224 million in 2003 from RMB175 million in 2002. This increase was primarily due to an increase in our short-term borrowings in the form of repurchase agreements.

Provision for Insurance Guarantee Fund. Our provision for insurance guarantee fund increased to RMB84 million in 2003 from RMB80 million in 2002. This increase was primarily due to an increase in net written premiums from our accident insurance and short-term health insurance products, which is partially offset by a decrease of net written premiums for our property and casualty insurance products. We are required under the applicable CIRC regulations to maintain an insurance guarantee fund equal to 1% of the net written premiums received for our property and casualty insurance, accident insurance and short-term health insurance products, subject to a maximum balance equal to 6% of our total assets calculated in accordance with PRC GAAP.

Total Expenses. As a result of the foregoing, our total expenses increased 14.0% to RMB63,807 million in 2003 from RMB55,995 million in 2002.

Operating Profit. As a result of the foregoing, our operating profit increased 2.3% to RMB2,816 million in 2003 from RMB2,753 million in 2002.

Share of Profits (Losses) of Associates. Our share of profit of associates was RMB5 million in 2003 compared to a loss of RMB59 million in 2002.

Income Taxes. Our income taxes decreased 28.3% to RMB494 million in 2003 from RMB689 million in 2002. This decrease was principally a result of (1) our investment income, which constituted an increasing portion of our operating profit in 2003, being entitled to preferential tax treatment in Shenzhen and (2) a one-off tax refund we received from the state tax bureau in connection with income taxes paid on the distributions from our equity investment funds. This one-off tax refund was not available to us in previous years. Our effective tax rates in 2003 and 2002 were 22.7% (before tax refund) and 25.6%, respectively.

Net Profit Attributable to Shareholders. As a result of the foregoing, and after taking into account minority interests, our net profit increased 15.0% to RMB2,320 million in 2003 from RMB2,017 million in 2002.

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Written Premiums and Policy Fees. Our gross written premiums and policy fees, after excluding amounts allocated to separate account (investment-linked) assets as well as business tax and surcharges, increased 42.6% to RMB58,420 million in 2002 from RMB40,955 million in 2001. This increase was primarily due to: (1) an increase in the demand for our insurance products resulting from the continued economic growth, as well as the ongoing economic and demographic transformation, in the PRC and (2) the continued expansion of our product offerings and distribution channels, which enabled us to reach new customers. Our business tax and surcharges increased to RMB644 million in 2002 from RMB643 million in 2001. This increase was principally a result of the increase in our gross written premiums and policy fees for short-term life insurance and property and casualty insurance policies in 2002, which was partially offset by a decrease in the applicable business tax rate to 6% in 2002 from 7% in 2001.

Premiums ceded to reinsurers increased 37.8% to RMB3,720 million in 2002 from RMB2,700 million in 2001. This increase was principally a result of the increase in our gross written premiums and policy fees for short-term life insurance and property and casualty insurance policies. Premiums ceded to reinsurers decreased as a percentage of our gross written premiums and policy fees to 6.4% in 2002 from 6.6% in 2001. After taking into account premiums ceded to reinsurers, our net written premiums and policy fees increased 43.0% to RMB54,699 million in 2002 from RMB38,255 million in 2001.

Net Earned Premiums. Our net earned premiums increased 44.1% to RMB53,297 million in 2002 from RMB36,992 million in 2001. This increase was primarily due to the increase in our net written premiums and policy fees, which was partially offset by a higher increase in unearned premium reserves in 2002 compared to 2001. In particular, the increase in our unearned premium reserves was RMB1,402 million in 2002 compared to RMB1,264 million in 2001. The higher increase in unearned premium reserves in 2002 was mainly attributable to the increase in gross written premiums for short-term life and property and casualty insurance policies. Our net earned premiums increased as a percentage of our total revenue to 90.7% in 2002 from 88.4% in 2001.

Reinsurance Commission Income. Our reinsurance commission income, which we receive from reinsurers to whom we cede premiums, increased 28.8% to RMB1,195 million in 2002 from RMB928 million in 2001. This increase was principally due to the increase in premiums ceded to reinsurers resulting from the increase in gross written premiums for short-term life and property and casualty insurance policies in 2002.

Investment Income and Other Income. Our investment income and other income increased 8.7% to RMB4,256 million in 2002 from RMB3,914 million in 2001. This increase was primarily due to an increase in our interest income from fixed and other bank deposits, bonds and collateralized placements and a lower decrease in fair value of our held-for-trading investments, which was partially offset by a decrease in dividend income and a decrease in net realized gain on our investments. Our investment income and other income decreased as a percentage of our total revenue to 7.2% in 2002 from 9.4% in 2001.

Interest income from fixed and other bank deposits, bonds and collateralized placements increased 36.2% to RMB4,208 million in 2002 from RMB3,090 million in 2001. This increase was primarily due to: (1) a significant increase in our fixed deposits to RMB73,439 million as of December 31, 2002 from RMB45,923 million as of December 31, 2001 and (2) a significant increase in our bonds to RMB38,746 million as of December 31, 2002 from RMB23,755 million as of December 31, 2001, which was partially offset by lower yields resulting from the declining interest rate environment. The decrease in fair value of our held-for-trading investments (unrealized loss) was RMB535 million in 2002 compared to RMB611 million in 2001. The continued decrease in fair value was principally a result of the continued downturn in the PRC securities markets in 2002. Our dividend income decreased 86.4% to RMB103 million in 2002 from RMB756 million in 2001. This decrease was mainly due to lower distributions by the equity investment funds in our investment portfolio. Net realized gain on our investments decreased 33.4% to RMB237 million in 2002 from RMB356 million in 2001. This decrease was primarily due to the continued downturn in the PRC securities market.

Total Revenue. As a result of the foregoing, our total revenue increased 40.4% to RMB58,748 million in 2002 from RMB41,834 million in 2001.

Change in Deferred Policy Acquisition Costs. The change in our deferred policy acquisition costs was RMB5,019 million in 2002 compared to RMB4,530 million in 2001. This was principally a result of the increase in gross written premiums for long-term life insurance policies. The change in our deferred policy acquisition costs decreased as a percentage of our gross written premiums and policy fees to 8.6% in 2002 from 11.1% in 2001. This decrease was primarily due to the increase in the sales of single premium insurance products, which were sold principally through our bancassurance and group distribution channels.

Claims, Surrenders, Annuities and Maturities. Our claims, surrenders, annuities and maturities increased 74.5% to RMB12,693 million in 2002 from RMB7,274 million in 2001. Our claims, surrenders, annuities and maturities increased as a percentage of our gross premiums and policy fees to 21.7% in 2002 from 17.8% in 2001. These increases were primarily due to increases in: (1) payments relating to claims, (2) payments made upon the surrender of insurance policies, (3) payments made on annuities and upon the maturity of insurance policies and (4) death and other benefits paid. These increases were partially offset by a smaller increase in gross claim reserves in 2002 compared to 2001. See the sections headed "— Segmental — Operating Results — Life Insurance — Year Ended December 31, 2002 Compared to Year Ended December 31, 2001 — Claims, Surrenders, Annuities and Maturities" and "— Segmental Operating Results — Property and Casualty Insurance — Year Ended December 31, 2002 Compared to Year Ended December 31, 2001 — Claims".

Policyholder Dividends and Reserves. Policyholder dividends and reserves increased 11.0% to RMB131 million in 2002 from RMB118 million in 2001. This increase was primarily due to an increase in the total number of our in-force participating life insurance policies, which was partially offset by a decrease in investment returns for these policies.

Increase in Policyholders' Reserves. The increase in our policyholders' reserves was RMB35,648 million in 2002 compared to RMB24,814 million in 2001. The higher increase in

2002 was mainly due to the increase in gross written premiums for long-term life insurance policies. The increase in our policyholders' reserves represented 61.0% and 60.6% of our gross written premiums and policy fees in 2002 and 2001, respectively.

Commission Expenses. Our commission expenses, which we pay primarily to agents that sell our insurance products, increased 17.8% to RMB6,692 million in 2002 from RMB5,680 million in 2001. This increase was primarily due to an increase in our gross written premiums and policy fees in 2002. Our commission expenses decreased as a percentage of our gross written premiums and policy fees to 11.5% in 2002 from 13.9% in 2001. This decrease was principally a result of renewal premiums and bancassurance products, on which we generally pay lower commissions, accounting for a larger portion of our gross written premiums and policy fees in 2002.

General and Administrative Expenses. Our general and administrative expenses increased 25.2% to RMB5,596 million in 2002 from RMB4,471 million in 2001. This increase was primarily due to an increase in salaries and employee benefits, as well as an increase in rental expenses resulting from the opening of new sub-branch offices, as we continued to expand our business operations in the PRC during 2002. Our general and administrative expenses decreased as a percentage of our gross written premiums and policy fees to 9.6% in 2002 from 10.9% in 2001. This decrease was principally a result of the increasing economies of scale.

Finance Costs. Our finance costs increased to RMB175 million in 2002 from RMB23 million in 2001. This increase was principally due to an increase in short-term borrowings in the form of repurchase agreements, and was partially offset by the lower market interest rates prevailing during 2002.

Provision for Insurance Guarantee Fund. Our provision for insurance guarantee fund increased to RMB80 million in 2002 from RMB65 million in 2001. This increase was primarily due to an increase in net written premiums from our property and casualty, accident and short-term health insurance products.

Total Expenses. As a result of the foregoing, our total expenses increased 47.7% to RMB55,995 million in 2002 from RMB37,915 million in 2001.

Operating Profit. As a result of the foregoing, our operating profit decreased 29.8% to RMB2,753 million in 2002 from RMB3,919 million in 2001.

Share of Profits (Losses) of Associates. Our share of loss of associates decreased to RMB59 million in 2002 from RMB65 million in 2001. This decrease was primarily due to a smaller loss incurred by Ping An Securities. This smaller loss was principally a result of a smaller trading loss and the implementation of cost reduction measures.

Income Taxes. Our income taxes decreased 23.4% to RMB689 million in 2002 from RMB900 million in 2001. This decrease was primarily due to the decrease in our operating profit. Our effective tax rates in 2002 and 2001 were 25.6% and 23.4%, respectively.

Net Profit Attributable to Shareholders. As a result of the foregoing, and after taking into account minority interests, our net profit decreased 31.7% to RMB2,017 million in 2002 from RMB2,952 million in 2001.

SEGMENTAL OPERATING RESULTS

We have two principal business segments for reporting purposes: our life insurance business and our property and casualty insurance business. See note 7 to the Accountants' Report set forth in Appendix I to this prospectus for a discussion of our segment information.

Life Insurance

The following table sets forth selected income statement data for our life insurance business for the periods indicated:

	For the year ended December 31,		
	2001	2002	2003
	(in millions of RMB)		
Income Statement Data			
Gross written premiums and policy fees, net of business tax and surcharges	34,952	50,582	55,042
Less: premiums ceded to reinsurers	(679)	(1,159)	(980)
Net written premiums and policy fees	34,274	49,423	54,062
Increase in unearned premium reserves	(303)	(225)	(256)
Net earned premiums	33,971	49,199	53,806
Reinsurance commission income	245	366	370
Investment income and other income	3,540	3,998	5,782
Total revenue	37,756	53,563	59,958
Policy acquisition costs deferred	6,518	7,287	6,453
Amortization of deferred policy acquisition costs	(2,109)	(2,562)	(3,606)
Change in deferred policy acquisition costs(1)	4,409	4,725	2,847
Claims, surrenders, annuities and maturities	(4,918)	(10,050)	(9,838)
Policyholders dividends and reserves	(118)	(131)	(988)
Increase in policyholders' reserves	(24,814)	(35,648)	(40,417)
Commission expenses	(5,149)	(5,864)	(5,074)
General and administrative expenses	(3,183)	(3,894)	(4,007)
Finance costs	(18)	(125)	(205)
Provision for insurance guarantee fund	(18)	(23)	(28)
Total expenses	(33,808)	(51,011)	(57,709)
Operating profit	3,948	2,552	2,248
Income taxes	(804)	(550)	(298)
Net profit	3,144	2,003	1,950

(1) Consists of policy acquisition costs deferred and amortization of deferred policy acquisition costs.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Written Premiums and Policy Fees. Gross written premiums and policy fees for our life insurance business, after excluding amounts allocated to separate account (investment-linked) assets as well as business tax and surcharges, increased 8.8% to RMB55,042 million in 2003 from RMB50,582 million in 2002. This increase was primarily due to increases in gross written premiums and policy fees attributable to our individual life, group and bancassurance products.

Gross written premiums and policy fees attributable to our individual life insurance products increased 7.1% to RMB34,616 million in 2003 from RMB32,329 million in 2002. This increase was primarily due to an 18.8% increase in renewal premiums to RMB25,593 million in 2003 from RMB21,539 million in 2002, which was a result of: (1) our continued focus on regular premium products and (2) an increase in our customer persistency level resulting from our continued efforts to improved customer service. The effect of the increase in renewal premiums was partially offset by a 16.4% decrease in first year premiums to RMB9,023 million in 2003 from RMB10,790 million in 2002. This decrease in first year premiums was mainly due to the adverse effect of the SARS outbreak on our individual life insurance business, as well as the initial impact of the rationalization of our individual life insurance sales agents. In addition, we stopped selling our existing investment-linked life insurance products as of June 2003, and are currently awaiting CIRC approval for our new investment-linked and universal life insurance products that are designed to comply with new CIRC regulations that came into effect on July 1, 2003.

Gross written premiums and policy fees attributable to our group insurance products increased 14.4% to RMB9,864 million in 2003 from RMB8,620 million in 2002. This increase was principally a result of a 9.4% increase in first year premiums to RMB8,829 million in 2003 from RMB8,074 million in 2002, which was primarily due to: (1) a significant increase in the sale of group non-participating deferred annuity products and (2) an increase in the sale of accident and health insurance policies. Although first year premiums increased in 2003, the magnitude of such increase was significantly smaller as compared to 2002. This was mainly due to our decision to manage the growth of our business in response to the low profit margins experienced by our group insurance business in 2003. An increase in renewal premiums to RMB1,035 million in 2003 from RMB546 million in 2002 also contributed to the increase in gross written premiums and policy fees attributable to our group insurance products.

Gross written premiums and policy fees attributable to our bancassurance products increased 9.6% to RMB10,562 million in 2003 from RMB9,633 million in 2002. This increase was primarily due to an increase in the sale of single premium participating life insurance products. However, the magnitude of the increase in gross written premiums and policy fees was significantly smaller as compared to 2002. This was mainly due to our efforts at optimizing our product mix in response to the low profit margins experienced by our bancassurance products in 2003.

Premiums ceded to reinsurers decreased 15.4% to RMB980 million in 2003 from RMB1,159 million in 2002. Premiums ceded to reinsurers decreased as a percentage of the gross written premiums and policy fees for our life insurance business to 1.8% in 2003 from 2.3% in 2002. These decreases were principally a result of a reduction in the applicable statutory reinsurance requirements by the CIRC in 2003, which was partially offset by the increase in gross written premiums for short-term life insurance policies. Gross written premiums and policy fees for short-term life insurance polices increased 17.4% to RMB3,757 million in 2003 from RMB3,201 million in 2002. After taking into account premiums ceded to reinsurers, net written premiums and policy fees for our life insurance business increased 9.4% to RMB54,062 million in 2003 from RMB49,423 million in 2002.

Net Earned Premiums. Net earned premiums for our life insurance business increased 9.4% to RMB53,806 million in 2003 from RMB49,199 million in 2002. This increase was primarily due to the increase in net written premiums and policy fees for our life insurance business, which was partially offset by the larger increase in unearned premium reserves in 2003 compared to 2002. In particular, the increase in our unearned premium reserves was RMB256 million in 2003 compared to RMB225 million in the same period in 2002. The larger increase in unearned premium reserves in 2003 was mainly attributable to the increase in gross written premiums for short-term life insurance policies.

Reinsurance Commission Income. Reinsurance commission income for our life insurance business, which we receive from reinsurers to whom we cede premiums, increased 1.1% to RMB370 million in 2003 from RMB366 million in 2002. This increase was primarily due to the higher reinsurance commission rates we were able to obtain from our reinsureres during this period.

Investment Income and Other Income. Investment income and other income for our life insurance business increased 44.6% to RMB5,782 million in 2003 from RMB3,998 million in 2002. This increase was primarily due to an increase in interest income from bonds and fixed and other bank deposits and a significant increase in the fair value of our investments, which was partially offset by a net realized loss on our investments in 2003 compared to a net realized gain in 2002, lower interest income from collateralized placements and a decrease in dividend income. See the section headed "— Results of Operations — Year Ended December 31, 2003 Compared to Year Ended December 31, 2002 — Investment Income and Other Income".

Total Revenue. As a result of the foregoing, total revenue for our life insurance business increased 11.9% to RMB59,958 million in 2003 from RMB53,563 million in 2002.

Change in Deferred Policy Acquisition Costs. The change in deferred policy acquisition costs for our life insurance business was RMB2,847 million in 2003 compared to RMB4,725 million in 2002. The change in deferred policy acquisition costs decreased as a percentage of the gross written premiums and policy fees for our life insurance business to 5.2% in 2003 from 9.3% in 2002. These decreases were primarily due to group insurance and bancassurance products, on which we generally have lower policy acquisition costs, accounted for a larger portion of our gross written premiums and policy fees in 2003 as well as a general decrease in first year premiums from individual life insurance products.

Claims, Surrenders, Annuities and Maturities. Claims, surrenders, annuities and maturities for our life insurance business decreased to RMB9,838 million in 2003 from RMB10,050 million in 2002. Claims, surrenders, annuities and maturities decreased as a percentage of the gross premiums and policy fees for our life insurance business to 17.9% in 2003 from 19.9% in 2002. These decreases were primarily due to a decrease in payments made on annuities and upon the maturity of insurance policies, which was partially offset by an increase in payments made upon the surrender of insurance policies and death and other benefits paid and a significantly larger increase in gross claim reserves for our life insurance business.

Payments made on annuities and upon the maturity of insurance policies decreased to RMB4,114 million in 2003 from RMB5,708 million in 2002. This significant decrease was mainly due to a substantial decrease in payments made as we did not have a large number of insurance policies maturing in 2003, which was partially offset by an increase in payments relating to annuity products sold as part of our individual life insurance products.

Payments made upon the surrender of insurance policies increased 19.1% to RMB3,010 million in 2003 from RMB2,528 million in 2002. This increase was primarily due to increased number of surrenders and an increase in surrender value of our life insurance policies as the total number of our in-force policies increased.

The change in gross claim reserves for our life insurance business was RMB1,089 million in 2003 compared to RMB425 million in 2002. This significantly larger increase in gross claim reserves was primarily due to an increase in benefits payable to policyholders.

Death and other benefits increased 39.3% to RMB649 million in 2003 from RMB466 million in 2002. This increase was mainly due to an increase in the total number of our in-force policies.

Policyholder Dividends and Reserves. Policyholder dividends and reserves increased significantly to RMB988 million in 2003 from RMB131 million in 2002. This increase was primarily due to a substantial increase in the total number of in-force participating life insurance policies, as well as the favorable mortality and investment experience for these policies.

Increase in Policyholders' Reserves. The increase in policyholders' reserves was RMB40,417 million in 2003 compared to RMB35,648 million in 2002. The larger increase in 2003 was mainly due to an increase in gross written premiums attributable to our long-term life insurance policies, which increased 8.2% to RMB51,285 million in 2003 from RMB47,381 million in 2002. The increase in policyholders' reserves increased as a percentage of the gross written premiums and policy fees from our life insurance business to 73.4% in 2003 from 70.5% in 2002.

Commission Expenses. Commission expenses for our life insurance business, which we pay primarily to our sales agents, decreased 13.5% to RMB5,074 million in 2003 compared to RMB5,864 million in 2002. Commission expenses decreased as a percentage of the gross written premiums and policy fees for our life insurance business to 9.2% in 2003 from 11.6% in 2002. These decreases were principally a result of an increase in sales of group insurance and bancassurance products, on which we generally pay lower commissions, as well as a general decrease in first year premiums from individual life insurance products.

General and Administrative Expenses. General and administrative expenses for our life insurance business increased 2.9% to RMB4,007 million in 2003 from RMB3,894 million in 2002. General and administrative expenses decreased as a percentage of the gross written premiums and policy fees for our life insurance business to 7.3% in 2003 from 7.7% in 2002. This decrease was primarily due to increasing economies of scale and the implementation of cost control initiatives.

Finance Costs. Finance costs for our life insurance business increased to RMB205 million in 2003 compared to RMB125 million in 2002. This increase was primarily due to an increase in short-term borrowing activity during 2003 in the form of repurchase agreements.

Provision for Insurance Guarantee Fund. Our provision for insurance guarantee fund increased to RMB28 million in 2003 from RMB23 million in 2002. This increase was primarily due to an increase in net written premiums from our accident insurance and short-term health insurance products.

Total Expenses. As a result of the foregoing, total expenses for our life insurance business increased 13.1% to RMB57,709 million in 2003 compared to RMB51,011 million in 2002.

Operating Profit. As a result of the foregoing, operating profit for our life insurance business decreased 11.9% to RMB2,248 million in the 2003 compared to RMB2,552 million in 2002.

Income Taxes. Income taxes for our life insurance business decreased to RMB298 million in 2003 from RMB550 million in 2002. The decrease was primarily due to an increasing portion of the operating profit in 2003 was entitled to preferential tax treatment in Shenzhen. The effective tax rates for our life insurance business was 13.3% in 2003 and 21.6% in 2002.

Net Profit. As a result of the foregoing, net profit for our life insurance business decreased 2.6% to RMB1,950 million in 2003 compared to RMB2,003 million in 2002.

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Written Premiums and Policy Fees. Gross written premiums and policy fees for our life insurance business, after excluding amounts allocated to separate account (investment-linked) assets as well as business tax and surcharges, increased 44.7% to RMB50,582 million in 2002 from RMB34,952 million in 2001. This increase was primarily due to increases in gross written premiums and policy fees attributable to our individual life, group and bancassurance products.

Gross written premiums and policy fees attributable to our individual life insurance products increased 16.1% to RMB32,329 million in 2002 from RMB27,844 million in 2001. This increase was primarily due to a 26.2% increase in renewal premiums to RMB21,539 million in 2002 from RMB17,072 million in 2001, which was a result of our focus on regular premium products. During the same period, first year premiums was RMB10,790 million in 2002 compared to RMB10,772 million in 2001. First year premiums were relatively stable as increases in sales of our accident and health and traditional participating life insurance products were offset by a decrease in sales of our investment-linked life insurance products. The increase in sales of accident and health and traditional participating life insurance products was mainly due to an increase in demand for these products, while the decrease in sales of investment-linked life insurance products was primarily due to the declining interest rate environment in the PRC as well as the significant volatility in the PRC securities markets, which made these products less attractive to our customers.

Gross written premiums and policy fees attributable to our group insurance products increased to RMB8,620 million in 2002 from RMB4,271 million in 2001. This increase was principally a result of a significant increase in first year premiums to RMB8,074 million in 2002 from RMB3,149 million in 2001, which was primarily due to a significant increase in the sale of group participating deferred annuity products, which was partially offset by a decrease in the sale of group non-participating life insurance products. Renewal premiums decreased 51.3% to RMB546 million in 2002 from RMB1,122 million in 2001.

Gross written premiums and policy fees attributable to our bancassurance products increased to RMB9,633 million in 2002 from RMB2,837 million in 2001. This increase was primarily due to a significant increase in the sale of single premium participating life insurance products, and was principally a result of the continued expansion of our bancassurance distribution channel.

Premiums ceded to reinsurers increased 70.7% to RMB1,159 million in 2002 from RMB679 million in 2001. This increase was principally a result of the increase in gross written premiums for short-term life insurance policies. Gross written premiums and policy fees for short-term life insurance polices increased 35.8% to RMB3,201 million from RMB2,357 million in 2001. In addition, we began ceding premiums for our group health insurance policies to reinsurers in 2002. Premiums ceded to reinsurers increased as a percentage of the gross written premiums and policy fees for our life insurance business to 2.3% in 2002 from 1.9% in 2001. After taking into account premiums ceded to reinsurers, net written premiums and policy fees for our life insurance business increased 44.2% to RMB49,423 million in 2002 from RMB34,274 million in 2001.

Net Earned Premiums. Net earned premiums for our life insurance business increased 44.8% to RMB49,199 million in 2002 from RMB33,971 million in 2001. This increase was primarily due to the increase in net written premiums and policy fees for our life insurance business, as well as a lower increase in unearned premium reserves in 2002 compared to 2001. In particular, the increase in our unearned premium reserves was RMB225 million in 2002 compared to RMB303 million in 2001. The lower increase in unearned premium reserves in 2002 was mainly attributable to slower growth in our accident and health life insurance business in 2002 compared to 2001. Gross written premiums and policy fees attributable to our accident and health life insurance policies increased 35.4% to RMB3,206 million in 2002 from RMB2,367 million in 2001.

Reinsurance Commission Income. Reinsurance commission income for our life insurance business, which we receive from reinsurers to whom we cede premiums, increased 49.4% to RMB366 million in 2002 from RMB245 million in 2001. This increase was principally due to the increase in premiums ceded to insurers resulting from the increase in gross written premiums for life insurance policies and an increase in the commission rates paid by reinsurers in 2002.

Investment Income and Other Income. Investment income and other income for our life insurance business increased 12.9% to RMB3,998 million in 2002 from RMB3,540 million in 2001. This increase was primarily due to an increase in interest income from fixed and other bank deposits, bonds and collateralized placements, and a lower decrease in fair value of our held-for-trading investments, which was partially offset by a decrease in dividend income as well as a decrease in net realized gain from our investments. See the section headed ''— Results of Operations — Year Ended December 31, 2002 Compared to Year Ended December 31, 2001 — Investment Income and Other Income''.

Total Revenue. As a result of the foregoing, total revenue for our life insurance business increased 41.9% to RMB53,563 million in 2002 from RMB37,756 million in 2001.

Change in Deferred Policy Acquisition Costs. The change in deferred policy acquisition costs for our life insurance business was RMB4,725 million in 2002 compared to RMB4,409 million in 2001. This was principally a result of the increase in gross written premiums for long-term life insurance policies. The change in deferred policy acquisition costs decreased as a percentage of the gross written premiums and policy fees for our life insurance business to 9.3% in 2002 from 12.6% in 2001. This decrease was primarily due to single premium insurance products, which were sold principally through our bancassurance and group distribution channels.

Claims, Surrenders, Annuities and Maturities. Claims, surrenders, annuities and maturities for our life insurance business increased significantly to RMB10,050 million in 2002 from RMB4,918 million in 2001. Claims, surrenders, annuities and maturities increased as a percentage of the gross premiums and policy fees for our life insurance business to 19.9% in 2002 from 14.1% in 2001. These increases were primarily due to increases in: (1) payments made upon the surrender of insurance policies, (2) payments made on annuities and upon the maturity of insurance policies and (3) death and other benefits paid. In addition, there was a significantly larger increase in gross claim reserves for our life insurance business.

Payments made upon the surrender of life insurance policies increased 62.4% to RMB2,528 million in 2002 from RMB1,557 million in 2001. This increase was primarily due to increased number of surrenders and an increase in the surrender value of our life insurance as the total number of our in-force policies increased.

Payments made on annuities and upon the maturity of life insurance policies increased to RMB5,708 million in 2002 from RMB2,294 million in 2001. This increase was mainly due to a substantial increase in payments made as a result of the maturity of certain of our individual life insurance policies in 2002.

Death and other benefits increased 36.7% to RMB466 million in 2002 from RMB341 million in 2001. This increase was primarily due to an increase in the total number of our in-force policies.

The change in gross claim reserves for our life insurance business was RMB425 million in 2002 compared to RMB4 million in 2001. This significantly larger increase in gross claim reserves was primarily due to an increase in benefits payable to policyholders.

Policyholder Dividends and Reserves. Policyholder dividends and reserves increased 11.1% to RMB131 million in 2002 from RMB118 million in 2001. This increase was primarily due to an increase in the total number of in-force participating life insurance policies, which was partially offset by a decrease in investment returns for these policies.

Increase in Policyholders' Reserves. The increase in policyholders' reserves was RMB35,648 million in 2002 compared to RMB24,814 million in 2001. The higher increase in 2002 was mainly due to the increase in gross written premiums for long-term life insurance policies, which increased 45.4% to RMB47,381 million in 2002 from RMB32,596 million in 2001. The increase in policyholders' reserves as a percentage of the gross written premiums and policy fees from our life insurance business was 70.5% in 2002 and 71.0% in 2001.

Commission Expenses. Commission expenses for our life insurance business, which we pay primarily to our sales agents, increased 13.9% to RMB5,864 million in 2002 from RMB5,149 million in 2001. This increase was primarily due to an increase in the gross written premiums and policy fees for our life insurance business in 2002. Commission expenses decreased as a percentage of the gross written premiums and policy fees for our life insurance business to 11.6% in 2002 from 14.7% in 2001. This decrease was principally a result of increases in group insurance sales and bancassurance sales, each of which generally received significantly lower or no commissions, accounting for a larger portion of the gross written premiums and policy fees for our life insurance business in 2002 compared to 2001.

General and Administrative Expenses. General and administrative expenses for our life insurance business increased 22.3% to RMB3,894 million in 2002 from RMB3,183 million in 2001. This increase was primarily due to: (1) an increase in the number of our employees, (2) increases in salary and employee benefits for our existing employees, and (3) an increase in rental expenses resulting from the opening of new sub-branch offices, as we continued to expand our life insurance business in the PRC during 2002. General and administrative expenses decreased as a percentage of the gross written premiums and policy fees for our life insurance business to 7.7% in 2002 from 9.1% in 2001. This decrease was principally a result of increasing economies of scale.

Finance Costs. Finance costs for our life insurance business increased to RMB125 million in 2002 from RMB18 million in 2001. This increase was principally due to an increase in short-term borrowings in the form of repurchase agreements, and was partially offset by the lower market interest rates prevailing in 2002.

Provision for Insurance Guarantee Fund. Our provision for insurance guarantee fund increased to RMB23 million in 2002 from RMB18 million in 2001. This increase was primarily due to an increase in net written premiums from our accident insurance and short-term health insurance products.

Total Expenses. As a result of the foregoing, total expenses for our life insurance business increased 50.9% to RMB51,011 million in 2002 from RMB33,808 million in 2001.

Operating Profit. As a result of the foregoing, operating profit for our life insurance business decreased 35.4% to RMB2,552 million in 2002 from RMB3,948 million in 2001.

Income Taxes. Income taxes for our life insurance business decreased 31.6% to RMB550 million in 2002 from RMB804 million in 2001. This decrease was primarily due to a decrease in operating profit for our life insurance business. The effective tax rates for our life insurance business was 21.6% in 2002 and 20.4% in 2001.

Net Profit. As a result of the foregoing, net profit for our life insurance business decreased 36.3% to RMB2,003 million in 2002 from RMB3,144 million in 2001.

Property and Casualty Insurance

The following table sets forth selected income statement data for our property and casualty insurance business for the periods indicated:

	For the year ended December 31,		
	2001	2002	2003
	(in millions of RMB)		
Income Statement Data			
Gross written premiums and policy fees, net of business tax and surcharges	6,003	7,838	8,091
Less: premiums ceded to reinsurers	(2,021)	(2,562)	(2,819)
Net written premiums and policy fees	3,981	5,276	5,272
Increase in unearned premium reserves	(961)	(1,177)	(229)
Net earned premiums	3,021	4,099	5,043
Reinsurance commission income	684	828	877
Investment income and other income	246	203	305
Total revenue	3,951	5,130	6,225
Policy acquisition costs deferred	666	1,033	1,030
Amortization of deferred policy acquisition costs	(545)	(739)	(992)
Change in deferred policy acquisition costs[1]	121	294	37
Claims	(2,356)	(2,643)	(3,746)
Commission expenses	(529)	(827)	(602)
General and administrative expenses	(1,494)	(1,616)	(1,524)
Finance costs	(5)	(10)	(15)
Provision for insurance guarantee fund	(47)	(57)	(56)
Total expenses	(4,311)	(4,859)	(5,907)
Operating profit (loss)	(360)	270	318
Income taxes	(21)	(163)	(222)
Net profit (loss)	(381)	107	96

(1) Consists of policy acquisition costs deferred and amortization of deferred policy acquisition costs.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Written Premiums and Policy Fees. Gross written premiums and policy fees for our property and casualty insurance business, after excluding business tax and surcharges, increased 3.2% to RMB8,091 million in 2003 from RMB7,838 million in 2002. During 2003, we decided to manage the growth of our overall business and focus on strengthening underwriting discipline and improving risk selection. Gross written premiums and policy fees attributable to our automobile insurance, commercial property insurance and homeowners insurance products all decreased in 2003 compared to 2002. These decreases were offset by increases in the gross written premiums attributable to our other property and casualty insurance products, which primarily consisted of cargo insurance, liability insurance, construction insurance and accident and health insurance. Business tax and surcharges for our property and casualty insurance business decreased 16.3% to RMB446 million in 2003 from

RMB533 million in 2002. This decrease was principally a result of a decrease in the applicable business tax rate to 5% in 2003 from 6% in 2002, which was partially offset by an increase in gross written premiums for our property and casualty insurance business.

Gross written premiums and policy fees attributable to our automobile insurance products decreased 4.0% to RMB4,705 million in 2003 from RMB4,901 million in 2002. This decrease was primarily a result of the implementation of more stringent underwriting procedures with a focus on risk selection. Gross written premiums and policy fees attributable to our automobile insurance products accounted for 58.2% and 62.5% of the gross written premiums and policy fees for our property and casualty insurance business in 2003 and 2002, respectively.

Gross written premiums and policy fees attributable to our commercial property insurance products decreased 8.5% to RMB1,329 million in 2003 from RMB1,453 million in 2002. This decrease was primarily due to the decrease of premium rates for our commercial property insurance products as a result of intensified competition. Gross written premiums and policy fees attributable to our commercial property insurance products accounted for 16.4% and 18.5% of the gross written premiums and policy fees for our property and casualty insurance business in 2003 and 2002, respectively.

Gross written premiums and policy fees attributable to our homeowners insurance products decreased 8.9% to RMB625 million in 2003 from RMB686 million in 2002. This decrease was primarily due to the decrease of premium rates for our homeowners insurance products as a result of intensified competition. Gross written premiums and policy fees attributable to our homeowners insurance products accounted for 7.7% and 8.8% of the gross written premiums and policy fees for our property and casualty insurance business in 2003 and 2002, respectively.

Gross written premiums and policy fees attributable to our accident and health insurance products was RMB151 million in 2003. Our property and casualty insurance business commenced selling these products in 2003.

Gross written premiums and policy fees attributable to our other property and casualty insurance products increased to RMB596 million in 2003 from RMB252 million in 2002. This increase was primarily due to an increase in gross written premiums attributable to construction insurance. Gross written premiums and policy fees attributable to our other property and casualty insurance products accounted for 7.4% and 3.2% of the gross written premiums and policy fees for our property and casualty insurance business in 2003 and 2002, respectively.

Premiums ceded to reinsurers increased 10.0% to RMB2,819 million in 2003 from RMB2,562 million in 2002. Premiums ceded to reinsurers as a percentage of the gross written premiums and policy fees for our property and casualty insurance business was 34.8% in 2003 and 32.7% in 2002. After taking into account premiums ceded to reinsurers, net written premiums and policy fees for our property and casualty insurance business decreased to RMB5,272 million in 2003 from RMB5,276 million in 2002.

Net Earned Premiums. Net earned premiums for our property and casualty insurance business increased 23.0% to RMB5,043 million in 2003 from RMB4,099 million in 2002. This increase was primarily due to the increase in net written premiums and policy fees for our property and casualty insurance business and a significantly smaller increase in unearned premium reserves in 2003 compared to 2002. In particular, the increase in our unearned premium reserves was RMB229 million in 2003 compared to RMB1,177 million in 2002. The smaller increase in unearned premium reserves in 2003 was mainly attributable to a significantly lower increase of gross written premiums and policy fees for our property and casualty insurance business in 2003 compared to 2002. In particular, the gross written premiums and policy fees for our property and casualty insurance business increased by 3.2% in 2003 compared to 30.6% in 2002.

Reinsurance Commission Income. Reinsurance commission income for our property and casualty insurance business, which we receive from reinsurers to whom we cede premiums, increased 5.9% to RMB877 million in the 2003 from RMB828 million in 2002. This increase was primarily due to the increase in premiums ceded to reinsurers in 2003 compared to 2002.

Investment Income and Other Income. Investment income and other income for our property and casualty insurance business increased 50.2% to RMB305 million in 2003 from RMB203 million in 2002. This increase was primarily due to an increase in interest income from bonds and fixed and other bank deposits and a significant increase in the fair value on our investments, which was partially offset by a net realized loss of our investments in 2003 compared to a net realized gain in 2002, lower interest income from collateralized placements and a decrease in dividend income. See the section headed ''— Results of Operations — Year Ended December 31, 2003 Compared to Year Ended December 31, 2002 — Investment Income and Other Income''.

Total Revenue. As a result of the foregoing, total revenue for our property and casualty insurance business increased 21.3% to RMB6,225 million in 2003 from RMB5,130 million in 2002.

Change in Deferred Policy Acquisition Costs. The change in deferred policy acquisition costs for our property and casualty insurance business was RMB37 million in 2003 compared to RMB294 million in 2002. This was principally a result of a significant lower increase of gross written premiums and policy fees for our property and casualty insurance business in 2003 compared to 2002. In addition, we implemented a number of cost control measures in connection with certain of our property and casualty insurance products. The change in deferred policy acquisition costs decreased as a percentage of the gross written premiums and policy fees for our property and casualty insurance business to 0.5% in 2003 from 3.8% in 2002.

Claims. Claims for our property and casualty insurance business increased 41.7% to RMB3,746 million in 2003 from RMB2,643 million in 2002. These increases were primarily due to an increase in payments relating to claims in 2003 and a significantly large increase in gross claim reserves for our property and casualty insurance business. Claims increased as a percentage of the net earned premiums for our property and casualty insurance business to 74.3% in 2003 from 64.5% in 2002.

Payments relating to claims, net of amounts recoverable from reinsurers, increased 15.1% to RMB2,855 million in 2003 from RMB2,480 million in 2002. This increase was primarily due to a significant increase in gross claims paid attributable to direct underwriting to RMB4,465 million in the 2003 from RMB3,401 million in 2002, which was partially offset by an increase in amounts recoverable from reinsurers to RMB1,627 million in 2003 from RMB936 million in the same period in 2002. The increase in gross claims paid attributable to direct underwriting in 2003 was principally a result of an increase in payments relating to automobile and commercial property insurance claims. The loss ratios for our automobile and commercial property insurance products increased to 76.4% and 49.0% in 2003 from 63.1% and 35.8% in 2002, respectively. The increase in amounts recoverable from reinsurers was mainly due to the increase in gross written premiums ceded to reinsurers.

The change in gross claim reserves for our property and casualty insurance business was RMB892 million in 2003 compared to RMB163 million in 2002. This significantly larger increase in gross claim reserves was primarily due to an industrial accident relating to the construction of a subway line in Shanghai, part of which was covered by our construction insurance, and an increase in provisions for claims relating to our automobile loan credit insurance products.

Commission Expenses. Commission expenses for our property and casualty insurance business, which we pay primarily to agents and brokers that sell our products, decreased 27.2% to RMB602 million in 2003 from RMB827 million in 2002. Commission expenses decreased as a percentage of the gross written premiums and policy fees for our property and casualty insurance business to 7.4% in 2003 from 10.6% in 2002. These decreases were primarily due to a decrease in the commission rates that we pay to our agents and brokers, which was partially offset by an increase in gross written premiums resulting from higher sales by these agents and brokers in 2003.

General and Administrative Expenses. General and administrative expenses for our property and casualty insurance business decreased 5.7% to RMB1,524 million in 2003 compared to RMB1,616 million in 2002. General and administrative expenses decreased as a percentage of the gross written premiums and policy fees for our property and casualty insurance business to 18.8% in 2003 from 20.6% in 2002. These decreases were primarily due to the implementation of cost control initiatives.

Finance Costs. Finance costs for our property and casualty insurance business increased to RMB15 million in 2003 from RMB10 million in 2002. This increase was primarily due to an increase in short-term borrowings in the form of repurchase agreements.

Provision for Insurance Guarantee Fund. Our provision for insurance guarantee fund decreased to RMB56 million in 2003 from RMB57 million in 2002.

Total Expenses. As a result of the foregoing, total expenses for our property and casualty insurance business increased 21.6% to RMB5,907 million in 2003 compared to RMB4,859 million in 2002.

Operating Profit. As a result of the foregoing, operating profit for our property and casualty insurance business increased 17.8% to RMB318 million in 2003 compared to RMB270 million in 2002.

Income Taxes. Income taxes for our property and casualty insurance business increased 36.2% to RMB222 million in 2003 from RMB163 million in the same period in 2002. This increase was primarily due to the increase in the operating profit for our property and casualty insurance business in 2003.

Net Profit. As a result of the foregoing, net profit for our property and casualty insurance business decreased 10.3% to RMB96 million in 2003 compared to RMB107 million in 2002.

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Written Premiums and Policy Fees. Gross written premiums and policy fees for our property and casualty insurance business, after excluding business tax and surcharges, increased 30.6% to RMB7,838 million in 2002 from RMB6,003 million in 2001. This increase was primarily due to an increase in the number of automobile, commercial property and homeowners insurance products sold in 2002. Business tax and surcharges for our property and casualty insurance business increased 6.2% to RMB533 million in 2002 from RMB502 million in 2001. This increase was principally a result of an increase in the total number of our property and casualty insurance policies, which was partially offset by a decrease in the applicable business tax rate to 6% in 2002 from 7% in 2001.

Gross written premiums and policy fees attributable to our automobile insurance products increased 38.4% to RMB4,901 million in 2002 from RMB3,541 million in 2001. This increase was primarily due to: (1) the continued increase in demand for automobiles in the PRC during 2002, which was principally a result of continued economic growth and the rise of a middle class that has growing levels of disposable income, and (2) the continued expansion of our insurance agent distribution channel, such as automobile dealerships, which facilitated the acquisition of new customers. Gross written premiums and policy fees attributable to our automobile insurance products accounted for 62.5% and 59.0% of the gross written premiums and policy fees for our property and casualty insurance business in 2002 and 2001, respectively.

Gross written premiums and policy fees attributable to our commercial property insurance products increased 23.4% to RMB1,453 million in 2002 from RMB1,177 million in 2001. This increase was primarily due to: (1) the continued increase in demand for commercial real estate in the PRC, which was principally a result of the continued high level of economic activity in the PRC during 2002, and (2) the continued expansion of our distribution channels, which enabled us to reach new customers. Gross written premiums and policy fees attributable to our commercial property insurance products accounted for 18.5% and 19.6% of the gross written premiums and policy fees for our property and casualty insurance business in 2002 and 2001, respectively.

Gross written premiums and policy fees attributable to our homeowners insurance products increased 14.3% to RMB686 million in 2002 from RMB600 million in 2001. This increase was primarily due to: (1) the continued increase in demand for residential housing in the PRC during 2002, which was principally a result of continued economic growth and the rise of a middle class that has growing levels of disposable income and (2) the continued expansion of our distribution channels, such as cross-selling of personal property and casualty products by our individual life insurance agents. Gross written premiums and policy fees attributable to our homeowners insurance products accounted for 8.8% and 10.0% of the gross written premiums and policy fees for our property and casualty insurance business in 2002 and 2001, respectively.

Premiums ceded to reinsurers increased 26.8% to RMB2,562 million in 2002 from RMB2,021 million in 2001. This increase was principally a result of the increase in gross written premiums and policy fees for our property and casualty insurance business. Premiums ceded to reinsurers as a percentage of the gross written premiums and policy fees for our property and casualty insurance business were 32.7% and 33.7% in 2002 and 2001, respectively. After taking into account premiums ceded to reinsurers, net written premiums and policy fees for our property and casualty insurance business increased 32.5% to RMB5,276 million in 2002 from RMB3,981 million in 2001.

Net Earned Premiums. Net earned premiums for our property and casualty insurance business increased 35.7% to RMB4,099 million in 2002 from RMB3,021 million in 2001. This increase was primarily due to the increase in net written premiums and policy fees for our property and casualty insurance business, which was partially offset by a higher increase in unearned premium reserves in 2002 compared to 2001. In particular, the increase in our unearned premium reserves was RMB1,177 million in 2002 compared to RMB961 million in 2001. The higher increase in unearned premium reserves in 2002 was mainly attributable to the increase in gross written premiums for long-term property and casualty insurance policies, which was partially offset by slower growth in new business in 2002 compared to 2001.

Reinsurance Commission Income. Reinsurance commission income for our property and casualty insurance business, which we receive from reinsurers to whom we cede premiums, increased 21.1% to RMB828 million in 2002 from RMB684 million in 2001. This increase was principally due to the increase in premiums ceded to reinsurers resulting from the increase in gross written premiums for property and casualty insurance policies.

Investment Income and Other Income. Investment income and other income for our property and casualty insurance business decreased 17.5% to RMB203 million in 2002 from RMB246 million in 2001. This decrease was primarily due to a decrease in dividend income as well as a decrease in net realized gain from our investments, which was partially offset by an increase in interest income from fixed and other bank deposits, bonds and collateralized placements as well as a lower decrease in the fair value of our investments. See the section headed "— Results of Operations — Year Ended December 31, 2002 Compared to Year Ended December 31, 2001 — Investment Income and Other Income".

Total Revenue. As a result of the foregoing, total revenue for our property and casualty insurance business increased 29.8% to RMB5,130 million in 2002 from RMB3,951 million in 2001.

Change in Deferred Policy Acquisition Costs. The change in deferred policy acquisition costs for our property and casualty insurance business was RMB294 million in 2002 compared to RMB121 million in 2001. This was principally a result of the increase in gross written premiums for long-term property and casualty insurance policies. The change in deferred policy acquisition costs increased as a percentage of the gross written premiums and policy fees for our property and casualty insurance business to 3.8% in 2002 from 2.0% in 2001. This increase was primarily due to more long-term policies sold in 2002.

Claims. Claims for our property and casualty insurance business increased 12.2% to RMB2,643 million in 2002 from RMB2,356 million in 2001. These increases were primarily due to an increase in payments relating to claims in 2002, which was partially offset by a significantly smaller increase in gross claim reserves for our property and casualty insurance business. Our claims decreased as a percentage of the net earned premiums for our property and casualty insurance business to 64.5% in 2002 from 78.0% in 2001.

Payments relating to claims, net of amounts recoverable from reinsurers, increased 63.4% to RMB2,480 million in 2002 from RMB1,518 million in 2001. This increase was primarily due to a 31.3% increase in gross claims paid attributable to direct underwriting to

RMB3,401 million in 2002 from RMB2,591 million in 2001 and a 13.8% decrease in amounts recoverable from reinsurers to RMB936 million in 2002 from RMB1,086 million in 2001. The increase in gross claims paid attributable to direct underwriting in 2002 was principally a result of an increase in payments relating to automobile insurance claims (including automobile loan credit insurance claims).

The change in gross claim reserves for our property and casualty insurance business was RMB163 million in 2002 compared to RMB838 million in 2001. The significantly larger change in gross claim reserves was primarily due to the substantial claims reserves made in connection with our automobile loan credit insurance products in 2001.

Commission Expenses. Commission expenses for our property and casualty insurance business, which we pay primarily to agents and brokers that sell our products, increased 56.3% to RMB827 million in 2002 from RMB529 million in 2001. This increase was primarily due to the increase in gross written premiums for automobile, commercial property and homeowners insurance policies sold by these agents and brokers in 2002. Commission expenses increased as a percentage of the gross written premiums and policy fees for our property and casualty insurance business to 10.6% in 2002 from 8.8% in 2001. This increase was principally a result of sales by agents and brokers accounting for a larger portion of the gross written premiums and policy fees for our property and casualty insurance business in 2002 compared to 2001.

General and Administrative Expenses. General and administrative expenses for our property and casualty insurance business increased 8.2% to RMB1,616 million in 2002 from RMB1,494 million in 2001. This increase was primarily due to the expansion of our property and casualty business. General and administrative expenses decreased as a percentage of the gross written premiums and policy fees for our property and casualty insurance business to 20.6% in 2002 from 24.9% in 2001, as we adopted more stringent cost controls.

Finance Costs. Finance costs for our property and casualty insurance business increased to RMB10 million in 2002 from RMB5 million in 2001. This increase was primarily due to an increase in short-term borrowings in the form of repurchase agreements, which was partially offset by the lower market interest rates prevailing in 2002.

Provision for Insurance Guarantee Fund. Our provision for insurance guarantee fund increased to RMB57 million in 2003 from RMB47 million in 2002. This increase was primarily due to the increase in net written premiums from our property and casualty insurance products.

Total Expenses. As a result of the foregoing, total expenses for our property and casualty insurance business increased 12.7% to RMB4,859 million in 2002 from RMB4,311 million in 2001.

Operating Profit (Loss). As a result of the foregoing, our property and casualty insurance business had an operating profit of RMB270 million in 2002 compared to an operating loss of RMB360 million in 2001.

Income Taxes. Income taxes for our property and casualty insurance business increased to RMB163 million in 2002 from RMB21 million in 2001. This increase was primarily a result of an operating profit of RMB270 million in 2002 compared to an operating loss of RMB360 million in 2001.

Net Profit (Loss). As a result of the foregoing, our property and casualty insurance business had a net profit of RMB107 million in 2002 compared to a net loss of RMB381 million in 2001.

LIQUIDITY AND CAPITAL RESOURCES

We manage our liquidity and capital resources at the Group level on a consolidated basis. We are a holding company and, with the exception of investment management activities, do not conduct any significant business operations on our own. As a result, we depend upon dividends and distributions from our operating subsidiaries for substantially all of our cash flow.

The principal sources of funds generated by our insurance operations are written premiums and policy fees, management fees for our investment-linked life insurance products, net investment income and proceeds from the sale or maturity of investments, while the major uses of these funds are:

- to provide life insurance policy benefits, pay surrenders and profit sharing for participating life insurance policyholders;
- to pay property and casualty insurance claims and related claims expenses; and
- to pay other operating costs.

We generate a substantial cash flow from operations as a result of most premiums and policy fees being received in advance of the time when policy benefits or claim payments are required. These positive operating cash flows, along with that portion of our investment portfolio that is held in cash and liquid securities, have historically met the liquidity requirements of our insurance operations, as evidenced by the growth of investment portfolio. See the section headed "Business — Investment Portfolio".

In the insurance industry, liquidity generally refers to the ability of an insurance company to generate adequate amounts of cash from its normal operations, including its investment portfolio, in order to meet its financial commitments, which are principally obligations under its insurance policies. The liquidity needs of our life insurance operations are generally affected by trends in actual mortality and morbidity experience relative to the assumptions used in the pricing of our life insurance policies, by the extent to which minimum returns or crediting rates are provided in connection with our life insurance products, as well as by the level of surrenders and withdrawals. See the section headed " — Surrenders". The liquidity of our property and casualty insurance operations is affected by the frequency and severity of losses under our property and casualty insurance policies, as well as by the persistency of our property and casualty insurance products. Future catastrophic events, the timing and effect of which are inherently unpredictable, may also create increased liquidity requirements for our property and casualty insurance operations.

Our uses of funds, in addition to shareholder dividends, include underwriting expenditures (reinsurance premiums, benefits, surrenders, claims, including claims handling expenses, and profit sharing with participating life insurance policyholders), acquisitions and employee and other operating expenses, as well as interest expense on outstanding borrowings. In particular, our participating life insurance products include mandatory profit sharing features, whereby we return a specified portion of statutory profits to policyholders annually, generally in the form of cash, premium subsidies or rebates or as an increase in policy amounts. We are required by the CIRC to allocate at least 70% of the annual distributable surplus for the benefit of policyholders. We are required to pay dividends annually on our participating life insurance products, which must be no less than 70% of the distributable surplus from participating life insurance products for that year, in accordance with CIRC requirements.

The liquidity requirements of our insurance operations are met on both a short-term and long-term basis by insurance premiums and policy fees collected, net investment income and the sale and maturity of investments. We also have access to short-term borrowings as an additional source of liquidity. Our balance of cash and cash equivalents was RMB8,017 million in 2003, RMB3,815 million in 2002 and RMB4,955 million in 2001.

Cash flows from operating activities were RMB35,178 million in 2003, RMB32,665 million in 2002 and RMB26,406 million in 2001. The increase in cash flows from operating activities during these periods was principally a result of increased written premiums and policy fees and net investment income.

Net cash outflow from investing activities was RMB22,145 million in 2003, RMB43,696 million in 2002 and RMB30,567 million in 2001. Our principal investing activities involved fixed and other bank deposits at banks as well as the purchase and sale of fixed income securities and equity investment funds.

Net cash outflow from financing activities was RMB8,831 million in 2003 compared to a net cash inflow of RMB9,890 million in 2002. This is primarily due to repayment of short-term borrowings and an increase in dividends to our shareholders. Net cash inflow from financing activities was RMB9,890 million in 2002 and RMB3,112 million in 2001. The increase in net cash provided by financing activities in 2002 was primarily due to the US$600 million investment in our Shares by HSBC Insurance and an increase in our short-term borrowings.

Solvency Margin

The solvency margin ratio is a measure of capital adequacy for PRC insurance companies, and is calculated by dividing the actual solvency margin (which is the difference between an insurance company's admissible assets and admissible liabilities as determined by the CIRC) by a statutory minimum solvency margin. Under the applicable CIRC regulations, PRC insurance companies are required to maintain specified solvency margin ratios. As a general matter, the CIRC considers an insurance company with a solvency margin ratio of 100% or higher to be financially sound. If the solvency margin ratio falls between 100% and 70%, the CIRC may order the insurance company to submit a plan to increase capital. If the solvency margin ratio falls between 70% and 30%, the CIRC may order the insurance company to dispose of non-performing assets or limit the compensation of senior management. If the solvency margin ratio falls below 30%, the CIRC may assume control of the insurance company's operations. For a detailed description of the solvency margin requirements, please see the section headed ''Supervision and Regulation — Insurance Business — Solvency Margin''.

The following table sets forth the solvency margin ratios for Ping An Life and Ping An Property & Casualty as of December 31, 2003:

	Ping An Life	Ping An Property & Casualty
	(in millions of RMB, except percentages)	
Actual solvency margin	8,320	1,481
Minimum solvency margin	7,608	833
Solvency ratio margin	109.4%	177.8%

We also hold additional capital at the Group level, which was RMB4,839 million as of December 31, 2003, to support our insurance businesses.

Contractual Obligations

We do not have any material contractual obligations or commercial commitments, including long-term debt, rental commitments, operating lease commitments, purchase obligations or other capital commitments, other than as set forth in note 4(26) to the Accountants' Report set forth in Appendix I.

The following table sets forth the Group's contractual commitments as of the dates indicated:

	As of December 31,		
	2001	2002	2003
	(in millions of RMB)		
Contractual commitments	96	173	282

The following table sets forth the Group's operating lease commitments as of the dates indicated:

	As of December 31,		
	2001	2002	2003
	(in millions of RMB)		
Operating lease commitments			
Within 1 year	231	339	355
From 1 to 5 years	285	289	310
After 5 years	7	66	11
Total	523	694	676

Off-Balance Sheet Arrangements

We do not have any material off-balance sheet arrangements.

Contingent Liabilities

Due to the nature of the insurance business, we are involved in legal proceedings in the ordinary course of business, including being the plaintiff or the defendant in litigation as well as being the applicant respondent in arbitration. Those legal proceedings involve primarily claims on our insurance policies. We have established a centralized legal department to monitor our legal proceedings and determine our litigation exposure. The following classes of legal proceedings are required to be directed to our legal department for coordination and resolution: (i) any claim made by or against the Company, (ii) any claim made by or against Ping An Life or any of its branches for RMB200,000 or more, (iii) any claim made by or against Ping An Property & Casualty or any of its branches for RMB1 million or more, (iv) any claim against Ping An Trust or Ping An Securities for RMB1 million or more; and (v) any intellectual property litigation or arbitration involving any member of the Group. The legal proceedings discussed above are required to be reported to the legal department which shall conduct a legal assessment in collaboration and cooperation with the entity within the Group that is the subject of the legal proceeding. The legal department will be responsible for the ultimate resolution of the legal proceeding, arrived at through a process of consultation with the relevant entities within the Group, and where appropriate, outside legal counsel. In compliance with the requirements of the CIRC, we have established a group to oversee and resolve, on an expedited basis, all material legal proceedings requiring immediate attention. We make provision from time to time for the probable losses to us with respect to those claims when our management can reasonably estimate the outcome of the lawsuits taking into account the legal advice we receive. We do not make provision for pending lawsuits when the outcome of the lawsuits cannot be reasonably estimated or our management believes that the probability is remote or that any resulting liabilities will not have a material adverse effect on our financial position or operating results.

As at December 31, 2001, 2002 and 2003, we did not have any material contingent liabilities, other than as set forth in note 4(27) to the Accountants' Report set forth in Appendix I.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Market risk generally is the risk of loss resulting from changes in interest rates, liquidity, equity securities prices and foreign exchange rate. As of December 31, 2003, we had investment assets of approximately RMB156 billion, which are subject to market risk arising from our investment activities.

We measure, manage and monitor the market risk associated with investment assets on a continuous basis. In particular, we have developed an integrated process for managing risk, which we conduct primarily through our risk management department and the individual professionals that are engaged in our investment activities. Furthermore, we have established and implemented comprehensive policies and procedures to manage the effects of potential market volatility. See the section headed "Business — Risk Management — Market Risk Management."

Our primary source of interest rate risk is our fixed income investment assets. In particular, changes in market interest rates may result in fluctuations in the fair value of these investment assets, which may adversely affect our results of operations. We manage our interest rate risk by focusing on, among other things, interest rate sensitivity and duration analysis. We also simulate and analyze from time to time movements in the yield curve to measure our overall exposure to interest rate fluctuations.

We are exposed to investment liquidity risk to the extent we hold low liquidity investment assets that could not be readily disposed of in the market. In particular, we may suffer losses from not being able to dispose of such investment assets in a timely manner or having to dispose of such investment assets at unfavorable prices. We manage our market liquidity risk by establishing limits on the amounts we may invest in each investment asset category. Moreover, we generally follow a long-term investment strategy, which reduces the need to actively engage in short-term trading of our investment assets.

We are also exposed to the risk of equity securities market volatility as a result of our investments in equity investment funds. In particular, a market downturn may cause us to recognize realized and unrealized investment losses, which would adversely affect our results of operations. We monitor our risk exposure on an integrated basis with other market risks by using, among other things, the value-at-risk method and other risk management techniques.

In addition, we are exposed to foreign exchange rate risk because some of our assets are denominated in a currency other than Renminbi, which is the functional currency of substantially all of our operations. These assets are primarily denominated in U.S. dollars and Hong Kong dollars. If the foreign exchange rate of the non-Renminbi currencies declines against that of the Renminbi, the fair values of the corresponding assets would also decline in value.

Risk Exposure Estimates

We conduct sensitivity analysis to analyze the implications of changes in market conditions on our investment assets. The sensitivity analysis measures the potential loss in the fair values of market sensitive investment assets resulting from selected hypothetical changes in equity prices, interest rates and foreign exchange rates at a selected time.

Interest rate risk sensitivity is estimated under the assumption of a 50-basis point increase in interest rates. If interest rates increase, the fair values of interest rate-sensitive instruments such as bonds may decrease. Furthermore, the magnitude of the decrease may be different depending on the maturity, coupon or other characteristics of a particular instrument.

The following table sets forth the aggregate fair value sensitivity of our interest rate-sensitive bond instruments assuming a simultaneous and instantaneous 50-basis point increase in interest rates across all relevant interest rate-sensitive bond instruments as of the dates indicated:

	As of December 31,		
	2001	2002	2003
	(in millions of RMB)		
Interest rate risk	897	1,017	1,704

Equity risk sensitivity is estimated by assuming a 10% decline in stock prices. If stock prices decrease, the fair value of our listed equity and listed equity investment funds will decrease.

The following table sets forth the aggregate fair value sensitivity of our listed equity and listed equity investment funds assuming a simultaneously 10% decline in all of our equity holdings as of the dates indicated:

	As of December 31,		
	2001	2002	2003
	(in millions of RMB)		
Equity risk	244	285	469

Foreign exchange rate risk sensitivity is estimated by assuming a 10% depreciation in all non-Renminbi currency exchange rates against the Renminbi. If non-Renminbi currencies depreciate against the Renminbi, the carrying value of our non-Renminbi denominated fixed deposits and cash and cash equivalents will decrease.

The following table sets forth the aggregate carrying value sensitivity of our non-Renminbi denominated fixed deposits and cash and cash equivalents assuming a simultaneously and uniform 10% depreciation of the value of all non-Renminbi currencies against the Renminbi as of the dates indicated:

	As of December 31,		
	2001	2002	2003
	(in millions of RMB)		
Foreign exchange risk	83	578	631

We believe that the scenarios chosen make reasonable assumptions based on past observations about market conditions. While market changes exceeding 10% or 50 basis points, respectively, are possible, we believe our sensitivity analysis is a fair estimate on the risk inherent in our investment assets. While we have intentionally simplified these assumptions, we believe they provide a useful framework for our risk management analysis and strategies.

Some of our investment assets involve more than one market risk category. Our sensitivity analysis does not take into account the impact of market risk in our insurance liabilities. We believe that the structure of our insurance liabilities would generally operate to mitigate our exposure to market risk.

Limitations of Sensitivity Analysis

While we consider sensitivity analysis to provide us with a valid estimation of market risk exposures, we recognize that there are certain limitations in its use.

Changes of prices in a diversified portfolio have offsetting effects, known as the "diversification effect" of holding a portfolio consisting of different assets, since different assets revalue in different directions or in different magnitudes to marketplace changes. Diversification is not taken into account in our risk estimates due to the generalized assumptions of a sensitivity analysis. The actual changes in the fair value of our investment assets may be different than those shown here.

Furthermore, routine daily business activity entails a certain amount of change in a portfolio's composition as bonds mature or as we buy or sell investment assets. As a result, the actual sensitivity of our portfolio will vary at any particular moment in time, and the risk of loss from equity price, interest rate, foreign exchange rate or other risks cannot be eliminated.

In addition, our sensitivity analysis is an estimate based on a fixed point in the past. Nearly all of our assets and liabilities are subject to market risk from fluctuating equity prices, interest rates and foreign exchange rates. These fluctuations cannot be foreseen and could occur very suddenly. The quantitative risk measures provided by the sensitivity analysis are a snapshot, describing the potential losses to investments under a particular set of assumptions and parameters, which, though reasonably possible, may differ considerably from actual losses experienced in the future.

PROFIT FORECAST

The Directors believe that, on the bases and assumptions set out in Appendix II — ''Profit Forecast'', and in the absence of unforeseen circumstances, our consolidated profit after tax and minority interests but before extraordinary items determined in accordance with IFRS for the year ending December 31, 2004 is unlikely to be less than RMB2,760 million. The profit forecast has been prepared by the Directors based on the unaudited management accounts of the Group for the three months ended March 31, 2004 and a forecast of the consolidated results of the Group for the remaining nine months of the year ending December 31, 2004. The Directors are currently unaware of any extraordinary items which have arisen or are likely to arise in respect of the year ending December 31, 2004 that would affect the prospective financial information presented.

On a pro-forma fully diluted basis and on the assumption that a total of 6,195,053,334 Shares were issued and outstanding throughout the year ending December 31, 2004, the forecast earnings per Share for the year ending December 31, 2004 is RMB0.45, representing a price/earnings multiple of 22.9 times and 28.4 times if the Offer Price is HK$9.59 per Offer Share and HK$11.88 per Offer Share, respectively.

DIVIDEND POLICY

The payment of any dividend by us must be approved by shareholders in a shareholders' meeting. Our Board intends to recommend the declaration of cash dividends to the shareholders in general meeting. The decision to make a recommendation for the payment of any dividend and the amount of the dividend will depend on:

- our results of operations and cash flows;
- our financial position;
- statutory solvency requirements as determined under PRC GAAP with reference to CIRC rules;
- our shareholders' interests;
- general business conditions;
- our future prospects;
- statutory and regulatory restrictions on the payment of dividends by us; and
- other factors that our Board deems relevant.

Our Board will declare dividends, if any, in Renminbi with respect to the H Shares on a per Share basis and will pay such dividends in Hong Kong dollars. Any final dividend for a fiscal year will be subject to shareholders' approval. Under the PRC Company Law and our Articles of Association, all of our shareholders have equal rights to dividends and distributions. Holders of the H Shares will share proportionately on a per Share basis in all dividends and other distributions declared by our Board.

In accordance with applicable requirements of the PRC Company Law, we may only distribute dividends after we have made allowance for:

- recovery of losses, if any;
- allocation to the statutory revenue reserve fund;
- allocation to the statutory common welfare fund; and
- allocation to a discretionary revenue reserve fund if approved by our shareholders and after allocation is made to the statutory revenue reserve fund and the statutory common welfare fund.

The minimum and maximum aggregate allocations to the statutory funds are 15% and 20%, respectively, of our net profit determined in accordance with PRC GAAP. Under the applicable PRC laws, our distributable earnings will be equal to our net profit, as determined in accordance with PRC GAAP or IFRS, whichever is lower, less allocations to the statutory and discretionary funds. If we record no net profit for a particular fiscal year, we may not normally distribute dividends for such fiscal year.

On April 20, 2004, the shareholders of our Company approved the distribution of a final dividend of RMB592 million for the year ended December 31, 2003 to the existing shareholders of our Company.

INDEBTEDNESS

Apart from intra-group liabilities, neither our Company nor any of our subsidiaries had at the close of business on March 31, 2004, mortgages, charges, debentures, bank overdrafts, loans, liabilities under acceptance, hire purchase commitments, or material amounts of quantifiable guarantees and contingent liabilities.

RULES 13.11 TO 13.16 OF THE HONG KONG LISTING RULES

The Directors have confirmed that they were not aware of any circumstances which would give rise to a disclosure requirement under Rules 13.11 to 13.16 of the Hong Kong Listing Rules.

MAJOR CUSTOMERS

Life Insurance

The Group's largest life insurance business customer, in terms of gross written life insurance business premiums and investment-linked premiums, accounted for approximately 0.7%, 0.5% and 0.7% of our gross written premiums and investment-linked premiums in 2001, 2002 and 2003, respectively.

The Group's five largest life insurance business customers, in terms of gross written life insurance business premiums and investment-linked premiums, accounted for approximately 1.9%, 1.6% and 2.2% of our gross written premiums and investment-linked premiums in 2001, 2002 and 2003, respectively.

Property and Casualty Insurance

The Group's largest property and casualty insurance business customer, in terms of gross property and casualty insurance business premiums, accounted for approximately 0.0%, 0.3% and 0.1% of our gross written premiums and investment-linked premiums in 2001, 2002 and 2003, respectively.

The Group's five largest property and casualty insurance business customers, in terms of gross property and casualty insurance business premiums, accounted for approximately 0.2%, 0.5% and 0.3% of our gross written premiums and investment-linked premiums in 2001, 2002 and 2003, respectively.

WORKING CAPITAL

The Directors are of the opinion that, after taking into account the estimated net proceeds of the Global Offering (see the section headed ''Use of Proceeds'' in the section headed ''Future Plans and Use of Proceeds from the Global Offering''), the Group's internally generated funds, the Group has sufficient working capital to satisfy its requirements for the next 12 months following the date of this prospectus.

ADJUSTED NET TANGIBLE ASSETS AND ADJUSTED EMBEDDED VALUE

For illustrative purpose only, the following pro forma financial information is set out here to provide the investors with further information to assess the financial position of the Group after completion of the Global Offering. Because of its nature, it may not give a true picture of the Group's financial position.

The following statement of adjusted net tangible assets of the Group is based on the audited consolidated net assets of the Group as of December 31, 2003, as shown in the Accountants' Report set forth in Appendix I to this prospectus and adjusted as follows:

	Audited consolidated net assets of the Group as at December 31, 2003	Goodwill	Deferred policy acquisition costs(1)	Tax liabilities related to deferred policy acquisition costs(1)	Estimated net proceeds from the Global Offering(2)	Adjusted net tangible assets
			(in millions of RMB)			
Based on an Offer Price of HK$10.735 per Share	12,952	(241)	(20,361)	3,054	13,713	9,117

(1) Deferred policy acquisition costs are regarded as an intangible asset as it is an identifiable non-monetary asset without physical substance. The deferred policy acquisition costs and their related deferred tax liabilities are excluded in the determination of net tangible assets.

(2) No account has been taken of the Shares which may be issued pursuant to the Over-allotment Option and under the HSBC Price Adjustment Top-Up. The estimated net proceeds from the Global Offering assumes an

Offer Price of HK$10.735 per Offer Share being the midpoint of the estimated Offer Price range of HK$9.59 to HK$11.88 per H Share.

The following statement of adjusted embedded value of the Group is based on the embedded value of the Group as of December 31, 2003, as shown in the Consulting Actuaries' Report set forth in Appendix IV to this prospectus and adjusted as follows:

	Embedded value of the Group as at December 31, 2003(1)	Estimated net proceeds from the Global Offering(2)	Adjusted embedded value	Adjusted embedded value per Share(3)
	(in millions of RMB, except per Share data)			
Based on an Offer Price of HK$10.735 per Share	19,078	13,713	32,791	5.29

(1) Based on the Group's central estimate of embedded value assuming a risk discount rate equal to the earned rate or 12.5%.

(2) No account has been taken of the Shares which may be issued pursuant to the Over-allotment Option and under the HSBC Price Adjustment Top-Up. The estimated net proceeds from the Global Offering assumes an Offer Price of HK$10.735 per Offer Share being the midpoint of the estimated Offer Price range of HK$9.59 to HK$11.88 per H Share. If the Over-allotment Option is exercised in full or new Shares will be issued under the HSBC Price Adjustment Top-Up, the adjusted embedded value per Share will be increased, and earnings per Share will be diluted correspondingly.

(3) The adjusted embedded value per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 6,195,053,334 Shares will be in issue, the Over-allotment Option is not exercised and no new Shares will be issued under the HSBC Price Adjustment Top-Up.

NO MATERIAL ADVERSE CHANGE

Except as set forth in this prospectus, the Directors believe that there has been no material adverse change in the financial or trading position or prospects of the Company since December 31, 2003.