The following is the text of a letter received from Watson Wyatt insurance Consulting Limited prepared for the purpose of incorporation in this prospectus, in connection with the components of economic value of the Company as at 31 December, 2003.

Watson Wyatt
Worldwide

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14 June 2004

The Directors
Ping An Insurance (Group) Company of China, Ltd.
Ping An Building
Ba Gua No. 3 Road
Shenzhen
The People's Republic of China

Dear Sirs,

**Actuarial Consultants' Report**

Watson Wyatt Insurance Consulting Limited (''Watson Wyatt'') has been engaged by Ping An Insurance (Group) Company of China, Ltd (''Ping An'' or ''the Company'') to provide actuarial advice and opinions on certain matters relating to Ping An in connection with the proposed listing of the shares of Ping An on The Stock Exchange of Hong Kong Limited.

This prospectus report sets out the scope of the work that we have performed and provides a summary of the results of this work.

## Introduction

In estimating the economic value of a life insurance company, it is common to start from an assessment of the embedded value of the company. The embedded value represents

- the shareholders' adjusted net asset value

plus

- the value attributed to shareholders in respect of the future profits projected to arise from the portfolio of life insurance business in-force (the ''value of in-force business'')

less

- the economic cost of holding capital to meet the required minimum statutory solvency margin (the ''cost of holding the required solvency margin'') in respect of the in-force life insurance business.

The economic value or appraisal value of the company is then derived by adding the embedded value to an estimate of the value of future sales of new life insurance business, often calculated by applying a capitalisation factor to the value of one year's new business. The value of one year's new business is a measure of the economic value added by a life insurance company during the course of the year as a result of writing new business.

The values have also been shown under alternative assumptions given the uncertainties associated with the future investment environment in the People's Republic of China (''PRC'') and other future operational matters in relation to Ping An's portfolio. These uncertainties are more fully described in the section of the Prospectus ''Risk Factors''. The reader should consider all of the risk factors set out in the Prospectus in assessing and interpreting the results shown below.

**Scope of Work**

We have been requested to report on the following components of the economic value in respect of the life insurance operations of Ping An, namely Ping An Life Insurance Company of China, Ltd. (''Ping An Life''):

- the value of in-force life insurance business as at 31 December 2003 (the ''valuation date'');
- the cost of holding the required solvency margin in respect of the in-force life insurance business; and
- the value added by new life insurance business that Ping An Life has written in the 12 months preceding 31 December 2003 (the ''value of one year's new business'').

The value of in-force business as at 31 December 2003, the cost of holding the required solvency margin in respect of the in-force business and the value of the new business in the 12 months up to 31 December 2003 included in this report are based on figures calculated by Ping An. We have not checked all the programs and parameter files used to produce the results. We have, however, carried out a number of checks to satisfy ourselves as to the overall reasonableness of the results produced including:

- detailed checks on the calculation for sample policies;
- checks on the aggregate results produced for sample policy types; and
- checks on the parameter files for sample policy groups.

We have reviewed the assumptions on which the calculations have been made, taking into account Ping An's recent operating experience, as well as our knowledge of the life insurance industry in the PRC.

**Methodology**

The value of the in-force business of Ping An Life is derived from the projected stream of future after-tax profits available for distribution to shareholders from the existing business in-force at the valuation date, including any relevant short-term accident and health business. These distributable profits are those which arise after allowance for policy reserves on the required PRC statutory reserving basis.

It should be noted that, on the chosen assumptions, the projected statutory profits arising from Ping An Life's in-force business are negative in some future years. This is because the current reserving bases, as prescribed by the PRC regulatory authorities, for certain classes of non investment-linked business assume a higher level of future investment return than has been considered appropriate in calculating the value of in-force business. In view of this, it is necessary to pay particular attention to the rate at which future profits and losses are discounted, to avoid understating the effect of the losses on the overall value of in-force business.

Accordingly, the discount rate for each future year has been chosen as either:

- the non investment-linked life insurance business fund earning rate, adjusted for tax; or

- the specified risk discount rate.

Which option is taken for any future year depends on which of these rates gives the *lower* value of in-force business as at the beginning of that year. This is equivalent to assuming that additional non investment-linked reserves are established which will eliminate future losses if experience is in line with the chosen assumptions.

The cost of holding the required solvency margin in respect of the in-force business of Ping An Life is calculated as:

- the required solvency margin as at 31 December 2003

less

- the discounted value, using the same discount rate in each future year as applied in the determination of the value of in-force business as at 31 December 2003, of expected investment income on the assets held to meet the solvency margin, together with the discounted value of the expected release of the solvency margin over the outstanding term of the in-force business.

The value of one year's new business of Ping An Life is calculated as the discounted value at point of sale, using the specified risk discount rate, of the stream of after-tax profits distributable to shareholders projected to arise from one year's sales, including any relevant short-term accident and health business. This value is net of the cost of holding the required solvency margin over the outstanding term of the block of business, i.e. the value of one year's new business represents the discounted value of the expected profits from one year's sales, after allowing for the cost of the capital required to support the business.

In providing the value of one year's new business, the Company has not considered the value that can be obtained from:

- offsetting the tax losses on the in-force business against the tax payable on the new business; and

- adding the future years of new business profits to reduce the effect of the existing losses in the value of in-force business.

As mentioned above, the value of future sales of new life insurance business is often obtained by applying a capitalisation factor to the value of one year's new business. This capitalisation factor often reflects an allowance for future growth and the risks associated with achieving the future sales at the assumed profit margin. Watson Wyatt's scope of work for this opinion did not extend to an assessment of the total value of future sales of Ping An Life.

The method undertaken by the Company to derive its values is based on a deterministic approach to value the cashflows. This method implicitly values the cost of the policyholder options, investment guarantees, asset/liability mismatch risk, credit risk and the economic cost of capital through a discount rate which is loaded for these risks. Recently, alternative approaches, such as "market consistent values", have been developed where these risks are explicitly valued. Ping An has not examined the value which could be obtained using these alternative approaches.

**Assumptions**

In order to assess the value of in-force business, the cost of holding the required solvency margin and the value of one year's new business, the assumptions were agreed between Watson Wyatt and the Company. The environment in which Ping An operates is dynamic and changing. As a result, in deriving these assumptions Ping An has examined its own recent experience as well as considering the more general PRC market and other life insurance markets' experience. These assumptions have been made on a "going concern" basis, assuming continuation of the economic and legal environment currently prevailing in the PRC. The principal bases and assumptions used in the calculations are described below:

*Investment Returns*

Future investment returns, net of investment expenses, have been assumed to be 4.5% and 5.5% per annum for non investment-linked and investment-linked business respectively. These returns have been derived by considering current and expected future asset mixes and associated investment returns for a range of major asset classes.

*Policyholder Dividends*

Policyholder dividends have been derived according to the current product specific formulae provided by the Company, which allow for the payments of 70% of the interest and mortality surplus for the Company's individual life insurance and bancassurance participating business. For the group life participating business, dividends have been based on 70% of the interest surplus only.

*Mortality and Morbidity*

The mortality and morbidity rates used have been derived having regard to Ping An Life's analysis of its recent experience and overall experience of the PRC life insurance market. The mortality assumptions have been based on the standard industry mortality tables: "China Life Tables" as follows:

- The mortality assumption used for annuity policies after vesting date was 75% of the male and female China Life Table for annuitants.

- The mortality assumption used for other policies was based on the China Life Table for non annuitants as follows:

| | Individual | | | Group | Bancassurance |
|---|---|---|---|---|---|
| | Year 1 | Year 2 | Ultimate | Ultimate | Ultimate |
| Male | 45% | 60% | 75% | 75% | 75% |
| Female | 35% | 45% | 70% | 70% | 70% |

- The accidental death mortality assumption ranged from 50% to 100% of the pricing table.
- The morbidity assumptions used 75% and 90% of the pricing tables for males and females respectively.

*Loss Ratios*

The loss ratios used to project claims in respect of the short-term business were in the region of 25% and 65% for the accident and health portfolios respectively.

*Discontinuances*

The Company has based the discontinuance rates on its recent experience. Its internal analysis examines the discontinuance experience by pricing interest rate, as well as by type of product. The discontinuance rates used by the Company are dependent on the pricing interest rate, whether the product is participating or non-participating and whether it is a whole life, endowment, annuity or a dread disease type of product.

The following table summarises the discontinuance assumptions for traditional long-term contracts that have been priced at 2.0% to 2.5% per annum, investment-linked and short-term business:

| | Discontinuance rate | | | | |
|---|---|---|---|---|---|
| Year | 1 | 2 | 3 | 4 | 5+ |
| Individual life single premium | | | | | |
| Non-participating | 12.5% | 10.0% | 7.5% | 5.0% | 3.0% |
| Participating | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% |
| Individual life regular premium | | | | | |
| Non-participating | 17.0% to 30.0% | 10.0% to 20.0% | 6.5% to 10.0% | 5.0% to 7.5% | 5.0% to 7.5% |
| Participating | 15.0% to 25.0% | 7.5% to 12.5% | 5.0% to 7.5% | 5.0% to 5.5% | 5.0% to 5.5% |
| Investment-linked | 7.5% | 9.0% | 10.0% | 7.5% | 7.5% |
| Short-term | 20.0% | 10.0% | 10.0% | 10.0% | 10.0% |
| Paid-up | Follows the discontinuance rate of single premium policies | | | | |
| Bancassurance | | | | | |
| Participating | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% |
| Group life | | | | | |
| Non-participating | 7.5% to 20.0% | 7.5% to 20.0% | 7.5% to 20.0% | 7.5% to 20.0% | 7.5% to 20.0% |
| Participating | 5.0% to 7.5% | 5.0% to 7.5% | 5.0% to 7.5% | 5.0% to 7.5% | 5.0% to 7.5% |
| Investment-linked | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% |
| Short-term | One year term only | | | | |

For policies which were priced at 5.0% per annum and above, the discontinuance assumptions can be summarised as follows:

- Individual life: 2.0% to 5.0% per annum
- Group life: 5.0% to 10.0% per annum

*Expenses including Commission, Commission Override and Handling Charges*

The assumed levels of commission and commission override paid to agents and agency leaders have been based on the levels currently being paid. For products sold through banks, the Company has allowed for a handling fee, as a percentage of premiums, based on recent historic and expected future experience.

In respect of the other expense assumptions the Company has derived unit expenses based on its recent experience. Its analysis allocated expenses to the various product lines written by Ping An Life and then attributed the expenses between initial, maintenance and investment related costs. Initial expenses have been separated further into commission-related, sales, underwriting and others.

As part of its analysis the Company compared the actual expense levels, excluding investment expenses and including the explicit allowances for commissions and handling fees, with the expense allowances priced into the products for all lines of life insurance business combined. For calendar year 2003 actual expenses equated to around 70% of these allowances.

The unit maintenance expenses were assumed to increase in the future at 2.0% per annum.

*New Business Volumes and Business Mix*

The volume of new business sold during 2003 was RMB27.9 billion in terms of annualised first year premium.

The mix of the new business measured by annualised first year premium was:

| | **Percentage** |
|---|---|
| Individual life | |
| Long-term business | 23.7% |
| Short-term business | 4.4% |
| Group life | |
| Long-term business | 29.7% |
| Short-term business | 4.9% |
| Bancassurance | |
| Long-term business | 37.3% |
| **Total** | **100.0%** |

*Statutory Reserving Basis*

For participating products, new regulations were introduced in 2003 and apply to all policies on a retrospective basis. The new valuation bases have been used in the projection of future profits. For other products, Ping An Life's current actuarial reserving methods and bases, as detailed in its returns to the CIRC, have been assumed to continue unaltered.

*Taxation*

The tax paid by Ping An Life is based on a percentage of profits with an exemption for certain investment earnings, including income from Government bonds and dividend income from investment funds. In addition, certain salary related expenses are not deductible. Currently for those branches which are located in Special Economic Zones the tax rate applicable is 15%, and for those which are located outside Special Economic Zones the tax rate applicable is 33%.

The Company has analysed its recent tax payments and has derived an overall rate which is expressed as a percentage of profits. This percentage implicitly allows for the adjustments mentioned above. The assumption adopted was an average income tax rate of 18.5%.

In addition, a 5.5% business tax rate has been applied to the gross premium of the short-term accident business.

The allowance for future tax payments has been made on the assumption that the application of current tax legislation and tax rates in respect of Ping An Life, including the allowance for those branches which operate in the Special Economic Zones, will continue unaltered.

*Common Welfare Fund*

According to the Articles of the Company and the requirements of statutory regulations, the Company makes an appropriation to the Common Welfare Fund for employees of 5% of net profits (where positive). Accordingly, 5% of the distributable profits before solvency has been deducted and allocated to this fund. We have been informed by the Company that this fund is available to cover its statutory solvency position. This offset has been allowed for in calculating the cost to shareholders of holding the required solvency margin.

*Other Assumptions*

Allowance has been made for the cost of holding the required solvency margin as prescribed by the CIRC. The current basis for calculating the required margin has been assumed to continue unaltered.

Ping An Life's current reinsurance arrangements have been assumed to continue unaltered.

Ping An Life's current methods and bases for calculating surrender values and cash dividends have been assumed to continue unaltered.

**Components of Economic Value**

The calculated values as at 31 December 2003 are summarised in the following table:

**Embedded Value as at 31 December 2003**

| | Risk discount rates | | |
|---|---|---|---|
| | Earned rate/10.0% | Earned rate/12.5% | Earned rate/15.0% |
| Adjusted net asset value | 13,631 | 13,631 | 13,631 |
| Value of in-force business | 7,928 | 7,650 | 7,380 |
| Cost of holding the required solvency margin | (1,437) | (2,202) | (2,859) |
| **Embedded value** | **20,122** | **19,078** | **18,152** |

**In RMB millions; figures may not be additive due to rounding**

**Value of One Year's New Business at Point of Sale**

| | Risk discount rates | | |
|---|---|---|---|
| | 10.0% | 12.5% | 15.0% |
| Value of one year's new business | 5,572 | 4,681 | 4,006 |
| Cost of holding the required solvency margin | (298) | (429) | (516) |
| **Value of one year's new business after cost of solvency** | **5,275** | **4,252** | **3,490** |

**In RMB millions; figures may not be additive due to rounding**

The adjusted net asset value is based on the audited shareholder net assets of Ping An as measured on a PRC statutory basis. The values placed on certain assets have been adjusted to the market value levels provided by the Company. It should be noted that the adjusted net asset value is for the whole Company, including its life company, property and casualty company, and other business units, whilst the value of in-force and the value of one year's new business presented are only in respect of Ping An Life and not the other business units.

While the above components of economic value are net of Ping An Life's income tax, they do not include any allowance for the tax position of an investor in Ping An. The risk discount rate appropriate to an investor will depend on the investor's own requirements, tax position and perception of the risks associated with the realisation of the future profits of Ping An. In order for potential investors to judge the effect of using different discount rates, the Company has assessed the value of in-force business, the cost of holding the required solvency margin and the value of one year's new business using a range of discount rates as shown above. In calculating values at the different discount rates, all other assumptions, including those relating to future investment returns, have been left unchanged.

**Composition of the Value of In-force Business**

The Company has also carried out a calculation to show the composition of the value of in-force business between those policies written prior to June 1999 and those written since June 1999. Policies written prior to June 1999 were priced at an interest rate of 5.0% per annum or above, while policies written since June 1999 were priced at 2.5% or 2.0% per annum.

The results of these calculations, before and after solvency, are summarised in the following table:

**Value of In-force Business**

| | Risk discount rates | | |
|---|---|---|---|
| | **Earned rate/10.0%** | **Earned rate/12.5%** | **Earned rate/15.0%** |
| Value of in-force business written prior to June 1999 | (25,129) | (22,102) | (19,504) |
| Value of in-force business written since June 1999 | 33,057 | 29,752 | 26,884 |
| **Value of in-force business before solvency** | **7,928** | **7,650** | **7,380** |
| Cost of holding the required solvency margin | (1,437) | (2,202) | (2,859) |
| **Value of in-force business after solvency** | **6,491** | **5,447** | **4,522** |

**In RMB millions; figures may not be additive due to rounding**

## Sensitivity Analysis

The Company has investigated the effect, on the value of in-force business and the value of one year's new business, of varying independently certain assumptions regarding future experience. Specifically, the following changes in assumptions have been considered:

- a sliding scale of future investment return scenario of 4.0% per annum in 2004, increasing by 0.25% every year to 5.0% per annum in 2008 and level thereafter (This investment return scenario is consistent with the investment assumption made by Ping An in calculating the liabilities under its IFRS accounts);
- a reduction in the future investment return by 0.5% per annum, with a corresponding reduction in policyholder dividends;
- an increase in the policyholder dividends payout from 70% to 80% of surplus;
- a 10% reduction in policy discontinuance rates;
- a 10% increase in policy discontinuance rates;
- a 10% reduction in the mortality and morbidity rates for assured lives and loss ratios for the short-term business;
- a 10% reduction in maintenance expenses;
- an increase in the average income tax rate by 5.0% to 23.5%;
- a 10% increase in the commission override expenses for new business only; and
- a change in new individual life long-term business product mix from 67% participating to 55% participating.

The results are summarised in the following tables:

| | Value of in-force business before solvency | | | Value of in-force business after solvency | | |
|---|---|---|---|---|---|---|
| | Risk discount rates | | | Risk discount rates | | |
| | **Earned rate/10.0%** | **Earned rate/12.5%** | **Earned rate/15.0%** | **Earned rate/10.0%** | **Earned rate/12.5%** | **Earned rate/15.0%** |
| **Assumptions** | | | | | | |
| Central | 7,928 | 7,650 | 7,380 | 6,491 | 5,447 | 4,522 |
| Sliding investment return | 16,051 | 14,606 | 13,347 | 13,199 | 10,712 | 8,667 |
| Lower investment return(1) | (8,531) | (8,531) | (8,531) | (7,676) | (7,676) | (7,676) |
| Increase in policyholder dividends | 5,626 | 5,521 | 5,410 | 4,473 | 3,685 | 2,976 |
| Lower discontinuances | | | | | | |
| Business written prior to June 1999 | (27,242) | (23,957) | (21,139) | (2) | (2) | (2) |
| Business written since June 1999 | 34,494 | 31,008 | 27,986 | (2) | (2) | (2) |
| Total | 7,252 | 7,050 | 6,847 | 5,820 | 4,840 | 3,969 |
| Higher discontinuances | | | | | | |
| Business written prior to June 1999 | (22,120) | (19,087) | (16,537) | (2) | (2) | (2) |
| Business written since June 1999 | 30,782 | 27,449 | 24,603 | (2) | (2) | (2) |
| Total | 8,661 | 8,362 | 8,066 | 6,930 | 5,815 | 4,833 |
| Lower mortality, morbidity and loss ratios | 8,241 | 7,954 | 7,676 | 6,873 | 5,813 | 4,872 |
| Lower maintenance expenses | 9,126 | 8,784 | 8,450 | 7,426 | 6,249 | 5,214 |
| Increase in average income tax rate | 6,551 | 6,402 | 6,245 | 4,973 | 4,070 | 3,266 |

**In RMB millions; figures may not be additive due to rounding**

(1) The positive cost of holding the required solvency margin is due to application of the discount rate methodology mentioned above including the treatment of the Common Welfare Fund.

(2) The cost of holding the required solvency margin is allocated on a total portfolio basis and has not been allocated specifically to particular products and hence cannot be separated into pre- and post June 1999 business.

| | Value of one year's new business before solvency | | | Value of one year's new business after solvency | | |
|---|---|---|---|---|---|---|
| | Risk discount rates | | | Risk discount rates | | |
| | 10.0% | 12.5% | 15.0% | 10.0% | 12.5% | 15.0% |
| **Assumptions** | | | | | | |
| Central | 5,572 | 4,681 | 4,006 | 5,275 | 4,252 | 3,490 |
| Sliding investment return | 5,819 | 4,859 | 4,138 | 5,558 | 4,457 | 3,642 |
| Lower investment return | 5,193 | 4,376 | 3,754 | 4,831 | 3,894 | 3,193 |
| Increase in policyholder dividends | 5,243 | 4,410 | 3,777 | 4,928 | 3,966 | 3,249 |
| Lower discontinuances | 5,834 | 4,881 | 4,163 | 5,511 | 4,422 | 3,617 |
| Higher discontinuances | 5,325 | 4,491 | 3,856 | 5,051 | 4,089 | 3,369 |
| Lower mortality, morbidity and loss ratios | 5,873 | 4,946 | 4,243 | 5,590 | 4,529 | 3,738 |
| Lower maintenance expenses | 5,760 | 4,847 | 4,156 | 5,472 | 4,426 | 3,648 |
| Increase in average income tax rate | 5,231 | 4,394 | 3,760 | 4,890 | 3,929 | 3,214 |
| Increase in commission override expenses | 5,486 | 4,597 | 3,924 | 5,185 | 4,164 | 3,405 |
| Change in new business product mix | 5,823 | 4,873 | 4,158 | 5,538 | 4,453 | 3,648 |

**In RMB millions**

## Opinion

On the basis of our work, in our opinion:

- the central assumptions used to assess the value of the in-force business, the cost of holding the required solvency margin and the value of one year's new business as at 31 December 2003 are reasonable; and
- the calculations have been carried out in accordance with the methodology described above, the sample calculations which we checked were satisfactory and the overall results are reasonable.

## Reliances and Limitations

In carrying out our review and producing this report we have relied without independent verification upon the accuracy and completeness of the data and information provided to us, both in written and oral form, by the Company. Where possible, we have reviewed some of the information provided for reasonableness and consistency with our knowledge of the PRC life insurance industry, but we have adopted, without review, the financial statement information regarding assets values as these fall outside our area of expertise. It should be noted that we have not carried out an independent verification, or audit, of the accuracy or completeness of the policy data and other information supplied to us. The accuracy of the results presented in this report is dependent on the accuracy of this information.

Reliance has been placed on, but not limited to, the accuracy of information regarding historical operating experience, numbers and types of policies in-force (including policy details), levels of in-force premiums, existence and valuation of assets and liabilities, current and expected future asset mixes, the actual and expected returns in respect of the major asset classes, amounts of new business written, historical financial statements and regulatory returns, basic commission, override allowances and other compensation payments made to agents and other intermediaries, details of policy terms and conditions including surrender values, current and expected future cash dividend formulae and crediting rates, Ping An's reserving basis and methodology as at 31 December 2003, the current tax status of the Company, interpretations of the PRC insurance regulations (for example the Common Welfare Fund) and basic data records regarding the above.

In our work we have relied upon audited and unaudited information provided to us by, or on behalf of, the Company for the periods up to 31 December 2003, and on information from other sources. We have specifically relied on the value of the audited shareholders' net assets of Ping An as at 31 December 2003, as measured on a PRC statutory basis, and the market values of certain assets provided by Ping An. We have also relied upon the calculation of the statutory actuarial reserves without independent review.

We have not attempted to assess the suitability or quality of Ping An's assets. We have also not investigated, or made allowance for, any claims against Ping An other than those made by the policyholders of Ping An Life under the normal terms of life insurance business.

The values attributable to the life insurance business are highly dependent on the results of financial projections carried out by Ping An. In developing these projections, assumptions have been made about future experience, including economic and investment experience, tax, expenses, discontinuance rates, mortality and legislation, many of which are beyond Ping An's control. These assumptions have been made on the basis of reasonable estimates. However, actual future experience is likely to differ from these assumptions, due to random fluctuations, changes in the operating environment and other factors. Such variations in experience could have a significant effect on the results and could alter the projected results substantially.

The opinion was based on data available to Watson Wyatt at, or prior to, 31 December 2003, and takes no account of developments after that date.

| | | |
|---|---|---|
| By: | /s/ Paul Sinnott | /s/ Michael Ross |
| Name: | Paul Sinnott | Michael Ross |
| Title: | Managing Director<br>Insurance Consulting Practice,<br>Asia Pacific | Director & Consulting Actuary |
| Date: | 14 June 2004 | 14 June 2004 |