

Chairman's Statement

Dear Shareholders,

2003 was an extraordinary year for the Company.

With the arduous efforts of our management and staff and support from investors, the listing of the Company's H Shares was a huge success. The Company was named "China Equity Deal of the Year" by International Financing Review Asia and "The Best Newly-Listed Company in 2003" by AsiaMoney, evidencing the investors' recognition of the fundamentals, and their confidence in the prospects, of the Company. The Company's H Share was admitted as a constituent stock of the Hang Seng China Enterprises Index on 8 March 2004, highlighting the significance of the Company in international equity markets in the future.

After listed, the Company's business philosophy, organization structure and operating style underwent substantial changes, including the formation of a diversified shareholders structure, establishment of a defined corporate governance structure and implementation of a market-driven incentive mechanism, and the transparency in the Company's operations and management was further improved.

In 2003, revenue from insurance premiums of the PRC insurance market¹ reached RMB388.04 billion, representing an increase of 27.1% from the previous year, of which revenue from property and casualty insurance premiums reached RMB86.94 billion, representing an increase of 11.7% from the previous year. With the further opening of the PRC insurance market, the number of participants in the market increased and market competition intensified.

The Company had a market share² of 68% in 2003. Net premiums earned was RMB40.41 billion, representing an increase of 11.1% from the previous year.

Underwriting profit³ was RMB1,496 million, combined ratio was 96.3%, investment gain was RMB950 million, net profit was RMB1,451 million.

1. The PRC insurance market data is extracted from the information disclosed on the website of China Insurance Regulatory Commission (the "CIRC").
2. Calculation of the Company's market shares is made on the basis of the data disclosed on the CIRC website and the data of same categories maintained by the Company.
3. Underwriting profit is the difference of net premiums earned minus net claims incurred, amortization of deferred acquisition costs, insurance protection expense and general and administrative expenses.



Mr Tang Yunxiang
Chairman

Chairman's Statement *(Continued)*

In 2003, the Company implemented reforms in its motor vehicle insurance premium rates and policy terms. It introduced personalized products targeting different customers and differentiated pricing with respect to different risks, and promoted business structure adjustment and differentiated operations, emphasizing a profit-oriented approach to intrinsic growth, enabling the Company's business operations to become more responsive to the market, intensified and detail-oriented, and strengthening its market competitiveness.

In October 2003, the Company reorganized its operational structure to improve management process and enhance necessary skills. The Company altered its old, product line based management model to a customer and process driven structure, thus rationalizing its organization structure and streamlining staffing. The reorganization allowed the Company to improve its internal operating mechanisms and optimize its management processes. The Company established a personnel movement management mechanism and a sound personnel selection mechanism, providing a strong organizational support to the Company for its further development and reform.

The world economy in 2004 should maintain growth, with economic growth in Asia continuing to exceed that of other regions. The premium rate in the global property and casualty insurance market will maintain at a relatively high level. As a result, property and casualty insurance companies can attain relatively stable underwriting profits. With the rapid growth of the property and casualty insurance businesses in Asia, especially in new markets such as the PRC and India where growth is particularly strong, it is estimated that the rate of growth in premium in these regions in the following few years will exceed that in most of the OECD countries. The exploration by multinational insurance companies of new development opportunities in such region will result in a change in existing market competition in such region.

Currently, the PRC economy is undergoing rapid development. The automobile and real estate markets, import and export trade and investment in infrastructure are growing at a rapid pace. Such dynamics offer significant potential for the development of the property and casualty insurance sector. With further deepening of reform in the Chinese insurance market, participants in the market are increasingly changing their focus from scale expansion to speed, quality and profitability of their businesses, which will result in more rational market competition and reduced competition in premium rates. As premium rates for motor vehicle insurance rebound, profitability of the property and casualty insurance sector will improve. Implementing selective underwriting and strengthening claims management have also become the common objectives of most insurance companies.

Chairman's Statement (Continued)



"Some Opinion of the State Council on Promoting the Reform, Opening and Steady Growth of the Capital Market" promulgated by the State Council encourages insurance funds to invest directly and in a variety of forms in the capital markets. This will likely increase the number of channels available for investment of insurance funds and help insurance companies to increase flexibility in their investment management.

In 2004, the Company anticipates profitability to continue to improve and that growth in investment income and gradual growth in underwriting profit will be achieved. In order to maximize value for shareholders, the Company will continue to focus on profitability, underwriting quality and risk control, and endeavor to improve operating performance in 2004.

Refine the "three centers" (i.e. underwriting center, claims management center and finance center): The Company will focus on implementing its "three centers" in 2004. In accordance with the guiding principles of the "three centers", the Company will improve application of information technology and strengthen internal monitoring of the "three centers" so as to foster the formalization and standardization of the "three centers" structure across the Company.



Adjust business structure: The Company will refine its business structure, focusing in particular on motor vehicle insurance, in order to enhance underwriting profitability. It will also adjust its product structure, increasing products offered; effect selective underwriting in order to strictly control underwriting risks, and adjust resource allocation including implementation of differentiated policy on commissions.

Develop geographic pricing system: The Company will accelerate establishment of a differentiated pricing system for motor vehicle insurance based on geography. Under this system motor vehicle insurance premium rates will be set at the provincial branch office level according to risk profiles, cost structures and operating strategies of motor vehicle insurance in different regions so as to make prices more responsive to market forces.

Improve claims management: The Company will continue to standardize its claims management system through, unifying loss adjustment standards, broadening the applicability of the loss determination system, improving the mechanism for claims-related risk control and encouraging wider use of such system, and strengthening claim investigation and salvage capabilities.

Chairman's Statement *(Continued)*

Improve use of funds: The Company will improve its asset management system, formulate its funds allocation strategy and enhance its risk control to ensure that its investment portfolio will meet the needs of its business development, to take advantages of the recovery in the capital market, and to improve investment profitability.

Implement integrated information system: The Company will adopt an approach enhancing management on source information and strengthening information verification and control to improve its information management and build a high quality integrated information system allowing better management and overall application of data. The Company will endeavor to leverage its information resources to gain a competitive advantage in the market.

Enhance performance evaluations: The Company will develop a results-oriented performance evaluation system for employees, introducing key performance indicators, entering into contracts that set out performance targets, increasing the importance of profit in evaluating staff and establishing a market-driven salary system.

Increase cooperation with AIG: The Company will increase cooperation with AIG in relation to accidental injury and short-term health insurance products. The Company and AIG will also cooperate in areas such as product development, underwriting, claims management, distribution and reinsurance.

I believe that, with our firm customer base, experienced management team and excellent staff, the Company will be able to take advantage of opportunities provided by rapid growth in the PRC economy, the rising level of wealth and well-being in society, more rational market competition and the recovery in the capital market, to accelerate its development, to further enhance its core competitiveness and to create greater value for shareholders.

Tang Yunxiang
Chairman

Beijing, PRC
23 April 2004

