



Mr Tang Yunxiang *Chairman*

Dear Shareholders,

In 2004, the property and casualty insurance industry in mainland China developed rapidly and the Company continued to accelerate the pace of its development and strengthen its reform.

In 2004, insurance premium revenues of insurance industry in mainland China¹ reached RMB431.81 billion, representing an increase of 11.3% from the previous year. Premium revenues of the property and casualty insurance sector exceeded the RMB100 billion benchmark, reaching RMB108.99 billion, representing an increase of 25.4% from previous year. There are 26 P&C insurance companies in mainland China. Newly established P&C insurance companies are rapidly expanding their branch network and the intensifying market competition is quickly spreading from coastal to inland regions.

In 2004, the Company vigorously promoted development, reform and innovation to enhance its business management capabilities and market competitiveness. A preliminary system for modularized insurance products was established to target at individuals and families. Motor vehicle insurance premium rates were adjusted four times in most provincial branches, forming a geographical pricing system. The Company cooperated with AIG to develop and launch accidental injury and short-term health insurance products to achieve market expansion, promoted the integration of its business information system and enhanced source data management resulting in noticeable improvement in the quality of data, strengthened its basic management by implementing the centralized processing of information and data from insurance verification, case reporting and finance, and optimizing its business processes, established a mechanism to monitor and control the development of motor vehicle insurance business dynamically, and implemented a three-level system of insurance verification and differentiated authorization for underwriting purview. Control over key procedures such as claims adjustment, loss determination and medical claims verification was strengthened to enhance the Company's risk control capability. A new accounting system was put in practice and an actuarial system of reserves contribution was implemented for determining loss and LAE reserves on a provincial branch basis. The Company also established a system of delegated asset management and asset entrustment system, implemented performance appraisal procedures, and established a market-driven compensation and incentives system.

¹ PRC insurance industry data were extracted from the website of the China Insurance Regulatory Commission (the "CIRC").

In 2004, the Company's net premiums earned was RMB50,628 million, representing an increase of 25.3% from 2003. Affected by an unfavorable development in the loss and LAE reserves and the sluggish Chinese capital market, the Company's underwriting profit and investment return fell substantially. Underwriting profit of the Company was RMB465 million, combined ratio was 99.0%; investment return was RMB304 million; net profit was RMB208 million. In 2004, the Company held a market share² of 58.1% and continued to hold a leading position in non-life insurance market in mainland China.

The global economy will maintain moderate growth in 2005, with economy in East Asia growing fastest. Due to increasing risks in catastrophe such as floods, storms and frequent occurrence of terrorist attacks, there is a trend of rising premium rates in the global insurance market, and the non-life insurance industry remains in a hard market cycle. The Asian insurance market enjoys good growth prospect, personal products are developing at a rapid pace and liability insurance will become a new growing area.

The Company believes that the PRC economy will continue to develop strongly in 2005, with further increase in demand for insurance and overall insurance penetration. At the same time, the permitted scope for the investment of insurance funds has been further widened, creating favorable conditions for the Company to diversify its investment risks and enhance investment return. However, various factors including eventual implementation of the mandatory motor vehicle third party liability insurance, intensified market competition and potential further increase in interest rates create uncertainties in the outlook for both the Company's underwriting and investment functions.

The Company anticipates a further increase in underwriting profits in 2005 compared to 2004 and much enhancement in investment returns.

Enhancement of distribution and servicing capabilities: The Company will build professional distribution teams to better undertake large-scale commercial insurance business, strengthen distributing force of individual sales agent, and establish a comprehensive system to monitor and evaluate service quality, a highly efficient client service platform and a high-quality customer service team to strengthen customer service and brand promotion.

Implementation of financial reporting based on product line: The Company will gradually implement financial reporting based on product line, refine cost structure and driving factors, accurately ascertain how resources are allocated to various businesses so as to grasp the key steps in value creation and cost control, to refine management.

Improvement of claims management: The Company will establish a claims management system, implement closed-loop management of claims to firmly control claim cost, and establish alert system to predict risks at different phases of claim procession. The Company will launch a "Speed Up Claims Settlement" campaign to provide better claim services, improve its loss and LAE reserves actuarial system to narrow the gap between actual losses and estimated losses.

Refinement of basic management: The Company will establish a monthly data monitoring system to assess data quality, implement seamless inter-connection of its business processing system, collection and payment system, and financial system. The Company will also enhance its overall synergy between the "three centers", accelerate the speed of business processing, and strengthen risk control over key phases such as risk evaluation, loss determination and claim verification.

² Data on Company's market share were extracted from the website of the CIRC.

Strengthening investment risk management and oversight: The Company will formulate scientific asset investment delegation and asset allocation plans, establish investment benchmark and a system of performance appraisal indicators, perfect its long-term system of risk prevention, further clarify the duties of appointees, managers and trustees so that the managers' and trustees' work can be effectively assessed.

Improvement of finance management: The Company will implement a three-tier budget management system; perfect the fund management system, and implement the dynamic management of cash flow. The Company will push the development of on-line bank settlement system, increase the efficiency of fund utilization, and strengthen its management of fixed assets by controlling the scale of fixed assets and enhancing the efficiency of fixed assets utilization.

In 2005, we will continue to focus on profitability, innovation, development acceleration and risk mitigation, to accomplish our missions, and further enhance the Company's profitability and corporate value.

Tang Yunxiang

Chairman

Beijing, PRC

22 April 2005