

The directors submit their report and the audited financial statements for the year ended 31 December 2004 (“this Year”).

PRINCIPAL ACTIVITIES

The Company engages in property insurance, accidental injury insurance and short-term health insurance in the People’s Republic of China (“PRC”). The key product lines include motor vehicle insurance, commercial property insurance, homeowners insurance, cargo insurance, liability insurance, shipping insurance, construction insurance, surety insurance, agriculture insurance, aviation insurance, energy insurance, accidental injury insurance and short-term health insurance, which are denominated in RMB and foreign currencies.

CORPORATE REORGANISATION

As of the date of this annual report, the Company’s branch offices which are required to obtain Licences to Operate Foreign Exchange Business have already obtained such licenses. According to the State Administration of Foreign Exchange’s “Circular on the Relevant Issues Concerning the Simplification of Approving Procedures for Foreign Exchange Business of Insurance Institutions”, the Company’s branch offices which have not obtained such licenses may also act as agents of the Company’s branch offices with such licenses to conduct foreign exchange insurance business and to sign foreign exchange insurance contracts on their behalf. However, the branch offices without the requisite licences may not collect or pay various funds in foreign currencies when conducting foreign exchange insurance business.

At the time of the Company’s reorganisation, the Company obtained a building from PICC Holding, in respect of which the requisite title certificate was lacking. The title certificate for this building has now been obtained. The Beijing branch office has obtained building ownership title certificates or land use right certificates for 16 buildings and 15 parcels of land, respectively.

FINANCIAL RESULTS AND DIVIDENDS

The results of the Company for this Year and the Company’s financial affairs as at 31 December 2004 are set out on pages 41 to 90 in this annual report.

FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Company of the last five financial years is set out on page 2 in this annual report.

FIXED ASSETS

Details of the changes in the fixed assets of the Company for this Year are set out in note 24 to the financial statements.

SHARE CAPITAL AND SHARE OPTION SCHEME

There were no movements in either the Company’s authorised or issued share capital during this Year.

PRE-EMPTIVE RIGHTS

There is no provision regarding pre-emptive rights under the Company Law, which requires the Company to issue new shares to its existing shareholders in proportion to their existing shareholdings.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company did not purchase, sell or redeem any of its listed securities during this Year.

RESERVES

Details of the reserves and changes in the reserves of the Company for this Year are set out in the Statement of Changes in Equity.

DISTRIBUTABLE RESERVES

As at 31 December 2004, the Company did not have distributable reserves based on PRC Accounting Regulation.

CHARITABLE AND OTHER DONATIONS

Charitable donations made by the Company during this Year amounted to RMB5.48 million.

MAJOR CUSTOMERS

The Company's aggregate turnover with its five largest customers did not exceed 10% of the Company's total turnover for this Year.

FIVE LARGEST REINSURERS

In this Year, the reinsurance premiums ceded to the Company's top five reinsurers, the ratings by A.M. Best and by Standard & Poor's are as follows (*Note 1*):

Reinsurer	Reinsurance Premiums Ceded (RMB million)	A.M. Best Rating	Standard & Poor's Rating
China Re	6,957	Not applicable	Not applicable
Munich Re	415	A+	A+
Swiss Re	331	A+	AA
AIG (<i>Note 2</i>)	266	A++	AAA
Lloyd's Syndicates	209	A	Not applicable

Note 1: Credit ratings as of 31 December 2004.

Note 2: The accumulated reinsurance premiums ceded to AIG's subsidiaries.

DIRECTORS AND SUPERVISORS

The directors of the Company in this Year are as follows:

Name	Title	Appointed for the term of the office
Mr Tang Yunxiang	Chairman of the Board	6 July 2003 to 5 July 2006
Mr Wang Yi	Vice Chairman of the Board and Executive Director	6 July 2003 to 5 July 2006
Mr Wang Yincheng	Executive Director	6 July 2003 to 5 July 2006
Md Liu Zhenghuan	Executive Director	6 July 2003 to 5 July 2006
Mr Fu Zhu	Executive Director and Secretary of the Board	6 July 2003 to 5 July 2006
Mr Qiao Lin (resigned)	Non-executive Director	
Mr Ding Yunzhou	Non-executive Director	6 July 2003 to 5 July 2006
Mr Zhou Shurui	Non-executive Director	6 July 2003 to 5 July 2006
Mr Tse Sze Wing, Edmund	Non-executive Director	15 June 2004 to 5 July 2006
Mr Cheng Wai-Chee, Christopher	Independent Non-executive Director	30 July 2003 to 29 July 2006
Mr Wong Tung Shun, Peter (resigned)	Independent Non-executive Director	
Mr Lu Zhengfei	Independent Non-executive Director	24 February 2004 to 23 February 2007

Supervisors:

Name	Title
Mr Deng Zhaoyu	Chairman of Supervisory Committee
Mr Tang Wei	Supervisor
Mr Liu Qilong	Supervisor

Change of directors or supervisors from 1 January 2005 to the date of this report is as follows:

Mr Wong Tung Shun, Peter has resigned as an Independent Non-executive Director of the Company with effect from 18 January 2005. Since Mr Wong's resignation, the Company has not been able to comply with the requirement of having at least three independent non-executive directors under Rule 3.10(1) of the Listing Rules. The Board of Directors has sought a suitable candidate to be the Company's Independent Non-executive Director and will propose for his appointment at the special general meeting to be held on 29 April 2005.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND OTHER SENIOR MANAGEMENT

Biographical details of directors, supervisors and other senior management of the Company are set out on pages 6 to 8 in this annual report.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS AND REMUNERATION

The Company did not enter into any service contracts with its directors and supervisors which is not determinable by the Company within one year without payment of compensation (other than compensation under normal statutory obligations).

Details of the remuneration of Company's directors and supervisors are set out in note 10 to the financial statements.

HIGHEST PAID INDIVIDUALS

Details of the remuneration of the Company's five highest paid individuals are set out in note 11 to the financial statements.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

None of the directors and the supervisors had a material interest, whether directly or indirectly, in any contract of significance to the business of the Company which was in effect during this Year.

MANAGEMENT CONTRACTS

Pursuant to the asset management agreement entered into between the Company and PICC Asset Management Company Limited, a wholly owned subsidiary of PICC Holding, PICC Asset Management Company Limited provides investment management services in respect of certain cash assets of the Company. The Company pays an annual management fee to PICC Asset Management Company Limited.

Pursuant to the custodian agreement for managed assets entered into between the Company and the Bank of China, the Bank of China, as the custodian bank of the Company, is responsible for the custody of assets under management, settlement of capital, audit of accounts, valuation of assets, supervision on investments, as well as evaluation on investment performance. The term of the custodian agreement is one year and it became effective on 9 October 2003. The parties to the custodian agreement further agreed on 9 October 2004 that the term of the agreement be extended by one year.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTEREST IN SHARES

The following sets forth the interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in the Securities and Futures Ordinance) held by the then directors, supervisors and chief executive of the Company as at 31 December 2004 as recorded in the register of interests and short positions of directors, supervisors and chief executive required to be kept under section 352 of the Securities and Futures Ordinance:

Director	Capacity in which the shares are held	Number of shares held
Mr Cheng Wai-Chee, Christopher	Controlled corporation (<i>Note</i>)	50,000 H Shares

Note: Such shares were directly held by Wing Tai Corporation Limited and were indirectly held by Wing Tai (Cheng) Holdings Limited and Renowned Development Limited. Mr Cheng controls more than one-third of the votes at the shareholders' general meeting of the above companies. The interests disclosed above are long positions in the shares of the Company.

Save as disclosed above, none of the other directors, supervisors or chief executive had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2004 as recorded in the register required to be kept under section 352 of the Securities and Futures Ordinance, or any interests that require notification to the Company and the Stock Exchange under the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code").

SHARE APPRECIATION RIGHTS SCHEME

The details of the share appreciation rights scheme provided by the Company are set out in note 15 to the financial statements.

RETIREMENT BENEFITS

Details of the retirement benefits of the Company are set out in note 15 to the financial statements.

MATERIAL CONTRACTS

The Company entered into various agreements with PICC Holding (the Company's controlling shareholder), PICC Asset Management Company Limited (a wholly-owned subsidiary of the Company's controlling shareholder) and AIG (the Company's strategic investor).

Details of the transactions pursuant to these agreements during this Year are set out in note 40 to the financial statements.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2004, the following shareholders were shown to have an interest of 5% or more in the issued share capital of the Company as recorded in the register required to be kept under section 336 of the Securities and Futures Ordinance:

Types of Shares	Shareholder	Number of Shares held		Percentage of Issued Share Capital
		Directly held	Indirectly held	
Domestic Shares	PICC Holding	7,685,820,000		69.0%
H Shares	AIG (<i>Note 1</i>)		1,103,038,000	9.9%
H Shares	Birmingham Fire Insurance Company of Pennsylvania ("BFIC") (<i>Note 1</i>)	562,549,380		5.05%

Notes:

1. AIG is the ultimate controlling company of BFIC, hence BFIC's interests are deemed to be AIG's interests.
2. The interests disclosed above are long positions in the shares of the Company.

Apart from the foregoing, as at 31 December 2004, no other person had any interests or short positions in the shares or underlying shares of the Company required to be recorded in the register kept under section 336 of the Securities and Futures Ordinance.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED COMPANIES

All directors have confirmed, following enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout this Year.

INDEPENDENCE OF DIRECTORS

The Company has received annual confirmations from all independent non-executive directors in respect of their independence in accordance with Rule 3.13 of the Listing Rules. As at the date of this annual report, the Company is of the view that all independent non-executive directors are independent.

PUBLIC FLOAT

As at the date of this annual report, 31% of the shares issued by the Company are held by the public.

CONNECTED TRANSACTIONS

The connected transactions of the Company for this Year are set out in notes 40(a) to 40(e) to the financial statements.

The Independent Non-executive Directors of the Company have reviewed all connected transactions and confirmed that:

- 1 all transactions were entered into during the ordinary and usual course of business;
- 2 all transactions were on normal commercial terms, fair and reasonable and in the interests of the shareholders of the Company as a whole;
- 3 all transactions have been carried out in accordance with the terms of the agreements governing the transactions; and
- 4 none of the transactions exceeded the annual upper limits approved by the Stock Exchange.

The auditors of the Company have reviewed all continuing connected transactions and confirmed to the Board of Directors of the Company that:

1. all transactions have been approved by the Board of Directors of the Company;
2. all transactions have been carried out in accordance with the terms of the agreements governing the transactions;
3. none of the transactions exceeded the annual upper limits approved by the Stock Exchange.

CODE OF BEST PRACTICE

So far as the Board of Directors is aware, for this Year, apart from the passing away of Mr Yan Dawu, who was the Company's Independent Non-executive Director and the chairman of the audit committee, which resulted in the Company's audit committee failing to fulfil the requirement of having a majority of independent non-executive directors under the Code of Best Practice, Appendix 14 (which was effective prior to 1 January 2005) to the Listing Rules (the "Code of Best Practice"), the Company has complied with the Code of Best Practice throughout this Year. The Company has appointed an Independent Non-executive Director, Mr Lu Zhengfei, as the chairman of the audit committee on 24 February 2004, to fill the vacancy.

AUDIT COMMITTEE

The Audit Committee has reviewed the audited financial statements for this Year. The duties and composition of the Audit Committee and a summary of this Year's work are set out on page 24 to page 25 and on page 27 to page 28 respectively in this annual report.

AUDITORS

Ernst & Young retire and a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

By Order of the Board
Tang Yunxiang
Chairman

Beijing, PRC
22 April 2005