



Mr Tang Yunxiang *Chairman*

Dear Shareholders,

The year 2005 witnessed the significant achievement of the Company of its further promoted reform and continuously strengthened foundation of development.

In 2005, the Company's turnover was RMB62,332 million, representing an increase of 0.5% over 2004. Net premiums earned was RMB49,802 million, representing a decrease of 1.6% from 2004. Underwriting profit was RMB1,766 million, representing an increase of 305.0% over 2004. Combined ratio was 96.5%, representing a decrease of 2.6 percentage points from 2004. Investment return was RMB1,142 million, representing an increase of 237.9% over 2004. Net profit was RMB1,113 million, representing an increase of RMB979 million over 2004. Return on net assets was 6.6%, representing an increase of 5.8 percentage points over 2004. In 2005, the Company held a market share of 51.5% and continued its leading position in the non-life insurance market in mainland China.

In 2005, the Company substantially improved its operating results despite of intensified market competition by persistently adhering to its priority of profitability, further promoting its reform, enhancing its basic management, optimising business structure and promoting a balanced development.

Adjustment of business structure: The Company improved the evaluation of its major non-motor-vehicle insurance businesses and formed professional sales forces to encourage and promote the non-motor-vehicle insurance businesses. With respect to its motor vehicle insurance business, the Company implemented a dynamic monitoring system, reinforced the insurance category-specific supervision and guidance, flexibly adjusted competition strategies and vigorously sought to improve the profitability of motor vehicle insurance business.

Innovation of systems and mechanisms: The Company tried out the "business unit" system for motor vehicle insurance business in selected provincial branches, promoted financial reporting based on product line for all businesses and uplifted the refined management capacity based on product line. It strived to improve the reinsurance mechanism and excess of loss coverage mechanism, effectively diversified the catastrophic risks and improved its underwriting capacity. The Company also vigorously conducted pilot programs regarding the exclusive agent system.

Enhancement of basic management: The Company strengthened data management, gradually centralized business operation at the provincial level, and implemented seamless inter-connection of its business processing system, premiums collection/loss payment system and financial system. The Company also enhanced the management of loss reserves and promoted quarterly actuarial assessment of reserves breakdown by provinces with a view to improving the quality of actuarial work and the accuracy in reserves provisioning. The Company acted upon the principle of standardized, unified and centralized management to optimise the “three centres” business flow, and enhanced the standardization and the operating efficiency.

Improvement of service quality: The Company launched the campaign of “Year of Quality Claims Management” and the “Gold Medal Service Project” in earnest, implemented the “Care-free Claim - Expedite Service for Motor Vehicle Insurance” program, optimised claim processing, quantified assessment criteria, strengthened management of key steps in claim processing, improved claim verification quality and loss determination and shortened the claim processing period, so as to continuously improve efficiency and service standards of claims settlement.

Promotion of brand image: In 2005, the Company became the official Insurance Partner of 2008 Beijing Olympic Games. We seized this opportunity and launched several promotion and marketing activities to enhance our brand image.

In 2005, we continued to improve corporate governance, and reinforced the structure of the board of directors of the Company (the “Board of Directors” or the “Board”) by increasing the seats of independent non-executive directors. We also established the Investment Decision-making Committee under the Board, formulated and consolidated the terms of reference of various committees and strengthened their functions.

The global economy will continue to grow moderately in 2006. Soaring oil price, imbalanced development and public debts of high-income countries and so on are the major uncertainties that would affect the economic growth. Due to increasing catastrophic risks such as floods and storms and terrorist attacks risks, premium rates in the global non-life insurance market will continue to stay at a relatively high level. The Asian region will continue to be the insurance market with most potential and liability insurance will become a new growth area.

During the Tenth Five-Year Plan period, the insurance industry in mainland China continued to develop rapidly. In 2005, premiums income of the insurance industry reached RMB492.73 billion, representing an increase of 14.1% from the previous year. Premiums income of the property and casualty insurance sector reached RMB128.11 billion, representing an increase of 13.92% from the previous year. The number of non-life insurance companies in mainland China increased to 35. The intensified market competition has spread from eastern to central and western regions. At present, the Company is facing both opportunities and challenges. The Chinese economy will maintain a fast and steady growth. With the implementation of the Eleventh Five-Year Plan, the adoption of scientific outlook on development, the establishment of a harmonious society and the construction of a new socialist countryside, China will give high priority in achieving harmonious and fair economic development, which will result in increasing demand for insurance products. With the implementation of mandatory motor vehicle third party liability insurance from 1 July 2006, more opportunities are expected in our motor vehicle insurance business. Moreover, the continued and intensified progress in the share segregation reform in the capital market will help create more favourable investment environment for insurance funds. On the other hand, when the market is entirely open, domestic insurance companies will have to encounter increasingly fierce market competition. However, uncertainties exist in the future performance of the mandatory motor vehicle third party liability insurance business.

In 2006, we will continue to attach primary importance to profitability, prevent and overcome operational risks while striving to achieve sustainable development and higher profitability, so as to create more value for shareholders.

Strengthening innovation in management mechanism: The Company will conduct restructuring by integrating the business operation and management functions on a product-line basis, clearly define the responsibilities and accountability for business development and profitability of each product line, and implement pilot schemes for the product business unit management system to ensure good results of the underwriting business.

Improvement of basic management: The Company will promote the consolidated data system and improve the accuracy of the basic actuarial data; enhance the reinsurance capability and refine the reinsurance management system and risks balancing mechanism. Moreover, the Company will put a vertical claims management system in place to further improve the quality of claims processing.

Intensifying efforts in marketing and services: The Company will establish a rapid market response system, mobilize its sales forces, explore more distribution channels and consolidate the customer base. The Company will also launch marketing campaigns under the theme of "Olympic Insurance" to promote the brand recognition and to enhance reputation. Moreover, the Company will continue to build on the "Year of Quality Claims Management" campaign and further refine the unified claims management policy, service standards and quality control system.

Enhancement of sustainable development capability: The Company will take advantage of its strong competitive edge in the branch network and make more efforts to develop products tailored to regional conditions. The Company will also optimise resources allocation and allow reasonable and appropriate delegation of power to motivate the field staff. Moreover, the Company will exploit extensively the traditional products market, such as commercial property insurance, cargo insurance and aviation and aerospace insurance. The Company will also actively develop the liability insurance business, insurance targeting at counties and rural areas and short-term health insurance and accidental injury insurance and implement competition strategies in different regions.

Strengthening fund allocation management: The Company will formulate plans to appropriately allocate assets, explore more investment channels, improve the evaluation mechanism on investment performance, as well as risk control mechanism so as to generate higher investment return.

Tang Yunxiang
Chairman

Beijing, PRC
21 April 2006