

The Board of Directors presents their report and the audited financial statements of the Company for the year ended 31 December 2005 (the “Year”).

PRINCIPAL ACTIVITIES

The Company engages in motor vehicle insurance, commercial property insurance, homeowners insurance, cargo insurance, liability insurance, accidental injury insurance, short-term health insurance, hull insurance, surety insurance, which are denominated in RMB and foreign currencies, together with the reinsurance of the above insurance products, and investment and fund application permitted under the relevant laws and regulations of the PRC.

FINANCIAL RESULTS AND DIVIDEND

The results of the Company for the Year and the state of the Company’s financial affairs as at 31 December 2005 are set out on pages 50 to 119 of this annual report.

The payment of an interim dividend of RMB0.072 per share was approved at the special general meeting of the Company held on 25 October 2005. The Board of Directors did not propose any final dividend for the Year.

FINANCIAL SUMMARY

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

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Changes in the property, plant and equipment and investment properties of the Company during the Year are set out in notes 27 and 28 to the financial statements respectively.

SHARE CAPITAL

There were no movements in the share capital of the Company during the Year.

PRE-EMPTIVE RIGHTS

There are no provisions regarding pre-emptive rights in respect of the transfer of shares or issue of new shares of joint-stock limited companies under the Company Law of the People’s Republic of China (the “Company Law”).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of the reserves of the Company and their changes during the Year are set out in the Statement of Changes in Equity on page 52 of this annual report.

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES

As at 31 December 2005, the Company did not have any distributable reserves based on the PRC accounting regulations.

CHARITABLE AND OTHER DONATIONS

Charitable and other donations made by the Company in the Year amounted to RMB20.38 million.

MAJOR CUSTOMERS

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

FIVE LARGEST REINSURERS

The reinsurance premiums ceded to the five largest reinsurers of the Company in the Year, and the ratings given by A.M. Best and Standard & Poor's are as follows (*Note 1*):

Reinsurer	Reinsurance premiums ceded (RMB million)	A.M. Best Rating	Standard & Poor's Rating
CHINA RE	6,378	Not applicable	Not applicable
MUNICH RE	2,388	A+	A+
SWISS RE	844	A+	AA
AIG (<i>Note 2</i>)	619	A++	AA+
Lloyd's Syndicates	485	A	A

Notes:

1. Credit ratings as of 31 December 2005.
2. The accumulated reinsurance premiums ceded to the subsidiaries of AIG.

DIRECTORS AND SUPERVISORS

The directors and supervisors of the Company during the Year and the change in directorship for the period from 1 January 2006 to the date of this report are set out in the Corporate Governance Report. There is no change in the members of the Supervisory Committee from 1 January 2006 to the date of this report.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND OTHER SENIOR MANAGEMENT

Biographical details of the directors, supervisors and other senior management of the Company are set out on pages 6 to 9 of this annual report.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS AND REMUNERATION

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

Details of the remuneration of the directors and supervisors of the Company are set out in note 12 to the financial statements.

HIGHEST PAID INDIVIDUALS

Details of the remuneration of the five highest paid individuals of the Company are set out in note 13 to the financial statements.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

None of the directors and supervisors had a material interest, whether directly or indirectly, in any contracts which were significant to the business of the Company and subsisted at the end of the Year or at any time during the 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 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 transactions, verification of books and records, valuation of assets, supervision on investments and evaluation on investment performance. The custodian agreement expired on 8 October 2005 and on the same day, the parties to the custodian agreement agreed to extend the agreement by one year.

REPORT OF THE DIRECTORS

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

The following sets out 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 Hong Kong Securities and Futures Ordinance ("SFO") held by the directors, supervisors and chief executive of the Company as at 31 December 2005, which were recorded in the register required to be kept under section 352 of the SFO and required to be notified to the Company and the Stock Exchange under the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"):

Name of director	Capacity	Number of H Shares
Cheng Wai Chee, Christopher	Controlled corporations	50,000

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. These companies were controlled corporations of Mr Cheng. 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 of the Company 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 2005 as recorded in the register required to be kept under section 352 of the SFO, or as required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTOR'S INTEREST IN COMPETING BUSINESS

PICC Life Insurance Company Limited ("PICC Life") and PICC Health Insurance Company Limited ("PICC Health"), subsidiaries of PICC Holding, the controlling shareholder of the Company, also engage in accidental injury insurance and short-term health insurance business.

Mr Tang Yunxiang, the Chairman of the Company, is the chairman and president of PICC Life and the chairman of PICC Health. Mr Ding Yunzhou and Mr Zhou Shurui, the Non-executive Directors of the Company, are the chairman of the supervisory committee and a non-executive director of PICC Health, respectively.

Pursuant to the reorganization agreement entered into between the Company and PICC Holding, PICC Holding has undertaken not to carry on any insurance business in the PRC which is of the same or similar nature as, or competes with, the core business of the Company.

Save as disclosed above, none of the directors of the Company is or was interested in any business that competes or competed or is or was likely to compete, either directly or indirectly, with the Company's business from 1 January 2005 to the date of this report.

MATERIAL CONTRACTS

The Company entered into various agreements with PICC Holding (the controlling shareholder of the Company), PICC Asset Management Company Limited (a wholly-owned subsidiary of the controlling shareholder of the Company) and AIG (the strategic investor of the Company). Details of the transactions pursuant to these agreements during the Year are set out in note 47 to the financial statements.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER SFO

As at 31 December 2005, the following shareholders had interests in the shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of shareholder	Capacity	Number of domestic shares	Percentage of total number of domestic shares in issue	Percentage of total number of shares in issue
PICC Holding	Beneficial owner	7,685,820,000	100%	69.0%

Name of shareholder	Capacity	Number of H Shares	Percentage of total number of H Shares in issue	Percentage of total number of shares in issue
AIG (<i>Note 1</i>)	Controlled corporations	1,103,038,000	31.92%	9.9%
Birmingham Fire Insurance Company of Pennsylvania (<i>Note 1</i>)	Beneficial owner	562,549,380	16.28%	5.05%
Commerce and Industry Insurance Company (<i>Note 1</i>)	Beneficial owner	330,911,400	9.58%	2.97%
Lexington Insurance Company (<i>Note 1</i>)	Beneficial owner	209,577,220	6.06%	1.88%
Matthews International Capital Management, LLC	Investment manager	208,446,000	6.03%	1.87%

Notes:

1. Birmingham Fire Insurance Company of Pennsylvania, Commerce and Industry Insurance Company, Lexington Insurance Company were controlled corporations of AIG.
2. The interests disclosed above are long positions in the shares of the Company.

Save as disclosed above, the Company is not aware of any other persons having any interests or short positions in the shares or underlying shares of the Company as at 31 December 2005 required to be recorded in the register kept under section 336 of the SFO.

PUBLIC FLOAT

As at the date of this report, 31% of the issued share capital of the Company is held by the public.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS

The connected transactions of the Company for the Year are set out in note 47 to the financial statements.

The independent non-executive directors of the Company have reviewed all the 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 were 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 the continuing connected transactions and confirmed to the Board of Directors that:

1. all transactions have been approved by the Board of Directors;
2. all transactions were carried out in accordance with the terms of the agreements governing the transactions;
3. for items (i) to (iii) and (v) set out in note 47 to the financial statements, none of the transactions exceeded the annual upper limits approved by the Stock Exchange.

CORPORATE GOVERNANCE

Details of the corporate governance of the Company are set out in the Corporate Governance Report.

AUDIT COMMITTEE

The Audit Committee has reviewed the audited financial statements for the Year. The duties and composition of the Audit Committee and a summary of its work performed during the Year are set out in the Corporate Governance Report.

AUDITORS

Ernst & Young and Ernst & Young Hua Ming shall retire as the international auditors and domestic auditors of the Company respectively. A resolution for their re-appointments will be proposed at the forthcoming annual general meeting.

By Order of the Board
Tang Yunxiang
Chairman

Beijing, PRC
21 April 2006