



Mr Wu Yan, Chairman of the Company

Dear Shareholders,

In 2006, the insurance industry continued to maintain a rapid development, and the Company achieved a new breakthrough in its operating results and new success in its reform and development.

In 2006, the insurance industry of Mainland China continued to maintain a rapid growth. Premiums income of the entire insurance industry reached RMB564.14 billion, representing an increase of 14.4% over last year, of which premiums income generated from the property insurance segment reached RMB150.94 billion, representing an increase of 22.6% over last year. The competition in the insurance market has been further intensified, and group-based competition and cross-selling are becoming an important trend in the industry development.

In 2006, premiums income of the Company and its subsidiaries amounted to RMB71,348 million, representing an increase of 8.2% over 2005. Net premiums earned reached RMB55,616 million, representing an increase of 4.2% over 2005. Underwriting profit was RMB604 million, representing a decrease of 59.9% from 2005. Combined ratio was 98.9%. Investment income was RMB4,015 million, representing an increase of 251.6% over 2005. Net profit was RMB2,082 million, representing an increase of 121.5%. Return on net assets was 10.8%, representing an increase of 101.6% as compared to 2005. The Company and its subsidiaries' total assets at the end of 2006 were RMB106,124 million, representing an increase of 11.6% over 2005. The Company's market share was 45.1% and continued to maintain a leading position in the non-life insurance market in Mainland China.

In 2006, the Company continued to deepen its reformation and enhance its management and, as a result, the Company has further demonstrated its operating vigour and strengthened the impetus to its development.

- **Refinement of corporate governance structure:** The Company has completed the election of the new session of the Board of Directors and established the Company's second session of the Board of Directors, Supervisory Committee and management team. The Company has further optimised its corporate governance structure, strengthened the construction of the Board of Directors and improved the functions of various board committees, thereby further enhancing the corporate governance level.
- **Innovation of operating mechanisms:** The Company consolidated its business operations and management functions with reference to its product lines and improved the quality and efficiency of its operations. The Company also strengthened its performance management, improved its performance-based appraisals, refined its investment management mechanisms, regulated the investment behaviour and promoted the progressive application of funds overseas.
- **Motivation of field staff:** The Company optimised its allocation of resources, concentrated its resources for frontline businesses, strengthened the construction of basic branches, focused on the development and training of the marketing team, and improved the competitiveness and service capabilities of its field staff. The Company also strengthened its product innovation and extended the scopes of insurance coverages. Furthermore, the Company has extensively developed the commercial insurance market that complements policy-related insurance products.

CHAIRMAN'S STATEMENT

- **Enhancement of risk control:** The Company strengthened its financial reporting and supervision, refined insurance segments cost management, strengthened its quality of claims management, promoted a nationwide uniform claims handling procedure for motor vehicle insurance. The Company also strengthened the management of premiums receivable, prevented operating risks, refined the reinsurance mechanism in order to improve its risk control level.
- **Emphasis on personnel training:** The Company promoted the development of the human resources information system and reformed its employment system. The Company preliminary established a multi-level and wide-ranging employee training framework and system, delivered programmed training to front-line management officers by rotation, strengthened horizontal and vertical staff communications within the system, and enhanced the personnel pool.
- **Fulfilment of social responsibilities:** The Company actively participated in the construction of a harmonious society and provided solid insurance protection for the economic and social development. The Company developed supplemental medical insurance and rural cooperation medical insurance businesses in earnest, proactively explored new models for agriculture insurance business and widened the scope of its insurance services. The Company also emphasised disaster prevention, assistance during disasters and reconstruction after disasters, took its initiatives to provide effective insurance services for people in the disaster-stricken areas. Moreover, the Company actively undertook the insurance for major projects such as the three-gorges project and satellite launching. The Company also strengthened its efforts in the development of Olympics-related insurance services and the promotion of "Olympic Steersmen" activity in order to enhance its brand awareness and promote its market image.

In 2007, the Company is presented with opportunities and challenges in its development and reform. China's economy will maintain a relatively rapid growth, and the quality and efficiency of the economic development will be further enhanced. The building of a harmonious society will result in extensive demands for a better and quicker development of a stronger insurance industry in China. The further promotion of the construction of new socialist rural areas will result in new opportunities for the exploitation of the enormous rural insurance market, which has become a new area of growth. Moreover, with the further refinement of PICC Group's strategies, the extensive reformation of PICC Group's systems and mechanisms will certainly be accelerated, the capabilities of resources integration will be strengthened and the overall advantages will be further leveraged. These factors will create favourable conditions for the Company to accelerate its development and enhance its efficiency.

In 2007, the Company will deeply participate in the construction of a harmonious society under the principles of scientific development and will pragmatically accomplish the following six tasks. Firstly, the Company will strengthen the foundation for management and control and enhance the field staff's capabilities of accelerated development. Secondly, the Company will refine its operating mechanisms and establish a solid execution system. Thirdly, the Company will innovate its marketing system and actively explore cross-selling models. Fourthly, the Company will strengthen its capital operations and will focus on the appropriate integration of capital operations and business expansion. Fifthly, the Company will guard itself against operational risks and increase its efforts on auditing, supervision and inspection. Sixthly, the Company will enhance its service standard and refine its centrally-managed service platform. Through the effective performance of the above tasks, the Company will strive to achieve a rapid expansion of its businesses and a stable improvement in its operating efficiency and continue to keep its efforts in consolidating its leading position in China's non-life insurance market so as to create greater value for the shareholders and make more contributions to the economic and social development.

Lastly, on behalf of the Board of Directors and personally, I would like to extend sincere gratitude to Mr Tang Yunxiang, former Chairman of the Board of Directors and Mr Deng Zhaoyu, former Chairman of the Supervisory Committee for their contributions to the Company during their period of service with the Company.

Wu Yan
Chairman

Beijing, the PRC
17 April 2007