
REPORT OF THE DIRECTORS

The Board of Directors presents their report and the audited financial statements of the Company and its subsidiaries for the year ended 31 December 2006 (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, agriculture 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 business permitted under the relevant laws and regulations of the PRC. The Company’s subsidiaries mainly engage in providing insurance agency services and training services for the Company.

FINANCIAL RESULTS AND DIVIDEND

The results of the Company and its subsidiaries for the Year and the state of financial affairs of the Company and its subsidiaries as at 31 December 2006 are set out on pages 47 to 117 of this annual report.

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 and its subsidiaries 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 and its subsidiaries during the Year are set out in notes 30 and 31 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 (“Company Law”).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of the reserves of the Company and its subsidiaries and their changes during the Year are set out in the Consolidated Statement of Changes in Equity on page 49 of this annual report.

DISTRIBUTABLE RESERVES

As at 31 December 2006, the Company did not have any distributable reserves based on the PRC accounting standards.

SUBORDINATED DEBTS

Details of the subordinated term debts issued by the Company during the Year are set out in the paragraph headed “Liquidity” under the section headed “Management Discussion and Analysis of Operating Results and Financial Conditions” on page 19 of this annual report.

CHARITABLE AND OTHER DONATIONS

Charitable and other donations made by the Company and its subsidiaries in the Year amounted to RMB72.06 million.

MAJOR CUSTOMERS

The aggregate turnover of the Company and its subsidiaries with their five largest customers did not exceed 10% of the total turnover of the Company and its subsidiaries 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 or Standard & Poor’s are as follows (*Note 1*):

Reinsurer	Reinsurance premiums ceded (RMB million)	A.M. Best Rating	Standard & Poor’s Rating
CHINA RE	3,371	Not applicable	Not applicable
MUNICH RE	2,917	A+	A+
SWISS RE	1,225	A+	AA
AIG (<i>Note 2</i>)	739	A+	AA+
Lloyd’s Syndicates	270	A	A

Notes:

1. Credit ratings as of 31 December 2006.
2. The accumulated reinsurance premiums ceded to the subsidiaries of AIG.

REPORT OF THE DIRECTORS

DIRECTORS AND SUPERVISORS

The directors and supervisors of the Company and their changes during the Year as well as the changes of the directors from 1 January 2007 until the date of this report are set out in the Corporate Governance Report of this annual report. There is no change in the members of the Supervisory Committee from 1 January 2007 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 5 to 8 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 CONTRACT

Pursuant to the asset management agreement entered into between the Company and PICC Asset Management Company Limited (an associate of the Company and a subsidiary of the Company's controlling shareholder), 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. The particulars of this agreement are set forth in note 49(a) to the financial statements.

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

The directors, supervisors and chief executive of the Company had not held the interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as defined in the Securities and Futures Ordinance (“SFO”) as of 31 December 2006 that are required to be 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 as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”).

DIRECTORS' 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 (resigned on 1 February 2007), the former Chairman of the Company, served as the Chairman and President of PICC Life and the Chairman of PICC Health. Mr Ding Yunzhou (retired on 18 October 2006), Mr Wu Gaolian and Mr Zhou Shurui, non-executive directors of the Company, have acted as the Chairman of the Supervisory Committee of PICC Health, a non-executive director of PICC Life and a non-executive director of PICC Health, respectively.

Pursuant to the reorganisation 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 2006 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 (an associate of the Company and a subsidiary of the Company's controlling shareholder), and AIG (the strategic investor of the Company). Details of the transactions pursuant to these agreements during the Year are set out in note 49 to the financial statements.

REPORT OF THE DIRECTORS

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER SFO

As at 31 December 2006, the following shareholders had interests or short positions 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	Nature of interests	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	Long position	100%	69.0%

Name of shareholder	Capacity	Number of H shares	Nature of interests	Percentage of total number of H shares in issue	Percentage of total number of shares in issue
AIG (Note 1)	Interest of controlled corporations	1,103,038,000	Long position	31.92%	9.9%
Birmingham Fire Insurance Company of Pennsylvania (Note 1)	Beneficial owner	562,549,380	Long position	16.28%	5.05%
Commerce and Industry Insurance Company (Note 1)	Beneficial owner	330,911,400	Long position	9.58%	2.97%
Lexington Insurance Company (Note 1)	Beneficial owner	209,577,220	Long position	6.06%	1.88%
Morgan Stanley	Interest of controlled corporations	402,123,169 148,466,645	Long position Short position	11.64% 4.30%	3.61% 1.33%
JPMorgan Chase & Co.	Beneficial owner/ Investment manager/ Custodian-corporation/ Approved lending agent	175,856,024 (Note 2)	Long position	5.09%	1.58%

Notes:

1. Birmingham Fire Insurance Company of Pennsylvania, Commerce and Industry Insurance Company, Lexington Insurance Company were controlled corporations of AIG.
2. Included in the 175,856,024 shares were 64,476,000 shares held in the capacity as beneficial owner, 1,630 shares held in the capacity as investment manager and a lending pool of 111,378,394 shares.

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 2006 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.

CONNECTED TRANSACTIONS

The connected transactions and the continuing connected transactions of the Company for the Year are set out in note 49 to the financial statements.

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

1. all transactions were entered into in 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. for items (i) to (v) and (vii) set out in note 49 to the financial statements, none of the transactions exceeded the relevant annual upper limits approved by the Stock Exchange or previously disclosed in the Company's announcement.

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 (when involving the provision of goods or services by the Company) were carried out in accordance with the Company's pricing policy;
3. all transactions were carried out in accordance with the terms of the agreements governing the transactions; and
4. for items (i) to (v) and (vii) set out in note 49 to the financial statements, none of the transactions exceeded the relevant annual upper limits approved by the Stock Exchange or previously disclosed in the Company's announcement.

The Company has complied with the requirements of the waiver granted by the Stock Exchange or the disclosure requirements under Chapter 14A of the Listing Rules.

CORPORATE GOVERNANCE

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

REPORT OF THE DIRECTORS

AUDIT COMMITTEE

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

AUDITORS

The tenure of Ernst & Young and Ernst & Young Hua Ming, which serve as the international auditors and domestic auditors of the Company respectively, shall end at the conclusion of the forthcoming annual general meeting.

By Order of the Board

Wu Yan

Chairman

Beijing, the PRC

17 April 2007