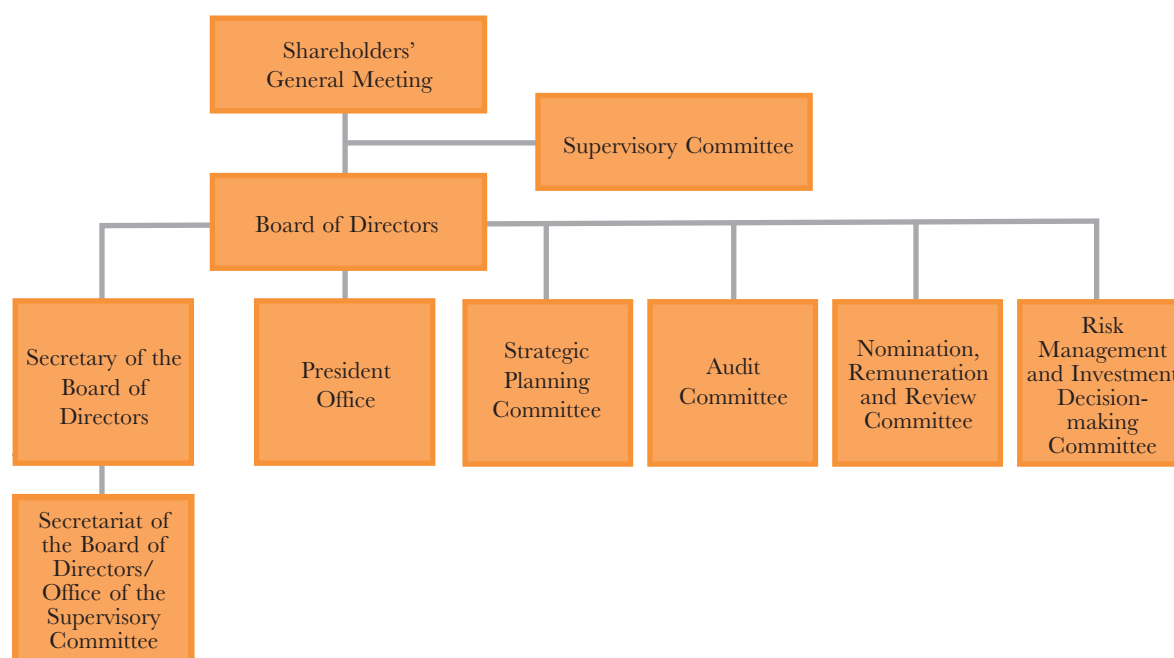


## OVERVIEW

The Company believes that maintaining sound corporate governance is in the interests of the Company, its shareholders and stakeholders. In accordance with the Company Law, the Special Regulations on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (“Special Regulations”), the Mandatory Provisions for the Articles of Association of Companies Listing Overseas (“Mandatory Provisions”), the Listing Rules, the Guidelines on Regulating Corporate Governance Structure of Insurance Companies (Trial) (“Guidelines”), the Articles of Association and other relevant laws and regulations, the Company has persisted in improving its corporate governance.

During the Year, by applying the Guidelines and the principles and code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules (“Code on Corporate Governance Practices”), the Company continuously refined the operating mechanism of the Board of Directors and the board committees, clearly defined the duties and responsibilities of the Board of Directors, the Audit Committee, the management and the relevant functional departments with regard to the internal control of the Company, and reviewed and ceaselessly enhanced the effectiveness of the Company’s internal control system.

Save as during the period from 1 January 2006 to 17 January 2006, the composition of the Nomination, Remuneration and Review Committee of the Company did not meet the requirement under Code Provision B.1.1 of the Code on Corporate Governance Practices that the majority of the remuneration committee members should be independent non-executive directors, the Company complied with all the other code provisions of the Code on Corporate Governance Practices in 2006. Since Mr Ding Ningning was appointed an Independent Non-executive Director and a member of the Nomination, Remuneration and Review Committee of the Company on 18 January 2006, the composition of the Nomination, Remuneration and Review Committee of the Company has met the requirement under Code Provision B.1.1 of the Code on Corporate Governance Practices.



## BOARD OF DIRECTORS

### Overview

During the Year, the Board of Directors convened four shareholders’ general meetings and submitted twenty proposals to the shareholders’ general meetings for consideration and approval, and held five board meetings and considered and approved forty-four proposals. The Board of Directors formulated the business development plan, financial

budget, fixed assets investment plan, strategic allocations of and investment policies on custodian assets of the Company, etc. The Board of Directors also conducted annual performance appraisals of the Company's Directors and senior management, adjusted the remuneration structure of the senior management, and enhanced the effectiveness of the Company's internal control system.

The Board of Directors meets regularly at least four times a year, and holds special meetings when necessary. Notices and meeting materials for regular board meetings are given to the directors at least fourteen days and three days prior to the meetings, respectively. All the directors are entitled to submit proposals to be listed as part of the agenda of the board meetings. Detailed minutes of each board meeting are kept. Four board committees are formed under the Board of Directors, namely the Strategic Planning Committee, the Audit Committee, the Nomination, Remuneration and Review Committee, and the Risk Management and Investment Decision-making Committee, respectively. The duties and responsibilities of and operating procedures for each of the above board committees are clearly defined. The board committees submit opinions and proposals to the Board of Directors on matters within their respective scope of duties and responsibilities.

During the Year, in accordance with the principles and code provisions set out in A.1, A.3, A.4 and A.6 of the Code on Corporate Governance Practices and the relevant provisions of the Company Law, the Guidelines and the Articles of Association, the Board of Directors continued to regulate its operations and enhance the corporate governance. The Board of Directors has complied with all the code provisions under A.1, A.3, A.4 and A.6.

### Composition

During the Year, the Board of Directors of the Company comprised the following Directors:

Name	Position	Date of Commencement of Directorship	Term
Mr Tang Yunxiang (resigned)	Chairman	6 July 2003	Resigned on 1 February 2007
Mr Wang Yi	Vice Chairman, Executive Director	6 July 2003	From 18 October 2006 to 5 July 2009
Mr Tse Sze-Wing, Edmund	Non-executive Director	15 June 2004	From 6 July 2006 to 5 July 2009
Mr Cheng Wai Chee, Christopher	Independent Non-executive Director	30 July 2003	From 30 July 2006 to 5 July 2009
Mr Lu Zhengfei	Independent Non-executive Director	24 February 2004	From 24 February 2004 to 23 February 2007
Mr Luk Kin Yu, Peter	Independent Non-executive Director	29 April 2005	From 29 April 2005 to 28 April 2008
Mr Ding Ningning	Independent Non-executive Director	18 January 2006	From 18 January 2006 to 17 January 2009
Mr Ding Yunzhou (retired)	Non-executive Director	6 July 2003	Retired on 18 October 2006
Mr Wu Gaolian	Non-executive Director	18 October 2006	From 18 October 2006 to 5 July 2009
Mr Zhou Shurui	Non-executive Director	6 July 2003	From 18 October 2006 to 5 July 2009
Mr Wang Yincheng	Executive Director	6 July 2003	From 18 October 2006 to 5 July 2009
Ms Liu Zhenghuan	Executive Director, Secretary of the Board of Directors	6 July 2003	From 18 October 2006 to 5 July 2009
Mr Li Tao	Non-executive Director	18 October 2006	From 18 October 2006 to 5 July 2009

*Note:* Mr Lu Zhengfei was re-appointed the Company's Independent Non-executive Director on 24 February 2007 and his term of appointment will expire on 23 February 2010.

Change of directors for the period from 1 January 2007 to the date of this report is as follows:

Mr Wu Yan was appointed the Company's Chairman, Executive Director, Chairman of the Strategic Planning Committee, and Chairman of the Risk Management and Investment Decision-making Committee on 23 March 2007.

### Duties and Responsibilities

The Board of Directors is responsible for providing leadership and monitoring and controlling the operations of the Company, formulating the overall strategies, policies, financial budgets and final accounts of the Company, determining the annual operational plans and investment plans of the Company, determining the fundamental management system and internal management structure, assessing the performance of the Company and supervising the work of the management. The Board of Directors is also responsible for convening shareholders' general meetings, reporting its work to the shareholders' general meetings, implementing resolutions of the shareholders' general meetings; formulating plans for distribution of profits and recovery of losses, formulating proposals for the increase in or reduction of the registered capital of the Company, the issue of corporate bonds and any amendments to the Articles of Association, drawing up plans for the merger, division, dissolution or change of the form of the Company; appointing or removing the Company's President, Vice Presidents, Secretary of the Board of Directors and other senior management personnel and determining their remuneration, rewards and disciplinary matters; electing members of the board committees; and approving the Company's investment in other enterprises or provision of guarantees to persons other than the Company's shareholders or actual controllers. The Board of Directors is ultimately responsible for the internal control, risk management and compliance management of the Company.

The Board of Directors delegates the daily business operations and management of the Company to the management.

### Summary of Work Undertaken

During the Year, the Board of Directors held five meetings and considered forty-four proposals. The attendance of each director is recorded as follows:

Name	Number of meetings attended/ Number of meetings that require attendance	Attendance rate
Tang Yunxiang	5/5	100%
Wang Yi	5/5	100%
Tse Sze-Wing, Edmund	5/5	100%
Cheng Wai Chee, Christopher	2/5	40%
Lu Zhengfei	5/5	100%
Luk Kin Yu, Peter	5/5	100%
Ding Ningning	4/4	100%
Ding Yunzhou	3/3	100%
Wu Gaolian	2/2	100%
Zhou Shurui	5/5	100%
Wang Yincheng	5/5	100%
Liu Zhenghuan	5/5	100%
Li Tao	2/2	100%

*Notes:*

1. Mr Ding Ningning was appointed the Company's Independent Non-executive Director on 18 January 2006.
2. Mr Ding Yunzhou retired from the position of the Company's Non-executive Director on 18 October 2006.
3. Mr Wu Gaolian and Mr Li Tao were appointed the Company's Non-executive Directors on 18 October 2006.

The main tasks accomplished by the Board of Directors in the Year included the followings:

- convened four shareholders' general meetings and submitted twenty proposals to the shareholders' general meetings including the Directors' Report for 2005, the Auditors' Report and the audited financial statements for 2005, profit distribution plans for 2005, amendments to the Articles of Association, and proposals for authorising the Board of Directors to issue subordinated term debts and election of the second Board of Directors;
- approved the business development plan, financial budget, fixed asset investment plan, and strategic allocations of and investment policies on custodian assets of the Company for the Year;
- approved the total amount of remuneration of the Company for the Year, adjusted the remuneration structure of the senior management and increased the proportion of the fixed remuneration of the senior management in order to ensure the stability of and better motivate employees of high calibre, and conducted the annual performance appraisals of the Company's senior management including the Chairman, Directors and the President;
- clearly defined the duties and responsibilities of the Board of Directors, the Audit Committee, the management and the relevant functional departments with regard to the internal control in accordance with the provisions of the Code on Corporate Governance Practices on internal control and the provisions of the Guidelines on internal control, risk management and compliance management; approved the Company's internal control evaluation report, risk evaluation report and compliance evaluation report for the Year, considered the report on improvement on the basis of the Management Letter of last year, and reviewed and continuously enhanced the effectiveness of the Company's internal control system;
- submitted the proposal for the amendments to the Articles of Association in accordance with the Company Law (as amended and effective as of 1 January 2006), the Special Regulations, the Mandatory Provisions and the Guidelines, which amendments, having been approved at the shareholders' general meeting and by CIRC, have come into force;
- elected the Chairman and the Vice Chairman of the second Board of Directors of the Company, and appointed the President, the Vice Presidents and the Secretary of the Board of Directors;
- appointed Mr Ding Ningning as a member of the Nomination, Remuneration and Review Committee so that the requirement under Code Provision B.1.1 of the Code on Corporate Governance Practices that the majority of the remuneration committee members should be independent non-executive directors has been met, and re-adjusted the composition of some board committees in line with the expertise of the Directors of the Company's second Board of Directors.

### DIRECTORS

#### Responsibilities with respect to Financial Statements

Directors are responsible for the preparation of financial statements for every financial year and the interim period thereof which shall give a true and fair view of the business operations of the Company in accordance with the financial reporting standards issued by the Hong Kong Institute of Certified Public Accountants and the adoption of appropriate and consistent accounting policies.

### Securities Transactions

The Company has formulated guidelines on transactions of the Company's securities that apply to the directors and all the employees, and the terms of the guidelines are no less exacting than those set out in the Model Code. The Company has made enquiries of all the Directors and they all have confirmed that they have complied with the requirements under the Model Code and the guidelines during the Year.

### Independence of Independent Non-executive Directors

The Company has received the annual confirmation letters from all the Independent Non-executive Directors of the Company of their independence. As at the date of this report, the Company is of the view that all the Independent Non-executive Directors are independent.

### CHAIRMAN/PRESIDENT

During the Year, the Chairman of the Board of Directors was Mr Tang Yunxiang (resigned on 1 February 2007) and the President was Mr Wang Yi. As at the date of this report, the Chairman of the Board of Directors is Mr Wu Yan. The Chairman is responsible for providing leadership for the Board of Directors, and ensuring that the Board of Directors works effectively and discharges its responsibilities properly. The President is responsible for managing the daily business operations of the Company and implementing the resolutions passed by the Board of Directors. Details of the duties and responsibilities of the Chairman and the President were contained on pages 36 and 37 of the Company's 2005 Annual Report.

### AUDIT COMMITTEE

#### Overview

During the Year, the Audit Committee continuously consolidated its development in accordance with the Listing Rules, the Guidelines and the Work Manual for the Audit Committee. During the Year, the Audit Committee continued to enhance communications with external auditors with respect to the audit work, reviewed the Company's annual report and accounts for 2005 and the interim report and accounts for 2006, carried out the internal control work steadily and made proposals and recommendations for the Company's internal control, risk management and compliance management. The Audit Committee also reviewed the Management Letter provided by the external auditors and the management's response, and considered the report of improvement on the basis of the Management Letter of last year. Furthermore, the Audit Committee effectively supervised and provided guidance on the internal audit and finance work, and reviewed a connected transaction of the Company.

#### Composition

Chairman: Lu Zhengfei

Members: Ding Yunzhou (retired on 18 October 2006), Luk Kin Yu, Peter, Li Tao (appointed on 18 October 2006)

### Duties and Responsibilities

The Audit Committee is responsible for monitoring and inspecting the financial reporting procedures and internal control system of the Company, reviewing the financial information of the Company, monitoring and providing guidance on the internal and external audit of the Company, and reviewing the appointment and the engagement terms of the external auditors. Details of the duties and responsibilities of the Audit Committee were contained on pages 37 and 38 of the Company's 2005 Annual Report.

### Remuneration of Auditors

In the Year, the Company paid RMB15.46 million to the auditors, including payment for the audit of the financial statements for 2005 and review of the interim report for 2006. During the Year, the Company did not engage the auditors for any material non-audit services.

### Summary of Work Undertaken

During the Year, the Audit Committee held four meetings and considered twelve proposals. The attendance rate of each committee member reached 100% and the attendance is recorded as follows:

Name	Lu Zhengfei	Ding Yunzhou	Luk Kin Yu, Peter	Li Tao
Number of meetings attended/ Number of meetings that require attendance	4/4	3/3	4/4	1/1
Attendance rate	100%	100%	100%	100%

#### Notes:

1. Mr Ding Yunzhou retired at the expiry of his term on 18 October 2006.
2. Mr Li Tao was appointed a member of the Audit Committee on 18 October 2006.

During the Year, the Audit Committee duly performed its duties of and played an active role in the supervision and provision of guidance on internal and external audit, the monitoring of financial reporting procedures, the reviewing of financial reports, the strengthening of internal control and risk management. The main tasks accomplished by the Audit Committee in the Year included the followings:

Further strengthened the communications with the external auditors:

- discussed the nature, scope and responsibilities of the audit and review with the external auditors, considered the reports from the external auditors on the work plans and results of the audit for 2005 and the interim review for 2006, gave their detailed and specific opinions on the requirements and quality of the audit and review, and fully communicated with the external auditors on matters such as the impact of the changes to the PRC Accounting Standards for Business Enterprises, material audit adjustments and internal control risks;
- considered the opinions of the external auditors and the Company's management on the annual audit and interim review fees respectively, considered the engagement terms, proposed to the Board of Directors for the continuous engagement of the auditors and the remuneration in relation thereto and obtained the approval from the Board of Directors.

Monitored and inspected the financial reporting procedures, and reviewed the financial reports:

- monitored and inspected the Company's financial reporting procedures, reviewed the financial statements and annual report for 2005 as well as the interim financial statements and interim report for 2006, and fully communicated with the management on matters such as the selection of and changes in the accounting policies, material audit adjustments and the impact thereof.

Carried out internal control work in a steady manner:

- submitted practical and effective proposals for, among others, specifying the allocation of internal control work and the rights and responsibilities of various responsible parties in accordance with the provisions of the Code on Corporate Governance Practices in relation to internal control and the relevant provisions of the Guidelines in relation to internal control, risk management and compliance management, with reference to the experiences of domestic and overseas listed companies and in line with the Company's actual conditions, and obtained approvals from the Board of Directors of such proposals;
- considered and discussed the reports on the Company's internal control evaluation, risk evaluation and compliance evaluation for the Year, and proposed specific requirements of the internal control work and submitted to the Board of Directors for consideration and approval;
- considered the Company's report on the improvement suggested by the Management Letter of last year, discussed the Suggestions for Accounting Audit and Financial Management presented by the auditors and the feedback from the management; reviewed the improvement progress in the areas of underwriting, claim settlement, finance and actuary, and proposed specific requirements of and recommendations on the improvement and the effect thereof, thereby effectively enhancing the Company's internal risk supervision and control.

Supervised and provided guidance on the internal audit and finance work, and considered and approved a connected transaction:

- considered the report of the Audit Department of the Company on the work summary for 2005 and the work plan for the Year, approved two internal audit projects in relation to premiums receivable and economic efficiency of motor vehicle insurance, and considered and discussed the report on the results of the internal audit projects;
- considered the report of the Finance and Accounting Department of the Company on the work summary for 2005 and the work plan for the Year, considered the report on the budget implementation for 2005, considered the Implementation Measures on Cost Sharing of the Company, and submitted proposals and recommendations to the Board of Directors;
- considered and approved the Company's continuing connected transaction with PICC Life Insurance Company Limited on mutual agency for insurance business.

### NOMINATION, REMUNERATION AND REVIEW COMMITTEE

#### Overview

The Nomination, Remuneration and Review Committee is responsible for matters relating to the nomination, remuneration and performance appraisals of directors of the Company, etc. During the Year, pursuant to the Listing Rules, the Guidelines and the Work Manual for the Nomination, Remuneration and Review Committee, the Company continued to reinforce the development of the Nomination, Remuneration and Review Committee. During the Year, the Nomination, Remuneration and Review Committee made constructive suggestions to the Board of Directors on various matters including the nomination, remuneration, incentive policies, performance appraisals of the Directors and senior management, and the overall remuneration of the Company.

During the period from 1 January 2006 to 17 January 2006, the composition of the Nomination, Remuneration and Review Committee did not comply with the requirement set forth in Code Provision B.1.1 of the Code on Corporate Governance Practices that the majority of the members of the remuneration committee should be independent non-executive directors. Since the appointment of Mr Ding Ningning (an Independent Non-executive Director) as a member of the Committee on 18 January 2006, the composition of the Nomination, Remuneration and Review Committee has complied with Code Provision B.1.1 of the Code on Corporate Governance Practices.

#### Composition

Chairman: Cheng Wai Chee, Christopher

Members: Lu Zhengfei, Luk Kin Yu, Peter, Ding Ningning (appointed on 18 January 2006), Zhou Shurui, Wang Yincheng, Liu Zhenghuan

#### Duties and Responsibilities

The Nomination, Remuneration and Review Committee is responsible for recommending candidates for directorship, formulating remuneration policies and appraisal standards for directors, the President and other senior management personnel (including Vice Presidents, Chief Financial Officer, Secretary of the Board of Directors and Assistants to the President), and supervising the implementation of such policies and standards. Details of the duties and responsibilities of the Committee were set out on page 41 of the Company's 2005 Annual Report.

#### Nomination of Directors

The Nomination, Remuneration and Review Committee shall first discuss the nomination of candidates as new directors, and then recommend such candidates to the Board of Directors. The Board of Directors shall then determine whether such candidates' appointments should be proposed for approval at the shareholders' general meeting. The major factors considered by the Nomination, Remuneration and Review Committee and the Board of Directors are the educational background, the management and research experience in the finance industry, especially in the insurance sector, of the candidates and the candidates' commitment to the Company. Regarding the nomination of independent non-executive directors, the Nomination, Remuneration and Review Committee will also give special consideration to the independence of the relevant candidates.



### Remuneration of Directors and Other Senior Management

The fixed salaries of the executive directors and other senior management are determined in accordance with market levels and their respective positions, and the amount of their performance-related bonuses is determined according to the results of performance appraisals. The amount of directors' fees and supervisors' fees and the units granted to the directors and supervisors under the Share Appreciation Rights Scheme are determined with reference to market levels. Details of the remuneration of the directors and supervisors for the Year are set out in note 12 to the financial statements.

### Summary of Work Undertaken

During the Year, the Nomination, Remuneration and Review Committee held four meetings, among which three meetings were held to discuss remuneration related matters, and eight proposals were considered. The meeting attendance rate of each committee member reached 100%. Attendance record of the meetings is as follows:

Name	Cheng Wai Chee, Christopher	Lu Zhengfei	Luk Kin Yu, Peter	Ding Ningning	Zhou Shurui	Wang Yincheng	Liu Zhenghuan
Number of meetings attended/Number of meetings that require attendance	4/4	4/4	4/4	3/3	4/4	4/4	4/4
Attendance rate	100%	100%	100%	100%	100%	100%	100%

*Note:* Mr Ding Ningning, an Independent Non-executive Director, was appointed a member of the Nomination, Remuneration and Review Committee on 18 January 2006.

During the Year, the Nomination, Remuneration and Review Committee made constructive suggestions to the Board of Directors on various matters including the nomination of directors, the remuneration policy for senior management, the overall remuneration of the Company and the appraisals of senior management. The main tasks accomplished by the Nomination, Remuneration and Review Committee in the Year included the followings:

- by considering the level of salaries paid by comparable companies in the market and the Company's own practical conditions, made recommendations to the Board of Directors on the fees of the Directors and Supervisors, which were considered and approved by the Board of Directors and at the shareholders' general meetings;
- taking into account the changes in the market environment, the Nomination, Remuneration and Review Committee agreed on the overall remuneration plan of the Company for the Year and submitted the plan to the Board of Directors for consideration and approval;
- proposed amendments to certain clauses of the Implementation Plan for the Second Grant under the Share Appreciation Rights Scheme of the Company, pursuant to which, the units of the share appreciation rights granted to the grantees who have been promoted during the granting period shall be adjusted accordingly so as to achieve greater incentive and binding effect of the share appreciation rights, and such amendments were submitted to the Board of Directors for consideration and approval;

- reviewed the performance appraisal proposal for 2005 of the senior management and made recommendations to the Board of Directors in respect thereof, carried out annual appraisals of the Chairman, the Directors and the President, and made recommendations on the quantitative indicators for evaluating the performance of the President as well as the bonus indicators for the Chairman and the President linked to their performance, which were considered and approved by the Board of Directors;
- proposed to the Board of Directors for the re-election of 7 directors and the appointment of 2 directors, which were considered and approved by the Board of Directors and at the shareholders' general meetings;
- after comparing the remuneration structure of the Company with that of comparable domestic and foreign companies, the Nomination, Remuneration and Review Committee agreed to appropriately increase the proportion of fixed salary of the senior management personnel, which was submitted to the Board of Directors for consideration and approval.

### STRATEGIC PLANNING COMMITTEE

#### Overview

During the Year, the Company continued to enhance the development of the Strategic Planning Committee, and focused on strengthening the review of the annual business development plan, major investment, financial budget, profit distribution and major strategies of the Company.

#### Composition

Chairman: Tang Yunxiang (resigned on 1 February 2007) and Wu Yan (appointed on 23 March 2007)

Members: Wang Yi, Tse Sze-Wing, Edmund (appointed on 18 October 2006), Ding Ningning (appointed on 18 January 2006), Wu Gaolian (appointed on 18 October 2006) and Li Tao (appointed on 18 October 2006)

*Note:* The Board of Directors approved a resolution on 1 February 2007 to authorise the Vice Chairman, Mr Wang Yi, to perform the duties of the Chairman of the Strategic Planning Committee until the new Chairman of the Committee was elected.

#### Duties and Responsibilities

The Strategic Planning Committee is responsible for formulating strategies for medium and long term development, reviewing major investments and financing plans of the Company, reviewing the annual financial budget and final accounts of the Company. Details of the duties and responsibilities of the Committee were set out on pages 43 and 44 of the Company's 2005 Annual Report.

### Summary of Work Undertaken

During the Year, the Strategic Planning Committee held two meetings, all of which were convened by way of resolutions in writing, and considered eleven proposals.

The main tasks accomplished by the Strategic Planning Committee in the Year included the followings:

- considered and approved the fixed asset investment plan for the Year;
- considered and approved the Company's profit distribution plans for 2005 and the interim period of 2006;
- considered and approved the increase of the Company's registered capital and the amendments to the Company's Articles of Association;
- considered and approved the proposal to be submitted to the shareholders' general meeting for authorising the Board of Directors to issue subordinated term debts;
- considered and approved the proposal for the cooperation between the Company and PICC Life Insurance Company Limited.

### RISK MANAGEMENT AND INVESTMENT DECISION-MAKING COMMITTEE

#### Overview

During the Year, the Company continued to enhance the development of the Risk Management and Investment Decision-making Committee, and focused on strengthening the review of the fund application strategies, investment portfolio and risk management system of the Company.

#### Composition

Chairman: Tang Yunxiang (resigned on 1 February 2007) and Wu Yan (appointed on 23 March 2007)

Members: Wang Yi, Luk Kin Yu, Peter, Ding Yunzhou (retired on 18 October 2006), Wu Gaolian (appointed on 18 October 2006), Zhou Shurui, Wang Yincheng and Liu Zhenghuan

*Note:* The Board of Directors approved a resolution on 1 February 2007 to authorise the Vice Chairman, Mr Wang Yi, to perform the duties of the Chairman of the Risk Management and Investment Decision-making Committee until the new Chairman of the Committee was elected.

#### Duties and Responsibilities

The Risk Management and Investment Decision-making Committee is responsible for reviewing the Company's fund application and investment strategies, examining the establishment and implementation of the risk control system for the application of insurance funds, and formulating strategic assets allocation plans for the application of insurance funds. Details of the duties and responsibilities of the Committee were set out on page 45 of the Company's 2005 Annual Report.

### Summary of Work Undertaken

During the Year, the Risk Management and Investment Decision-making Committee held one meeting, which was convened by way of resolutions in writing, and considered the Proposal for Investment in Infrastructure.

### INTERNAL CONTROL

#### Overview

The Company believes that sound internal control plays a fundamental role in the operations of the Company. The Board of Directors has the ultimate responsibility for the internal control, risk management and compliance management, and reviews the effectiveness of the internal control each year. The Company has established a relatively comprehensive and sophisticated system of internal rules and procedures in accordance with the relevant requirements of the State and based on the actual conditions of the Company, which is constantly revised and refined. The Company has in place an internal audit department, which performs regular audit of our branch organisations at various levels in accordance with the relevant laws, regulations and guidelines on auditing. The internal audit department enhanced the internal control of the Company and effectively reduced operational risks by its auditing of the key areas of the Company such as business operation and finance.

During the Year, according to the provisions of the Code on Corporate Governance Practices on internal control and the provisions of the Guidelines on internal control, risk management and compliance management, having considered the experiences of domestic and foreign listed companies and the actual conditions of the Company, the Audit Committee made recommendations on internal control work, which were approved by the Board of Directors. In accordance with the proposal put forward by the Audit Committee, the Company clearly defined the duties and responsibilities of the Board of Directors, the Audit Committee, the management and the relevant functional departments in the area of internal control. The Audit Department is responsible for internal control evaluation. A risk management working group led by the Finance and Accounting Department and consists of other departments such as the Actuary Department and the Fund Application Department is responsible for risks evaluation. The Legal Department is responsible for compliance evaluation.

The Board of Directors and the Audit Committee considered and discussed the Company's internal control, risk and compliance evaluation reports for the Year, and made specific requirements of and recommendations on internal control work with a view to persistently enhancing the effectiveness of internal control.

The Board of Directors and the Audit Committee also considered the Company's report on the improvement suggested by the Management Letter of last year, discussed the Suggestions for Accounting Audit and Financial Management presented by the auditors and the feedback from the management, reviewed the improvement in the areas of underwriting, claim settlement, finance and actuary, and recommendations with respect thereto.

### Internal Control

The Company has attached great importance to internal control, and required our branch organisations at various levels to continuously refine their internal control systems and to enhance the implementation of the internal control system based on the actual conditions of the Company in accordance with the relevant laws, regulations, rules and procedures of the State and the requirements of the regulatory authorities. In the Year, the Company formulated the Annual Implementation Plan for the Establishment of Internal Control System, which set out a responsibility system with well-defined responsibility division at different levels for the establishment of the internal control, and formulated a plan for the implementation of related work. In the Year, the Company also carried out an internal control evaluation and auditing of 37 key processes or areas, and conscientiously proposed and implemented improvement measures to rectify the deficiencies identified during the evaluation in accordance with the Guidelines on the Internal Control Evaluation and Audit. At present, the Company has established a relatively sound overall internal control system, various systems and procedures of the Company are carried out in an effective and consistent manner and key internal control risk points are controlled.

### Risk Management

The Company has, by adoption of practical and effective measures, strived to build the risk management system of the Company into a management system with clear targets, reasonable organisational structure, comprehensive procedures, scientific processes, professional staff, advanced technology and matching the environment. In the Year, the management of the Company formed the Risk Control Committee, formulated various specific guidelines, and designated certain departments and personnel for the implementation of risk management, and preliminarily established a risk management system devised to cover all staff, all scopes and all processes, and to classify, analyse and assess risks according to their origins and various detailed standards. At present, the Risk Control Committee of the Company has a relatively sound structure and all kinds of risks are controlled.

### Compliance Management

The Company believes that compliance management plays an instrumental role in the operations of the Company. The Company actively promotes the culture of compliance and strives to strengthen the construction of systems in key areas of operations, with a focus on the comprehensive prevention and control of compliance risks work in the basic set-up, alert mechanism and accountability aspects. In the Year, the Company designated the Legal Department to be in charge of the compliance management, to perform full overhaul of the existing rules and procedures, to carry out compliance evaluation in various areas such as authorised operation, product development, marketing and sales, underwriting, claim settlement, fund application, finance and accounting, and to propose improvement measures. At present, the Company has established a relatively sound and systematic internal management regime, major operational activities of the Company are carried out orderly in compliance with the laws and regulatory requirements as required under the internal management system, the overall compliance status of all major areas of the Company's operation and management is satisfactory and the compliance management mechanism operates properly.

## SUPERVISORY COMMITTEE

### Overview

In the Year, the Supervisory Committee discharged its supervisory duties according to the laws. An Independent Supervisor and the second Supervisory Committee were elected. The Supervisory Committee conducted investigation and research in respect of internal control system, inspected the financial and operational conditions of the branches, and made suggestions to the management about the strengthening of internal control, compliant operation and financial management.

### Composition

The First Supervisory Committee

Chairman: Deng Zhaoyu (retired on 18 October 2006)

Supervisors: Li Dianjun (appointed on 9 May 2006), Tang Wei (retired on 18 October 2006) and Liu Qilong (retired on 18 October 2006)

The Second Supervisory Committee

Chairman: Ding Yunzhou (appointed on 18 October 2006)

Supervisors: Li Dianjun (appointed on 9 May 2006), Sheng Hetai (appointed on 18 October 2006) and He Bangshun (appointed on 18 October 2006)

### Duties and Responsibilities

The Supervisory Committee is accountable to the shareholders' general meeting and performs duties of supervision over the financial affairs, directors and other senior management of the Company. Detailed duties and responsibilities include, among others, examining the financial affairs of the Company, verifying the financial information to be submitted by the Board of Directors to general meetings including the financial reports, business reports and profit distribution plans, supervising the directors and other senior management in their performance of duties for the Company, proposing the removal of directors or other senior management who break the laws, regulations, the Articles of Association of the Company or resolutions of the shareholders' general meetings; requiring the directors and other senior management to rectify their actions in the event that such actions infringe the interests of the Company; and bringing lawsuits against directors or other senior management in accordance with the provisions of the Company Law.

### Summary of Work Undertaken

During the Year, the Supervisory Committee duly carried out its supervisory duties and protected the interests of the Company, its shareholders and employees strictly in compliance with the relevant provisions of the Company Law and the Articles of Association. During the Year, the Supervisory Committee held four meetings and considered and approved nine proposals. The meeting attendance rate of each supervisor reached 100% and the attendance is recorded as follows:

The First Supervisory Committee

Name	Deng Zhaoyu	Li Dianjun	Tang Wei	Liu Qilong
Number of meetings attended/Number of meetings that require attendance	3/3	2/2	3/3	3/3
Attendance rate	100%	100%	100%	100%

The Second Supervisory Committee

Name	Ding Yunzhou	Li Dianjun	Sheng Hetai	He Bangshun
Number of meetings attended/Number of meetings that require attendance	1/1	1/1	1/1	1/1
Attendance rate	100%	100%	100%	100%

Details of the tasks accomplished by the Supervisory Committee in the Year are set out in the Report of the Supervisory Committee contained in this Annual Report.

## RIGHTS OF SHAREHOLDERS

### Methods of Convening Special General Meetings

According to the Articles of Association and the Rules of Conduct for General Meetings of the Company, any shareholder(s), whether individually or collectively, holding 10% or more of the voting shares of the Company may request in writing to convene a special general meeting and such shareholder(s) shall submit the complete resolution(s) to the Board of Directors in writing. If the Board of Directors is satisfied that the resolution(s) complies with the requirements under the laws, regulations and the Articles of Association, it shall issue a notice of special general meeting within 15 days of receipt of the written resolution(s).

### Procedures for Proposing Resolutions at Annual General Meetings

Any shareholder(s), whether individually or collectively, holding 3% or more of the voting shares of the Company is entitled to propose and submit to the Board of Directors proposed resolution(s) in writing 10 days prior to the holding of the annual general meeting. The Board of Directors shall notify other shareholders of such proposed resolution(s) within two days of receipt of such proposals and submit the same to the annual general meeting for consideration. The proposed resolution(s) shall deal with matters that are within the scope of the shareholders' general meeting and shall contain clear subjects and specific matters to be resolved.

## INVESTOR RELATIONS

The Company communicates its operating results timely with investors after the announcements of annual and interim results by way of results briefings and roadshows. By attending visits from investors and major investment forums, making timely replies to enquiries made by telephone and electronic mail and providing relevant information to investors proactively on the Company's website, the Company is strengthening its day-to-day communications with investors with a view to establishing and maintaining a good relationship with investors.

## PARTICULARS OF THE LATEST SHAREHOLDERS' GENERAL MEETING

The latest shareholders' general meeting was the special general meeting held on 23 March 2007. The meeting considered the resolution regarding the appointment of Mr Wu Yan as an executive director of the Company. The resolution was decided by a show of hands and all the shareholders present (including their proxies) at the meeting voted in favour of the resolution.