CHINA LIFE INSURANCE CO LTD
Form 20-F
May 18, 2007
Table of Contents

As filed with the Securities and Exchange Commission on May 18, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2006

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______

OR

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report ______

Commission file number 001-31914

(Exact name of Registrant as specified in its charter)

China Life Insurance Company Limited

(Translation of Registrant s name into English)

People s Republic of China

(Jurisdiction of incorporation or organization)

16 Chaowai Avenue

Chaoyang District

Beijing 100020, China

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each Class	Name of each exchange on which registered
American depositary shares	**New York Stock Exchange, Inc.**
H shares, par value RMB1.00 per share	**New York Stock Exchange, Inc.***

* Not for trading, but only in connection with the listing on the New York Stock Exchange, Inc. of American depositary shares, each representing 15 H shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None.

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None.

(Title of Class)

Indicate the number of outstanding shares of each of the issuer s class of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2006, 7,441,175,000 H shares and 20,823,530,000 A shares, par value RMB1.00 per share, were issued and outstanding. H shares are listed on the Hong Kong Stock Exchange. Since January 9, 2007, A shares, par value RMB 1.00 per share, have been listed on the

Shanghai Stock Exchange. Both H shares and A shares are ordinary shares.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. x Yes ¨ No

If this is an annual report, indicate by check mark if the registrant is not required to file reports pursuant Section 13 or 15(d) of the Securities Exchange Act of 1934. ¨ Yes x No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark which financial statement item the registrant has elected to follow. ¨ Item 17 x Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x No

Table of Contents

CHINA LIFE INSURANCE COMPANY LIMITED

TABLE OF CONTENTS

Table of Contents

Table of Contents

FORWARD-LOOKING STATEMENTS

This annual report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements state our intentions, beliefs, expectations or predictions for the future, in particular under Item 4. Information on the Company , Item 5. Operating and Financial Review and Prospects and Item 8. Financial Information Embedded Value .

The forward-looking statements include, without limitation, statements relating to:

- future developments in the insurance industry in China;
- the industry regulatory environment as well as the industry outlook generally;
- the amount and nature of, and potential for, future development of our business;
- the outcome of litigation and regulatory proceedings that we currently face or may face in the future;
- our business strategy and plan of operations;
- the prospective financial information regarding our business;
- our dividend policy; and
- information regarding our embedded value.

In some cases, we use words such as believe , intend , anticipate , estimate , project , forecast , plan , potential , will , may , should similar expressions to identify forward-looking statements. All statements other than statements of historical facts included in this annual report, including statements regarding our future financial position, strategy, projected costs and plans and objectives of management for future operations, are forward-looking statements. Although we believe that the expectations reflected in those forward-looking statements are reasonable, we can give no assurance that those expectations will prove to have been correct, and you are cautioned not to place undue reliance on such statements. Important factors that could cause actual results to differ materially from our expectations are disclosed under Item 3. Key Information Risk Factors and elsewhere in this annual report, including in conjunction with the forward-looking statements included in this annual report. We undertake no obligation to publicly update or revise any forward-looking statements contained in this annual report, whether as a result of new information, future events or otherwise, except as required by law. All forward-looking statements contained in this annual report are qualified by reference to this cautionary statement.

Table of Contents

CERTAIN TERMS AND CONVENTIONS

Conventions

References in this annual report to we , us , our or China Life mean China Life Insurance Company Limited and, as the context may require, its subsidiaries. References to CLIC mean, prior to the restructuring described below, China Life Insurance Company and, as the context may require, its subsidiaries, and subsequent to the restructuring, China Life Insurance (Group) Company and, as the context may require, its subsidiaries, other than China Life. References in this annual report to AMC mean China Life Insurance Asset Management Company Limited, the asset management joint venture established by us with CLIC on November 23, 2003.

The statistical and market share information contained in this annual report has been derived from government sources, including the China Insurance Yearbook 2004, the China Insurance Yearbook 2005, the China Insurance Yearbook 2006, and other public sources. The information has not been verified by us independently. Unless otherwise indicated, market share information set forth in this annual report is based on premium information as reported by the CIRC. The reported information includes premium information that is not determined in accordance with HKFRS or U.S. GAAP.

References to A share offering mean the 1,500,000,000 ordinary domestic shares which were newly issued by us on December 26, 2006 and offered to strategic, institutional and public investors as approved by the CSRC. References to CLIC A shares mean the 19,323,530,000 ordinary domestic shares held by CLIC prior to the A share offering and which have been registered with the China Securities Depository and Clearing Corporation Limited as circulative A shares with restrictive trading following the A share offering. CLIC has undertaken that for a period of 36 months commencing on January 9, 2007, it will not transfer or put on trust the CLIC A shares held by it or allow such CLIC A shares to be repurchased by China Life. References to A shares mean the RMB ordinary shares listed on the SSE, which include the CLIC A shares and the 1,500,000,000 ordinary domestic shares issued pursuant to the A share offering. A shares have been listed on the SSE since January 9, 2007.

References to China or PRC mean the People s Republic of China, excluding, for purposes of this annual report, Hong Kong, Macau and Taiwan. References to the central government mean the government of the PRC. References to State Council mean the State Council of the PRC. References to the CIRC mean the China Insurance Regulatory Commission. References to MOF or Ministry of Finance mean the Ministry of Finance of the PRC. References to Ministry of Commerce mean the Ministry of Commerce of the PRC, which assumed the regulatory functions of the former Ministry of Foreign Trade and Economic Cooperation of the PRC, or MOFTEC . References to CSRC mean the China Securities Regulatory Commission.

References to effective date mean June 30, 2003, the effective date of the restructuring under the restructuring agreement between CLIC and us.

References to HKSE or Hong Kong Stock Exchange mean The Stock Exchange of Hong Kong Limited. References to NYSE or New York Stock Exchange mean New York Stock Exchange, Inc. References to SSE or Shanghai Stock Exchange mean the Shanghai Stock Exchange.

Table of Contents

References to Renminbi or RMB in this annual report mean the currency of the PRC, references to U.S. dollars or US$ mean the currency of th United States of America, and references to Hong Kong dollars , H.K. dollars or HK$ mean the currency of the Hong Kong Special Administrative Region of the PRC.

References to U.S. GAAP mean the generally accepted accounting principles in the United States, references to HKFRS mean the financial reporting standards in Hong Kong, which are effective for accounting periods commencing on or after January 1, 2005, and references to PRC GAAP mean the PRC Accounting Rules and Regulations for Business Enterprises and PRC Accounting System for Financial Institutions. Unless otherwise indicated, our financial information presented in this annual report has been prepared in accordance with HKFRS.

Unless otherwise indicated, translations of RMB amounts into U.S. dollars in this annual report have been made at the rate of US$1.00 to RMB 7.8041, the noon buying rate in The City of New York for cable transfers payable in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York on December 29, 2006. The noon buying rate on May 11, 2007 on this basis was RMB 7.6835 to US$1.00. No representation is made that Renminbi amounts could have been, or could be, converted into U.S. dollars at that rate on December 29, 2006 or at all.

Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

If there is any discrepancy or inconsistency between the Chinese names of the PRC entities in this annual report and their English translations, the Chinese version shall prevail.

Table of Contents

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS.

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE.

Not applicable.

ITEM 3. KEY INFORMATION.

SELECTED FINANCIAL DATA

Selected Historical Consolidated Financial Data

The following tables set forth our selected consolidated financial information. We have derived the consolidated financial information as of and for the years ended December 31, 2004, 2005 and 2006 from our audited consolidated financial statements included elsewhere in this annual report. For consolidated financial information as of and for the years ended December 31, 2002 and 2003, we derived the information from our audited consolidated financial statements not included in this annual report. As described below, the financial statements as of and for the year ended December 31, 2002 present the financial results of our predecessor company, CLIC, and the 2003 statements of results of operations and cash flows present the results of CLIC for the nine-month period ended September 30, 2003 together with our results for the three-month period ended December 31, 2003.

For a reconciliation of our net profit and shareholders equity to U.S. GAAP, see Note 36 of the notes to the consolidated financial statements included elsewhere in this annual report.

We were formed on June 30, 2003 in connection with CLIC s restructuring. In connection with the restructuring, CLIC transferred to us (1) all long-term insurance policies (policies having a term of more than one year from the date of issuance) issued on or after June 10, 1999, having policy terms approved by or filed with the CIRC on or after June 10, 1999 and either (i) recorded as a long-term insurance policy as of June 30, 2003 in a database attached to the restructuring agreement as an annex or (ii) having policy terms for group supplemental medical insurance (fund type), (2) stand-alone short-term policies (policies having a term of one year or less from the date of issuance) issued on or after June 10, 1999 and (3) all riders supplemental to the policies described in clauses (1) and (2) above, together with the reinsurance contracts specified in an annex to the restructuring agreement. We refer to these policies as the transferred policies . See Item 4. Information on the Company History and Development of the Company Our Restructuring . All other insurance policies were retained by CLIC. We refer to these policies as the non-transferred policies . We assumed all obligations and liabilities of CLIC under the transferred policies. CLIC continues to be responsible for its liabilities and obligations under the non-transferred policies following the restructuring. The restructuring was effected through a restructuring agreement entered into with CLIC on September 30, 2003, with retroactive effect to June 30, 2003. Pursuant to PRC law and the restructuring agreement, the transferred policies were transferred to us as of June 30, 2003; however, for accounting purposes, the restructuring is treated as having occurred on September 30, 2003, the date of which all of the assets to be transferred were specifically identified. Therefore, for accounting purposes, our financial statements reflected a deemed distribution of assets to CLIC and deemed assumption of liabilities by CLIC as of September 30, 2003. To give effect to the restructuring agreement, the results of operations attributable to the timing difference between the effectiveness of the restructuring under the PRC law and the effectiveness of the restructuring for accounting purposes are reflected as a capital contribution from CLIC to us as of October 1, 2003. The business constituted by the policies and assets transferred to us and the obligations and liabilities assumed by us and the business

Table of Contents

constituted by the policies, assets, obligations and liabilities retained by CLIC were, prior to the restructuring, under common management from a number of significant aspects. Therefore, our consolidated balance sheet data as of December 31, 2002, and the consolidated income statement accounts data for the years ended December 31, 2002, present the financial results of our predecessor company, CLIC, and they will not necessarily be indicative of our future earnings, cash flows or financial position as a stand-alone company. Our consolidated balance sheet data and consolidated income statement as of and for the year ended December 31, 2003 reflect the restructuring as having occurred on September 30, 2003.

You should read this information in conjunction with the rest of the annual report, including our audited consolidated financial statements and the accompanying notes and Item 5. Operating and Financial Review and Prospects included elsewhere in this annual report.

Table of Contents

	For the year ended December 31,					
	2002	2003[1]	2004	2005	2006	2006
	RMB	RMB	RMB	RMB	RMB	US$
	(in millions except for per share data)					
Consolidated Income Statement Data						
HKFRS						
Revenues						
Gross written premiums and policy fees	68,769	69,334	66,257	81,022	99,417	12,739
Less: premiums ceded to reinsurers	(1,869)	(1,571)	(1,182)	(769)	(140)	(18)
Net written premiums and policy fees	66,900	67,763	65,075	80,253	99,277	12,721
Net change in unearned premium reserves	(476)	(547)	(67)	(215)	(430)	(55)
Net premiums earned and policy fees	66,424	67,216	65,008	80,038	98,847	12,666
Net investment income	8,347	9,825	11,317	16,685	24,942	3,196
Net realized gains/(losses) on financial assets				(510)	1,595	204
Net realized gains/(losses) on investments	266	868	(237)			
Net fair value gains on assets at fair value through income (held-for-trading)				260	20,044	2,568
Net unrealized gains/(losses) on trading assets	(1,067)	247	(1,061)			
Other income	338	727	1,779	1,739	1,883	241
Total revenues	74,308	78,883	76,806	98,212	147,311	18,876
Benefits, claims and expenses						
Insurance benefits and claims						
Life insurance death and other benefits	(7,010)	(8,570)	(6,816)	(8,311)	(10,797)	(1,384)
Accident and health claims and claim adjustment expenses	(4,053)	(4,882)	(6,418)	(6,847)	(6,999)	(897)
Increase in long-term traditional insurance contracts liabilities	(40,541)	(39,966)	(25,361)	(33,977)	(44,238)	(5,669)
Interest credited to long-term investment type insurance contracts	(6,783)	(6,811)	(3,704)	(4,894)	(6,386)	(818)
Interest credited to investment contracts	(312)	(449)	(616)	(973)	(996)	(128)
Increase in deferred income	(6,108)	(5,942)	(7,793)	(8,521)	(11,607)	(1,487)
Policyholder dividends resulting from participation in profits	(641)	(1,207)	(2,048)	(5,359)	(17,617)	(2,257)
Amortization of deferred policy acquisition costs	(3,832)	(5,023)	(6,263)	(7,766)	(10,259)	(1,315)
Underwriting and policy acquisition costs	(1,661)	(1,294)	(1,472)	(1,845)	(2,415)	(309)
Administrative expenses	(6,162)	(6,862)	(6,585)	(7,237)	(9,339)	(1,197)
Other operating expenses	(634)	(872)	(131)	(798)	(859)	(110)
Interest expense on bank borrowings	(7)	(7)				
Statutory insurance fund	(73)	(85)	(96)	(174)	(194)	(25)
Total benefits, claims and expenses	(77,817)	(81,970)	(67,303)	(86,702)	(121,706)	(15,595)
Net profit/(loss) before income tax expense	(3,509)	(3,087)	9,503	11,510	25,605	3,281
Income tax expense	(14)	(1,180)	(2,280)	(2,145)	(5,554)	(712)
Net profit/(loss)	(3,523)	(4,267)	7,223	9,365	20,051	2,569
Attributable to:						
Shareholders of the Company	(3,525)	(4,252)	7,171	9,306	19,956	2,557
Minority interest	2	(15)	52	59	95	12
Basic and diluted earnings/(loss) per share[2]	(0.18)	(0.21)	0.27	0.35	0.75	0.10
Dividends				1,338	3,957	507

U.S. GAAP

Revenues	74,308	78,883	76,806	98,212	147,311	18,876
Net profit/(loss) attributable to shareholders of the Company	(2,317)	(1,287)	7,171	9,306	19,956	2,557
Net profit/(loss) per share[(2)]	(0.12)	(0.06)	0.27	0.35	0.75	0.10
Net profit/(loss) per ADS[(2)]	(4.63)	(2.54)	10.72	13.91	N/A	N/A
Net profit/(loss) per ADS[(3)]	(1.74)	(0.95)	4.02	5.22	11.18	1.43

Table of Contents

(1) Includes, through September 30, 2003, the assets, liabilities and operations retained by CLIC.

(2) The 20,000,000,000 shares issued to CLIC in the restructuring have been given retroactive treatment for purposes of computing per share and per ADS amounts. Numbers for the year ended December 31, 2003 and the years ended December 31, 2004 and December 31, 2005 are based on the weighted average number of 20,249,798,526 shares and 26,764,705,000 shares, respectively, in issue during such years. Numbers for the year ended December 31, 2006 are based on the weighted average number of 26,777,033,767 shares in issue during such year. Each ADS represents 40 H shares. Any discrepancies in the table between the amounts per share and the amounts per ADS are due to rounding.

(3) The ratio of ADSs to H shares was reduced from 40 H shares to 15 H shares on December 29, 2006. Accordingly, we have also calculated retroactively the net profit/(loss) per ADS based on each ADS representing 15 H shares for purposes of comparison.

Table of Contents

	As of December 31,					
	2002	2003	2004	2005	2006	2006
	RMB	RMB	RMB	RMB	RMB	US$
			(in millions)			
Consolidated Balance Sheet Data						
HKFRS						
Assets						
Property, plant and equipment	18,457	12,008	12,250	12,710	14,565	1,866
Deferred policy acquisition costs	18,084	24,868	32,787	37,741	39,230	5,027
Investments in associates	2,035				6,071	778
Financial assets						
Debt securities	76,337	70,604	150,234	255,554	357,898	45,860
Equity securities	12,171	10,718	17,271	39,548	95,493	12,236
Term deposits	123,675	137,192	175,498	164,869	175,476	22,485
Statutory deposits restricted	991	4,000	4,000	5,353	5,353	686
Policy loans	106	116	391	981	2,371	304
Securities purchased under agreements to resell	36,388	14,002	279			
Accrued investment income	4,198	2,875	5,084	6,813	8,461	1,084
Other financial assets	231					
Premiums receivables	1,757	2,801	3,912	4,959	6,066	777
Reinsurance assets	1,224	997	1,297	1,182	986	126
Other assets	3,587	5,923	3,451	1,458	2,212	283
Cash and cash equivalents	14,529	42,616	27,217	28,051	50,213	6,434
Total assets	313,770	328,720	433,671	559,219	764,395	97,948

Table of Contents

	As of December 31,					
	2002	2003	2004	2005	2006	2006
	RMB	RMB	RMB	RMB	RMB	US$
			(in millions)			
Liabilities and equity						
Liabilities						
Insurance Contracts						
Short-term insurance contracts						
-Unearned premium reserves	5,036	5,382	5,212	5,147	5,346	685
-Reserves for claims and claim adjustment expenses	879	814	1,215	1,784	2,498	320
Long-term traditional insurance contracts	292,551	63,965	89,698	124,656	172,875	22,152
Long-term investment type insurance contracts	212,108	135,982	191,885	237,001	282,672	36,221
Deferred income	12,812	18,753	27,603	34,631	41,371	5,301
Financial liabilities						
Investment contracts						
-with discretionary participation feature (DPF)	9,241	16,720	32,476	42,230	45,998	5,894
-without DPF	2,698	2,029	1,635	1,872	2,614	335
Securities sold under agreements to repurchase	3,602	6,448		4,731	8,227	1,054
Annuity and other insurance balances payable	8,057	638	2,801	4,492	8,891	1,139
Premiums received in advance	1,767	2,407	2,447	2,951	2,329	298
Policyholder deposits	592					
Policyholder dividends payable	688	1,916	2,037	6,204	26,057	3,339
Bank borrowings	313					
Provision	445					
Other liabilities	4,716	6,732	4,922	4,106	5,333	683
Current income tax liabilities		159	38	525	843	108
Deferred tax liabilities		3,686	4,371	7,982	19,022	2,437
Statutory insurance fund	1,337	333	429	98	114	15
Total liabilities	556,842	265,964	366,769	478,410	624,190	79,982
Contingencies and commitments						
Shareholders equity						
Share Capital	4,600	26,765	26,765	26,765	28,265	3,622
Reserves	1,430	34,051	31,573	37,225	77,368	9,914
Retained earnings/(accumulated loss)	(249,267)	1,620	8,192	16,388	34,032	4,361
Total shareholders equity	(243,237)	62,436	66,530	80,378	139,665	17,896
Minority interest	165	320	372	431	540	69
Total equity	(243,072)	62,756	66,902	80,809	140,205	17,966
Total liabilities and equity	313,770	328,720	433,671	559,219	764,395	97,948
U.S. GAAP						
Total assets	313,592	328,720	433,671	559,219	764,395	97,948
Total liabilities	489,068	265,964	366,769	478,410	624,190	79,982
Shareholders equity	(175,641)	62,436	66,530	80,378	139,665	17,896

Table of Contents

Exchange Rate Information

We prepare our financial statements in Renminbi. This annual report contains translations of Renminbi amounts into U.S. dollars, and U.S. dollars into Renminbi, at RMB 7.8041 to US$1.00, the noon buying rate on December 29, 2006 in the City of New York for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York. You should not assume that Renminbi amounts could actually be converted into U.S. dollars at these rates or at all.

Until July 20, 2005, the People s Bank of China had set and published daily a base exchange rate with reference primarily to the supply and demand of Renminbi against the U.S. dollar in the market during the prior day. The People s Bank of China also took into account other factors, such as the general conditions existing in the international foreign exchange markets. From 1994 to July 20, 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by 2.0% against the U.S. dollar. Since then, the PRC government has made, and may in the future make, further adjustments to the exchange rate system. The People s Bank of China announces the closing price of a foreign currency traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day, and makes it the central parity for the trading against the Renminbi on the following working day.

Although PRC governmental policies were introduced in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currency for current account items, conversion of Renminbi into foreign exchange for capital items, such as foreign direct investments, loans or securities, requires the approval of the State Administration for Foreign Exchange and other relevant authorities.

The Hong Kong dollar is freely convertible into other currencies, including the U.S. dollar. Since October 17, 1983, the Hong Kong dollar has been linked to the U.S. dollar at the rate of HK$7.80 to US$1.00. The central element in the arrangements which give effect to the link is that by agreement between the Hong Kong government and the three Hong Kong banknote issuing banks, The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank and the Bank of China, certificates of indebtedness, which are issued by the Hong Kong Government Exchange Fund to the banknote issuing banks to be held as cover for their banknote issues, are issued and redeemed only against payment in U.S. dollars, at the fixed exchange rate of HK$7.80 to US$1.00. When the banknotes are withdrawn from circulation, the banknote issuing banks surrender the certificates of indebtedness to the Hong Kong Government Exchange Fund and are paid the equivalent U.S. dollars at the fixed rate.

The market exchange rate of the Hong Kong dollar against the U.S. dollar continues to be determined by the forces of supply and demand in the foreign exchange market. However, against the background of the fixed rate which applies to the issue of the Hong Kong currency in the form of banknotes, as described above, the market exchange rate has not deviated materially from the level of HK$7.80 to US$1.00 since the link was first established. The Hong Kong government has stated its intention to maintain the link at that rate, and it, acting through the Hong Kong Monetary Authority, has a number of means by which it may act to maintain exchange rate stability. Exchange rates between the Hong Kong dollar and other currencies are influenced by the linked rate between the U.S. dollar and the Hong Kong dollar.

Table of Contents

The noon buying rates in The City of New York for cable transfers payable in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York were US$1.00 to RMB7.6835 and US$1.00 to HK$7.8201, respectively, on May 11, 2007. The following table sets forth the high and low noon buying rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars for each of the periods shown:

	Noon buying rate			
	RMB per US$		HK$ per US$	
	High	Low	High	Low
November 2006	7.8750	7.8303	7.7875	7.7751
December 2006	7.8350	7.8041	7.7787	7.7665
January 2007	7.8127	7.7705	7.8112	7.7797
February 2007	7.7632	7.7410	7.8141	7.8041
March 2007	7.7454	7.7232	7.8177	7.8093
April 2007	7.7345	7.7090	7.8212	7.8095
May 2007 (through May 11, 2007)	7.7065	7.6835	7.8222	7.8180

The following table sets forth the period-end noon buying rates and the average noon buying rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars for each of 2002, 2003, 2004, 2005, 2006 and 2007 (through May 11, 2007) (calculated by averaging the noon buying rates on the last day of each month of the periods shown):

	Period-end noon buying rate		Average noon buying rate	
	RMB per US$	HK$ per US$	RMB per US$	HK$ per US$
2002	8.2800	7.7988	8.2772	7.7996
2003	8.2767	7.7640	8.2771	7.7864
2004	8.2765	7.7723	8.2768	7.7899
2005	8.0702	7.7533	8.1826	7.7755
2006	7.8041	7.7771	7.9579	7.7685
2007 (through May 11, 2007)	7.6835	7.8201	7.7256	7.8149

Table of Contents

CAPITALIZATION AND INDEBTEDNESS

Not Applicable.

REASONS FOR THE OFFER AND USE OF PROCEEDS

Not Applicable.

RISK FACTORS

Our business, financial condition and results of operations can be affected materially and adversely by any of the following risk factors.

Risks Relating to Our Business

Our growth is dependent on our ability to attract and retain productive agents

A substantial portion of our business is conducted through our individual agents. Because of differences in productivity, a relatively small percentage of our sales agents is responsible for a disproportionately high percentage of our sales of individual products. If we are unable to retain and build on this core group of highly productive agents, our business could be materially and adversely affected. Competition for agents from insurance companies and other business institutions may also force us to increase the compensation of our agents and sales representatives, which would increase operating costs and reduce our profitability. Although we have not had difficulty in attracting and retaining productive agents in the recent past, and do not anticipate any difficulties in the future, we cannot guarantee that this will continue to be the case.

If we are unable to develop other distribution channels for our products, our growth may be materially and adversely affected

Banks and banking operations of post offices are rapidly emerging as some of the fastest growing distribution channels in China. Newly established domestic and foreign-invested life insurance companies have been particularly focusing on banks and banking operations of post offices as one of their main distribution channels. We do not have exclusive arrangements with any of the banks and banking operations of post offices through which we sell insurance and annuity products, and thus our sales may be materially and adversely affected if one or more banks or banking operations of post offices choose to favor our competitors products over our own. If we are unable to continue to develop our alternative distribution channels, our growth may be materially and adversely affected.

Agent and employee misconduct is difficult to detect and deter and could harm our reputation or lead to regulatory sanctions or litigation costs

Agent or employee misconduct could result in violations of law by us, regulatory sanctions, litigation or serious reputational or financial harm. Misconduct could include:

- engaging in misrepresentation or fraudulent activities when marketing or selling insurance policies or annuity contracts to customers;

- hiding unauthorized or unsuccessful activities, resulting in unknown and unmanaged risks or losses; or

Table of Contents

otherwise not complying with laws or our control policies or procedures.

We cannot always deter agent or employee misconduct, and the precautions we take to prevent and detect these activities may not be effective in all cases. We have experienced agent and employee misconduct that has resulted in litigation and administrative actions against us and these agents and employees, and in some cases criminal proceedings and convictions against the agent or employee in question. None of these actions has resulted in material losses, damages, fines or other sanctions against us. We cannot assure you, however, that agent or employee misconduct will not lead to a material adverse effect on our business, results of operations or financial condition.

Our business is dependent on our ability to attract and retain key personnel, including senior management, underwriting personnel, actuaries, information technology specialists, investment managers and other professionals

The success of our business is dependent to a large extent on our ability to attract and retain key personnel who have in-depth knowledge and understanding of the life insurance market in China, including members of our senior management, qualified underwriting personnel, actuaries, information technology specialists and experienced investment managers. As of the date of this annual report, we do not carry key personnel insurance for any of these personnel. We compete to attract and retain these key personnel with other life insurance companies and financial institutions, some of which may offer better compensation arrangements. The number of new domestic and foreign-invested insurers is increasing at a significant pace, existing insurers are expanding their operations and the number of other financial institutions is growing. As the insurance and investment businesses continue to expand in China, we expect that competition for these personnel will increase in the future. Although we have not had difficulty in attracting and retaining qualified key personnel in the past, we cannot guarantee that this will continue to be the case. If we were unable to continue to attract and retain key personnel, our financial performance could be materially and adversely affected.

We are Exposed to Changes in Interest Rates

Changes in interest rates may affect our profitability

Our profitability is affected by changes in interest rates. We have experienced a generally low interest rate environment for several years until October 2004, when the interest rate on one-year term deposits was raised from 1.98% to 2.25%. In August 2006 and March 2007, the interest rate on one-year term deposits was further raised from 2.25% to 2.52% and from 2.52% to 2.79%, respectively. Due to China s recent fast growing economy, the Chinese government may take further measures, including further raising interest rates, in an effort to ensure sustainable economic growth. If interest rates were to further increase in the future, surrenders and withdrawals of insurance and annuity policies and contracts may increase as policyholders seek other investments with higher perceived returns. This process may result in cash outflows requiring that we sell investment assets at a time when the prices of those assets are adversely affected by the increase in market interest rates, which may result in realized investment losses. However, if interest rates were to decline, the income we realize from our investments may decline, affecting our profitability. In addition, as instruments in our investment portfolio mature, we might have to reinvest the funds we receive in investments bearing lower interest rates.

For many of our long-term life insurance and annuity products, we are obligated to pay a minimum interest or crediting rate to our policyholders or annuitants, which is established when the product is priced. These products expose us to the risk that changes in interest rates may reduce our spread , or the difference between the rates that we are required to pay under the policies and the rate of return we are able to earn on our investments intended to support our insurance obligations. Our historical results and financial

Table of Contents

position included in this annual report, which present the historical results of CLIC through September 30, 2003, reflect the continuing performance of policies that were issued prior to June 10, 1999. Many of these policies paid guaranteed fixed rates of return that, due to declining interest rates, came to be significantly higher than the rates of return on investment assets. From 1996 through 2002, the People s Bank of China made a series of reductions in the interest rates Chinese commercial banks could pay on their deposits. The interest rate on one-year term deposits, a key benchmark rate, was reduced eight times, from 10.98% in April 1996 to 1.98% in February 2002. As a result, CLIC experienced a significant negative spread on its guaranteed rate policies and CLIC s results of operations continue to be adversely impacted by the effect of those interest rate cuts.

On June 10, 1999, the CIRC reduced to 2.50% the maximum guaranteed rate which life insurance companies could commit to pay on new policies and in response, CLIC adopted new pricing policies which reduced the guaranteed rates on its products to a range of between 1.50% and 2.50%. We also have shifted our mix of products to emphasize products that lessen the impact from interest rate changes, including traditional policies that are not as sensitive to interest rates and participating policies under which our customers receive a portion of our distributable earnings from participating products, as well as products having shorter terms to better match the duration of our investment portfolio. Furthermore, we have made use of the relaxation of investment restrictions applicable to us to diversify our investments. We and CLIC have not incurred negative spread on policies issued since June 10, 1999, as the average investment returns we and CLIC have been able to generate have been higher than their guaranteed rates. However, if the rates of return on our investments fall below the minimum rates we guarantee, our profitability would be materially and adversely affected.

Because of the general lack of long-term fixed income securities in the Chinese capital markets and the restrictions on the types of investments we may make, we are unable to match closely the duration of our assets and liabilities, which increases our exposure to interest rate risk

Like other insurance companies, we seek to manage interest rate risk through managing, to the extent possible, the average duration of our investment assets and the insurance policy liabilities they support. Matching the duration of our assets to their related liabilities reduces our exposure to changes in interest rates, because the effect of the changes largely will be offset against each other. However, restrictions under the PRC insurance law on the asset classes in which we may invest, as well as the limited availability of long-duration investment assets in the markets in which we invest, have resulted in the duration of our assets being shorter than that of our liabilities, particularly with respect to liabilities with durations of more than 20 years. Furthermore, the financial markets currently do not provide an effective means for us to hedge our interest rate risk through financial derivative products. We believe that, with the gradual easing of the investment restrictions imposed on insurance companies in China, our ability to match the duration of our assets to that of our liabilities will improve. We also seek to manage the risk of duration mismatch by focusing on product offerings whose maturity profiles are in line with the duration of investments available to us in the prevailing investment environment. However, until we are able to match more closely the duration of our assets and liabilities, we will continue to be exposed to interest rate changes, which may materially and adversely affect our earnings.

Our Investments are Subject to Risks

We are exposed to potential investment losses if there is an economic downturn in China

Under the current PRC insurance law, we may invest the premiums, deposits and other income we receive only in China, unless and until we are approved to invest overseas with our foreign currency denominated funds. We obtained approval for such overseas investment in November 2006. See Item 4.

Information on the Company Business Overview Regulatory and Related Matters Insurance Company Regulation Regulation of investments . In particular, as of December 31, 2006, 52.1% of our total investment assets consisted of debt securities including Chinese government bonds, Chinese government agency bonds, Chinese corporate bonds and subordinated bonds and indebtedness; and 25.5% of our total investment assets consisted of term deposits with Chinese banks, and of these deposits, 35.1% were placed with the four largest state-owned commercial banks. A serious downturn in the Chinese economy may lead to investment losses, which would reduce our earnings. Due to China s recent fast growing economy, the Chinese government may take certain measures to slow down the economic growth, which could have an adverse impact on our earnings.

We may incur foreign exchange and other losses for our investments denominated in foreign currencies

A portion of our investment assets, including the proceeds from our initial public offering in 2003, are held in foreign currencies. We are authorized by the CIRC to invest our assets held in foreign currencies in the overseas financial markets as permitted by the CIRC. Thus, our investment results may be subject to foreign exchange risks, as well as the volatility and various other factors of overseas capital markets, including, among others, increase in interest rates, where we do not have previous investment experience. We recorded RMB 639 million (US$82 million) in foreign exchange losses for the year ended December 31, 2006, resulting from our assets held in foreign currencies, which were affected by the appreciation of the Renminbi. Future movements in the exchange rate of RMB against the U.S. dollar and other foreign currencies may adversely affect our results of operations and financial condition.

Under China s existing foreign exchange control regulations, the conversion of foreign currencies into the Renminbi requires approval of relevant government agencies. We obtained an approval to settle a portion of our assets held in foreign currencies into the Renminbi in 2005, which partially reduced the foreign exchange risks we are expose to. We did not obtain any approval to settle any portion of our assets held in foreign currencies into the Renminbi in 2006 and there is no guarantee that we will be able to obtain any such approval in the future. If we do not obtain such approval, our ability to manage our foreign exchange risks may be limited. There are few financial products available in China to hedge foreign exchange risks, which substantially limits our ability to manage our foreign exchange risks.

Defaults on our debt investments may materially and adversely affect our profitability

Approximately 52.1% of our investment assets as of December 31, 2006 were comprised of debt securities. The issuers whose debt securities we hold may fail to pay or otherwise default on their obligations due to bankruptcy, a lack of liquidity, a downturn in the economy, operational failures or other reasons. Losses due to these defaults could reduce our profitability.

Unless we are permitted to invest in a broader range of asset classes, our ability to improve our rate of investment return will be limited

Our premiums and deposits have grown rapidly during the last three years. As a Chinese life insurance company we are subject to significant restrictions under current PRC insurance law and regulations on the asset classes in which we are permitted to invest. Until 2004, Chinese life insurance companies were allowed to invest their funds only in Chinese bank deposits, government bonds, domestic corporate bonds and securities investment funds. These asset classes historically have yielded a comparatively low return on investment. Since 2004, the investment channels of Chinese life insurance companies have been broadened to permit investment in convertible bonds, specified subordinated indebtedness and bonds issued by qualified commercial banks and insurance companies; overseas investment of foreign currency denominated funds in qualified term deposits, debt securities and shares of Chinese

Table of Contents

companies listed on specified overseas stock exchanges; direct investment in shares of companies listed on the Chinese securities market, which are denominated and traded in Renminbi; and direct investment in equity interest of non-listed commercial Chinese banks, as well as indirect investments in Chinese infrastructure projects, all subject to various limitations. See Item 4. Information on the Company Business Overview Regulatory and Related Matters Insurance Company Regulation Regulation of investments . If the asset classes in which we are permitted to invest do not further expand in the future, we will be limited in our ability to improve our rate of return, which may materially and adversely impact our profitability. Our investment yields decreased for the three years prior to 2004, resulting in a decrease in the amount distributed for our participating products. A further decline in the future could adversely affect the attractiveness of our investment-type products, which compose a large portion of our business.

The PRC securities markets are still emerging markets, which may expose us to risks of loss from our investments there

We had RMB 95,493 million (US$12,236 million) invested in equity securities, including securities investment funds and shares traded on the securities markets in China, as of December 31, 2006. These securities investment funds are primarily invested in equity securities that are issued by Chinese companies and traded on China s securities exchanges. Some of our investments in securities investment funds are publicly traded, but we also invest in non-publicly traded securities investment funds. Beginning in March 2005, we are also permitted to directly invest in shares traded on the securities markets in China. The PRC securities markets are characterized by companies with relatively small market capitalizations and low trading volumes, and by evolving regulatory, accounting and disclosure requirements. For example, Chinese listed companies are required to adopt the new accounting standards issued by MOF effective from January 1, 2007, and the share reform in connection with the conversion of non-tradable state-owned shares into tradable shares is still in progress. This may from time to time result in significant price volatility, unexpected losses or lack of liquidity. These factors could cause us to incur losses on our publicly traded investments. In addition, as one of the largest institutional investors in China, we may from time to time hold significant positions in many securities in which we invest, and any decision to sell or any perception in the market that we are a major seller of a security could adversely affect the liquidity and market price of that security.

Differences in future actual claims results from the assumptions used in pricing and establishing reserves for our insurance and annuity products may materially and adversely affect our earnings

Our earnings depend significantly upon the extent to which our actual claims results are consistent with the assumptions used in setting the prices for our products and establishing the liabilities in our financial statements for our obligations for future policy benefits and claims. Our assumptions include those for investment returns, mortality, morbidity, expenses and persistency, as well as macro-economic factors such as inflation. To the extent that trends in actual claims results are less favorable than our underlying assumptions used in establishing these liabilities, and these trends are expected to continue in the future, we could be required to increase our liabilities. Any such increase could have a material adverse effect on our profitability and, if significant, our financial condition. Any material impairment in our solvency margin could change our customers or our business associates perception of our financial health, which in turn could adversely affect our sales, earnings and operations.

We establish the liabilities for obligations for future policy benefits and claims based on the expected payout of benefits, calculated through the use of assumptions for investment returns, mortality, morbidity, expenses and persistency, as well as certain macroeconomic factors such as inflation. These assumptions are based on our previous experience, data published by other Chinese life insurers, as well as judgments made by the management. These assumptions may deviate from our actual experience, and, as a result, we cannot determine precisely the amounts which we will ultimately pay to settle these liabilities or when these payments will need to be made. These amounts may vary from the estimated amounts, particularly when those payments may not occur until well into the future. We evaluate our liabilities periodically, based on changes in the assumptions used to establish the liabilities, as well as on our actual policy benefits and claims results. We record changes in our liabilities in the period the liabilities are established or re-estimated. If the liabilities originally established for future policy benefits prove inadequate, we must increase our liabilities established for future policy benefits, which may have a material adverse effect on our earnings and our financial condition.

We have data available for a shorter period of time than do insurance companies operating in some other countries and, as a result, less claims experience on which to base some of the assumptions used in establishing our reserves. For a discussion of how we establish our assumptions for mortality, morbidity and lapses, see Item 5. Operating and Financial Review and Prospects Critical Accounting Policies . Given the limited nature of this experience, it is possible that our actual claims could vary significantly from the assumptions used.

Our risk management and internal reporting systems, policies and procedures may leave us exposed to unidentified or unanticipated risks, which could materially and adversely affect our businesses or result in losses

Our policies and procedures to identify, monitor and manage risks may not be fully effective. Many of our methods of managing risk and exposures are based upon our use of observed historical market behavior or statistics based on historical models. As a result, these methods may not predict future exposures, which could be significantly greater than what the historical measures indicate. Other risk management methods depend upon the evaluation of information regarding markets, customers or other matters that is publicly available or otherwise accessible to us, which may not always be accurate, complete, up-to-date or properly evaluated. In addition, a significant portion of business information needs to be centralized from our many branch offices. Management of operational, legal and regulatory risks requires, among other things, policies and procedures to record properly and verify a large number of transactions and events, and these policies and procedures may not be fully effective. Failure or the ineffectiveness of these systems could materially and adversely affect our business or result in losses.

We are likely to offer a broader and more diverse range of insurance and investment products in the future as the insurance market in China continues to develop. At the same time, we anticipate that the relaxing of regulatory restraints will result in our being able to invest in a significantly broader range of asset classes. The combination of these factors will require us to continue to enhance our risk management capabilities and is likely to increase the importance of our risk management policies and procedures to our results of operations and financial condition. If we fail to adapt our risk management policies and procedures to our changing business, our business, results of operations and financial condition could be materially and adversely affected.

Catastrophes could materially reduce our earnings and cash flow

We could in the future experience catastrophic losses that may have an adverse impact on the business, results of operations and financial condition of our insurance business. Catastrophes can be caused by various events, including terrorist attacks, earthquakes, hurricanes, floods, fires and epidemics, such as severe acute respiratory syndrome, or SARS.

We establish liabilities for claims arising from a catastrophe only after assessing the exposure and damages arising from the event. We cannot be certain that the liabilities we establish after the assessment will be adequate to cover actual claims. We do not currently carry catastrophe reinsurance to reduce our catastrophe exposure. Such an event could have a material adverse effect on us.

Table of Contents

Current or future litigation and regulatory procedures could result in financial losses or harm our businesses

Class Action Litigations

China Life and certain of its former directors (the defendants) have been named in nine putative class action lawsuits filed in the United States District Court for the Southern District of New York between March 16, 2004 and May 14, 2004. The lawsuits have been ordered to be consolidated and restyled *In re China Life Insurance Company Limited Securities Litigation, NO. 04 CV 2112 (TPG)*. Plaintiffs filed a consolidated amended complaint on January 19, 2005, which names China Life, Wang Xianzhang (former director), Miao Fuchun (former director) and Wu Yan (former director) as defendants. The consolidated amended complaint alleges that the defendants named therein violated Sections 10(b) and 20(a) of the U.S. Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder. China Life has engaged U.S. counsel to contest vigorously on the lawsuits. The defendants jointly moved to dismiss the consolidated amended complaint on March 21, 2005. Plaintiffs then further amended their complaint. Defendants moved to dismiss the second amended complaint on November 18, 2005. That motion has been fully briefed and is pending before the Court. The likelihood of an unfavorable outcome is still uncertain. No provision has been made with respect to these lawsuits.

Others

We are involved in litigation involving our insurance operations on an ongoing basis. In addition, the CIRC, as well as other PRC governmental agencies, including tax, commerce and industrial administration and audit bureaus, from time to time make inquiries and conduct examinations or investigations concerning our compliance with PRC laws and regulations. These litigation and administrative proceedings have in the past resulted in damage awards, settlements or administrative sanctions, including fines, which have not been material to us. We currently have control procedures in place to monitor our litigation and regulatory exposure and take appropriate actions. See Item 8. Financial Information Consolidated Financial Statements and Other Financial Information Legal and Regulatory Proceedings . While we cannot predict the outcome of any pending or future litigation, examination or investigation, we do not believe that any pending legal matter will have a material adverse effect on our business, financial condition or results of operations. However, we cannot assure you that any future litigation or regulatory proceeding will not have an adverse outcome, which could have a material adverse effect on our operating results or cash flows. See Item 8. Financial Information Consolidated Financial Statements and Other Financial Information Legal and Regulatory Proceedings .

In April 2006, the CIRC announced that it will assess the effectiveness of internal controls, as well as regulatory compliance matters relating to business operations, of Chinese life insurance companies, health insurance companies and pension insurance companies during a three-year period immediately after the announcement, in accordance with the tentative rules on internal control assessment of life insurance companies. The purposes of such assessment were stated to be to facilitate and supervise the companies in order to improve their awareness of, and strengthen their controls over, matters such as corporate governance in management, internal controls, regulatory compliance in operations and risk management. We were reviewed by the CIRC in 2006 and were found to be in general compliance with rules and regulations of CIRC, other than a small number of breaches by our branches which resulted in us being sanctioned by way of fines, none of which were material. The breaches mainly included improper handling of certain premiums received, which violated relevant CIRC rules and regulations. The fines imposed by CIRC ranged from RMB 20,000 (US$2,563) to RMB 500,000 (US$64,069). All the fines have been paid in full.

Table of Contents

The embedded value information we present in this annual report is based on several assumptions and may vary significantly as those assumptions are changed

In order to provide investors with an additional tool to understand our economic value and business results, we have disclosed information regarding our embedded value, as discussed in the section entitled, Item 8. Financial Information Embedded Value . These measures are based on a discounted cash flow valuation determined using commonly applied actuarial methodologies. Standards with respect to the calculation of embedded value are still evolving, however, and there is no single adopted standard for either the form, determination or presentation of the embedded value of an insurance company. Moreover, because of the technical complexity involved in embedded value calculations and the fact that embedded value estimates vary materially as key assumptions are changed, you should read the discussion under the section entitled Item 8. Financial Information Embedded Value in their entirety. You should use special care when interpreting embedded value results and should not place undue reliance on them. See also Forward-Looking Statements .

Risks Relating to the PRC Life Insurance Industry

We expect competition in the Chinese insurance industry to increase, which may materially and adversely affect the growth of our business

We face competitive pressures from both domestic and foreign-invested life insurance companies operating in China, as well as from property and casualty insurance companies, which may compete with our accident and short-term health insurance businesses, and other financial institutions that sell other financial investment products in competition with ours. In addition, newly established professional health insurance companies may also lead to greater competition in the health insurance business. If we are not able to adapt to these increasingly competitive pressures in the future, our growth rate may decline, which could materially and adversely affect our earnings.

Competition among domestic life insurance companies is increasing

Our nearest competitors are Ping An Life Insurance Company of China, Ltd., or Ping An, and China Pacific Life Insurance Co. Ltd., or China Pacific Life. Together, Ping An, China Pacific Life and we accounted for more than 74% of the individual and group life insurance premiums in China in 2005, the last year for which official market information is available. Each of Ping An and China Pacific Life has operated in the Chinese insurance market for more than ten years, and each has a recognized brand name. Ping An had a greater market share than we did in Beijing in 2005. We also face competition from smaller insurance companies, which may develop strong positions in various regions in which we operate, and new entrants to group life insurance market, including professional pension companies that are being established pursuant to a set of regulations promulgated by the Ministry of Labor and Social Security, and new entrants to the health insurance industry, including newly approved and established professional health insurance companies, following adoption by the Chinese government of policies that encourage the development of health insurance and improved health care in China.

Competition from foreign-invested life insurance companies is increasing, as restrictions on their operations in China are relaxed

Foreign-invested life insurance companies are insurance companies in which foreign entities hold at least a 25.0% interest. Until December 11, 2004, foreign-invested life insurance companies were permitted to operate only in specified cities and may not offer

Table of Contents

group life insurance, health insurance and annuities or other pension-like products. As a result of these and other restrictions on foreign-invested life insurance companies operating in China, foreign-invested insurers accounted for less than 3% of the nationwide market share of life insurance products in 2004, although some have already gained significant market shares in the life insurance market in some areas in China. In Shanghai, Guangzhou and Shenzhen, where foreign-invested insurers have been allowed to operate since 1992, 1995 and 1999, they had respective life insurance market shares of approximately 20%, 24% and 14% in 2005. However, these barriers to foreign insurers entry into the Chinese insurance market were phased out as a result of China s accession to the World Trade Organization, or WTO, in December 2001, which allows foreign insurers to sell health, annuity and group life insurance products nationwide by December 2004. It was reported that due to several large group annuity policies underwritten by Sino-foreign insurance joint ventures for their Chinese investors, the market shares of foreign invested insurance companies increased substantially in 2005. We believe that the relaxation of the restrictions on foreign-invested insurers will continue to increase the competitive pressures we are facing. Foreign-invested life insurance companies, through their Chinese and/or foreign shareholders, may have access to greater financial, technological or other resources than we do.

We are likely to face increasing competition from property and casualty insurance companies and other companies offering products that compete with our own

In addition to competition from life insurance companies, we face competition from other companies that may offer products that compete with our own, including:

Property and casualty companies. Beginning on January 1, 2003, property and casualty insurance companies have been permitted to sell accident and short-term health insurance products, but only with regulatory approval. There were 36 property and casualty insurers as of December 31, 2006. We believe property and casualty insurers have the competitive advantage of being able to bundle, or cross-sell, accident and health products with the other non-life insurance products that they are currently selling to their existing and potential customers. We believe this will lead to greater competition in the accident and health insurance sectors, especially for the group accident and short-term health insurance products we offer. On December 30, 2006, we established a property and casualty joint venture, China Life Property and Casualty Insurance Company Limited, with CLIC. As this joint venture is newly established, we are unable to determine the impact of the establishment of the joint venture on our sales of accident and short-term health insurance products.

Mutual fund companies and other financial services providers. We face competition from other financial services providers, primarily licensed mutual fund companies, trust companies and securities brokerage firms licensed to manage separate accounts. Recent changes in Chinese investment regulations relaxing rules on the formation of mutual funds and sales of securities have led to greater availability and variety of financial investment products. These products may prove to be attractive to the public and thereby adversely affect the sale of some products we offer, including participating life insurance policies and annuities.

Table of Contents

All of our agents are required to be qualified and to be registered as business entities. If these qualification and registration requirements are enforced or result in policyholders canceling their policies, our business may be materially and adversely affected

Life insurance agents are required to obtain a qualification certificate from the CIRC in order to conduct insurance agency business. See Item 4. Information on the Company Business Overview Regulatory and Related Matters Regulation of Insurance Agencies, Insurance Brokers and Other Intermediaries . Approximately 6% of our individual agents had not obtained such a certificate as of December 31, 2006. In May 2004, the CIRC issued a circular requiring insurance companies to take effective measures in carrying out the qualification certification requirement. In 2005, CIRC agencies in certain provinces started to enforce the CIRC qualification requirements. Furthermore, in April 2006, the CIRC issued regulations on administration of individual agents, effective on July 1, 2006, in order to further strengthen the administration of individual agents. Pursuant to these regulations, insurance companies that retain individual agents without CIRC qualification certificates and underwriting certificates to engage in insurance sales activities will be warned and fined up to RMB 30,000, and the responsible member of senior management of such insurance companies will be warned and fined up to RMB 10,000. In serious circumstances, the CIRC may order the insurance companies to remove the responsible member of senior management from office and reject the application of setting up branch offices by such insurance companies. In addition, we understand that the CIRC may require, in the near future, that every individual agent must wear credentials showing specified information, including whether or not the agent is licensed, when conducting agency business. If more CIRC agencies were to enforce this regulation in the future, and if a substantial number of our agents do not become licensed or qualified, or if a substantial number of our policyholders who bought insurance policies through our unqualified exclusive agents were to cancel the policies because of this regulation, our business may be materially and adversely affected. Moreover, we may be subject to fines and other administrative proceedings for the failure of our insurance agents to obtain the necessary CIRC qualification certificate. Any such fines or administrative proceedings could materially and adversely affect our business, financial condition and results of operations.

Under the PRC insurance law, life insurance agents are required to be registered with and obtain business licenses from the local administrative bureaus of industry and commerce. Historically, this requirement has not been generally enforced, and it is our understanding that the State Administration for Industry and Commerce, or SAIC, does not have procedures in place to effect the registration and licensing of individual insurance agents. Consequently, as we believe is also the case with other insurance companies operating in China, substantially all of our individual agents are not in compliance with this requirement. To date, this noncompliance has not had a material adverse effect on CLIC or ourselves. The Regulations on the Administration of Insurance Salespersons issued by CIRC in April 2006 do not have such requirement. We do not know whether the local bureaus of the SAIC will enforce this requirement under the PRC insurance law in the future. If it were to be enforced in the future, our agents would be required to register and obtain business licenses. We cannot assure you that all of our agents would obtain such licenses, and the enforcement of this requirement could adversely affect the composition and effectiveness of our individual agent distribution system, which could have a material adverse effect on our business.

The further development of regulations in China may impose additional costs and restrictions on our activities

We operate in a highly regulated industry. The CIRC supervises and administers the insurance industry in China. In exercising its authority, it is given wide discretion to administer the law. China s insurance regulatory regime is undergoing significant changes toward a more transparent regulatory process and a convergent movement toward international standards. Some of these changes may result in additional costs or restrictions on our activities. Among other things, changes in 2003 to determinations of statutory reserves and solvency requirements have affected adversely our income under PRC GAAP and the amount of capital we are required to maintain. Recent CIRC regulations requiring the submission to CIRC on an annual basis of an actuarial report by April 30 of each year, effective January 1, 2006, may further affect the determinations of our statutory reserves and solvency margins and hence our

Table of Contents

income under PRC GAAP. In addition, because the terms of our products are subject to regulations, changes in regulations may affect our profitability on the policies and contracts we issue. For instance, under guidelines issued by the CIRC, the dividends on our participating products must be no less than 70% of the distributable earnings from participating products in accordance with CIRC requirements. If this level were to be increased in the future, our profitability could be materially and adversely affected.

Our ability to comply with minimum solvency requirements is affected by a number of factors, and our compliance may force us to raise additional capital, which could be dilutive to our existing investors, or to reduce our growth

We are required by CIRC regulation to maintain our solvency at a level in excess of minimum solvency levels. Our minimum solvency is affected primarily by the policy reserves we are required to maintain which, in turn, are affected by the volume of policies and contracts we sell and by regulations on the determination of statutory reserves. Our solvency is also affected by a number of other factors, including the profit margin of our products, returns on our investments, underwriting and acquisition costs and policyholder and shareholder dividends. Our solvency margin as of December 31, 2006 was approximately 3.5 times the minimum regulatory requirement. Our actual solvency ratio was slightly higher than the acceptable range provided by the CIRC. The increase in our actual solvency ratio was due to the proceeds received from our A share offering. While our solvency margin is above the required level currently, if we continue to grow rapidly in the future, or if the required solvency margin is raised in the future, we may need to raise additional capital to meet our solvency requirement, including through additional issuances of shares, which would be dilutive to our existing investors. If we are not able to raise additional capital, we may be forced to reduce the growth of our business.

Risks Relating to the Restructuring

CLIC has incurred substantial losses on the policies retained by it in the restructuring. If CLIC is unable to meet its obligations to its policyholders, it may seek to increase the level of dividends we pay, sell the China Life shares it owns or take other actions which may have a material adverse effect on the value of the shares our other existing investors own

In connection with the restructuring, CLIC transferred to us (1) all long-term insurance policies (policies having a term of more than one year from the date of issuance) issued on or after June 10, 1999, having policy terms approved by or filed with the CIRC on or after June 10, 1999 and either (i) recorded as a long-term insurance policy as of June 30, 2003 in a database attached to the restructuring agreement as an annex or (ii) having policy terms for group supplemental medical insurance (fund type), (2) stand-alone short-term policies (policies having a term of one year or less from the date of issuance) issued on or after June 10, 1999 and (3) all riders supplemental to the policies described in clauses (1) and (2) above, together with the reinsurance contracts specified in an annex to the restructuring agreement. All other insurance policies were retained by CLIC. See Item 4. Information on the Company History and Development of the Company Our Restructuring . CLIC has incurred substantial losses on these non-transferred policies, primarily because the guaranteed rates it had committed to pay on these policies are higher than the investment return it was able to generate on its investment assets. This negative spread on non-transferred policies created substantial losses for CLIC and a resulting negative net worth. As of September 30, 2003, CLIC s shareholders equity was a deficit of RMB 251,661 million (US$31,184 million). CLIC is expected to continue to incur losses on the retained policies at least for the near term.

In connection with the restructuring, CLIC has established, together with the MOF, a special purpose fund for the purpose of paying claims under the non-transferred policies. The special purpose fund will be funded by investment assets retained by CLIC; renewal premiums paid on the non-transferred policies over time; all of the tax payments made by CLIC, China Life and AMC;

profits from the investments of the special purpose fund; shareholder dividends paid in cash to CLIC by China Life; proceeds from the disposition of China Life shares by CLIC over time; and funds injected by the MOF in the event of a deficiency in the special purpose fund, as described below. The fund is co-administered by CLIC and the MOF. The special purpose fund will be available to satisfy CLIC s operating expenses, including the payment of benefits and claims obligations arising from the non-transferred policies, as well as expenses incurred in operating the special purpose fund, including third-party management fees and professional fees, and such other purposes as the management committee of the fund may agree. The special purpose fund will be dissolved when all claims and benefits under the non-transferred policies have been paid, or sooner if the management committee so agrees.

The MOF s approval of the special purpose fund issued to CLIC provides that in the event there is any deficiency in the special purpose fund for so long as the fund is in existence, as described above, to meet any payment obligation arising out of the non-transferred policies, the MOF will provide support through the injection of funds to ensure the payments of benefits and claims to the policyholders of the non-transferred policies. See Item 4. Information on the Company History and Development of the Company Our Restructuring Transfer of Insurance Policies and Related Assets Insurance policies retained by CLIC . We have been advised by our PRC legal counsel, King & Wood, that (1) the MOF has the authority to issue this approval regarding the special purpose fund, (2) the approval is valid and effective, and (3) it has no reason to believe that the MOF will revoke the approval. We cannot assure you, however, that a court would decide in a manner consistent with King & Wood s conclusions.

We cannot predict the amount of funds that will be available to the special purpose fund from CLIC s own operations to satisfy its obligations to its policyholders as they become due. CLIC s cash requirements and available cash resources will be affected by several factors which are subject to uncertainty, including prevailing interest rates and the returns on investment generated by CLIC s assets, as well as the claims, expenses and persistency experience with respect to CLIC s insurance policies. The cash resources available to CLIC will also depend in part on our profitability, which will affect the amount of our tax payments and hence the amount of refund contributed to the fund, the timing and amount of our dividend payments and the market prices of our shares and ADSs, which will affect the proceeds to CLIC from dispositions of our shares. If it is unable to satisfy its obligations to its policyholders from other sources, CLIC may seek, subject to our articles of association and applicable laws, to increase the amount of dividends we pay in order to satisfy its cash flow requirements. Any such increase in our dividend payments would reduce the funds available for reinvestment in our business. In addition, if we are unable to pay dividends in amounts sufficient to satisfy these requirements, CLIC may seek to sell its shareholdings in us or take other actions in order to satisfy these needs. The sale of these holdings or even the market perception of such a sale may materially and adversely affect the price of our shares.

CLIC does not meet the minimum solvency requirements under CIRC solvency regulations. The CIRC has broad powers under these regulations and the insurance law in the event an insurance company fails to meet its minimum solvency requirements. These may include ordering the sale of the assets or transfer of the insurance business of an insurance company in default under these requirements to a third party and appointing a receiver to take over the management of the insurance company. We believe that, in light of the MOF s approval described above, it is unlikely that the CIRC will take these actions. However, we cannot assure you that the CIRC will not take actions against CLIC, which could have a material adverse effect on us.

Table of Contents

The transfer of policies to us by CLIC and/or the separation of assets between CLIC and us may be subject to challenge

We have been advised by our PRC legal counsel, King & Wood, that (1) the transferred policies have been legally and validly transferred to China Life and (2) following the restructuring, we will not have any continuing obligations to holders of the non-transferred policies who remain policyholders of CLIC and that there is no legal basis on which holders of the non-transferred policies can make a claim against China Life. We also have been advised by King & Wood that, although there is no specific law applicable to restructurings, these conclusions are supported by, among other things, the approval of the restructuring and various related matters by the State Council, the MOF and the CIRC; the support provided by the MOF with respect to the non-transferred policies as described above; and contract and other law. We cannot assure you that policyholders of CLIC, holders of transferred policies or other parties will not seek to challenge the transfer of the transferred policies or the separation of assets occurring as a consequence of the restructuring, or that a court would decide in a manner consistent with King & Wood s conclusions. If the transfer of policies to us or the separation of assets were challenged successfully, our financial condition and results of operations would likely be materially and adversely affected.

We do not hold exclusive rights to the trademarks in the China Life name (in English and Chinese), the ball logos and other business related slogans and logos, and CLIC, which owns these trademarks, may take actions that would impair the benefits we derive from their use

We conduct our business under the China Life brand name, the ball logos and other business related slogans and logos. CLIC owns these trademarks and has registered them with the Trademark Office of the SAIC. CLIC has entered into a trademark license agreement with us, under which CLIC has agreed to grant us and our branches a royalty-free license to use these trademarks.

Although CLIC has undertaken in a non-competition agreement with us not to compete with us in China, without our prior consent in writing, in any life, accident and health insurance and any other businesses in China which may compete with our insurance business, CLIC, its subsidiaries and affiliates are permitted to use the brand name and logo in their own businesses, including life insurance business outside China and any other businesses they may enter into in the future within China, including property and casualty (other than businesses that compete with our accident and health businesses) and asset management businesses. In addition, they are not precluded from taking actions that may impair the value of the brand name, which could harm our business. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions Trademark License Agreement and Item 7. Major Shareholders and Related Party Transactions Related Party Transactions Non-Competition Agreement . The China Life brand name and our reputation could be materially harmed if CLIC fails to make payments when due on outstanding policies retained by CLIC in the restructuring or new policies written by CLIC after the restructuring, if CLIC reduces the rates of return payable on policies retained by CLIC or if CLIC is placed into receivership.

As our controlling shareholder, CLIC will be able to exert influence on our affairs and could cause us to make decisions or enter into transactions that may not be in your best interests

We are controlled by CLIC, whose interests may conflict with those of our other shareholders. As of April 30, 2007, CLIC holds 68.4% of our share capital. As a result of these factors, CLIC, which is wholly-owned by the PRC government, will, so long as it holds the majority of our shares, effectively be able to control the composition of our board of directors and, through the board, exercise a significant influence over our management and policies. In addition, subject to our articles of association and applicable laws, CLIC may, so long as it holds the majority of our shares, effectively be able to determine the timing and amount of our dividend payments and approve increases or decreases of our share capital, the issuance of new securities, amendments of our articles of association, mergers and acquisitions and other major corporate transactions. CLIC may also be able to prevent us effectively from taking actions to enforce or exercise our rights under agreements to which we are a party, including the agreements we entered into

24

with CLIC in connection with the restructuring. See Item 7. Major Shareholders and Related Party Transactions . As majority shareholder, CLIC may be able to take these actions without your approval. In addition, CLIC s control could have the effect of deterring hostile takeovers or delaying or preventing changes in control or changes in management that might be desirable to other shareholders.

CLIC may direct business opportunities elsewhere

CLIC has other business interests, including the run-off of the insurance policies retained by it in the restructuring. Notwithstanding a general undertaking pursuant to a non-competition agreement with us not to compete with us in our principal areas of business in China, CLIC is permitted to sell riders to these retained policies and enter into other businesses, including life insurance businesses outside of China and property and casualty (other than businesses that compete with our accident and health businesses) and asset management businesses, both inside and outside of China. We formed a property and casualty joint venture with CLIC, in connection with which we granted a waiver to CLIC allowing it to engage in accident and short-term health businesses indirectly through the property and casualty joint venture with us. CLIC is also engaged in the life insurance business in Shanghai through its joint venture with Colonial Mutual Group, an Australian financial services company, of which CLIC owns 51.0% and which CLIC has agreed to dispose of prior to December 18, 2006. As of the date of this annual report, the transfer of CLIC s equity interest in this joint venture is still ongoing. It also may engage in insurance business in other regions outside China in the future. Although it is required under the non-competition agreement to give us a right of first refusal over any business opportunities it develops in these areas, we may not be in a position to take advantage of these opportunities at that time, which could harm our business. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions Non-Competition Agreement .

In addition, while we provide policy administration and other services to CLIC for the policies retained by CLIC in the restructuring, and provide investment management services to CLIC through our asset management subsidiary, these agreements can be terminated with notice or upon expiration in a limited number of years. If CLIC were to terminate its policy administration and asset management arrangements with us and our asset management subsidiary respectively, our loss of fees could materially and adversely affect us.

Risks Relating to the People s Republic of China

China s economic, political and social conditions, as well as government policies, could affect our business

Substantially all of our assets are located in China and substantially all of our revenues are derived from our operations in China. Accordingly, our results of operations and prospects are subject, to a significant degree, to economic, political and legal developments in China. The economy of China differs from the economies of most developed countries in many respects, including:

- the extent of government involvement;
- its level of development;
- its growth rate; and
- its control of foreign exchange.

Table of Contents

The economy of China has been transitioning from a planned economy to a more market-oriented economy. Although in recent years the Chinese government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the Chinese government. In addition, the Chinese government continues to play a significant role in regulating industrial development. It also exercises significant control over China s economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

While China s economy has experienced significant growth in the past twenty years, growth has been uneven across both geographic regions and the various sectors of the economy. The Chinese government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall economy of China but may have a negative effect on us. For example, our operating results and financial condition could be materially and adversely affected by government monetary policies, changes in interest rate polices, tax regulations or policies and regulations affecting the securities markets and asset management industry. In addition, due to China s recent fast growing economy, the Chinese government is expected to take certain measures to slow down economic growth. For example, in October 2004, the interest rate on one-year term deposits, a key benchmark rate, was raised from 1.98% to 2.25%. In August 2006 and March 2007, the interest rate on one-year term deposits was further raised from 2.25% to 2.52% and from 2.52% to 2.79% respectively. A slowdown in Chinese growth rates could adversely affect us by impacting sales of our products, reducing our investment returns, or otherwise.

The PRC legal system has inherent uncertainties that could limit the legal protections available to you

We are organized under the laws of China and are governed by our articles of association. The Chinese legal system is based on written statutes. Prior court decisions may be cited for reference but are not binding on subsequent cases and have limited precedential value. Since 1979, the Chinese legislative bodies have promulgated laws and regulations dealing with such economic matters as foreign investment, corporate organization and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their non-binding nature, the interpretation and enforcement of these laws and regulations involve uncertainties.

Holders of H shares and ADSs generally are required to resolve disputes with us, our senior management and holders of our A shares only through arbitration in Hong Kong or China

In accordance with the rules applicable to Chinese overseas listed companies, our articles of association provide that, with certain limited exceptions, all disputes or claims based on our articles of association, PRC company law or other relevant laws or administrative rules, and concerning matters between holders of H shares and holders of A shares, us, or our directors, supervisors, president, vice presidents or other senior officers, must be submitted for arbitration at either the China International Economic and Trade Arbitration Commission or the Hong Kong International Arbitration Center. If an applicant chooses to have the dispute arbitrated at the Hong Kong International Arbitration Center, either party may request that the venue be changed to Shenzhen, a city in China near Hong Kong. The governing law for any such disputes or claims is Chinese law, unless Chinese law itself provides otherwise. Pursuant to an arrangement of mutual enforcement of arbitration awards between the PRC courts and the Hong Kong courts, Hong Kong arbitration awards are enforceable in China. However, to our knowledge, no action has been brought in China by any holder of shares issued by a Chinese company to enforce an arbitral award. As a result, we are uncertain as to the outcome of any action brought in China to enforce an arbitral award made in favor of holders of H shares.

Table of Contents

The laws in China differ from the laws in the United States and may afford less protection to our minority shareholders

Unlike laws in the United States, the applicable laws of China did not specifically allow shareholders to sue the directors, supervisors, officers or other shareholders on behalf of the company to enforce a claim against these parties that the company has failed to enforce itself until January 1, 2006, when the amendments to Chinese company law passed in 2005 became effective. Although the amended Chinese company law provides that shareholders, under certain circumstances, may sue the directors, supervisors and senior management on behalf of the company, no detailed implementation rules or court interpretations have been issued in this regard. Also, class action lawsuits are generally not available in China. In addition, PRC company law imposes limited obligations on a controlling shareholder with respect to protection of minority shareholders, although overseas listed joint stock companies, such as ourselves, are required to adopt certain provisions in their articles of association that are designed to protect minority shareholder rights. These mandatory provisions provide, among other things, that the rights of any class of shares, including H shares, may not be varied without a resolution approved by holders of shares in the affected class holding not less than two-thirds of the shares of the affected class entitled to vote, and provide that in connection with a merger or division involving our company, a dissenting shareholder may require us or the consenting shareholders to purchase the dissenters shares at a fair price. Disputes arising from these protective provisions would likely have to be resolved by arbitration. See Holders of H shares and ADSs generally are required to resolve disputes with us, our senior management and holders of our A shares only through arbitration in Hong Kong or China .

You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in the PRC based on U.S. or other foreign laws against us, our management and some of the experts named in the annual report

We are a company incorporated under the laws of China, and substantially all of our assets are located in China. In addition, most of our directors, supervisors, executive officers and some of the experts named in this annual report reside within China, and substantially all of the assets of these persons are located within China. As a result, it may not be possible to effect service of process within the United States or elsewhere outside China upon our directors, supervisors or executive officers or some of the experts named in this annual report, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. Moreover, our Chinese counsel, King & Wood, has advised us that China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom, Japan or many other countries. Our Hong Kong legal adviser, Allen & Overy, has also advised us that Hong Kong has no statutory arrangement for the reciprocal enforcement of judgments with the United States although it may be possible for a civil action to be brought in Hong Kong based on a monetary judgment of the courts of the United States. As a result, recognition and enforcement in China or Hong Kong of judgments of a court in the United States and any of the other jurisdictions mentioned above in relation to any matter may be difficult or impossible. Furthermore, an original action may be brought in the PRC against us, our directors, supervisors, executive officers or the experts named in this annual report only if the actions are not required to be arbitrated by PRC law and our articles of association, and only if the facts alleged in the complaint give rise to a cause of action under PRC law. In connection with any such original action, a PRC court may award civil liability, including monetary damages.

Holders of H shares may be subject to PRC taxation

Under the PRC s current tax laws, regulations and rulings, dividends paid by us to holders of H shares outside the PRC currently are exempted from PRC income tax. In addition, gains realized by individuals or enterprises upon the sale or other disposition of H shares currently are exempted from PRC income tax. If the exemptions are withdrawn in the future, holders of H shares may be required to pay withholding taxes on dividends, which are currently imposed at the rate of 20%, or capital gains tax, which currently may be imposed upon individuals at the rate of 20%. See Item 10. Additional Information Taxation The People s Republic of China .

Government control of currency conversion and the fluctuation of the Renminbi may materially and adversely affect our operations and financial results

We receive substantially all of our revenues in Renminbi, which currently is not a freely convertible currency. A portion of these revenues must be converted into other currencies to allow us to make payments on declared dividends, if any, on our H shares.

Under China s existing foreign exchange regulations, we are able to pay dividends in foreign currencies without prior approval from the State Administration of Foreign Exchange by complying with various procedural requirements. The Chinese government, however, may, at its discretion, restrict access in the future to foreign currencies for current account transactions. If this were to occur, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of our ADSs.

The value of the Renminbi against the U.S. dollar and other currencies fluctuates and is affected by, among other things, changes in China s political and economic conditions. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by 2.0% against the U.S. dollar. Since then, the PRC government has made, and may in the future make, further adjustments to the exchange rate system. The People s Bank of China announces the closing price of a foreign currency traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day, and makes it the central parity for the trading against the Renminbi on the following working day. From July 21, 2005 to May 11, 2007, the Renminbi has appreciated by approximately 7.72%. We had approximately RMB 639 million (US$82 million) foreign exchange losses for the year ended December 31, 2006, resulting from our assets held in foreign currencies, which were affected by the appreciation of the Renminbi. Any devaluation of the Renminbi, on the other hand, may materially and adversely affect the value of, and any dividends payable on, our H shares in foreign currency terms, since we will receive substantially all of our revenues, and express our profits, in Renminbi. Our financial condition and results of operations also may be affected by changes in the value of certain currencies other than the Renminbi.

Payment of dividends is subject to restrictions under Chinese law

Under Chinese law, dividends may be paid only out of distributable profits. Distributable profits means our after-tax profits as determined under PRC GAAP or HKFRS, whichever is lower, less any recovery of accumulated losses and allocations to statutory funds that we are required to make. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years. However, ordinarily we will not pay any dividends in a year in which we do not have any distributable profits.

The calculation of distributable profits for an insurance company under PRC GAAP differs in many respects from the calculation under HKFRS. As a result, we may not be able to pay any dividend in a given year if we do not have distributable profits as determined under PRC GAAP, even if we have profits for that year as determined under HKFRS. A strengthening in the statutory reserve requirements applicable to life insurance companies operating in China, which came into effect on December 31, 2003, led to a one-time adjustment to our PRC GAAP earnings in 2003. Payment of dividends by us is also regulated by the PRC insurance law. See Item 8. Financial Information Consolidated Financial Statements and Other Financial Information Policy on Dividend Distributions .

ITEM 4. INFORMATION ON THE COMPANY.

HISTORY AND DEVELOPMENT OF THE COMPANY

We were formed as a joint stock company pursuant to the PRC company law on June 30, 2003 under the corporate name of in connection with the restructuring.

General Information

Our principal executive offices are located at 16 Chaowai Avenue, Chaoyang District, Beijing 100020, China. Our telephone number is (86-10) 8565-9999. Our website address is www.e-chinalife.com. The information on our website is not a part of this annual report. We have appointed CT Corporation System at 111 Eighth Avenue, New York, New York 10011 as our agent for service of process in the United States.

Our Restructuring

Restructuring Plan and Governmental Approval

Upon the approval of the State Council and the CIRC, we were formed on June 30, 2003 as a joint stock company in connection with the restructuring by CLIC, our sole owner. The restructuring was effected through a plan of restructuring, which was approved by the CIRC on August 21, 2003, and a restructuring agreement we entered into with CLIC on September 30, 2003, with retroactive effect to June 30, 2003, which we refer to in this annual report as the effective date. Pursuant to PRC law and the restructuring agreement, we enjoyed the rights and benefits and assumed the obligations and liabilities arising from the restructuring from and after the effective date.

In connection with the restructuring:

- CLIC transferred to us (1) all long-term insurance policies (policies having a term of more than one year from the date of issuance) issued on or after June 10, 1999, having policy terms approved by or filed with the CIRC on or after June 10, 1999 and either (i) recorded as a long-term insurance policy as of June 30, 2003 in a database attached to the restructuring agreement as an annex or (ii) having policy terms for group supplemental medical insurance (fund type), (2) stand-alone short-term policies (policies having a term of one year or less from the date of issuance) issued on or after June 10, 1999 and (3) all riders supplemental to the policies described in clauses (1) and (2) above, together with the applicable reinsurance contracts specified in an annex to the restructuring agreement. We refer to these policies in this annual report as the transferred policies . All other insurance policies were retained by CLIC. We refer to these policies as the non-transferred policies . We assumed all obligations and liabilities of CLIC under the transferred policies. CLIC continues to be responsible for its liabilities and obligations under the non-transferred policies following the effective date. See Transfer of Insurance Policies and Related Assets .

Cash, specified investment assets and various other assets were transferred to us. CLIC retained cash, specified investment assets and various other assets, including all assets relating to the non-insurance businesses carried out by CLIC prior to the restructuring. See Transfer of Insurance Policies and Related Assets .

CLIC agreed not to, directly or indirectly through its subsidiaries and affiliates, participate, operate or engage in life, accident and health insurance businesses and any other business in China which may compete with our insurance business. CLIC also undertook (1) to refer to us any corporate business opportunity that falls within our business scope and which may directly or indirectly compete with our business and (2) to grant us a right of first refusal, on the same terms and conditions, to purchase any new business developed by CLIC. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions Non-Competition Agreement .

Substantially all of the management personnel and employees who were employed by CLIC in connection with the transferred assets and businesses were transferred to us. Some management and personnel remained with CLIC. See Transfer of Insurance Policies and Related Assets .

CLIC retained the trademarks used in our business, including the China Life name in English and Chinese and the ball logos, and granted us and our branches a royalty-free license to use these trademarks. CLIC and its subsidiaries and affiliates will be entitled to use these trademarks, but CLIC may not license or transfer these trademarks to any other third parties. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions Trademark License Agreement .

CLIC s contracts with its agents and other intermediaries were transferred to us. See Transfer of Insurance Policies and Related Assets .

We entered into various agreements under which we provide policy administration services to CLIC for the non-transferred policies, manage CLIC s investment assets and lease office space from CLIC for our branch and field offices. See Item 7. Major Shareholders and Related Party Transactions .

The net assets transferred to us had a carrying value at June 30, 2003 of RMB 29,608 million, as determined under PRC valuation regulations. This is equivalent to RMB 36,182 million, as determined under HKFRS. In consideration of this transfer, and pursuant to an approval issued by the MOF in 2003, we issued 20,000,000,000 domestic shares comprising the entire registered and paid-up capital of our company. As of the date of this annual report, CLIC owned approximately 68.4% of our issued share capital.

CLIC has committed to pay some of its retired employees a pension supplement through December 31, 2007. The present value of the aggregate estimated future payments to be made by CLIC, amounting to RMB 185 million, has been recognized as an expense to CLIC and a corresponding capital contribution to China Life in the 2003 financial statements. Payments made to similar former employees during the three-year period ended December 31, 2002 were expensed as paid. The amounts paid were RMB 51 million in 2000, RMB 55 million in 2001, RMB 56 million in 2002 and RMB 23 million in 2003. Obligations relating to these retired employees were retained by CLIC. Accordingly, these payments will be the responsibility of CLIC following the restructuring under the restructuring agreement entered into between CLIC and us.

Table of Contents

Transfer of Insurance Policies and Related Assets

In connection with the restructuring, CLIC transferred to us the transferred policies. The non-transferred policies were retained by CLIC. We assumed all obligations and liabilities of CLIC under the transferred policies. CLIC continues to be responsible for its liabilities and obligations under the non-transferred policies following the effective date.

We chose June 10, 1999 as the date for the separation between the transferred policies and the non-transferred policies because CLIC adopted new pricing policies as an immediate response to an emergency notice issued by the CIRC on June 10, 1999, as more fully described below:

The CIRC was established as the industry regulator in 1998. The People s Bank of China was the industry regulator prior to the CIRC s establishment.

Immediately prior to June 10, 1999, the pre-determined rate of all policies sold by CLIC was 5.00%. The maximum pre-determined rate which life insurance companies could commit to pay on policies was 5.00%, as set by the People s Bank of China, the insurance regulator at the time.

These events were set against the background of low and declining investment returns available to life insurance companies in the PRC at the time. The interest rate on one-year term deposits, a key benchmark rate, was 2.25% on June 10, 1999.

To address the systemic risks to the industry arising from the negative spread problem (high pre-determined rates on policies against low investment return), the CIRC issued an emergency notice on June 10, 1999 whereby the maximum pre-determined rate which life insurance companies could commit to pay on new policies was reduced to 2.50% per annum.

To comply with the requirements of the CIRC s emergency notice, CLIC ceased to sell policies filed with or approved by the People s Bank of China or the CIRC before June 10, 1999, and from then onwards started to sell new policies with pre-determined rates which were equal to or below 2.50% in the new industry environment.

The change in pricing policy made by CLIC on June 10, 1999 as an immediate response to the emergency notice issued by CIRC, differentiates the transferred policies and the non-transferred policies.

In connection with the restructuring, CLIC s assets as at June 30, 2003 were divided between CLIC and ourselves in accordance with the restructuring agreement entered into between CLIC and ourselves. Premiums receivable were allocated to the transferred and non-transferred policies based on the specific policies to which they relate. Property, plant and equipment and other operating assets were allocated based on the terms of the restructuring agreement. Investments in respect of participating policies were allocated to the transferred policies, since all participating business has been transferred. Unlisted equity securities and investment properties were allocated to CLIC. The remaining investment assets, including term deposits, debt securities, equity securities, repurchase agreements and cash and cash equivalents, were allocated so as to ensure that the book value of China Life as of June 30, 2003 was RMB 29,608 million, as determined under PRC valuation regulations. This is equivalent to RMB 36,182 million as determined under HKFRS, due to differences between PRC GAAP and HKFRS. The proportions of each of these classes of assets allocated to CLIC and ourselves were similar.

Table of Contents

Insurance policies

Under the plan of restructuring, on the effective date, CLIC transferred to us the transferred policies.

We have been advised by our PRC legal counsel, King & Wood, that: (1) the transferred policies have been legally and validly transferred to us and (2) following the restructuring we will not have any continuing obligations to holders of the non-transferred policies and that there is no legal basis on which holders of the non-transferred policies can make a claim against China Life. See Item 3. Key Information Risk Factors Risks Relating to the Restructuring .

Investment and other business assets

In the restructuring, CLIC transferred to us cash and investment assets, various intellectual property rights and various other business assets, including the software system for operating our business. CLIC retained cash and specified investment assets, as well as assets relating to the non-core, non-insurance business carried out by CLIC prior to the restructuring.

For information about CLIC s investment assets and the investment assets that were transferred to us in connection with the restructuring, see Business Overview Investments .

Investment assets

All investment assets in respect of participating policies were transferred to us, since all participating business has been transferred to us. The remaining investment assets, including term deposits, fixed maturity securities, equity securities, repurchase agreements and cash and cash equivalents, but excluding unlisted equity securities and investment properties which were retained by CLIC, were allocated between CLIC and ourselves so as to ensure that the book value of China Life as of June 30, 2003 was RMB 29,608 million, as determined under PRC valuation regulations. The proportions of each of these classes of assets allocated to CLIC and ourselves were similar.

Real properties

In connection with the restructuring, land use rights relating to 2,978 parcels of land with an aggregate site area of approximately 3,145,000 m^2 were transferred to us.

In addition, 3,443 completed buildings, including our headquarters in Beijing, and various ancillary structures, with an aggregate total gross floor area of approximately 3,997,000 m^2, and 65 buildings and structures which were under construction, with an aggregate total gross floor area of approximately 350,000 m^2 upon completion, were transferred to us. Of the 3,443 buildings, 372 properties with an aggregate gross floor area of approximately 66,800 m^2 were leased to independent third parties.

Receivables, chattels, etc.

Accounts receivable associated with the transferred policies and other accounts receivable which accrued on or after June 30, 1999 and which remained on the books as of June 30, 2002, as well as specified deferred assets, prepaid expenses, low cost consumables and other assets as of the same date, were transferred to us.

Intellectual property and business assets

The following intellectual property and business assets were transferred to us:

- All original and duplicate policies, business records, financial and accounting records, business data, statistical information, training manuals, technical records, information, data, know-how and manuals and research and development information relating to the businesses constituted by the transferred policies.

Table of Contents

All of CLIC s rights and licenses relating to software used in its insurance businesses, including its core business processing system, customer service center system, comprehensive inquiry system, individual agency management system, customer support system, accounting and financial management system, participating policy monitoring system, analysis system, business file imaging system and individual agency marketing support system.

All permits, licenses, approvals, certificates, authorizations and other like instruments related to the operation of the assets transferred to us.

All claims, rights to setoff, cause of action and similar rights held by CLIC against third parties arising from the transferred assets and policies.

Insurance agency contracts

As of June 30, 2003, CLIC had agency contracts with approximately 650,000 individual agents and other insurance agencies. CLIC has transferred to us all of its rights and obligations under these contracts. The restructuring agreement provides that commissions due under these contracts in connection with the transferred polices, the accrued amount of which was RMB 1,098 million as of June 30, 2003, will be borne by us, and commissions due in connection with non-transferred policies, the accrued amount of which was RMB 40 million as of June 30, 2003, will be borne by CLIC.

Assumed liabilities

We assumed the future benefit liabilities relating to the transferred policies.

In addition, the accounts payable and other accounts payable incurred on or after June 30, 1999 associated with the transferred policies were transferred to us, and those associated with the non-transferred policies were retained by CLIC.

CLIC previously entered into securities repurchase agreements in connection with the management of its investment assets. See Business Overview Investments . We assumed a portion of CLIC s obligations to repurchase securities sold to third parties under these repurchase agreements.

Management personnel and employees

CLIC transferred approximately 67,000 employees to us, including approximately 9,000 management personnel.

We did not assume any obligations for the welfare benefits of the employees retained by CLIC and of the transferred employees for any period while they were employed by CLIC. These obligations, including obligations in respect of some employees whose employment contracts were terminated or who were asked to retire prior to the restructuring in exchange for these benefits, will be borne by CLIC and are not our obligations.

Table of Contents

Assets retained by CLIC

CLIC retained the remaining assets it held at the time of the restructuring. These include:

- Specified fixed assets and intangible assets, including real properties with associated land use rights and the trademarks in the China Life name (in English and Chinese) and the ball logos.

- Accounts receivable and other receivables accrued before June 30, 1999 or accrued after June 30, 1999 and associated with the non-transferred policies or other businesses retained by CLIC. CLIC also retained a portion of the assets associated with construction-in-progress projects.

- Assets relating to CLIC s non-core, non-insurance businesses (principally investments in property, hotels and other operations through subsidiaries).

Insurance policies retained by CLIC

CLIC has incurred substantial losses on these non-transferred policies, primarily because the pre-determined rates built into these policies and hence the implied rates at which CLIC was obligated to pay or accrue reserves on these policies are higher than the investment return it was able to generate on its investment assets. See Business Overview Regulatory and Related Matters Insurance Company Regulation Regulation of insurance and annuity products generally . This outcome, which has been experienced by other major life insurers in China, is called a negative spread . From 1996 to 1999, the central bank of China made several cuts in interest rates, reducing the income CLIC was able to generate on its investment assets to below the guaranteed rate it was required to pay on its policies. In 1999, the CIRC reduced the maximum guaranteed rate insurers were allowed to pay and, as a result, CLIC has not experienced a negative spread on policies issued thereafter.

Shareholders equity of our predecessor, CLIC, was a deficit of RMB 251,661 million (US$31,184 million) as of September 30, 2003 and a deficit of RMB 243,237 million as of December 31, 2002. The net losses incurred by our predecessor were RMB 5,925 million (US$734 million) for the nine months ended September 30, 2003 and RMB 4,706 million and RMB 3,525 million for 2001 and 2002, respectively. These losses were attributable to losses incurred by our predecessor on policies retained by CLIC in the restructuring, which have offset the profitability of the policies transferred to us.

In connection with the restructuring, CLIC has established, together with the MOF, a special purpose fund for the purpose of paying claims under the non-transferred policies. The special purpose fund will be funded by investment assets retained by CLIC; renewal premiums paid on the non-transferred policies over time; a portion of the tax payments made by China Life under the tax rebate mechanism described below; profits from the investments of the special purpose fund; shareholder dividends paid in cash to CLIC by China Life; proceeds from the disposition of China Life shares by CLIC over time; and funds injected by the MOF in the event of a deficiency in the special purpose fund, as described below. The special purpose fund is co-administered by CLIC and the MOF. The special purpose fund will be available to satisfy CLIC s operating expenses, including the payment of benefits and claims obligations arising from the non-transferred policies, as well as expenses incurred in operating the special purpose fund, including third-party management fees and professional fees, and such other purposes as the management committee of the fund may agree. A management committee comprised of three representatives from the MOF and three representatives from CLIC oversees the management of the fund, with specified material items subject to the approval of the MOF. The special purpose fund will be dissolved when all claims and benefits under the non-transferred policies have been paid, or sooner if the management committee so agrees.

Table of Contents

The MOF s approval of the special purpose fund issued to CLIC provides that in the event there is any deficiency in the special purpose fund for so long as the fund is in existence as described above to meet any payment obligation arising out of the non-transferred policies, the MOF will provide support through the injection of funds to ensure the payments of benefits and claims to the policyholders of the non-transferred policies. We have been advised by our PRC legal counsel, King & Wood, that (1) the MOF has the authority to issue this approval regarding the special purpose fund, (2) the approval is valid and effective and (3) it has no reason to believe that the MOF will revoke the approval.

In accordance with generally applicable tax laws and regulations, CLIC, AMC and ourselves will file income tax returns and pay our respective income taxes as separate and independent taxpayers. According to a circular issued by the MOF, all of the income tax payments made by CLIC and us during the period of January 1, 2003 to December 31, 2010 will be rebated to CLIC. All of the income tax payments made by AMC may also be rebated to CLIC, if the current shareholding structure of AMC remains unchanged. This tax rebate policy is different from the tax rebate mechanism we expected to be approved at the time of our IPO in 2003, and indicates MOF s strong support to CLIC.

CLIC does not meet the minimum solvency requirements under CIRC solvency regulations. The CIRC has broad powers under these regulations and the insurance law in the event an insurance company fails to meet its minimum solvency requirements. These may include ordering the sale of the assets or transfer of the insurance business of an insurance company in default of these requirements to a third party and appointing a receiver to take over the management of the insurance company. See Business Overview Regulatory and Related Matters Insurance Company Regulation Solvency requirements . We believe that, in light of the MOF approval described above, it is unlikely that the CIRC will take these actions. However, we cannot assure you that the CIRC will not take actions against CLIC, which could have a material adverse effect on us.

We have been advised by our PRC legal counsel, King & Wood, that following the restructuring we will not have any continuing obligations to holders of the non-transferred policies and that there is no legal basis on which holders of the non-transferred policies can make a claim against China Life. King & Wood based its conclusion on, among other things, the following factors: (1) after the restructuring, China Life was established as a separate legal entity and China Life s assets and liabilities should be regarded as distinct and separate from those of CLIC; (2) there is no contractual relationship, direct or indirect, between the holders of the non-transferred policies and China Life; (3) the restructuring (including the transfer of the transferred policies to China Life) has been approved by the CIRC and has been conducted without infringing upon the rights of the holders of non-transferred policies; (4) the arrangements made under the restructuring agreement, in particular the MOF s support as described above, are expected to enable CLIC to satisfy its obligations under the non-transferred policies; and (5) PRC regulatory authorities have no legal power to direct China Life to assume CLIC s obligations under the non-transferred policies or to indemnify the holders of the non-transferred policies.

See Item 3. Key Information Risk Factors Risks Relating to the Restructuring .

Developments After Restructuring

On November 23, 2003, we established an asset management joint venture, AMC, with our predecessor, CLIC, in connection with the restructuring. AMC manages our investment assets and, separately, substantially all of those of CLIC. On December 30, 2006, we established a property and casualty joint venture, China Life Property and Casualty Insurance Company Limited, with CLIC. On January 15, 2007, we established a pension insurance joint venture, China Life Pension Company Limited, with CLIC and AMC.

Table of Contents

In December 2003, we successfully completed our initial public offering of H shares, including H shares in the form of American depositary shares, or ADSs, and raised approximately RMB 24,707 million in aggregate net proceeds for us. Upon completion of our initial public offering, our H shares became listed on the Hong Kong Stock Exchange and ADSs each representing 40 of our H shares became listed on the New York Stock Exchange. The ratio of ADSs to H shares was reduced from 40 H shares to 15 H shares on December 29, 2006.

In December, 2006, we issued 1,500,000,000 new ordinary domestic shares through public offering on the SSE at the offer price of RMB 18.88 per share, raising RMB 28,320 million. The A shares have been listed on the SSE since January 9, 2007.

We incurred capital expenditures of RMB 1,750 million (US$224 million), RMB 1,098 million and RMB 1,063 million in 2006, 2005 and 2004. These capital expenditures mainly comprised the addition of buildings. In 2006, we entered into agreements with other promoters to establish Bohai Venture Capital Fund where we committed to contribute RMB 500 million to Bohai Venture Capital Fund and RMB 5 million to Bohai Venture Capital Fund Management Company, of which RMB 50 million was paid to the fund on December 25, 2006 and RMB 2.5 million was paid to the fund management company on January 31, 2007. The remaining RMB 452.5 million will be paid when called. For a description of further investments made by us, see Business Overview Investments.

BUSINESS OVERVIEW

We had nearly 90 million individual and group life insurance policies, annuity contracts and long-term health insurance policies in force as of December 31, 2006. We also offer accident and short-term health insurance policies to individuals and groups. The guaranteed rate of return for life insurance products has been capped at 2.50% by the CIRC since June 1999. As of December 31, 2006, the average guaranteed rate of return of the products we offered was 2.35%.

Individual Life Insurance

We are the leading provider of individual life insurance and annuity products in China. We offer life insurance and annuity products to individuals, primarily through a distribution force comprised of approximately 650,000 exclusive agents operating in approximately 15,000 field offices throughout China, as well as other non-dedicated agencies located at branch offices of banks, banking operations of post offices and other organizations. The financial results of our individual long-term health insurance business are also reflected in our individual life insurance business segment. Gross written premiums and policy fees generated by our individual life insurance products, including long-term health insurance products, totaled RMB 86,587 million (US$11,095 million) for the year ended December 31, 2006 and RMB 68,888 million for the year ended December 31, 2005, constituting 87.1% and 85.0% of our total gross written premiums and policy fees for those periods. The figure for 2006 represented a 25.7% increase over 2005. First-year gross written premiums from individual life insurance products in 2006 were RMB 80,086 million (US$10,262 million), representing a 26.7% increase from 2005. First-year single gross written premiums for the same period were RMB 1,175 million (US$151 million), representing 5.2% of first-year individual life insurance gross written premiums. Deposits generated by our individual life insurance and annuity products totaled RMB 70,355 million (US$9,015 million) for the year ended December 31, 2006 and RMB 62,483 million for the year ended December 31, 2005, constituting 76.9% and 72.7% of our total deposits for those periods. The figure for 2006 represented a 12.6% increase from 2005.

The following table sets forth selected financial and other data regarding our individual life insurance business as of the dates or for the periods indicated.

Table of Contents

	As of or for the year ended December 31,				Compound Annual growth rate
	2004	2005	2006	2006	(2004-2006)
	RMB	RMB	RMB	US$	
	(in millions, except as otherwise indicated)				
Individual life gross written premiums and policy fees	54,909	68,888	86,587	11,095	25.58%
First-year single gross written premiums	2,526	1,085	1,175	283	(6.57)%
First-year regular gross written premiums	17,374	18,489	21,484	2,764	11.42%
First-year gross written premiums	19,900	19,574	22,659	3,046	9.30%
Individual life insurance deposits	66,981	62,483	70,355	9,015	2.49%
First-year single deposits	52,343	46,061	53,658	6,876	1.25%
First-year regular deposits	2,319	3,083	2,902	372	11.87%
First-year deposits	54,662	49,144	56,560	7,247	1.72%
Liabilities of long-term traditional insurance contracts	88,985	123,457	170,954	22,152	39.38%
Deferred income	27,039	34,104	40,744	5,301	23.70%
Liabilities of long-term investment type insurance contracts and investment contracts	190,791	235,847	281,847	42,450	31.77%

Products

We offer a wide variety of life insurance and annuity products to individuals, providing a wide range of coverage for the whole length of a policyholder s life. Our individual life insurance and annuity products consist of whole life and term life insurance, endowment insurance and annuities. The financial results of our long-term health insurance business are also reflected in our individual life insurance business segment.

We offer both non-participating and participating products. There were approximately 52.8 million non-participating polices and 33.3 million participating polices as of December 31, 2006, among which approximately 38.8 million non-participating polices and 25.2 million participating policies are offered to individuals. Net premiums earned and policy fees of participating policies of individual life insurance products represent approximately 52.9% of total net premiums earned and policy fees for individual life insurance products in 2006. Non-participating products provide a fixed rate of return with a guaranteed benefit. We and CLIC have not incurred negative spread on these and other policies transferred to us in the restructuring, as the average investment returns we have been able to generate have been higher than their guaranteed rates. See Item 3. Key Information Risk Factors Risks Relating to Our Business We are Exposed to Changes in Interest Rates . The holder of a participating product is entitled to share a portion of our distributable earnings from participating products, as determined by us based on formulas prescribed by the CIRC. Under guidelines issued by the CIRC, the dividends must be no less than 70% of the distributable earnings from participating products. Participating life insurance and annuity products, which were first introduced in 2000, have become our fastest-growing individual life insurance and annuity products.

The following table sets forth selected financial information regarding our individual life insurance and annuity products, including long-term health and accident products, for the periods indicated.

	For the year ended December 31,			
	2004	2005	2006	2006
	RMB	RMB	RMB	US$
	(in millions)			
Whole life and term life insurance:				
Gross written premiums	19,812	23,494	28,257	3,621
First-year gross written premiums	4,737	5,214	6,299	807
Total single gross written premiums	141	131	38	5
Endowment:				
Gross written premiums	26,511	35,480	43,582	5,585
First-year gross written premiums	13,888	13,012	11,726	1,503
Deposits	65,569	60,310	69,583	8,916

First-year deposits	53,393	47,072	55,856	7,157
Annuities:				
Gross written premiums	3,790	4,231	8,247	1,057
First-year gross written premiums	1,275	1,348	4,634	594
Deposits	1,412	2,173	772	99
First-year deposits	1,269	2,072	704	90

Table of Contents

Whole Life and Term Life Insurance

Non-participating whole life and term life insurance

We offer non-participating whole life and term life insurance products.

Non-participating whole life insurance products provide a guaranteed benefit, pre-determined by the contract, upon the death of the insured, in return for the periodic payment of fixed premiums over a predetermined period. Premium payments may be required for the length of the contract period, to a specified age or for a specified period, and are typically level throughout the period.

The guaranteed rate of return in China for non-participating whole life insurance products has been capped at 2.50% by the CIRC since June 1999. We believe that the insurance market will continue to move away from non-participating whole life insurance products to participating whole life insurance products.

Non-participating term life insurance products provide a guaranteed benefit upon the death of the insured within a specified time period in return for the periodic payment of fixed premiums. Specified coverage periods generally range from 5 to 20 years or expire at specified ages. Death benefits may be level over the period or increasing. Premiums are typically at a level amount for the coverage period. Term life insurance products are sometimes referred to as pure protection products, in that there are normally little or no savings or investment elements. Unlike endowment products, term life insurance policies expire without value at the end of the coverage period if the insured person is still alive.

Participating whole life insurance

We also offer participating whole life insurance products, which are traditional whole life insurance policies that also provide a participation feature in the form of dividends. The policyholder is entitled to share a portion of the distributable earnings from participating products, as determined by us based on formulas prescribed by the CIRC. Under guidelines issued by the CIRC, the dividends must be no less than 70% of the distributable earnings from participating products. Policyholders may receive dividends in cash or apply them to increase death benefits or cash values available upon surrender.

Endowment

Non-participating endowment products

Non-participating endowment products provide to the insured various guaranteed benefits if the insured survives specified maturity dates or periods stated in the policy, and provide to a beneficiary designated by the insured guaranteed benefits upon the death of the insured within the coverage period, in return for the periodic payment of premiums. Specified coverage periods generally range from 5 to 20 years or end at specified ages. Premiums are typically at a level amount for the coverage period.

Table of Contents

Although non-participating endowment products have historically been among the most popular individual life insurance products in China, we believe that, if the prevailing permitted guaranteed rate in China remains capped at the current level of 2.50% as it has been for the past several years, the market is likely to shift away from these products in favor of participating endowment products.

Participating endowment products

We also offer participating endowment products, which are endowment policies that also provide a participation feature in the form of dividends. Policyholders are entitled to share a portion of the distributable earnings from participating products, as determined by us based on formulas prescribed by the CIRC. Under guidelines issued by the CIRC, the dividends must be no less than 70% of the distributable earnings from participating products. Policyholders may receive dividends in cash or apply them to increase death benefits or cash values available upon surrender.

Participating endowment products are among our fastest growing product lines. Hong Feng Endowment and Hong Xin Endowment have had the highest level of sales of our investment-type and risk-type participating endowment products. Hong Feng Endowment had RMB 48,189 million (US$6,175 million) of deposits in 2006, representing 68.5% of total deposits of our individual life insurance business and 85.2% of total first-year deposits of our individual life insurance business. Hong Xin Endowment had RMB 26,781 million (US$3,432 million) of gross written premiums in 2006, representing 30.9% of total gross written premiums and policy fees of our individual life insurance business. First-year gross written premiums of Hong Xin Endowment for the year ended December 31, 2006 were RMB 8,360 million (US$1,071 million), representing a 24.5% decrease from the year before, or 36.9% of total first-year gross written premiums of our individual life insurance business. Total deposits from our individual participating products in 2006 decreased by 16.1%, to RMB 63,706 million (US$8,163 million) from RMB 75,964 million in 2005. Total net premiums earned from our risk-type participating products increased by 32.2%, to RMB 41,001 million (US$5,254 million) in 2006 from RMB 31,016 million in 2005.

In January 2007, our new risk-type participating endowment product Mei Man Yi Sheng was introduced to the market.

Annuities

Annuities are used for both asset accumulation and asset distribution needs. Annuitants make deposits or pay premiums into our accounts, and receive guaranteed level payments during the payoff period specified in the contracts. We offer both non-participating and participating annuities. For non-participating annuity products, risks associated with the investments are borne entirely by us. A significant portion of our non-participating annuity products imposes charges upon an early surrender or withdrawal of the contract.

Participating annuity products are annuities that provide a participation feature in the form of dividends. The dividends are determined by us in the same manner as our life insurance policies. Annuitants may receive dividends in cash or apply them to increase annuity benefits or reduce the premiums or deposits required to maintain the contract in force. Like non-participating annuities, a significant portion of our participating annuity products imposes charges upon an early surrender or withdrawal of the contract.

Table of Contents

Joint Life and Universal Products

We began the sale of joint life and universal products in certain provinces on a trial basis since 2005.

Joint life products are life insurance policies, for which there are two or more persons insured under one policy. Joint life products can be term life, whole life or universal products. Universal life products are life insurance policies with flexible premium and benefit amounts. For each universal life policy, we establish a separate account and determine the interest credit rate, mortality and expense charges specifically for such account. The benefits of universal life products are linked to the account value of each separate account.

Marketing and Distribution

We have historically sold most of our individual life insurance and annuity products to the mass market and will continue to actively serve this market. However, we believe our core individual customer base will evolve as China s economy develops. We will seek to capitalize on the market opportunities in the growing affluent segment of China s population by focusing our marketing efforts on individuals residing in urban and economically developed coastal areas of China, where disposable income is relatively higher and, we believe, demand for life insurance and annuity products is greater. In addition, we are implementing a new customer segmentation sales approach which targets individuals of various income and education levels with different products. Under this sales approach, individuals in different periods of their lives are marketed with different life insurance and annuity products, with these products in many cases supplemented by our individual accident and health products.

We distribute our individual life and annuity products nationwide through multiple channels. Our primary distribution system is comprised of approximately 650,000 exclusive agents operating in approximately 15,000 field offices throughout China. In addition, we are implementing our customer-oriented market segmentation sales initiatives to all exclusive agents nationwide. While continuing to invest in our exclusive agent force, we have also expanded into other distribution channels, primarily non-dedicated agencies located in approximately 87,000 outlets of commercial banks, banking operations of post offices and savings cooperatives, to diversify our distribution channels and to achieve higher growth. See Distribution Channels .

Group Life Insurance

We are a leading group life insurance company in China, providing group life insurance and annuity products to the employees of many of China s large companies and institutions, including many of the Fortune Global 500 companies operating in China. We offer group life insurance and annuity products to the employees of companies and institutions through approximately 12,000 direct sales representatives operating in more than 3,600 branch offices as well as insurance agencies and insurance brokerage companies. The financial results of our group long-term health insurance business are also reflected in our group life insurance business segment. Gross written premiums and policy fees generated from our group life insurance and annuity products totaled RMB 1,740 million (US$223 million) for the year ended December 31, 2006 and RMB 1,267 million for the year ended December 31, 2005, constituting 1.8% and 1.6% of our total gross written premiums and policy fees for each respective year. The figure for 2006 represented a 37.3% increase from 2005. First-year gross written premiums from group life products insurance for 2006 were RMB 1,115 million (US$143 million), representing a 31% increase from 2005. First-year single gross written premiums for 2006 were RMB 1,030 million (US$132 million), representing 92.4% of first-year group life insurance gross written premiums. Deposits generated by our group life insurance and annuity products totaled RMB 21,086 million (US$2,702 million) for the year ended December 31, 2006 and RMB 23,463 million for the year ended December 31, 2005, constituting 23.1% and 27.3% of our total deposits for those periods. The figure for 2006 represented a 10.1% decrease from 2005.

Table of Contents

The following table sets forth selected financial and other data regarding our group life insurance business as of the dates or for the periods indicated.

	As of or for the year ended December 31,				Compound Annual growth rate (2004-2006)
	2004 RMB	2005 RMB	2006 RMB	2006 US$	
	(in millions, except as otherwise indicated)				
Group life gross written premiums and policy fees	742	1,267	1,740	223	53.13%
First-year single gross written premiums	261	811	1,030	132	98.65%
First-year regular gross written premiums	34	40	85	11	58.11%
First-year gross written premiums	295	851	1,115	143	94.41%
Group life insurance deposits	21,756	23,463	21,086	2,702	(1.55)%
First-year single deposits	21,726	23,401	21,072	2,700	(1.52)%
First-year regular deposits	12	51	6	0.77	(29.29)%
First-year deposits	21,738	23,452	21,078	2,701	(1.53)%
Liabilities of long-term traditional insurance contracts	713	1,199	1,921	246	64.14%
Deferred income	564	527	627	80	5.44%
Liabilities of long-term investment-type insurance contracts and investment contracts	35,205	45,256	49,437	6,335	18.50%

Products

We offer group annuity products and group whole life and term life insurance products to enterprises and institutions. We bundle these products to serve as part of our group customers overall employee benefit plans. We also market each group product as an independent product. We believe we are the market leader in the development of group annuity products.

The following table sets forth selected financial information regarding our group life insurance and annuity products, including long-term health products, for the periods indicated.

	For the year ended December 31,			
	2004 RMB	2005 RMB	2006 RMB	2006 US$
	(in millions)			
Group annuities:				
Premiums		169	232	30
Deposits	21,105	21,528	18,411	2,359
Group whole life and term life insurance:				
Premiums	344	698	912	117
Deposits	98	101	169	22
Endowment:				
Premiums				
Deposits	553	1,834	2,506	321

Group annuities

In our non-participating group annuities, interest on an annuitant s deposits is credited to each participating employee s personal account.

We also offer participating group annuities. In our participating group annuities, interest on an annuitant s deposits is either credited to the participating employee s personal account or credited to the participating employee s personal account as well

41

Table of Contents

as the employer s group account, depending on the source of the deposits, calculated at a guaranteed interest rate set at the time the product is priced, subject to a cap fixed by the CIRC, which currently is 2.50%. The annuitant is entitled to share a portion of our distributable earnings derived from our participating products, as determined by us based on formulas prescribed by the CIRC, in excess of the rate we guarantee to participating employees.

Group participating annuity products, including Yong Tai Annuity and Group Annuity (Retirement Supplement), are our major product lines. For the year ended December 31, 2006, total combined deposits of Yong Tai Annuity and Group Annuity (Retirement Supplement) were RMB 17,822 million (US$2,284 million), constituting 84.5% of total deposits of our group life insurance business for that year, representing a 15.0% decrease from the year before. Total deposits from our group participating products in 2006 decreased by 14.4% to RMB 18,043 million (US$2,312 million) from RMB 21,068 million in 2005.

The following table sets forth total combined deposits of our Yong Tai Annuity and Group Annuity (Retirement Supplement) products for the periods indicated.

	For the year ended December 31,			
	2004 RMB	2005 RMB	2006 RMB	2006 US$
		(in millions)		
Yong Tai Annuity and Group Annuity (Retirement Supplement):				
Deposits	20,596	20,967	17,822	2,284

Group whole life and term life insurance

We offer group non-participating whole life insurance products and group non-participating term life insurance products. Our group whole life and term life insurance products insure against death and serious disabilities due to accidents and illness.

Marketing and distribution

We target our group life insurance and annuity products to large institutional customers in China, including branches of foreign companies, which we believe have a greater awareness of and need for group life insurance and annuity products. We have long-term customer relationships with many of China s largest companies and institutions. We provide large group customers with products having flexible fee and dividend structures, as well as enhanced real-time customer service. While continuing to focus on large institutional clients, we also target small- to medium-sized companies in economically developed regions to supplement our growth and to increase our profits.

We market our group life insurance and annuity products primarily through our direct sales representatives. We also market our group life insurance and annuity products through commercial banks, banking operations of post offices, insurance agency companies and insurance brokerage companies. We believe our sales network has a geographic reach unparalleled by any other life insurance company in China, serving almost every county in China. See Distribution Channels .

Accident and Health Insurance

We are the leading accident insurance and a leading health insurance provider in China.

42

The following table sets forth selected financial and other data regarding our short-term accident insurance and short-term health insurance businesses as of the dates or for the periods indicated. The financial results of our long-term health insurance and long-term accident businesses are reflected in our individual and group life insurance business segments, respectively. See Individual Life Insurance and Group Life Insurance .

	As of or for the year ended December 31,				Compound Annual growth rate
	2004 RMB	2005 RMB	2006 RMB	2006 US$	(2004-2006)
	(in millions, except as otherwise indicated)				
Short-term accident insurance premiums	4,977	5,135	5,148	660	1.7%
Short-term health insurance premiums	5,629	5,732	5,942	761	2.7%
Accident and health reserves for claims and claim adjustment expenses (gross)	1,215	1,784	2,498	320	43.4%
Accident and health insurance unearned premium reserves (gross)	5,212	5,147	5,346	685	7.3%

Accident insurance

We are the leading accident insurance provider in China. Our short-term accident insurance gross written premiums totaled RMB 5,148 million (US$660 million) for the year ended December 31, 2006 and RMB 5,135 million for the year ended December 31, 2005, constituting 5.2% and 6.3% of our total gross written premiums and policy fees for those periods.

Products

We offer a broad array of accident insurance products to both individuals and groups.

Individual accident insurance

Individual accident insurance products provide a benefit in the event of death or disability of the insured as a result of an accident, or a reimbursement of medical expenses to the insured in connection with an accident. Typically, a death benefit is paid if the insured dies as a result of the accident within 180 days of the accident, and a disability benefit is paid if the insured is disabled, with the benefit depending on the extent of the disability. If the insured receives medical treatment at a medical institution approved by us as a result of an accident, individual accident insurance products also may provide coverage for medical expenses. We offer a broad array of individual accident insurance products, such as insurance for students and infants against death and disability resulting from accidental injury and comprehensive coverage against accidental injury. We also offer products to individuals requiring special protection, such as accidental death and disability insurance for commercial air travel passengers and automobile passengers and drivers. The terms of individual accident insurance products range from a few hours to one year.

Group accident insurance

We offer a number of group accident insurance products and services to businesses, government agencies and other organizations of various sizes. We also offer group accident products targeted at specific industry groups, such as construction worker related accident insurance to construction companies, and law enforcement personnel accident insurance to various law enforcement agencies.

Marketing and distribution

We market our individual accident insurance products through our direct sales force and our exclusive agent sales force, as well as intermediaries, such as non-dedicated agencies located at outlets of commercial banks, banking operations of post offices, savings cooperatives, travel agencies, hotels and airline sales counters and insurance agency and insurance brokerage companies. We market our group accident insurance products primarily through our direct sales representatives and the same intermediaries we use to sell our individual accident products. See Distribution Channels .

We use our individual and group product distribution channels to market our accident products either as primary products, as riders or as supplementary products packaged with our life, annuity or health products. Our direct sales representatives market our short-term individual health products to employees of our institutional customers.

Health insurance

We are a leading health insurance provider in China. We offer a broad array of short-term health insurance products and services to both individuals and groups, including disease-specific insurance, medical expense insurance and defined benefit insurance. We sell health insurance products to individuals and groups through the same distribution channels we use to sell our life insurance products. Our short-term health insurance gross written premiums totaled RMB 5,942 million (US$761 million) for the year ended December 31, 2006 and RMB 5,732 million for the year ended December 31, 2005, constituting 6.0% and 7.1% of our total gross written premiums and policy fees for those periods. The figure for 2006 represented a 3.7% increase from 2005.

Our health insurance business shares our nationwide life insurance sales force and distribution network of exclusive agents. Our policy review and claim adjustment processes are facilitated through a team of supporting personnel with medical training.

Products

We offer short-term health insurance products to both individuals and groups. We classify our health insurance products as short-term products, having policy terms of less than or up to one year, and long-term products, having policy terms longer than one year. We offer both short-term and long-term defined health benefit plans, medical expense reimbursement plans and disease-specific plans to individuals and groups.

Defined health benefit plans

These plans provide a fixed payment based on the number of days of hospitalization for specific diseases or surgical operation. Policyholders either pay premiums in a single payment or on a periodic basis.

Medical expense reimbursement plans

These plans provide for the reimbursement of a portion of the participant s outpatient or hospitalization treatment fees and expenses. Policyholders either pay premiums in a single payment or on a periodic basis or, for certain group medical expense reimbursement plans, irregularly as determined by the policyholder.

Table of Contents

Disease-specific plans

These plans provide a fixed payment benefit for various diseases. Premium payments for disease-specific plans are paid either in a single payment or on a periodic basis.

Product Development

In 2006, we completed the development of 36 new products, including ten long-term life insurance products, ten accident insurance products and 16 health insurance products. We also modified and upgraded our most important group life insurance product, Yong Tai Group Annuity . We modified the long-term life insurance products based on the new Mortality Table published by CIRC.

Also in 2006, we began to establish regional research centers for product development to study and satisfy market needs and be able to respond speedily to market requirements. Presently we have set up four regional products research and development centers in Shanghai, Jiangsu, Chongqing and Shenzhen.

In 2006, in complying with CIRC s requirements, we amended the contract terms of our insurance products with an aim to clarify the products terms and conditions and strengthen customers rights.

In March 2007, our new product China Life Simple Life and Medical Insurance (SLMI), an individual life insurance product, was launched. The terms of the SLMI are simple and easy to understand, taking into account the consumers affordability and the insurance requirements. Presently, SLMI has been approved by CIRC for an initial launch in the agricultural villages of Hebei, Henan and Jiangsu.

Marketing and distribution

We offer our health insurance products to both individuals and groups through the same distribution channels we use to market our life insurance products. We market our individual health insurance products through our exclusive agent sales force. We market our short-term health insurance products and group health insurance products primarily through our direct sales representatives. See Distribution Channels .

We use our individual and group product distribution channels to market our health products either as primary products, as riders or as supplementary products packaged with our life, annuity or accident insurance products. We conduct extensive health insurance related training programs for our direct sales representatives and our exclusive agents.

Distribution Channels

In connection with our restructuring, CLIC transferred its entire distribution force to us. After giving effect to our restructuring, we believe we have the largest distribution force with the most extensive geographic reach compared with any of our competitors. Our distribution network reaches almost every county in China. Throughout China, we have approximately 650,000 exclusive agents operating in approximately 15,000 field offices for our individual products and more than 12,000 direct sales representatives in more than 3,600 branch offices for group products. We have a multi-channel distribution network selling individual and group insurance products through intermediaries, primarily non-dedicated agencies located in approximately 87,000 outlets of commercial, banks, banking operations of post offices and savings cooperatives as of the end of December 2006, a slight decrease from 2005. This decrease was primarily due to the restructuring of the network to eliminate inefficiencies as well as the increase of market competition. Commission rates vary by product, based on such factors as the payment terms and period over which the premiums are paid for the product, as well as CIRC regulations. We support our agents and representatives through training programs, sales materials and information technology systems.

Table of Contents

Exclusive agent force

Our exclusive agent force of approximately 650,000 agents, including those who are not qualified, is the primary distribution channel for our individual life, health and accident insurance products.

The following table sets forth information relating to our exclusive agent force as of the dates indicated.

	As of December 31,		
	2004	**2005**	**2006**
Number of exclusive agents (approximately)	668,000	640,000	650,000
Number of field offices	9,300	12,000	15,000

Our exclusive agent force is among our most valuable assets, allowing us to more effectively control our distribution and build and maintain long-term relationships with our individual customers. The number of our exclusive agents decreased to 640,000 as of the end of 2005 from 668,000 as of the end of 2004. This decrease was primarily due to the strengthened performance review conducted by us in 2005, as a result of which a number of exclusive agents with comparatively lower productivity left. In addition, CIRC agents in certain provinces began requiring, from 2005, all exclusive agents to hold the CIRC qualification certificates to conduct businesses, which resulted in the departure of some of our exclusive agents. The number of our exclusive agents increased from 640,000 as of the end of 2005 to 650,000 as of the end of 2006. This increase was primarily due to the improvement of our hiring methods and results. We believe that our customers and prospective customers prefer the personal approach of our exclusive agents, and, therefore, we believe our exclusive agent force will continue to serve as our core distribution channel.

In 2006, we also accelerated the development of a special sales force services offered for orphan policies (policies which were serviced by our former individual agents but are no longer serviced by such agents after the departure of such agents from our company) and new business development. As of the end of 2006, such sales force included approximately 17,000 exclusive agents, which are included in the 650,000 exclusive agents.

Under the PRC insurance law, an individual agent for an insurance company is required to obtain a qualification certificate from the CIRC, as well as to register with, and obtain a business license from, the agent s local bureau of the SAIC. See Regulatory and Related Matters Regulation of Insurance Agencies, Insurance Brokers and Other Intermediaries . Essentially all of the agents in our exclusive agent sales force do not qualify as individual agents within the meaning of the insurance law because they do not meet the dual requirements of holding a CIRC qualification certificate and a business license from the local bureau of industry and commerce. We believe that this situation is shared by all major life insurance companies in China. Approximately 96.4% of our exclusive agents hold a CIRC qualification certificate, and essentially none has a business license. In May 2004, the CIRC issued a circular requiring insurance companies to take effective measures in carrying out the qualification certification requirement. Furthermore, no insurance company may issue a company certificate to any person identifying that person as its sales representative, if the person does not have a CIRC qualification. Pursuant to the circular, we are also required to take appropriate measures to improve both participation of our agents taking the qualification examination and their success rate, and to report to the CIRC on a quarterly basis the percentage of our agents holding a CIRC qualification certificate. In April 2006, the CIRC issued regulations on administration of individual agents, effective on July 1, 2006, in order to further strengthen the administration of individual agents. Pursuant to these regulations, insurance companies that retain individual agents without CIRC qualification certificates and underwriting certificates to engage in

Table of Contents

insurance sales activities will be warned and fined up to RMB 30,000 and the responsible member of senior management of such insurance companies will be warned and fined up to RMB 10,000. In serious circumstances, the CIRC may order the insurance companies to remove the responsible member of senior management from office and reject the application of setting up branch offices by such insurance companies. It is our understanding that the SAIC does not have procedures in place to effect the registration and licensing of individual insurance agents, although some local bureaus of industry and commerce have had on occasions required our agents to register. To date, this noncompliance has not had a material adverse effect on us. We are not sure whether or when this registration requirement will be enforced by bureaus of industry and commerce nationwide. If these registration and qualification requirements are enforced, or if they result in a substantial number of policyholders canceling their policies, our business may be materially and adversely affected.

We supervise and provide training to our exclusive agents through more than 9,100 supervisors and more than 1,300 full-time trainers. We set product management and customer service standards, and have developed risk warning and credit rating systems, which we require all of our field offices and agents to meet and apply, and conduct field tests with a view to ensuring quality. We also have an extensive training program.

We compensate our exclusive agent force through a system of commissions and bonuses to reward performance. Our agents are compensated based on a commission rate that generally decreases over the premium period. For short-term insurance products, our exclusive agents are generally compensated with fixed agent fees. We provide pension funds, group commercial supplemental pension insurance, group life and medical insurance for our exclusive agents. We motivate our agents by rewarding them with performance-based bonuses and by organizing sales-related competitions among different field offices and sales units. We also try to increase the loyalty of our exclusive agents through other methods, such as through participation in sales conferences.

We believe we have the largest exclusive agent sales force in China. We intend to improve the quality and productivity of our individual exclusive agent force and reduce the attrition rate of our agents by taking the following actions:

- improving the overall productivity of our exclusive agents by expanding our customer-oriented market segmentation sales approach and standardized sales services to all agents nationwide;
- motivating our exclusive agents with an improved performance-based compensation scheme;
- building a more professional exclusive agent force by improving our training programs and enhancing our training efforts, such as the Chartered Insurance Agency Manager courses organized by the Life Insurance Marketing and Research Association, and increasing the number of qualified exclusive agents;
- improving the quality of our exclusive agent force by expanding our recruitment program and standardizing our recruitment procedures and admission requirements; and
- improving the efficiency of our exclusive agents by providing sales support and equipments, including expanding the China Life sales support system nationwide and equipping our more productive exclusive agents with personal electronic devices to further enhance their marketing, time management and customer service capabilities.

Direct sales force

Our direct sales force is our primary distribution system for our group life insurance and annuities, group accident insurance and group health insurance products, as well as our individual accident insurance and individual short-term health insurance products.

Our direct sales force of approximately 12,000 direct sales representatives are our full time employees and operate in more than 3,600 branch offices across China. We believe our sales network has a geographic reach unparalleled by any other life insurance company in China, serving almost every county in China.

We believe our direct sales force allows us to more effectively control our distribution and build and maintain long-term relationships with our group customers and, therefore, will continue to serve as our primary distribution system for our group products. We believe maintaining our leading position in the group insurance market depends on a professional and qualified direct sales force, and we have devoted substantial resources to the training and supervision of our direct sales force in recent years. We set product management and customer service standards which we require all of our branch offices and direct sales representatives to meet, and conduct field tests to centralize quality control and management. We also have an extensive training program.

As full time employees, our direct sales representatives are compensated through fixed salaries. We motivate our direct sales representatives by rewarding them with performance-based bonuses and by organizing sales and services-related competitions among different branch offices and sales units.

Intermediaries

We also offer individual and group products through intermediaries. Our distribution channels are primarily comprised of non-dedicated agencies located in approximately 87,000 outlets of commercial banks, post offices and savings cooperatives, as well as insurance agencies and insurance brokerage companies.

Bancassurance

We have bancassurance arrangements with major banks, savings cooperatives and banking operations of post offices in China, and currently generate a significant portion of our total sales through bancassurance. Bancassurance is a fast growing channel, and we will continue to dedicate substantial resources, through our bancassurance department, to develop our bancassurance business, with a focus on key cities. We have established strategic alliances with several banks. We intend to improve the attractiveness of our products by providing products and services tailored to each major bank and providing training and integrated systems support to our banking partners.

Other non-dedicated agencies

In addition to bancassurance, we also sell short-term insurance products through other non-dedicated agencies. Currently, we have non-dedicated agencies operating at outlets of travel agencies, hotels and airline sales counters. We expect non-dedicated agencies to become an increasingly important distribution channel for individual products.

Table of Contents

Other intermediaries

We also market group products through dedicated insurance agencies and insurance brokerage companies. Dedicated insurance agencies and insurance brokerage companies work with companies primarily to select group insurance providers and group products and services in return for commission fees.

Currently, the market of dedicated insurance agencies and insurance brokerage companies in China remains generally underdeveloped. We expect the dedicated insurance agencies and insurance brokerage companies to become more effective distribution channels in the medium term.

Competition

Our nearest competitors are Ping An and China Pacific Life.

- In the individual life insurance market, Ping An, China Pacific Life and we collectively represented 78% of total individual life insurance premiums in 2005. We primarily compete based on the nationwide reach of our sales network and the level of services we provide, as well as our strong brand name.

- In the group life insurance market, Ping An, China Pacific Life and we collectively represented 57% of total group life insurance premiums in 2005. We primarily compete based on the nationwide reach of our sales network and the services we provide, as well as our relationships and reputation among large companies and institutions in China.

- In the accident insurance market, Ping An, China Pacific Life and we collectively represented 87% of total accident premiums in 2005. We primarily compete based on the nationwide reach of our sales network and the services we provide and our strong brand name, as well as our cooperative arrangements with other companies and institutions.

- In the health insurance market, Ping An, China Pacific Life and we collectively represented 79% of total health premiums in 2005. We primarily compete based on the nationwide reach of our sales network, the services we provide, our multi-layered managed care scheme and systems of policy review and claim management, as well as our strong brand name.

The following table sets forth market share information for the year ended December 31, 2005, the most recent year for which official market information is available, in all segments of the life insurance market in which we do business.

	Individual life premiums market share	**Group life premiums market share**	**Accident premiums market share**	**Health premiums market share**	**Total premiums market share**
China Life	**51%**	**37%**	**54%**	**31%**	**47%**
Ping An Insurance Company of China, Ltd.	16%	9%	16%	45%	17%
China Pacific Life Insurance Co. Ltd.	11%	11%	17%	3%	11%
New China Life Insurance Co. Ltd.	7%	5%	2%	7%	6%
Tai Kang Life Insurance Co. Ltd.	6%	3%	3%	5%	5%
Others(1)	9%	35%	8%	9%	14%
Total	100%	100%	100%	100%	100%

(1) Others include Taiping Life Insurance Co. Ltd., Minsheng Life Insurance Co., Ltd., Sino Life Insurance Co., Ltd., PICC Life Insurance Co., Ltd., PICC Health Insurance Co., Ltd., Hua Tai Life Insurance Co., Ltd., Union Life Insurance Co., Ltd., Greatwall Life Insurance Co., Ltd., National Life Insurance Co., Ltd., Manulife-Sinochem Life Insurance Co. Ltd., Pacific-Antai Life Insurance Co. Ltd., AXA-Minmetals

Table of Contents

Assurance Co., Ltd., China CMG Life Insurance Co., Ltd., Citic-Prudential Life Insurance Co., Ltd., John Hancock-Tianan Life Insurance Co. Ltd., Generali China Life Insurance Co. Ltd., Sun Life Everbright Life Insurance Co. Ltd., ING Capital Life Insurance Co., Ltd., Haier New York Life Insurance Co., Ltd., Aviva-COFCO Life Insurance Co., Ltd., AEGON-CNOOC Life Insurance Co., Ltd., CIGNA and CMC Life Insurance Co., Ltd., Nissay-SVA Life Insurance Co., Ltd., Heng An Standard Life Insurance Co., Ltd., Skandia-BSM Life Insurance Co., Ltd., Sino-US Metlife Insurance Co., Ltd. and American International Assurance Co., Ltd., Shanghai, Guangzhou, Shenzhen, Beijing, Suzhou, Dongguan and Jiangmen branches, Cathay Life Insurance Co., Ltd., Met Life Insurance Co., Ltd., Allianz China Life Insurance Co., Ltd., Samsung Air China life Insurance Co., Ltd.

Source: China Insurance Yearbook 2006

We face competition not only from domestic life insurance companies, but also from non-life insurance companies and foreign-invested life insurers. The number of life insurance companies licensed in China has been growing steadily, which we believe will lead to greater competition in the life insurance industry. There were 35 licensed life insurance companies in China as of December 31, 2004, 43 as of December 31, 2005 and 45 as of December 31, 2006. It was reported that due to several large group annuity policies underwritten by Sino-foreign insurance joint ventures for their Chinese investors, the market shares of foreign invested insurance companies increased substantially in 2005. Property and casualty insurers were allowed to sell accident and short-term health insurance products with regulatory approval starting from January 2003, which we believe will lead to greater competition in the accident and health insurance sectors, especially in the group accident and group health insurance products. In addition, we believe that elimination of geographic limitations on foreign-invested insurance companies will further increase competition in China s life insurance market.

See Item 3. Key Information Risk Factors Risks Relating to the PRC Life Insurance Industry We expect competition in the Chinese insurance industry to increase, which may materially and adversely affect the growth of our business .

We face competition from other financial services providers, primarily licensed mutual fund companies, trust companies and brokerage houses licensed to manage separate accounts. These financial services providers may be permitted to manage employer-sponsored defined contribution pension plans, which we believe will compete directly with our group annuity products. We also face competition in the sale of our individual participating policies and annuities from financial institutions which offer investment products to the public.

Asset Management Business

On November 23, 2003 we established an asset management joint venture, AMC, with our predecessor, CLIC, in connection with the restructuring for the purpose of operating the asset management business more professionally in a separate entity and to better attract and retain qualified investment management professionals. AMC manages our investment assets and, separately, substantially all of those of CLIC. For a description of our investment assets, see Investments .

AMC is our subsidiary, with us owning 60% and CLIC owning the remaining 40%. Members of the board of directors are Miao Jianmin, Zhuang Zuojin, Liu Jiade, Wan Feng, Lin Huimin and Shi Yucheng. Directors of AMC are appointed by the shareholders in general meeting. Accordingly, we, as the controlling shareholder, effectively control the composition of its board of directors.

Property and Casualty Business

We entered into a share subscription agreement on March 13, 2006 and a promoters agreement with CLIC on October 23, 2006 to establish a property and casualty company, China Life Property and Casualty Insurance Company Limited, with us owning 40% and CLIC owning the remaining 60%. The property and casualty company obtained its business license on December 30, 2006.

Pension Insurance Business

We entered into a promoters agreement with CLIC and AMC on March 21, 2006 to establish a pension insurance joint venture, China Life Pension Company Limited. The pension insurance company obtained its business license on January 15, 2007, with us owning 55%, CLIC owning 25% and AMC owning the remaining 20%. We are the controlling shareholder of the pension insurance company as we directly own 55% of the share capital and AMC, which is 60% owned by us, owns 20%.

Customer Support Management

We seek to provide quality services to our customers and potential customers and to be responsive to their needs, both before and after a sale, through an extensive customer support network. Our customer service network is managed by a specialized customer service department, which is responsible for setting uniform standards and procedures for providing policy-related services to customers, handling inquiries and complaints from customers and training customer services personnel.

We deliver customer services primarily through customer service units operating in our branch offices and in field offices throughout China and a sophisticated telephone call center network. We take advantage of alternative customer services channels, such as cellphone messages and the Internet, complementing the customer services provided by our customer service units and the call center network. We also established a specialized customer service department in 2006 to further refine our customer services. The customer service department s role is to provide service to our customers and supervise the quality of service provided by our customer service units.

Customer service units

We provide customer support through approximately 3,000 customer service units nationwide. We provide approximately 50 different types of policy-related services to our customers, which include collecting regular premiums, renewing policies, purchasing supplemental policies, reinstating lapsed policies, processing surrenders, increasing insured amounts, processing policy loans, paying benefits and updating information regarding holders and beneficiaries of policies. We require our customer service units to provide these policy-related services in accordance with procedures and standards that we implement on a nationwide basis, helping to ensure the quality of the services we provide. We implemented uniform service standards for customer service units nationwide in 2005.

Telephone call service center

Our telephone call centers allow customers to make product and service inquiries, file complaints, report claims and losses, make appointments and update the information regarding holders and beneficiaries of policies. They also provide call-back and greeting message services to customers. We intend to broaden over time the services we offer through these call centers. With our dedicated, nationwide inquiry line, 95519 , our customers can reach us on a 24 hours/7 days basis.

We believe our call centers have become popular with our customers because of the quality of services they provide. We were awarded the best call center in China in 2004, 2005, 2006 and 2007 by the Professional Committee for the Promotion and Alliance of Customer Relationship Management of Information under the Ministry of Information Industry, and have obtained the authentication of Chinese national call center operating performance standards. We were also awarded 2006 Top 10 Service Brands in China by China Call Center of CRM Association in December 2006. We will continue to ensure that we have a sufficient number of lines and staff to service the increasing utilization of our call centers.

Table of Contents

We have established system-wide standards for our call centers, which we monitor periodically through test calls to the call centers.

Cellphone message services

We utilize wireless telephone services to make instant contact with our agents and customers. Through special service codes (70095519 for China Unicom and 6295519 for China Mobile), we may send short messages to our customers all over China, conveying such information as birthday and holiday greetings, premium payment notices and premium payment confirmations.

Internet-based services

Our customers can also utilize our Internet-based services for inquiries, complaints and service requests through our website (www.e-chinalife.com).

Reserves of Long-term Traditional Insurance Contracts

For all of our product lines, we establish, and carry as liabilities, actuarially determined amounts that are calculated to meet our obligations under our insurance policies and annuity contracts.

Financial statement reserves

In accordance with HKFRS, our reserves for financial reporting purposes are based on actuarially recognized methods for estimating future policy benefits and claims. We expect these reserve amounts, along with future premiums to be received on policies and contracts and investment earnings on these amounts, to be sufficient to meet our insurance policy and contract obligations.

We establish the liabilities for obligations for future policy benefits and claims based on assumptions that are uncertain when made. Our assumptions include assumptions for mortality, morbidity, persistency, expenses, and investment returns, as well as macroeconomic factors such as inflation. These assumptions may deviate from our actual experiences and, as a result, we cannot determine precisely the amounts which we will ultimately pay to settle these liabilities or when these payments will need to be made. These amounts may vary from the estimated amounts, particularly when those payments may not occur until well into the future. We evaluate our liabilities periodically, based on changes in the assumptions used to establish the liabilities, as well as our actual policy benefits and claims experience. We expense changes in our liabilities in the period the liabilities are established or re-estimated. To the extent that trends in actual claims results are less favorable than our underlying assumptions used in establishing these liabilities, and these trends are expected to continue in the future, we may be required to increase our liabilities. This increase could have a material adverse effect on our profitability and, if significant, our financial condition. Any material impairment in our solvency margin could change our customers or business partners perception of our financial health, which in turn could affect our sales, earnings and operations.

Statutory reserves

We are required under China s insurance law to report policy reserves for regulatory purposes. The minimum levels of these reserves are based on methodologies and assumptions mandated by the CIRC. We also maintain assets in excess of policy reserves to meet the solvency requirements under CIRC regulations.

See Item 3. Key Information Risk Factors Risks Relating to Our Business Differences in future actual claims results from the assumptions used in pricing and establishing reserves for our insurance and annuity products may materially and adversely affect our earnings .

Business Management

Underwriting and Pricing

Our individual and group insurance underwriting involves the evaluation of applications for life, accident and health insurance products by a professional staff of underwriters and actuaries, who determine the type and the amount of risk that we are willing to accept. We have established qualification requirements and review procedures for our underwriting professionals. We employ detailed underwriting policies, guidelines and procedures designed to assist our underwriters to assess and quantify risks before issuing a policy to qualified applicants.

Our underwriters generally evaluate the risk characteristics of each prospective insured. Requests for coverage are reviewed on their merits, and generally a policy is not issued unless the particular risk or group has been examined and approved for underwriting.

We have different authorization limits and procedures depending on the amount of the claim. We also have authorization limits for personnel depending on their level of qualifications.

In order to maintain high standards of underwriting quality and consistency, we engage in a multilevel series of ongoing internal underwriting audits, and our reinsured business is subject to external audits by our reinsurers.

Individual and group product pricing reflects our insurance underwriting standards. Product pricing on insurance products is based on the expected payout of benefits, calculated through the use of assumptions for mortality, morbidity, persistency, expenses and investment returns, as well as certain macroeconomic factors such as inflation. Those assumptions include a margin for expected profitability and are based on our own experience and published data from other Chinese life insurance companies. For more information on regulation of insurance products, see Regulatory and Related Matters Insurance Company Regulation .

We primarily offer products denominated in RMB.

Claims Management

We manage the claims we receive from policyholders through our claims management staff located in our headquarters and branch offices. Typically, claims are received by our employees or agents, who make a preliminary examination and forward them to our claims settlement team for further verification. If the claim is verified, the amount payable is calculated and, once approved, is distributed to the policyholder.

We manage claims management risk through organizational controls and computer systems controls. Our organizational controls include specified authorization limits for various operating levels, periodic and *ad hoc* inspections at all levels of our organization, expense mechanisms linking payout ratios with expenses for short-term life insurance policies and requirements that, except for some health insurance claims under a certain amount, each claims examination be performed by two staff members. We also impose stringent requirements on the qualification and employment of claims management staff. Our claims management control procedures are supported by a computer processing system which is used for the verification and processing of claims.

Table of Contents

Reinsurance

Statutory reinsurance

Under China s insurance law and CIRC regulations, our predecessor was required to reinsure 20% of our insurance risks, other than those arising from life insurance products, with China Reinsurance (Group) Company, formerly known as China Reinsurance Company, as statutory reinsurer. The statutory reinsurance requirement was phased out completely at the beginning of 2006.

Commercial reinsurance

In addition to our statutory reinsurance requirements since 1997 we have entered into various reinsurance agreements with China Life Reinsurance Company Limited, or China Life Re, formerly known as China Reinsurance Company, for the reinsurance of individual death risks, group risks and defined blocks of business. In general, death risks are primarily reinsured on a surplus basis, in which we are reinsured for losses above a specified amount. Under our internal reinsurance policy, we reinsure risks over RMB 1 million per person for life insurance, RMB 1 million per person for accident insurance and RMB 0.3 million per person for health insurance. Our group risks are reinsured on a percentage basis, and we decide which group policies are to be reinsured on a case by case basis. In general, our reinsurance agreements with China Life Re do not have a definite term, but may be terminated by either party at the end of a calendar year with advance notice of three to six months.

These reinsurance agreements spread the risk and reduce the effect on us of potential losses. Under the terms of the reinsurance agreements, the reinsurer agrees to reimburse us for the insured, or ceded, amount in the event the claim is paid. However, we remain liable to our policyholders for the ceded amount if the reinsurer fails to meet the obligations assumed by it.

As part of our life insurance business we also assume policies issued by other insurers. We have entered into three reinsurance agreements with three affiliated branches of a United States life insurance company in China that cover individual life insurance risks and risks of death and disability from accidental injuries.

Investments

As of December 31, 2006, we had RMB 686,804 million (US$88,006 million) of investment assets. As required by China s insurance laws and regulations, we invest insurance premiums, deposits and other funds we receive primarily in bank term deposits and structured term deposits; fixed maturity securities, including government securities, bonds issued by state-owned policy banks of the Chinese government, corporate bonds, bonds issued by financial institutions, convertible bonds and certain subordinated bonds and indebtedness; policy loans; securities investment funds primarily invested in equity securities issued by Chinese companies and traded on China s securities exchanges; shares of companies listed on China s stock markets, which are denominated and traded in Renminbi, as well as shares of Chinese companies listed on specified overseas stock exchanges. We also participate in bond repurchase activities through inter-bank repurchase markets and repurchase exchange markets. We were recently authorized to indirectly invest in domestic infrastructure projects and equity interest of non-listed Chinese commercial banks, and were authorized to make overseas investments in qualified term deposits and debt securities. We are prohibited from making other investments without the CIRC s approval.

Table of Contents

We direct and monitor our investment activities through the application of investment guidelines. Our investment guidelines include: (1) performance goals for the investment fund; (2) specified asset allocations and investment scope based on regulatory provisions, level of indebtedness and market forecasts; (3) specified goals for investment duration and asset-liability matching requirements based on asset-liability matching strategies; (4) specified authorization levels required for approval of significant investment projects; and (5) specified risk management policies and prohibitions. The investment guidelines are reviewed and approved by the investment decision committee annually.

Investment proposals typically originate from our investment management department, which is in charge of all of our investment assets. Investment proposals are reviewed by our risk management department for risk assessment and submitted to the investment decision committee for final approval.

AMC, the asset management joint venture established by us and our predecessor, CLIC, manages substantially all of our Renminbi investments following the restructuring and, separately, substantially all of the investments retained by CLIC. See Asset Management Business . In connection with the restructuring, CLIC transferred to us a portion of its investment assets and specified other assets, and retained the remaining investment and other assets. See History and Development of the Company and Item 7. Major Shareholders and Related Party Transactions Related Party Transactions .

We own 60% of AMC, with CLIC owning the remaining 40%. The board comprises six members, including Miao Jianmin, Zhuang Zuojin, Liu Jiade, Wan Feng, Liu Huimin and Shi Yucheng.

The following table summarizes information concerning our investment assets as of December 31, 2004, 2005 and 2006.

	As of December 31,					
	2004		2005		2006	
	Carrying value	% of total	Carrying value	% of total	Carrying value	% of total
	(RMB in millions, except as otherwise indicated)					
Cash and cash equivalents	27,217	7.3%	28,051	5.7%	50,213	7.3%
Term deposits (excluding structured deposits)	170,698	45.5%	160,067	32.4%	170,830	24.9%
Structured deposits	4,800	1.3%	4,802	1.0%	4,646	0.7%
Statutory deposits restricted	4,000	1.1%	5,353	1.1%	5,353	0.8%
Debt securities, held-to-maturity	79,603	21.2%	146,297	29.6%	176,559	25.7%
Debt Securities, available-for-sale			96,425	19.5%	176,868	25.8%
Debt securities, non-trading	69,791	18.6%				
Debt securities, financial assets at fair value through income (held-for-trading)			12,832	2.6%	4,471	0.6%
Debt securities, trading	840	0.2%				
Debt securities	150,234	40.0%	255,554	51.7%	357,898	52.1%
Policy loans	391	0.1%	981	0.2%	2,371	0.3%
Equity securities, available for sale			26,261	5.3%	62,595	9.1%
Equity securities, non-trading	12,597	3.4%				
Equity securities, financial assets at fair value through income (held-for-trading)			13,287	2.7%	32,898	4.8%
Equity securities, trading	4,674	1.2%				
Equity securities	17,217	4.7%	39,548	8.0%	95,493	13.9%
Repurchase agreements	279	0.1%				
Total investment assets	374,890	100%	494,356	100%	686,804	100%
Average cash and investment assets balance	327,069		434,623		590,580	

55

Table of Contents

Risk management

Our primary investment objective is to pursue optimal investment yields while considering macroeconomic factors, risk control and regulatory requirements. We are exposed to five primary sources of investment risk:

- interest rate risk, relating to the market price and cash flow variability associated with changes in interest rates;
- credit risk, relating to the uncertainty associated with the continued ability of a given obligor to make timely payments of principal and interest;
- market valuation risk, relating to the changes in market value for our investments, particularly our securities investment fund holdings and shares listed on the Chinese securities exchange, which are denominated and traded in Renminbi;
- liquidity risk, relating to the lack of liquidity in many of the debt securities markets we invest in, due to contractual restrictions on transfer or the size of our investments in relation to the overall market; and
- currency exchange risk, relating to the impact of changes in the value of the Renminbi against the U.S. dollar and other currencies on the value of our investments.

Our investment assets are principally comprised of fixed income securities and term deposits, and therefore changes in interest rates have a significant impact on the rate of our investment return. We manage interest rate risk through adjustments to our portfolio mix and terms, and by managing, to the extent possible, the average duration and maturity of our assets and liabilities. However, because of the general lack of long-term fixed income securities in the Chinese financial markets and the restrictions on the types of investments we may make, the duration of some of our assets is lower than our liabilities. We believe that with the development of China s financial markets and the gradual easing of our investment restrictions, our ability to match our assets to our liabilities will improve. Chinese financial markets currently do not provide an effective means for us to hedge our interest rate risk.

Because we are limited in the types of investments we may make, we believe we have relatively low credit risk. We monitor our credit risk through in-house fundamental analysis of the Chinese economy and the underlying obligors and transaction structures.

We are subject to market valuation risk, particularly because of the relative lack of stability of China s bond and stock markets. We manage valuation risk through industry and issuer diversification and asset allocation.

Since substantially all of our investments are made in China, including term deposits with Chinese banks, debt securities, securities investment funds and shares listed on the Chinese securities exchange, which are denominated and traded in Renminbi, we are exposed to the effect of changes in the Chinese economy and other factors which affect the Chinese banking industry and securities markets.

We are also subject to market liquidity risk for many of the debt securities investments we make, due to the size of our investments in relation to the overall market. We manage liquidity risk through selection of liquid assets and through asset diversification. In addition, we view fundraising through repurchase agreements as a way of managing our short-term liquidity risk.

Table of Contents

Our ability to manage our investment risks is limited by the investment restrictions placed on us and the lack of sophisticated investment vehicles in China s capital markets. We understand that the CIRC is considering opening other investment channels to insurance companies, including mortgage-backed securities and asset-backed securities. We will consider these alternative ways of investing once they become available to us.

Our assets held in foreign currencies are subject to foreign exchange risks resulting from the fluctuations of the value of the Renminbi against the U.S. dollar and other foreign currencies. We are seeking methods to reduce the foreign exchange risks.

Under China s existing foreign exchange control regulations, the conversion of foreign currencies into the Renminbi requires approval of relevant government agencies. We obtained an approval to settle a portion of our assets held in foreign currencies into the Renminbi in 2005, which partially reduced the foreign exchange risks we are expose to. We did not obtain approval to settle any portion of our assets held in foreign currencies into the Renminbi in 2006 and there is no guarantee that we will be able to obtain any such approval in the future. If we do not obtain such approval, our ability to manage our foreign exchange risks may be limited. There are few financial products available in China to hedge foreign exchange risks, which substantially limits our ability to manage our foreign exchange risks.

As we are approved by the CIRC to invest our assets held in foreign currencies in overseas financial markets, the return from overseas investments could, to certain extent, reduce the foreign exchange risks we are exposed to.

For further information on our management of interest rate risk and market valuation risk, see Item 11. Quantitative and Qualitative Disclosures about Market Risk .

Investment results

Our investment yields for the years ended December 31, 2006, 2005 and 2004 were 4.3%, 3.9% and 3.5%, respectively.

The following table sets forth the yields on average assets for each component of our investment portfolios for the periods indicated.

	As of or for the years ended December 31,					
	2004		2005		2006	
	Yield (1)	Amount	Yield (1)	Amount	Yield (1)	Amount
	(RMB in millions, except as otherwise indicated)					
Cash, cash equivalents and term deposits:						
Investment income	3.5%	6,744	3.9%	7,903	3.8%	8,207
Ending assets: cash and cash equivalents		27,217		28,051		50,213
Ending assets: statutory deposits restricted		4,000		5,353		5,353
Ending assets: term deposits		175,498		164,869		175,476
Ending assets		206,715		198,273		231,042
Debt securities:						
Investment income	3.4%	3,720	4.2%	8,429	4.0%	12,384
Net realized gains/(losses)		(317)		61		(6)
Total		3,403		8,490		12,378
Ending assets		150,234		255,554		375,898
Policy loans:						
Investment income	4.3%	11	3.2%	22	4.8%	80
Ending assets		391		981		2,371
Equity securities:						
Investment income	4.6%	646	1.7%	494	9.3%	4,662
Net realized gains/(losses)		80		(571)		1,601
Total		726		(77)		6,263
Ending assets		17,271		39,548		95,493
Resale and repurchase agreements:						

Resale agreements:						
Investment income	3.5%	253	2.2%	3	N/A	23
Net realized gains/(losses)						
Total		253		3		23
Ending assets		279				
Repurchase agreements:						
Total		(10)		(70)		(270)
Ending assets				4,731		8,227
Investments in associates:						
Investment income/(losses)						
Ending assets						6,071
Total investments:						
Net investment income	3.5%	11,317	3.9%	16,685	4.3%	24,942
Net realized gains/(losses)		(237)		(510)		1,595

(1) Yields for 2004, 2005, and 2006 are calculated by dividing the investment income for that year by the average of the ending balances of that year and the previous year.

Table of Contents

Term deposits

Term deposits consist principally of term deposits with Chinese commercial banking institutions and represented 25.5% of our total investment assets as of December 31, 2006, 33.4% of our total investment assets as of December 31, 2005, and 46.8% of our total investment assets as of December 31, 2004.

We generally make term deposits with state-owned commercial banks and large joint stock commercial banks. The terms of the term deposits vary. Substantially all of them carry variable interest rates which are linked to deposit rates set by the People s Bank of China from time to time, thus providing us with a measure of protection against rising interest rates and, for a significant portion of them, the variable interest rates also cannot fall below a fixed guaranteed rate. They typically allow us to renegotiate terms with the banks upon prepayment, including calculations methods for accrued interest, if any. We make term deposits to obtain higher yields than can ordinarily be obtained with regular deposits.

The following table sets forth term deposits and structured term deposits by contractual maturity dates, as of the dates indicated.

	As of December 31,		
	2004 Amortized cost	2005 Amortized cost	2006 Amortized cost
	(RMB in millions)		
Due in one year or less	7,805	10,563	57,930
Due after one year and through five years	146,293	147,504	111,901
Due after five years and through ten years	17,503	3,502	3,421
Due after ten years	3,897	3,300	2,224
Total term deposits and structured term deposits	175,498	164,869	175,476

58

Table of Contents

The following table sets forth term deposits and structured term deposits outstanding to Chinese banking institutions as of the dates indicated.

	As of December 31,		
	2004 Amortized cost	2005 Amortized cost	2006 Amortized cost
	(RMB in millions)		
Industrial & Commercial Bank of China	24,076	23,416	24,093
Agriculture Bank of China	10,833	11,278	18,079
Bank of China	19,817	19,964	17,519
China Construction Bank	3,087	2,148	1,845
Other banks	117,685	108,063	113,940
Total term deposits and structured term deposits	175,498	164,869	175,476

We started to make structured deposits in foreign currencies with commercial banks in 2004. Structured deposits represented 0.7% of our total investment assets as of December 31, 2006.

A structured deposit is a term deposit combined with an opportunity of enhanced returns, which is usually linked to a certain financial market index. The bank providing this service has the right to terminate the structured deposit at its discretion.

Debt securities

Debt securities consist of Chinese government bonds, Chinese government agency bonds, Chinese corporate bonds and subordinated bonds and indebtedness, and represented 52.1% of our total investment assets as of December 31, 2006, 51.7% of our total investment assets as of December 31, 2005, and 40.0% of our total investment assets as of December 31, 2004.

Based on estimated fair value, Chinese government bonds, Chinese government agency bonds, Chinese corporate bonds and subordinated bonds/debts comprised 34.1%, 44.5%, 17.4% and 4.0% of our total available-for-sale debt securities as of December 31, 2006, respectively, 51.8%, 31.8%, 11.7% and 4.7% of our total available-for-sale debt securities as of December 31, 2005, respectively, and 56.7%, 37.9%, 5.4% and nil of our total non-trading debt securities as of December 31, 2004, respectively. Except for a few series of our debt securities, which collectively had a carrying value of RMB 26,208 million (US$ 3,358 million) as of December 31, 2006, most of our debt securities are publicly traded on stock exchange or in the over-the-counter market in China.

The government bonds are sovereign debt of the Chinese government. The government agency bonds are bonds issued by Chinese policy banks. We invest in bonds issued by Chinese commercial banks as well as corporate bonds rated AA or above by the rating agencies recognized by the CIRC, such as China Chengxin International Credit Rating Co., Ltd and Dadong Global Credit Rating Agency. Subordinated bonds and indebtedness we invest in are mainly the subordinated bonds and indebtedness issued by Chinese commercial banks.

Chengxin International was created by a consortium of companies including Fitch Ratings and International Finance Company. Chengxin International provides ratings on both companies and securities, including insurance companies, securities firms, commercial banks and corporate bonds. AAA is the highest of ten rating categories. Dagong provides ratings on both companies and securities, including insurance companies, commercial banks, mutual funds and long-term and short-term debts.

Table of Contents

AAA is the highest of nine rating categories. China has other approved rating agencies, such as China Lianhe and Shanghai Far East, both of which have similar rating structures. Ratings given by these entities are not directly comparable to ratings given by U.S. rating agencies.

The following table sets forth the amortized cost and estimated fair value of debt securities, as of the dates indicated.

	As of December 31,											
	2004				2005				2006			
	Amortized cost	% of total	Estimated fair value	% of total	Amortized cost	% of total	Estimated fair value	% of total	Amortized cost	% of total	Estimated fair value	% of total
	(RMB in millions)											
Debt securities, available for-sale/non-trading:												
Government bonds	43,871	28.2%	39,612	26.3%	49,180	19.3%	49,922	18.7%	60,058	16.8%	60,352	16.3%
Government agency bonds	26,645	17.2%	26,438	17.6%	30,776	12.1%	30,662	11.5%	78,300	21.9%	78,721	21.3%
Corporate bonds	4,292	2.8%	3,741	2.5%	10,806	4.2%	11,315	4.2%	31,001	8.7%	30,752	8.3%
Subordinated bonds/debts					4,458	1.8%	4,526	1.7%	7,068	2.0%	7,043	1.9%
Total debt securities, available-for-sale/ non-trading	74,808	48.2%	69,791	46.4%	95,220	37.4%	96,425	36.1%	176,427	49.4%	176,868	47.8%
Debt securities, held to maturity:												
Government bonds	52,512	33.9%	52,434	34.8%	90,067	35.4%	98,706	37.0%	94,999	26.6%	102,764	27.9%
Government agency bonds	4,942	3.2%	4,888	3.3%	28,609	11.2%	30,247	11.3%	53,935	15.1%	56,333	15.2%
Corporate bonds	2,714	1.7%	2,782	1.9%	3,257	1.3%	3,567	1.3%	3,257	0.9%	3,553	1.0%
Subordinated bonds/debts	19,435	12.5%	19,616	13.0%	24,364	9.6%	25,265	9.5%	24,368	6.8%	25,642	6.9%
Total debt securities, held to maturity	79,603	51.3%	79,720	53.0%	146,297	57.5%	157,785	59.1%	176,559	49.4%	188,292	51.0%
Debt securities, financial assets at fair value through income (held-for-trading)/trading												
Government bonds	829	0.5%	840	0.6%	3,229	1.3%	3,229	1.2%	148	0.0%	148	0.0%
Government agency bonds					7,116	2.8%	7,116	2.7%	1,915	0.5%	1,915	0.5%
Corporate bonds					1,759	0.7%	1,759	0.7%	2,083	0.6%	2,083	0.6%
Subordinated bonds/debts					728	0.3%	728	0.2%	325	0.1%	325	0.1%
Total debt securities, financial assets at fair value through income (held-for-trading)/trading	829	0.5%	840	0.6%	12,832	5.1%	12,832	4.8%	4,471	1.2%	4,471	1.2%
Total debt securities	155,240	100%	150,351	100%	254,349	100%	267,042	100%	357,457	100%	369,631	100%

The following table shows the amortized cost and estimated fair value of debt securities excluding financial assets at fair value through income (held-for-trading/trading) securities by contractual maturity dates, as of the dates indicated.

	As of December 31,					
	2004		2005		2006	
	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value
			(RMB in millions)			
Due in one year or less	1,145	1,147	2,715	2,737	7,518	7,569
Due after one year and through five years	51,487	51,183	50,918	53,251	78,147	81,361
Due after five years and through ten years	75,755	73,868	91,642	97,249	97,556	100,274
Due after ten years	26,024	23,313	96,242	100,973	169,765	175,956
Total debt securities	154,411	149,511	241,517	254,210	352,986	365,160

Under the CIRC s regulations, our investments in each of corporate bonds, including short-term financing debts and convertible bonds, as well as financial bonds and subordinated bonds issued by commercial banks, at any given time may not exceed 30% of our total assets as of the end of the preceding quarter, respectively. We diversify our corporate bonds by industry and issuer. Our corporate bond portfolio does not have significant exposure to a single industry or issuer.

Table of Contents

Problem and restructured debt securities

We monitor debt securities to identify investments that management considers to be problems. We also monitor investments that have been restructured.

We define problem securities in the debt securities category as securities to which principal or interest payments are in default or are to be restructured pursuant to commenced negotiations, or as securities issued by a debtor that has subsequently entered liquidation.

We define restructured securities in the debt securities category as securities to which we have granted a concession that we would not have otherwise considered but for the financial difficulties of the obligor or issuer.

None of our debt securities is classified as either a problem security or a restructured security.

Policy loans

We offer interest-bearing policy loans to our policyholders, who may borrow from us at total amounts up to 70% of the cash surrender values of their policies. In general, the loans are secured by the policyholders rights under the policies. As of December 31, 2006, the total amount of our policy loans was RMB 2,371 million (US$304 million), and represented 0.3% of our total investment assets as of that date.

Securities investment funds

Securities investment funds consist of Chinese domestic investment funds that primarily invest in securities that are issued by Chinese companies and traded on China s securities exchanges, and represented 6.6% of our total investment assets as of December 31, 2006.

We invest in both closed-end securities investment funds, in which the number of shares is fixed and the share value depends on the trading value, and open-end securities investment funds, in which the number of shares issued by the fund fluctuates and the share value is set by the value of the assets held by the fund. Under the CIRC s regulations, investment holdings in securities investment funds during any given month, based on the cost of investment, may not exceed 15% of the total assets of an insurance company as of the end of the proceeding month. In addition, investment holdings in a single securities investment fund during any given month may not exceed 3% of total assets of the company as of the end of the proceeding month, and no investment in any single closed-end securities investment fund may exceed 10% of that fund. Our holdings in securities investment funds comply with those restrictions.

The following table presents the carrying values of investments in open-end and closed-end securities investment funds as of the dates indicated.

Table of Contents

	As of December 31,					
	2004		2005		2006	
	Carrying value	% of total	Carrying value	% of total	Carrying value	% of total
	(RMB in millions, except as otherwise indicated)					
Open-end	12,597	72.9%	25,114	74.9%	33,006	72.9%
Closed-end	4,674	27.1%	8,408	25.1%	12,245	27.1%
Total	17,271	100%	33,522	100%	45,251	100%

Stocks

In March 2005, we were approved by the CIRC to invest in publicly offered and listed equity securities that are denominated and traded in Renminbi. We may hold no more than 10% of the total public portion or 5% of the total equity, whichever is lower, in any one listed company, and may not invest in a listed company or any of its affiliates if the listed company holds directly or indirectly 10% or more of our shares. See Regulatory and Related Matters Insurance Company Regulation Regulation of investments . As of December 31, 2006, the total amount of our investment in common stocks was RMB 50,185 million (US$6,431 million), and represented 7.3% of our total investment assets as of that date. We invested approximately US$250 million in H shares of China Construction Bank Corporation at its initial public offering in 2005, a portion of which was sold early 2006. We invested approximately HK$1.175 billion in H shares of Bank of China Limited in its initial public offering in May 2006, approximately RMB 3,252 million (US$417 million) in the targeted offering of CITIC Securities Co., Ltd. in June 2006, approximately HK$2 billion in H shares of Industrial and Commercial Bank of China Limited in its initial public offering in October 2006 and approximately US$433 million and RMB 2,282 million (US$292 million) in Guangdong Development Bank in December 2006.

Repurchase and resale agreements

We enter into repurchase and resale agreements, which consist of securities repurchase and resell activities in repurchase and resell markets. Securities purchased under agreements to resell represented 0.1% of our total investment assets as of December 31, 2004. We did not have securities purchased under agreements to resell as of December 31, 2005 and 2006.

Information Technology

Our information technology systems provide support to many aspects of our businesses, including product development, sales and marketing, business management, cost control and risk control. Our information technology systems include a core operation system, a data services platform, an actuarial system, a sales management system, a marketing support system, an e-commerce system, a customer service system, an accounting and financial management system, a risk management system, an investment management system and an office automation, or OA, system. We plan to further improve our back-up systems to reduce the risk of system failures and the impacts these failures may have on our business. Our information technology systems are supported by approximately 1,600 experienced engineers, technicians and specialists, which we believe is the largest professional staff in the Chinese life insurance industry.

In 2006, we continued to increase our investment in information technology, raising the standards of the information technology applications and services. In the course of upgrading the effectiveness and steadiness of the information technology application system, we completed the development of the corporate annuity system, re-insurance system, health and short-term accident insurance system, internet sales system and sales agent management system, business grant audit system, assets and liabilities assessment system, investment and risk management system, and continued to refine the financial management system and customer service system.

Table of Contents

We continued to centralize the database and completed the promotion of CBPS8 version, enabling the centralization of data at provincial level, and work towards data centralization in the headquarter. We plan to establish in Shanghai a data processing center which will contain and process all the data relating to our core business. We have selected the location for this center and completed the signing of the relevant project contracts. We also plan to establish in Beijing a research and development center for researching our information technology systems and have selected the location for this center. We expect the center to be established in the next two years.

In 2007, we became a member of the Association for Cooperative Operations Research and Development (ACORD), which is a global and non-profit insurance association whose mission is to facilitate the development and use of standards for the insurance, reinsurance and related financial services industries. We will work with ACORD to improve and upgrade our information technology systems to achieve the standards established by ACORD.

Trademarks

We conduct our business under the China Life brand name (in English and Chinese), the ball logos and other business related slogans and logos. CLIC owns these trademarks and has registered them with the Trademark Office of the SAIC. CLIC has entered into a trademark license agreement with us, under which CLIC has agreed to grant us a royalty-free license to use these trademarks. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions Trademark License Agreement .

Regulatory and Related Matters

Development of regulatory framework

The PRC insurance law was enacted in 1995. It provided the initial framework for regulating the domestic insurance industry. Among the steps taken under the 1995 insurance law were the following:

- *Licensing of insurance companies and insurance intermediaries, such as agents and brokers.* The 1995 insurance law established requirements for minimum registered capital levels, form of organization, qualification of senior management and the adequacy of the information systems for insurance companies and insurance agencies and brokers.

- *Separation of property and casualty insurance businesses and life insurance businesses.* The 1995 insurance law classified insurance between property, casualty, liability and credit insurance businesses, on the one hand, and life, accident and health insurance businesses on the other, and prohibited companies from engaging in both types of businesses.

- *Regulation of market conduct by participants.* The 1995 insurance law prohibited fraudulent and other unlawful conduct by insurance companies, agencies and brokers.

- *Substantive regulation of insurance products.* The 1995 insurance law gave insurance regulators the authority to approve the policy terms and premium rates for certain insurance products.

- *Financial condition and performance of insurance companies.* The 1995 insurance law established reserve and solvency standards for insurance companies, imposed restrictions on investment powers and established mandatory reinsurance requirements, and put in place a reporting regime to facilitate monitoring by insurance regulators.

Table of Contents

Supervisory and enforcement powers of the principal regulatory authority. The principal regulatory authority, then the People s Bank of China, was given broad powers under the 1995 insurance law to regulate the insurance industry.

Establishment of the China Insurance Regulatory Commission and 2002 amendments to insurance law

China s insurance regulatory regime was strengthened further with the establishment of the CIRC in 1998. The CIRC was given the mandate to implement reform in the insurance industry, minimize insolvency risk for Chinese insurers and promote the development of the insurance market. The PRC insurance law was also significantly amended in 2002.

Since its establishment, the CIRC has promulgated a series of regulations indicating a gradual shift in the regulatory approach to a more transparent regulatory process and a convergent movement toward international standards. Significant changes include:

- more stringent reserve and solvency requirements and their disclosure;
- the increase in the level of disclosures required to be made to the CIRC by insurance companies;
- greater freedom for insurance companies to develop products to meet market needs, with a significant reduction in the items which require the CIRC s approval;
- broader investment powers for insurance companies, including allowing insurers to make equity investments in insurance-related enterprises, such as asset management companies;
- tightening of market conduct regulation and increased penalties for violations;
- phasing out of mandatory reinsurance by the beginning of 2006; and
- reduction of barriers to entry, including allowing property and casualty insurers to enter the accident and short-term health insurance business.

Insurance Company Regulation

The CIRC. The CIRC has extensive supervisory authority over insurance companies, including:

- promulgation of regulations applicable to the insurance industry;
- examination of insurance companies;
- establishment of investment regulations;
- approving the policy terms and premium rates for certain insurance products;

setting of standards for measuring the financial soundness of insurance companies;

requiring insurance companies to submit reports concerning their business operations and condition of assets; and

ordering the suspension of all or part of an insurance company s business.

Licensing requirements. An insurance company is required to obtain a license from the CIRC in order to engage in an insurance business. In general, a license will be granted only if the company can meet prescribed registered capital requirements and other specified requirements, including requirements relating to its form of organization, the qualifications of its senior management and actuarial staff, the adequacy of its information systems and specifications relating to the insurance products to be offered. Our headquarters and all of our branch offices have obtained the requisite insurance licenses.

The CIRC may grant a life insurer a license to offer all or part of the following products: accident insurance, term life insurance, whole life insurance, annuities, short-term and long-term health insurance, endowment insurance (for individuals only) and other personal insurance approved by the CIRC, as well as reinsurance relating to any of the foregoing.

An insurance company may seek approval for establishing branch offices to meet its business needs so long as it meets minimum capital and other requirements. Our headquarters and substantially all of our branch offices have obtained business licenses.

Minimum capital requirements. Under newly implemented insurance company regulations, the minimum paid-in capital for an insurance company is RMB 200 million. For an insurance company whose registered capital is RMB 200 million, the minimum incremental capital for each first branch office in a province other than the province where it is located is RMB 20 million. No additional capital will be required when the paid-in capital has reached RMB 500 million, and the insurer s solvency margin is sound.

Restriction of ownership in joint stock insurance companies. Any acquisition of shares which results in the acquirer owning 10% or more of the registered capital of a joint stock insurance company, whether or not listed, requires the approval of the CIRC. A filing with the CIRC is needed with respect to a change of equity interest of less than 10% in an insurance company, unless it is a listed insurance company. Except for insurance holding companies or insurance companies otherwise approved by the CIRC, an individual entity, including its affiliates, may not hold more than a 20% equity interest in an insurance company including any company which issues shares to the public and lists in China. The combined equity interests held by foreign investors may not exceed 25% of the total equity of a single insurance company, unless the investee company is a listed company. An insurance company must provide a written report to the CIRC specifying whether there is any known affiliated relationship between its shareholders. In addition, except for listed companies, when the equity of an insurance company collectively owned by foreign entities exceeds 25%, the company shall be governed by regulations governing foreign-invested insurance companies. Except in the context of a public offering or as otherwise permitted by law or with the prior approval of the State Council of China, no bank or securities company may invest in an insurance company.

Fundamental changes. Prior approval must be obtained from the CIRC before specified fundamental changes relating to a Chinese insurance company may occur. These include:

a change of organizational form and change in registered capital;

a merger or spin-off;

Table of Contents

- a transfer of a 10% or more equity interest in the company;
- a termination of branch offices; and
- a dissolution or bankruptcy of the company.

In addition, certain other changes relating to the insurance company must be reviewed by or filed with the CIRC.

Directors and senior management qualification requirements. Directors and senior management of an insurance company are subject to a set of qualification requirements implemented by the CIRC in September 2006. Prior to an appointment of a director or a member of senior management, an application has to be submitted to the CIRC for the CIRC to verify such person s qualifications. Appointment of managers of sub-branches and field offices must be reported to the CIRC. Any appointment of directors and senior management without being verified by the CIRC as required is void.

Regulation of insurance and annuity products generally. The 1995 insurance law provided that the basic terms and premiums of the principal commercial insurance and annuity products offered by an insurance company will be set by a governmental authority (which today is the CIRC).

The 2002 amendment to the insurance law changed the manner in which insurance products were regulated, giving insurance companies greater freedom to develop products to meet market needs. Under the 2002 amendment, the terms and the rates for premiums and policy fees of non-traditional life insurance and annuity products, insurance products that affect social and public welfare and insurance products that are mandatorily required by statute, are required to be submitted to the CIRC for approval. In determining whether or not to approve a product, the CIRC is required to consider whether the product adequately provides for the protection of social and public welfare and whether it will lead to inappropriate competition. Other insurance products are required to be filed with the CIRC. In general, the CIRC requires insurance companies to price their products based on mortality rate, interest rate and policy expense and commission assumptions. The assumed mortality rates are based on experience tables applicable to the PRC life insurance industry. The assumed interest rates represent the insurance company s expectation of its investment returns, subject to CIRC regulations, and the assumed policy expenses and commissions are based on its assessment of its operating and sales expenses, which is also subject to CIRC regulations.

Regulation of participating products. A participating product is one which the policyholder or annuitant is entitled to share in the distributable earnings of the insurer through policy dividends . The participation dividend may be in the form of a cash payment or an increase in the insured amount. Not less than 70% of the distributable earnings is required to be distributed as dividends. Participating products may not be sold or modified without the prior approval of the CIRC. Policyholders and annuitants purchasing participating products must be given, prior to purchase, an explanatory statement that explains the nature and special characteristics of the products, any fees due under the products, the method for allocating dividends under the product policy and the risks to the policyholder or annuitant from holding the product. Insurance companies are required to present in their sales promotional materials three scenarios covering high, medium and low returns for illustration. They are prohibited from making public announcements about the returns of their participating products and from making comparisons with participating, universal or investment-linked products offered by other insurance companies. If cash dividends are to be paid on participating products, the insurance company may not use rates of return or like ratios to describe the dividend.

Table of Contents

An insurance company that offers participating products is required to have a computer system that can support these kinds of products, and the agents who sell these products are required to complete a training course designed specially for these products. Investment accounts for participating products are required to be segregated from those of non-participating products as well as from those of supplemental insurance that is added to the participating products.

Insurance companies offering participating products are required to file an annual report with the CIRC. The insurance company is also required to provide a performance report to the holders of its participating products at least once a year, setting forth specified financial and other information regarding the products.

Regulation of investment-linked products. An investment-linked product is one which insures the policyholder or annuitant against one or more separate risks and at the same time gives the policyholder or annuitant an interest in one or more separate investment accounts. Investment-linked products may not be sold or amended without the prior approval of the CIRC.

Persons purchasing an investment-linked product must be given, prior to purchase, an explanatory statement that explains the nature and special characteristics of the policy, the risks to the purchaser of holding the product, the investment strategy of the separate investment account, the investment account s performance for the past ten years (or, if shorter, since the date of inception), the applicable fees payable under the product policy and how they are determined, the method of valuation of the assets in the investment account and the future policy or contract value which may accrue from the investment account. Insurance companies are required to present three scenarios covering high, medium and low returns for illustration.

The establishment of separate investment accounts is subject to the CIRC s approval. Transactions between a separate investment account and any other account of the insurance company, other than a transfer of cash to pay for operating expenses of the separate investment account, are prohibited.

The insurance law prohibits investment managers of a separate investment account from engaging in an investment management business similar in nature to the management of the investment account, enter into transactions with the investment account or take any action which adversely affects the investment account. Agents who sell investment-linked products are required to pass a training course designed specially for these products.

An insurance company offering products with separate investment accounts is required to evaluate monthly the unit value of each investment account and publish a semi-annual notice which includes the financial condition of each investment account, the investment returns in the past five years (or, if shorter, since the date of inception), the investment portfolio as of the date of the report, the management fees charged in the report period and any change in the investment strategy or policy during the period. The insurance company is required to provide an annual report to the holders setting forth information regarding the product.

An insurance company offering products with separate investment accounts is required to submit to the CIRC annual financial reports regarding the investment accounts. In addition, the insurance company must notify the CIRC if on any day the net redemptions from an investment account exceed 1% or more of the total value of the account on the previous day. If the cumulative redemptions since the beginning of a fiscal year reach or exceed 30% of the value of the account at the beginning of the year, or if there have been sustained losses which the investment manager believes to be irreversible or will probably cause serious harm to the interests of policyholders, the insurance company may seek the approval of the CIRC to close the investment account.

Table of Contents

Regulation of insurance companies as trustees of enterprise pension funds. Under trial measures implemented in 2004 on the management of enterprise pension funds, insurance companies that meet certain specified standards may be approved by the CIRC and the Ministry of Labor and Social Security to serve as trustees of pension funds established by qualified enterprises. To qualify as a trustee, the insurance company must maintain a net asset value of not less than RMB150 million at all times. The trustee may also serve as account manager or investment manager for the same fund, provided that it has relevant qualifications and can maintain the independence of these different functions. A trustee must regularly report to the relevant regulators on matters relating to the management of the enterprise pension fund. The trustee must also submit quarterly and annual fund management reports containing audited financial reports to the enterprise.

Regulation of health insurance. Pursuant to the newly implemented health insurance rules issued by the CIRC in August 2006, life insurance companies and health insurance companies established in accordance with applicable laws may, subject to verification by the CIRC, engage in health insurance business. Other insurance companies may, subject to verification by the CIRC, engage in short-term health insurance business.

From January 1, 2007, sale of health insurance products which fail to comply with the specified product requirements set forth in the newly implemented health insurance rules is prohibited. In addition, insurance companies engaged in health insurance business must establish actuarial, accounting calculation, underwriting and other required internal systems by January 1, 2008.

Insurance companies engaged in health insurance business are required to submit an actuarial report or reserve assessment report for the preceding year in accordance with the relevant provisions of the CIRC. Insurance companies must also submit a pricing review report to the CIRC before March 15 of each year regarding the short-term health insurance products, as well as the claims and payments for the short-term health insurance products available for sale for more than one year in the preceding year.

Foreign exchange denominated insurance. Insurance companies may seek approval from the CIRC and the State Administration of Foreign Exchange to engage in foreign exchange denominated insurance and reinsurance businesses. This will allow life insurance companies to offer products to non-Chinese policyholders or for non-Chinese beneficiaries, as well as policies covering accidents and illnesses which occur outside China, together with related reinsurance.

Reporting and disclosure requirements. Within the prescribed time period following the end of a fiscal year, an insurance company must submit to the CIRC, among other disclosures, an annual report with audited financial statements and an annual report setting forth its solvency margin as of the end of the fiscal year, and other regulatory monitoring items. When the insurance company s solvency margin falls below the minimum solvency requirement, the CIRC also may require the insurance company to file a corrective plan to bring it into compliance with the requirement.

Internal Control Assessment. In January 2006, the CIRC issued tentative rules on internal control assessment of life insurance companies in order to facilitate and supervise the companies in order to improve their awareness of, and strengthen their controls over, matters such as corporate governance in management, internal controls, regulatory compliance in operations and risk management.

Under these rules, the internal control assessments shall include a self-assessment by the life insurance companies as well as an independent assessment by the CIRC. Life insurance companies must submit to the CIRC an internal control assessment form and an annual internal control assessment report by March 15 each year. The CIRC will assess the internal control of life insurance companies within every three years, covering at least one third of the life insurance companies each year. We were reviewed by the CIRC in 2006 and were found to be in general compliance with the rules and regulation of CIRC, other than a small number of breaches by our branches which resulted in us being sanctioned by way of fines, none of which were material. The breaches mainly included the improper handling of certain premiums received, which violated relevant CIRC rules and regulations. The fines imposed by CIRC ranged from RMB 20,000 (US$2,563) to RMB 500,000 (US$64,069). All the fines have been paid in full.

Statutory reinsurance. All insurance companies were required to reinsure 5% of the risks insured under insurance policies, other than life insurance products, underwritten by them. This requirement began to be phased out beginning in 2003 and was abolished entirely at the beginning of 2006. Insurance companies are required to reinsure, for any single risk, the excess of the maximum potential liability over an amount equal to 10% of the sum of paid-in capital and capital reserves.

Regulation of issuance of subordinated indebtedness. Beginning in September 2004, insurance companies that meet a series of qualification tests and are approved by the CIRC may issue subordinated indebtedness with a fixed term of at least five years to certain qualified Chinese legal persons and foreign investors. The audited net asset value of the issuer must be at least RMB500 million as of the end of the prior year and the total amount of the unpaid indebtedness at any given point after the issuance, including both principal and interest, must not exceed the issuer s net asset value as of the end of the prior year. The issuer must fulfill a set of disclosure obligations both at the time of the issuance and during the term of the indebtedness. The issuer may repay the indebtedness only if its solvency ratio remains at least 100% after the repayment of both principal and the interest.

Regulation of establishment of overseas insurance institutions. An insurance company may apply to the CIRC for approval for the establishment of overseas branches, overseas insurance companies and overseas insurance intermediaries, or the acquisition of overseas insurance companies or intermediaries. In order to submit such an application, an insurance company must have an operating history of no less than two years, total assets of no less than RMB 5 billion at the end of preceding year and foreign exchange funds of no less than USD 15 million or its equivalent in other freely convertible currencies as at the end of the preceding year. The applicant insurance company must also comply with applicable solvency, risk management and other requirements as stipulated by the CIRC.

Regulation of investments. The 1995 insurance law requires insurance companies to invest their funds in a sound and prudent manner with the dual objective of seeking a return and preservation of capital. It significantly restricts the investments life insurance companies are allowed to make. Insurance funds may be invested only in bank deposits, Chinese government bonds, government agency bonds issued by quasi-sovereign policy banks of the Chinese government, as well as other investment vehicles approved by the State Council, such as bonds of specified large state-owned enterprises. The 1995 insurance law specifically prohibits insurance companies from establishing any entity engaged in the securities businesses and from investing in enterprises.

Since 1999, the CIRC has implemented a gradual but deliberate regulatory expansion of insurance company investment powers.

Beginning in August 1999, insurance companies which were authorized to become members of the inter-bank market were permitted to engage in purchases and sales of Chinese government bonds and government agency bonds in that market. Beginning in October 1999, insurance companies were allowed to invest in qualified domestic securities investment funds. The amount of investment assets that may be so invested by an insurance company may not exceed a percentage of its total assets as of the end of the prior year as prescribed by the CIRC. The investment in any one fund on a cost basis may not exceed 20% of the maximum amount that may be invested in securities investment funds, and that investment may not account for more than 10% of the fund. These quantitative restrictions were relaxed in January 2003. Since then, the amounts of investment assets that may be so invested by an insurance company may not exceed 15% of its total assets as of the end of the prior month. The investment in any one fund on a cost basis may not exceed 3% of the insurance total assets as of the end of the prior month. The investment in any one closed-end fund may not account for more than 10% of the fund. Notwithstanding the foregoing, insurance companies may invest up to 100% of the assets of one of the investment accounts relating to investment-linked products, up to 80% of the assets of the investment accounts relating to universal life products and up to 15% of the investment assets relating to participating products as of the prior month in qualified domestic securities investment funds.

In October 1999, insurance companies were authorized to make deposits in commercial banks at negotiated rates, provided that the deposits have terms longer than five years and are in amounts of not less than RMB 30 million. The jumbo deposits generally bear more attractive interest rates than interest rates on regular deposits, which are subject to regulation by the central bank.

The 2002 amendment of the insurance law allows insurance companies to invest in insurance companies, asset management companies (restricted to managing insurance company assets) and other insurance-related enterprises upon receipt of regulatory approval from the CIRC. The general prohibition against investing in securities businesses and enterprises other than insurance-related enterprises remains in effect.

Prior to June 2003, insurance companies were only allowed to invest in corporate bonds issued by four types of government enterprises: railway development, the Three Gorges Dam construction project and enterprises in the telecommunications and power generation sectors. Furthermore, the total amount of these investments was limited to no more than 10% of an insurer s total assets, and the total investment in any single issue of these four categories of bonds could not exceed 2% of the total assets of the insurer or 10% of the issue, whichever is lower. In June 2003, insurance companies were authorized to invest in any corporate bond provided that the bond has a rating AA or higher from China Chengxin International Credit Rating Co., Ltd., Dagong Global Credit Rating Agency, China Lianhe Credit Rating Co., Ltd., Shanghai Far East Credit Rating Co., Ltd. or other credit rating agencies approved by the CIRC, and its issuance has been authorized by the PRC securities regulators. Beginning in July 2004, insurance companies have been further allowed to invest in convertible bonds issued by qualified listed companies and certain key state-owned enterprises, which have been approved by the PRC securities regulators. An insurer s total investment in all corporate bonds, including convertible bonds, on a cost basis may not exceed 20% of its total assets as of the end of the prior month. Furthermore, the total investment in any single issue of corporate bonds may not exceed the lower of 2% of the total assets of the insurer as of the end of the prior month and 15% of the issue. Notwithstanding the foregoing, up to 100% of the assets of one of the investment accounts relating to investment-linked products and up to 80% of the assets of the investment accounts relating to universal life products may be invested in approved corporate bonds. Up to 20% of the investment assets relating to participating and other separately accounted products as of the end of the prior month may be invested in approved corporate bonds.

In March 2004, insurance companies were allowed to invest in subordinated indebtedness issued by wholly state-owned commercial banks and national joint-stock commercial banks which have fixed terms of six years or less. An insurer s total investment in bank subordinated indebtedness on a cost basis may not exceed 8% (and 2% in any single bank) of its total assets as of the end of the prior month, and the total investment in any single issue of such bank subordinated indebtedness may not exceed 20% of the issue.

Table of Contents

Beginning in June 2004, insurance companies have been further allowed to invest in subordinated bonds issued by any commercial bank in connection with either a public offering or a private placement which has been approved by the China Banking Regulatory Commission and the People s Bank of China. An insurer s total investment in bank subordinated bonds on a cost basis may not exceed 15% (and 3% in any single bank) of its total assets as of the end of the prior month, and the total investment in any single issue may not exceed 20% of the issue.

Concurrently with the authorized issuance of subordinated indebtedness by insurance companies, insurance companies have also been permitted to invest in subordinated indebtedness issued by other insurance companies, beginning in September 2004. An insurer s total investment in insurance company subordinated indebtedness on a cost basis may not exceed 20% (and 4% in any single issuer) of its net assets as of the end of the prior month, and the total investment in any single issue may not exceed 20% of the issue.

On August 17, 2005, the CIRC issued tentative rules on investments in debt securities by insurance companies to consolidate and further loosen the restrictions on the investments in debt securities by insurance companies.

Chinese Government Bonds, Government Agency Bonds and Subordinated Bonds and RMB-dominated bonds issued by International Development Institutions. Insurance companies may invest in Chinese government bonds, government agency bonds and subordinated bonds, as well as RMB-dominated bonds issued by international development institutions. There are no CIRC prescribed maximum percentage of investments by insurance companies in these bonds.

Financial Bonds and Subordinated Bonds issued by Commercial Banks. Insurance companies may invest in financial bonds and subordinated bonds issued by any qualified commercial bank in connection with either a public offering or a private placement. An insurer s total investment in bank financial bonds and subordinated bonds on a cost basis may not exceed 30% (and 10% in any single bank) of its total assets as of the end of the prior quarter. The total investment in any single issue by a commercial bank with a rating of AA or above may not exceed 20% of the issue, and the balance of such investment may not exceed 5% of the total assets of such insurer as of previous quarter. The total investment in any single issue by a commercial bank with a rating of A or above may not exceed 10% of the issue, and the balance of such investment may not exceed 3% of the total assets of such insurer as of previous quarter.

Subordinated Indebtedness issued by Commercial Banks and Insurance Companies. Insurance companies may invest in subordinated indebtedness issued by wholly state-owned commercial banks and national joint-stock commercial banks which have fixed terms of six years or less. An insurer s total investment in bank subordinated indebtedness on a cost basis may not exceed 8% (and 5% in any single bank) of its total assets as of the end of the prior quarter. The total investment in any single issue of such bank subordinated indebtedness may not exceed 10% of the issue and the balance of such investment may not exceed 3% of its total assets as of the end of the previous quarter.

Insurance companies may also invest in subordinated indebtedness issued by other insurance companies that are not controlling, controlled by or under common control with, the investing insurance companies. An insurer s total investment in insurance company subordinated indebtedness on a cost basis may not exceed 20% (and 4% in any single issuer) of its net assets as of the end of the previous quarter. The total investment in any single issue may not exceed 20% of the issue, and the balance of such investment may not exceed 1% of its net assets as of the end of the previous quarter.

Table of Contents

Corporate Bonds, Convertible Bonds and Shot-term Financing Bonds. Insurance companies may invest in corporate bonds issued by qualified enterprises with long-term rating of AA or above. The total amount of investments in all corporate bonds on a cost basis may not exceed 30% (and 10% in any single issuer) of an insurer s total assets as of the previous quarter. An insurer s total investment in any single issue may not exceed, if with irrevocable guarantees by qualified guarantors, 20% of the issue and the balance of such investment may not exceed 5% of its total assets as of the end of the previous quarter, and, if without such guarantees, 10% and 3%, respectively.

Insurance companies may also invest in convertible bonds issued by qualified listed companies and certain key state-owned enterprises, which have been approved by the PRC securities regulators. An insurer s total investment in all such corporate bonds, including convertible bonds, on a cost basis may not exceed 30% (and 10% in any single issuer, among which 5% attributable to convertible bonds) of its total assets as of the end of the previous quarter. An insurer s total investment in any single issue may not exceed, if with irrevocable guarantees by qualified guarantors, 20% of the issue, and the balance of such investment may not exceed 3% of its total assets as of the end of the previous quarter, and, if without such guarantees, 10% and 1%, respectively.

Insurance companies may invest in short-term financial bonds issued by qualified non-financial institutions. An insurer s total investment in all such corporate bonds, including short-term financial bonds, on a cost basis may not exceed 30% (and 10% in any single issuer, among which 3% attributable to short-term financial bonds) of its total assets as of the end of the previous quarter. An insurer s total investment in any single issue may not exceed the lower of 10% of the issue, and the balance of such investment may not exceed 3% of its total assets as of the end of the previous quarter.

The total amount of investments on a cost basis by an insurance companies in various debt securities, excluding government bonds and government agency bonds and subordinated bonds, issued or guaranteed by any single institution, may not exceed 20% of its total assets as of the end of previous quarter.

Up to 100% of the assets of one of the investment accounts relating to investment-linked products and up to 80% of the assets of the investment accounts relating to universal life products may be invested in approved financial bonds and subordinated bonds issued by commercial banks and corporate bonds.

In January 2007, the CIRC issued a set of guidelines for credit rating of debt securities investment by insurers, requiring the insurance companies to conduct an internal credit rating of all types of debt securities invested in, except for investments in Chinese government bonds, central bank notes and other bonds as recognized by the CIRC. Insurers are also required to establish and develop an internal credit rating system and file the same with the CIRC in a timely manner. The credit rating department of an insurer shall comprise of at least two professionals with financial knowledge and capabilities. The credit rating reports produced shall be submitted to relevant departments for use and the risk management department shall supervise the use of such credit rating results.

Beginning in August 2004, a qualified life insurance company may invest abroad its foreign currency denominated insurance funds in the following categories and in the following manner: deposits at foreign branches of Chinese commercial banks or foreign banks that have a long term credit rating of A or higher from an internationally accredited credit rating agency, provided that the deposit at one single bank, excluding the balance of any foreign currency settlement account, does not exceed 30% of the annual quota set by the state foreign exchange regulator; debt securities issued by foreign governments, international financial institutions or foreign corporations that have a rating of A or higher from an internationally accredited credit rating agency; debt securities issued overseas by the Chinese government or enterprises with a rating of BBB or higher; money market products including bank notes and

Table of Contents

negotiable instruments with a rating of AAA or equivalent; and other investment vehicles prescribed by the CIRC. The total amount of such overseas investments may not exceed the annual quota approved by the state foreign exchange regulator, and may not exceed 80% of the balance of the total foreign currency funds as of the end of the prior year, or the combined amount of such year-end balance and any increase to the annual quote that is separately approved by the state foreign exchange regulator. Up to 30% of the total approved quota may be allocated for investment in debt securities with a rating of A, and up to 70% for debt securities with a rating of below AA, both at a cost basis. This limitation does not apply to debt securities issued overseas by the Chinese government and enterprises. Total investments in debt securities issued by any single corporation or enterprise may not exceed on a cost basis 10% of the total approved quota. The overseas investment of the foreign currency funds may be managed by an insurance company itself or through a qualified professional management company. In any event an insurance company shall appoint a commercial bank located in China as custodian with respect to its foreign currency funds, and the custodian bank may select an overseas agent who satisfies the conditions set forth in the custody agreement. In June 2005, the CIRC further broadened the permitted overseas investments to include shares of Chinese companies listed on the stock exchanges in New York, London, Frankfurt, Tokyo, Singapore and Hong Kong. The total amount of overseas investments in shares of Chinese companies may not exceed 10% of an insurance company s total approved quota, and the investments in a single Chinese company by an insurance company may not exceed 5% of the its total shares issued and outstanding. In January 2005, we submitted an application to allow us to make such overseas investments and obtained such approval in November 2006.

In October 2004, the CIRC issued a new regulation further authorizing insurance companies to invest their insurance funds in publicly offered and listed equity securities which are denominated and traded in Renminbi and other stock market investments. Such stock market investments may be made by an insurer directly or through an insurance asset management company, and may be made at primary market offering stage or through secondary market trading. An insurer may not invest in a listed company or any of its affiliates if the listed company holds directly or indirectly 10% or more of the equity interest of the insurer.

Notwithstanding the foregoing, up to 100% of the assets of an investment account relating to investment-linked products, up to 80% of the assets of an investment account relating to universal life products, and up to 5% of the maximum amount of the total assets that may be invested in the stock market as of the end of the prior year, excluding assets relating to investment-linked and universal life products, all at cost basis, may be accounted for stock market investments.

In addition, the total investment in listed companies with fewer than 100 million public shares may not exceed 20% of the maximum amount that may be invested in the stock market, including such amount relating to investment-linked and universal life products. Investment in the public shares of any one listed company may not exceed 5% of the maximum amount that may be invested in stock market on a cost basis, including such amount relating to participating and universal life products, and may not exceed 10% of the total public portion or 5% of the total equity, whichever is lower, of the listed company. The calculation of the above percentages shall take into consideration the number of common shares as a result of the conversion of the convertible bonds.

An insurer is prohibited from investing in any problematic securities that have been identified by the CIRC and is prohibited from engaging in insider trading and other manipulative and illegal activities. Life insurance companies must strictly follow a set of risk control measures prescribed by the CIRC in making such stock market investment.

Beginning in March 2006, insurance companies were allowed to invest, indirectly, in infrastructure projects. Insurance funds must be entrusted to trustee companies and invested in accordance with the instructions of the insurance companies and by and in

Table of Contents

the names of the trustee companies. A life insurance company may invest in infrastructure projects, on cost basis, up to 5% of its total assets as of the previous quarter. The amount of the investment, on a cost basis, by a life insurance company in each infrastructure project may not exceed 20% of the total budget of such project.

In October 2006, the CIRC further expanded the scope of permitted investments to include equity interests in non-listed commercial banks, including state-owned commercial banks, joint stock commercial banks and city commercial banks in China. Such investments are either categorized as ordinary investment , for the investments less than 5% of the bank s share capital or paid-in capital, or as material investment , for investments exceeding 5% of the bank s share capital or paid-in capital. For purposes of such investment, an insurer may use its corporate capital, liability reserves with a liability term of over 10 years, as well as other funds as recognized by the CIRC. Such liability reserves exclude the funds invested in investment-linked and universal life products and other financial management type insurance products. An insurance asset management company may be entrusted to make investments in commercial banks.

The aggregate of ordinary and material investments in the banks may not exceed 3% of an insurer s total assets at the end of the previous year. The balance of ordinary investments in a single bank may not exceed 1% of an insurer s total assets at the end of the previous year. In addition, the balance of other material investments should be submitted to the CIRC for approval and the balance of corporate capital applied to material investments may not exceed 40% of the insurer s paid-in capital as at the end of the previous year, minus accumulated losses. Insurers intending to invest in commercial banks using financing facilities must be approved by the CIRC.

The insurers must also satisfy certain requirements, such as good corporate governance, effective risk control, profitability, solvency and compliance requirements, before they can make investments in banks. For material investments, the insurers are further required to be able to accurately assess the performance and risks of the target bank. If an insurer wishes to purchase a 5% 10% stake in a commercial bank, the insurer must have total assets at the end of the previous year of no less than RMB 20 billion (in the case of an insurance holding company) or RMB 100 billion (in the case of an insurance operating company). For investments greater than 10%, the applicable minimum assets test increases to RMB 30 billion (in the case of an insurance holding company) or RMB 150 billion respectively (in the case of an insurance operating company). We are qualified under these rules to make investments for more than 10% ownership in a commercial bank.

In principle, an insurer may not make material investment in more than two commercial banks.

To exit an investment in a commercial bank, an insurer is required to file with the CIRC for the transfer of an ordinary investment and to obtain CIRC approval for a transfer of a material investment. In case the bank equity owned by an insurer is converted into tradable shares, the cost for acquiring such bank equity is to be booked as part of the insurer s stock market investment, which needs to comply with CIRC rules in respect thereof. If the specified stock investment percentage is exceeded, an insurer must make necessary adjustment within a specified time period to observe the regulatory restrictions in case of an ordinary investment. For material investments, the CIRC will issue separate provisions therefor.

Solvency requirements. In March 2003, the CIRC introduced a new standard, the solvency ratio, to measure the financial soundness of life insurance companies to provide better policyholder protection under a system of corrective regulatory action. The solvency ratio of an insurance company is a measure of capital adequacy, which is calculated by dividing the actual solvency of the company (which is its admissible assets less admissible liabilities determined in accordance with PRC GAAP and relevant rules) by the minimum solvency it is required to meet.

Table of Contents

The minimum solvency of a life insurance company is the sum of its minimum solvency for its short-term business (policies having a term of one year or less from the date of issuance) and the minimum solvency for its long-term business (policies having a term of more than one year from the date of issuance).

The minimum solvency for a life insurance company s short-term business is the higher of:

- 18% of the portion of net premium, deposits and policy fees received in the most recent fiscal year net of business tax and other surcharges which are not in excess of RMB 100 million, plus 16% of the portion which are in excess of RMB 100 million; and
- 26% of the portion of the average annual claims payments during the most recent three fiscal years which is not in excess of RMB 70 million, plus 23% of the portion which is in excess of RMB 70 million.

The minimum solvency for its long-term business is the sum of:

- 1% of reserves for its investment-linked insurance business;
- 4% of reserves for its other insurance businesses;
- 0.1% of the total sums at risk under term life policies, the coverage period of which expires within three years;
- 0.15% of the total sums at risk under term life policies, the coverage period of which expires within three to five years;
- 0.3% of the total sums at risk under term life policies, the coverage period of which will not expire within five years;
- 0.3% of the total sums at risk under whole life policies; and
- 0.3% of the sums at risk of all other insurance and annuity products with a coverage period longer than one year.

An insurance company with a solvency ratio below 100% may be subject to a range of regulatory actions by the CIRC. If the solvency ratio is above 70%, the CIRC will have the right to require the insurance company to submit and implement a corrective plan. If the insurer fails to come into compliance with the solvency requirement within the prescribed time period, the CIRC may require the insurance company, among other things, to raise additional share capital, to seek reinsurance of its insurance obligations, to restrict paying dividends on its shares or to restrict the acquisition of fixed assets or business operations or the establishment of branch offices.

If the solvency ratio of an insurance company falls to or below 70% but stays at or above 30%, in addition to the right to take the above-mentioned measures, the CIRC may also order the insurance company to sell its non-performing assets, transfer its insurance business to others, limit the remuneration and expense accounts of its senior management, restrict its advertising activities or cease any new business development.

Table of Contents

If the solvency ratio falls below 30%, in addition to the right to take the regulatory actions described above, the CIRC will also have the right to put the insurer into receivership.

Insurance companies are required to calculate and report annually to the CIRC their solvency margin and twelve additional financial ratios to assist it in monitoring the financial condition of insurers. A usual range of results for each of the twelve ratios is used as a benchmark. The departure from the usual range on four or more of the ratios can lead to regulatory actions being taken by the CIRC.

The report is required to be submitted on or prior to April 30 of each year, based on audited financial information for the prior year. For the financial year of 2006, among the twelve financial ratios, eleven financial ratios were within their usual ranges and our actual solvency ratio was slightly higher than the usual range provided by the CIRC. Our solvency margin as of December 31, 2006 was approximately 3.5 times the minimum regulatory requirement.

Registered capital deposit. Insurance companies in China are required to deposit an amount equal to 20% of their registered capital with a bank designated by the CIRC. These funds may not be used for any purpose other than to pay off debts during a liquidation proceeding.

Statutory insurance fund. Chinese life insurance companies are required to contribute to an insurance guarantee fund 1% of their retained premiums from accident and short-term health insurance. Prior to January 1, 2005, contributions were not required for life insurance and long-term health insurance. Beginning January 1, 2005, life insurance companies are required to contribute 0.15% of retained premiums from long-term life insurance and long-term health insurance with guaranteed return rates, and 0.05% of the retained premiums from long-term life insurance with no guaranteed return rates. Contributions are not required once the total amount in the fund reaches 1% of the insurance company s assets, and shall resume automatically when such amount falls below the 1% threshold. The purpose of the insurance guarantee fund is to provide financial subsidy to a life insurer assuming policy obligations of another life insurer as a result of the dissolution or bankruptcy of the latter. The CIRC is also authorized to use the fund when the insurance industry is facing a severe crisis that is likely to cause serious threat to public interest and national financial security.

The CIRC has opened a special bank account at China Industrial and Commerce Bank to accept deposits of the contributions by life insurance companies, including pension companies, health insurance companies and life reinsurance companies. Insurance companies are required to deposit, by March 31, 2005, 50% of the total accumulated amount of contributions as of the end of 2004, and the balance by the end of 2005 into such account. Thereafter, the contributions will be made quarterly each year, with each payment equaling 25% of the total contributions made in the prior year, and necessary adjustments will be made at the end of the year to reflect the actual amount required to be contributed for that year.

Statutory reserves. In addition to the statutory deposit and the statutory insurance fund, insurance companies are required to provide for the following statutory reserves in accordance with regulations established by the CIRC:

- reserves for future benefits and claims; and
- reserves for pending payments based on insurance claims already made and claims not yet made but for which an insured event has occurred.

These reserves are recorded as liabilities for purposes of determining an insurance company s actual solvency. In May 2003, the CIRC issued a regulation, effective as of January 1, 2004, which affected the calculation of statutory reserves for certain insurance products. It has the general effect of increasing the reserves a life insurance company is required to make, thereby affecting its solvency as well as its income under PRC GAAP.

76

Table of Contents

In January 2005 CIRC issued a new regulation requiring all life insurance companies to submit to the CIRC a new statutory actuarial report, on an annual basis, with respect to the operational results of their insurance business for the previous year. The most significant part of the new regulation is that a life insurance company will be required to provide, in the actuarial report, their assessment of the sufficiency of their statutory reserves.

Appointment of actuaries. Insurance companies are required to appoint one or more actuarial professionals, certified by the CIRC, and must establish a system for actuarial reporting.

Market conduct. Insurance companies are required to take steps to ensure that sales promotional materials used by their sales representatives and agents are objective, true and correct, with no material omissions or misleading information, contain no forecasts of benefits that are not guaranteed under the insurance or annuity product and do not exaggerate the benefits provided under the insurance or annuity product. The sales promotional materials must also highlight in an appropriate fashion any exclusions of coverage or liability in their products, as well as terms providing for policy or annuity surrenders and return of premiums.

Insurance companies are subject to extensive regulation against anti-competitive behavior. They may not pay insurance agents, the insured or the beneficiary any rebates or other illegal payments, nor may they pay their agents commissions over and above the industry norm.

Compliance with regulatory requirements. Our management confirms that, except as set out in the sections entitled Item 3. Key Information Risk Factors Risks Relating to the PRC Life Insurance Industry All of our agents are required to be qualified and to be registered as business entities. If these qualification and registration requirements are enforced or result in policyholders canceling their policies, our business may be materially and adversely affected and Licensing requirements above, we have complied in all material respects with all applicable regulatory requirements set out above.

Regulation of Foreign-Invested Insurance Companies

China acceded to the WTO on December 11, 2001. As a result of China s commitments in connection with the accession, the Chinese insurance market is gradually opening up to foreign insurers and insurance-related service providers. A foreign life insurer with total assets of not less than US$5,000 million and 30 years of industry experience in any WTO member country, and which has had a representative office for two years in China, is permitted to form a life insurance joint venture with a domestic partner of its choice. Foreign life insurers may own up to one-half of the joint venture. In addition, the geographic limitation on foreign life insurers, which were permitted to operate only in specified cities, have been lifted since December 11, 2004. Accordingly, foreign life insurers have been permitted to provide group life insurance, health insurance and annuity and other pension-like products since December 11, 2004. In addition, since December 11, 2006, foreign insurance brokers have been permitted to set up wholly owned subsidiaries in China.

Foreign-invested insurance companies, including Sino-foreign equity joint ventures, wholly foreign-owned insurance companies and branches of foreign insurance companies, are generally regulated in the same manner as domestic insurance companies. Foreign-invested insurance companies may not, without the approval of the CIRC, engage in transactions with their affiliates, including reinsurance transactions and purchases and sales of assets. In addition, where the foreign-invested insurance company is a branch of a foreign insurance company, it is required to notify the CIRC of fundamental events relating to the foreign insurance company within ten days following the occurrence of the event. Reportable events include: (1) a change of name, senior management or jurisdiction of incorporation of the foreign insurance company, (2) a change in the foreign insurance company s share capital, (3) a change in any person beneficially owning 10% or more of the foreign insurance company s shares, (4) a change in business scope, (5) the imposition of administrative sanctions by any applicable regulatory authority, (6) a material loss incurred by the foreign insurance company, (7) a spin-off, merger, dissolution, revocation of corporate franchise or bankruptcy involving the foreign insurance company and (8) other events specified by the CIRC. If the foreign insurance company is dissolved, or its corporate franchise is revoked or it is declared bankrupt, the Chinese branch of the foreign insurance company will be prohibited from conducting any new business.

Regulation of Insurance Asset Management Companies

An insurance asset management company is a limited liability company or joint stock company that manages insurance funds on behalf of others. Insurance asset management companies are regulated by the CIRC.

Minimum capital requirements. The registered capital of an insurance asset management company may not be lower than the greater of (1) RMB 30 million in cash and (2) 0.1% of the insurance funds it manages, provided that the minimum capital is not required to exceed RMB 500 million.

Business operations. In accordance with the tentative regulations of insurance asset management companies implemented in June 2004, an insurance asset management company may conduct the following businesses:

- managing and operating insurance funds entrusted by its shareholders;
- managing and operating insurance funds entrusted by another insurance company controlled by its shareholders;
- managing and operating its own insurance funds; and
- other businesses otherwise approved by the CIRC or other departments of the State Council.

The investments of the insurance funds by insurance asset management companies are subject to the same requirements and limitations applicable to the investments by the insurance companies themselves. With the regulatory expansion of insurance company investment powers, the investment powers of insurance asset management companies over their own funds have been expanded as well to cover subordinated indebtedness issued by banks and insurance companies and bank subordinated bonds.

In connection with the funds being managed by an insurance asset management company, a custodian is required to be appointed. The custodian must be an independent commercial bank or financial institution satisfying applicable CIRC requirements.

Shareholding restrictions. At least 75% of the shares of an insurance asset management company must be owned by domestic insurance companies, and at least one of the shareholders of an insurance asset management company must be an insurance company or insurance holding company satisfying specified requirements.

Management of Pension Funds. According to the trial measures on management of enterprise pension funds, subject to relevant regulatory approvals, insurance companies can become the trustee of, and insurance asset management companies can become the investment managers for, enterprise pension funds.

Investment risk control. Both insurance companies and asset management companies must establish structures, arrangements and measures to recognize, assess, manage and control investment risks. Members of senior management may not be responsible for the management of departments in charge of investment decisions, investment transactions and risk controls at the same time. Branches of insurance companies may not manage insurance funds. Insurance asset management companies must arrange for separate investment managers to manage their own funds and the insurance funds from other insurance companies, as well as insurance funds from an insurance company that are of a different nature.

Regulation of Insurance Agencies, Insurance Brokers and Other Intermediaries

Insurance agents are business entities or individuals which or who act on behalf of an insurance company in respect of insurance matters. An insurance company is prohibited from using any agent not licensed by the CIRC to market its insurance products, and is responsible for the acts of its agents when the acts are within the scope of their agency. Licensed insurance agencies fall into three groups: dedicated agencies, non-dedicated agencies and individual agents.

A dedicated agency is a partnership or company organized under the PRC company law whose principal business is to act as an agent of insurance companies. Dedicated agencies are subject to minimum capital and other requirements, and their business is generally limited to insurance-related activities.

A non-dedicated agency is a business entity whose principal business is other than as an insurance agency. To receive a license, the agency business must have a direct relationship with its principal business, which the CIRC has interpreted as permitting banks and banking operations of post offices to act as non-dedicated insurance agencies.

An individual agent is an individual acting as agent for an insurer. To receive a license from the CIRC, the individual is required to hold a CIRC qualification certificate issued by the CIRC. An individual agent is also required to register with and obtain a business license from the agent s local bureau of industry and commerce. In addition, the individual must not have committed any criminal offense or violation of any financial or insurance law or regulation and must be engaged in the insurance agency business full time. An individual insurance agent is permitted to act on behalf of only one life insurance company.

Essentially none of our exclusive agents qualifies as an individual agent within the meaning of the insurance law because they do not meet the dual requirements of holding a CIRC qualification certificate and a business license from the local bureau of the SAIC. We believe this situation is shared by all major life insurance companies in China. Approximately 96.4% of our exclusive agents hold a CIRC qualification certificate, and essentially none has a business license. In May 2004, the CIRC issued a circular requiring insurance companies to take effective measures in carrying out the qualification certification requirement. Furthermore, no insurance company may issue a company certificate to any person, identifying that person as its sales representative, if the person does not have a CIRC qualification certificate. Pursuant to the circular, we are also required to take appropriate measures to improve both participation of our agents taking the qualification examination and their success rate, and to report to the CIRC on a quarterly basis the percentage of our agents holding a CIRC qualification certificate. In April 2006, the CIRC issued regulations on the administration of individual agents, effective July 1, 2006, in order to further strengthen the administration of individual agents.

Pursuant to these regulations, insurance companies that retain individual agents without CIRC qualification certificates and underwriting certificates to engage in insurance sales activities will be warned and fined up to RMB 30,000, and the responsible members of senior management of such insurance companies will also be warned and fined up to RMB 10,000. In serious circumstances, the CIRC may order the insurance companies to remove the responsible member of senior management from office and reject the application of setting up branch offices by such insurance companies. We are working with our agents who are not yet CIRC-qualified to obtain the CIRC qualification certificate. It is our understanding that the SAIC does not have procedures in place to effect the registration and licensing of individual insurance agents. See Item 3. Key Information Risk Factors Risks Relating to the PRC Life Insurance Industry All of our agents are required to be qualified and to be registered as business entities. If these qualification and registration requirements are enforced or result in policyholders canceling their policies, our business may be materially and adversely affected .

All insurance agencies and agents are required to enter into agency agreements that specify the duration of the agency; the amount of the agency fee and the method of payment; the scope of the agency, including the insurance products to be marketed; and other relevant matters. Absent specific CIRC approval, insurance agents are prohibited from signing insurance and annuity products on behalf of the insurance companies they represent. None of our agents is authorized to sign insurance policies or annuity contracts for us.

Insurance agencies are required to open special accounts for the handling of funds that they hold or collect for the insurance companies they represent. They may not engage in the following activities: dealing with unauthorized insurers or insurance intermediaries, engaging in activities beyond their authorized business scope or geographical area, causing injury to the rights of the insurance companies they represent, spreading rumors or otherwise injuring the reputation of others in the insurance industry, misappropriating the funds of the insurance companies they represent, defrauding insurance customers through false or misleading representations or material omissions, using undue influence to induce insurance customers to purchase insurance, or defrauding the insurance companies they represent through collusion with the insured or the insurance beneficiary. In addition, dedicated insurance agencies are subject to various reporting requirements, including submission of annual financial reports, and are subject to supervision and examination by the CIRC.

Insurance brokers, who represent individuals and companies purchasing insurance, and other intermediaries are subject to similar regulatory requirements regarding their activities. Among other things, they are subject to supervision and examination by the CIRC, and fundamental corporate changes must be approved by the CIRC. Only companies organized under the PRC company law and meeting the requirements set by the CIRC are authorized to act as insurance brokers.

Regulation of PRC Listed Companies

Our A shares have been listed on the SSE since January 9, 2007. As a result, we are subject to regulation by the PRC securities regulatory authorities with respect to our compliance with PRC securities laws and regulations. We are also subject to the rules of the SSE.

Table of Contents

ORGANIZATIONAL STRUCTURE

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(1) Incorporated on January 15, 2007 pursuant to a promoters agreement among China Life, CLIC and China Life Insurance Asset Management Company Limited

(2) Incorporated on December 30, 2006 pursuant to a share subscription agreement and a promoters agreement between China Life and CLIC

(3) Formerly known as China Life Asset Management (Hong Kong) Company Limited

Table of Contents

List of Significant Subsidiaries

Name of Subsidiary	Jurisdiction of Incorporation	Proportion of Ownership Interest Owned by China Life
China Life Insurance Asset Management Company Limited	The People s Republic of China	60%
China Life Franklin Asset Management Company Limited [1]	Hong Kong	60% (indirectly through affiliate)
China Life Pension Company Limited [2]	The People s Republic of China	75%[3] (directly and indirectly through affiliate)

(1) Formerly known as China Life Asset Management (Hong Kong) Company Limited
(2) Incorporated on January 15, 2007 pursuant to a promoters agreement among China Life, CLIC and China Life Insurance Asset Management Company Limited
(3) We own 55% and AMC, which is 60% owned by us, owns 20%

82

Table of Contents

PROPERTY, PLANTS AND EQUIPMENT

As of December 31, 2006, we owned and leased 3,056 and 4,380 properties respectively, and had 198 properties under construction. 95 properties owned by us are leased to independent third parties. The remaining properties are mainly occupied by us as office premises.

Under a renewed property leasing agreement entered into between CLIC and us, CLIC agreed to lease to us over 1,100 properties owned by CLIC, its subsidiaries and affiliates, which we refer to as the CLIC owned properties. CLIC does not have the legal title to certain number of these CLIC owned properties and is in the process of completing the legal procedures in order to obtain the legal title to these CLIC owned properties. CLIC has undertaken to us 1) to have the building ownership certificates in respect of these properties registered under its name as soon as possible; 2) to be responsible for all costs, expenses and claims incurred and 3) to indemnify us against all losses, claims, charges arising from our occupation of these properties.

We are in the process of purchasing new office buildings for our headquarter in Beijing. We have entered into the relevant contracts for the purchase of the new office buildings and RMB 1,176 million (US$151 million), 60% of the purchase price, has been paid. The remaining 40% of the purchase price will be paid according to the terms as agreed.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS.

You should read the following discussion and analysis in conjunction with the audited consolidated financial statements and accompanying notes included elsewhere in this annual report. For purposes of the following discussion, references to our predecessor mean CLIC, as our predecessor company prior to the restructuring, for the periods in question. ***In general, the financial results discussed in this section relate to historical consolidated financial data, including both the transferred policies and the non-transferred policies. When financial results discussed in this section relate to the transferred and new policies only, specific reference is made to that fact.***

Overview

Restructuring

We were formed in connection with CLIC s restructuring. In connection with the restructuring, CLIC transferred to us (1) all long-term insurance policies (policies having a term of more than one year from the date of issuance) issued on or after June 10, 1999, having policy terms approved by or filed with the CIRC on or after June 10, 1999 and either (i) recorded as a long-term insurance policy as of June 30, 2003 in a database attached to the restructuring agreement as an annex or (ii) having policy terms for group supplemental medical insurance (fund type), (2) stand-alone short-term policies (policies having a term of one year or less from the date of issuance) issued on or after June 10, 1999 and (3) all riders supplemental to the policies described in clauses (1) and (2) above, together with the reinsurance contracts specified in an annex to the restructuring agreement. We refer to these policies as the transferred policies . See Item 4. Information on the Company History and Development of the Company Our Restructuring . All other insurance policies as of June 30, 2003 were retained by CLIC. We refer to these policies as the non-transferred policies . We refer to the insurance policies issued by us following the restructuring as the new policies .

Table of Contents

The restructuring was effected through a restructuring agreement entered into with CLIC on September 30, 2003, with retroactive effect to June 30, 2003. Pursuant to PRC law and the restructuring agreement, the transferred policies were transferred to us as of June 30, 2003; however, for accounting purposes the restructuring is treated as having occurred on September 30, 2003. As of June 30, 2003, we assumed all obligations and liabilities of CLIC under the transferred policies. CLIC continues to be responsible for its liabilities and obligations under the non-transferred policies following the restructuring. The business constituted by the policies and assets transferred to us and the obligations and liabilities assumed by us and the business constituted by the policies, assets, obligations and liabilities retained by CLIC were, prior to the restructuring, under common management from a number of significant aspects. Therefore, our consolidated balance sheet data and income statement data as of and for the year ended December 31, 2003 reflect the restructuring as having occurred on September 30, 2003.

Immediately following the restructuring, CLIC became our sole shareholder. Following our global offering in December 2003, CLIC became and remains our controlling shareholder, holding approximately 72.2% of our voting shares. Following our A share offering in December 2006, CLIC now holds approximately 68.4% of our voting shares as of April 30, 2007. We have been providing management and other services to CLIC, including the administration of the run-off of the non-transferred policies, the management of the investment assets retained by CLIC (through AMC) and various other services for CLIC, for which we are paid fees. For a description of the restructuring and the other arrangements entered into in connection with the restructuring, see Item 4. Information on the Company History and Development of the Company Our Restructuring and Item 7. Major Shareholders and Related Party Transactions .

Overview of our Business

We are the leading life insurance company in China. We provide a broad range of insurance products, including individual life insurance, group life insurance, accident insurance and health insurance products. We had nearly 90 million individual and group life insurance policies, annuity contracts and long-term health insurance policies in force as of December 31, 2006. We also offer accident and short-term health insurance policies to individuals and groups.

We report our financial results according to the following three principal business segments:

Individual life insurance, which offers participating and non-participating life insurance and annuities to individuals. The financial results of our individual long-term health insurance business are also reflected in our individual life insurance business segment. Our individual life insurance business comprises long-term products, including long-term health and accident insurance products, meaning products having a term of more than one year at the date of their issuance.

Group life insurance, which offers participating and non-participating life insurance and annuities products to companies and institutions. The financial results of our group long-term health insurance business are also reflected in our group life insurance business segment. Our group life insurance business comprises long-term products.

Accident and health insurance, which offers short-term accident insurance and health insurance to individuals and groups. Our accident and health insurance businesses comprises short-term products, meaning products having a term of one year or less at the date of their execution.

84

Table of Contents

In addition, AMC, an asset management joint venture established by us and CLIC, manages our investment assets and, separately, substantially all of those of CLIC, pursuant to two asset management agreements, one with us and one with CLIC. See Item 4. Information on the Company Business Overview Asset Management Business . We own 60% of the joint venture, with CLIC owning the remaining 40%. We formed a property and casualty joint venture with CLIC, on December 30, 2006, with us owning 40% and CLIC owning the remaining 60%. See Item 4. Information on the Company Business Overview Property and Casualty Business . We formed a professional pension insurance company with CLIC and AMC on January 15, 2007, with us owning 55%, CLIC owning 25% and AMC owning the remaining 20%. See Item 4. Information on the Company Business Overview Pension Insurance Business .

Financial Overview of our Business

We had total gross written premiums and policy fees of RMB 99,417 million (US$12,739 million) and net profit attributed to our shareholders of RMB 19,956 million (US$2,557 million) for the year ended December 31, 2006. Our principal business segments had the following results:

Individual life insurance had total gross written premiums and policy fees of RMB 86,587 million (US$11,095 million) in 2006, principally reflecting increases in renewal premiums, policy fees and new policy premiums.

Group life insurance had total gross written premiums and policy fees of RMB 1,740 million (US$223 million) in 2006, principally reflecting increases in sales of whole life insurance products and an increase in policy fees.

Accident and health insurance had total gross written premiums of RMB 11,090 million (US$1,421 million) ended in 2006, principally reflecting our increased sales efforts for accident insurance business but offset in part by our adjustment of our sales strategies for health insurance business to reduce our sales of certain health products with relatively higher risks.

Our business and the business of CLIC, our predecessor, has been characterized by rapid growth of premium income over the past several years, particularly due to increased sales of participating risk-type products. Our historical results, which present the historical results of our predecessor for the nine months ended September 30, 2003, the date on which the restructuring is treated as having occurred for accounting purposes, reflect the continuing performance of policies that were issued prior to June 10, 1999. Many of these policies paid guaranteed rates of return that, due to declining interest rates, came to be significantly higher than the rates of return on investment assets. This created a negative spread , where the investment return fell below the rate our predecessor had committed to pay on those policies. The policies issued by our predecessor on or after June 10, 1999, which have been transferred to us in the restructuring, were priced at significantly lower guaranteed rates, in line with the 2.50% cap established by the CIRC. We and CLIC have not incurred negative spread on these policies and the new policies issued on or after our establishment, as the average investment returns we and CLIC have been able to generate have been higher than the guaranteed rates. As of December 31, 2006, the average guaranteed rate of return of our products was 2.35%.

Table of Contents

Factors Affecting Our Results of Operations

Revenues, Expenses and Profitability

We earn our revenues primarily from:

- insurance premiums from the sale of life insurance policies and annuity contracts, including participating and non-participating policies and annuity contracts with life contingencies, as well as accident and health insurance products. Net premiums earned accounted for 62.3% of total revenues in 2006.
- policy fees for long-term investment type insurance contracts and investment contracts (collectively, investment-type contracts). Policy fees accounted for 4.8% of total revenues in 2006.
- investment income and realized and, in some cases, unrealized gains and losses from our investment assets. Net investment income and net realized and unrealized gains and losses accounted for 31.6% of total revenues in 2006.

In addition, following the restructuring, we receive service fees for policy management services we provide to CLIC. AMC, our asset management joint venture with CLIC also receives asset management fees for asset management services provided to CLIC. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions .

Our operating expenses primarily include:

- insurance benefits provided to our policyholders, accident and health claims and claim adjustment expenses;
- increases in long-term traditional insurance contract liabilities;
- amortization of deferred policy acquisition costs;
- underwriting and policy acquisition costs;
- policyholder dividends and participation in profits;
- interests credited to long-term investment-type insurance contracts and investment contracts;
- increases in deferred income; and
- administrative and other expenses.

In addition, following the restructuring, we pay rent to CLIC on the properties we lease from it.

Our profitability depends principally on our ability to price and manage risk on insurance and annuity products, our ability to maximize the return on investment assets, our ability to attract and retain customers, and our ability to manage expenses. In particular, factors affecting our profitability include:

- our ability to design and distribute products and services and to introduce new products which gain market acceptance on a timely basis;

Table of Contents

- our ability to price our insurance and investment products at levels that enable us to earn a margin over the costs of providing benefits and the expense of acquiring customers and administering those products;

- our returns on investment assets;

- our mortality and morbidity experience;

- our lapse experience, which affects our ability to recover the cost of acquiring new business over the lives of the contracts;

- our cost of administering insurance contracts and providing customer services;

- our ability to manage liquidity and credit risk in our investment portfolio and to manage duration risk in our asset and policy portfolios through asset-liability management; and

- changes in regulations.

In addition, other factors, such as competition, taxes, securities market conditions and general economic conditions, affect our profitability.

Interest Rates

For many of our long-term life insurance and annuity products, we are obligated to pay a minimum interest or crediting rate to our policyholders or annuitants. These products expose us to the risk that changes in interest rates may reduce our spread , or the difference between the rate of return we are able to earn on our investments intended to support our insurance obligations and the amounts that we are required to pay under the policies. The minimum rate we pay is established when the product is priced, subject to a cap set by the CIRC and which may be adjusted from time to time. Currently, the CIRC cap is 2.50%. If the rates of return on our investments fall below the minimum rates we guarantee, our profitability would be adversely affected. In October 2004, the interest rate on one-year term deposits, a key benchmark rate, was raised from 1.98% to 2.25%. In August 2006 and March 2007, the interest rate on one-year term deposits was further raised from 2.25% to 2.52% and 2.52% to 2.79%, respectively. Due to China s recent fast growing economy, the Chinese government may take certain measures, including further raising interest rates, in an effort to ensure sustainable economic growth. If the interest rates were to be further increased, but the CIRC did not raise the cap, sales of some of our products, including our non-participating investment-type products, could be adversely impacted. An increase in guaranteed rates caused by a rise in the CIRC cap may lead to an increase in surrenders and withdrawals of our existing products which offer rates lower than the new rates. See Financial Overview of Our Business . As of December 31, 2006, the average guaranteed rate of return of our products was 2.35%.

Interest rates also affect our returns on investment assets, a large proportion of which is held in negotiated bank deposits and debt securities. In a declining interest rate environment, interest rate changes expose us to reinvestment risks. In a rising interest rate environment, higher rates may yield greater interest income but also may generate unrealized capital losses for debt securities designated as trading, causing us to incur realized capital losses for securities we reinvest or requiring us to take an impairment if the market value of debt securities declines for an extended period.

Sustained levels of high or low interest rates also may affect the relative popularity of our various products. For example, the recent popularity of our participating products is partially driven by the protracted comparatively low interest rate environment in China and the 2.50% cap set by the CIRC on the guaranteed rates of return we may apply. The investment nature of the product, including the enhanced yield by means of dividends, has proven to be attractive to China s insurance buyers.

Table of Contents

Investments

As an insurance company, we are limited by Chinese law and regulations in the types of assets in which we may invest policyholder funds. As prescribed by China s insurance law, we are limited to investing insurance premiums, deposits and other funds we receive primarily in term deposits; fixed maturity securities, including Chinese treasury bonds, Chinese government agency bonds and corporate bonds issued by Chinese companies and meeting specified criteria; and securities investment funds primarily invested in equity securities issued by Chinese companies and traded on China s securities exchanges. We also may participate in bond repurchase activities through domestic inter-bank repurchase markets. Since 2004, we have been allowed to invest in convertible bonds, certain subordinated indebtedness and bonds, shares listed on China s stock markets, which are denominated and traded in Renminbi and infrastructure projects. We received the CIRC s approval in 2006 to make overseas investments in qualified term deposits, fixed maturity securities and shares of Chinese companies listed on specified stock exchanges. We currently are prohibited from investing in other securities without the CIRC s approval. However, we understand that the CIRC is considering further easing these restrictions in the future. If the CIRC does so, this may permit us to invest in additional asset classes such as mortgage-backed securities. See Item 4. Information on the Company Business Overview Regulatory and Related Matters Insurance Company Regulation Regulation of investments . Our only material concentration risk relates to our investments in Chinese government securities.

The limitations on the types of investments we are permitted to make affect the investment returns we are able to generate and subject us to various risks that we would not, or to a lesser extent, be subject to if we were able to invest in a wider array of investments. In particular, the limited availability of long-duration investment assets in the markets in which we invest has resulted in the duration of our assets being shorter than that of our liabilities. We believe that with the gradual easing of the investment restrictions imposed on insurance companies in China, such as the permission of overseas investments in qualified term deposits, debt securities and shares of Chinese companies listed on specified stock exchanges, as well as investments in domestic infrastructure projects, our ability to match the duration of our assets to that of our liabilities will improve. We also seek to reduce the risk of duration mismatch by focusing on product offerings whose maturity profiles are in line with the duration of investments available to us in the prevailing investment environment.

Our results can be materially affected by investment impairments. The following table sets forth impairment charges, which are included in net realized gains and losses, for the years ended December 31, 2004, 2005 and 2006.

	For the year ended December 31,		
	2004	**2005**	**2006**
	(RMB in millions)		
Debt securities	(320)	(92)	
Equity securities		(651)	
Total	(320)	(743)	

Impairments relating to the bonds entrusted with Min Fa Security Company Limited that encountered financial difficulties in 2004, resulted in an impairment change of RMB 92 million and RMB 320 million for 2005 and 2004, respectively. See Note 21 of the notes to the financial statements included elsewhere in this annual report. Impairments in 2005 relating to certain open-ended investment funds we purchased in previous years at a higher price, resulted in an impairment charge of RMB 651 million. See Note 21 of the notes to the financial statements included elsewhere in this annual report. There were no impairment charges in 2006.

Table of Contents

Available-for-sale/non-trading securities comprised of the following asset classes as of December 31, 2004, 2005 and 2006.

	As of December 31, 2004		2005		2006	
	Cost or amortized cost	Estimated fair value	Cost or amortized cost	Estimated fair value	Cost or amortized cost	Estimated fair value
			(RMB in millions)			
Debt securities						
Government bonds	43,871	39,612	49,180	49,922	60,058	60,352
Government agency bonds	26,645	26,438	30,776	30,662	78,300	78,721
Corporate bonds	4,292	3,741	10,806	11,315	31,001	30,752
Subordinated bonds/debts			4,458	4,526	7,068	7,043
Subtotal	74,808	69,791	95,220	96,425	176,427	176,868
Equity securities						
Funds	13,243	12,597	24,845	25,114	20,535	32,869
Common stocks			1,009	1,147	15,876	29,725
Warrants						1
Subtotal	13,243	12,597	25,854	26,261	36,411	62,595
Total	88,051	82,388	121,074	122,686	212,838	239,463

We had gross unrealized gains of RMB 28,097 million (US$3,600 million) and gross unrealized losses of RMB 1,472 million (US$189 million) as of December 31, 2006. We had gross unrealized gains of RMB 2,674 million and gross unrealized losses of RMB 1,062 million as of December 31, 2005. We had gross unrealized gains of RMB 365 million and gross unrealized losses of RMB 6,028 million as of December 31, 2004. The total unrealized losses as of December 31, 2006, 2005 and 2004 were 0.6%, 0.9% and 7.3% of total available-for-sale/non-trading securities. The unrealized losses as of December 31, 2006 related primarily to mark to market adjustments to bonds and securities investment funds. These unrealized losses as of December 31, 2005 and 2004 related primarily to mark to market adjustments to government and government agency bonds. Mark to market adjustments to securities investment funds also contributed substantially to the unrealized losses as of December 31, 2004 due to a deep fall in securities market in 2004. The SSE Index, a major stock exchange index in China, dropped to 1,266 points on December 31, 2004 from 1,497 points on December 31, 2003. The index was 1,161 points on December 31, 2005, a further decrease from 2004. The index was 2,675 points on December 31, 2006, which was a 130.4% increase from 2005. This resulted in a significant decrease in total unrealized losses. We made substantially all of the revaluation adjustments on the basis of quoted market prices at of the relevant balance sheet dates.

The following tables set forth the length of time that each class of available-for-sale/non-trading securities has continuously been in an unrealized loss position as of December 31, 2006, 2005 and 2004.

Table of Contents

As of December 31, 2006	0-6 months	7-12 months	More than 12 months	Total
		(RMB in millions)		
Debt securities				
Unrealized losses	(819)	(290)	(227)	(1,336)
Carrying amounts	53,352	9,068	9,212	71,632
Unrealized losses as a percentage of carrying amounts	1.54%	3.20%	2.46%	1.87%
Equity securities				
Unrealized losses	(136)			(136)
Carrying amounts	1,273			1,273
Unrealized losses as a percentage of carrying amounts	10.68%			10.68%
Total				
Total unrealized losses	(955)	(290)	(227)	(1,472)
Total carrying amounts	54,625	9,068	9,212	72,905
Unrealized losses as a percentage of carrying amounts	1.75%	3.20%	2.46%	2.02%

As of December 31, 2005	0-6 months	7-12 months	More than 12 months	Total
		(RMB in millions)		
Debt securities				
Unrealized losses	(647)	(1)	(261)	(909)
Carrying amounts	29,235	17	9,520	38,772
Unrealized losses as a percentage of carrying amounts	2.21%	5.88%	2.74%	2.34%
Equity securities				
Unrealized losses	(58)	(95)		(153)
Carrying amounts	3,267	1,696		4,963
Unrealized losses as a percentage of carrying amounts	1.78%	5.60%		3.08%
Total				
Total unrealized losses	(705)	(96)	(261)	(1,062)
Total carrying amounts	32,502	1,713	9,520	43,735
Unrealized losses as a percentage of carrying amounts	2.17%	5.60%	2.74%	2.43%

As of December 31, 2004	0-6 months	7-12 months	More than 12 months	Total
		(RMB in millions)		
Debt securities				
Unrealized losses	(858)	(542)	(3,960)	(5,360)
Carrying amounts	21,017	9,783	26,173	56,973
Unrealized losses as a percentage of carrying amounts	4.08%	5.54%	15.13%	9.41%
Equity securities				
Unrealized losses	(291)	(377)		(668)
Carrying amounts	7,802	2,726		10,528
Unrealized losses as a percentage of carrying amounts	3.73%	13.83%		6.34%
Total				
Total unrealized losses	(1,149)	(919)	(3,960)	(6,028)
Total carrying amounts	28,819	12,509	26,173	67,501
Unrealized losses as a percentage of carrying amounts	3.99%	7.35%	15.13%	8.93%

In determining whether a decline in value of an available-for-sale/non-trading security is other-than-temporary and an impairment charge should be recorded in the income statement, our management considers a range of factors about the security issuer and uses its best judgment in evaluating the cause of the decline in the estimated fair value of the securities and in assessing the

prospects for near term recovery. Inherent in the evaluation are assumptions and estimates about the operations of the issuer and its future earnings potential. The actual results may differ from the assumptions and estimates. We principally consider the following factors in making an evaluation about impairment:

- the length of time and the extent to which the market value has been below amortized cost;
- the potential for impairments of securities when the issuer is experiencing significant financial difficulties; and
- considerations specific to an industry sector.

Should we conclude that an unrealized loss is other-than-temporary, the loss is recorded in the income statement but there is no impact on total shareholders equity as the securities are accounted for at estimated fair value, with unrealized losses included in reserves until they are realized or determined to be other-than-temporary. See Critical Accounting Policies .

As of December 31, 2006, our total investment assets were RMB 686,804 million (US$88,006 million) and the investment yield for the year ended December 31, 2006 was 4.27%. The investment yield primarily reflected increased investments in debt and equity securities, favorable capital market conditions in 2006 compared to 2005, particularly in the PRC securities market, as well as systematic adjustment of our investment strategies and expanded investment channels for insurance companies. As of December 31, 2005, our total investment assets were RMB 494,356 million and the investment yield for the year ended December 31, 2005 was 3.86%. The investment yield for the period primarily reflected increased proportion of our investments in debt securities and decreased proportion of our investments in term deposits among our investment assets, favorable capital market conditions in 2005 compared to 2004, as well as disciplined application of our investment policies and expanded investment channels for insurance companies. As of December 31, 2004, our total investment assets were RMB 374,890 million and the investment yield for the year ended December 31, 2004 was 3.5%. The investment yield for this period primarily reflected an increase in interest income from floating rate negotiated deposits and higher yields from newly purchased bonds and subordinated bonds, as a resulted of an increase in benchmark deposit rate by Chinese central bank in 2004.

For 2004, 2005 and 2006, we calculated the investment yields for a given year by dividing the net investment income for that year by the average of the ending balance of that year and the previous year.

Mix of Products

The following table sets forth, for the transferred and new policies, premium and deposit information as of or for the years ended December 31, 2004, 2005 and 2006 by type of product in our individual life insurance business, group life insurance business and accident and health insurance business.

	As of or for the year ended December 31,				Compound annual growth rate
	2004 RMB	2005 RMB	2006 RMB	2006 US$	(2004-2006)
			(in millions)		
Individual life insurance business[1]					
Whole life and term life insurance:					
Gross written premiums	19,812	23,494	28,257	3,621	19.43%
Endowment:					
Gross written premiums	26,511	35,480	43,582	5,585	28.22%
Deposits	65,569	60,310	69,583	8,916	3.02%
Annuities:					
Gross written premiums	3,790	4,231	8,247	1,057	47.51%
Deposits	1,412	2,173	772	99	(26.06)%
Group life insurance business[1]					
Whole life and term life insurance:					
Gross written premiums	344	698	912	117	62.82%
Deposits	98	101	169	22	31.32%
Annuities:					
Gross written premiums		169	232	30	
Deposits	21,105	21,528	18,411	2,359	(6.6)%
Endowment:					
Premiums					
Deposits	553	1,834	2,506	321	112.88%
Accident and health insurance business[2]					
Accident gross written insurance premiums	4,977	5,135	5,148	660	1.70%
Health gross written insurance premiums	5,629	5,732	5,942	761	2.74%

(1) including long-term health and accident products

(2) including short-term health and accident products only

Our revenues and profitability are affected by changes in the mix of products we offer. In recent years the Chinese insurance market has been moving away from insurance policies offering fixed rates of return in favor of participating and investment-related products, and we expect these trends to continue. Consistent with these trends, participating life insurance and annuity products, have been our fastest-growing individual life insurance products.

Participating products tend to present us with less market risk, since we have more flexibility to set the level of dividends and because participating products are subject to guaranteed rates which are lower than those of non-participating products. In addition, changes in interest rates have less of an impact on their surrender rates than on those of non-participating policies. Conversely, participating products tend to be less profitable for us than non-participating products, largely because the terms of these contracts effectively commit us to sharing a portion of our earnings from participating products with our policyholders. Pursuant to guidelines issued by the CIRC, we are required to pay to our participating policyholders dividends which are no less than 70% of the distributable investment earnings and mortality gains on participating products. However, participating products still provide us with attractive profit contributions given the growing level of sales volume they produce.

Products classified as investment-type products also affect our revenues, since only a portion of the payments we receive under them are recorded in our consolidated income statement as policy fees, while the majority of the payments are recorded as deposit liabilities on our balance sheet. For the year ended December 31, 2006, total deposits were RMB 91,441 million (US$11,717 million), an increase of 6.4% from RMB 85,946 million in 2005. Although deposits are a measure of business volume and contribute to our profitability, they are not reflected in our revenues. Since the fourth quarter of 2003, we have adjusted our product selling strategy to concentrate more on risk-type products, which contribute more to our revenues as premium income.

Table of Contents

Another factor affecting our revenue is the fact that a substantial amount of the premiums we receive on many individual and group life insurance products are made in single payments, rather than over the course of the policy. For the years ended December 31, 2006, 2005 and 2004, 9.3%, 9.3% and 13.8% of our total first-year gross written premiums were from single premium products. We believe that the popularity of single premium products is in line with purchasing patterns and demand in China. We have, however, adjusted our premium structure to focus more on sales of products with regular premiums, especially products with regular premiums for ten years or more, which has reduced the proportion of single written premiums of our total first-year gross written premiums in 2005 and 2004. We believe that such strategy could contribute to a more steady development of our business and enhance the retention rate of our sales agent force.

Reinsurance

The amounts presented in the historical consolidated statements of income for revenues and policyholder benefits are net of amounts ceded to reinsurers. Under the PRC insurance law and CIRC s regulations, prior to 2003, life insurance companies in China were required to reinsure 20% of its accident and health insurance risks with China Reinsurance (Group) Company, as statutory reinsurer. The statutory reinsurance requirement was phased out beginning in 2003 and from the beginning of 2006 there is no such statutory requirement. We are also party to various reinsurance agreements with China Life Re for the reinsurance of individual risks, group risks and defined blocks of business. As of December 31, 2006, substantially all of our ceded premiums had been ceded to China Life Re.

Regulation

We operate in a highly regulated industry. Changes in regulation can have a significant impact on our revenues, expenses and profitability. China s insurance regulatory regime is undergoing significant changes toward a more transparent regulatory process and a convergent movement toward international standards. Among other things, recent changes to permitted investment channels for insurance companies have impacted our investment portfolio and returns. See Item 4. Information on the Company Business Overview Regulatory and Related Matters .

Critical Accounting Policies

The preparation of financial statements in conformity with HKFRS requires us to adopt accounting policies and make estimates and assumptions that affect amounts reported in the consolidated financial statements. In applying these accounting policies, we make subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Many of these policies, estimates and related judgments are common in the insurance and financial services industries; others are specific to our businesses and operations. The following sections discuss the accounting policies applied in preparing our financial statements that we believe are most dependent on the application of these judgments and estimates.

Reserves for Long-term Traditional Insurance Contracts, Long-term Investment Type Insurance Contracts and Investment Contracts with and without Discretionary Participation Feature

Long-term Traditional Insurance Contracts. Long-term traditional insurance contracts include whole life and term life insurance, endowment insurance and annuities policies with significant life contingency risk. Premiums are recognized as revenue when due from policyholders. Benefits and expenses are provided against such revenue to recognize profits over the estimated life

Table of Contents

of the policies. Hence, for single premium and limited pay contracts, premiums are recorded as income when due with the percent-of-premium profit margin deferred and recognized in income in a constant relationship to the amount of insurance in-force for life insurance contracts and the amount of expected benefit payments for annuities. Liabilities arising from long-term traditional insurance contracts comprise a policyholder reserve based on the net level premium valuation method and actuarial assumptions as to mortality, persistency, expenses, withdrawals and investment return including, where appropriate, a provision for adverse deviation and a deferred profit liability for the deferred percent-of-premium profit margin, as described in Note 2.9 to the consolidated financial statements included elsewhere in this annual report. The assumptions are established at policy issue and remain unchanged unless adverse experience causes a deficiency in liability adequacy test, as described in Note 2.8.1.b to the consolidated financial statements included elsewhere in the annual report.

The determination of the liabilities under long-term traditional insurance contracts is dependent on estimates made by us. For the long-term traditional insurance contracts, estimates are made in two stages. Assumptions about mortality rates, morbidity rates, lapse rates, investment returns and administration and claim settlement expenses are made at inception of the contract. These assumptions are described below. A provision for adverse deviation in experience is added to the assumptions, where appropriate. Assumptions are locked in for the duration of the contract. New estimates are made each subsequent year in order to determine whether the previous liabilities are adequate in the light of these latest estimates. If the liabilities are considered adequate, the assumptions are not altered. If they are not adequate, the assumptions are altered, or unlocked, first by reducing the provision for adverse deviation and then by reflecting current best estimate assumptions. A key feature of the adequacy testing for these contracts is that the effects of changes in the assumptions on the measurement of the liabilities and related assets are not symmetrical. Any improvements in experience will have no impact on the value of the liabilities and related assets until the liabilities are derecognized. However, a significant deterioration in experience can lead to an immediate increase in the liabilities.

We establish liabilities for long-term traditional insurance contracts based on the following assumptions:

Interest rates assumptions are based upon estimates of future yields on our investments. For policies issued prior to 2003, we use discount rates which increase annually from 3.8% for the year of issuance to 5.0% for year 2012 and the years thereafter, with a provision for adverse deviation ranging from 0.25% to 0.50%, as applicable. In determining our interest rate assumptions, we consider past investment experience, the current and future mix of our investment portfolio and trends in yields. Based on a review of our investment performance and market conditions, we established the discount rates for policies issued in 2005, 2004 and 2003, respectively, such that they increase annually from 4.0%, 3.7% and 3.65% for the year of issuance to 5.2% for the year 2013 and the years after, 5.17% for the year 2013 and the years thereafter and 5.0% for the year 2012 and the years thereafter, with a provision for adverse deviation ranging from 0.25% to 0.5%, as applicable. We established the discount rate for policies issued in 2006, such that it is 5.0% for the year of 2006 and increases annually from 4.6% for the year of 2007 to 5.4% for the year 2013 and the years thereafter, with a provision for adverse deviation ranging from 0.25% to 0.6%, as applicable. The interest rates we assume for future years reflect increased investment in higher yielding securities, including corporate bonds, longer duration securities and equity securities.

Table of Contents

Our assumptions for mortality and morbidity rates vary by age of the insured, and lapse rates vary by contract type. They are based on expected experience at date of contract issue plus, where applicable, a margin for adverse deviation. We review our assumptions for mortality, morbidity and lapse rates periodically, and adjust the assumption rates, where appropriate, for the policies to be issued in the subsequent year. The lapse rates of our policies in 2006 did not change significantly compared with 2005. The lapse rates of certain types of policies were higher in 2005 than in 2004 and higher in 2004 than in 2003, which we believe was primarily due to an increase in competition and the impact of governmental regulations prohibiting enterprises and other organizations from using their funds to purchase commercial group policies for individuals. In setting the mortality assumption, mortality experience was compared to and expressed as a percentage of the CL series of life tables. These tables were compiled by the People s Insurance Company of China in 1994 and 1995 and issued by the People s Bank of China, which was the principal regulatory authority of the insurance industry at the time. The tables are based on policy samples drawn from 43 subsidiaries and branches and the mortality experience of these sample policies during the period January 1, 1990 to December 31, 1993 were studied. The CIRC recently issued new series of life tables, as well as relevant rules on the application of these new tables, effective as of January 1, 2006, which require all life insurance companies in China to use these new tables for the calculation of minimum statutory reserves under the PRC GAAP. In addition, commencing from January 1, 2006, Chinese life insurance companies are no longer required to use designated life tables for product pricing.

Our assumptions for policy administration expenses are based on an analysis of actual experience. We have estimated the percentage of premiums costs used for year 1999 through 2002 to be 2% of premiums for 2002 and years prior thereto; 1.75% of premiums for 2003, 1.65-2.55% of premiums for individual life products, and 1.65% of premiums for group life products, for 2004; 1.50-1.80% of premiums for individual life products, and 1.30% of premiums for group life products, for 2005; and 1.60%-1.85% of premiums for individual life products and 1.50% of premiums for group life products, for 2006, in each case plus a fixed per-policy expense.

Long-term Investment Type Insurance Contracts and Investment Contracts with Discretionary Participation Feature. Long-term investment type insurance contracts include life insurance and annuity contracts with significant investment features but with sufficiently significant insurance risk to still be considered insurance contracts under HKFRS4.

HKFRS4 permits the existing accounting policies to be applied to all contracts deemed to be insurance contracts and investment contracts with discretionary participation features under HKFRS4. As a result, these long-term investment type insurance contracts and investment contracts with discretionary participation features continue to be accounted for as follows: revenue from these contracts consists of various charges, including policy fees, handling fees, management fees and surrender charges, made against the

95

Table of Contents

contract for the cost of insurance, expenses and early surrender. Excess first year charges are deferred as an unearned revenue liability and are recognized in income over the life of the contracts in a constant relationship to estimated gross profits. To the extent unrealized gains or losses from available-for-sale securities affect the estimated gross profits, shadow adjustments are recognized in equity. Policy benefits and claims that are charged to expenses include benefit claims incurred in the year in excess of related contract balances and interest credited to these contracts.

The liability for long-term investment type insurance contracts and investment contracts with discretionary participation features are equal to the policy account value. The account value consists of an accumulation of gross premium payments less policy loadings for expenses, mortality and profit plus credited interest less withdrawals and other exits.

For participating business (long-term traditional insurance contracts, long term investment type insurance contracts and investment contracts with discretionary participation features), we determine annually the amount of distributable surplus that must ultimately be paid to the participating policyholders in the form of policyholder dividends. Distributable surplus includes the life policyholders share of net investment income, unrealized appreciation of certain investments and mortality gains associated with the participating business. This share is specified by the insurance contract or by local insurance regulations. Each year, management determines how much of the total distributable surplus is to be paid in the form of policyholder dividends during the following fiscal year.

Investment contracts without discretionary feature. Investment contracts without discretionary participation feature are not considered to be insurance contracts and are accounted for as a financial liability. The liability for investment contracts without discretionary participation feature represents the accumulation of premium received less charges.

Revenue from these contracts consists of various charges, including policy fees, handling fees, management fees and surrender charges, made against the contract for the cost of insurance, expenses and early surrender. Excess first year charges are deferred as an unearned revenue liability and are recognized in income over the life of the contracts in a constant relationship to estimated gross profits. Policy benefits and claims that are charged to expenses include benefit claims incurred in the year in excess of related contract balances and interest credited to these contracts.

Deferred Income. Deferred income includes the deferred profit liability arising from long-term traditional insurance contracts and the unearned revenue liability arising from long-term investment type insurance contracts and investment contracts. Both deferred income amounts will be released to income statement over the remaining lifetime of the business.

Valuation of Investments

Debt securities that we have the ability and intent to hold to maturity are classified as held-to-maturity. These investments are carried at amortized cost. Debt securities and equity securities that we purchase with the intention to resell in the near term are classified as financial assets at fair value through income. Debt securities and equity securities other than those classified as held-to-maturity or financial assets at fair value through income are classified as available-for-sale securities. We regularly review the carrying value of our investments. If there is objective evidence of other-than-temporary impairment and if the carrying value of an investment is greater than the recoverable amount, the carrying value is reduced through a charge to income statement. The following are the policies used:

Financial assets at fair value through income. Financial assets at fair value through income securities are carried at fair value. At each balance sheet date, the net unrealized gains or losses arising from the changes in fair value of financial assets at fair value

Table of Contents

through income are recognized in the income statement. Profits or losses on disposal of financial assets at fair value through income, representing the difference between the net sales proceeds and the carrying amounts, are recognized in the income statement as they arise.

Held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at cost plus any discount or less any premium amortized to date. The discount or premium is amortized over the period to maturity and included as interest income or expense in the income statement.

Available-for-sale securities. Investments which are either designated in this category or not classified in either of the other categories are stated in the balance sheet at fair value at the balance sheet date. Changes in the fair value of individual securities are credited or debited to the investment revaluation reserve in equity until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gains or losses representing the difference between the net sales proceeds and the carrying amount of the relevant securities, together with any surplus or deficit transferred from the investment revaluation reserve, is reflected in the income statement.

Financial assets other than those accounted as at fair value through income are adjusted for impairments, where there are declines in value that are considered to be other than temporary. In evaluating whether a decline in value is other than temporary, we consider several factors including, but not limited to the following: (a) the extent and duration of the decline; (b) the financial condition, and near-term prospects, of the issuer; and (c) our ability and intent to hold the investment for a period of time to allow for a recovery of value. When the decline in value is considered other than temporary, relevant financial assets are written down to their net realized value, and the charge is recorded in Net realized gains/(losses) on financial assets in the period the impairment is recognized. The impairment loss is reversed through the income statement if in a subsequent period the fair value of a debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized through income statement.

The fair value of our debt securities and equity securities is determined as follows:

Debt securities. The fair values of debt securities are generally based on current bid prices. Where current bid prices are not readily available, fair values are estimated using either prices observed in recent transactions, values obtained from current bid prices of comparable investments and valuation techniques when the market is not active.

Equity securities. The fair values of equity securities are based on current bid prices.

Term deposits (excluding structured deposits) and securities purchased or sold under agreements to resell or repurchase. The fair values of term deposits (excluding structured deposits) and securities purchased or sold under agreements to resell or repurchase approximate the carrying amounts of these assets in the balance sheet.

Structured deposits. As the market for structured deposits is not active, we establish fair value by using discounted cash flow analysis and option pricing models as the valuation technique. We use the U.S. dollar swap rate, the benchmark rate, to determine the fair value of financial instrument. Due to the complexity of the structured deposits, significant judgment and estimates are involved in the absence of quoted market values. These estimates are based on valuation methodologies and assumptions deemed appropriate in the circumstances.

Table of Contents

Deferred Policy Acquisition Costs

The costs of acquiring new and renewal business including commissions, underwriting and policy issue expenses, which vary with and are primarily related to the production of new and renewal business, are deferred. Deferred policy acquisition costs are subject to recoverability testing at the time of policy issue and at the end of each accounting period. Future investment income is taken into account in assessing recoverability.

Deferred policy acquisition costs for long-term traditional insurance contracts are amortized over the premium paying period as a constant percentage of expected premiums. Expected premiums are based upon assumptions defined at the date of policy issue. These assumptions are consistently applied throughout the premium paying period unless adverse experience causes a deficiency in liability adequacy test.

Deferred policy acquisition costs for long-term investment type insurance contracts and investment contracts are amortized over the expected life of the contracts as a constant percent of the present value of estimated gross profits expected to be realized over the life of the contract. To the extent unrealized gains or losses from available-for-sale securities affect the estimated gross profits, shadow adjustments are recognized in the shareholders equity. Estimated gross profits include expected amounts to be assessed for mortality, administration, investment and surrender less benefit claims in excess of policyholder balances, administrative expenses and interest credited. Estimated gross profits are revised regularly and the future interest rate used to compute the present value of revised estimates of expected gross profits is the latest revised rate applied to the remaining benefit periods. Deviations of actual results from estimated experience are reflected in the income statement.

Revenue Recognition

Premium and policy fees Premiums from long-term traditional life insurance contracts are recognized as revenue when due from the policyholders. Revenue from long-term investment type insurance contracts and investment contracts consists of policy fees, handling fees, management fees and surrender charges assessed for the cost of insurance, expenses and early surrenders during the year which are recognized when due.

Premiums from the sale of short-term accident and health insurance contracts are recorded when written and are accreted to earnings on a pro-rata basis over the term of the related policy coverage. Contracts for which the period of risk differs significantly from the contract period recognize premiums over the period of risk in proportion to the amount of insurance protection provided.

Net investment income Net investment income is comprised of interest income from term deposits, cash and cash equivalents, debt securities, securities purchased under agreements to resell, policy loans, and dividend income from equity securities less interest expense from securities sold under agreements to repurchase and investment expenses. Interest income is recorded on an accrual basis using the effective interest rate method. Dividend income is recognized when the right to receive a dividend payment is established.

Deferred taxation

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be recognized.

Table of Contents

Deferred income tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Recently Issued Accounting Standards

On September 19, 2005, the AICPA issued Statement of Position 05-1, Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts (SOP 05-1). SOP 05-1 provides guidance on accounting for DAC on internal replacements of insurance and investment contracts other than those specifically described in FAS 97. SOP 05-1 defines an internal replacement as a modification in product benefits, features, rights, or coverage that occurs by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. SOP 05-1 is effective for fiscal year ending December 31, 2007. We are currently assessing the impact of SOP05-1 on our consolidated financial position and results of operations.

On February 16, 2006, the FASB issued FAS 155, Accounting for Certain Hybrid Financial Instruments (FAS 155), an amendment of FAS 140 and FAS 133. FAS 155 allows us to include changes in fair value in earnings on an instrument-by-instrument basis for any hybrid financial instrument that contains an embedded derivative that would otherwise be required to be bifurcated and accounted for separately under FAS 133. FAS 155 is effective for our fiscal year ending December 31, 2007. We have considered the effects of adopting FAS 155 and do not expect it to have a material impact on our consolidated financial statements.

On July 13, 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48), which clarifies the accounting for uncertainty in income tax positions. FIN 48 prescribes a recognition threshold and measurement attributable for the financial statement recognition and measurement of an income tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, and additional disclosures. The cumulative effect of adopting FIN 48 is to be recorded as an adjustment to opening retained earnings in the period of adoption. FIN 48 is effective for the Group s fiscal year ending December 31, 2007. We are currently assessing the impact of FIN 48 on the Group s consolidated financial position and results of operations.

In September 2006, the FASB issued FAS 157, Fair Value Measurements (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 is effective for financial statements issued for accounting periods beginning on or after November 15, 2007. We are currently assessing the impact of FAS 157 on our consolidated financial position and results of operations.

In February 2007, the FASB issued FAS 159, The Fair Value Option for Financial Assets and Financial Liabilities (FAS 159). FAS 159 permits entities to choose to measure at fair value many financial instruments and certain other items that are not currently required to be measured at fair value. Subsequent changes in fair value for designated items will be required to be reported in earnings in the current period. FAS 159 also establishes presentation and disclosure requirements for similar types of assets and liabilities measured at fair value. FAS 159 is effective for financial statements issued for accounting periods beginning on or after November 15, 2007. We are currently assessing the impact of FAS 159 on our consolidated financial position and results of operations.

Table of Contents

Inflation

In recent years, China has not experienced significant inflation, and thus inflation has not had a significant effect on our business during the past three years. According to the China Statistical Bureau, China s overall national inflation rates, as represented by the general consumer price index, were approximately 1.5%, 1.8% and 3.9% in 2006, 2005 and 2004, respectively.

Foreign Currency Fluctuation

See Item 3. Key Information Risk Factors Risks Relating to the People s Republic of China Government control of currency conversion and the fluctuation of the Renminbi may materially and adversely affect our operations and financial results and Item 11. Quantitative and Qualitative Disclosures about Market Risk Foreign Exchange Risk .

Class Action Litigation

China Life and certain of its former directors (the defendants) have been named in nine putative class action lawsuits filed in the United States District Court for the Southern District of New York between March 16, 2004 and May 14, 2004. The lawsuits have been ordered to be consolidated and restyled *In re China Life Insurance Company Limited Securities Litigation, NO. 04 CV 2112 (TPG)*. Plaintiffs filed a consolidated amended complaint on January 19, 2005, which names China Life, Wang Xianzhang (former director), Miao Fuchun (former director) and Wu Yan (former director) as defendants. The consolidated amended complaint alleges that the defendants named therein violated Sections 10(b) and 20(a) of the U.S. Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder. China Life has engaged U.S. counsel to contest vigorously on the lawsuits. The defendants jointly moved to dismiss the consolidated amended complaint on March 21, 2005. Plaintiffs then further amended their complaint. Defendants moved to dismiss the second amended complaint on November 18, 2005. That motion has been fully briefed and is pending before the Court. The likelihood of an unfavorable outcome is still uncertain. No provision has been made with respect to these lawsuits.

OPERATING RESULTS

Year Ended December 31, 2006 Compared with Year Ended December 31, 2005

Net Premiums Earned and Policy Fees

Net premiums earned and policy fees increased by RMB 18,809 million, or 23.5%, to RMB 98,847 million in 2006 from RMB 80,038 million in 2005. This increase was primarily due to increases in net premiums earned and policy fees from the individual life insurance and group life insurance businesses. Net premiums earned from participating products of long-term traditional insurance contracts were RMB 41,001 million in 2006, an increase of RMB 9,985 million, or 32.2%, from RMB 31,016 million in 2005. This increase was primarily due to an increased market demand, as well as our increased sales efforts, for participating endowment products. Of total net premiums earned in 2006, RMB 2,205 million was attributable to single premium products and RMB 78,952 million was attributable to regular premium products (including both first-year and renewal premiums). Of total net premiums earned in 2005, RMB 1,896 million was attributable to single premium products and RMB 62,027 million was attributable to regular premium products.

Individual Life Insurance Business

Net premiums earned and policy fees from the individual life insurance business increased by RMB 17,770 million, or 25.8%, to RMB 86,519 million in 2006 from RMB 68,749 million in 2005. This increase was primarily due to increases in renewal premiums, policy fees and new policy premiums.

Table of Contents

Group Life Insurance Business

Net premiums earned and policy fees from the group life insurance business increased by RMB 478 million, or 38.0%, to RMB 1,735 million in 2006 from RMB 1,257 million in 2005. This increase was primarily due to increases in sales of whole-life insurance products and an increase in policy fees.

Accident and Health Insurance Business

Net premiums earned from the accident and health insurance business (both of which comprise short-term products) increased by RMB 561 million, or 5.6%, to RMB 10,593 million in 2006 from RMB 10,032 million in 2005. Gross written premiums from the accident insurance business increased by RMB 13 million, or 0.3%, to RMB 5,148 million in 2006 from RMB 5,135 million in 2005 and gross written premiums from the health insurance business increased by RMB 210 million, or 3.7%, to RMB 5,942 million in 2006 from RMB 5,732 million in 2005. These increases were primarily due to our increased sales efforts for accident insurance business but offset in part by our adjustment of our sales strategies for health insurance business to reduce our sales of certain health products with relatively higher risks.

Net Investment Income

Net investment income increased by RMB 8,257 million, or 49.5%, to RMB 24,942 million in 2006 from RMB 16,685 million in 2005. This increase was primarily due to the growth in investment assets during 2006 and an increase in investment yield.

As of December 31, 2006, total investment assets were RMB 686,804 million and the investment yield for the year ended December 31, 2006 was 4.27%. As of December 31, 2005, total investment assets were RMB 494,356 million and the investment yield for the year ended December 31, 2005 was 3.86%. This increase was primarily due to increased investments in debt and equity securities, favorable adjustment of our investment portfolio, favorable capital market conditions and expanded investment channels for insurance companies. Our investment income is affected by many factors, including the volatility of the securities markets in China. Changes in the PRC capital markets and volatilities in the PRC securities markets in the future could have an impact on our net investment income, and accordingly an adverse impact on our net profit.

Net Realized Gains/(Losses) on Financial Assets

Net realized gains on financial assets increased by RMB 2,105 million to RMB 1,595 million in 2006 from net losses of RMB 510 million in 2005. The results in 2006 reflected net realized losses of RMB 6 million on debt securities and net realized gains of RMB 1,601 million on equity securities, which was primarily due to the favorable China stock market in 2006.

Net Fair Value Gains on Assets at Fair Value Through Income (Held-for-Trading)

We reflect net fair value gains on assets at fair value through income (held-for-trading) in current year income. Our net fair value gains on assets at fair value through income (held-for-trading) increased by 19,784 million, to RMB 20,044 million in 2006 from RMB 260 million in 2005. The results in 2006 reflected net fair value gains on assets at fair value through income (held-for-trading) of RMB 305 million on debt securities, resulting from favorable conditions in debt securities markets in 2006 and increased investments in debt securities. Net fair value gains on assets at fair value through income (held-for-trading) of RMB 19,739 million on equity securities, resulting from extremely favorable conditions in equity securities markets and increased investments in equity securities.

Table of Contents

Other Income

Other income increased by RMB 144 million, or 8.3%, to RMB 1,883 million in 2006 from RMB 1,739 million in 2005. This was primarily due to the fee income received from CLIC as the reward for assisting CLIC to mitigate its business risk arising from non-transferred policies.

Deposits and Policy Fees

Deposits are gross additions to long-term investment-type insurance contracts and investment contracts (collectively, investment-type contracts). Total deposits increased by RMB 5,495 million, or 6.4%, to RMB 91,441 million in 2006 from RMB 85,946 million in 2005. This increase was primarily due to an increase in business volume. Policy fees increased by RMB 1,014 million, or 16.7%, to RMB 7,097 million in 2006 from RMB 6,083 million in 2005. This increase was primarily due to an increase in the proportion of investment-type products with higher policy fee charges. Total deposits from participating products increased by RMB 5,785 million, or 7.6%, to RMB 81,749 million in 2006 from RMB 75,964 million in 2005. Total policy fees from participating products increased by RMB 917 million, or 21.4%, to RMB 5,193 million in 2006 from RMB 4,276 million in 2005.

Individual Life Insurance Business

Deposits in the individual life insurance business increased by RMB 7,872 million, or 12.6%, to RMB 70,355 million in 2006 from RMB 62,483 million in 2005. This increase was primarily due to an increase in the sales of investment-type contracts. Policy fees from the individual life insurance business increased by RMB 818 million, or 14.4%, to RMB 6,501 million in 2006 from RMB 5,683 million in 2005. These increases were primarily due to an increase of the proportion of investment-type contracts with higher policy fee charges.

Group Life Insurance Business

Deposits in the group life insurance business decreased by RMB 2,377 million, or 10.1%, to RMB 21,086 million in 2006 from RMB 23,463 million in 2005. Policy fees from the group life insurance business increased by RMB 196 million, or 49.0%, to RMB 596 million in 2006 from RMB 400 million in 2005. These changes were primarily due to an increase of the proportion of investment-type contracts with higher policy fee charges.

Accident and Health Insurance Business

There are no deposits in our accident and health insurance business.

Insurance Benefits and Claims

Insurance benefits and claims, net of amounts ceded through reinsurance, increased by RMB 14,391 million, or 26.6%, to RMB 68,420 million in 2006 from RMB 54,029 million in 2005. This increase was due to an increase in insurance benefits and claims of individual life insurance business as a result of an increase in business volume and the accumulation of liabilities. Life insurance death and other benefits increased by RMB 2,486 million, or 29.9%, to RMB 10,797 million in 2006 from RMB 8,311 million in 2005. This increase was principally due to an increase in the number of policies in force and the accumulation of liabilities. Life insurance death and other benefits as a percentage of gross written premiums and policy fees were 10.9% and 10.3% in 2006 and 2005 respectively. Interest credited to long-term investment-type insurance contracts increased by RMB 1,492 million, or 30.5%, to RMB 6,386 million in 2006 from RMB 4,894 million in 2005. This increase primarily reflected an increase in the total policyholder account balance.

Table of Contents

Insurance benefits and claims, net of amounts ceded through reinsurance, attributable to participating products increased by RMB 8,545 million, or 34.2%, to RMB 33,551 million in 2006 from RMB 25,006 million in 2005. Of these insurance benefits and claims attributable to participating products, life insurance death and other benefits increased by RMB 599 million, or 14.8%, to RMB 4,652 million in 2006 from RMB 4,053 million in 2005, the increase in liability of long-term traditional insurance contracts increased by RMB 6,501 million, or 38.6%, to RMB 23,345 million in 2006 from RMB 16,844 million in 2005, and the interest credited to long-term investment-type insurance contacts increased by RMB 1,445 million, or 35.2%, to RMB 5,554 million in 2006 from RMB 4,109 million in 2005.

Individual Life Insurance Business

Insurance benefits and claims for the individual life insurance business increased by RMB 14,244 million, or 30.9%, to RMB 60,405 million in 2006 from RMB 46,161 million in 2005. This increase was due to an increase in business volume and the accumulation of liabilities. Of these insurance benefits and claims, life insurance death and other benefits increased by RMB 2,381 million, or 30.7%, to RMB 10,125 million in 2006 from RMB 7,744 million in 2005 and the increase in liability of long-term traditional insurance contracts increased by RMB 10,365 million, or 30.9%, to RMB 43,915 million in 2006 from RMB 33,550 million in 2005. The increase in liability of long-term traditional insurance contracts was primarily due to an increase in business volume and the accumulation of liabilities.

Group Life Insurance Business

Insurance benefits and claims for the group life insurance business decreased by RMB 5 million, or 0.5%, to RMB 1,016 million in 2006 from RMB 1,021 million in 2005. This decrease was primarily due to a decrease in the increment of long-term traditional insurance contracts liabilities and interest credited to long-term traditional insurance contracts but offset in part by an increase in life insurance death and other benefits. Of these insurance benefits and claims, life insurance death and other benefits increased by RMB 105 million, or 18.5%, to RMB 672 million in 2006 from RMB 567 million in 2005 and the increase in long-term traditional insurance contracts liabilities decreased by RMB 104 million, or 24.4%, to RMB 323 million in 2006 from RMB 427 million in 2005. This decrease was primarily due to a decrease in the contracts in force.

Accident and Health Insurance Business

Insurance benefits and claims for the accident and health insurance business increased by RMB 152 million, or 2.2%, to RMB 6,999 million in 2006 from RMB 6,847 million in 2005. This increase was primarily due to increases in business volume in our accident and health insurance business.

Interest Credited to Investment Contracts

Interest credited to investment contracts increased by RMB 23 million, or 2.4%, to RMB 996 million in 2006 from RMB 973 million in 2005. This increase primarily reflected an increase in the total policyholder account balance. Interest credited to participating investment contracts increased by RMB 12 million, or 1.3%, to RMB 951 million in 2006 from RMB 939 million in 2005.

Increase in Deferred Income

Increase in deferred income includes the deferred profit liability arising from long-term traditional insurance contracts and the unearned revenue liability arising from long-term investment-type insurance contracts and investment contracts. The increase in deferred income increased by RMB 3,086 million, or 36.2%, to RMB 11,607 million in 2006 from RMB 8,521 million in 2005. This increase was primarily due to an increase in business volume.

Table of Contents

Policyholder Dividends Resulting from Participation in Profits

Policyholder dividends resulting from participation in profits increased by RMB 12,258 million, or 228.7%, to RMB 17,617 million in 2006 from RMB 5,359 million in 2005. This increase was primarily due to an increase in business volume and, accordingly, an increase in our reserves for participating products, as well as an increase in investment yield for participating products.

Amortization of Deferred Policy Acquisition Costs

Amortization of deferred policy acquisition costs increased by RMB 2,493 million, or 32.1%, to RMB 10,259 million in 2006 from RMB 7,766 million in 2005. This increase was primarily due to an increase in the number of policies and overall amount of in-force business and an increase in investment income in 2006.

Underwriting and Policy Acquisition Costs

Underwriting and policy acquisition costs primarily reflect the non-deferrable portion of underwriting and policy acquisition costs. Underwriting and policy acquisition costs increased by RMB 570 million, or 30.9%, to RMB 2,415 million in 2006 from RMB 1,845 million in 2005. Underwriting and policy acquisition costs were 2.4% and 2.3% of net premiums earned and policy fees in 2006 and 2005, respectively.

Of this amount, underwriting and policy acquisition costs in the individual life insurance business and group life insurance business together increased by RMB 444 million, or 31.3%, to RMB 1,862 million in 2006 from RMB 1,418 million in 2005. This increase was primarily due to the increase in business volume during the period, as well as an increase in the sales of risk-type insurance contracts and regular-premium products, which have a relatively higher commission. Underwriting and policy acquisition costs in the accident and health insurance business increased by RMB 126 million, or 29.5%, to RMB 553 million in 2006 from RMB 427 million in 2005. This increase was primarily due to the increase in business volume and increased market competition.

Administrative Expenses

Administrative expenses include the non-deferrable portion of policy acquisition costs, as well as compensation and other administrative expenses. Administrative expenses increased by RMB 2,102 million, or 29.0%, to RMB 9,339 million in 2006 from RMB 7,237 million in 2005. This increase primarily reflected the increase in business volume.

Other Operating Expenses

Other operating expenses, which primarily consist of foreign exchange losses and expenses for non-core business, increased by RMB 61 million, or 7.6%, to RMB 859 million in 2006 from RMB 798 million in 2005. This increase primarily reflected an increase in charity donations including RMB 50 million for the establishment of a charitable foundation.

Table of Contents

Income Tax

We pay income tax according to applicable Chinese enterprise income tax regulations and rules. Income tax expense, including current and deferred taxations, increased by RMB 3,409 million, or 158.9%, to RMB 5,554 million in 2006 from RMB 2,145 million in 2005. This increase was primarily due to the increase in business volume. Our effective tax rate for 2006 was 21.7% as compared with a statutory tax rate of 33%.

Net Profit Attributable to Shareholders of the Company

For the reasons set forth above, net profit attributable to shareholders of the Company increased by RMB 10,650 million, or 114.4%, to RMB19,956 million in 2006 from RMB 9,306 million in 2005. This increase was primarily due to the increases in net profits of individual life and group life insurance businesses.

Individual Life Insurance Business

Net profit in the individual life insurance business increased by RMB 12,993 million, or 121.8%, to RMB 23,663 million in 2006 from RMB 10,670 million in 2005. This increase was primarily due to the increases in investment income and business volume of regular payment products.

Group Life Insurance Business

Net profit in the group life insurance business increased by RMB 1,377 million to RMB 864 million in 2006, from a net loss of RMB 513 million in 2005. This increase was primarily due to the increases in investment income and business volume of regular payment products.

Accident and Health Insurance Business

Net profit in the accident and health insurance business decreased by RMB 271 million, or 21.2%, to RMB 1,009 million in 2006 from RMB 1,280 million in 2005. The decrease in profitability was primarily due to increased market competition, which led to an increase in administrative expenses, offset in part by net fair value gains on assets at fair value through income (held-for-trading) in our accident and health insurance business.

Year Ended December 31, 2005 Compared with Year Ended December 31, 2004

Net Premiums Earned and Policy Fees

Net premiums earned and policy fees increased by RMB 15,030 million, or 23.1%, to RMB 80,038 million in 2005 from RMB 65,008 million in 2004. This increase was primarily due to increases in net premiums earned from the individual life insurance business, group life insurance business and accident and health insurance business, as well as increases in policy fees from the individual and group life insurance businesses. Net premiums earned from participating products of long-term traditional insurance contracts were RMB 31,016 million in 2005, an increase of RMB 8,653 million, or 38.7%, from RMB 22,363 million in 2004. This increase was primarily due to an increased market demand, as well as our increased sales efforts, for endowment products. Of total net premiums earned in 2005, RMB 1,896 million was attributable to single premium products and RMB 62,027 million was attributable to regular premium products (including both first-year and renewal premiums). Of total net premiums earned in 2004, RMB 2,780 million was attributable to single premium products and RMB 47,670 million was attributable to regular premium products.

Table of Contents

Individual Life Insurance Business

Net premiums earned and policy fees from the individual life insurance business increased by RMB 13,847 million, or 25.2%, to RMB 68,749 million in 2005 from RMB 54,902 million in 2004. This increase was primarily due to increase in renewal payments for regular premium products and an increase in policy fees.

Group Life Insurance Business

Net premiums earned and policy fees from the group life insurance business increased by RMB 515 million, or 69.4%, to RMB 1,257 million in 2005 from RMB 742 million in 2004. This increase was primarily due to increases in sales of whole-life insurance products.

Accident and Health Insurance Business

Net premiums earned from the accident and health insurance business (both of which comprise short-term products) increased by RMB 668 million, or 7.1%, to RMB 10,032 million in 2005 from RMB 9,364 million in 2004. Gross written premiums from the accident insurance business increased by RMB 158 million, or 3.2%, to RMB 5,135 million in 2005 from RMB 4,977 million in 2004 and gross written premiums from the health insurance business increased by RMB 103 million, or 1.8%, to RMB 5,732 million in 2005 from RMB 5,629 million in 2004. These increases were primarily due to our increased sales efforts for accident insurance business, offset in part by our adjustment of our sales strategies for health insurance business to reduce our sales of certain health products with relatively higher risks.

Net Investment Income

Net investment income increased by RMB 5,368 million, or 47.4%, to RMB 16,685 million in 2005 from RMB 11,317 million in 2004. This increase was primarily due to an overall growth in investment assets during 2005 and an increase in investment yield.

As of December 31, 2005, total investment assets were RMB 494,356 million and the investment yield for the year ended December 31, 2005 was 3.86%. As of December 31, 2004, total investment assets were RMB 374,890 million and the investment yield for the year ended December 31, 2004 was 3.46%. This increase was primarily due to increased proportion of our investments in debt securities and decreased proportion of our investments in term deposits among our investment assets, favorable capital market conditions in 2005 compared to 2004, as well as disciplined application of our investment policies and expanded investment channels for insurance companies. Our investment income is affected by many factors, including the volatility of the PRC securities markets. A decline in the PRC securities markets in the future could have a material adverse impact on our net investment income, and accordingly our net profit.

Net Realized Gains/(Losses) on Financial Assets / Net Realized Gains/(Losses) on Investments

Net realized losses on financial assets/net realized losses on investments increased by RMB 273 million, or 115.2% to RMB 510 million in 2005 from RMB 237 million in 2004. This results in 2005 reflected net realized gains of RMB 61 million on debt securities and net realized losses of RMB 571 million on equity securities, which was primarily due to the impairment of certain open-ended investment funds that were purchased at comparatively higher prices in previous years. In 2004, net realized losses was RMB 317 million on debt securities which was primarily due to the impairment of bonds entrusted with Min Fa Security Limited Company, and net realized gains was RMB 80 million on securities investment funds.

Table of Contents

Net Fair Value Gains/(Losses) on Assets at Fair Value Through Income / Net Unrealized Gains/(Losses) on Trading Securities

We reflect net fair value gains on assets at fair value through income in current year income. Our net fair value gains on assets at fair value through income was RMB 260 million in 2005, compared to net unrealized losses on trading securities of RMB 1,061 million in 2004. The results in 2005 reflected net fair value gains on assets at fair value through income of RMB 88 million on debt securities, resulting from favorable conditions in debt securities markets in 2005, and net fair value gains on assets at fair value through income of RMB 172 million on equity securities, resulting from disciplined application of investment techniques and timing of our equity investments in 2005. The results in 2004 reflected net unrealized gains on trading securities of RMB 11 million on debt securities and net unrealized losses on trading securities of RMB 1,072 million on equity securities, due to a deep fall in the securities market in 2004.

Other Income

Other income decreased by RMB 40 million, or 2.2%, to RMB 1,739 million from RMB 1,779 million in 2004. This was primarily due to a decrease in policy management fees collected from CLIC.

Deposits and Policy Fees

Deposits are gross additions to investment-type insurance contracts and investment contracts (collectively, investment-type contracts). Total deposits decreased by RMB 2,791 million, or 3.1%, to RMB 85,946 million in 2005 from RMB 88,737 million in 2004. This decrease was primarily due to decrease in sales of products of long-term investment-type insurance contracts in the individual life insurance business, offset in part by increased sales of participating annuity products in group life insurance business. Policy fees increased by RMB 889 million, or 17.1%, to RMB 6,083 million in 2005 from RMB 5,194 million in 2004. This increase was primarily due to an increase in the proportion of investment type products with higher policy fee charges. Total deposits from participating products decreased by RMB 5,452 million, or 6.7%, to RMB 75,964 million in 2005 from RMB 81,416 million in 2004. Total policy fees from participating products increased by RMB 625 million, or 17.1%, to RMB 4,276 million in 2005 from RMB 3,651 million in 2004.

Individual Life Insurance Business

Deposits in the individual life insurance business decreased by RMB 4,498 million, or 6.7%, to RMB 62,483 million in 2005 from RMB 66,981 million in 2004. This decrease was primarily due to decreased sales of investment-type contracts, as a result of the adjustment of our products to focus more on short-term insurance contracts and long-term traditional insurance contracts (collectively, risk-type insurance contracts). Policy fees from the individual life insurance business increased by RMB 887 million, or 18.5%, to RMB 5,683 million in 2005 from RMB 4,796 million in 2004. These increases were primarily due to an increase of the proportion of investment-type contracts with higher policy fee charges.

Group Life Insurance Business

Deposits in the group life insurance business increased by RMB 1,707 million, or 7.8%, to RMB 23,463 million in 2005 from RMB 21,756 million in 2004. Policy fees from the group life insurance business increased by RMB 2 million, or 0.5%, to RMB 400 million in 2005 from RMB 398 million in 2004. These increases were primarily due to an increase of sales of participating annuity products, offset in part by the increased competition, resulting in a decrease in our policy fee charges for group life insurance products.

Table of Contents

Accident and Health Insurance Business

There are no deposits in our accident and health insurance business.

Insurance Benefits and Claims

Insurance benefits and claims, net of amounts ceded through reinsurance, increased by RMB 11,730 million, or 27.7%, to RMB 54,029 million in 2005 from RMB 42,299 million in 2004. This increase was due to an increase in insurance benefits and claims of individual life insurance business as a result of an increase in business volume and the accumulation of liabilities. Life insurance death and other benefits increased by RMB 1,495 million, or 21.9%, to RMB 8,311 million in 2005 from RMB 6,816 million in 2004. This increase was principally due to an increase in the number of policies in force. Life insurance death and other benefits as a percentage of gross written premiums and policy fees were 10.3% in 2005 and 2004. Interests credited to long-term investment-type insurance contracts increased by RMB 1,190 million, or 32.1%, to RMB 4,894 million in 2005 from RMB 3,704 million in 2004. This increased was primarily reflected an increase in the total policyholder account balance. Insurance benefits and claims, net of amounts ceded through reinsurance, attributable to participating products increased by RMB 6,939 million, or 38.4%, to RMB 25,006 million in 2005 from RMB 18,067 million in 2004. Of these insurance benefits and claims attributable to participating products, life insurance death and other benefits increased by RMB 1,393 million, or 52.4%, to RMB 4,053 million in 2005 from RMB 2,660 million in 2004, the increase in liability of long-term traditional insurance contracts increased by RMB 4,474 million, or 36.2%, to RMB 16,844 million in 2005 from RMB 12,370 million in 2004, and the interest credited to long-term investment-type insurance contacts increased by RMB 1,072 million, or 35.3%, to RMB 4,109 million in 2005 from RMB 3,037 million in 2004.

Individual Life Insurance Business

Insurance benefits and claims for the individual life insurance business increased by RMB 10,720 million, or 30.2%, to RMB 46,161 million in 2005 from RMB 35,441 million in 2004. This increase was due to the increase in business volume and the accumulation of liabilities. Of these insurance benefits and claims, life insurance death and other benefits increased by RMB 1,322 million, or 20.6%, to RMB 7,744 million in 2005 from RMB 6,422 million in 2004 and the increase in liability of long-term traditional insurance contracts increased by RMB 8,209 million, or 32.4%, to RMB 33,550 million in 2005 from RMB 25,341 million in 2004.

Group Life Insurance Business

Insurance benefits and claims for the group life insurance business increased by RMB 581 million, or 132.0%, to RMB 1,021 million in 2005 from RMB 440 million in 2004. This increase was primarily due to the increase in business volume. Of these insurance benefits and claims, life insurance death and other benefits increased by RMB 173 million, or 43.9%, to RMB 567 million in 2005 from RMB 394 million in 2004 and the increase in liability of long-term traditional insurance contracts increased by RMB 407 million, or 2035.0%, to RMB 427 million in 2005 from RMB 20 million in 2004. This increase was primarily due to the launch and satisfactory sales of a new group product in 2005, for which we started to allocate reserves in the same year.

Accident and Health Insurance Business

Insurance benefits and claims for the accident and health insurance business increased by RMB 429 million, or 6.7%, to RMB 6,847 million in 2005 from RMB 6,418 million in 2004. This increase was primarily due to increases in business volume and further strengthening of claim reserves, offset in part by a decrease in claims ratio in our accident and health insurance business.

Table of Contents

Interest Credited to Investment Contracts

Interest credited to investment contracts increased by RMB 357 million, or 58.0%, to RMB 973 million in 2005 from RMB 616 million in 2004. This increase primarily reflected an increase in the total policyholder account balance. Interest credited to participating investment contracts increased by RMB 369 million, or 64.7%, to RMB 939 million in 2005 from RMB 570 million in 2004.

Increase in Deferred Income

Increase in deferred income includes the deferred profit liability arising from long-term traditional insurance contracts and the unearned revenue liability arising from long-term investment-type insurance contracts and investment contracts with discretionary participation feature. Increase in deferred income increased by RMB 728 million, or 9.3%, to RMB 8,521 million in 2005 from RMB 7,793 million in 2004. This increase was primarily due to an increase in business volume and the accumulation of liabilities.

Policyholder Dividends resulting from Participation in Profits

Policyholder dividends resulting from participation in profits increased by RMB 3,311 million, or 161.7%, to RMB 5,359 million in 2005 from RMB 2,048 million in 2004. This increase was primarily due to increases in our reserves for participating products as a result of increase in business volume, as well as an increase in investment yield, which led to an increase in dividend scales.

Amortization of Deferred Policy Acquisition Costs

Amortization of deferred policy acquisition costs increased by RMB 1,503 million, or 24.0%, to RMB 7,766 million in 2005 from RMB 6,263 million in 2004. This increase was primarily due to an increase in number and overall amount of policies in force.

Underwriting and Policy Acquisition Costs

Underwriting and policy acquisition costs primarily reflect the non-deferrable portion of underwriting and policy acquisition costs. Underwriting and policy acquisition costs increased by RMB 373 million, or 25.3%, to RMB 1,845 million in 2005 from RMB 1,472 million in 2004. Underwriting and policy acquisition costs were 2.3% of net premiums earned and policy fees in both of 2005 and 2004.

Of this amount, underwriting and policy acquisition costs in the individual life insurance business and group life insurance business together increased by RMB 367 million, or 34.9%, to RMB 1,418 million in 2005 from RMB 1,051 million in 2004. This increase was primarily due to the increase in business volume during the period, as well as an increase in the sales of risk-type insurance contracts and regular-premium products, which have a relatively higher commission. Underwriting and policy acquisition costs in the accident and health insurance business increased by RMB 6 million, or 1.4%, to RMB 427 million in 2005 from RMB 421 million in 2004. This increase was primarily due to the increase in business volume.

Administrative Expenses

Administrative expenses include the non-deferrable portion of policy acquisition costs, as well as compensation and other administrative expenses. Administrative expenses increased by RMB 652 million, or 9.9%, to RMB 7,237 million in 2005 from RMB 6,585 million in 2004. This increase primarily reflected the increase in business volume.

Other Operating Expenses

Other operating expenses, which primarily consist of foreign exchange losses and expenses for non-core business (including expenses incurred for our policy management services for CLIC), increased by RMB 667 million, or 509.2%, to RMB 798 million in 2005 from RMB 131 million in 2004. This increase primarily reflected an increase in foreign exchange losses resulting from our assets held in foreign currencies, which were affected by the appreciation of the Renminbi in 2005.

Income Tax

We pay income tax according to applicable Chinese enterprise income tax regulations and rules. Income tax expense, including current and deferred taxations, decreased by RMB 135 million, or 5.9%, to RMB 2,145 million in 2005 from RMB 2,280 million in 2004. This decrease was primarily due to increased interest income from government bonds which are not taxable. Our effective tax rate for 2005 was 18.6% as compared with a statutory tax rate of 33%.

Net Profit Attributable to Shareholders of the Company

For the reasons set forth above, net profit attributable to shareholders of the Company increased by RMB 2,135 million, or 29.8%, to RMB 9,306 million in 2005 from RMB 7,171 million in 2004. This increase was primarily due to the increases in net profits of individual life and accident and health insurance businesses.

Individual Life Insurance Business

Net profit in the individual life insurance business increased by RMB 2,167 million, or 25.5%, to RMB 10,670 million in 2005 from RMB 8,503 million in 2004. This increase was primarily due to an increase in business volume of regular payment products.

Group Life Insurance Business

Net loss in the group life insurance business increased by RMB 217 million, or 73.3%, to RMB 513 million in 2005, from RMB 296 million in 2004. This increase was primarily due to an increase in the proportion of group life revenues derived from sales of new products in group life insurance business, resulting in relatively higher level of in reserves of group life insurance business, as well as increased competition in group life insurance business, which led to an increase in acquisition costs of group life insurance business.

Accident and Health Insurance Business

Net profit in the accident and health insurance business increased by RMB 108 million, or 9.2%, to RMB 1,280 million in 2005 from RMB 1,172 million in 2004. The increase in profitability was primarily due to a decrease in the claims ratio in our accident and health insurance businesses. The overall performance of the accident business remained strong. The adverse performance of our overall health business was improved due to our increased control of health products and the adjustment of sales strategy to reduce the sales of certain products with relatively higher risks.

Table of Contents

LIQUIDITY AND CAPITAL RESOURCES

Liquidity Sources

Our principal cash inflows come from insurance premiums, deposits, proceeds from sales and maturity of financial assets, and net investment income. The primary liquidity concerns with respect to these cash inflows are the risk of early withdrawals by contract holders and policyholders, as well as the risks of default by debtors, interest rate changes and other market volatilities. We closely monitor and manage these risks. See Item 4. Information on the Company Business Overview Investments .

Additional sources of liquidity to meet unexpected cash outflows are available from our investment portfolio. As of December 31, 2006, the amount of cash and cash equivalents was RMB 50,213 million. In addition, substantially all of our term deposits with banks allow us to withdraw funds on deposit, subject to a penalty interest charge. As of December 31, 2006, the amount of term deposits was RMB 175,476 million.

Our investment portfolio also may provide us with a source of liquidity to meet unexpected cash outflows. As of December 31, 2006, investments in debt securities had a fair value of RMB 369,631 million. As of December 31, 2006, investments in equity securities had a fair value of RMB 95,493 million. However, the PRC securities market is still at an early stage of development, and we are subject to market liquidity risk because the market capitalization and trading volumes of the public exchanges are much lower than those in more developed financial markets. We also are subject to market liquidity risk due to the large size of our investments in some of the markets in which we invest. From time to time some of our positions in our investment securities may be large enough to have an influence on the market value. These factors may limit our ability to sell these investments at an adequate price, or at all.

Liquidity Uses

Our principal cash outflows primarily relate to the liabilities associated with our various life insurance, annuity and accident and health insurance products, dividend and interest payments on our insurance policies and annuity contracts, operating expenses, income taxes and dividends that may be declared and payable to our shareholders. Liabilities arising from our insurance activities primarily relate to benefit payments under these insurance products, as well as payments for policy surrenders, withdrawals and policy loans.

We believe that our sources of liquidity are sufficient to meet our current cash requirements.

Consolidated Cash Flows

The following sets forth information regarding consolidated cash flows for the periods indicated.

Net cash provided by operating activities was RMB 80,352 million in 2006, an increase of RMB 48,524 million from 2005. This increase was primarily due to our increased sales and maturity of financial assets at fair value through income (held-for-trading). Net cash provided by operating activities was RMB 31,828 million in the year ended December 31, 2005, a decrease of RMB 1,086 million from RMB 32,914 million in the year ended December 31, 2004. This decrease was primarily due to our increased investment in financial assets at fair value through income/trading securities.

Net cash used in investment activities was RMB 141,038 million in the year ended December 31, 2006, an increase of RMB 49,698 million from 2005. This increase in cash used in investing activities was primarily due to an increase in our debt securities and term deposits. Net cash used in investment activities was RMB 91,340 million in the year ended December 31, 2005, a decrease of RMB 22,738 million from RMB 114,078 million in the year ended December 31, 2004. This decrease was primarily due to a decrease in our investments in term deposits.

Table of Contents

Net cash provided by financing activities was RMB 83,313 million in the year ended December 31, 2006, an increase of RMB 22,596 million from 2005. The changes in cash provided by financing activities over these periods were primarily due to the cash proceeds from our A shares offering in December 2006. Net cash provided by financing activities was RMB 60,717 million in the year ended December 31, 2005, a decrease of RMB 5,048 million from RMB 65,765 million in the year ended December 31, 2004. This decrease in cash provided by financing activities was primarily due to an increase in surrenders in long-term investment type insurance contracts and investment contracts.

Our global share offering in December 2003 provided cash proceeds of approximately RMB 24,707 million (US$3,062 million). As of the date of this annual report, a substantial part of the cash proceeds from our global offering was held in bank deposit accounts denominated in foreign currencies in China, part of which were held as structured deposits. We gradually converted approximately US$300 million of the cash proceeds into Renminbi to reduce foreign exchange risks. In addition, we used approximately US$250 million of the cash proceeds for investments in H shares of China Construction Bank Corporation in its initial public offering in 2005, a portion of which was sold early 2006, and approximately US$425 million for investments in foreign-currency denominated debts in China. We used approximately HK$1.175 billion for investments in H shares of Bank of China Limited in its initial public offering in May 2006, approximately HK$2 billion for investments in H shares of Industrial and Commercial Bank of China Limited in its initial public offering in October 2006 and approximately US$433 million for investments in Guangdong Development Bank in December 2006.

Our A share offering in December 2006 provided cash proceeds of approximately RMB 27,810 million (US$3,564 million). We received such cash proceeds on December 29, 2006. As of the date of this annual report, the cash proceeds from our A share offering was used to increase our capital.

Insurance Solvency Requirements

The solvency ratio of an insurance company is a measure of capital adequacy, which is calculated by dividing the actual solvency margin of the company (which is its admissible assets less admissible liabilities, determined in accordance with relevant rules) by the minimum solvency margin it is required to meet. See Item 4. Information on the Company Business Overview Regulatory and Related Matters Insurance Company Regulation Solvency requirements . The following table shows the Company s solvency ratio as of December 31, 2006:

	As of December 31, 2006 *(RMB in millions, except percentage data)*
Actual solvency margin	96,297
Minimum solvency margin	27,549
Solvency ratio	350%

Insurance companies are required to calculate and report annually to the CIRC their solvency margin and twelve additional financial ratios to assist it in monitoring the financial condition of insurers. An acceptable range of results for each of the twelve ratios is used as a benchmark. The departure from the acceptable range of four or more of the ratios can lead to regulatory action being taken by the CIRC.

Our solvency margin as of December 31, 2006 was approximately 3.5 times the minimum regulatory requirement. Among the twelve financial ratios, eleven financial ratios were within their acceptable ranges as determined by CIRC and our actual solvency ratio was slightly higher than the acceptable range provided by the CIRC. The increase in our actual solvency ratio was due to the proceeds received from our A share offering.

Table of Contents

Contractual Obligations and Commitments

The following tables set out our contractual obligations and commitments as of December 31, 2006.

As of December 31, 2006	Not later than 1 year	Later than 1 year but not later than 3 years	Later than 3 years but not later than 5 years	Later than 5 years	Total
			(RMB in millions)		
Securities sold under agreements to repurchase	8,227				8,227
Short-term bank borrowings					
Long-term bank borrowings					
Off balance sheet operating leases	242	303	83	50	678
Capital commitments	990				990
Total	9,459	303	83	50	9,895
Long-term Business					
Long-term traditional insurance contracts	18,502	38,673	41,688	749,600	848,463
Long-term investment type insurance contracts	63,897	120,247	96,152	141,699	421,995
Investment contracts with discretionary participation feature	11,438	15,127	10,244	20,195	57,004
Investment contracts without discretionary participation feature	1,397	633	253	677	2,960
Short-term Business	5,438				5,438

Capital commitments represent our commitments with respect to the acquisition of property, plant and equipment.

The amounts set forth in the table above for long-term business and short-term business in each column are the cash flows representing expected future benefit payments on policies in force as at December 31, 2006, relating to premiums received through December 31, 2006. No consideration is given to future premiums payments or deposits from policyholders (and the cash flows resulting therefrom), even though in the case for traditional insurance policies and certain investment contracts, the receipt of such premiums is necessary for the policies to remain in full force. The estimate is affected by numerous assumptions (depending on the product type), including assumptions related to mortality, morbidity, lapses, withdrawals, credited rates, loss ratio, claim adjustment expenses and other assumptions which affect our estimates of future payments. Many of these assumptions are inherently uncertain and outside our control. Accordingly, the actual experience may differ from our estimates.

Furthermore, as the benefit payments reported in the table above are not discounted from the date of payment back to December 31, 2006 and do not reflect the impact of future premiums or future new deposits, the sum of these payment amounts are different from the amount of corresponding liabilities in our consolidated balance sheet as of December 31, 2006. Policyholder dividends will not become a contractual obligation until the applicable policy anniversary is reached and the dividend amount is credited to the policy benefit liability or paid to the policyholder, and hence are not included in the table above. Reinsurance recoveries have not been taken into account.

Table of Contents

Other than as set forth under capital commitments, we had no material, individually or in the aggregate, purchase obligations as of December 31, 2006.

RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

None.

TREND INFORMATION

Please refer to our discussion in each section under Overview , Factors Affecting Our Results of Operations , Critical Accounting Policies and Operating Results .

OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 2006, we have not entered into any off-balance sheet arrangements.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

See Liquidity and Capital Resources Contractual Obligations and Commitments .

RECONCILIATION OF HONG KONG FINANCIAL REPORTING STANDARDS (HKFRS)

AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (U.S. GAAP)

The consolidated financial statements contained in this annual report have been prepared in accordance with HKFRS. There are no material differences between HKFRS and U.S. GAAP that had an effect on net profit for the years ended December 31, 2006, 2005 and 2004 and shareholders equity as at December 31, 2006 and 2005.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES.

DIRECTORS AND SENIOR MANAGEMENT

The following table sets forth information regarding our current directors and executive officers. Unless otherwise indicated, their business address is c/o China Life Insurance Company Limited, 16 Chaowai Avenue, Chaoyang District, Beijing 100020, China.

Name	Age	Position
Yang Chao	57	Chairman of the Board and executive director
Wan Feng	49	Executive director and Vice President
Lin Dairen	48	Vice President
Liu Yingqi	49	Vice President
Liu Jiade	44	Vice President
Zhou Ying	53	Chairman of Communist Party Disciplinary Commission
Su Hengxuan	44	Assistant to President
Shi Guoqing	55	Non-executive director
Zhuang Zuojin	55	Non-executive director
Long Yongtu	64	Independent non-executive director
Sun Shuyi	66	Independent non-executive director
Ma Yongwei	64	Independent non-executive director
Chau Tak Hay	64	Independent non-executive director
Cai Rang	50	Independent non-executive director
Ngai Wai Fung	45	Independent non-executive director

Liu Lefei	34	Chief investment officer
Liu Anlin	44	Chief information technology officer
Shiu Wai Chung	53	Chief actuary

Table of Contents

Yang Chao has been the chairman of our board of directors since July 2005. Mr. Yang has been the president of CLIC since May 2005. Mr. Yang also serves as the chairman of China Life Property and Casualty Company Limited since November 2006. Mr. Yang was president of our company from June 2005 to January 2006. Between 2000 and 2005, Mr. Yang served as the chairman of board of directors and president of China Insurance (Holdings) Company Limited and China Insurance H.K. (Holding) Company Limited, respectively. Between 1996 and 2000, Mr. Yang was the chairman and president of CIC Holdings (Europe) Limited. Between 1976 and 1996, Mr. Yang had been the general manager of the operations departments of The People s Insurance (Group) Company of China and The People s Insurance Company of China, respectively, the general manager of The People s Insurance Company of China, Shanghai Pudong branch, the deputy general manager, assistant general manager, deputy section chief of the Import Division, and a staff member of the Ships Non-marine Insurance Division of The People s Insurance Company of China, Shanghai branch and a staff member of Bank of China, Shanghai branch. With over 30 years of experience in the insurance and banking industries, Mr. Yang is a senior economist. Mr. Yang graduated from Shanghai International Studies University and Middlesex University in the United Kingdom. Mr. Yang majored in English and Business Administration and has obtained a Master s degree in Business Administration.

Wan Feng has been an executive director of our company since June 2006 and a vice president of our company since 2003. Mr. Wan has been in charge of our daily operations and management as authorized by our board resolution since January 31, 2007. Mr. Wan also serves as a director of China Life Property and Casualty Insurance Company Limited since November 2006 and a director of China Life Insurance Asset Management Company Limited since January 2006. Prior to joining China Life, Mr. Wan served as a vice president of CLIC and general manager of its Shenzhen branch since 1999 and director of China Life CMG since 1999. Other positions in Mr. Wan s 25-year career in the insurance industry include general manager of the Shenzhen branch of PICC Life from 1997 to 1999. Before that, Mr. Wan had also served as a director and senior vice president of the Hong Kong branch of Tai Ping Life Insurance Company, assistant president of the Hong Kong branch of CLIC and deputy chief of the life insurance division at The People s Insurance Company of China, Jilin branch. He graduated from Jilin College of Finance and Trade with a bachelor s degree in economics; The Open University of Hong Kong with a Master s degree in Business Administration; and Nankai University in Tianjin with a doctorate degree in finance. Mr. Wan was awarded special allowance by the State Council and is a senior economist.

Lin Dairen has been a vice president of our company since 2003 and has been an executive director and president of China Life Pension Company Limited since November 2006. Prior to joining China Life, Mr. Lin served as general manager of CLIC s Jiangsu branch from 2001 to 2003, deputy general manager of CLIC s Jiangsu branch from 1999 to 2001, and deputy general manager of PICC Life s Jiangsu branch from 1996 to 1999. Prior to that, Mr. Lin served as a division chief of life insurance division of PICC Jiangsu Branch from 1994 to 1996 and vice president of Nanjing Life Insurance Company Limited; a deputy division chief of life insurance division of PICC Jiangsu Branch from 1989 to 1994 (acting chief); and deputy manager, section chief, vice section chief and section member of domestic business department of PICC Jiangsu Branch. As a senior economist, Mr. Lin brings to China Life his 26 years extensive operations and management experience in the insurance industry. Mr. Lin graduated from Shandong Province Weifang Medical School in 1982 with a bachelor s degree in medicine.

Liu Yingqi has been a vice president of our company since January 2006 and has been a director of China Life Pension Company Limited since November 2006. Ms. Liu served as the chairperson of our supervisory committee from August 2003 to January 2006. Between 1997 and 2003, Ms. Liu was general manager of the group insurance department of CLIC and deputy general manager of the Anhui branch of CLIC. Earlier in her career, Ms. Liu worked at Anhui branch of PICC, where she served as both division chief of the accident insurance division and deputy division chief of the life insurance division (acting chief). A 1982 graduate from Anhui University with a bachelor s degree in economics, Ms. Liu has over 20 years operational and management experience in the life insurance industry in China.

Liu Jiade has been a vice president of our company since 2003 and has been a director of China Life Asset Management Company Limited since June 2004. He also serves on the board of China Life Asset Management (Hong Kong) Company Limited (since renamed China Life Franklin Asset Management Company Limited) since May 2006 and the board of Guangdong Development Bank since December 2006. Immediately prior to joining China Life, Liu had served as a vice director of the Finance Bureau of the Ministry of Finance for three years, and as a division chief in the National Debt Finance Bureau of the Ministry of Finance from 1998 to 2000. Other positions Mr. Liu has occupied during his career include vice county chief of the People s Government of Guan Tao County in Hebei Province, and vice department chief and then department chief in the Commercial Finance Bureau in the Ministry of Finance. During his tenure at the Ministry of Finance, Mr. Liu gained extensive experience in the administration of assets, finance and taxation of insurance companies, banks, trust companies and securities institutions. Mr. Liu graduated from Central Finance College in 1984 (now Central University of Finance and Economics) with a bachelor s degree in economics.

Zhou Ying has been the chairman of the Communist Party Disciplinary Commission at China Life since November 2006. Prior to that, Mr. Zhou served as chief and designated supervisor (ranked as deputy bureau chief) of the Fifth Division and designated supervisor (ranked as deputy bureau chief) of Beijing State-owned Enterprise Supervisory Committee from May 2004 to November 2006; a party committee member, chief of party disciplinary group, deputy party secretary and chairman of the Communist Party Disciplinary Committee at Hua Xia Bank from January 1998 to May 2004; deputy director of the Central Office for Taiwan Affairs of Beijing Municipal Government from August 1992 to January 1998. From February 1981 to August 1992, he held various positions at China Communist Youth League Beijing Committee, including deputy chief of its propaganda department, deputy office chief, office chief, standing committee member and office chief, standing committee member and chief secretary and office chief, and deputy party secretary. Mr. Zhou graduated from University of Science and Technology of China with a Master s degree in Business Administration.

Su Hengxuan has been our assistant to president since 2006. Mr. Su also serves on the board of China Life Property and Casualty Insurance Company Limited and the board of Insurance Professional College since November and December 2006, respectively. From 2003 to 2006, Mr. Su served as the general manager of our individual life insurance business department. From 1998 to 2003, Mr. Su served as both division chief of the agency management office and manager of sales department at CLIC s Henan branch, deputy general manager of CLIC s Henan branch, and general manager of CLIC s individual life insurance department. Before that, Mr. Su served as division chief of life insurance division and division chief of sales division of PICC Life, Henan branch between 1996 and 1998. From 1983 to 1996, Mr. Su served as section chief and deputy division chief at PICC Henan Branch s life insurance division. Mr. Su has over 24 years experience in the life insurance industry and assurance management. Mr. Su studied in Banking School of Henan Province in 1983 and graduated from the Insurance and Finance Department of Wuhan University in 1998 with a bachelor s degree in economics, majoring in insurance. Mr. Su is a senior economist.

Table of Contents

Shi Guoqing has been a non-executive director of our company since 2004 and a vice president of CLIC since August 2003. He is also the chairman of China Life Insurance (Overseas) Co., Ltd., the chairman of Shanghai PICC Tower Limited, and director of China Life-CMG, Beijing Oriental Plaza Co., Ltd., Hong Kong Huiyen Holding Company Limited, China International Trade Center Limited, China International Trade Center Company Limited, China World Trade Investments Limited and Shanghai Lujiazui Finance & Trade Zone United Development Co., Ltd., respectively. Before taking these positions, he served as assistant to general manager of CLIC from 1999 to 2003. Between 1995 and 1999, Mr. Shi acted as deputy general manager of PICC Life. From 1976 to 1995, he acted as a section member, section chief and deputy chief of overseas business divisions of PICC (acting chief), deputy general manager and general manager of China Insurance Co., Ltd., Macao branch, and executive deputy general manager of the international department of PICC. Mr. Shi graduated from Foreign Trade Business College of Beijing in 1976. During over 30 years in the insurance industry, he has accumulated extensive experiences both in operation and management of insurance businesses. Mr. Shi is a senior economist.

Zhuang Zuojin has been a non-executive director of our company since June 2006, and a vice president of CLIC since August 2003. Ms. Zhuang also serves on the boards of China Life Insurance Asset Management Company Limited since June 2004, China Life Asset Management (Hong Kong) Company Limited (since renamed China Life Franklin Asset Management Company Limited) since May 2006, and China Life-CMG since June 2000. Ms. Zhuang was an assistant to the president of CLIC from March 1999 to August 2003, and a vice general manager of the Zhejiang branch of CLIC, and the general manager of the Hangzhou branch of CLIC from March 1999 to October 2000. Ms. Zhuang was also the president of China Life Insurance Trust and Investment Company from June 1999 to October 2000, and a vice general manager of the Zhejiang branch of PICC Life, and the general manager of the Hangzhou branch of PICC Life from July 1996 to March 1999. From 1981 to 1996, she acted as accounting staff, deputy chief, chief and chief accountant of the planning and finance division of the Zhejiang branch of the People s Insurance Company of China. Ms. Zhuang graduated from the Correspondence College of the Central Party School with major in economics management, and studied Probability Statistics (insurance actuarial oriented) at Zhejiang University from September 1999 to January 2000. She is a senior accountant and has worked in insurance companies for over 26 years with extensive experience in insurance business operation and management.

Long Yongtu has been an independent non-executive director of our company since 2003 and is also the General Secretary of Boao Asian Forum. Before leaving government service in early 2003, Mr. Long served as Vice Minister and Chief Negotiation Representative of MOFTEC, now the Ministry of Commerce, from 1997 onwards. Mr. Long also served as Assistant to the Minister, Director of International Trade and Economic Affairs and as Director of International Communication in the same ministry. Between 1980 and 1991, Mr. Long served as a senior officer at the regional project department of UNDP, Deputy Representative of the UNDP Korean Delegate Office and Deputy Director of China International Center for Economic and Technical Exchanges. A 1965 graduate of the Foreign Language Department of Guizhou University, Mr. Long studied at the London School of Economics between 1973 and 1974.

Sun Shuyi has been an independent non-executive director of our company since 2004. Mr. Sun is also the executive vice president of China Federation of Industrial Economics, vice chairman of United China Enterprise Association, executive vice president of China Enterprise Association, deputy supervisor of China Brand Promotion Committee and member of the 10th Chinese People s Political Consultative Conference. From 1993 to 2001, Mr. Sun acted as the deputy chief of General Office, deputy director of the Personnel Department of the Central Steering Committee of Financial Affairs of China, deputy party secretary of Central Government Enterprise Working Committee. From 1988 to 1993, he was the deputy head of the Finance Management Department and the deputy head and head of the Production System Department of the State System Reform Commission. Mr. Sun graduated from the University of Science and Technology of China in 1963 and is a senior engineer and a certified public accountant.

Ma Yongwei has been an independent non-executive director of our company since 2006. Mr. Ma has been a member of the Standing Committee of National Committee of Chinese People s Political Consultative Conference since 2003. He was the chairman of the CIRC from 1998 to 2002. Mr. Ma possesses more than 37 years experience in the banking and insurance industries. From 1996 to 1998, he served as the chairman and president of former China Insurance Group Company. From 1994 to 1996, he served as chairman and president of former PICC. From 1982 to 1994, Mr. Ma served as deputy chief of the agricultural credit division of Agricultural Bank of China, Anhui Branch, vice governor of Anhui Branch, and vice governor and governor of Agricultural Bank of China. Mr. Ma graduated from Finance Department of Liaoning Finance and Economic University in 1966. Mr Ma is a Researcher.

Chau Tak Hay has been an independent non-executive director of our company since 2003. Prior to this, Mr. Chau occupied a number of important positions in the Hong Kong Government. They include Secretary for Commerce and Industry, Secretary for Broadcasting, Culture and Sport, Director General of Trade and Secretary for Health and Welfare. Mr. Chau graduated from the University of Hong Kong in 1967.

Cai Rang has been an independent non-executive director of our company since 2004. Mr. Cai is the party secretary and deputy general manager of China Steel Research Technology Group, and vice chairman of Advanced Technology & Materials Co., Ltd. From 1998 to 2007, he was the president of Advanced Technology of Materials Co., Ltd. From 1987 to 2001, he was a division chief, deputy chief economist, assistant to director and deputy director of the Central Iron and Steel Research Institute. Mr. Cai graduated from the Machinery Faculty of the Northeastern Industry University in 1982 with a bachelor s degree of engineering. He studied at the New York State University from 1984 to 1986, and graduated with an MBA degree. He pursued on-the-job studies at the School of Business Administration of Remin University of China from 1997 to 2001 and obtained a doctorate degree in business administration. From 1997 to 1998, Mr. Cai was a visiting professor at the Cambridge University in the United Kingdom. Mr. Cai is a professor-level senior engineer and was awarded special allowance by the State Council.

Ngai Wai Fung has been an independent non-executive director of our company since December 29, 2006. He is the associate director and head of listing services of KCS Limited (formally the commercial division of KPMG and GT), vice president of the Hong Kong Institute of Chartered Secretaries and the chairman of its China Affairs Committee. He was the company secretary and head of the Secretariat of ICBC (Asia) in 2005, executive director of Top Orient Capital (Asia) Ltd. between 2003 and 2005, the company secretary and department manager of China Unicom Limited between 2001 and 2003, executive director, company secretary and chief financial officer of Oriental Union Holding Limited between 1999 and 2001. Mr. Ngai graduated from the Hong Kong Polytechnic University in 2002 with a master s degree in corporate finance. He graduated from Andrews University of Michigan in 1992 with a Master s degree in Business Administration. Currently, he is studying at Shanghai University of Finance and Economics for a doctorate degree. Mr. Ngai has over 18 years of senior management experience, most of which is in the areas of finance, accounting, internal control and regulatory compliance for issuers including major H shares and red chip companies.

Liu Lefei has been our chief investment officer since July 2006 and has served as general manager of our investment management department since August 2004. Mr. Liu has been a director of Guangdong Development Bank since December 2006. He served as both the general manager of Investment Management Department of China Galaxy Securities Co., Ltd. and general manager of Beijing Galaxy Investment Consulting Company between 2003 and 2004. From 1998 to 2003, Mr. Liu served as both deputy

Table of Contents

general manager of Zhongye an Shunda Industrial Corporation under the Ministry of Metallurgical Industry and executive director of Capital Securities Company. From 1995 to 1998, Mr. Liu worked for the general department of the Ministry of Finance. Mr. Liu was a member of the 9th and 10th of All China Youth Federation, and served as a member of Xinhua FTSE Index Committee and a member of Reuters China Pension Index Advisory Committee. Mr. Liu graduated from Renmin University of China with a bachelor s degree in economics in 1995; Graduate School of the Chinese Academy of Social Sciences in 1998; and China Europe International Business School in 2006 with a master s degree in business administration majoring in Finance.

Liu Anlin has been our chief information technology officer since July 2006. Mr. Liu was in charge of our IT department and then served as its general manager between November 2002 and July 2006. Mr. Liu served as the deputy general manager of CLIC s human resources department from November 2001 to November 2002. Prior to that, he had served as deputy division chief (acting chief) of the IT division and assistant to general manager of CLIC s Gansu branch between April 1999 and November 2001; assistant to division chief and deputy division chief (acting chief) of the IT division at PICC Life s Gansu branch between June 1996 and April 1999; manager of Computer Center Technology Department of The People s Insurance Company of China, Gansu branch and manager of the Technology Development Department of Gansu ZhongBao Electronic Co., Ltd. between January 1995 and June 1996. Mr. Liu graduated from Lanzhou University of China in 1985 with a bachelor s degree in science majored in computer mathematics. He studied at University of Sunderland in the United Kingdom from 1992 to 1993. He has obtained a master s degree in business administration from Tsinghua University in 2006, and is studying for a doctorate degree in risk management at Beijing Normal University. Mr. Liu is a senior economist.

Shiu Wai Chung has been our chief actuary since March 2007. Ms. Shiu had served as senior deputy president and chief actuary at several subsidiaries of Prudential Financial, Inc. and has accumulated extensive working experience in insurance companies, and also held positions of president and senior officer at many actuary societies. Her professional qualifications include, among others, Chartered Financial Analyst (CFA), Certified Employee Benefit Specialist (CEBS), Chartered Financial Consultant (CHFC), Chartered Life Underwriter (CLU), Member of the American Academy of Actuaries (MAAA), and Fellow of the Society of Actuaries (FSA). Ms. Shiu obtained a bachelor s degree from National Chengchi University in Taiwan and a master s degree from University of Iowa, U.S.

Board of Supervisors

Supervisors

The following table sets forth information regarding our current supervisors.

Name	Age	Position
Xia Zhihua	52	Chairperson of Board of Supervisors
Wu Weimin	56	Supervisor
Qing Ge	56	Employee Representative Supervisor
Yang Hong	40	Employee Representative Supervisor
Tian Hui	55	Outside supervisor

Xia Zhihua has been the chairperson of our supervisory committee since March 2006. As the representative of the PRC State Council, Ms. Xia supervised CLIC, and China Export & Credit Insurance Corporation between August 2003 and December 2005, China Great Wall Asset Management Corporation between November 2001 and July 2003, and China Economic Development Trust & Investment Corporation between July 2000 and November 2001. She served as deputy chief of the Supervisory

Table of Contents

Committee, deputy chief of Administration Office, chief of supervisory committee and head of Administration Office respectively. Ms. Xia joined the Ministry of Finance in December 1984, and positions she held in this ministry include the assistant inspector of the Treasury from June 2000 to July 2000; the deputy department chief of Treasury Bond Finance Department from July 1998 to June 2000; the deputy department chief of Treasury Bond Department from July 1997 to June 1998; a staff member of the Training and Administrative Finance Department, section chief, deputy division chief and division chief in the Domestic Debt Management Department from December 1984 to June 1997. Ms. Xia graduated from Economics Department of Xiamen University and received a bachelor s degree in politics and economics and a master s degree in world economics.

Wu Weimin has been a supervisor of our company since 2003. Mr. Wu serves as the general manager of the compliance department of our company. Prior to assuming this role, Mr. Wu had served as deputy secretary of the disciplinary committee, director of the supervision office, deputy general manager of the organization department and vice general manager of the personnel education department of CLIC since 1998. Earlier in his career, Mr. Wu served as vice general manager of the human resources department and division chief of the compensation division of PICC Group between 1995 and 1998. Before entering the insurance industry, Mr. Wu held a position with the labor wages bureau of the Ministry of Communications. In 2000, he studied insurance at the China Insurance Management Staff Institute.

Qing Ge has been a supervisor of our company since June 2006 and has been both the general manager of the working department and the deputy director of the Trade Union of our company since September 2005. Between September 2003 and September 2005, Mr. Qing was the deputy general manager of our Beijing branch. From 1999 to September 2003, he was the general manager of Inner Mongolia branch and deputy general manager of Beijing branch of CLIC. From July 1996 to April 1999, he was the general manager of Inner Mongolia branch of PICC Life. From 1993 to 1996, he was the deputy general manager and party secretary of The People s Insurance Company of China, Inner Mongolia branch. Mr. Qing graduated from South China University of Technology with undergraduate education qualification. He is a senior economist.

Yang Hong has been a supervisor of our company since October 2006 and has acted as general manager of our Customer Service Department since October 2006. From October 1998 to October 2006, Ms. Yang held positions in our Business Management Department including a staff member of Deed Division, head and deputy division chief of Customer Service Division, assistant to general manager and division chief of Customer Service Division, assistant to general manager and deputy general manager. From December 1995 to October 1998, Ms. Yang served as a staff member of the Equipment Division and Network Division of Information Technology Department of PICC Life. Between August 1989 and December 1995, Ms. Yang worked for the Development Division of Computer Department of The People s Insurance Company of China and the Second Marketing Department of PICC Electronics Company Limited. Ms. Yang graduated from the Computer Department of Jilin University with a bachelor degree.

Tian Hui has been a supervisor of our company since June 2004. Mr. Tian has been the director and party secretary of Sinocoal International Engineering Design & Research Institute since February 2007, and served as the chairman of Beijing Huayue Engineering Company Limited since June 2006. Between 2000 and 2006, Mr. Tian had been the director and deputy party secretary of Sinocoal International Engineering Design & Research Institute and the chairman of Beijing Huayue Engineering Company Limited. From 1998 to 2000, he was the deputy director, director and deputy party secretary of the Beijing Coal Design Institute. From 1982 to 1998, Mr. Tian was the deputy department head, department head and deputy director of Shenyang Design Institute of the Ministry of Coal Industry. Mr. Tian graduated from Fuxin Minery School with a bachelor s degree and from China University of Mining & Technology (Beijing) with a doctorate degree. Mr. Tian is a senior engineer and is qualified as Master of Project Survey & Design in China, and was awarded special allowance by the State Council.

Table of Contents

COMPENSATION

Compensation of Directors, Supervisors and Officers

Our directors, supervisors and executive officers receive compensation in the form of salaries, bonuses, housing allowances and other benefits-in-kind, including our contribution to the pension plan on behalf of our directors, supervisors and executive officers. As required by PRC regulations, we participate in various defined contribution retirement plans organized by provincial and municipal governments for our employees, including employees who are directors, supervisors and executive officers.

The following table sets forth the amounts of compensations payable to each of our directors and supervisors for the fiscal year ended December 31, 2006.

Name	Salaries/ Fees	Discretionary Bonus	Inducement Fees	Other Benefits	Employer s Contribution To Pension Scheme	Compensation for loss of office as director	Total
				In RMB			
Yang Chao	590,000	801,500			19,016		1,410,516
Wu Yan(1)	540,833	324,500			17,598		882,931
Wan Feng(2)	312,813	583,330			10,663		906,806
Shi Guoqing							
Zhuang Zuojin							
Long Yongtu	220,000						220,000
Sun Shuyi	220,000						220,000
Ma Yongwei(3)	183,333						183,333
Chau Tak Hay	220,000						220,000
Cai Rang	220,000						220,000
Ngai Wai Fung(4)							
Miao Fuchun(5)							
Liu Yingqi(6)							
Xia Zhihua(7)	407,917	200,250			16,181		624,348
Wu Weimin	312,000	469,050			19,016		800,066
Jia Yuzeng(8)	143,000	202,263			8,353		353,616
Qing Ge(9)	169,000	266,328			10,663		445,991
Yang Hong(10)	67,979	91,415			4,101		163,495
Ren Hongbin(11)							
Tian Hui				100,000			100,000
Total	**3,606,875**	**2,938,636**		**100,000**	**105,591**		**6,751,102**

(1) Payment since February 1, 2006 and resigned as the executive director on January 26, 2007.
(2) Appointed on June 16, 2006.
(3) Appointed on March 16, 2006.
(4) Appointed on December 29,2006.
(5) Resigned on June 16, 2006.
(6) Resigned on January 5, 2006.
(7) Appointed on March 16, 2006.

(8) Resigned on June 15, 2006.
(9) Appointed on June 15, 2006.
(10) Appointed on October 16, 2006.
(11) Resigned on June 16, 2006.

The aggregate fees or compensation paid to all of our executive officers other than those disclosed in the table above, including vice presidents and assistant to president who are not our directors and our chief investment officer, chief information technology officer, chief actuary (Mr. Daniel Joseph Kunesh as of December 31, 2006) and chairman of communist party disciplinary commission, for the year ended December 31, 2006, was RMB 8,528,579 (US$1,092,833), among which RMB 93,562 (US$11,989) was contributed to various defined contribution retirement plans as described above.

The aggregate amount of compensation we paid to our five highest paid individual employees during the year ended December 31, 2006 was approximately RMB 7,970,000 US$1,021,258.

Senior Management Compensation System

In order to provide better incentives for our senior management and to enhance further the alignment between our senior management s performance and our shareholders value, our shareholders, upon the recommendation of our board of directors, have adopted a compensation system for our senior management, which was designed with the assistance of an independent compensation consulting firm. The system is designed to link our senior management s financial interests with our results of operations and the performance of our shares. Under this system, our senior management s compensation will consist of three components:

- basic salaries and other fixed allowances;
- short-term incentive compensation (annual performance bonuses); and
- long-term incentive compensation in the form of stock appreciation rights, which generally entitle recipients to receive cash payments when the market price of our H shares rises above the exercise price granted in the stock appreciation rights.

The variable components in our senior management s compensation, which consist of performance bonuses and stock appreciation rights, account for 30% to 65% of their total potential compensation. Generally, the more direct impact the recipient s responsibilities have on our final operating results, the larger the variable portion of the recipient s compensation package will be.

The annual performance bonuses are closely linked with our annual results of operations and the individual performance of our senior management. We have established a complete performance management system, under which key performance indicators are assigned to each position. For example, the key performance indicators assigned to our chief actuary position include the ratio of profitable products to all insurance products, as well as the profit ratio of new insurance products. The key performance indicators assigned to the general manager of our human resources department include the retention rate of specified key positions, the degree of satisfaction of other departments in the general manager s performance and the duration of vacancies of our senior management.

The issuance of stock appreciation rights does not involve any issuance of new shares, nor does it have a dilutive effect on our shareholders. Stock appreciation rights may be awarded to the senior management and other outstanding personnel, including members of the board of directors and the board of supervisors (but excluding independent non-executive directors and independent supervisors), the president, vice presidents, heads of the departments and divisions in our headquarters, general managers and deputy general managers of our principal and municipal branches, senior professionals and technicians of key positions, such as the chief actuary, as well as exclusive agents with outstanding performance. Our board of directors will determine the recipients of stock appreciation rights according to internal procedures.

Stock appreciation rights will be awarded in units, with each unit representing one H share. Among the senior management to whom stock appreciation rights are awarded, the ratio between the highest and the lowest awards will in general not exceed 18:1, with the number of units of the highest award not exceeding 10% of the total units awarded to all participants. The total number of stock appreciation rights that have been awarded but not exercised or cancelled and the total number of stock appreciation rights that have been exercised may not exceed 0.5% of our issued share capital, including both A shares and H shares. During any fiscal year, the number of stock appreciation rights awarded may not exceed 0.2% of our issued share capital.

According to this plan, all stock appreciation rights will have an exercise period of five years and will not be exercisable before the fourth anniversary of the date of award unless specified market or other conditions have been met. Under these market conditions, the exercise right may be accelerated, on a cumulative basis, if the share price rises by the percentages and within the time periods indicated below. Upon an employee s completion of four years of continuous service after the date of award, all of the stock appreciation rights will be exercisable, regardless of the extent, if any, to which the performance criteria set forth below have been satisfied.

A total of one-third of the stock appreciation rights may be exercised provided that within 6 to 18 months from the date of award, the share price is at least 10% higher than the exercise price for a period of 20 consecutive trading days;

If such portion of the stock appreciation rights have not already become exercisable during the period between 6 and 18 months from the award date, a total of one-third of the stock appreciation rights may be exercised provided that within 18 to 30 months from the date of award, the share price is 10% to 20% higher than the exercise price for a period of 20 consecutive trading days. Additionally, a total of two-thirds of the stock appreciation rights (that is, inclusive of any portion of the stock appreciation rights that have been exercisable by achieving the lower stock thresholds in the relevant period) may be exercised if, during the period from 18 to 30 months from the date of award, the share price is more than 20% higher than the exercise price for a period of 20 consecutive trading days; and

If such portion of the stock appreciation rights have not already become exercisable during the period between 6 and 30 months from the award date, a total of one-third of the stock appreciation rights may be exercised provided that after 30 months from the date of award, the share price is 10% to 20% higher than the exercise price for a period of 20 consecutive trading days and a total of two-thirds of the stock appreciation rights may be exercised if the share price is more than 20% higher during such period. Additionally, all of the stock appreciation rights may be exercised if the share price is more than 30% higher for a period of 20 consecutive trading days at any time after 30 months from the award date.

The exercise price of stock appreciation rights will be the average closing price of the shares in the five trading days prior to the date of the award. Upon exercise of the stock appreciation rights, the exercising participant will receive payment in Renminbi, subject to any withholding tax, equal to the number of stock appreciation rights exercised times the difference between the exercise price and market price of the H shares at the time of exercise.

Table of Contents

As disclosed in our annual report under the rules of Hong Kong Stock Exchange for the fiscal year of 2004 and submitted to the SEC on Form 6-K on May 5, 2005, subject to the approval by our board of directors, we planned to award stock appreciation rights to our senior management personnel in 2005. Accordingly, our board of directors approved, on January 5, 2006, an initial award of stock appreciation rights of 4,053,015 units of stock appreciation rights, each representing one H share, to our senior management personnel, including our chairman of the board of directors, executive directors, non-executive directors (excluding independent non-executive directors), chairman of the board of supervisors, internal supervisors, president, vice presidents, secretary to the board of directors, appointed actuary and appointed legal officer as required by the CIRC, head of key departments in our headquarters and heads of our branches at the provincial level. The award covered 68 personnel existing at July 1, 2005, and the exercise price of the rights was the average closing price of our H shares in the five trading days prior to July 1, 2005.

On January 5, 2006, our board of directors approved in principle our second award plan of stock appreciation rights. On August 21, 2006, our board of directors further approved the second award plan of stock appreciation rights consisting of approximately 53,220,000 units awarded to the senior management and outstanding personnel, including the personnel covered under our initial award plan, deputy managers and assistants to the managers of the departments in our headquarters, managers and certain qualified deputy managers of the divisions in our headquarters, deputy managers and equivalent management personnel of our branches at the provincial level, assistants to the managers, outstanding management personnel of our branches at the municipal level and outstanding exclusive agents. The exercise price of the rights was the average closing price of our H shares in the five trading days prior to January 1, 2006.

On December 29, 2006, our board of directors also approved in principle our third award plan of stock appreciation rights, and the exercise price of the rights is the average closing price of our shares in the five trading days prior to January 1, 2007.

The table below sets forth the numbers of stock appreciation rights awarded to members of our senior management under award plan described above.

Name	Number of Stock Appreciation Rights Awarded
Yang Chao	990,000
Wu Yan[(1)]	900,000
Wan Feng	808,000
Shi Guoqing	668,000
Zhuang Zuojin	668,000
Xia Zhihua	742,000
Wu Weimin	282,000
Qing Ge	282,000
Yang Hong	174,000
Other executive officers	3,448,000
Total	**8,962,000**

(1) resigned as the president on January 31, 2007

Table of Contents

BOARD PRACTICES

General

Our board of directors consists of ten members. Our directors are elected to serve a term of three years, which is renewable upon re-election. The PRC company law requires a joint stock company with limited liability to establish a board of supervisors. Our board of supervisors is responsible for monitoring our financial matters and supervising the actions of our board of directors and our management personnel. Our board of supervisors consists of five members. One-third of our board of supervisors must be elected by our employees. The remaining members must be elected by our shareholders in a general meeting. One member of our board of supervisors is designated as the chairman. Members of our board of supervisors may not serve as director or member of senior management. The term of office for our supervisors is three years, which is renewable upon re-election.

Our directors are elected at meetings of our shareholders, and, unless they resign at an earlier date, are deceased or removed, will serve three-year terms. The term of our current board of directors started in June 2006 and will expire in June 2009. Our directors are not currently entitled to severance benefits other than benefits provided by law upon termination of employment. In the event China Life is acquired, including an acquisition of control by another person, and a director leaves employment or retires following the acquisition, the director may receive severance and other payments upon approval by the shareholders in general meeting.

We have identified various board members as being independent , in accordance with Hong Kong laws and regulations. These requirements vary in certain respects from independence requirements under U.S. law. The members of our audit committee are independent as construed by the rules of New York Stock Exchange applicable to us.

Board Committees

We have established standing audit, nomination and remuneration, risk management and strategic committees.

The primary duties of the audit committee are to review and supervise the financial reporting process and our internal control systems. Our audit committee is currently comprised of Sun Shuyi, Chau Tak Hay, Cai Rang and Ngai Wai Fung.

The primary duties of the nomination and remuneration committee are to review the structure of the board of directors, review and recommend the appointment of directors and senior management, as well as to formulate the training and compensation policies for our senior management and to manage our senior management compensation system. Our nomination and remuneration committee is currently comprised of Cai Rang, Sun Shuyi, and Shi Guoqing.

The primary duties of the risk management committee are to assist the management in managing our internal and external risks. Our risk management committee is currently comprised of Ma Yongwei, Wan Feng and Zhuang Zuojin.

The primary duties of the strategic committee are to formulate our overall development plans and investment decision-making procedures. Our strategic committee is currently comprised of Long Yongtu, Wan Feng and Shi Guoqing.

Table of Contents

EMPLOYEES

As of December 31, 2004, 2005 and 2006, we had approximately 75,000, 76,000 and 77,000 employees, respectively. The following table sets forth the number of our employees by their functions as of December 31, 2006.

	As of December 31					
	2004		2005		2006	
	Number of employees	% of total	Number of employees	% of total	Number of employees	% of total
Management and administrative staff	8,731	11.57%	9,303	12.28%	11,643	15.06%
Financial and auditing staff	5,218	6.92%	5,335	7.05%	5,501	7.11%
Sales and marketing staff(1)	33,110	43.89%	33,674	44.47%	32,373	41.87%
Underwriters, claim specialists and customer service staff	16,035	21.6%	15,950	21.06%	17,108	22.13%
Other professional and technical staff(2)	1,676	2.22%	1,779	2.35%	1,905	2.46%
Other	10,667	14.14%	9,687	12.79%	8,788	11.37%
Total	75,437	100%	75,728	100%	77,318	100%

(1) Includes direct sales representatives.

(2) Includes actuaries, product development personnel, investment management personnel and information technology specialists.

As of December 31, 2004, 2005 and 2006, we had approximately 668,000, 640,000 and 650,000 exclusive agents, respectively. The increase in number of our exclusive agents from 2005 to 2006 was primarily due to the improvement of our hiring methods and ability.

None of our employees is subject to collective bargaining agreements governing employment with us. We believe that our employee relations are satisfactory.

SHARE OWNERSHIP

As of the date of this annual report, except for our independent director, Mr. Ngai Wai Fung, who owns 2,000 H shares, none of our directors, supervisors or senior managers is a legal or beneficial owner of any shares of our share capital.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS.

MAJOR SHAREHOLDERS

The table sets forth information regarding the ownership of our share capital as of April 30, 2007 by all persons who are known to us to be the beneficial owners of 5% or more of each class of our share capital.

Title of Class	Identity of Person or Group	Amount Owned	Percentage of Class	Percentage of Total Share Capital
A shares	CLIC	19,323,530,000(L)	92.80%	68.37%
H shares	J.P. Morgan Chase & Co.(1)	499,887,921(L)	6.72%	1.77%
		451,811,295(S)	6.07%	1.60%
		197,191,460(P)	2.65%	0.70%
H shares	Deutsche Bank Aktiengesellschaft(2)	594,520,000(L)	7.99%	2.10%

		550,903,407(S)	7.40%	1.95%
H shares	Societe Generale[3]	416,417,741(L)	5.60%	1.47%
		597,370,338(S)	8.03%	2.11%
H shares	KBC Group N.V.[4]	446,581,593(L)	6.00%	1.58%
		349,109,018(S)	4.69%	1.24%
H shares	FMR Corp.[5]	445,852,713	5.99%	1.58%
H shares	Lee Shau Kee[6]	428,358,620(L)	5.76%	1.52%
H shares	Leeworld (Cayman) Limited[6]	428,358,620(L)	5.76%	1.52%
H shares	Leesons (Cayman) Limited[6]	428,358,620(L)	5.76%	1.52%
H shares	Lee Financial (Cayman) Limited[6]	428,358,620(L)	5.76%	1.52%
H shares	Shau Kee Financial Enterprises Limited[6]	428,358,620(L)	5.76%	1.52%
H shares	Richbo Investment Limited[6]	428,358,620(L)	5.76%	1.52%

Table of Contents

The letter L denotes a long position. The letter S denotes a short position. The letter P denotes interest in a lending pool.

(1) JPMorgan Chase & Co. was interested in a total of 499,887,921 H shares in accordance with the provisions of Part XV, SFO. Of these shares, JPMorgan Chase Bank, N.A., J.P. Morgan Investment Management Inc., JPMorgan Asset Management (UK) Limited, JF Asset Management (Singapore) Limited Co Reg #:197601586K, JF Asset Management Limited, JF International Management Inc., JPMorgan Asset Management (Canada) Inc., J.P. Morgan Securities Ltd., J.P. Morgan Whitefriars Inc. and JPMorgan Asset Management (Japan) Limited were interested in 198,194,460 H shares, 8,589,612 H shares, 8,752,409 H shares, 8,458,000 H shares, 170,972,000 H shares, 1,141,000 H shares, 352,000 H shares, 11,546,000 H shares, 82,563,440 H shares and 9,319,000 H shares respectively. All of these entities are either controlled or indirectly controlled subsidiaries of JPMorgan Chase & Co.

Included in the 499,887,921 H shares are 197,191,460 H shares (2.65%) which are held in the lending pool , as defined under Section 5(4) of the Securities and Futures (Disclosure of Interests Securities Borrowing and Lending) Rules.

In addition, JPMorgan Chase & Co. held by way of attribution a short position as defined under Part XV, SFO in 451,811,295 H shares (6.07%).

(2) Deutsche Bank Aktiengesellschaft was interested in a total of 594,520,000 H shares in accordance with the provisions of Part XV, SFO. Of these shares, Deutsche Investment Management Americas Inc., Deutsche Asset Management (Asia) Limited, Deutsche Asset Management (Japan) Limited, Deutsche Asset Management International GmbH, Deutsche Asset Management Investmentgesellschaft mbH, DWS Investment GmbH, DWS Investment S.A. Luxemburg, Deutsche Bank AG Frankfurt, Deutsche Vermogensbildungsgesellschaft mit beschrankter Haftung, Deutsche Bank (Suisse) S.A., Deutsche Bank AG Singapore Branch and Deutsche Bank Securities Inc. were interested in 1,688,000 H shares, 18,571,000 H shares, 1,000,000 H shares, 1,070,000 H shares, 194,000 H shares, 10,835,000 H shares, 20,000,000 H shares, 25,500 H shares, 557,000 H shares, 55,000 H shares, 180,000 H shares and 3,990 H shares respectively. All of these entities are either controlled or indirectly controlled subsidiaries of Deutsche Bank Aktiengesellschaft.

Deutsche Bank Aktiengesellschaft held by way of attribution a short position as defined under Part XV, SFO in 550,903,407 H shares (7.40%).

(3) Societe Generale was interested in a total of 416,417,741 H shares in long position and 597,370,338 H shares in short position in accordance with the provisions of Part XV, SFO

(4) KBC Group N.V. was interested in a total of 446,581,593 H shares in long position and 349,109,018 H shares in short position in accordance with the provisions of Part XV, SFO. These H share interests were held by KBC Investments Hong Kong Limited, a wholly-owned subsidiary of KBC Bank N.V. KBC Group N.V. is the indirect controlling shareholder of KBC Bank N.V.

(5) Based solely on information contained in a Schedule 13G filed with the Securities and Exchange Commission on February 14, 2007 by FMR Corp. (FMR) and Edward C. Johnson III. Fidelity Management & Research Company (Fidelity), a wholly-owned subsidiary of FMR Corp. and an investment adviser registered under Section 203 of the Investment Advisers Act of 1940, is the beneficial owner of 207,832,713 H shares as a result of acting as investment adviser to various investment companies registered under Section 8 of the Investment Company Act of 1940. Edward C. Johnson III and FMR Corp., through its control of Fidelity and the funds, each has sole power to dispose of the 207,832,713 H shares owned by the funds. Members of the family of Edward C. Johnson III, Chairman of FMR Corp., are the predominant owners, directly or through trusts, of Series B shares of common stock of FMR Corp., representing 49% of the voting power of FMR Corp. The Johnson family group and all other Series B shareholders have entered into a shareholders voting agreement under which all Series B shares will be voted in accordance with the majority vote of Series B shares. Accordingly, through their ownership of voting common stock and the execution of the shareholders voting agreement, members of the Johnson family may be deemed, under the Investment Company Act of 1940, to form a controlling group with respect to FMR Corp. Neither FMR Corp. nor

Edward C. Johnson 3d, Chairman of FMR Corp., has the sole power to vote or direct the voting of the shares owned directly by the Fidelity Funds, which power resides with the Funds Boards of Trustees. Fidelity carries out the voting of the shares under written guidelines established by the Funds Boards of Trustees. Fidelity Management Trust Company, a wholly-owned subsidiary of FMR Corp. and a bank as defined in Section 3(a)(6) of the Securities Exchange Act of 1934, is the beneficial owner of 1,181,000 H shares as a result of its serving as investment manager of the institutional account(s). Edward C. Johnson III and FMR Corp., through its control of Fidelity Management Trust Company, each has sole dispositive power over 1,181,000 H shares and sole power to vote or to direct the voting of 1,181,000 H shares owned by the institutional account(s) as reported above. Pyramis Global Advisors, LLC (PGALLC), an indirect wholly-owned subsidiary of FMR Corp. and an investment adviser registered under Section 203 of the Investment Advisers Act of 1940, is the beneficial owner of 5,388,000 H shares as a result of its serving as investment adviser to institutional accounts, non-U.S. mutual funds, or investment companies registered under Section 8 of the Investment Company Act of 1940 owning such shares. Edward C. Johnson III and FMR Corp., through its control of PGALLC, each has sole dispositive power over 5,388,000 H shares and sole power to vote or to direct the voting of 5,388,000 H shares owned by the institutional accounts or funds advised by PGALLC as reported above. Pyramis Global Advisors Trust Company (PGATC), an indirect wholly-owned subsidiary of FMR Corp. and a bank as defined in Section 3(a)(6) of the Securities Exchange Act of 1934, is the beneficial owner of 2,602,000 H shares as a result of its serving as investment manager of institutional accounts owning such shares. Edward C. Johnson III and FMR Corp., through its control of Pyramis Global Advisors Trust Company, each has sole dispositive power over 2,602,000 H shares and sole power to vote or to direct the voting of 2,602,000 H shares owned by the institutional accounts managed by PGATC as reported above. Fidelity International Limited (FIL) and various foreign-based subsidiaries provide investment advisory and management services to a number of non-U.S. investment companies and certain institutional investors. FIL, which is a qualified institution under section 240.13d-1(b)(1) pursuant to an SEC No-Action letter dated October 5, 2000, is the beneficial owner of 228,849,000 H shares. FIL has sole dispositive power over 228,849,000 H shares owned by the International Funds. FIL has sole power to vote or direct the voting of 228,663,000 H shares and no power to vote or direct the voting of 186,000 H shares by the International Funds as reported above. FMR Corp. and FIL disclaim beneficial ownership of shares beneficially owned by the other.

(6) These references to 428,358,620 H Shares relate to the same block of shares in the Company.

These 428,358,620 H shares were held by Richbo Investment Limited (Richbo), an indirect wholly-owned subsidiary of Shau Kee Financial Enterprises Limited (Shau Kee Financial). Lee Financial (Cayman) Limited (Lee Financial) as trustee of a unit trust (the Unit Trust) owned all the issued shares of Shau Kee Financial. Leeworld (Cayman) Limited (Leeworld) and Leesons (Cayman) Limited (Leesons), as trustees of respective discretionary trusts, held units in the Unit Trust. Mr. Lee Shau Kee owned the entire issued share capital of Lee Financial, Leeworld and Leesons. Accordingly, Mr. Lee Shau Kee, Lee Financial, Leeworld, Leesons, Shau Kee Financial and Richbo were taken to have an interest in these 428,358,620 H shares.

Our A shares and H shares generally vote together as a single class, including the election of directors. Each A share and each H share is entitled to one vote. In addition, in certain matters which affect the rights of the holders of H shares or A share, the H shares or A shares, as the case may be, are entitled to vote as a separate class.

CLIC converted and sold 676,470,000 domestic shares in the form of H shares or ADSs in connection with our global offering in December 2003.

Based on the information provided by JPMorgan Chase Bank, N.A., the depositary bank, as of December 31, 2006 and May 11, 2007, there were, respectively, 33,080,768 ADRs representing 496,211,520 H shares, with 29 registered holders, and 30,235,068 ADRs representing 453,526,020 H shares, with 43 registered holders. Since certain of the ADSs are held by nominees, the above number may not be representative of the actual number of U.S. beneficial holders of ADSs or number of ADSs beneficially held by U.S. persons.

CLIC, our controlling shareholder, is a wholly state-owned enterprise controlled by the PRC government. See Item 4. Information on the Company History and Development of the Company . None of our major shareholders has voting rights that differ from the voting rights of other shareholders, except that in certain matters which affect the rights of the holders of H shares or A shares, holders of H share are entitled to vote as a separate class on certain matters. We are not aware of any arrangement which may at a subsequent date result in a change of control of our company.

RELATED PARTY TRANSACTIONS

As at the date of this annual report, CLIC owns approximately 68.4% of our issued share capital. CLIC is therefore considered as our connected person under the HKSE Listing Rules. We entered into a promoters agreement in March 2006 with CLIC and

Table of Contents

AMC for the formation of a pension company, and entered into with CLIC, a share subscription agreement in March 2006 and a promoters agreement in October 2006 for the formation of a property and casualty insurance company. CLIC and we renewed the property leasing agreement in January 2007. We also entered into an asset purchase agreement with CLIC in January 2007 for purchase of certain real estate, construction in progress, land use rights, cars and equipments etc. The transactions contemplated under these agreements constitute connected transactions for us under the HKSE Listing Rules. In March 2007, we entered into a strategic cooperation agreement with Guangdong Development Bank. This transaction is not regarded as a connected transaction for us under the HKSE Listing Rules.

Set forth below are details of the related party transactions.

Restructuring Agreement

We have entered into a restructuring agreement with CLIC under which CLIC agreed to transfer to us a portion of its insurance business and various investment and operating assets, management personnel and employees, and we assumed various obligations and liabilities, as described under Item 4. Information on the Company History and Development of the Company Our Restructuring . We received the benefits of all of the rights and interests, and assumed all the liabilities and obligations, associated with the transferred assets and policies, commencing as of June 30, 2003, the effective date of the restructuring. The remaining business of CLIC primarily comprised the non-transferred policies and non-core businesses which are not insurance-related, including investments in property, hotels and other operations through subsidiaries. As a result of the restructuring, CLIC s management and personnel are different from ours and we work independently of CLIC.

Under the restructuring agreement, CLIC made various representations and warranties in relation to the business, assets and liabilities transferred to us in the restructuring.

In addition, under the restructuring agreement, CLIC indemnified us against all claims, losses, damages, payments or other expenses incurred by us in connection with or arising from, among others:

1) all taxes, fees, surcharges, penalties and interest payable by CLIC as determined under the restructuring agreement;

2) the negligence or fault of CLIC in acting on our behalf while holding any assets, interests or liabilities that were to be transferred to us, but for which third-party consents had not been obtained by the effective date;

3) any dispute regarding our status as the insurer of the insurance policies issued by CLIC on or after June 30, 2003 until the date when we begin to write polices on our own behalf;

4) all claims by policyholders under long-term insurance policies issued on or after June 10, 1999, having policy terms approved by or filed with the CIRC on or after June 10, 1999, but which for whatever reason failed to be recorded as long-term insurance policies as of June 30, 2003 in the database attached to the restructuring agreement as an annex;

5) the failure of CLIC to transfer the assets, interests and liabilities to us in accordance with the restructuring agreement and other restructuring documents;

6) the assets, interests and liabilities retained by CLIC after the restructuring;

7) the transfer of the assets, interests and liabilities to us under the restructuring;

8) a breach of any provision of the restructuring agreement on the part of CLIC; and

9) any actual, pending or threatened arbitration or litigation affecting any asset transferred to us.

The restructuring agreement provides, among other things, that any profits or losses incurred on the transferred assets and policies from June 30, 2002 to June 30, 2003 are for the benefit of or to be borne by CLIC.

We agreed to indemnify CLIC against any claims or losses arising from our breach of the restructuring agreement.

Policy Management Agreement

General

As part of the restructuring, CLIC transferred its entire branch services network to us. In order to capitalize on the large customer base of CLIC, increase the utilization of our customer service network and increase our revenue sources, CLIC engaged us to provide policy administration services relating to the non-transferred policies.

We and CLIC entered into a policy management agreement on September 30, 2003 which sets out our responsibilities and duties to CLIC under these policy administration arrangements. Such agreement expired in December 2005, and we and CLIC entered into a renewed policy management agreement on December 24, 2005. In order to better implement this agency arrangement, CLIC formulated a detailed manual of procedures which sets out the procedures to be followed when handling non-transferred policies, as well as rules for the day-to-day monitoring of the policy servicing operations.

Terms of the Policy Management Agreement

Pursuant to the renewed policy management agreement, we agreed to provide policy administration services to CLIC relating to the non-transferred policies, including day-to-day insurance administration services, customer services, statistics and file management, invoice and receipt management, reinstatement of non-transferred policies, applications for and renewal of riders to the non-transferred policies, reinsurance, and handling of disputes relating to the non-transferred policies. We act as a service provider under the agreement and do not acquire any rights or assume any obligations as an insurer under the non-transferred policies.

Under the renewed policy management agreement, we will issue a monthly funding request to CLIC, based on actuarially determined forecasts and supporting data, for amounts to be payable to CLIC policyholders. CLIC will transfer, within five business days prior to each calendar month, to an account under our control, funds sufficient to pay insurance benefits and commissions to be paid under the non-transferred policies, as well as estimated third-party costs and expenses, for that calendar month. We may also request emergency funding from CLIC, if we reasonably believe that the account balance will become insufficient in ten business days to make those payments. We are not required to make any advances on behalf of CLIC to cover any shortfall of funds.

In consideration of our services provided under the agreement, CLIC will pay us a service fee based on our estimated cost of providing the services, to which a profit margin is added. The service fee is equal to, for each semi-annual payment period, the sum of (1) the number of non-transferred policies in force that were within their policy term as of the last day of the period, multiplied by RMB 8.0 per policy; and (2) 2.50% of the actual premiums and deposits in respect of such policies collected during the period. For these purposes, the number of policies in-force for group insurance policies is equal to the number of individuals covered by the policies (excluding those whose policies have lapsed or matured).

The renewed policy management agreement is for a term of three years effective from January 1, 2006 and expiring on December 31, 2008. Subject to the HKSE Listing Rules, the agreement will be automatically renewed for successive three years terms, unless terminated by either party by giving to the other party not less than 180 days prior written notice to terminate the agreement at the expiration of the then current term. We are also permitted to terminate the agreement, upon giving 30 days prior written notice, if (1) CLIC fails to pay us the service fee in accordance with the agreement in an aggregate amount of at least RMB 100 million; or (2) we are unable to make timely payment of insurance benefits, commissions and/or third-party costs in an aggregate amount of at least RMB 300 million as a result of CLIC failing to transfer sufficient funds to the account controlled by us in accordance with the agreement.

Measures Taken to Ensure that We Have Sufficient Cash to Settle Claims Relating to Non-Transferred Policies

The following is a description of the measures that we currently have in place to ensure that we have sufficient cash to settle claims relating to non-transferred policies.

Under the renewed policy management agreement, the operations relating to the transferred policies and the non-transferred policies must be separately managed, settled (including daily and monthly settlement) and checked, and we are not required to make any advances on behalf of CLIC to cover deficiencies in the payment of claims under the non-transferred policies. In order to ensure that there is sufficient cash to pay claims under the non-transferred policies on a day-to-day basis, we and CLIC have implemented the following procedures:

- Our headquarters and all branch offices at provincial level have opened and are using segregated bank accounts to manage funds and payments in relation to claims and benefits under the non-transferred policies. Substantially all of our branches below the provincial level have already opened segregated bank accounts, and the remaining branches will also open segregated bank accounts as necessary.

- We will, based on actuarially determined forecasts and supporting data relating to the non-transferred policies, maintain a minimum daily balance for each segregated account. The segregated accounts will be brought up to this minimum daily balance should they fall below the required level on any given day.

- In the event of an unexpectedly large claim or benefit payment, or a claim or benefit payment which exceeds the minimum daily balance, a request for funds will be made to the branch at the next higher level. If a provincial-level branch does not have sufficient funds to make a payment, it will make a request for funding to our headquarters. If there is a deficiency at the headquarters level, we will make a payment request to CLIC or to the special purpose fund established by the MOF and CLIC.

Asset Management Agreements

AMC has entered into two asset management agreements, effective on November 30, 2003, one with us and one with CLIC.

We renewed the agreement with the AMC on December 29, 2005 for a term of two years expiring on December 31, 2007. Subject to the HKSE Listing Rules, the agreement will be automatically renewed for successive one year term, unless terminated by either party by giving the other party not less than 90 day s prior written notice to terminate the agreement at the expiration of the then current term.

In connection with the asset management agreement with the AMC and in order to ensure the safeguarding of our insurance assets, we entered into a custodian agreement with Industrial and Commercial Bank of China, as the custodian bank of our assets, and a memorandum on the investment management and custody of insurance assets among Industrial and Commercial Bank of China, the AMC and us.

The material terms of the renewed asset management agreement between China Life and AMC are set forth below.

Under the asset management agreement between AMC and China Life, AMC agreed to invest and manage assets entrusted to it by China Life on a discretionary basis, subject to the investment guidelines and instructions given by China Life.

In accordance with the agreement, China Life retains the title of the entrusted assets and AMC is authorized to operate the accounts associated with the entrusted assets for and on behalf of China Life. China Life may add to or withdraw from the assets managed by AMC pursuant to the agreement. All investment losses relating to the assets managed by AMC pursuant to the agreement will be borne by China Life, except for losses and liabilities arising from AMC s misconduct. China Life has the right to establish, and amend from time to time, the investment guidelines which set forth the general investment principles regarding the assets under AMC s management and, for specific periods, requirements relating to, among others, investment scope, portfolio, risk control and benchmark investment rate of return. China Life also has the right to give instructions for the liquidation of assets to meet its cash needs and the right to monitor the investment management activities of AMC.

In addition to acting as China Life s investment manager, AMC is permitted to invest its own assets and provide investment management services to third-party insurance companies. AMC agreed to inform China Life in the event that it, in its professional judgment, believes that there is a conflict of interest in the activities on behalf of itself and others. AMC has discretion to take such actions and measures which in its professional judgment are fair, reasonable and necessary to resolve any such conflict.

In consideration of its services provided under the agreement, China Life agreed to pay AMC service fees, comprised of a monthly service fee and an annual floating service fee. The monthly service fee payable is comprised of two parts: (1) the aggregate of the monthly service fee for each specified category of assets that are not under the custody of Industrial and Commercial Bank of China and (2) the aggregate of the monthly service fee for each specified category of assets that are under the custody of Industrial and Commercial Bank of China. The monthly service fee for assets not under custody is calculated on a monthly basis, by multiplying the average of net asset value of the assets in each such category under management at the end of any given month and the end of the previous month by the applicable annual rate for that month set forth in the table below (by reference to basis points), divided by twelve. The monthly service fee for assets under custody is calculated on a daily basis, by multiplying the net asset value of the assets in each such category under management at the end of any given day by the applicable annual rate set forth in the table below (by reference to basis points), divided by 360.

AMC and China Life may, within the first month of each year, agree to change the annual rate for that year, but if there is no new agreement, the existing annual rate for the prior year will remain in force.

Table of Contents

In relation to any new type of investment product (not included in the categories below) which may be permitted by applicable law or the CIRC in the future, the agreement provides that AMC and China Life will agree on a fair and reasonable annual rate to be applicable to that type of investment product.

The following table sets forth the applicable annual rates in relation to the total net asset value of the assets managed by AMC.

	Total net asset value of managed assets at the end of relevant month/day			
Item	**RMB 450 billion below (bps)**	**More than and equal to RMB 450 billion and less than 550 billion (bps)**	**More than and equal to RMB 550 billion and less than 650 billion (bps)**	**More than RMB 650 billion (bps)**
Term deposits				
Existing	1.2	1.2	0.7	0.4
Incremental	1.2	1.2	0.7	0.4
Debt securities[(1)]				
Held-to-maturity	5	4.2	3	2
Held-for-sale	5	4.2	3	2
Held-for-trading	30	28	26	22
Securities investment funds				
Stocks	25	25	22	20
Index	15	13	11	10
Equity investment				
Active	50	48	45	40
Passive	30	25	20	15
Cash	1	1	1	1

(1) In March 2007, AMC and China Life made small revisions to the classification of debt securities in accordance with the new accounting standards applicable to PRC listed companies from January 1, 2007.

In addition to the monthly service fee, China Life will pay AMC an annual floating service fee. Within 90 days of the submission of the annual report for the previous year by the joint venture, China Life will review the investment performance of AMC for the previous year and conclude a performance score that ranges from 0 to 100. The annual floating service fee for any given year is calculated by multiplying ten percent of the aggregate of the monthly service fee paid for that year by performance score divided by 100.

The service fee under the asset management agreement was determined by China Life and AMC based on an analysis of the cost of providing the service, market practice and the size and composition of the asset pool to be managed.

CLIC renewed the agreement with AMC on December 27, 2005 for a term of three years expiring on December 31, 2008. Subject to the HKSE Listing Rules, the parties may negotiate the term of the renewal not less than 90 days prior to the expiration of the current term.

Table of Contents

The material terms of the renewed asset management agreement between CLIC and AMC are set forth below.

Under the asset management agreement between AMC and CLIC, AMC agreed to invest and manage assets entrusted to it by CLIC on a discretionary basis, subject to the investment guidelines and instructions given by CLIC.

In accordance with the agreement, CLIC retains the title of the entrusted assets and AMC is authorized to operate the accounts associated with the entrusted assets for and on behalf of CLIC. CLIC may add to or withdraw from the assets managed by AMC pursuant to the agreement. CLIC has the right to establish, and amend from time to time, the investment guidelines which set forth the general investment principles regarding the assets under AMC s management and, for specific periods, requirements relating to, among others, investment scope, portfolio, liquidity, risk control and benchmark investment return. CLIC also has the right to monitor the investment management activities of AMC.

In addition to acting as CLIC s investment manager, AMC is permitted to invest its own assets and provide investment management services to third-party insurance companies.

In consideration of its services provided under the agreement, CLIC agreed to pay AMC a monthly service fee and an annual bonus or deduction, where applicable. The monthly service fee is calculated on a monthly basis, by multiplying the average of account balance value of the assets under management (less funds from sale of securities under the agreement to repurchase and interest thereof) at the beginning and the end of any given month by the basis annual rate of 0.05%, divided by twelve.

After the conclusion of each fiscal year, CLIC will review the investment performance of AMC for the previous year. If the investment return for the assets managed for a particular year exceeds the benchmark investment return, as previously agreed between CLIC and AMC for those assets for that year, AMC will be entitled to an annual performance bonus fee determined by CLIC, the amount of which shall not exceed the difference between the actual investment return and the benchmark investment return set for the previous year. If the actual investment return is less than the benchmark investment return as agreed between CLIC and AMC for those assets for that year, AMC will be required to rebate a portion of its monthly fees received for the previous year determined by the CLIC, the amount of which shall not exceed the difference between the actual investment return and the benchmark investment return set for the previous year.

Property Leasing Agreement

We have entered into a property leasing agreement with CLIC on September 30, 2003, pursuant to which CLIC agreed to lease to us (1) 833 buildings owned by CLIC, its subsidiaries and affiliates, which we refer to as the CLIC owned properties, and (2) 1,764 buildings that CLIC is entitled to sublet, which we refer to as the CLIC leased properties, for an aggregate initial annual rent (payable quarterly) of approximately RMB 335 million. The properties occupied by us are mainly used as our office premises. The annual rent payable by us to CLIC in relation to the CLIC owned properties is determined by reference to market rent or, where there is no available comparison, by reference to the costs incurred by CLIC in holding and maintaining the properties, plus a margin of approximately 5%. The annual rent payable by us to CLIC in relation to the CLIC leased properties will be determined by reference to the rent payable under the head lease plus the actual costs incurred by CLIC arising in connection with the subletting of the properties.

Each party may, by giving notice to the other party no later than November 30 of each year, reduce or increase the number of properties under the lease and make adjustments accordingly to the rent payable for the next year. The parties will also revise the annual rent payable at the year end to reflect, in addition to any decrease or increase to the number of properties to be leased, any change of the market rates.

Table of Contents

CLIC agreed to indemnify us, among other things, against all claims and losses incurred by us arising in connection with (1) the CLIC owned properties which CLIC does not have full legal title; and (2) the subletting of the CLIC leased properties to us.

The agreement also contains rights of first refusal allowing us to purchase the underlying property if CLIC wishes to sell the property. In this regard, we will comply with the provisions of Chapter 14A of the HKSE Listing Rules if we exercise the right of first refusal to acquire the properties from CLIC unless we apply for, and obtain, a separate waiver from the HKSE.

We renewed the agreement on December 23, 2005 with respect to 963 CLIC owned properties and 707 CLIC leased properties for a fixed term expiring on December 31, 2006.

We further renewed the agreement with CLIC on January 4, 2007 under substantially the same terms of the agreement entered into on September 30, 2003. Pursuant to the renewed agreement, CLIC agreed to lease to us 1,174 CLIC owned properties and 126 CLIC leased properties, for an aggregate initial annual rent (payable semi-annually) of approximately RMB 66 million.

Compliance with HKSE Listing Rules

Given that the annual consideration payable under each of the above mentioned policy management agreement dated December 24, 2005, the two asset management agreements dated December 27, 2005 and December 29, 2005 and the property leasing agreement dated December 23, 2005 represents less than 2.5% of the applicable percentage ratios, as defined in the HKSE Listing Rules, each of the agreements is only subject to reporting, announcement and annual review requirements under the HKSE Listing Rules and is exempt from independent shareholders approval. In compliance with applicable HKSE Listing Rules requirements, we made an announcement disclosing the above agreements on December 30, 2005.

Figures for the year ended December 31, 2006

The aggregate value of each of the transactions contemplated under the policy management agreement, the asset management agreements and the property leasing agreement for the year ended December 31, 2006 is set out below:

Connected Transactions	**The aggregate value for the year ended December 31, 2006** *(RMB in millions)*
1. Policy management agreement	1,555
2. Asset management agreement	
(a) between CLIC and the AMC	84
(b) between the AMC and the Company	283
3. Property leasing agreement	168

Confirmation of Independent Non-executive Directors:

Our independent non-executive directors have reviewed the above connected transactions and confirmed that the transactions were:

(i) entered into in the ordinary and usual course of the business of China Life;

(ii) conducted either on normal commercial terms or on terms that are fair and reasonable so far as our independent shareholders are concerned;

(iii) entered into in accordance with the agreements governing those transactions; and

(iv) the amounts of the transactions had not exceeded the relevant annual caps as announced by China Life.

Trademark License Agreement

We conduct our business under the China Life brand name (in English and Chinese), the ball logos and other business related slogans and logos. We entered into a trademark license agreement with CLIC on September 30, 2003, pursuant to which CLIC granted to us and our branches a royalty-free license to use these trademarks in the PRC and other countries and territories in which CLIC has registered these trademarks. CLIC has registered these trademarks with the Trademark Office of the SAIC. CLIC undertook in the trademark license agreement to maintain and renew, at its own expense, the registration of the licensed trademarks. If requested by us, CLIC will procure, at its own expense, registration of the trademarks in additional products and service classifications and/or additional countries or territories. CLIC will retain ownership of these trademarks.

We may also license a third party to use the trademarks with the written consent of CLIC. CLIC and its subsidiaries and affiliates are entitled to use these trademarks. CLIC may not license or transfer these trademarks to any other third party or allow any other third party to use the trademarks.

The trademark license agreement permits us to use the trademarks until such time as either the trademark license agreement is terminated either by agreement between CLIC and ourselves, or pursuant to relevant laws, regulations or consent orders, or at the expiration of the registration of the trademarks, which is currently November 6, 2007 and is renewable at our option.

Non-Competition Agreement

We entered into a non-competition agreement with CLIC on September 30, 2003 pursuant to which CLIC undertook that during the term of the agreement, unless we otherwise consent in writing in advance, it will not, and it will use its best efforts to procure its subsidiaries and affiliates not to, directly or indirectly, participate, operate or engage in any life, accident or health insurance or other businesses in China which may compete with our insurance businesses. Before entering into the share subscription agreement in connection with the formation of a property and casualty insurance joint stock company on March 13, 2006, as described below, we consented in writing that CLIC may engage in accident and short-term health businesses indirectly through a property and casualty joint venture with us. CLIC also undertook (1) to refer to us any corporate business opportunity that falls within our business scope and which may directly or indirectly compete with our business and (2) to grant us a right of first refusal, on the same terms and conditions, to purchase any new business developed by CLIC. The non-competition agreement allows CLIC to continue its business under the non-transferred policies.

In addition, CLIC currently holds a 51% interest in China Life-CMG Life Assurance Company Ltd., a Sino-foreign joint venture with CMG, an Australian insurance company. The joint venture is registered in Shanghai, China and engaged in the business of life insurance and related reinsurance in Shanghai. CLIC agreed to dispose of all of its interests in this joint venture to third parties or eliminate any competition between China Life-CMG Life Assurance Company Ltd. and us within three years of our listing on the HKSE. As of the date of this annual report, the transfer of CLIC s equity interest in this joint venture is still ongoing

CLIC also agreed with us in the non-competition agreement that we will have a right of first refusal in respect of the transfer of the non-transferred policies retained by CLIC.

The non-competition agreement will remain valid and in full force until the earlier of (1) CLIC beneficially holding, directly or indirectly, less than 30% of our issued share capital and ceasing to control the majority of our board of directors; and (2) our H shares or ADSs no longer being listed on the HKSE or any other stock exchange.

Asset Purchase Agreement

We entered into an asset purchase agreement with CLIC in January 2007 pursuant to which we purchased from CLIC certain assets which were owned by CLIC or which CLIC had the rights to dispose of, including real estate, construction in progress, land use rights, cars and equipment. We paid approximately RMB 488 million for these assets. The price for these assets was determined by a valuation provided by a third-party assets valuator mutually engaged by CLIC and us. Most of the assets purchased by us were previously leased to us by CLIC and are being used by our branch offices.

Share Subscription Agreement and Promoters Agreement for the Formation of a Property and Casualty Insurance Joint Stock Company

We entered into a share subscription agreement with CLIC on March 13, 2006 and a promoters agreement with CLIC on October 23, 2006 for the formation of a property and casualty insurance joint stock company. In this connection and in accordance with the non-competition agreement between CLIC and ourselves, we consented in writing to allow CLIC to engage in accident and short-term health businesses indirectly through the property and casualty joint venture with us. Under the share subscription agreement and the promoters agreement, we and CLIC agreed that the proposed registered capital of the company will be RMB 1,000 million, for which CLIC and we subscribed for 60% and 40%, respectively. The property and casualty company obtained its business license on December 30, 2006.

Promoters Agreement for the Formation of a Pension Insurance Company

We entered into a promoters agreement with CLIC and AMC on March 21, 2006 for the formation of China Life Pension Company Limited, a joint stock company, as a professional pension insurance company in China for developing pension insurance business. Under the promoters agreement, CLIC, we and AMC agreed that the proposed registered capital of the company will be RMB 600 million, for which CLIC, we and AMC subscribed for 25%, 55% and 20%, respectively. Each party to the promoters agreement agreed to provide various technical services to the pension company and engage the company to provide pension fund management related to the business of each party to the promoters agreement. The pension company obtained its business license on January 15, 2007.

Strategic Cooperation Agreement with Guangdong Development Bank

We entered into a strategic cooperation agreement with Guangdong Development Bank in March 2007, pursuant to which we agreed to cooperate with Guangdong Development Bank in various areas, including, among others, insurance business, bank cards business, financial business, e-commerce, client resources sharing, information technology, product development and brand promotion. With regards to the cooperation in the insurance business, Guangdong Development Bank undertook to provide bancassurance services on our behalf. Subject to relevant laws and regulations, we undertook to offer our insurance products to Guangdong Development Bank under certain preferential terms, while Guangdong Development Bank agreed to purchase our products in priority under the same terms and conditions. We will negotiate with Guangdong Development Bank to enter into specific agreements regarding each area of cooperation. The term of this agreement is five years.

INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

ITEM 8. FINANCIAL INFORMATION.

CONSOLIDATED FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

Our audited consolidated financial statements are set forth beginning on page F-1.

Legal and Regulatory Proceedings

Class Action Litigations

China Life and certain of its former directors (the defendants) have been named in nine putative class action lawsuits filed in the United States District Court for the Southern District of New York between March 16, 2004 and May 14, 2004. The lawsuits have been ordered to be consolidated and restyled *In re China Life Insurance Company Limited Securities Litigation, NO. 04 CV 2112 (TPG)*. Plaintiffs filed a consolidated amended complaint on January 19, 2005, which names China Life, Wang Xianzhang (former director), Miao Fuchun (former director) and Wu Yan (former director) as defendants. The consolidated amended complaint alleges that the defendants named therein violated Sections 10(b) and 20(a) of the U.S. Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder. China Life has engaged U.S. counsel to contest vigorously on the lawsuits. The defendants jointly moved to dismiss the consolidated amended complaint on March 21, 2005. Plaintiffs then further amended their complaint. Defendants moved to dismiss the second amended complaint on November 18, 2005. That motion has been fully briefed and is pending before the Court. The likelihood of an unfavorable outcome is still uncertain. No provision has been made with respect to these lawsuits.

SEC Informal Inquiry

On April 27, 2004, we received an informal inquiry, dated April 26, 2004, from the U.S. Securities and Exchange Commission (SEC) requesting us to produce documents and other relevant information on certain matters. The SEC has advised us that the informal inquiry should not be construed as an indication by the SEC or its staff that any violations of law have occurred, or as a reflection upon any person, entity or security. On June 7, 2006, we received, through our U.S. counsel, a letter dated June 2, 2006 from the division of enforcement of SEC informing that the informal inquiry has been terminated, and no enforcement action has been recommended to the SEC.

Table of Contents

Others

We are involved in litigation involving our insurance operations on an ongoing basis. In addition, the CIRC, as well as other PRC governmental agencies, including tax, commerce and industrial administration and audit bureaus, from time to time make inquiries and conduct examinations or investigations concerning our compliance with PRC laws and regulations. These litigation and administrative proceedings have in the past resulted in damage awards, settlements or administrative sanctions, including fines, which have not been material to us. While we cannot predict the outcome of any pending or future litigation, examination or investigation, we do not believe that any pending legal matter will have a material adverse effect on our business, financial condition or results of operations. However, we cannot assure you that any future litigation or regulatory proceeding will not have an adverse outcome, which could have a material adverse effect on our operating results or cash flows.

We currently have control procedures in place to monitor our litigation and regulatory exposure. We have established a systematic prevention system whereby our management at each corporate level is responsible for compliance with laws, regulations and internal codes of conduct within their individual territories or departments. Our branches at the provincial level are required to report material litigation and regulatory matters to our corporate headquarters on a timely basis. We plan to continue to improve our control and compliance policies in the future.

We may penalize our employees or individual agents who commit misconduct or fraud, breach the terms of their employment or agency agreements, exceed their authorization limits or fail to follow prescribed procedures in delivering insurance policies and premium payments, in each case having regard to the severity of the offense. Employees or individual agents are required to reimburse us for any losses suffered by us resulting from their misconduct or fraud. In serious cases, we may terminate their employment or agency agreements. We report criminal offenses to the PRC authorities and may also bring concurrent civil actions against employees or individual agents. We have experienced agent and employee misconduct that has resulted in litigation and administrative actions against us and these agents and employees, and in some cases criminal proceedings and convictions against the agent or employee in question. None of these actions has resulted in material losses, damages, fines or other sanctions against us. We cannot assure you, however, that agent or employee misconduct will not lead to a material adverse effect on our business, results of operations or financial condition.

In April 2006, the CIRC announced that it will assess the effectiveness of internal controls, as well as regulatory compliance matters relating to business operations, of Chinese insurance companies, health insurance companies and pension insurance companies during a three-year period immediately after the announcement, in accordance with the tentative rules on internal control assessment of life insurance companies. The purposes of such assessment were stated to be to facilitate and supervise the companies in order to improve their awareness of, and strengthen their controls over, matters such as corporate governance in management, internal controls, regulatory compliance in operations and risk management. We were reviewed by the CIRC in 2006 and were found to be in general compliance with the rules and regulations of CIRC, other than a small number of breaches by our branches which resulted in us being sanctioned by way of fines, none of which were material. The breaches mainly included improper handling of certain premiums received, which violated relevant CIRC rules and regulations. The fines imposed by CIRC ranged from RMB 20,000 (US$2,563) to RMB 500,000 (US$64,069). All the fines have been paid in full.

Policy on Dividend Distributions

Our board of directors has passed a resolution on April 17, 2007 to propose for approval at the annual general meeting, of the declaration of final dividends of RMB 0.14 per share, totaling approximately RMB 3,957 million (US$507 million), for the year ended December 31, 2006. The proposed dividends have not been provided for in our consolidated financial statements for the year ended December 31, 2006.

Table of Contents

The payment of any dividend by us must be approved by shareholders in a shareholders meeting. Our board of directors intends to make its recommendations regarding the declaration of cash dividends to the shareholders in general meeting. The decision to make a recommendation for the payment of any dividend and the amount of the dividend for the years following 2006 will depend on:

- our results of operations and cash flows;
- our financial position;
- statutory solvency requirements as determined under PRC GAAP with reference to CIRC rules;
- our shareholders interests;
- general business conditions;
- our future prospects;
- statutory and regulatory restrictions on the payment of dividends by us; and
- other factors that our board of directors deems relevant.

We will pay dividends out of our after-tax profits only after we have made the following allowances and allocations:

- recovery of accumulated losses, if any;
- allocations to the statutory common reserve fund equivalent to 10% of our after-tax income, as determined under PRC GAAP; and
- allocations to a discretionary common reserve fund as approved by the shareholders in a shareholders meeting.

When the statutory common reserve fund reaches and is maintained at or above 50% of our registered capital, as determined under PRC GAAP, no further allocations to this fund will be required.

Under Chinese law, dividends may be paid only out of distributable profits. Distributable profits means our after-tax profits as determined under PRC GAAP or HKFRS, whichever is lower, less any recovery of accumulated losses and allocations to statutory funds that we are required to make. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years. However, ordinarily we will not pay any dividends in a year in which we do not have any distributable profits.

Payment of dividends by us is also regulated by the PRC insurance law. If we do not meet the minimum solvency margin required by the CIRC, we may be prohibited from paying dividends. See Item 4. Information on the Company Business Overview Regulatory and Related Matters Insurance Company Regulation Solvency requirements .

139

Table of Contents

We declared no dividends in respect of 2004 and paid dividends of RMB 0.05 per share in respect of 2005. Our board of directors has recommended the declaration of final dividends of RMB 0.14 per share in respect of 2006. We expect to continue to pay dividends in line with our financial performance thereafter. We will declare dividends, if any, in Renminbi with respect to the H shares on a per share basis and will pay such dividends in Hong Kong dollars.

SIGNIFICANT CHANGES

See Item 5. Operating and Financial Review and Prospects Class Action Litigation .

EMBEDDED VALUE

Background

China Life prepares financial statements to public investors in accordance with Hong Kong Financial Reporting Standards (HKFRS). An alternative measure of the value and profitability of a life insurance company can be provided by the embedded value method. Embedded value is an actuarially determined estimate of the economic value of the life insurance business of an insurance company based on a particular set of assumptions about future experience, excluding the economic value of future new business. In addition, the value of one year s sales represents an actuarially determined estimate of the economic value arising from new life insurance business issued in one year.

China Life believes that reporting our embedded value and value of one year s sales provides useful information to investors in two respects. First, the value of our in-force business represents the total amount of distributable earnings, in present value terms, that can be expected to emerge over time, in accordance with the assumptions used. Second, the value of one year s sales provides an indication of the value created for investors by new business activity and hence the potential of the business. However, the information on embedded value and value of one year s sales should not be viewed as a substitute of financial measures under HKFRS or any other accounting basis. Investors should not make investment decisions based solely on embedded value information and the value of one year s sales.

It is important to note that actuarial standards with respect to the calculation of embedded value are still evolving. There is still no universal standard which defines the form, calculation methodology or presentation format of the embedded value of an insurance company. Hence, differences in definition, methodology, assumptions, accounting basis and disclosures may cause inconsistency when comparing the results of different companies.

Also, embedded value calculation involves substantial technical complexity and estimates can vary materially as key assumptions are changed. Therefore, special care is advised when interpreting embedded value results.

The values shown below do not consider the financial effect of the Policy Management Agreement between CLIC and China Life, the Non-competition Agreement between CLIC and China Life, the Trademark License Agreement between CLIC and China Life and the Property Leasing Agreement between CLIC and China Life, nor the financial impact of transactions of China Life with AMC, China Life Pension Company Limited, and China Life Property and Casualty Insurance Company Limited.

Table of Contents

Definitions of Embedded Value and Value of One Year s Sales

The embedded value of a life insurer is defined as the sum of the adjusted net worth and the value of in-force business allowing for the cost of capital supporting a company s desired solvency margin.

Adjusted net worth is equal to the sum of:

- Net assets, defined as assets less policy reserves and other liabilities, all measured on a PRC statutory basis; and

- Net-of-tax adjustments for relevant differences between the market value of assets and the value determined on a PRC statutory basis, together with relevant net-of-tax adjustments to other liabilities.

According to the PRC accounting basis, an impairment provision is not required until the market value of a long-term investment has been consistently lower than its book value for more than two years. On the other hand, when the market value of a long-term investment is higher than its book value, the excess is not reflected in the accounts. As the embedded value is based on market value, it is necessary to make adjustments to the value of net assets under the PRC accounting basis.

The market value of assets can fluctuate significantly over time due to the impact of the prevailing market environment. Hence the adjusted net worth can fluctuate significantly between valuation dates.

The value of in-force business and the value of one year s sales are defined as the discounted value of the projected stream of future after-tax distributable profits for existing in-force business at the valuation date and for one year s sales in the 12 months immediately preceding the valuation date. Distributable profits arise after allowance for PRC statutory policy reserves and solvency margins at the required regulatory minimum level.

The value of in-force business and the value of one year s sales have been determined using a traditional deterministic discounted cash flow methodology. This methodology makes implicit allowance for the cost of investment guarantees and policyholder options, asset/liability mismatch risk, credit risk and the economic cost of capital through the use of a risk-adjusted discount rate.

Assumptions

The calculations are based upon assumed corporate tax rate of 33% in 2006 and 2007, and 25% in 2008 thereafter. The investment returns are assumed to be 4.35% in 2006, grading to 5.4% in 2013 (remaining level thereafter) for the long-term business. An average of 22% in 2006, grading to 13% in 2016 (remaining level thereafter) of the investment returns is assumed to be exempt from income tax for the long-term business. These returns and tax exempt assumptions are based on our long-term strategic asset mix and expected future returns. The risk-adjusted discount rate used is 11.5%. Other assumptions are determined by considering our recent operating experience and expected future outlook.

Preparation

The embedded value and the value of one year s sales were prepared by China Life with assistance from the Tillinghast business of Towers Perrin, an international firm of consulting actuaries. Tillinghast considers that the methodology adopted to determine these values is reasonable in the context of the current environment as a commonly adopted methodology for the purpose of providing an embedded value disclosure in the normal course of financial reporting. Tillinghast also considers that the assumptions adopted to determine these values, taken as a whole, are reasonable for this purpose.

Table of Contents

Summary of Results

The embedded value as at December 31, 2006 and the value of one year s sales for the 12 months to December 31, 2006 are shown below.

Table 1

Embedded Value as at December 31, 2006 and Value of One Year s Sales in the 12 Months to December 31, 2006 (RMB million)

Item		RMB Million
A	Adjusted Net Worth	117,700
B	Value of In-Force Business before Cost of Solvency Margin	78,296
C	Cost of Solvency Margin	(14,006)
D	Value of In-Force Business after Cost of Solvency Margin (B + C)	64,290
E	**Embedded Value (A + D)**	**181,989**
F	Value of One Year s Sales before Cost of Solvency Margin	12,971
G	Cost of Solvency Margin	(2,489)
H	**Value of One Year s Sales after Cost of Solvency Margin (F + G)**	**10,481**

Note: Numbers may not be additive due to rounding.

Movement Analysis

The following analysis tracks the movement of the embedded value from the start to the end of the reporting period.

Table 2

Analysis of Embedded Value Movement in 2006 (RMB million)

Item		RMB Million
A	Embedded Value at Start of Year	113,954
B	Expected Return on Embedded Value	9,072
C	Value of New Business in the Period	10,481
D	Operating Experience Variance	1,615
E	Investment Experience Variance	3,116
F	Assumption other than Corporate Tax Assumption and Model Changes	1,334
G	Corporate Tax Assumption Changes	4,111
H	Market Value Adjustment	11,604
I	Shareholder Dividend Distribution	(1,338)
J	Capital Inflow	27,810
K	Other	230
L	**Embedded Value as at 31 December 2006 (sum A through K)**	**181,989**

Notes: 1) Numbers may not be additive due to rounding.

Table of Contents

2) *Items B through K are explained below:*
   - B *Reflects 11.5% of the opening value of in-force business and value of new business sales in 2006 plus the return on investments supporting the 2006 opening adjusted net worth.*
   - C *Value of new business sales in 2006.*
   - D *Reflects the difference between actual 2006 experience (including lapse, mortality, morbidity, expense and tax etc.) and the assumptions.*
   - E *Compares actual with expected investment returns during 2006.*
   - F *Reflects the effect of projection model enhancements and assumption revisions other than corporate tax assumption for selected products and a small increase in assumed investment returns.*
   - G *Reflects the effect of corporate tax changes.*
   - H *Change in the market value adjustment from the end of year 2005 to the end of the year 2006.*
   - I *Reflects dividends distributed to shareholders during 2006.*
   - J *Capital inflow from A-share financing at the end of 2006.*
   - K *Other miscellaneous items.*

Sensitivity Testing

Sensitivity testing was performed using a range of alternative assumptions. In each of the sensitivity tests, only the assumption referred to was changed, with all other assumptions remaining unchanged. The results are summarized below.

Table 3

Sensitivity Results (RMB million)

	Value of In-force Business after Cost of Solvency Margin	Value of One Year s Sales after Cost of Solvency Margin
Base case scenario	64,290	10,481
Risk discount rate of 12.5%	57,695	9,263
Risk discount rate of 10.5%	71,893	11,905
10% increase in investment return	76,160	12,373
10% decrease in investment return	52,418	8,590