

Chairman's Statement



Wang Xianzhang

Chairman

Dear Shareholders,

I am pleased to present to you the Company's operating results for the financial year ended December 31, 2004. During our first full financial year following our restructuring and listing, the Company made substantial progress towards our strategic goal of establishing ourselves as a world-class life insurance company. Operations remained steady and stable, our business continued to grow, and we made significant improvements to our internal control mechanisms. We have worked diligently to fulfill the commitments made to our shareholders.

Note: All of the Company's financial data in this statement and Business Review for the twelve months ended December 31, 2003 are on an unaudited pro forma basis giving effect to the restructuring of the Company as if it had come into effect on January 1, 2003.

ACHIEVING STEADY OPERATIONS AND CONTINUOUS GROWTH

For the year ended December 31, 2004, the Company's gross written premiums and policy fees reached RMB66,257 million, an increase of 25.2% from the previous year. Growth in first year gross written premiums attributable to regular premium risk-type products reached 94.5%. Based on the People's Republic of China Generally Accepted Accounting Principles ("PRC GAAP"), the growth rate of our premiums reached 11.4%, which not only surpassed the average growth rate of China's insurance industry by 4.2 percentage points, but was also higher than China's GDP growth rate of 9.5%. By steadily and continuously expanding our business, we maintained our leading position in China's life insurance industry while enhancing our profitability. For the year ended December 31, 2004, the Company's net profit reached RMB7,171 million.

We disclosed our annual embedded value figures for the first time in this year's annual results announcement. As at December 31, 2004, the Company's embedded value was RMB90,073 million. The value of new business for the year ended December 31, 2004 was RMB6,504 million. These two figures provide useful information to investors in two respects. 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. The value of one year's sales provides an indication of the value being created for investors by new business activity and hence the potential of the business.

ADJUSTING BUSINESS STRUCTURE TO ENHANCE PROFITABILITY

In 2004, we continued to adjust our business structure with a view to further improving profitability. In the area of product development, we focused on expanding our product suite of risk-type participating policies. We effectively utilized sales results targets to incentivize our sales team, thereby driving the growth of risk-type and regular premium products. During the year, the premiums of our risk-type products reached an increase of 28.9% from the previous year, resulting in significantly higher profitability of our business. Growth in first year gross written premiums from risk-type regular premium products was higher than that from risk-type single-premium products by more than 133.3 percentage points, enhancing the long-term sustainability of profitability.

ENHANCING COMPETITIVENESS BY EXPANDING SALES CHANNELS

We have the largest sales team in China and the most extensive distribution network, covering almost all county level administrative regions, except in the Tibet Autonomous Region. Our three major distribution channels are individual agents, direct sales team and intermediaries such as banks and post offices. As at December 31, 2004, we had approximately 668,000 individual agents, a direct sales team with 12,000 full-time staff, and a network of more than 87,000 cooperating bank branches and post offices. We use results targets – such as profit level, revenue from risk-type products and revenue from regular premium products – to guide adjustments of the business structure of individual agents and intermediaries, resulting in overall business quality improvements.

ENHANCING INTERNAL CONTROL AND CORPORATE GOVERNANCE

In the area of business management, we underwent a comprehensive reorganization and reform of our business handling procedures, and designed a new life insurance business management system, based on customer needs as our guidance. Regarding information management, we further developed, integrated and improved our core operating system by formulating an information utilization strategy. In 2004, we further strengthened internal control measures by introducing and improving several regulations and guidelines including the Internal Control Handbook, Internal Control Mechanism for Financial Reporting, Staff Ethics Guidelines, Internal Control Guidelines for Prevention of Fraud.

We placed strong emphasis on the effective functioning of the Board of Directors, the Supervisory Committee and the committees formed under the Board of Directors. We also enhanced the role of our independent directors, and appointed a Chief Actuary to strengthen our investment and risk management capabilities. Besides strict adherence to relevant Chinese law, efforts were also made to meet the requirements of regulatory standards for overseas listings. Under the precondition that the needs for our strategic development are met, we have invested significant resources and are working towards compliance with the Code on Corporate Governance Practices in Hong Kong and U.S. Sarbanes-Oxley Act. We improved our information disclosure as part of our efforts in enhancing transparency and corporate governance.

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CONTROLLING COSTS AND MAINTAINING FINANCIAL STRENGTH

Under the precondition of ensuring continued business development, we stepped up cost control efforts. In 2004, we met the budget targets set by the Board of Directors. Our consolidated cost control ratio was 18.6%, which was 1.5 percentage points lower than 2003. We will continue to use centralized procurement to control major cost item expenses and financial budgets to increase profitability and to control branch and subsidiary expenses.

With regards to financial management, we ensured that our business development targets were met through effective budget management. We have striven to lower our cost ratios at a reasonable pace while at the same time ensuring the continuous development of our business. In the area of risk management, we enhanced our investment risk management capabilities to improve investment returns. These measures effectively strengthened our budget management and financial risk control abilities, which in turn improved overall efficiency. Our solvency was maintained at a healthy level; as at December 31, 2004, our actual solvency ratio reached 3.15 times the minimum regulatory requirement.

DIVIDENDS

The Company will declare no shareholder dividends for 2004.

MAJOR LITIGATIONS

The nine putative class action lawsuits filed in the United States District Court for the Southern District of New York against the Company and certain of its officers and directors between March 16, 2004 and May 14, 2004 has 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 the Company, Wang Xianzhang, Miao Fuchun and Wu Yan as defendants. The consolidated amended complaint alleges that the defendants named therein violated Section 10(b) and 20(a) of the Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder. The Company has engaged U.S. counsel to contest vigorously on behalf of the Company. The defendants jointly moved to dismiss the consolidated amended complaint on March 21, 2005. The likelihood of an unfavourable outcome is still uncertain.

2005 OUTLOOK

With improvements in the policy environment, a diversification of channels for investment, and increasing market competition, 2005 will present many opportunities and challenges. We will maintain our strategic focus on steady business growth: to further improve our business structure, and to enhance our profitability. In addition, we will continue our efforts to improve our investment performance and enhance shareholder value.

Finally, I would like to take this opportunity to extend my heartfelt gratitude to our staff for their hard work and dedication. I would also like to express my sincere thanks for the support of our shareholders, as well as for the close cooperation of the Board of Directors, the Supervisory Committee, and the Management.



Wang Xianzhang
Chairman

Beijing, China
April 18, 2005







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