



Yang Chao *Chairman of the Board of Directors*

“ to establish the Company as a world-class life insurance company with advanced corporate governance, a well-established management system, stringent internal controls, leading technologies, a first-class team, superior service and an outstanding brand. ”

Dear Shareholders,

I am pleased to present to you the Group's ("the Group" refers to the Company and its subsidiaries) operating results for the financial year ended December 31, 2005.

In 2005, the Company achieved remarkable results in its restructuring and development. With changes to the Board of Directors and the Management, the Company further improved its corporate structure and enhanced its standard of corporate governance. As a core member of China Life group, the Company integrated the group's development strategy of "transforming itself into a major international financial and insurance group with rational resources allocation, clear strategic advantages, strong core businesses, and appropriately diversified operations characterizing by high embedded value, strong core competitiveness and high sustainability in development" into its business goal, which is "to establish itself as a first class international life insurance company with advanced corporate governance, well established management system, stringent internal control, leading technologies, first class team, superior service and outstanding brand". With this in mind, the Company is dedicated to the creation of shareholders value. In 2005, through maintaining its operational strategy in a proactive and stable manner, the Company sustained steady growth in its business and further improved its business structure. The profit rose alongside with the increase in return on investments and our internal management continuously improved. We maintained our leading market position and our influence on society was at large strengthened.

The Company is a core member of China Life group, which ranked 212th among "Fortune 500" announced by Fortune in 2005. In February 2006, in a major internet election campaign "2005 Financial Entities in China" conducted by Hexun Network, the Company was elected as "The Most Reliable Life Insurer". The Company ranked 297th among Forbes' "The Global 2000" announced in April 2006, and ranked seventh among the companies based in China (including Hong Kong, Macau and Taiwan). In April 2006, the Company was named "The 2005 Leader in Insurance industry" in the "2005 Chinese Service Industry Leaders Awards" organised by a number of market research institutes including the Horizon Research Consultancy Group.

In 2005, the Group achieved record high performance in total asset, total revenue and net profit. As at December 31, 2005, the Company's embedded value was RMB113,954 million, and the solvency level was approximately 2.73 times the minimum regulatory requirement. As at March 31, 2006, the Company's total market capitalisation was HKD262,294 million.

### **Achieving Rapid Growth and Maintaining Market Leading Position**

For the year ended December 31, 2005, the Group's total revenues was RMB98,212 million, an increase of 27.87% from 2004. Gross written premiums and policy fees reached RMB81,022 million, an increase of 22.28% from 2004. The Group's net profit attributable to shareholders of the Company reached RMB9,306 million, an increase of 29.77% from 2004.

In accordance with the data released by the China Insurance Regulatory Commission ("CIRC"), the Company's market share in 2005 was 44.07%, maintaining its leading position in the life insurance market in China.

### **Optimizing Business Structure and Steady Increase in Embedded Value**

In 2005, the Group continued its direction in comprehensive budgetary management and leverage on expense management to promote business restructuring. For the year ended December 31, 2005, the gross written premiums were RMB74,939 million, representing a 22.72% increase from 2004. The first year regular gross written premium accounted for 90.72% of the first-year gross written premiums of long term traditional insurance contracts.

As at December 31, 2005, the Company's embedded value was RMB113,954 million, an increase of 26.51% from 2004. The value of new business for the year ended December 31, 2005 was RMB7,489 million, an increase of 15.14% from 2004. Embedded value is an actuarially determined estimate of the economic value of 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.

### **Improving Assets Composition and Increasing Return on Investment**

In 2005, the Company revised its investment strategies pursuant to the stable and prudent principles and changes in the capital market. By increasing the proportion in fixed income investments, such as bonds with longer maturity and decreasing the proportion in term deposits, we extended the duration of assets, and optimized assets structure and the matching of assets and liabilities. Meanwhile, return on investment increased effectively.

In 2005, the Group's investment yield was 3.86% (investment assets included financial assets and cash and cash equivalents but excluded accrued investment income), an increase of 37 basis points from 2004.

### **Strengthening Cost Control and Strong Financial Position**

Under the precondition of ensuring business development, the Company further strengthened control over comprehensive budgetary management and endeavoured to control costs. Our consolidated cost control ratio was 17.2%, a decrease of 1.4 percentage points from 2004.

As at December 31, 2005, the Group's total assets was RMB559,219 million and the total shareholders' equity was RMB80,378 million. The Company's solvency level was approximately 2.73 times the minimum regulatory requirement. A strong financial position and an adequate solvency level provided the Company with powerful support in sustaining rapid development of its businesses.

### **Expanding Sales Channels and Enhancing Service Standards**

We possess the largest sales team in China's life insurance industry and the most extensive distribution network, covering almost all county level administrative regions, except 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, 2005, we had 640,000 individual agents, approximately 12,000 direct sales staffs, and a network of more than 89,000 cooperating bank branches and post offices. In 2005, the Company further consolidated its edge in sales by continuously expanding its sales channels and scope of cooperation, as well as strengthening the management and training of its sales staff.

In 2005, the Company continued to devote efforts to improving underwriting and claims management as well as customer service standards. We formulated and revised a series of systems and management regulations. Business process was adjusted and optimized. Control over operation risks was strengthened and service methods were improved and increased. Our centralized service platform "95519" Call Center was granted the "2005 Award of the Best Performing Call Centre in China" by the Professional Committee for the Promotion and Alliance of Customer Relationship Management by Informationalization under the Ministry of Information Industry, and was the only life insurance company receiving such award in China. It was also the second consecutive year the Company was granted this award.

### **Enhancing Internal Control and Corporate Governance**

In order to meet the regulatory requirements in the jurisdictions where the Company is listed in a more effective manner, the Company adjusted and enriched the composition of the Board of Directors and Board Committees, which further emphasized the function of independent directors. Pursuant to the provisions of the Code on Corporate Governance Practices (the "Code"), Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited, the roles of Chairman and President were segregated with separate functions.

The Company always places emphasis on internal control and risk management. Our supervisory and control system for internal control and risk management is comprised of the Board of Directors, the Audit Committee and Risk Management Committee under the Board of Directors, the Supervisory Committee, the Internal Control and Risk Management Committee under the Management, and the executive and supervisory departments, which consist of the Company's internal control and compliance department, legal affairs department and internal auditing department. Since our listing, we have placed emphasis on the supervision and management of three types of risks, namely finance, investment and operation risks, and keep on improving our information disclosure system. The Company has been allocating sufficient resources to optimize internal control systems at its branches and is preparing itself towards compliance with Sarbanes-Oxley Act Section 404.

### **Final Dividend**

The Board of Directors recommended the payment of a final dividend at RMB0.05 per share for the year ended December 31, 2005 to the shareholders of the Company.

## Class Action in the United States

Between March 16, 2004 and May 14, 2004, nine putative class action lawsuits were filed in the United States District Court for the Southern District of New York against the Company and certain of its officers and directors. These lawsuits were brought on behalf of a class of purchasers of the publicly traded securities of the Company and allege 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 "Exchange Act Claims", and Sections 11 and 15 of the Securities Act of 1933 by, among other things, omitting to disclose in the prospectus filed in connection with the Company's December 2003 initial public offering of its stock that the National Audit Office of China was conducting an audit of the predecessor of the Company's parent, China Life Insurance Company. The Court ordered that the nine actions be consolidated and restyled In re China Life Insurance Company Limited Securities Litigation, No. 04 CV 2112 (TPG), and that a consolidated amended complaint be filed. Plaintiffs filed a consolidated amended complaint on January 19, 2005, which named the Company, Wang Xianzhang, Miao Fuchun and Wu Yan as defendants, and asserts only Exchange Act Claims. 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.

## 2006 Outlook

In 2006, with the socio-economic development and expansion of investment channels for insurance funds, the Company will meet more opportunities. With the increasingly keen competition in the life insurance market and the uncertainties of the capital market, the Company will also face more challenges. By implementing a proactive and balanced development strategy, we will further improve our corporate governance practices and business management, strengthen cost control and risks management. By integrating its sales resources, the Company will establish and improve its efficient distribution and supporting system, and continue to maintain its leading market position. The Company will also further adjust its business structure, optimize its asset structure, strengthen cost control and sustain the growth in profitability.

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 our Management. Meanwhile, the Board would express gratitude to Mr. Wang Xiangzhang who has resigned as Chairman, Mr. Miao Fuchun who has resigned as vice-president and re-designated from an executive director to a non-executive director, Mr. Fan Yingjun who has resigned as independent non-executive director and Mr. Li Liangwen who has resigned as vice-president, for their contributions to the Company when they were in office.



**Yang Chao**  
*Chairman*

Beijing, China  
April 18, 2006

*Focusing on people,  
Caring for life*

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