

Gross Written Premiums and Deposits

For the year ended December 31

	2005 RMB million	2004 RMB million
Individual life insurance		
Gross written premiums	63,205	50,113
First-year gross written premiums	19,574	19,900
Single gross written premiums	1,085	2,526
First-year regular gross written premiums	18,489	17,374
Renewal gross written premiums	43,631	30,213
Deposits	62,483	66,981
First-year deposits	49,144	54,662
Single deposits	46,061	52,343
First-year regular deposits	3,083	2,319
Renewal deposits	13,339	12,319
Group life insurance		
Gross written premiums	867	344
First-year gross written premiums	851	295
Single gross written premiums	811	261
First-year regular gross written premiums	40	34
Renewal gross written premiums	16	49
Deposits	23,463	21,756
First-year deposits	23,452	21,738
Single deposits	23,401	21,726
First-year regular deposits	51	12
Renewal deposits	11	18
Accident and health insurance		
Gross written premium	10,867	10,606
Short-term accident insurance		
Gross written premiums	5,135	4,977
Short-term health insurance		
Gross written premiums	5,732	5,629
Total gross written premiums	74,939	61,063
Total deposits	85,946	88,737

1. Business Overview

The Company continued to pursue business restructuring in 2005, and endeavored to achieve a proactive and balanced development. The Group's gross written premiums and policy fees for the year ended December 31, 2005 (the "Reporting Period") were RMB81,022 million, representing an increase of 22.28% from 2004. Net profit attributable to shareholders of the Company for 2005 reached RMB9,306 million, an increase of 29.77 % from 2004.

In accordance with the data released by CIRC, the Company's market share in 2005 was 44.07%, and continued to maintain its leading position in the life insurance market in China.

In 2005, the Company continued its direction in comprehensive budgetary management and leverage on expense management to promote business restructuring. During the Reporting Period the gross written premiums were RMB74,939 million, representing a 22.72% increase from 2004. The first-year gross written premiums of long-term traditional insurance contracts were RMB20,425 million, representing an increase of 1.14% from 2004. The first-year regular gross written premiums were RMB18,529 million, representing an increase of 6.44% from 2004 and accounting for 90.72% of the first-year gross written premiums of long-term traditional insurance contracts.

In 2005, one-year new business value increased by 15.14 % from 2004. This was mainly attributable to the growth in new business for regular premiums and traditional insurance contracts.

The Company offers individual and group life insurance, accident and health insurance and services. It has more than 70 million individual and group life policies, annuity contracts and long-term health insurance policies in force as at December 31, 2005.

(1) Individual Life Insurance business

During the Reporting Period, the Company's gross written premiums and policy fees attributable to individual life insurance business were RMB68,888 million, representing 85.02% of the gross written premiums and policy fees for the reporting period and an increase of RMB13,979 million, or 25.46%, over RMB54,909 million in 2004.

The gross written premiums attributable to individual life insurance business were RMB63,205 million, representing an increase of RMB13,092 million, or 26.12%, over RMB50,113 million in 2004. The first-year gross written premiums attributable to individual life insurance business were RMB19,574 million, which accounted for 30.97% of the gross written premiums attributable to individual life insurance business. The first-year regular gross written premiums attributable to individual life insurance business were RMB18,489 million, which accounted for 94.46% of the first-year gross written premiums attributable to individual life insurance business.

The Company sells both participating and non-participating life insurance products. The gross written premiums attributable to individual life insurance participating products and non-participating products during the Reporting Period were RMB31,017 million and RMB32,188 million respectively.

(2) Group Life Insurance business

During the Reporting Period, the Company's gross written premiums and policy fees attributable to group life insurance business were RMB1,267 million, representing 1.56% of the gross written premiums and policy fees for the reporting period and an increase of RMB525 million, or 70.75%, over RMB742 million in 2004.

The Company offers both participating and non-participating group life insurance products.

(3) Accident and Health Insurance business

During the Reporting Period, the Company's gross written premiums attributable to accident and health insurance business (both of which comprise short term products) were RMB10,867 million, representing an increase of RMB261 million, or 2.46%, over RMB10,606 million in 2004. In particular, the gross written premiums attributable to accident insurance business amounted to RMB5,135 million, accounting for 6.34% of the gross written premiums and policy fees for the reporting period, while the gross written premiums attributable to health insurance business were RMB5,732 million, representing 7.08% of the gross written premiums and policy fees for the year.

2. Distribution Channels

The Company has the largest and most extensive distribution force and network in the life insurance sector in China, covering almost every county level administrative region in China, except the Tibet Autonomous Region. Exclusive agents, direct sales force and intermediaries comprising mainly commercial banks and post offices are the three major distribution channels of the Company. In 2005, the company's distribution channels were further expanded and consolidated.

Distribution channel	2005	2004
Exclusive agents	640,000	668,000
Direct sales force	12,000	12,000
Intermediaries	89,000	87,000

(1) Exclusive agents

Exclusive agents (including those who are not yet qualified as agents) is the Company's primary distribution channel for individual life, individual accident and individual health insurance products. In 2005, the number of the Company's exclusive agents basically remained stable. As at December 31, 2005, the Company retained nearly 640,000 agents at its over 12,000 field offices, and the percentage of certificate holders for exclusive agents was 79.2%, representing an increase of 7.2 percentage points over the 72% in 2004.

The Company retains designated supervisors to manage exclusive agents and hires full-time trainers to offer training to them. In 2005, the company continued to promote the Chartered Insurance Agency Management ("CIAM") qualification certification program, and introduced International Award for Productivity ("IAP") and International Quality Award ("IQA") from Life Insurance Marketing and Research Association ("LIMRA") to advocate outstanding performance in operation and excellence in quality. Such initiatives further facilitated team managements for the agents, improved sales productivity and quality of service, and created remarkable reputation for the team brand.

The effect of “Jin Ding Project”, which aimed to improve overall sales performance and to promote the innovation of exclusive agents in marketing and management practices, was first reflected, with improvements with respect to the professional standards and sales performances of the exclusive agents sales force.

(2) Direct sales force

The Company’s direct sales force is the primary distribution channel for its group life insurance and annuities, group accident and health insurance products. As at December 31, 2005, the number of the Company’s direct sales force was approximately 12,000, which remained steady and was basically same as that in 2004. In 2005, by organizing the First Group Insurance Sales Elite Summit and the Group Insurance Sales Elite Club Inauguration Conference, the Company managed to inspire the direct sales force and promote business development. The training system for the direct sales force was also improved. In addition, the Company continued to strengthen the building of key account managers team, so as to enhance the service standards for major customers.

(3) Intermediaries

The Company also provides a variety of individual and group life insurance products through intermediaries. This distribution channel is largely made up of commercial bank branches, post offices, credit cooperatives, as well as professional insurance agencies and insurance brokers. The Company has established bancassurance business relationships with branches of major commercial banks and post offices. As at December 31, 2005, the Company had cooperated with more than 89,000 bank branches and post offices with 13,000 customer relationship managers, for which there were growth from those in 2004.

3. Business Management

In 2005, the Company continued to devote efforts to improving underwriting and claims management as well as customer service standards. Certain systems and management regulations were formulated and revised. Business process was adjusted and optimized. Business management was strengthened and standardized with focus on internal control and quality supervision.

(1) Underwriting and claims management

The Company managed its underwriting and claims management operations and exercised risk control by setting down authorization limits on its branch offices and implementing a hierarchy-based system of underwriters and claims inspectors. In 2005, with respect to underwriting management, the Company introduced the world leading reinsurers’ underwriting assessing system. With respect to claims management, more efforts were devoted to investigation of claims so as to prevent insurance fraud. The implementation of these measures continuously increased the service awareness and professional qualities of the Company’s underwriting and claims officers. Efficiency and quality in business processing were further optimized. Underwriting and claims management were further standardized.

(2) Customer service

The Company mainly provides customer service through its customer service teams at different branches and field offices throughout China and with the support of an advanced call center. In 2005, the Company's customer service system was further optimized by increasing service methods and improving service quality. Our centralized service platform "95519" Call Center was granted the "Award of the Best Performing Call Centre in China 2005" 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.

4. Financial Management

In 2005, the Company continued its direction in comprehensive budgetary management and leverage on expense management to promote business restructuring. Endeavors were devoted to realize the synergy from business development, business restructuring and growth in profitability by capitalizing on the core function of financial management in operation management. Under the premises of facilitating business development, the Company further strengthened cost control and continued to conduct centralized procurement in bulk. Our consolidated cost control ratio in 2005 was 17.2%, a decrease of 1.4 percentage points from 2004. Funding management was strengthened with control over funding risk. Funding transfer limits was measured on the basis of daily average balance so as to increase the concentration of funding and the efficiency of asset management.

5. Actuarial Management

The Company's actuarial work focused on liability valuation, product profitability assessment, cash flow analysis, actuarial risk control and experience analysis, preparation for various actuarial reports, assistance in formulating investment strategies, assistance in formulating reinsurance strategies. All the work mentioned above is to support the Company's sustainable solid growth in an effective manner. In 2005, the Company terminated or modified certain products with greater risks and poorer profitability based on their profitability and risk assessment. In 2005, the Company achieved further progress in the research on mortality, expenses and morbidity. The Company was involved in the compilation of "China Life Insurance Mortality Table (2000-2003)" and provided more than 50% of historical information.

6. Product Development

The Company's Product Development Committee, which is comprised of members from the Management, heads of various core business departments and professionals of the Company, is responsible for formulating product development plans and strategies for the Company. It sets down the direction of product development and engages in the discussion, studies and resolution of serious issues in the product development process. In 2005, in accordance with the change in market demand, the Company developed new products such as "Jin Xin", "Care For Your Whole Life", "Group Immediate Annuity", and modified some other products. Our product line was enriched.

As at December 31, 2005, the average pricing rate of the Company's product was 2.23%.

7. Investments Management

In 2005, the Company appropriately adjusted the basis for investment through revising its “Investment Guideline” and renewed the Agreement for Entrustment of Investment with AMC. According to the change in macro-economy, capital market and money market, the proportion of investment in bond, especially in long-term bond, was increased. A prudent strategy was adopted towards equity investment. The composition of foreign exchange assets was adjusted so as to increase the investment yield. At the same time, pursuant to the matching of assets and liabilities, and complying with the principles of safety and steadiness, more control was exercised over duration matching management and risk control.

In February 2005, the Company was permitted to invest directly in the equity market in China. At the same time, the Company’s application for the qualification to deploy insurance foreign exchange funds overseas is pending for the approval by regulators. Moreover, pursuant to special approval, the Company acquired USD 250 million shares in the initial public offering of China Construction Bank Corporation (stock code: 0939) as financial investment. As at December 31, 2005, the Group held RMB494,356 million in investment assets. The Group’s investment yield was 3.86%, an increase of 37 basis points from 2004.

As at December 31, 2005, the investment portfolio of the Group was as follows:

	RMB million
Debt Securities	255,554
Held-to-maturity securities	146,297
Available-for-sale securities	96,425
Financial assets at fair value through income	12,832
Equity Securities	39,548
Available-for-sale securities	26,261
Financial assets at fair value through income	13,287
Term deposits	164,869
Statutory deposits-restricted	5,353
Policy loans	981
Cash and cash equivalents	28,051

Debt securities

Debt securities investment includes government bonds, government agency bonds, corporate bonds and subordinated bonds/debts above specific standards, represented 51.69% of the Group’s total investment assets as at December 31, 2005, an increase of 11.62 percentage points from 2004.

Equity Securities

Equity securities investment consists of Chinese domestic investment fund that was invested in securities and investment directly invested in equity market. Such investment represented 8.00% of the Group’s total investment assets as at December 31, 2005, an increase of 3.39 percentage points from 2004.

Term deposits

Term deposits primarily held by commercial banks in China, represented 33.35% of the Group’s total investment assets as at December 31, 2005, a decrease of 13.46 percentage points from 2004.

8. IT Infrastructure

In 2005, the Company continued to consolidate the establishment and promotion of its core operating system (CCOS, China Life Core Operating System). The implementation of CBPS8 version of business processing system was commenced in full force at the branch level for operation. Development of Health and Accident Insurance System and Corporate Annuity System were duly initiated.

Additional efforts were devoted by the Company to data concentration. The establishment of operation maintenance platform was improved so as to gradually establish a standardized operation maintenance system. In order to gradually build up a flexible IT infrastructure framework, infrastructure facilities, network and security elements were enhanced.

In 2005, the Company strengthened its cooperation with international reputable IT entities, and entered into an IT Strategic Cooperation Agreement with Microsoft for the formation of strategic partnership relationship. Construction of the Company's value-added data service platform continued so as to enhance the standard of operation and management decisions supporting.

9. Internal Control and Risk Management

The Company's 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 (newly established in January 2006, based on the former risk management department), legal affairs department and internal auditing department.

In 2005, the Company improved its supervision and management on investment risks. Examinations on investment assets were regularly conducted and risk analysis reports were compiled accordingly. Moreover, the Company proactively introduced international leading computer-assisted management system to enhance the management of investment assets and liabilities matching, and to implement the dynamic supervision and control.

In 2005, the internal audit system that has been vertically led and unitarily managed was further improved. At the same time, the Company revised and formulated a series of internal audit systems and working guidelines, namely "Internal Control – Audit Regulations", "Projects Audit Regulations", "Internal Control – Ratings Measures". In 2005, various internal audit work in different forms commenced with reference to the Company's key risk aspects and control mechanisms. Supervision and examination on the reform and improvement issues of branches were strengthened.

In 2005, the Company continued to pursue optimization of the internal control systems and has been preparing itself towards compliance with Sarbanes-Oxley Act Section 404. During the process of enhancing and optimizing its internal control system, the Company identified and actively addressed certain issues that need to be resolved. The Company believes that the continued improvement and effective operation of its internal control system is beneficial for its risk control and management and in the best interests of its customers and shareholders.

In April 2006, the CIRC announced that it had decided to review the effectiveness of internal controls, as well as regulatory compliance matters relating to business operations of Chinese insurance companies and asset management companies during a three-year period immediately after the announcement. The purposes of such reviews 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 . The Company is among the companies to be reviewed by the CIRC in 2006.

10. Building of Integrity

In 2005, in response to the call by CIRC as the “Year of Integrity”, the Company implemented the “Proposal for Further Establishing Integrity” and announced the “Service Commitment of China Life Insurance Company Limited”. 15 service commitments were made by the Company to the public including “Sales with Integrity and Compliance, Easy Communication with Customers, Fast Claims Service and Professional Call Centre Service”. At the same time, an activity with a theme of “Building of Integrity” was held by the Company. Emphasis was placed on enhancing the building of Integrity and control over risks of the sales forces , from which successful results were derived.

Through the building of Integrity, the Company further enhanced its social reputation and social influence, and better fulfilled its social responsibility.

11. Developing Corporate Annuity Business

In August 2005, the Company obtained the qualification of “Corporate Annuity Account Manager” from the Ministry of Labour and Social Security, PRC. At the same time, AMC, the Company’s subsidiary, obtained the qualification of “Corporate Annuity Investment Manager”, which enables the Company to develop its corporate annuity business.