



Wu Yan General Manager, Executive Director

“ All staff members of the Company share the same vision, and are determined to fulfill the mission of ‘Focusing on people, Caring for life, Creating value, Serving society’. ”

Recent Developments

Class Action Litigations

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.

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. We are continuing to fully cooperate with the SEC’s inquiry.

Operating Results

Results of our business operations are subject to a variety of factors. For example, we face increasing competitive pressures from other insurance companies operating in China, which may materially and adversely affect the growth of our business. In addition, our investments are subject to, among other things, volatility in the PRC securities markets, which is still at an early stage of development. Therefore, our operating results of previous financial years may not reflect our current or future operating results. For a full description of the risks affecting our business, see Risk Factors in our prospectus dated December 9, 2003 for our initial public offering, as well as our annual reports on Form 20-F filed with the SEC.

Certain of our accounting policies changed following our adoption of HKFRS which were effective for accounting periods commencing on or after January 1, 2005. Other than reclassification in certain investment and insurance accounts, the adoption of HKFRS had no material impact on our shareholders' equity and net profits. See Note 2 to the consolidated financial statements for more information.

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 RMB15,030 million, or 23.1%, to RMB80,038 million in 2005 from RMB65,008 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 RMB31,016 million in 2005, an increase of RMB8,653 million, or 38.7%, from RMB22,363 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, RMB1,896 million was attributable to single premium products and RMB62,027 million was attributable to regular premium products (including both first-year and renewal premiums). Of total net premiums earned in 2004, RMB2,780 million was attributable to single premium products and RMB47,670 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 RMB13,847 million, or 25.2%, to RMB68,749 million in 2005 from RMB54,902 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 RMB515 million, or 69.4%, to RMB1,257 million in 2005 from RMB742 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 RMB668 million, or 7.1%, to RMB10,032 million in 2005 from RMB9,364 million in 2004. Gross written premiums from the accident insurance business increased by RMB158 million, or 3.2%, to RMB5,135 million in 2005 from RMB4,977 million in 2004 and gross written premiums from the health insurance business increased by RMB103 million, or 1.8%, to RMB5,732 million in 2005 from RMB5,629 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 RMB5,368 million, or 47.4%, to RMB16,685 million in 2005 from RMB11,317 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 (including financial assets, cash and cash equivalents but excluding accrued investment income) were RMB494,356 million and the investment yield for the year ended December 31, 2005 was 3.86%. As of December 31, 2004, total investment assets were RMB374,890 million and the investment yield for the year ended December 31, 2004 was 3.49%. 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 market in the future could have a material adverse impact on our net investment income, and accordingly our net profit.

Net Realised Losses on Financial Assets/Net Realised Losses on Investments

Net realised losses on financial assets/net realised losses on investments increased by RMB273 million, or 115.2% to RMB510 million in 2005 from RMB237 million in 2004. This results in 2005 reflected net realized gains of RMB61 million on debt securities and net realized losses of RMB571 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 RMB317 million on debt securities which were primarily due to the impairment of government bonds entrusted with Min Fa Security Limited Company, and net realized gains was RMB80 million on securities investment funds.

Net Fair Value Gains on Assets at Fair Value Through Income/Net Unrealised 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 RMB260 million in 2005, compared to net unrealised losses on trading securities of RMB1,061 million in 2004. The results in 2005 reflected net fair value gains on assets at fair value through income of RMB88 million on debt securities, resulting from favorable conditions in debt securities market in 2005, and net fair value gains on assets at fair value through income of RMB172 million on equity securities, resulting from disciplined application of investment techniques and timing of our equity investments in 2005. The results in 2004 reflected of net unrealised gains on trading securities of RMB11 million on debt securities and net unrealised losses on trading securities of RMB1,072 million on equity securities, due to a deep fall in the securities market in 2004.

Other Income

Other income decreased by RMB40 million, or 2.2%, to RMB1,739 million from RMB1,779 million in 2004. This was primarily due to a decrease in policy management fees collected from China Life Insurance (Group) Company (“CLIC”).

Deposits and Policy Fees

Deposits are gross additions to long-term investment-type insurance contracts and investment contracts (collectively, investment type contracts). Total deposits decreased by RMB2,791 million, or 3.1%, to RMB85,946 million in 2005 from RMB88,737 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 RMB889 million, or 17.1%, to RMB6,083 million in 2005 from RMB5,194 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 RMB5,452 million, or 6.7%, to RMB75,964 million in 2005 from RMB81,416 million in 2004. Total policy fees from participating products increased by RMB625 million, or 17.1%, to RMB4,276 million in 2005 from RMB3,651 million in 2004.

Individual Life Insurance Business

Deposits in the individual life insurance business decreased by RMB4,498 million, or 6.7%, to RMB62,483 million in 2005 from RMB66,981 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 RMB887 million, or 18.5%, to RMB5,683 million in 2005 from RMB4,796 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 RMB1,707 million, or 7.8%, to RMB23,463 million in 2005 from RMB21,756 million in 2004. Policy fees from the group life insurance business increased by RMB2 million, or 0.5%, to RMB400 million in 2005 from RMB398 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.

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 RMB11,730 million, or 27.7%, to RMB54,029 million in 2005 from RMB42,299 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 RMB1,495 million, or 21.9%, to RMB8,311 million in 2005 from RMB6,816 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 RMB1,190 million,

or 32.1%, to RMB4,894 million in 2005 from RMB3,704 million in 2004. This increase was primarily reflected in an increase in the total policyholder account balance. Insurance benefits and claims, net of amounts ceded through reinsurance, attributable to participating products increased by RMB6,939 million, or 38.4%, to RMB25,006 million in 2005 from RMB18,067 million in 2004. Of these insurance benefits and claims attributable to participating products, life insurance death and other benefits increased by RMB1,393 million, or 52.4%, to RMB4,053 million in 2005 from RMB2,660 million in 2004, the increase in liability of long-term traditional insurance contracts increased by RMB4,474 million, or 36.2%, to RMB16,844 million in 2005 from RMB12,370 million in 2004, and the interest credited to long-term investment type insurance contracts increased by RMB1,072 million, or 35.3%, to RMB4,109 million in 2005 from RMB3,037 million in 2004.

Individual Life Insurance Business

Insurance benefits and claims for the individual life insurance business increased by RMB10,720 million, or 30.2%, to RMB46,161 million in 2005 from RMB35,441 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 RMB1,322 million, or 20.6%, to RMB7,744 million in 2005 from RMB6,422 million in 2004 and the increase in liability of long-term traditional insurance contracts increased by RMB8,209 million, or 32.4%, to RMB33,550 million in 2005 from RMB25,341 million in 2004.

Group Life Insurance Business

Insurance benefits and claims for the group life insurance business increased by RMB581 million, or 132.0%, to RMB1,021 million in 2005 from RMB440 million in 2004. This increase was primarily 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 RMB173 million, or 43.9%, to RMB567 million in 2005 from RMB394 million in 2004 and the increase in liability of long-term traditional insurance contracts increased by RMB407 million, or 2,035.0%, to RMB427 million in 2005 from RMB20 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 RMB429 million, or 6.7%, to RMB6,847 million in 2005 from RMB6,418 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.

Interest Credited to Investment Contracts

Interest credited to investment contracts increased by RMB357 million, or 58.0%, to RMB973 million in 2005 from RMB616 million in 2004. This increase primarily reflected an increase in the total policyholder account balance. Interest credited to participating investment contracts increased by RMB369 million, or 64.7%, to RMB939 million in 2005 from RMB570 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



from left to right
Mr. Liu Jiade,
Mr. Lin Dairen,
Mr. Wu Yan,
Mr. Wan Feng,
Ms. Liu Yingqi,
Mr. Su Hengxuan.

with discretionary participation feature. Increase in deferred income increased by RMB728 million, or 9.3%, to RMB8,521 million in 2005 from RMB7,793 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 RMB3,311 million, or 161.7%, to RMB5,359 million in 2005 from RMB2,048 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 RMB1,503 million, or 24.0%, to RMB7,766 million in 2005 from RMB6,263 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 RMB373 million, or 25.3%, to RMB1,845 million in 2005 from RMB1,472 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 RMB367 million, or 34.9%, to RMB1,418 million in 2005 from RMB1,051 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 long-term traditional 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 RMB6 million, or 1.4%, to RMB427 million in 2005 from RMB421 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 RMB652 million, or 9.9%, to RMB7,237 million in 2005 from RMB6,585 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 China Life Insurance (Group) Company), increased by RMB667 million, or 509.2%, to RMB798 million in 2005 from RMB131 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.

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 RMB135 million, or 5.9%, to RMB2,145 million in 2005 from RMB2,280 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 RMB2,135 million, or 29.8%, to RMB9,306 million in 2005 from RMB7,171 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 RMB2,167 million, or 25.5%, to RMB10,670 million in 2005 from RMB8,503 million in 2004. This increase was primarily due to an increase in business volume of regular premium products.

Group Life Insurance Business

Net loss in the group life insurance business increased by RMB217 million, or 73.3%, to RMB513 million in 2005, from RMB296 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 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 RMB108 million, or 9.2%, to RMB1,280 million in 2005 from RMB1,172 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.

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.

Additional sources of liquidity to meet unexpected cash outflows are available from our investment portfolio. As of December 31, 2005, the amount of cash and cash equivalents was RMB28,051 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, 2005, the amount of term deposits was RMB164,869 million.

Our investment portfolio also may provide us with a source of liquidity to meet unexpected cash outflows. As of December 31, 2005, investments in debt securities had a fair value of RMB267,042 million. As of December 31, 2005, investments in equity securities had a fair value of RMB39,548 million. However, the People's Republic of China ("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 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 RMB31,828 million in the year ended December 31, 2005, a decrease from RMB32,914 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 RMB91,340 million in the year ended December 31, 2005, a decrease from RMB114,078 million in the year ended December 31, 2004. This decrease was primarily due to a decrease in our investments in term deposits.

Net cash provided by financing activities was RMB60,717 million in the year ended December 31, 2005 and RMB65,765 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 RMB24,707 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 dominated in foreign currencies in China, part of which are held as structured deposits, approximately US\$300 million of the cash proceeds was converted into Renminbi to avoid foreign exchange risks, and the remaining part was used for investments of approximately US\$250 million in H shares of China Construction Bank Corporation as well as approximately US\$125 million in foreign-currency dominated debts in China.

Insurance Solvency Requirements

The solvency ratio of an insurance company is a measure of capital adequacy, which is calculated by dividing the actual solvency level of the company (which is its admissible assets less admissible liabilities, determined in accordance with PRC GAAP and relevant rules) by the minimum solvency level it is required to meet. The following table shows the Company's solvency ratio as of December 31, 2005:

| (RMB in millions, except percentage data) | As of December 31, 2005 |
|---|-------------------------|
| Actual solvency | 59,561 |
| Minimum solvency | 21,782 |
| Solvency ratio | 273% |

Insurance companies are required to calculate and report annually to the CIRC their solvency level 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" of four or more of the ratios can lead to regulatory action being taken by the CIRC.

Our solvency level as of December 31, 2005 was approximately 2.73 times the minimum regulatory requirement. Among the twelve financial ratios, eleven financial ratios were within their usual ranges and our surrender ratio was slightly outside of the usual range provided by the CIRC. Surrenders from both our individual and group life insurance businesses increased in 2005. The increase in surrenders of investment-type contracts in our individual life insurance business was primarily due to the increase in alternative investment channels available to policyholders offering a more competitive yield. The increase in surrenders in our group life insurance business was primarily due to surrenders of relatively larger policies by certain state-owned companies following their restructuring, which resulted in changes of insurance planning strategies of these state-owned enterprises; the continued impact of governmental regulations prohibiting enterprises and other organizations from using their funds to purchase commercial group policies for individuals, as well as the commencement of preferential income tax treatments for enterprise annuity plans in certain provinces in the second half of 2005.