

# Chairman's Statement



**“to establish China Life as a first international life insurance company with strong capital resources, advanced corporate governance, well-established management system, stringent internal control, leading technologies, first class team, superior service, outstanding brand, balanced and harmony development”**

Yang Chao, Chairman

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, 2006.

The year of 2006 represents a significant milestone year in the development history of China insurance industry. The promulgation of State Council's "Some Opinions on the Reform and Development of the Insurance Industry" provided an unprecedented opportunity for the rapid development of China insurance industry. As a core member of China Life group, the Company integrated the group's development strategy of "strong core business with appropriate diversification" to further its business goal, which is "to establish itself as a first class international life insurance company with strong capital resources, advanced corporate governance, well-established management system, stringent internal control, leading technologies, first class team, superior service, outstanding brand, balanced and harmony development". With this in mind, the Company is dedicated to the creation of greater shareholders value. In 2006, with a view to promoting and developing the well being of the insurance industry as our responsibility, we played a leading role in the industry. Based on the guiding principle of "proactive and balance, consolidation and transformation, innovative and excel", we captured the unprecedented opportunities arising from the rapid development of the insurance industry and we accelerated our business development, further strengthened our corporate structure, continued to optimise our investment portfolio, accelerated our business growth, continued to refine our business structure, vastly increased the investment return, generated higher operating profits, further optimised our corporate governance, continued to strengthen our internal control and, thereby, accomplishing each of the corporate and business objectives set out in 2006.

In December 2006, the Company completed the initial public offering of our A shares. On January 9, 2007, our A Shares were successfully listed on the Shanghai Stock Exchange. This further strengthened the capital base of our Company and significantly raised the Company's brand and increased our influence on the society.

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On January 23, 2007, our A Shares were admitted into Shanghai Stock Exchange Index 180, Shanghai Stock Exchange Index 50, Shanghai and Shenzhen Index 300, China Securities Index 100, China Securities Index 800 and CSI Well-off Index. On March 12, 2007, our H Shares were admitted into the Hang Seng Constituent Index and became the first Chinese bluechip insurance stock admitted into the Hang Seng Constituent Index. Our influence on the local and international capital market becomes increasingly significant.

Our Company is the core member of the China Life group, which ranked 217th among "Fortune 500" announced by Fortune in 2006. In March 2006, the Company was awarded "The World's Most Admired Companies 2006" by Fortune. In June 2006, the Company was named as one of the "Top 10 Most Valuable Brand Name of China" in the campaign of "China's 500 Most Valuable Brand" jointly hosted by the selection panel of World Brand Lab and World Economic Forum for the three consecutive years. In September 2006, the Company was named by the magazine "Euromoney" as "Asia's Best Managed Companies". In November 2006, the Company ranked top ten of the China's Top 20 Brands announced by the U.S. "Business Week". In January 2007, the Company ranked top three in the campaign of "2006 Top 10 Most-liked Hong Kong Listed Companies" by a selection panel comprising of Association of International Accountants, Hong Kong Branch and other organisations. In April 2007, the Company ranked 243rd in "the Global Largest 2000 Enterprises" by Forbes, an improvement of 54 places compared to 2006.

In 2006, the Group's total revenues were RMB147,311 million, the net profits attributable to shareholders of the Company were RMB19,956 million, the basic and fully diluted earnings per share was RMB0.75, each of which is a historic record high for the Company. As at December 31, 2006, the Company's embedded value was RMB181,989 million, and the solvency margin was approximately 3.5 times the minimum regulatory requirements.

### ACHIEVING RAPID GROWTH AND MAINTAINING MARKET LEADING POSITION

As at December 31, 2006, the Group's total revenues were RMB147,311 million, an increase of 50.0% from 2005. Gross written premiums and policy fees reached RMB99,417 million, an increase of 22.7% from 2005. The net investment income was RMB24,942 million, an increase of 49.5% from 2005. Both the Company's insurance business and investment performed excellently, leading to a substantial improvement in the operating results.

In accordance with the data released by the China Insurance Regulatory Commission ("CIRC"), under the PRC Generally Accepted Accounting Principles ("PRC GAAP"), the Company's market share in 2006 was 45.27%, continued to maintain its leading position in the life insurance market in China.

### OPTIMISING BUSINESS STRUCTURE AND STEADY INCREASE IN EMBEDDED VALUE

The Company endeavors to optimise the quality of its business. In 2006, the Company's total gross written premiums were RMB92,320 million, an increase of 23.2% from 2005. The first year regular gross written premium accounted for 90.7% of the first-year gross written premiums of long term traditional insurance contracts. The continued improvement of the business quality enables the Company to sustain its long term steady development.

The rapid growth in business and the improvement of business quality further enhanced the Company's embedded value. As at December 31, 2006, the Company's embedded value was RMB181,989 million, an increase of 59.7% from 2005. The value of new business for the year ended December 31, 2006 was RMB10,481 million, an increase of 40.0% from 2005.

### STRONG CAPITAL BASE AND OUTSTANDING INVESTMENT ABILITY

We are one of the largest institutional investors in the China capital market. As at December 31, 2006, the Company's investment assets reached RMB686,804 million, an increase of RMB192,448 million from 2005, representing an increase of 38.9%.

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During 2006, the Company captured the favorable conditions of capital market, optimised the investment portfolio and increased the proportion of investment assets in equity and debt securities, which effectively increased the return on investment. In 2006, the Company's investment yield was 4.27% (investment assets included financial assets and cash and cash equivalents but excluded accrued investment income), an increase of 41 basis points from 2005. The Company started to establish a high standard investment management information system and an investment standard, which complied with the investment nature of insurance fund in order to significantly improve the professional standard of our investment management. AMC (the Company's subsidiary) and Franklin Templeton Strategic Investments Limited etc. jointly contributed capital to establish China Life Franklin Asset Management Company Limited for setting up an oversea investment platform for the Company. Besides, in term of investment innovation, there was also a breakthrough. The Company and National Development Bank jointly launched and fully subscribed for the US\$300 million floating interest bond. This being the first private placement in the bond market of China.

In 2006, the Company actively pursued strategic investment opportunities. In June 2006, the Company successfully subscribed for shares in CITIC Securities Company Limited ("CITIC") (Shanghai Stock Exchange Code 600030 SH) and became CITIC's second largest shareholder. The Company also captured the investment opportunity when Guangdong Development Bank Company Limited ("GDB") re-structured its capital, and subscribed for the shares in GDB and became one of the equally-ranked largest shareholders of GDB. Following our investment in the initial public offering of H shares of China Construction bank Limited (Hong Kong Stock Exchange Code 0939 HK), the Company also became one of the largest strategic investors in A shares and one of the largest cornerstone investors in H shares of Bank of China Limited (Hong Kong Stock Exchange Code 3988 HK, Shanghai Stock Exchange Code 601988 SH) and Industrial and Commercial Bank of China Limited (Hong Kong Stock Exchange Code 1398 HK, Shanghai Stock Exchange Code 601398 SH). The above strategic investment reflected our strong capital base and our outstanding investment management ability.

### **STRONG FINANCIAL POSITION AND SUBSTANTIAL IMPROVEMENT IN PROFITABILITY**

The Group's net profit for 2006 attributable to shareholders of the Company was RMB19,956 million, an increase of 114.4% from 2005. As at December 31, 2006, the Group's total shareholders' equity (attributable to the Company's shareholders' equity) was RMB139,665 million, an increase of 73.8% from 2005.

In 2006, the Company continued to strengthen its comprehensive budgetary management, imposed stringent policy on cost control. The consolidated cost control ratio was 14.9%, a decrease of 2.3 percentage points from 2005.

As at December 31, 2006, the Group's total assets was RMB764,395 million and the solvency margin was 3.5 times the minimum regulatory requirement. A strong financial position and an adequate solvency margin provided the Company with powerful support in sustaining rapid and healthy development of the business.

### **EXPANDING SALES CHANNELS AND ENHANCING SERVICE STANDARD**

As at December 31, 2006, the Company had more than 15,000 sale points and approximately 650,000 executive agents, each of which represents an increase from 2005. The rate of executive agents that holds valid license was 94%, an increase of 15 percentage points from 2005. The Company has approximately 12,000 direct sales force, maintaining the 2005 level. In addition, the Company has a network of more than 87,000 intermediary agency, spreading over in commercial bank, postal savings, cooperative saving institutions and with more than 15,000 customers managers. Our three major sale channels remained stable. We are taking steps to pool our resources in these three major sale channels for cross referral sales and sharing customer resources.

In 2006, the Company continued to devote efforts to improve underwriting and claims management as well as to improve customer services standard, to optimise and refine the business flow, to strengthen control over operation risk,

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and to improve and increase service methods. At the same time, we continued to improve the professional standard of our client services for enhancing the customers' satisfaction. Our centralized service platform "95519" Call Centre was granted the "2006 China's Best Call Centre of the Year Award" by the Professional Committee for the Promotion and Alliance of Customer Relationship Management of Informationalization under the Ministry of Information Industry, and was the only life insurance company receiving such award for the three consecutive years. The Company was also awarded the "2006 China Ten Best Service Brands" by China Call Centre & CRM Association.

In 2006, the Company continued to enlarge its investment in information technology ("IT"). Our investment in IT enables us to strengthen the IT application and to improve the customer services. This enables the operating system of the core business to be managed efficiently. The strengthening of the IT provided an overall support to our business sales, customer services, management decision making process and risk management. Furthermore, the Company continued to work on the centralization of data, and completed the national promotion of CBPS8 version and were now working toward the centralization of data of the head office. The location of our Shanghai data centre had been selected and project contract was signed. The selection of location of our Beijing research and development centre was being finalised. In February 2007, the Company was selected in third year by National Informatization Evaluation Centre as the "Top 500 Chinese Informatization Enterprises" and was ranked 12th in place, third among the shortlisted financial institutions and the first among the shortlisted insurance enterprises.

### UPHOLDING THE HUMAN VALUE AND UPGRADING THE QUALITY OF STAFF

The Company upholds the importance of human value as their principal guidelines for human resources policy and management. As a foundation for our long-term sustainable growth, we endeavor to strengthen the building of our team and to improve our staff's quality.

In 2006, the Company rearranged the management team and the representative of certain provincial branch offices. We had appointed a Chief Investment Officer, a Chief Information Technology Officer, and also recruited from oversea a Chief Actuary who had international working experience upon the retirement of Mr. Daniel Joseph Kunesh, our former Chief Actuary. Our team of senior management becomes more youthful, professional and international.

The Company valued highly the improvement of leadership quality and comprehensive skill and quality of all levels of our management. We provided tailored training to the newly appointed managers of all levels of the head office and the representatives and department heads of provincial branch offices.

The Company designated a Training Division to organize educational training for its staff. The Company utilised the existing training facilities and IT to set up "China Life Network College", providing professional training to enhance the professional knowledge of all staff. At the same time, among the head office and branches, the Company systematically arranged for interaction between management personnel and professional technical personnel. In addition, the Company also selected staff to attend oversea professional training. We aim to develop and reserve more comprehensive qualified management and professional technical staff to meet our long-term corporate development growth.

### ENHANCING CORPORATE GOVERNANCE AND STRENGTHENING INTERNAL CONTROL

At the shareholders' annual general meeting in June 2006, new board members and supervisory committees were elected. In compliance with regulatory requirements, we have adopted the Procedural Rules for Shareholders' Meeting, further amended the Company's Articles of Association, Procedural Rules for Board and Supervisory Committee Meeting, for the refinement on the corporate matters. The Board of Directors also additionally appointed a finance specialist as an independent non-executive director and who is also a member of audit committee in order to strengthen professionalism

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in the Board of Directors. In view of the Company's successful experience in the disclosure of corporate governance information, the Company was invited by the United Nations Conference on Trade and Development in October 2006 to attend the twenty-third session of Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) in Geneva, its Europe Headquarter and presented a speech to the group. The Company was one of the two enterprises in the world being invited to attend the session and was also the only corporate representative from the developing countries.

In 2006, the Company, based on the existing internal control system, continued the refinement on the internal control structure and system. The Company set up a 5-tiers internal control structures. We set up Internal Control Compliance Division in our head office and provincial branch offices, and on the local level offices, we established the legal compliance section. The Company formulated the "Speedy Implementation and Application of Internal Control System" to clarify the principle concept and guidelines on the internal control system, with stated objective and operating mechanisms to strengthen the internal control guidance. In September 2006, the Company organized a month-long activity on "Internal Control Awareness" to further implement the internal control concept and the compliance of "Sarbanes-Oxley Act – Section 404" requirements.

To comply with "Sarbanes-Oxley Act – Section 404" and other securities legislations of the United States, the Company completed a self assessment on internal control over financial reporting as of December 31, 2006, and confirmed such internal control was effective. The Company had also received from our registered independent auditors unqualified opinions on management's assessment of the effectiveness of internal control over financial reporting and on the effectiveness of our internal control over financial reporting as of December 31, 2006. Management's assessment and the report of our registered independent auditors will be included in our U.S. Securities and Exchange Commission (SEC) Form 20-F (the US version of annual report).

### TAKING SOCIAL RESPONSIBILITY AND PLAYING A LEADING ROLE

The Company being the largest life insurance company in China endeavors to play a leading role in the industry and to actively participate in building a harmonious society. The Company was the first in promoting government policies on social matters and business development that were encouraged by the government. We actively involved in providing insurance services to the local community and participated in charitable activities, to fulfill our commitment on social responsibility.

Our Company placed strong emphasis on the development of New Village Cooperative Medical Scheme ("NVCMS") etc. policy-oriented business. We had started the NVCMS business in 48 local towns and districts of our nine branches located in Jiangsu, Henan and Tsingtao. The cumulative participants in this scheme had reached almost 17.4 million.

The Company had also been enthusiastic toward the community charitable services. In 2006, the Company donated a total of RMB64.44 million to charitable organisations, among which, the Company organized to donate over RMB5 million to set up 18 "China Life Long March Primary Schools" along the Long March routes of the 13 provinces. The Company also donated RMB1 million to the "Mutual Support and Courage Fund" of Shanghai. In addition, our China Life Volunteer Organisation is being set up.

In March 2007, the Company contributed a capital of RMB50 million to set up "China Life Charitable Fund" and approval has been granted by the State Council. Playing a leading role in the industry and taking social responsibility have become an important part of our corporate cultures, which has also been clearly demonstrated in our corporate mission of "Care for Individual, Care for Life, Serve the Community and Create Value".

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### FINAL DIVIDEND

The Board of Directors proposed the payment of a final dividend of RMB0.14 per share for the year ended December 31, 2006 to shareholders of the Company. The payment of final dividend shall be subject to shareholders' approval at the annual general meeting (the "Annual General Meeting") to be held on Tuesday, June 12, 2007.

### 2007 OUTLOOK

In 2007, China macro-economic shall continue to maintain a stable growth. Following the State Council's "Some Opinions on the Reform and Development of the Insurance Industry" and also the resolutions made by the Central Finance Working Conference and National Insurance Working Conference in early 2007, there will be further impetus to expand the insurance industry. At the same time, the Company will face further challenges in view of the keen competition in the insurance industry and the uncertainty of the capital market. Being the largest life insurance company in China and one of the largest institutional investors in the capital market of China, we shall actively take up new challenges and capture new development opportunities. We shall utilize our strength in the possession of the largest customer base, the most extensive distribution network and service network, to continue to carry out the responsibility and mission in developing the insurance industry.

The Company will endeavor to strengthen and perfect our corporate governance, to strengthen internal control and risk management, as well as to capture business opportunities, to restructure the business, to continue to develop better quality insurance business, to consolidate our leading position and to optimise our investment structure, to improve the investment return and to further increase profitability. We shall actively respond to our customers' changing needs by innovating new business and products, providing logistic and service support and continuing to improve our level of sale and service. We shall continue to play our leadership role in the industry by actively pursue social responsibility. We shall further advance the Company's competitive advantage and ability to serve the economic needs of the society. We shall lay down solid foundation to develop the Company into first class international life insurance company and to create greater value to our shareholders.

Finally I would like to take this opportunity to extend my heartfelt gratitude to all our staff for their hard work and dedications. I would also like to express my sincere thanks to our shareholders and customers for their understanding and support. My special thanks to our board members, members of the supervisory committee, the operational management for their commitments to the Company. My sincere thanks to Mr. Wu Yan, our resigned director and president and also Mr. Miao Fuchun, our retiring non-executive director for their contributions and valuable guidance during the tenure of their office.

By order of the Board

**Yang Chao**

*Chairman*

Beijing, China

April 17, 2007



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