



Business Review

GROSS WRITTEN PREMIUMS AND DEPOSITS

	For the year ended December 31	
	2006	2005
	RMB million	RMB million
Individual life insurance		
Gross written premiums	80,086	63,205
First-year gross written premiums	22,659	19,574
Single gross written premiums	1,175	1,085
First-year regular gross written premiums	21,484	18,489
Renewal gross written premiums	57,427	43,631
Deposits	70,355	62,483
First-year deposits	56,560	49,144
Single deposits	53,658	46,061
First-year regular deposits	2,902	3,083
Renewal deposits	13,795	13,339
Group life insurance		
Gross written premiums	1,144	867
First-year gross written premiums	1,115	851
Single gross written premiums	1,030	811
First-year regular gross written premiums	85	40
Renewal gross written premiums	29	16
Deposits	21,086	23,463
First-year deposits	21,078	23,452
Single deposits	21,072	23,401
First-year regular deposits	6	51
Renewal deposits	8	11
Accident and short-term health insurance		
Gross written premiums	11,090	10,867
Short-term accident insurance		
Gross written premiums	5,148	5,135
Short-term health insurance		
Gross written premiums	5,942	5,732
Total gross written premiums	92,320	74,939
Total deposits	91,441	85,946

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INSURANCE BUSINESS

As at December 31, 2006, the Company's gross written premiums and policy fees for the year 2006 was RMB99,417 million, an increase of 22.7% from 2005.

In accordance with the data released by CIRC, under the 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.

In 2006, the Company continued to pursue business restructuring and to improve the quality of our business. As at December 31, 2006, the gross written premiums were RMB92,320 million, an increase of 23.2% from 2005. The gross written premiums of long-term traditional insurance contracts were RMB81,230 million, of which the first-year gross written premiums of long-term traditional insurance contracts were RMB23,774 million, an increase of 16.4% from 2005; the first-year regular gross written premiums were 21,569 million, an increase of 16.4% from 2005, both show significant improvement over 2005. The first-year regular gross written premiums accounted for 90.7% of the first-year gross written premiums of long-term traditional insurance contracts.

In 2006, one-year new business value amounted to RMB10,481 million, an increase of 40% from 2005. This was mainly attributable to the premium income growth in new business for traditional insurance contracts and regular premium contracts especially the ten-year paid or more than ten-year paid business, together with the reduction in future corporate income tax etc.

Individual Life Insurance Business

During the reporting period, the Company's gross written premiums and policy fees attributable to individual life insurance business were RMB86,587 million, representing 87.1% of the gross written premiums and policy fees for the reporting period, an increase of RMB17,699 million or 25.7%, over RMB68,888 million in 2005.

The gross written premiums attributable to individual life insurance business were RMB80,086 million, an increase of RMB16,881 million, or 26.7% over RMB63,205 million in 2005. The first-year gross written premiums attributable to individual life insurance business were RMB22,659 million, representing 28.3% of the gross written premiums attributable to individual life insurance business. The first-year regular gross written premiums attributable to the individual life insurance business were RMB21,484 million, representing 94.8% of the first-year gross written premiums attributable to individual life insurance business.

The Company sells both participating and non-participating individual life insurance products. The gross written premiums attributable to individual life insurance participating products and non-participating products for the reporting period were RMB41,003 million and RMB 39,083 million respectively.

Group Life Insurance Business

During the reporting period, the Company's gross written premiums and policy fees attributable to group life insurance business were RMB1,740 million, representing 1.8% of the gross written premiums and policy fees for the reporting period and an increase of RMB473 million, or 37.3%, over RMB1,267 million in 2005.

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

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INSURANCE BUSINESS (Continued)

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 business) were RMB11,090 million, representing an increase of RMB223 million, or 2.1%, over RMB10,867 million in 2005. In particular, the gross written premiums attributable to accident insurance business amounted to RMB5,148 million, an increase of RMB13 million or 0.3% over RMB5,135 million in 2005. The gross written premiums attributable to health insurance business were RMB5,942 million, an increase of RMB210 million or 3.7% over RMB5,732 million in 2005.

INVESTMENTS

In 2006, the Company continued to adopt the principle of prudent investment policy and at the same time, captured the favourable conditions of the capital market. The Company had effectively increased the return on investment through increasing the proportion of investment assets in equity and debt securities. In 2006, the Group's investment yield was 4.27% (investment assets included financial assets and cash and cash equivalent, but excluded accrued investment income), an increase of 41 basis points from 2005.

In 2006, the Company captured the opportunities posted by the restructuring, initial public offering and new shares issuance of financial institutions such as domestic banks and securities firms, we strategically invested in some of companies which had greater growth potential and effectively increased our investment income.

As at December 31, 2006, the investment assets of the Group was as follows:

	RMB million
Debt Securities	357,898
Held-to-maturity securities	176,559
Available-for-sale securities	176,868
Financial assets at fair value through income (held-for-trading)	4,471
Equity Securities	95,493
Available-for-sale securities	62,595
Financial assets at far value through income (held-for-trading)	32,898
Term deposits	175,476
Statutory deposits-restricted	5,353
Policy loans	2,371
Cash and cash equivalents	50,213

Debt Securities

Debt securities investment includes government bonds, government agency bonds, corporate bonds and subordinated bonds/debts above specific standards, represented 52.1% of the Group's total investment assets as at December 31, 2006, which is approximately the same level of 2005.

Equity Securities

Equity securities investments consists of investment directly invested in equity market and Chinese domestic investment fund. As at December 31, 2006, such investments represented 13.9% of the Group's total investment assets, an increase of 5.9 percentage points from 2005.

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Term Deposits

Term deposits primarily held by commercial banks in China, represented 25.6% of the Group's total investment assets as at December 31, 2006, a decrease of 7.8 percentage points from 2005.

Cash and Cash Equivalents

As at December 31, 2006, the cash and cash equivalents were amounted to RMB50,213 million, a significant increase from 2005. The increase was due primarily to the Company's initial public offer of 1.5 billion A shares in December 2006, raising a net proceeds of approximately RMB 27,810 million.

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, postal savings and cooperative saving institutions are the three major distribution channels of the Company. In 2006, the Company's distribution channels remained steady.

Distribution channel	As at 31 December 2006	As at 31 December 2005
Exclusive agents	650,000	640,000
Direct sales force	12,000	12,000
Intermediaries sale agency institutions	87,000	89,000

(1) Exclusive Agents

The exclusive agents are the Company's core distribution channel for individual life, individual accident and individual health insurance products. As at December 31, 2006, the Company has over 15,000 field offices and approximately 650,000 exclusive agents. The number of field offices and both show an increase from 2005. As at December 31, 2006, the percentage of certificate holders for exclusive agents was 94%, an increase of approximately 15 percentage points from 2005.

The managing methodology is the basic requirement for the Company to impose professional and orderly management toward our exclusive agents. In 2006, the Company having regarded to the changing of market competition environment and our strategic development, formulated and implemented "Exclusive agents Managing Methodology (2006 Edition) of China Life Insurance Company Limited" within the Company's business system, with an objective to ensure the long-term stability and development of the insurance sales force. At the same time, the Company continued to promote the "Jin Ding Project", which aimed to improved the overall sale performance of exclusive agents and the "International Quality Award" ("IQA") and the dual certificates of "International Award for Productivity" ("IAP") which aimed to further facilitated management of risk control and information technology support to the exclusive agents.

In 2006, the Company while continued to expand its individual insurance sales channels, it also accelerated the development of a special sales force for orphan policies services and new business development. As at December 31, 2006, the sales force contained 17,000 exclusive agents (these personnels were included in the aforesaid 650,000 exclusive agents).

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DISTRIBUTION CHANNELS (Continued)

(2) Direct sales force

The Company's direct sales force is the primary distribution channel for its group life insurance, group annuities, accident insurance, short-term health insurance and group long-term health insurance.

In 2006, the Company focused on to strengthen and explore the customer base of the group insurance sale channel and to penetrate insurance sale in workforce. We continued to strengthen the key customer managers team with an aim to improve the service quality to our major clients.

As at December 31, 2006, the number of direct sales force is about 12,000, maintaining the same level as in 2005.

(3) Intermediaries sale agency institutions

The Company also sells insurance products through intermediaries such as commercial banks, postal savings and cooperatives saving institutions. As at December 31, 2006, the Company had cooperated with more than 87,000 intermediaries slightly lower than 2005 and is primarily due to the restructuring of some ineffective network and the increase of market competition. The customer relationship managers were over 15,000, an increase from 2005.

FINANCIAL MANAGEMENT

In 2006, the Company continued its direction in comprehensive budgetary management, optimising the allocation of resources and leverage on expense management to promote business restructuring. Endeavors were devoted to realise 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 the policies such as centralized procurement of goods and services in bulk. Our consolidated cost control ratio in 2006 was 14.9%, a decrease of 2.3 percentage points from 2005. At the same time the Company further strengthened the management of funds, and the control over funding risks. We continued to employ the method of daily average balance in measuring the funding transfer limits so as to increase the concentration of funding and the efficiency of asset management.

ACTUARIAL MANAGEMENT

The Company's actuarial work focused on liability valuation, statutory solvency margin calculation, surplus analysis, new products profitability analysis, experience analysis, policyholder dividend calculation, asset and liability management etc. In 2006, the Company completed its own Life Table. Besides, the embedded value has become an important benchmark in measuring the quality and sustainability of the Company's business.

PRODUCT DEVELOPMENT

In 2006, the Company completed the development of 36 new products, including 10 long-term life insurance products, 10 accident insurance products and 16 health insurance products. The Company also modified and upgraded its most important group life insurance product, "Yong Tai Group Annuity". The Company modified the long-term life insurance products based on the new Mortality Table published by CIRC.

In 2006, the Company began to establish regional research centres for products development to study and satisfy market needs and be able to response speedily to market requirements. Presently the Company has set up four regional products research and development centres in Shanghai, Jiangsu, Chongqing and Shenzhen.

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PRODUCT DEVELOPMENT (Continued)

In 2006, in complying with CIRC's requirements, the Company amended 185 contract terms of its insurance products with an aim to improve the products' terms and conditions for strengthening the protection on customers' rights.

In March 2007, the Company's new product "China Life Simple Life and Medical Insurance" ("SLMI") was launched. The terms of the SLMI were simple and easy to understand, taking into account the consumers' affordability and the insurance requirements. Presently, SLMI was approved to launch initially in the agricultural villages of Hebei, Henan and Jiangsu and the market reaction was favourable.

INTERNAL CONTROL

In 2006, the Company continued to pursue optimization of its risk management resources. In complying with the requirements of Sarbanes Oxley Act Section 404, and by reference to CIRC's review of the Company's system of internal control, the Company further strengthened its internal control, supervisory control and conducted a series of internal audit on specific projects, economic responsibilities and accountability within the Company. The Company launched a month-long "Internal Control Awareness programme", focusing on system deficiency, implementation, enforcement and optimising internal system and the Company achieved satisfactory result. The Company formulated the "Speedy Implementation and Application of Internal Control System" to further clarify the guiding principle and overall objective of the internal control system. We centralized and coordinated the structure of the internal control system, standardization of the regulations, the operating and methodology to build up comprehensive risk management system. The objective was to instill the awareness of internal control according to rules as part of our corporate culture in order to raise the overall standard of the internal control system.

CIRC conducted a review on the adequacy of the Company's system of internal control system, including the reasonableness and effectiveness of the system in the first half of 2006. The review enables the Company to further strengthen its system of internal control and to rectify any weaknesses that came to light.

To comply with the requirements under Section 404 of the Sarbanes-Oxley Act, the Company has implemented "Section 404 – Management of Daily Operational Compliance Guidance", "Section 404 – Review Procedure Compliance Guidance" and other rules which play a positive role in establishing a platform for compliance purpose.

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 SEC Form 20-F (the US version of annual report).

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BUSINESS MANAGEMENT

In 2006, the Company continued to devote efforts to improve its business management system, through refinement of business process, regularization of operational management with special emphasize on internal control and quality monitoring. The Company also formulated centralization of operational management at provincial level to enable the provincial offices to manage the business operations, financial management, customers service and information technology in a centralized manner. As at December 31, 2006, 14 provincial branches had firstly completed the centralisation of operational management on provincial level. 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.

CUSTOMER SERVICES

The Company mainly provides customer service through its customer service teams at different branches and field offices throughout China and the support of an advanced telephone call centre together with “95519 Short Message Mobile System and the Company’s website”. In 2006, the Company completed the pilot work for standardization of the design of customer service centre and staff uniform. The Company also completed its work on customer segmentation in order to strengthen its services provided for VIP customers. A 6-months promotional program “Hand in Hand with China Life to establish a harmonious lifestyle”, the “China Life 1+N” Service Brand, as well as competition events on customers services’ technique were launched to raise skills and the standards of the customer service teams. The Company also established a specialist Customer Service Department in 2006 to further refine its customer services, to enhance and supervise the quality of services, with the aim to raise the customer services to higher professional level to meet the customer’s expectations.

In April 2006, the Company’s centralized service platform “95519” Call Centre was granted the award of “2006 China’s Best Call Centre of the Year Award” by the Professional Committee for the Promotion and Alliance of Customer Relationship Management of Informationalisation under the Ministry of Information Industry, and was the only life insurance company for the three consecutive years receiving such award. In December 2006, the Company was awarded “2006 China Top Ten Best Service Brands” by China Call Centre & CRM Association.

IT TECHNOLOGY

In 2006, the Company continued to increase its investment in IT, raising the standards of the IT applications and services. In the course of upgrading the effectiveness and steadiness of the IT application system, the Company had developed the Corporate Annuity System, Re-insurance System, Health and Short-term Accident Insurance System, Internet Sales System, Sales Agent Management System, Business Grant Audit System, Assets and Liabilities Assessment System, Investment and Risk Management System etc., and continued to refine the Financial Management System and Customer Service System. The Company’s IT core operating system was now migrated to its mature stage and had been able to provide support to the Company’s business & sales operations, customers services, management decision making process, and risk management functions. The IT platform could now provide direct access to the frontline operational which had facilitated the technical support that can enhance the effectiveness of the Company’s business development and strategic management.

Besides, the Company continued to centralize the database and had completed the promotion of CBPS8 version, enabling the centralization of data at provincial level, and work towards data centralization in the headquarter. The Company had selected the location for the data processing centre in Shanghai and had completed the signing for relevant project contracts. The research and development centre in Beijing was in the process of locating a suitable site for its operation.

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CORPORATE ANNUITY BUSINESS

In August 2005, the Company and AMC, the Company's subsidiary, obtained the qualifications of "Corporate Annuity Account Manager" and "Corporate Annuity Investment Manager" from the Ministry of Labour and Social Security, the People's Republic of China, respectively. In accordance with the State's rules and regulations, the Company had completed the relevant requirements for establishment of equipment, recruitment of staff, and establishment of operating system. Through the Company's and AMC's extensive experience in personal assets management and of investment management, we had been actively developing the annuity business, and initial progress was noted.

Besides, China Life Pension Insurance Company Limited, a subsidiary of the Company, which was jointly formed with capital contributed by China Life Insurance (Group) Company ("CLIC"), the Company and AMC, had obtained the insurance business license on December 15, 2006 and the business operating license on January 15, 2007.