

CHINA LIFE INSURANCE CO LTD

Form 20-F

April 25, 2008

Table of Contents

As filed with the Securities and Exchange Commission on April 25, 2008

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 20-F**

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**OR**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended December 31, 2007**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the transition period from**                      **to**

**OR**

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**Date of event requiring this shell company report**

Commission file number 001-31914

(Exact name of Registrant as specified in its charter)

# China Life Insurance Company Limited

(Translation of Registrant's name into English)

People's Republic of China

(Jurisdiction of incorporation or organization)

16 Chaowai Avenue

Chaoyang District

Beijing 100020, China

(Address of principal executive offices)

## Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
American depositary shares	New York Stock Exchange
H shares, par value RMB1.00 per share	New York Stock Exchange*

\*Not for trading, but only in connection with the listing on the New York Stock Exchange of American depositary shares, each representing 15 H shares.

## Securities registered or to be registered pursuant to Section 12(g) of the Act: None.

(Title of Class)

## Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None.

(Title of Class)

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Indicate the number of outstanding shares of each of the issuer's class of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2007, 7,441,175,000 H shares and 20,823,530,000 A shares, par value RMB1.00 per share, were issued and outstanding. H shares are listed on the Hong Kong Stock Exchange. Since January 9, 2007, A shares have been listed on the Shanghai Stock Exchange. Both H shares and A shares are ordinary shares.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

If this is an annual report or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.  Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer  Accelerated filer  Non-accelerated filer   
Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP  International Financial Reporting Standards as issued by the International Accounting Standards Board  Other   
If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.  Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****TABLE OF CONTENTS**

<u>FORWARD-LOOKING STATEMENTS</u>	1
<u>CERTAIN TERMS AND CONVENTIONS</u>	2
<u>PART I</u>	4
Item 1. <u>Identity of Directors, Senior Management and Advisers</u>	4
Item 2. <u>Offer Statistics and Expected Timetable</u>	4
Item 3. <u>Key Information</u>	4
<u>Selected Financial Data</u>	4
<u>Capitalization and Indebtedness</u>	10
<u>Reasons for the Offer and Use of Proceeds</u>	10
<u>Risk Factors</u>	10
Item 4. <u>Information on the Company</u>	26
<u>History and Development of the Company</u>	26
<u>Business Overview</u>	28
<u>Organizational Structure</u>	74
<u>Property, Plants and Equipment</u>	76
Item 4A. <u>Unresolved Staff Comments</u>	76
Item 5. <u>Operating and Financial Review and Prospects</u>	76
<u>Overview</u>	76
<u>Factors Affecting Our Results of Operations</u>	78
<u>Operating Results</u>	92
<u>Liquidity and Capital Resources</u>	102
<u>Research and Development, Patents and Licenses</u>	104
<u>Trend Information</u>	105
<u>Off-Balance Sheet Arrangements</u>	105
<u>Tabular Disclosure of Contractual Obligations</u>	105
<u>Reconciliation of Hong Kong Financial Reporting Standards (HKFRS) and United States Generally Accepted Accounting Principles (U.S. GAAP)</u>	105
Item 6. <u>Directors, Senior Management and Employees</u>	105
<u>Directors and Senior Management</u>	105
<u>Compensation</u>	112
<u>Board Practices</u>	116
<u>Employees</u>	117
<u>Share Ownership</u>	118
Item 7. <u>Major Shareholders and Related Party Transactions</u>	118
<u>Major Shareholders</u>	118
<u>Related Party Transactions</u>	121
<u>Interests of Experts and Counsel</u>	130
Item 8. <u>Financial Information</u>	130
<u>Consolidated Financial Statements and Other Financial Information</u>	130
<u>Significant Changes</u>	132
<u>Embedded Value</u>	132
Item 9. <u>The Offer and Listing</u>	136
Item 10. <u>Additional Information</u>	137
<u>Share Capital</u>	137
<u>Articles of Association</u>	137
<u>Material Contracts</u>	151
<u>Exchange Controls</u>	151

**Table of Contents**

	<u>Taxation</u>	152
	<u>Dividends and Paying Agents</u>	159
	<u>Statement by Experts</u>	159
	<u>Documents on Display</u>	159
	<u>Subsidiary Information</u>	159
Item 11.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	159
Item 12.	<u>Description of Securities Other Than Equity Securities</u>	163
	<b><u>PART II</u></b>	164
Item 13.	<u>Defaults, Dividend Arrearages and Delinquencies</u>	164
Item 14.	<u>Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	164
	<u>Material Modification To The Rights Of Security Holders</u>	164
	<u>Use Of Proceeds</u>	164
Item 15.	<u>Controls and Procedures</u>	164
	<u>Disclosure Controls and Procedures</u>	164
	<u>Management's Report on Internal Control Over Financial Reporting</u>	164
	<u>Changes in Internal Control over Financial Reporting</u>	165
Item 16A.	<u>Audit Committee Financial Expert</u>	165
Item 16B.	<u>Code of Ethics</u>	165
Item 16C.	<u>Principal Accountant Fees and Services</u>	166
Item 16D.	<u>Exemptions from the Listing Standards for Audit Committees</u>	166
Item 16E.	<u>Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	166
	<b><u>PART III</u></b>	167
Item 17.	<u>Financial Statements</u>	167
Item 18.	<u>Financial Statements</u>	167
Item 19.	<u>Exhibits</u>	167

**Table of Contents**

**FORWARD-LOOKING STATEMENTS**

This annual report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements state our intentions, beliefs, expectations or predictions for the future, in particular under Item 4. Information on the Company, Item 5. Operating and Financial Review and Prospects and Item 8. Financial Information Embedded Value.

The forward-looking statements include, without limitation, statements relating to:

future developments in the insurance industry in China;

the industry regulatory environment as well as the industry outlook generally;

the amount and nature of, and potential for, future development of our business;

the outcome of litigation and regulatory proceedings that we currently face or may face in the future;

our business strategy and plan of operations;

the prospective financial information regarding our business;

our dividend policy; and

information regarding our embedded value.

In some cases, we use words such as believe, intend, anticipate, estimate, project, forecast, plan, potential, will, may, should, similar expressions to identify forward-looking statements. All statements other than statements of historical facts included in this annual report, including statements regarding our future financial position, strategy, projected costs and plans and objectives of management for future operations, are forward-looking statements. Although we believe that the expectations reflected in those forward-looking statements are reasonable, we can give no assurance that those expectations will prove to have been correct, and you are cautioned not to place undue reliance on such statements. Important factors that could cause actual results to differ materially from our expectations are disclosed under Item 3. Key Information Risk Factors and elsewhere in this annual report, including in conjunction with the forward-looking statements included in this annual report. We undertake no obligation to publicly update or revise any forward-looking statements contained in this annual report, whether as a result of new information, future events or otherwise, except as required by law. All forward-looking statements contained in this annual report are qualified by reference to this cautionary statement.

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**Table of Contents**

**CERTAIN TERMS AND CONVENTIONS**

**Conventions**

References in this annual report to **we**, **us**, **our** or **China Life** mean China Life Insurance Company Limited and, as the context may require, its subsidiaries. References to **CLIC** mean, prior to the restructuring described below, China Life Insurance Company and, as the context may require, its subsidiaries, and subsequent to the restructuring, China Life Insurance (Group) Company and, as the context may require, its subsidiaries, other than China Life. References in this annual report to **AMC** mean China Life Insurance Asset Management Company Limited, the asset management joint venture established by us with CLIC on November 23, 2003. References to **CLPCIC** mean China Life Property and Casualty Insurance Company Limited, the property and casualty joint venture established by us with CLIC on December 30, 2006. References to **China Life Pension** mean China Life Pension Company Limited established by us, CLIC and AMC on January 15, 2007.

The statistical and market share information contained in this annual report has been derived from government sources, including the China Insurance Yearbook 2005, the China Insurance Yearbook 2006, the China Insurance Yearbook 2007, and other public sources. The information has not been verified by us independently. Unless otherwise indicated, market share information set forth in this annual report is based on premium information as reported by the CIRC. The reported information includes premium information that is not determined in accordance with HKFRS or U.S. GAAP.

References to **A share offering** mean the 1,500,000,000 ordinary domestic shares which were newly issued by us on December 26, 2006 and offered to strategic, institutional and public investors as approved by the CSRC. References to **CLIC A shares** mean the 19,323,530,000 ordinary domestic shares held by CLIC prior to the A share offering, which have been registered with the China Securities Depository and Clearing Corporation Limited as circulative A shares with restrictive trading following the A share offering. CLIC has undertaken that for a period of 36 months commencing on January 9, 2007, it will not transfer or put on trust the CLIC A shares held by it or allow such CLIC A shares to be repurchased by China Life. References to **A shares** mean the RMB ordinary shares listed on the SSE, which include the CLIC A shares and the 1,500,000,000 ordinary domestic shares issued pursuant to the A share offering. A shares have been listed on the SSE since January 9, 2007.

References to **China** or **PRC** mean the People's Republic of China, excluding, for purposes of this annual report, Hong Kong, Macau and Taiwan. References to the **central government** mean the government of the PRC. References to **State Council** mean the State Council of the PRC. References to the **CIRC** mean the China Insurance Regulatory Commission. References to **MOF** or **Ministry of Finance** mean the Ministry of Finance of the PRC. References to **Ministry of Commerce** mean the Ministry of Commerce of the PRC, which assumed the regulatory functions of the former Ministry of Foreign Trade and Economic Cooperation of the PRC, or **MOFTEC**. References to **CSRC** mean the China Securities Regulatory Commission. References to **PBOC** mean the People's Bank of China. References to **SAFE** mean the State Administration of Foreign Exchange.

References to **effective date** mean June 30, 2003, the effective date of the restructuring under the restructuring agreement between CLIC and us.

References to **HKSE** or **Hong Kong Stock Exchange** mean The Stock Exchange of Hong Kong Limited. References to **NYSE** or **New York Stock Exchange** mean New York Stock Exchange. References to **SSE** or **Shanghai Stock Exchange** mean the Shanghai Stock Exchange.

References to **Renminbi** or **RMB** in this annual report mean the currency of the PRC, references to **U.S. dollars** or **US\$** mean the currency of the United States of America, and references to **Hong Kong dollars**, **H.K. dollars** or **HK\$** mean the currency of the Hong Kong Special Administrative Region of the PRC.

**Table of Contents**

References to "U.S. GAAP" mean the generally accepted accounting principles in the United States, references to "HKFRS" mean the financial reporting standards in Hong Kong, which are effective for accounting periods commencing on or after January 1, 2005, and references to "PRC GAAP" mean the PRC Accounting Standards for Business Enterprises (2006) applicable to companies listed in the PRC, which are effective for accounting periods commencing on or after January 1, 2007. Unless otherwise indicated, our financial information presented in this annual report has been prepared in accordance with HKFRS.

Unless otherwise indicated, translations of RMB amounts into U.S. dollars in this annual report have been made at the rate of US\$1.00 to RMB 7.2946, the noon buying rate in The City of New York for cable transfers payable in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2007. The noon buying rate on April 23, 2008 on this basis was RMB 6.9895 to US\$1.00. No representation is made that Renminbi amounts could have been, or could be, converted into U.S. dollars at that rate on December 31, 2007 or at all.

Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

If there is any discrepancy or inconsistency between the Chinese names of the PRC entities in this annual report and their English translations, the Chinese version shall prevail.



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**Table of Contents**

**PART I**

**ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS.**

Not applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE.**

Not applicable.

**ITEM 3. KEY INFORMATION.**

**SELECTED FINANCIAL DATA**

**Selected Historical Consolidated Financial Data**

The following tables set forth our selected consolidated financial information. We have derived the consolidated financial information as of and for the years ended December 31, 2005, 2006 and 2007 from our audited consolidated financial statements included elsewhere in this annual report. For consolidated financial information as of and for the years ended December 31, 2003 and 2004, we derived the information from our audited consolidated financial statements not included in this annual report. As described below, the financial statements as of and for the year ended December 31, 2003 present the results of CLIC for the nine-month period ended September 30, 2003 together with our results for the three-month period ended December 31, 2003.

For a reconciliation of our consolidated net profit and consolidated shareholders' equity to U.S. GAAP, see Note 35 of the notes to the consolidated financial statements included elsewhere in this annual report.

We were formed on June 30, 2003 in connection with CLIC's restructuring. In connection with the restructuring, CLIC transferred to us (1) all long-term insurance policies (policies having a term of more than one year from the date of issuance) issued on or after June 10, 1999, having policy terms approved by or filed with the CIRC on or after June 10, 1999 and either (i) recorded as a long-term insurance policy as of June 30, 2003 in a database attached to the restructuring agreement as an annex or (ii) having policy terms for group supplemental medical insurance (fund type), (2) stand-alone short-term policies (policies having a term of one year or less from the date of issuance) issued on or after June 10, 1999 and (3) all riders supplemental to the policies described in clauses (1) and (2) above, together with the reinsurance contracts specified in an annex to the restructuring agreement. We refer to these policies as the transferred policies. See Item 4. Information on the Company History and Development of the Company - Our Restructuring. All other insurance policies were retained by CLIC. We refer to these policies as the non-transferred policies. We assumed all obligations and liabilities of CLIC under the transferred policies. CLIC continues to be responsible for its liabilities and obligations under the non-transferred policies following the restructuring. The restructuring was effected through a restructuring agreement entered into with CLIC on September 30, 2003, with retroactive effect to June 30, 2003. Pursuant to PRC law and the restructuring agreement, the transferred policies were transferred to us as of June 30, 2003; however, for accounting purposes, the restructuring is treated as having occurred on September 30, 2003, the date of which all of the assets to be transferred were specifically identified. Therefore, for accounting purposes, our financial statements reflected a deemed distribution of assets to CLIC and deemed assumption of liabilities by CLIC as of September 30, 2003. To give effect to the restructuring agreement, the results of operations attributable to the timing difference between the effectiveness of the restructuring under the PRC law and the effectiveness of the restructuring for accounting purposes are reflected as a capital contribution from CLIC to us as of October 1, 2003. The business constituted by the policies and assets transferred to us and the obligations and liabilities assumed by us and the business constituted by the policies, assets, obligations and liabilities retained by CLIC were, prior to the restructuring, under common management from a number of significant aspects. Therefore, our consolidated balance sheet data and consolidated income statement as of and for the year ended December 31, 2003 reflect the restructuring as having occurred on September 30, 2003.

**Table of Contents**

You should read this information in conjunction with the rest of the annual report, including our audited consolidated financial statements and the accompanying notes and Item 5. Operating and Financial Review and Prospects included elsewhere in this annual report.

Consolidated Income Statement Data	2003 <sup>(1)</sup>	For the year ended December 31,					2007
	RMB	2004 RMB	2005 RMB	2006 RMB	2007 RMB	US\$	
(in millions except for per share data)							
<b>HKFRS</b>							
<b>Revenues</b>							
Gross written premiums and policy fees	69,334	66,257	81,022	99,417	111,886	15,338	
Less: premiums ceded to reinsurers	(1,571)	(1,182)	(769)	(140)	(85)	(12)	
Net written premiums and policy fees	67,763	65,075	80,253	99,277	111,801	15,327	
Net change in unearned premium reserves	(547)	(67)	(215)	(430)	(397)	(54)	
Net premiums earned and policy fees	67,216	65,008	80,038	98,847	111,404	15,272	
Net investment income	9,825	11,317	16,685	24,942	44,020	6,035	
Net realized gains/(losses) on financial assets			(510)	1,595	15,385	2,109	
Net realized gains/(losses) on investments	868	(237)					
Net fair value gains on assets at fair value through income (held-for-trading)			260	20,044	18,843	2,583	
Net unrealized gains/(losses) on trading assets	247	(1,061)					
Other income	727	1,779	1,739	1,883	1,720	236	
<b>Total revenues</b>	<b>78,883</b>	<b>76,806</b>	<b>98,212</b>	<b>147,311</b>	<b>191,372</b>	<b>26,235</b>	
<b>Benefits, claims and expenses</b>							
Insurance benefits and claims							
Life insurance death and other benefits	(8,570)	(6,816)	(8,311)	(10,797)	(17,430)	(2,389)	
Accident and health claims and claim adjustment expenses	(4,882)	(6,418)	(6,847)	(6,999)	(6,343)	(870)	
Increase in long-term traditional insurance contracts liabilities	(39,966)	(25,361)	(33,977)	(44,238)	(45,334)	(6,215)	
Interest credited to long-term investment type insurance contracts	(6,811)	(3,704)	(4,894)	(6,386)	(7,181)	(984)	
Interest credited to investment contracts	(449)	(616)	(973)	(996)	(1,138)	(156)	
Increase in deferred income	(5,942)	(7,793)	(8,521)	(11,607)	(9,859)	(1,352)	
Policyholder dividends resulting from participation in profits	(1,207)	(2,048)	(5,359)	(17,617)	(29,251)	(4,010)	
Amortization of deferred policy acquisition costs	(5,023)	(6,263)	(7,766)	(10,259)	(13,461)	(1,845)	
Underwriting and policy acquisition costs	(1,294)	(1,472)	(1,845)	(2,415)	(2,725)	(374)	
Administrative expenses	(6,862)	(6,585)	(7,237)	(9,339)	(11,798)	(1,617)	
Other operating expenses	(872)	(131)	(798)	(859)	(1,651)	(226)	
Interest expense on bank borrowings	(7)						
Statutory insurance fund	(85)	(96)	(174)	(194)	(219)	(30)	
<b>Total benefits, claims and expenses</b>	<b>(81,970)</b>	<b>(67,303)</b>	<b>(86,702)</b>	<b>(121,706)</b>	<b>(146,390)</b>	<b>(20,068)</b>	
Share of results of associates					409	56	
<b>Net profit/(loss) before income tax expense</b>	<b>(3,087)</b>	<b>9,503</b>	<b>11,510</b>	<b>25,605</b>	<b>45,391</b>	<b>6,223</b>	
Income tax expense	(1,180)	(2,280)	(2,145)	(5,554)	(6,331)	(868)	
<b>Net profit/(loss)</b>	<b>(4,267)</b>	<b>7,223</b>	<b>9,365</b>	<b>20,051</b>	<b>39,060</b>	<b>5,355</b>	
Attributable to:							
Shareholders of the Company	(4,252)	7,171	9,306	19,956	38,879	5,330	
Minority interest	(15)	52	59	95	181	25	
<b>Basic and diluted earnings/(loss) per share<sup>(2)</sup></b>	<b>(0.21)</b>	<b>0.27</b>	<b>0.35</b>	<b>0.75</b>	<b>1.38</b>	<b>0.19</b>	

<b>Dividends</b>	1,338	3,957	11,871	1,627
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**Table of Contents**

Consolidated Income Statement Data	2003 <sup>(1)</sup> RMB	For the year ended December 31,					2007 US\$
		2004 RMB	2005 RMB	2006 RMB	2007 RMB	(in millions except for per share data)	
<b>U.S. GAAP</b>							
Revenues	78,883	76,806	98,212	147,311	191,372	26,235	
Net profit/(loss) attributable to shareholders of the Company	(1,287)	7,171	9,306	19,956	43,625	5,980	
Net profit/(loss) per share <sup>(2)</sup>	(0.06)	0.27	0.35	0.75	1.54	0.21	
Net profit/(loss) per ADS <sup>(2)</sup>	(2.54)	10.72	13.91	N/A	N/A	N/A	
Net profit/(loss) per ADS <sup>(3)</sup>	(0.95)	4.02	5.22	11.18	23.15	3.17	

- (1) Includes, through September 30, 2003, the assets, liabilities and operations retained by CLIC.
- (2) The 20,000,000,000 shares issued to CLIC in the restructuring have been given retroactive treatment for purposes of computing per share and per ADS amounts. Numbers for the year ended December 31, 2003 and the years ended December 31, 2004 and December 31, 2005 are based on the weighted average number of 20,249,798,526 shares and 26,764,705,000 shares, respectively, in issue during such years. Numbers for the years ended December 31, 2006 and December 31, 2007 are based on the weighted average number of 26,777,033,767 shares and 28,264,705,000 shares, respectively, in issue during such years. Each ADS represents 40 H shares. Any discrepancies in the table between the amounts per share and the amounts per ADS are due to rounding.
- (3) The ratio of ADSs to H shares was reduced from 40 H shares to 15 H shares on December 29, 2006. Accordingly, we have also calculated retroactively the net profit/(loss) per ADS based on each ADS representing 15 H shares for purposes of comparison.

Consolidated Balance Sheet Data	2003 RMB	2004 RMB	As of December 31,			2007 US\$
			2005 RMB	2006 RMB	2007 RMB	
<b>HKFRS</b>						
<b>Assets</b>						
Property, plant and equipment	12,008	12,250	12,710	14,565	16,771	2,299
Deferred policy acquisition costs	24,868	32,787	37,741	39,230	40,851	5,600
Investments in associates				6,071	6,450	884
<b>Financial assets</b>						
Debt securities	70,604	150,234	255,554	357,898	443,181	60,755
Equity securities	10,718	17,271	39,548	95,493	195,147	26,752
Term deposits	137,192	175,498	164,869	175,476	168,594	23,112
Statutory deposits restricted	4,000	4,000	5,353	5,353	5,773	791
Loans	116	391	981	2,371	7,144	979
Securities purchased under agreements to resell	14,002	279			5,053	693
Accrued investment income	2,875	5,084	6,813	8,461	9,857	1,351
Premiums receivables	2,801	3,912	4,959	6,066	6,218	852
Reinsurance assets	997	1,297	1,182	986	966	132
Other assets	5,923	3,451	1,458	2,212	2,382	327
Cash and cash equivalents	42,616	27,217	28,051	50,213	25,317	3,471
<b>Total assets</b>	<b>328,720</b>	<b>433,671</b>	<b>559,219</b>	<b>764,395</b>	<b>933,704</b>	<b>127,999</b>

**Table of Contents**

Consolidated Income Statement Data	As of December 31,					
	2003 RMB	2004 RMB	2005 RMB	2006 RMB	2007 RMB	2007 US\$
	(in millions)					
<b>Liabilities and equity</b>						
<b>Liabilities</b>						
<b>Insurance Contracts</b>						
Long-term traditional insurance contracts	63,965	89,698	124,656	172,875	218,165	29,908
Long-term investment type insurance contracts	135,982	191,885	237,001	282,672	284,588	39,014
<b>Short-term insurance contracts</b>						
Reserves for claims and claim adjustment expenses	814	1,215	1,784	2,498	2,391	328
Unearned premium reserves	5,382	5,212	5,147	5,346	5,728	785
Deferred income	18,753	27,603	34,631	41,371	48,308	6,622
<b>Financial liabilities</b>						
<b>Investment contracts</b>						
with discretionary participation feature (DPF)	16,720	32,476	42,230	45,998	49,068	6,727
without DPF	2,029	1,635	1,872	2,614	2,234	306
Securities sold under agreements to repurchase	6,448		4,731	8,227	100	14
Policyholder dividends payable	1,916	2,037	6,204	26,057	58,344	7,998
Annuity and other insurance balances payable	638	2,801	4,492	8,891	14,111	1,934
Premiums received in advance	2,407	2,447	2,951	2,329	2,201	302
Other liabilities	6,732	4,922	4,106	5,333	8,870	1,216
Deferred tax liabilities	3,686	4,371	7,982	19,022	24,786	3,398
Current income tax liabilities	159	38	525	843	8,312	1,139
Statutory insurance fund	333	429	98	114	122	17
<b>Total liabilities</b>	<b>265,964</b>	<b>366,769</b>	<b>478,410</b>	<b>624,190</b>	<b>727,328</b>	<b>99,708</b>
<b>Shareholders equity</b>						
Share Capital	26,765	26,765	26,765	28,265	28,265	3,875
Reserves	34,051	31,573	37,225	77,368	114,825	19,854
Retained earnings	1,620	8,192	16,388	34,032	62,410	8,556
<b>Total shareholders equity</b>	<b>62,436</b>	<b>66,530</b>	<b>80,378</b>	<b>139,665</b>	<b>205,500</b>	<b>28,172</b>
<b>Minority interest</b>	<b>320</b>	<b>372</b>	<b>431</b>	<b>540</b>	<b>876</b>	<b>120</b>
<b>Total equity</b>	<b>62,756</b>	<b>66,902</b>	<b>80,809</b>	<b>140,205</b>	<b>206,376</b>	<b>28,292</b>
<b>Total liabilities and equity</b>	<b>328,720</b>	<b>433,671</b>	<b>559,219</b>	<b>764,395</b>	<b>933,704</b>	<b>127,999</b>
<b>U.S. GAAP</b>						
Total assets	328,720	433,671	559,219	764,395	933,704	127,999
Total liabilities	265,964	366,769	478,410	624,190	727,328	99,708
Shareholders equity	62,436	66,530	80,378	139,665	205,500	28,172

## **Table of Contents**

### **Exchange Rate Information**

We prepare our financial statements in Renminbi. This annual report contains translations of Renminbi amounts into U.S. dollars, and U.S. dollars into Renminbi, at RMB 7.2946 to US\$1.00, the noon buying rate on December 31, 2007 in the City of New York for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York. You should not assume that Renminbi amounts could actually be converted into U.S. dollars at these rates or at all.

Until July 20, 2005, the PBOC had set and published daily a base exchange rate with reference primarily to the supply and demand of Renminbi against the U.S. dollar in the market during the prior day. The PBOC also took into account other factors, such as the general conditions existing in the international foreign exchange markets. From 1994 to July 20, 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by 2.0% against the U.S. dollar. Since then, the PRC government has made, and may in the future make, further adjustments to the exchange rate system. The PBOC announces the closing price of a foreign currency traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day, and makes it the central parity for the trading against the Renminbi on the following working day.

Although PRC governmental policies were introduced in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currency for current account items, conversion of Renminbi into foreign exchange for capital items, such as foreign direct investments, loans or securities, requires the approval of the State Administration for Foreign Exchange and other relevant authorities.

The Hong Kong dollar is freely convertible into other currencies, including the U.S. dollar. Since October 17, 1983, the Hong Kong dollar has been linked to the U.S. dollar at the rate of HK\$7.80 to US\$1.00. The central element in the arrangements which give effect to the link is that by agreement between the Hong Kong government and the three Hong Kong banknote issuing banks, The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank and the Bank of China, certificates of indebtedness, which are issued by the Hong Kong Government Exchange Fund to the banknote issuing banks to be held as cover for their banknote issues, are issued and redeemed only against payment in U.S. dollars, at the fixed exchange rate of HK\$7.80 to US\$1.00. When the banknotes are withdrawn from circulation, the banknote issuing banks surrender the certificates of indebtedness to the Hong Kong Government Exchange Fund and are paid the equivalent U.S. dollars at the fixed rate.

The market exchange rate of the Hong Kong dollar against the U.S. dollar continues to be determined by the forces of supply and demand in the foreign exchange market. However, against the background of the fixed rate which applies to the issue of the Hong Kong currency in the form of banknotes, as described above, the market exchange rate has not deviated materially from the level of HK\$7.80 to US\$1.00 since the link was first established. The Hong Kong government has stated its intention to maintain the link at that rate, and it, acting through the Hong Kong Monetary Authority, has a number of means by which it may act to maintain exchange rate stability. Exchange rates between the Hong Kong dollar and other currencies are influenced by the linked rate between the U.S. dollar and the Hong Kong dollar.

**Table of Contents**

The noon buying rates in The City of New York for cable transfers payable in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York were US\$1.00 to RMB 6.9895 and US\$1.00 to HK\$7.7963, respectively, on April 23, 2008. The following table sets forth the high and low noon buying rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars for each of the periods shown:

	Noon buying rate			
	RMB per US\$		HK\$ per US\$	
	High	Low	High	Low
October 2007	7.5158	7.4682	7.7694	7.7497
November 2007	7.4582	7.3800	7.7890	7.7573
December 2007	7.4120	7.2946	7.8073	7.7879
January 2008	7.2946	7.1818	7.8107	7.7961
February 2008	7.1973	7.1100	7.8012	7.7807
March 2008	7.1110	7.0105	7.7897	7.7642
April 2008 (through April 23, 2008)	7.0185	6.9840	7.7963	7.7863

The following table sets forth the period-end noon buying rates and the average noon buying rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars for each of 2003, 2004, 2005, 2006, 2007 and 2008 (through April 23, 2008) (calculated by averaging the noon buying rates on the last day of each month of the periods shown):

	Period-end noon buying rate		Average noon buying rate	
	RMB per US\$	HK\$ per US\$	RMB per US\$	HK\$ per US\$
2003	8.2767	7.7640	8.2771	7.7864
2004	8.2765	7.7723	8.2768	7.7899
2005	8.0702	7.7533	8.1826	7.7755
2006	7.8041	7.7771	7.9579	7.7685
2007	7.2946	7.7984	7.5738	7.8008
2008 (through April 23, 2008)	6.9895	7.7963	7.0737	7.7888

**Table of Contents**

**CAPITALIZATION AND INDEBTEDNESS**

Not Applicable.

**REASONS FOR THE OFFER AND USE OF PROCEEDS**

Not Applicable.

**RISK FACTORS**

Our business, financial condition and results of operations can be affected materially and adversely by any of the following risk factors.

**Risks Relating to Our Business**

***Our growth is dependent on our ability to attract and retain productive agents***

A substantial portion of our business is conducted through our individual agents. Because of differences in productivity, a relatively small percentage of our sales agents is responsible for a disproportionately high percentage of our sales of individual products. If we are unable to retain and build on this core group of highly productive agents, our business could be materially and adversely affected. Competition for agents from insurance companies and other business institutions may also force us to increase the compensation of our agents and sales representatives, which would increase operating costs and reduce our profitability. Although we have not had difficulty in attracting and retaining productive agents in the recent past, and do not anticipate any difficulties in the future, we cannot guarantee that this will continue to be the case.

***If we are unable to develop other distribution channels for our products, our growth may be materially and adversely affected***

Banks and banking operations of post offices are rapidly emerging as some of the fastest growing distribution channels in China. Newly established domestic and foreign-invested life insurance companies have been particularly focusing on banks and banking operations of post offices as one of their main distribution channels. We do not have exclusive arrangements with any of the banks and banking operations of post offices through which we sell insurance and annuity products, and thus our sales may be materially and adversely affected if one or more banks or banking operations of post offices choose to favor our competitors' products over our own. If we are unable to continue to develop our alternative distribution channels, our growth may be materially and adversely affected.

***Agent and employee misconduct is difficult to detect and deter and could harm our reputation or lead to regulatory sanctions or litigation costs***

Agent or employee misconduct could result in violations of law by us, regulatory sanctions, litigation or serious reputational or financial harm. Misconduct could include:

engaging in misrepresentation or fraudulent activities when marketing or selling insurance policies or annuity contracts to customers;

hiding unauthorized or unsuccessful activities, resulting in unknown and unmanaged risks or losses; or

otherwise not complying with laws or our control policies or procedures.

We cannot always deter agent or employee misconduct, and the precautions we take to prevent and detect these activities may not be effective in all cases. We have experienced agent and employee misconduct that has



## **Table of Contents**

resulted in litigation and administrative actions against us and these agents and employees, and in some cases criminal proceedings and convictions against the agent or employee in question. None of these actions has resulted in material losses, damages, fines or other sanctions against us. We cannot assure you, however, that agent or employee misconduct will not lead to a material adverse effect on our business, results of operations or financial condition.

### ***Our business is dependent on our ability to attract and retain key personnel, including senior management, underwriting personnel, actuaries, information technology specialists, investment managers and other professionals***

The success of our business is dependent to a large extent on our ability to attract and retain key personnel who have in-depth knowledge and understanding of the life insurance market in China, including members of our senior management, qualified underwriting personnel, actuaries, information technology specialists and experienced investment managers. As of the date of this annual report, we do not carry key personnel insurance for any of these personnel. We compete to attract and retain these key personnel with other life insurance companies and financial institutions, some of which may offer better compensation arrangements. The number of new domestic and foreign-invested insurers is increasing at a significant pace, existing insurers are expanding their operations and the number of other financial institutions is growing. As the insurance and investment businesses continue to expand in China, we expect that competition for these personnel will increase in the future. Although we have not had difficulty in attracting and retaining qualified key personnel in the past, we cannot guarantee that this will continue to be the case. If we were unable to continue to attract and retain key personnel, our financial performance could be materially and adversely affected.

### ***We are Exposed to Changes in Interest Rates***

#### ***Changes in interest rates may affect our profitability***

Our profitability is affected by changes in interest rates. We have experienced a generally low interest rate environment for several years until October 2004, when the interest rate on one-year term deposits was raised from 1.98% to 2.25%. In August 2006, the interest rate on one-year term deposits was further raised from 2.25% to 2.52%. During the year 2007, several revisions were made to the interest rate on one-year term deposits, which resulted in the further increase of the interest rate from 2.52% to 4.14%. Due to China's recent fast growing economy, the Chinese government may take further measures, including further raising interest rates, in an effort to ensure sustainable economic growth. If interest rates were to further increase in the future, surrenders and withdrawals of insurance and annuity policies and contracts may increase as policyholders seek other investments with higher perceived returns. This process may result in cash outflows requiring that we sell investment assets at a time when the prices of those assets are adversely affected by the increase in market interest rates, which may result in realized investment losses. However, if interest rates were to decline, the income we realize from our investments may decline, affecting our profitability. In addition, as instruments in our investment portfolio mature, we might have to reinvest the funds we receive in investments bearing lower interest rates.

For many of our long-term life insurance and annuity products, we are obligated to pay a minimum interest or crediting rate to our policyholders or annuitants, which is established when the product is priced. These products expose us to the risk that changes in interest rates may reduce our spread, or the difference between the rates that we are required to pay under the policies and the rate of return we are able to earn on our investments intended to support our insurance obligations. Our historical results and financial position included in this annual report, which present the historical results of CLIC through September 30, 2003, reflect the continuing performance of policies that were issued prior to June 10, 1999. Many of these policies paid guaranteed fixed rates of return that, due to declining interest rates, came to be significantly higher than the rates of return on investment assets. From 1996 through 2002, the PBOC made a series of reductions in the interest rates Chinese commercial banks could pay on their deposits. The interest rate on one-year term deposits, a key benchmark rate, was reduced eight times, from 10.98% in April 1996 to 1.98% in February 2002. As a result,

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**Table of Contents**

CLIC experienced a significant negative spread on its guaranteed rate policies and CLIC's results of operations continue to be adversely impacted by the effect of those interest rate cuts.

On June 10, 1999, the CIRC reduced to 2.50% the maximum guaranteed rate which life insurance companies could commit to pay on new policies and in response, CLIC adopted new pricing policies which reduced the guaranteed rates on its products to a range of between 1.50% and 2.50%. We also have shifted our mix of products to emphasize products that lessen the impact from interest rate changes, including traditional policies that are not as sensitive to interest rates and participating policies under which our customers receive a portion of our distributable earnings from participating products, as well as products having shorter terms to better match the duration of our investment portfolio. Furthermore, we have made use of the relaxation of investment restrictions applicable to us to diversify our investments. We and CLIC have not incurred negative spread on policies issued since June 10, 1999, as the average investment returns we and CLIC have been able to generate have been higher than their guaranteed rates. However, if the rates of return on our investments fall below the minimum rates we guarantee, our profitability would be materially and adversely affected.

***Because of the general lack of long-term fixed income securities in the Chinese capital markets and the restrictions on the types of investments we may make, we are unable to match closely the duration of our assets and liabilities, which increases our exposure to interest rate risk***

Like other insurance companies, we seek to manage interest rate risk through managing, to the extent possible, the average duration of our investment assets and the insurance policy liabilities they support. Matching the duration of our assets to their related liabilities reduces our exposure to changes in interest rates, because the effect of the changes largely will be offset against each other. However, restrictions under the PRC insurance law on the asset classes in which we may invest, as well as the limited availability of long-duration investment assets in the markets in which we invest, have resulted in the duration of our assets being shorter than that of our liabilities, particularly with respect to liabilities with durations of more than 20 years. Furthermore, the financial markets currently do not provide an effective means for us to hedge our interest rate risk through financial derivative products. We believe that, with the gradual easing of the investment restrictions imposed on insurance companies in China, our ability to match the duration of our assets to that of our liabilities will improve. We also seek to manage the risk of duration mismatch by focusing on product offerings whose maturity profiles are in line with the duration of investments available to us in the prevailing investment environment. However, until we are able to match more closely the duration of our assets and liabilities, we will continue to be exposed to interest rate changes, which may materially and adversely affect our earnings.

***Our Investments are Subject to Risks***

***We are exposed to potential investment losses if there is an economic downturn in China***

Under the current PRC insurance law, we may invest the premiums, deposits and other income we receive only in China, unless and until we are approved to invest overseas with our foreign currency denominated funds. We obtained approval for such overseas investment in November 2006. See Item 4. Information on the Company Business Overview Regulatory and Related Matters Insurance Company Regulation Regulation of investments . In particular, as of December 31, 2007, 52.1% of our total investment assets consisted of debt securities including Chinese government bonds, Chinese government agency bonds, Chinese corporate bonds and subordinated bonds and indebtedness; and 19.8% of our total investment assets consisted of term deposits with Chinese banks, and of these deposits, 22.4% were placed with the four largest state-owned commercial banks. A serious downturn in the Chinese economy may lead to investment losses, which would reduce our earnings. Due to China's recent fast growing economy, the Chinese government may take certain measures to slow down the economic growth, which could have an adverse impact on our earnings.

***We may incur foreign exchange and other losses for our investments denominated in foreign currencies***

A portion of our investment assets, including the proceeds from our initial public offering in 2003, are held in foreign currencies. We are authorized by the CIRC to invest our assets held in foreign currencies in the

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**Table of Contents**

overseas financial markets as permitted by the CIRC. Thus, our investment results may be subject to foreign exchange risks, as well as the volatility and various other factors of overseas capital markets, including, among others, increase in interest rates, where we do not have previous investment experience. We recorded RMB 1,032 million (US\$141 million) in foreign exchange losses for the year ended December 31, 2007, resulting from our assets held in foreign currencies, which were affected by the appreciation of the Renminbi. Future movements in the exchange rate of RMB against the U.S. dollar and other foreign currencies may adversely affect our results of operations and financial condition.

Under China's existing foreign exchange control regulations, the conversion of foreign currencies into the Renminbi requires approval of relevant government agencies. We obtained an approval to settle a portion of our assets held in foreign currencies into the Renminbi in 2005, which partially reduced the foreign exchange risks we are exposed to. We did not obtain any approval to settle any portion of our assets held in foreign currencies into the Renminbi in 2006 and 2007 and there is no guarantee that we will be able to obtain any such approval in the future. If we do not obtain such approval, our ability to manage our foreign exchange risks may be limited. There are few financial products available in China to hedge foreign exchange risks, which substantially limits our ability to manage our foreign exchange risks.

***Defaults on our debt investments may materially and adversely affect our profitability***

Approximately 52.1% of our investment assets as of December 31, 2007 were comprised of debt securities. The issuers whose debt securities we hold may fail to pay or otherwise default on their obligations due to bankruptcy, a lack of liquidity, a downturn in the economy, operational failures or other reasons. Losses due to these defaults could reduce our profitability.

***Unless we are permitted to invest in a broader range of asset classes, our ability to improve our rate of investment return will be limited***

Our premiums and deposits have grown rapidly during the last three years. As a Chinese life insurance company we are subject to significant restrictions under current PRC insurance law and regulations on the asset classes in which we are permitted to invest. Until 2004, Chinese life insurance companies were allowed to invest their funds only in Chinese bank deposits, government bonds, domestic corporate bonds and securities investment funds. These asset classes historically have yielded a comparatively low return on investment. Since 2004, the investment channels of Chinese life insurance companies have been broadened to permit investment in convertible bonds, specified subordinated indebtedness and bonds issued by qualified commercial banks and insurance companies; overseas investment of foreign currency denominated funds in qualified term deposits, debt securities, shares of Chinese companies listed on specified overseas stock exchanges, shares of foreign companies listed on specified overseas stock exchanges and other overseas investment channels as approved by the CIRC; direct investment in shares of companies listed on the Chinese securities market, which are denominated and traded in Renminbi; and direct investment in equity interest of non-listed commercial Chinese banks, as well as indirect investments in Chinese infrastructure projects, all subject to various limitations. See Item 4. Information on the Company Business Overview Regulatory and Related Matters Insurance Company Regulation Regulation of investments . If the asset classes in which we are permitted to invest do not further expand in the future, we will be limited in our ability to improve our rate of return, which may materially and adversely impact our profitability.

***The PRC securities markets are still emerging markets, which may expose us to risks of loss from our investments there***

We had RMB 195,147 million (US\$26,752 million) invested in equity securities, including securities investment funds and shares traded on the securities markets in China, as of December 31, 2007. These securities investment funds are primarily invested in equity securities that are issued by Chinese companies and traded on China's securities exchanges. Some of our investments in securities investment funds are publicly traded, but we

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**Table of Contents**

also invest in non-publicly traded securities investment funds. Beginning in March 2005, we are also permitted to directly invest in shares traded on the securities markets in China. The PRC securities markets are characterized by companies with relatively small market capitalizations and low trading volumes, and by evolving regulatory, accounting and disclosure requirements. For example, Chinese listed companies are required to adopt the new accounting standards issued by MOF effective from January 1, 2007, and the share reform in connection with the conversion of non-tradable state-owned shares into tradable shares is still in progress. This may from time to time result in significant price volatility, unexpected losses or lack of liquidity. These factors could cause us to incur losses on our publicly traded investments. In addition, the PRC securities markets have recently experienced, and may experience in the future, significant price volatility. For example, the SSE Index, a major stock exchange index in China, was at 3,472 points on March 31, 2008, which was a 34% decrease from 5,261 points on December 31, 2007. Also, as one of the largest institutional investors in China, we may from time to time hold significant positions in many securities in which we invest, and any decision to sell or any perception in the market that we are a major seller of a security could adversely affect the liquidity and market price of that security.

***Investments in new investment channels may not lead to improvements in our rate of investment return or we may incur losses***

As a Chinese life insurance company, we are subject to significant restrictions under current PRC insurance law and regulations on the asset classes in which we are permitted to invest. The regulatory restrictions imposed on Chinese life insurance companies have recently been further broadened to expand the types of investments we may make. In particular, we were recently permitted to make indirect investments in Chinese infrastructure projects, and, in June 2007, the newly implemented rules on overseas investments by insurance companies further allowed us to invest in more overseas investment products. We understand that the CIRC is considering opening further investment channels to insurance companies. We will consider these alternative ways of investing once they become available to us. However, these new or potential investment channels are still undergoing evolving regulatory requirements. In addition, our experience with these new investment channels, especially overseas channels, might be limited. These factors could cause us to incur losses for our investments in these new investment channels or limit our ability to improve our rate of investment return.

***Differences in future actual claims results from the assumptions used in pricing and establishing reserves for our insurance and annuity products may materially and adversely affect our earnings***

Our earnings depend significantly upon the extent to which our actual claims results are consistent with the assumptions used in setting the prices for our products and establishing the liabilities in our financial statements for our obligations for future policy benefits and claims. Our assumptions include those for investment returns, mortality, morbidity, expenses and persistency, as well as macro-economic factors such as inflation. To the extent that trends in actual claims results are less favorable than our underlying assumptions used in establishing these liabilities, and these trends are expected to continue in the future, we could be required to increase our liabilities. Any such increase could have a material adverse effect on our profitability and, if significant, our financial condition. Any material impairment in our solvency margin could change our customers or our business associates' perception of our financial health, which in turn could adversely affect our sales, earnings and operations.

We establish the liabilities for obligations for future policy benefits and claims based on the expected payout of benefits, calculated through the use of assumptions for investment returns, mortality, morbidity, expenses and persistency, as well as certain macro-economic factors such as inflation. These assumptions are based on our previous experience, data published by other Chinese life insurers, as well as judgments made by the management. These assumptions may deviate from our actual experience, and, as a result, we cannot determine precisely the amounts which we will ultimately pay to settle these liabilities or when these payments will need to be made. These amounts may vary from the estimated amounts, particularly when those payments may not occur until well into the future. We evaluate our liabilities periodically, based on changes in the assumptions used to

## **Table of Contents**

establish the liabilities, as well as on our actual policy benefits and claims results. We record changes in our liabilities in the period the liabilities are established or re-estimated. If the liabilities originally established for future policy benefits prove inadequate, we must increase our liabilities established for future policy benefits, which may have a material adverse effect on our earnings and our financial condition.

We have data available for a shorter period of time than do insurance companies operating in some other countries and, as a result, less claims experience on which to base some of the assumptions used in establishing our reserves. For a discussion of how we establish our assumptions for mortality, morbidity and lapses, see Item 5. Operating and Financial Review and Prospects Critical Accounting Policies . Given the limited nature of this experience, it is possible that our actual claims could vary significantly from the assumptions used.

***Our risk management and internal reporting systems, policies and procedures may leave us exposed to unidentified or unanticipated risks, which could materially and adversely affect our businesses or result in losses***

Our policies and procedures to identify, monitor and manage risks may not be fully effective. Many of our methods of managing risk and exposures are based upon our use of observed historical market behavior or statistics based on historical models. As a result, these methods may not predict future exposures, which could be significantly greater than what the historical measures indicate. Other risk management methods depend upon the evaluation of information regarding markets, customers or other matters that is publicly available or otherwise accessible to us, which may not always be accurate, complete, up-to-date or properly evaluated. In addition, a significant portion of business information needs to be centralized from our many branch offices. Management of operational, legal and regulatory risks requires, among other things, policies and procedures to record properly and verify a large number of transactions and events, and these policies and procedures may not be fully effective. Failure or the ineffectiveness of these systems could materially and adversely affect our business or result in losses.

We are likely to offer a broader and more diverse range of insurance and investment products in the future as the insurance market in China continues to develop. At the same time, we anticipate that the relaxing of regulatory restraints will result in our being able to invest in a significantly broader range of asset classes. The combination of these factors will require us to continue to enhance our risk management capabilities and is likely to increase the importance of our risk management policies and procedures to our results of operations and financial condition. If we fail to adapt our risk management policies and procedures to our changing business, our business, results of operations and financial condition could be materially and adversely affected.

***Catastrophes could materially reduce our earnings and cash flow***

We could in the future experience catastrophic losses that may have an adverse impact on the business, results of operations and financial condition of our insurance business. Catastrophes can be caused by various events, including terrorist attacks, earthquakes, hurricanes, floods, fires and epidemics, such as severe acute respiratory syndrome, or SARS.

We establish liabilities for claims arising from a catastrophe only after assessing the exposure and damages arising from the event. We cannot be certain that the liabilities we establish after the assessment will be adequate to cover actual claims. We do not currently carry catastrophe reinsurance to reduce our catastrophe exposure. Such an event could have a material adverse effect on us.

***Current or future litigation and regulatory procedures could result in financial losses or harm our businesses***

### ***Class Action Litigations***

China Life and certain of its former directors (the defendants ) have been named in nine putative class action lawsuits filed in the United States District Court for the Southern District of New York between

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**Table of Contents**

March 16, 2004 and May 14, 2004. The lawsuits have been ordered to be consolidated and restyled *In re China Life Insurance Company Limited Securities Litigation, NO. 04 CV 2112 (TPG)*. Plaintiffs filed a consolidated amended complaint on January 19, 2005, which names China Life, Wang Xianzhang (former director), Miao Fuchun (former director) and Wu Yan (former director) as defendants. The consolidated amended complaint alleges that the defendants named therein violated Sections 10(b) and 20(a) of the U.S. Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder. China Life has engaged U.S. counsel to contest vigorously on the lawsuits. The 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. The likelihood of an unfavorable outcome is still uncertain. No provision has been made with respect to these lawsuits.

***Others***

We are involved in litigation involving our insurance operations on an ongoing basis. In addition, the CIRC, as well as other PRC governmental agencies, including tax, commerce and industrial administration and audit bureaus, from time to time make inquiries and conduct examinations or investigations concerning our compliance with PRC laws and regulations. These litigation and administrative proceedings have in the past resulted in damage awards, settlements or administrative sanctions, including fines, which have not been material to us. We currently have control procedures in place to monitor our litigation and regulatory exposure and take appropriate actions. See Item 8. Financial Information Consolidated Financial Statements and Other Financial Information Legal and Regulatory Proceedings . While we cannot predict the outcome of any pending or future litigation, examination or investigation, we do not believe that any pending legal matter will have a material adverse effect on our business, financial condition or results of operations. However, we cannot assure you that any future litigation or regulatory proceeding will not have an adverse outcome, which could have a material adverse effect on our operating results or cash flows. See Item 8. Financial Information Consolidated Financial Statements and Other Financial Information Legal and Regulatory Proceedings .

***The embedded value information we present in this annual report is based on several assumptions and may vary significantly as those assumptions are changed***

In order to provide investors with an additional tool to understand our economic value and business results, we have disclosed information regarding our embedded value, as discussed in the section entitled, Item 8. Financial Information Embedded Value . These measures are based on a discounted cash flow valuation determined using commonly applied actuarial methodologies. Standards with respect to the calculation of embedded value are still evolving, however, and there is no single adopted standard for either the form, determination or presentation of the embedded value of an insurance company. Moreover, because of the technical complexity involved in embedded value calculations and the fact that embedded value estimates vary materially as key assumptions are changed, you should read the discussion under the section entitled Item 8. Financial Information Embedded Value in their entirety. You should use special care when interpreting embedded value results and should not place undue reliance on them. See also Forward-Looking Statements .

**Risks Relating to the PRC Life Insurance Industry**

***We expect competition in the Chinese insurance industry to increase, which may materially and adversely affect the growth of our business***

We face competitive pressures from both domestic and foreign-invested life insurance companies operating in China, as well as from property and casualty insurance companies, which may compete with our accident and short-term health insurance businesses, and other financial institutions that sell other financial investment products in competition with ours. In addition, newly established professional health insurance companies may also lead to greater competition in the health insurance business. If we are not able to adapt to these increasingly competitive pressures in the future, our growth rate may decline, which could materially and adversely affect our earnings.

**Table of Contents*****Competition among domestic life insurance companies is increasing***

Our nearest competitors are Ping An Life Insurance Company of China, Ltd., or Ping An, and China Pacific Life Insurance Co. Ltd., or China Pacific Life. Together, Ping An, China Pacific Life and we accounted for more than 68% of the individual and group life insurance premiums in China in 2006, the last year for which official market information is available. According to statistical and market share information derived from China Insurance Yearbook, our market share of the individual life insurance premiums in China decreased from 51% in 2005 to 45% in 2006. Each of Ping An and China Pacific Life has operated in the Chinese insurance market for more than ten years, and each has a recognized brand name. Ping An had a greater market share than we did in Beijing in 2006. We also face competition from smaller insurance companies, which may develop strong positions in various regions in which we operate, and new entrants to group life insurance market, including professional pension companies that are being established pursuant to a set of regulations promulgated by the Ministry of Labor and Social Security, and new entrants to the health insurance industry, including newly approved and established professional health insurance companies, following adoption by the Chinese government of policies that encourage the development of health insurance and improved health care in China.

***Competition from foreign-invested life insurance companies is increasing, as restrictions on their operations in China are relaxed***

Foreign-invested life insurance companies are insurance companies in which foreign entities hold at least a 25.0% interest. Until December 11, 2004, foreign-invested life insurance companies were permitted to operate only in specified cities and may not offer group life insurance, health insurance and annuities or other pension-like products. As a result of these and other restrictions on foreign-invested life insurance companies operating in China, foreign-invested insurers accounted for less than 3% of the nationwide market share of life insurance products in 2004, although some have already gained significant market shares in the life insurance market in some areas in China. In Shanghai, Guangzhou and Shenzhen, where foreign-invested insurers have been allowed to operate since 1992, 1995 and 1999, they had respective life insurance market shares of approximately 22%, 27% and 19% in 2006. However, these barriers to foreign insurers' entry into the Chinese insurance market were phased out as a result of China's accession to the World Trade Organization, or WTO, in December 2001, which has allowed foreign insurers to sell health, annuity and group life insurance products nationwide since December 2004. It was reported that due to several large group annuity policies underwritten by Sino-foreign insurance joint ventures for their Chinese investors, the market shares of foreign invested insurance companies increased substantially in 2005. We believe that the relaxation of the restrictions on foreign-invested insurers will continue to increase the competitive pressures we are facing. Foreign-invested life insurance companies, through their Chinese and/or foreign shareholders, may have access to greater financial, technological or other resources than we do.

***We are likely to face increasing competition from property and casualty insurance companies and other companies offering products that compete with our own***

In addition to competition from life insurance companies, we face competition from other companies that may offer products that compete with our own, including:

*Property and casualty companies.* Beginning on January 1, 2003, property and casualty insurance companies have been permitted to sell accident and short-term health insurance products, but only with regulatory approval. There were 44 property and casualty insurers as of December 31, 2007. We believe property and casualty insurers have the competitive advantage of being able to bundle, or cross-sell, accident and health products with the other non-life insurance products that they are currently selling to their existing and potential customers. We believe this will lead to greater competition in the accident and health insurance sectors, especially for the group accident and short-term health insurance products we offer. On December 30, 2006, we established a property and casualty joint venture, CLPCIC, with CLIC. As this joint venture is newly established, we are unable to determine the impact of the establishment of the joint venture on our sales of accident and short-term health insurance products.

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**Table of Contents**

*Mutual fund companies and other financial services providers.* We face competition from other financial services providers, primarily licensed mutual fund companies, trust companies and securities brokerage firms licensed to manage separate accounts. Recent changes in Chinese investment regulations relaxing rules on the formation of mutual funds and sales of securities have led to greater availability and variety of financial investment products. These products may prove to be attractive to the public and thereby adversely affect the sale of some products we offer, including participating life insurance policies and annuities.

***All of our agents are required to be qualified and to be registered as business entities. If these qualification and registration requirements are enforced or result in policyholders canceling their policies, our business may be materially and adversely affected***

Life insurance agents are required to obtain a qualification certificate from the CIRC in order to conduct insurance agency business. See Item 4. Information on the Company Business Overview Regulatory and Related Matters Regulation of Insurance Agencies, Insurance Brokers and Other Intermediaries . Approximately 2.1% of our individual agents had not obtained such a certificate as of December 31, 2007. In May 2004, the CIRC issued a circular requiring insurance companies to take effective measures in carrying out the qualification certification requirement. In 2005, CIRC agencies in certain provinces started to enforce the CIRC qualification requirements. Furthermore, in April 2006, the CIRC issued regulations on administration of individual agents, effective on July 1, 2006, in order to further strengthen the administration of individual agents. Pursuant to these regulations, insurance companies that retain individual agents without CIRC qualification certificates and underwriting certificates to engage in insurance sales activities will be warned and fined up to RMB 30,000, and the responsible member of senior management of such insurance companies will be warned and fined up to RMB 10,000. In serious circumstances, the CIRC may order the insurance companies to remove the responsible member of senior management from office and reject the application of setting up branch offices by such insurance companies. In addition, the CIRC required that every individual agent must wear credentials showing specified information, including whether or not the agent is licensed, when conducting agency business. If more CIRC agencies were to enforce this regulation in the future, and if a substantial number of our agents do not become licensed or qualified, or if a substantial number of our policyholders who bought insurance policies through our unqualified exclusive agents were to cancel the policies because of this regulation, our business may be materially and adversely affected. Moreover, we may be subject to fines and other administrative proceedings for the failure of our insurance agents to obtain the necessary CIRC qualification certificate. Any such fines or administrative proceedings could materially and adversely affect our business, financial condition and results of operations.

Under the PRC insurance law, life insurance agents are required to be registered with and obtain business licenses from the local administrative bureaus of industry and commerce. Historically, this requirement has not been generally enforced, and it is our understanding that the State Administration for Industry and Commerce, or SAIC, does not have procedures in place to effect the registration and licensing of individual insurance agents. Consequently, as we believe is also the case with other insurance companies operating in China, substantially all of our individual agents are not in compliance with this requirement. To date, this noncompliance has not had a material adverse effect on CLIC or ourselves. The Regulations on the Administration of Insurance Salespersons issued by CIRC in April 2006 do not have such requirement. We do not know whether the local bureaus of the SAIC will enforce this requirement under the PRC insurance law in the future. If it were to be enforced in the future, our agents would be required to register and obtain business licenses. We cannot assure you that all of our agents would obtain such licenses, and the enforcement of this requirement could adversely affect the composition and effectiveness of our individual agent distribution system, which could have a material adverse effect on our business.

***The further development of regulations in China may impose additional costs and restrictions on our activities***

We operate in a highly regulated industry. The CIRC supervises and administers the insurance industry in China. In exercising its authority, it is given wide discretion to administer the law. China's insurance regulatory



**Table of Contents**

regime is undergoing significant changes toward a more transparent regulatory process and a convergent movement toward international standards. Some of these changes may result in additional costs or restrictions on our activities. Among other things, changes in 2003 to determinations of statutory reserves and solvency requirements have affected adversely our income under PRC GAAP and the amount of capital we are required to maintain. CIRC issued new regulations on the compilation of actuarial report and the actuary of investment-linked insurance products and universal insurance products in 2007. CIRC also amended the regulations on the compilation of actuarial report, effective December 31, 2007. These new regulations may further affect the determinations of our statutory reserves and solvency margins and hence our income under PRC GAAP. In addition, because the terms of our products are subject to regulations, changes in regulations may affect our profitability on the policies and contracts we issue. For instance, under guidelines issued by the CIRC, the dividends on our participating products must be no less than 70% of the distributable earnings from participating products in accordance with CIRC requirements. If this level were to be increased in the future, our profitability could be materially and adversely affected.

***Our ability to comply with minimum solvency requirements is affected by a number of factors, and our compliance may force us to raise additional capital, which could be dilutive to our existing investors, or to reduce our growth***

We are required by CIRC regulation to maintain our solvency at a level in excess of minimum solvency levels. Our minimum solvency is affected primarily by the policy reserves we are required to maintain which, in turn, are affected by the volume of policies and contracts we sell and by regulations on the determination of statutory reserves. Our solvency is also affected by a number of other factors, including the profit margin of our products, returns on our investments, underwriting and acquisition costs and policyholder and shareholder dividends. Our solvency margin as of December 31, 2007 was approximately 5.25 times the minimum regulatory requirement. Our actual solvency ratio was higher than the usual range provided by the CIRC. The increase in our actual solvency ratio was due to a change in the relevant CIRC requirements governing the calculation of the solvency ratio and a significant increase in our investment income. While our solvency margin is currently above the required level, if we continue to grow rapidly in the future, or if the required solvency margin is raised in the future, we may need to raise additional capital to meet our solvency requirement, including through additional issuances of shares, which would be dilutive to our existing investors. If we are not able to raise additional capital, we may be forced to reduce the growth of our business.

**Risks Relating to the Restructuring**

***CLIC has incurred substantial losses on the policies retained by it in the restructuring. If CLIC is unable to meet its obligations to its policyholders, it may seek to increase the level of dividends we pay, sell the China Life shares it owns or take other actions which may have a material adverse effect on the value of the shares our other existing investors own***

In connection with the restructuring, CLIC transferred to us (1) all long-term insurance policies (policies having a term of more than one year from the date of issuance) issued on or after June 10, 1999, having policy terms approved by or filed with the CIRC on or after June 10, 1999 and either (i) recorded as a long-term insurance policy as of June 30, 2003 in a database attached to the restructuring agreement as an annex or (ii) having policy terms for group supplemental medical insurance (fund type), (2) stand-alone short-term policies (policies having a term of one year or less from the date of issuance) issued on or after June 10, 1999 and (3) all riders supplemental to the policies described in clauses (1) and (2) above, together with the reinsurance contracts specified in an annex to the restructuring agreement. All other insurance policies were retained by CLIC. See Item 4. Information on the Company History and Development of the Company Our Restructuring . CLIC has incurred substantial losses on these non-transferred policies, primarily because the guaranteed rates it had committed to pay on these policies are higher than the investment return it was able to generate on its investment assets. This negative spread on non-transferred policies created substantial losses for CLIC and a resulting negative net worth. As of September 30, 2003, CLIC's shareholders' equity was a deficit of RMB 251,661 million (US\$31,184 million). CLIC is expected to continue to incur losses on the retained policies at least for the near term.

## **Table of Contents**

In connection with the restructuring, CLIC has established, together with the MOF, a special purpose fund for the purpose of paying claims under the non-transferred policies. The special purpose fund will be funded by investment assets retained by CLIC; renewal premiums paid on the non-transferred policies over time; all of the tax payments made by CLIC, China Life and AMC; profits from the investments of the special purpose fund; shareholder dividends paid in cash to CLIC by China Life; proceeds from the disposition of China Life shares by CLIC over time; and funds injected by the MOF in the event of a deficiency in the special purpose fund, as described below. The fund is co-administered by CLIC and the MOF. The special purpose fund will be available to satisfy CLIC's operating expenses, including the payment of benefits and claims obligations arising from the non-transferred policies, as well as expenses incurred in operating the special purpose fund, including third-party management fees and professional fees, and such other purposes as the management committee of the fund may agree. The special purpose fund will be dissolved when all claims and benefits under the non-transferred policies have been paid, or sooner if the management committee so agrees.

The MOF's approval of the special purpose fund issued to CLIC provides that in the event there is any deficiency in the special purpose fund for so long as the fund is in existence, as described above, to meet any payment obligation arising out of the non-transferred policies, the MOF will provide support through the injection of funds to ensure the payments of benefits and claims to the policyholders of the non-transferred policies. See Item 4. Information on the Company History and Development of the Company Our Restructuring Transfer of Insurance Policies and Related Assets Insurance policies retained by CLIC. We have been advised by our PRC legal counsel, King & Wood, that (1) the MOF has the authority to issue this approval regarding the special purpose fund, (2) the approval is valid and effective, and (3) it has no reason to believe that the MOF will revoke the approval. We cannot assure you, however, that a court would decide in a manner consistent with King & Wood's conclusions.

We cannot predict the amount of funds that will be available to the special purpose fund from CLIC's own operations to satisfy its obligations to its policyholders as they become due. CLIC's cash requirements and available cash resources will be affected by several factors which are subject to uncertainty, including prevailing interest rates and the returns on investment generated by CLIC's assets, as well as the claims, expenses and persistency experience with respect to CLIC's insurance policies. The cash resources available to CLIC will also depend in part on our profitability, which will affect the amount of our tax payments and hence the amount of refund contributed to the fund, the timing and amount of our dividend payments and the market prices of our shares and ADSs, which will affect the proceeds to CLIC from dispositions of our shares. If it is unable to satisfy its obligations to its policyholders from other sources, CLIC may seek, subject to our articles of association and applicable laws, to increase the amount of dividends we pay in order to satisfy its cash flow requirements. Any such increase in our dividend payments would reduce the funds available for reinvestment in our business. In addition, if we are unable to pay dividends in amounts sufficient to satisfy these requirements, CLIC may seek to sell its shareholdings in us or take other actions in order to satisfy these needs. The sale of these holdings or even the market perception of such a sale may materially and adversely affect the price of our shares.

### ***The transfer of policies to us by CLIC and/or the separation of assets between CLIC and us may be subject to challenge***

We have been advised by our PRC legal counsel, King & Wood, that (1) the transferred policies have been legally and validly transferred to China Life and (2) following the restructuring, we will not have any continuing

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**Table of Contents**

obligations to holders of the non-transferred policies who remain policyholders of CLIC and that there is no legal basis on which holders of the non-transferred policies can make a claim against China Life. We also have been advised by King & Wood that, although there is no specific law applicable to restructurings, these conclusions are supported by, among other things, the approval of the restructuring and various related matters by the State Council, the MOF and the CIRC; the support provided by the MOF with respect to the non-transferred policies as described above; and contract and other law. We cannot assure you that policyholders of CLIC, holders of transferred policies or other parties will not seek to challenge the transfer of the transferred policies or the separation of assets occurring as a consequence of the restructuring, or that a court would decide in a manner consistent with King & Wood's conclusions. If the transfer of policies to us or the separation of assets were challenged successfully, our financial condition and results of operations would likely be materially and adversely affected.

***We do not hold exclusive rights to the trademarks in the China Life name (in English and Chinese), the ball logos and other business related slogans and logos, and CLIC, which owns these trademarks, may take actions that would impair the benefits we derive from their use***

We conduct our business under the China Life brand name, the ball logos and other business related slogans and logos. CLIC owns these trademarks and has registered them with the Trademark Office of the SAIC. CLIC has entered into a trademark license agreement with us, under which CLIC has agreed to grant us and our branches a royalty-free license to use these trademarks.

Although CLIC has undertaken in a non-competition agreement with us not to compete with us in China, without our prior consent in writing, in any life, accident and health insurance and any other businesses in China which may compete with our insurance business, CLIC, its subsidiaries and affiliates are permitted to use the brand name and logo in their own businesses, including life insurance business outside China and any other businesses they may enter into in the future within China, including property and casualty (other than businesses that compete with our accident and health businesses) and asset management businesses. In addition, they are not precluded from taking actions that may impair the value of the brand name, which could harm our business. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions Trademark License Agreement and Item 7. Major Shareholders and Related Party Transactions Related Party Transactions Non-Competition Agreement. The China Life brand name and our reputation could be materially harmed if CLIC fails to make payments when due on outstanding policies retained by CLIC in the restructuring or new policies written by CLIC after the restructuring, if CLIC reduces the rates of return payable on policies retained by CLIC or if CLIC is placed into receivership.

***As our controlling shareholder, CLIC will be able to exert influence on our affairs and could cause us to make decisions or enter into transactions that may not be in your best interests***

We are controlled by CLIC, whose interests may conflict with those of our other shareholders. As of the date of this annual report, CLIC holds 68.4% of our share capital. As a result of these factors, CLIC, which is wholly-owned by the PRC government, will, so long as it holds the majority of our shares, effectively be able to control the composition of our board of directors and, through the board, exercise a significant influence over our management and policies. In addition, subject to our articles of association and applicable laws, CLIC may, so long as it holds the majority of our shares, effectively be able to determine the timing and amount of our dividend payments and approve increases or decreases of our share capital, the issuance of new securities, amendments of our articles of association, mergers and acquisitions and other major corporate transactions. CLIC may also be able to prevent us effectively from taking actions to enforce or exercise our rights under agreements to which we are a party, including the agreements we entered into with CLIC in connection with the restructuring. See Item 7. Major Shareholders and Related Party Transactions. As majority shareholder, CLIC may be able to take these actions without your approval. In addition, CLIC's control could have the effect of deterring hostile takeovers or delaying or preventing changes in control or changes in management that might be desirable to other shareholders.

**Table of Contents*****CLIC may direct business opportunities elsewhere***

CLIC has other business interests, including the run-off of the insurance policies retained by it in the restructuring. Notwithstanding a general undertaking pursuant to a non-competition agreement with us not to compete with us in our principal areas of business in China, CLIC is permitted to sell riders to these retained policies and enter into other businesses, including life insurance businesses outside of China and property and casualty (other than businesses that compete with our accident and health businesses) and asset management businesses, both inside and outside of China. We formed a property and casualty joint venture with CLIC, in connection with which we granted a waiver to CLIC allowing it to engage in accident and short-term health businesses indirectly through the property and casualty joint venture with us. CLIC is also engaged in the life insurance business in Shanghai through its joint venture with Colonial Mutual Group, an Australian financial services company, of which CLIC owns 51.0% and which CLIC has agreed to dispose of prior to December 18, 2006. As of the date of this annual report, the transfer of CLIC's equity interest in this joint venture was still ongoing. It also may engage in insurance business in other regions outside China in the future. Although it is required under the non-competition agreement to give us a right of first refusal over any business opportunities it develops in these areas, we may not be in a position to take advantage of these opportunities at that time, which could harm our business. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions Non-Competition Agreement .

In addition, while we provide policy administration and other services to CLIC for the policies retained by CLIC in the restructuring, and provide investment management services to CLIC through our asset management subsidiary, these agreements can be terminated with notice or upon expiration in a limited number of years. If CLIC were to terminate its policy administration and asset management arrangements with us and our asset management subsidiary respectively, our loss of fees could materially and adversely affect us.

**Risks Relating to the People's Republic of China*****China's economic, political and social conditions, as well as government policies, could affect our business***

Substantially all of our assets are located in China and substantially all of our revenues are derived from our operations in China. Accordingly, our results of operations and prospects are subject, to a significant degree, to economic, political and legal developments in China. The economy of China differs from the economies of most developed countries in many respects, including:

the extent of government involvement;

its level of development;

its growth rate; and

its control of foreign exchange.

The economy of China has been transitioning from a planned economy to a more market-oriented economy. Although in recent years the Chinese government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the Chinese government. In addition, the Chinese government continues to play a significant role in regulating industrial development. It also exercises significant control over China's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

While China's economy has experienced significant growth in the past twenty years, growth has been uneven across both geographic regions and the various sectors of the economy. Rapid economic growth can lead to growth in the money supply and rising inflation. During the past decade, the rate of inflation in China has been as high as approximately 20% and China has experienced deflation at a rate as low as approximately minus 2%.



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**Table of Contents**

The Chinese government has implemented various measures to encourage economic growth, control inflation and guide the allocation of resources. Some of these measures benefit the overall economy of China but may have a negative effect on us. For example, our operating results and financial condition could be materially and adversely affected by government monetary policies, changes in interest rate policies, tax regulations or policies and regulations affecting the securities markets and asset management industry. In addition, due to China's recent fast growing economy, the Chinese government is expected to take certain measures to slow down economic growth. For example, in October 2004, the interest rate on one-year term deposits, a key benchmark rate, was raised from 1.98% to 2.25%. In August 2006, the interest rate on one-year term deposits was further raised from 2.25% to 2.52%. During the year 2007, several revisions were made to the interest rate on one-year term deposits, which resulted in the further increase of the interest rate from 2.52% to 4.14%. A slowdown in Chinese growth rates could adversely affect us by impacting sales of our products, reducing our investment returns, or otherwise.

***The PRC legal system has inherent uncertainties that could limit the legal protections available to you***

We are organized under the laws of China and are governed by our articles of association. The Chinese legal system is based on written statutes. Prior court decisions may be cited for reference but are not binding on subsequent cases and have limited precedential value. Since 1979, the Chinese legislative bodies have promulgated laws and regulations dealing with such economic matters as foreign investment, corporate organization and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their non-binding nature, the interpretation and enforcement of these laws and regulations involve uncertainties.

***Holders of H shares and ADSs generally are required to resolve disputes with us, our senior management and holders of our A shares only through arbitration in Hong Kong or China***

In accordance with the rules applicable to Chinese overseas listed companies, our articles of association provide that, with certain limited exceptions, all disputes or claims based on our articles of association, PRC company law or other relevant laws or administrative rules, and concerning matters between holders of H shares and ADSs and holders of A shares, us, or our directors, supervisors, president, vice presidents or other senior officers, must be submitted for arbitration at either the China International Economic and Trade Arbitration Commission or the Hong Kong International Arbitration Center. If an applicant chooses to have the dispute arbitrated at the Hong Kong International Arbitration Center, either party may request that the venue be changed to Shenzhen, a city in China near Hong Kong. The governing law for any such disputes or claims is Chinese law, unless Chinese law itself provides otherwise. Pursuant to an arrangement of mutual enforcement of arbitration awards between the PRC courts and the Hong Kong courts, Hong Kong arbitration awards are enforceable in China. However, to our knowledge, no action has been brought in China by any holder of shares issued by a Chinese company to enforce an arbitral award. As a result, we are uncertain as to the outcome of any action brought in China to enforce an arbitral award made in favor of holders of H shares.

***The laws in China differ from the laws in the United States and may afford less protection to our minority shareholders***

Unlike laws in the United States, the applicable laws of China did not specifically allow shareholders to sue the directors, supervisors, officers or other shareholders on behalf of the company to enforce a claim against these parties that the company has failed to enforce itself until January 1, 2006, when the amendments to Chinese company law passed in 2005 became effective. Although the amended Chinese company law provides that shareholders, under certain circumstances, may sue the directors, supervisors and senior management on behalf of the company, no detailed implementation rules or court interpretations have been issued in this regard. Also, class action lawsuits are generally not available in China. In addition, PRC company law imposes limited obligations on a controlling shareholder with respect to protection of minority shareholders, although overseas listed joint stock companies, such as ourselves, are required to adopt certain provisions in their articles of

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**Table of Contents**

association that are designed to protect minority shareholder rights. These mandatory provisions provide, among other things, that the rights of any class of shares, including H shares, may not be varied without a resolution approved by holders of shares in the affected class holding not less than two-thirds of the shares of the affected class entitled to vote, and provide that in connection with a merger or division involving our company, a dissenting shareholder may require us or the consenting shareholders to purchase the dissenters' shares at a fair price. Disputes arising from these protective provisions would likely have to be resolved by arbitration. See [Holders of H shares and ADSs generally are required to resolve disputes with us, our senior management and holders of our A shares only through arbitration in Hong Kong or China](#) .

***You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in the PRC based on U.S. or other foreign laws against us, our management and some of the experts named in the annual report***

We are a company incorporated under the laws of China, and substantially all of our assets are located in China. In addition, most of our directors, supervisors, executive officers and some of the experts named in this annual report reside within China, and substantially all of the assets of these persons are located within China. As a result, it may not be possible to effect service of process within the United States or elsewhere outside China upon our directors, supervisors or executive officers or some of the experts named in this annual report, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. Moreover, our Chinese counsel, King & Wood, has advised us that China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom, Japan or many other countries. Our Hong Kong legal adviser, Allen & Overy, has also advised us that Hong Kong has no statutory arrangement for the reciprocal enforcement of judgments with the United States although it may be possible for a civil action to be brought in Hong Kong based on a monetary judgment of the courts of the United States. As a result, recognition and enforcement in China or Hong Kong of judgments of a court in the United States and any of the other jurisdictions mentioned above in relation to any matter may be difficult or impossible. Furthermore, an original action may be brought in the PRC against us, our directors, supervisors, executive officers or the experts named in this annual report only if the actions are not required to be arbitrated by PRC law and our articles of association, and only if the facts alleged in the complaint give rise to a cause of action under PRC law. In connection with any such original action, a PRC court may award civil liability, including monetary damages.

***Holders of H shares may be subject to PRC taxation***

Under the PRC's current tax laws, regulations and rulings, dividends paid by us to holders of H shares outside the PRC currently are exempted from PRC income tax. In addition, gains realized by individuals or enterprises upon the sale or other disposition of H shares currently are exempted from PRC income tax. If the exemptions are withdrawn in the future, holders of H shares may be required to pay withholding taxes on dividends, which are currently imposed at the rate of 20%, or capital gains tax, which currently may be imposed upon individuals at the rate of 20%. See [Item 10. Additional Information Taxation The People's Republic of China](#) .

***Government control of currency conversion and the fluctuation of the Renminbi may materially and adversely affect our operations and financial results***

We receive substantially all of our revenues in Renminbi, which currently is not a freely convertible currency. A portion of these revenues must be converted into other currencies to allow us to make payments on declared dividends, if any, on our H shares.

Under China's existing foreign exchange regulations, we are able to pay dividends in foreign currencies without prior approval from the State Administration of Foreign Exchange by complying with various procedural requirements. The Chinese government, however, may, at its discretion, restrict access in the future to foreign

## **Table of Contents**

currencies for current account transactions. If this were to occur, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of our ADSs.

The value of the Renminbi against the U.S. dollar and other currencies fluctuates and is affected by, among other things, changes in China's political and economic conditions. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by 2.0% against the U.S. dollar. Since then, the PRC government has made, and may in the future make, further adjustments to the exchange rate system. The PBOC announces the closing price of a foreign currency traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day, and makes it the central parity for the trading against the Renminbi on the following working day. From July 21, 2005 to April 23, 2008, the Renminbi has appreciated by approximately 18.51%. We had approximately RMB 1,032 million (US\$141 million) foreign exchange losses for the year ended December 31, 2007, resulting from our assets held in foreign currencies, which were affected by the appreciation of the Renminbi. Any devaluation of the Renminbi, on the other hand, may materially and adversely affect the value of, and any dividends payable on, our H shares in foreign currency terms, since we will receive substantially all of our revenues, and express our profits, in Renminbi. Our financial condition and results of operations also may be affected by changes in the value of certain currencies other than the Renminbi.

### ***Payment of dividends is subject to restrictions under Chinese law***

Under Chinese law, dividends may be paid only out of distributable profits. Distributable profits generally means our after-tax profits as determined under PRC GAAP or HKFRS, whichever is lower, less any recovery of accumulated losses and allocations to statutory funds that we are required to make, subject to further regulatory restrictions. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years. However, ordinarily we will not pay any dividends in a year in which we do not have any distributable profits.

The calculation of distributable profits for an insurance company under PRC GAAP differs in some respects from the calculation under HKFRS. As a result, we may not be able to pay any dividend in a given year if we do not have distributable profits as determined under PRC GAAP, even if we have profits for that year as determined under HKFRS. A strengthening in the statutory reserve requirements applicable to life insurance companies operating in China, which came into effect on December 31, 2003, led to a one-time adjustment to our PRC GAAP earnings in 2003. Payment of dividends by us is also regulated by the PRC insurance law. See Item 8. Financial Information Consolidated Financial Statements and Other Financial Information Policy on Dividend Distributions .



## **Table of Contents**

### **ITEM 4. INFORMATION ON THE COMPANY.**

#### **HISTORY AND DEVELOPMENT OF THE COMPANY**

We were formed as a joint stock company pursuant to the PRC company law on June 30, 2003 under the corporate name of in connection with the restructuring.

#### **General Information**

Our principal executive offices are located at 16 Chaowai Avenue, Chaoyang District, Beijing 100020, China. Our telephone number is (86-10) 8565-9999. Our website address is www.e-chinalife.com. The information on our website is not a part of this annual report. We have appointed CT Corporation System at 111 Eighth Avenue, New York, New York 10011 as our agent for service of process in the United States.

#### **Our Restructuring**

Upon the approval of the State Council and the CIRC, we were formed on June 30, 2003 as a joint stock company in connection with the restructuring by CLIC, our sole owner. The restructuring was effected through a plan of restructuring, which was approved by the CIRC on August 21, 2003, and a restructuring agreement we entered into with CLIC on September 30, 2003, with retroactive effect to June 30, 2003, which we refer to in this annual report as the effective date. Pursuant to PRC law and the restructuring agreement, we enjoyed the rights and benefits and assumed the obligations and liabilities arising from the restructuring from and after the effective date.

In connection with the restructuring:

CLIC transferred to us (1) all long-term insurance policies (policies having a term of more than one year from the date of issuance) issued on or after June 10, 1999, having policy terms approved by or filed with the CIRC on or after June 10, 1999 and either (i) recorded as a long-term insurance policy as of June 30, 2003 in a database attached to the restructuring agreement as an annex or (ii) having policy terms for group supplemental medical insurance (fund type), (2) stand-alone short-term policies (policies having a term of one year or less from the date of issuance) issued on or after June 10, 1999 and (3) all riders supplemental to the policies described in clauses (1) and (2) above, together with the applicable reinsurance contracts specified in an annex to the restructuring agreement. We refer to these policies in this annual report as the transferred policies. All other insurance policies were retained by CLIC. We refer to these policies as the non-transferred policies. We assumed all obligations and liabilities of CLIC under the transferred policies. CLIC continues to be responsible for its liabilities and obligations under the non-transferred policies following the effective date.

Cash, specified investment assets and various other assets were also transferred to us.

CLIC agreed not to, directly or indirectly through its subsidiaries and affiliates, participate, operate or engage in life, accident and health insurance businesses and any other business in China which may compete with our insurance business. CLIC also undertook (1) to refer to us any corporate business opportunity that falls within our business scope and which may directly or indirectly compete with our business and (2) to grant us a right of first refusal, on the same terms and conditions, to purchase any new business developed by CLIC. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions Non-Competition Agreement.

Substantially all of the management personnel and employees who were employed by CLIC in connection with the transferred assets and business were transferred to us. Some management and personnel remained with CLIC.

CLIC retained the trademarks used in our business, including the China Life name in English and Chinese and the ball logos, and granted us and our branches a royalty-free license to use these trademarks. CLIC and its subsidiaries and affiliates will be entitled to

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use these trademarks, but CLIC may not license or transfer these trademarks to any other third parties. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions Trademark License Agreement .

CLIC's contracts with its agents and other intermediaries were transferred to us.

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**Table of Contents**

We entered into various agreements under which we provide policy administration services to CLIC for the non-transferred policies, manage CLIC's investment assets and lease office space from CLIC for our branch and field offices. See Item 7. Major Shareholders and Related Party Transactions .

In connection with the restructuring, CLIC has established, together with the MOF, a special purpose fund for the purpose of paying claims under the non-transferred policies. The special purpose fund will be funded by investment assets retained by CLIC; renewal premiums paid on the non-transferred policies over time; a portion of the tax payments made by CLIC, China Life and AMC under the tax rebate mechanism described below; profits from the investments of the special purpose fund; shareholder dividends paid in cash to CLIC by China Life; proceeds from the disposition of China Life shares by CLIC over time; and funds injected by the MOF in the event of a deficiency in the special purpose fund, as described below. The special purpose fund is co-administered by CLIC and the MOF. The special purpose fund will be available to satisfy CLIC's operating expenses, including the payment of benefits and claims obligations arising from the non-transferred policies, as well as expenses incurred in operating the special purpose fund, including third-party management fees and professional fees, and such other purposes as the management committee of the fund may agree. A management committee comprised of three representatives from the MOF and three representatives from CLIC oversees the management of the fund, with specified material items subject to the approval of the MOF. The special purpose fund will be dissolved when all claims and benefits under the non-transferred policies have been paid, or sooner if the management committee so agrees.

The MOF's approval of the special purpose fund issued to CLIC provides that in the event there is any deficiency in the special purpose fund for so long as the fund is in existence as described above to meet any payment obligation arising out of the non-transferred policies, the MOF will provide support through the injection of funds to ensure the payments of benefits and claims to the policyholders of the non-transferred policies. We have been advised by our PRC legal counsel, King & Wood, that (1) the MOF has the authority to issue this approval regarding the special purpose fund, (2) the approval is valid and effective and (3) it has no reason to believe that the MOF will revoke the approval.

In accordance with generally applicable tax laws and regulations, CLIC, AMC and ourselves will file income tax returns and pay our respective income taxes as separate and independent taxpayers. According to a circular issued by the MOF, all of the income tax payments made by CLIC and us during the period of January 1, 2003 to December 31, 2010 will be rebated to CLIC. All of the income tax payments made by AMC may also be rebated to CLIC, if the current shareholding structure of AMC remains unchanged.

CLIC does not meet the minimum solvency requirements under CIRC solvency regulations. The CIRC has broad powers under these regulations and the insurance law in the event an insurance company fails to meet its minimum solvency requirements. These may include ordering the sale of the assets or transfer of the insurance business of an insurance company in default of these requirements to a third party and appointing a receiver to take over the management of the insurance company. See Business Overview Regulatory and Related Matters Insurance Company Regulation Solvency requirements . We believe that, in light of the MOF approval described above, it is unlikely that the CIRC will take these actions. However, we cannot assure you that the CIRC will not take actions against CLIC, which could have a material adverse effect on us.

We have been advised by our PRC legal counsel, King & Wood, that following the restructuring we will not have any continuing obligations to holders of the non-transferred policies and that there is no legal basis on which holders of the non-transferred policies can make a claim against China Life. King & Wood based its conclusion on, among other things, the following factors: (1) after the restructuring, China Life was established as a separate legal entity and China Life's assets and liabilities should be regarded as distinct and separate from those of CLIC; (2) there is no contractual relationship, direct or indirect, between the holders of the non-transferred policies and China Life; (3) the restructuring (including the transfer of the transferred policies to

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## **Table of Contents**

China Life) has been approved by the CIRC and has been conducted without infringing upon the rights of the holders of non-transferred policies; (4) the arrangements made under the restructuring agreement, in particular the MOF's support as described above, are expected to enable CLIC to satisfy its obligations under the non-transferred policies; and (5) PRC regulatory authorities have no legal power to direct China Life to assume CLIC's obligations under the non-transferred policies or to indemnify the holders of the non-transferred policies.

See Item 3. Key Information Risk Factors Risks Relating to the Restructuring .

### **Developments After Restructuring**

On November 23, 2003, we established an asset management joint venture, AMC, with our predecessor, CLIC, in connection with the restructuring. AMC manages our investment assets and, separately, substantially all of those of CLIC. On December 30, 2006, we established a property and casualty joint venture, CLPCIC, with CLIC. On January 15, 2007, we established a pension insurance joint venture, China Life Pension, with CLIC and AMC.

In December 2003, we successfully completed our initial public offering of H shares, including H shares in the form of American depository shares, or ADSs, and raised approximately RMB 24,707 million in aggregate net proceeds. Upon completion of our initial public offering, our H shares became listed on the Hong Kong Stock Exchange and ADSs each representing 40 of our H shares became listed on the New York Stock Exchange. The ratio of ADSs to H shares was reduced from 40 H shares to 15 H shares on December 29, 2006.

In December 2006, we issued 1,500,000,000 new ordinary domestic shares through public offering on the SSE at the offering price of RMB 18.88 per share, raising RMB 28,320 million in aggregate gross proceeds. The A shares have been listed on the SSE since January 9, 2007.

We incurred capital expenditures of RMB 1,910 million (US\$262 million), RMB 1,750 million and RMB 1,098 million in 2007, 2006 and 2005. These capital expenditures mainly comprised the addition of buildings. In 2006, we entered into agreements with other promoters to establish Bohai Venture Capital Fund where we committed to contribute RMB 500 million to Bohai Venture Capital Fund and RMB 5 million to Bohai Venture Capital Fund Management Company, of which RMB 150 million was paid to the fund and RMB 2.5 million was paid to the fund management company as of December 31, 2007. The remaining RMB 352.5 million will be paid when called. For a description of further investments made by us, see Business Overview Investments.

## **BUSINESS OVERVIEW**

We had nearly 93 million individual and group life insurance policies, annuity contracts and long-term health insurance policies in force as of December 31, 2007. We also offer accident and short-term health insurance policies to individuals and groups. The guaranteed rate of return for life insurance products has been capped at 2.50% by the CIRC since June 1999. As of December 31, 2007, the average guaranteed rate of return of the products we offered was 2.31%.

### **Individual Life Insurance**

We are the leading provider of individual life insurance and annuity products in China. We offer life insurance and annuity products to individuals, primarily through a distribution force comprised of approximately 638,000 exclusive agents operating in approximately 15,500 field offices throughout China, as well as other non-dedicated agencies located at branch offices of banks, banking operations of post offices and other organizations. The financial results of our individual long-term health insurance business are also reflected in our individual life insurance business segment. Gross written premiums and policy fees generated by our individual life insurance products, including long-term health insurance products, totaled RMB 98,484 million (US\$13,501 million) for the year ended December 31, 2007 and RMB 86,587 million for the year ended December 31, 2006,

**Table of Contents**

constituting 88.0% and 87.1% of our total gross written premiums and policy fees for those periods. The figure for 2007 represented a 13.7% increase over 2006. First-year gross written premiums from individual life insurance products in 2007 were RMB 25,480 million (US\$3,493 million), representing a 12.4% increase from 2006. First-year single gross written premiums for the same period were RMB 1,273 million (US\$175 million), representing 5.0% of first-year individual life insurance gross written premiums. Deposits generated by our individual life insurance and annuity products totaled RMB 72,069 million (US\$9,880 million) for the year ended December 31, 2007 and RMB 70,355 million for the year ended December 31, 2006, constituting 76.5% and 76.9% of our total deposits for those periods. The figure for 2007 represented a 2.4% increase from 2006.

The following table sets forth selected financial and other data regarding our individual life insurance business as of the dates or for the periods indicated.

	As of or for the year ended				Compound annual growth rate (2005-2007)
	2005	December 31,		2007	
	RMB	RMB	RMB	US\$	
	(in millions, except as otherwise indicated)				
Individual life gross written premiums and policy fees	68,888	86,587	98,484	13,501	19.57%
First-year single gross written premiums	1,085	1,175	1,273	175	8.32%
First-year regular gross written premiums	18,489	21,484	24,207	3,318	14.42%
<b>First-year gross written premiums</b>	19,574	22,659	25,480	3,493	14.09%
Individual life insurance deposits	62,483	70,355	72,069	9,880	7.40%
First-year single deposits	46,061	53,658	56,644	7,765	10.89%
First-year regular deposits	3,083	2,902	3,538	485	7.13%
<b>First-year deposits</b>	49,144	56,560	60,182	8,250	10.66%
Liabilities of long-term traditional insurance contracts	123,457	170,954	216,280	29,649	32.36%
Deferred income	34,104	40,744	47,761	6,546	18.34%
Liabilities of long-term investment type insurance contracts and investment contracts	235,847	281,847	283,520	38,867	9.64%

**Products**

We offer a wide variety of life insurance and annuity products to individuals, providing a wide range of coverage for the whole length of a policyholder's life. Our individual life insurance and annuity products consist of whole life and term life insurance, endowment insurance and annuities. The financial results of our long-term health insurance business are also reflected in our individual life insurance business segment.

We offer both non-participating and participating products. There were approximately 57.8 million non-participating policies and 35.5 million participating policies as of December 31, 2007, among which approximately 46.4 million non-participating policies and 25.7 million participating policies are offered to individuals. Net premiums earned and policy fees of participating policies of individual life insurance products represent approximately 52.8% of total net premiums earned and policy fees for individual life insurance products in 2007. Non-participating products provide a fixed rate of return with a guaranteed benefit. We and CLIC have not incurred negative spread on these and other policies transferred to us in the restructuring, as the average investment returns we have been able to generate have been higher than their guaranteed rates. See Item 3. Key Information Risk Factors Risks Relating to Our Business We are Exposed to Changes in Interest Rates. The holder of a participating product is entitled to share a portion of our distributable earnings from participating products, as determined by us based on formulas prescribed by the CIRC. Under guidelines issued by the CIRC, the dividends must be no less than 70% of the distributable earnings from participating products. Participating life insurance and annuity products, which were first introduced in 2000, have become our fastest-growing individual life insurance and annuity products.

**Table of Contents**

The following table sets forth selected financial information regarding our individual life insurance and annuity products, including long-term health and accident products, for the periods indicated.

	For the year ended December 31,			
	2005 RMB	2006 RMB	2007 RMB	2007 US\$
	(in millions)			
<b>Whole life and term life insurance:</b>				
Gross written premiums	23,494	28,257	32,118	4,403
First-year gross written premiums	5,214	6,299	5,532	758
Total single gross written premiums	131	38	49	7
<b>Endowment:</b>				
Gross written premiums	35,480	43,582	40,278	5,522
First-year gross written premiums	13,012	11,726	7,057	967
Deposits	60,310	69,583	70,331	9,642
First-year deposits	47,072	55,856	58,551	8,027
<b>Annuities:</b>				
Gross written premiums	4,231	8,247	19,024	2,608
First-year gross written premiums	1,348	4,634	12,891	1,767
Deposits	2,173	772	1,013	139
First-year deposits	2,072	704	946	130

**Whole Life and Term Life Insurance***Non-participating whole life and term life insurance*

We offer non-participating whole life and term life insurance products.

Non-participating whole life insurance products provide a guaranteed benefit, pre-determined by the contract, upon the death of the insured, in return for the periodic payment of fixed premiums over a pre-determined period. Premium payments may be required for the length of the contract period, to a specified age or for a specified period, and are typically level throughout the period.

The guaranteed rate of return in China for non-participating whole life insurance products has been capped at 2.50% by the CIRC since June 1999. We believe that the insurance market will continue to move away from non-participating whole life insurance products to participating whole life insurance products.

Non-participating term life insurance products provide a guaranteed benefit upon the death of the insured within a specified time period in return for the periodic payment of fixed premiums. Specified coverage periods generally range from 5 to 20 years or expire at specified ages. Death benefits may be level over the period or increasing. Premiums are typically at a level amount for the coverage period. Term life insurance products are sometimes referred to as pure protection products, in that there are normally little or no savings or investment elements. Unlike endowment products, term life insurance policies expire without value at the end of the coverage period if the insured person is still alive.

*Participating whole life insurance*

We also offer participating whole life insurance products, which are traditional whole life insurance policies that also provide a participation feature in the form of dividends. The policyholder is entitled to share a portion of the distributable earnings from participating products, as determined by us based on formulas prescribed by the CIRC. Under guidelines issued by the CIRC, the dividends must be no less than 70% of the distributable earnings from participating products. Policyholders may receive dividends in cash or apply them to increase death benefits or cash values available upon surrender.

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**Table of Contents****Endowment*****Non-participating endowment products***

Non-participating endowment products provide to the insured various guaranteed benefits if the insured survives specified maturity dates or periods stated in the policy, and provide to a beneficiary designated by the insured guaranteed benefits upon the death of the insured within the coverage period, in return for the periodic payment of premiums. Specified coverage periods generally range from 5 to 20 years or end at specified ages. Premiums are typically at a level amount for the coverage period.

Although non-participating endowment products have historically been among the most popular individual life insurance products in China, we believe that, if the prevailing permitted guaranteed rate in China remains capped at the current level of 2.50% as it has been for the past several years, the market is likely to shift away from these products in favor of participating endowment products.

***Participating endowment products***

We also offer participating endowment products, which are endowment policies that also provide a participation feature in the form of dividends. Policyholders are entitled to share a portion of the distributable earnings from participating products, as determined by us based on formulas prescribed by the CIRC. Under guidelines issued by the CIRC, the dividends must be no less than 70% of the distributable earnings from participating products. Policyholders may receive dividends in cash or apply them to increase death benefits or cash values available upon surrender.

Participating endowment products are among our fastest growing product lines. Hong Feng Endowment and Hong Xin Endowment have had the highest level of sales of our investment-type and risk-type participating endowment products in 2007. Hong Feng Endowment had RMB 49,666 million (US\$6,809 million) of deposits in 2007, representing 68.9% of total deposits of our individual life insurance business and 82.5% of total first-year deposits of our individual life insurance business. Hong Xin Endowment had RMB 21,673 million (US\$2,971 million) of gross written premiums in 2007, representing 22.0% of total gross written premiums and policy fees of our individual life insurance business. First-year gross written premiums of Hong Xin Endowment for the year ended December 31, 2007 were RMB 4,154 million (US\$569 million), representing a 50.3% decrease from the year before, or 16.3% of total first-year gross written premiums of our individual life insurance business. Total deposits from our individual participating products in 2007 decreased by 0.96%, to RMB 63,094 million (US\$8,649 million) from RMB 63,706 million in 2006. Total net premiums earned from our risk-type participating products increased by 14.6%, to RMB 46,974 million (US\$6,439 million) in 2007 from RMB 41,001 million in 2006.

In January and November 2007, our new risk-type participating endowment products *Mei Man Yi Sheng* and *Jin Cai Ming Tian* were introduced to the market respectively.

**Annuities**

Annuities are used for both asset accumulation and asset distribution needs. Annuitants make deposits or pay premiums into our accounts, and receive guaranteed level payments during the payoff period specified in the contracts. We offer both non-participating and participating annuities. For non-participating annuity products, risks associated with the investments are borne entirely by us. A significant portion of our non-participating annuity products imposes charges upon an early surrender or withdrawal of the contract.

Participating annuity products are annuities that provide a participation feature in the form of dividends. The dividends are determined by us in the same manner as our life insurance policies. Annuitants may receive dividends in cash or apply them to increase annuity benefits or reduce the premiums or deposits required to maintain the contract in force. Like non-participating annuities, a significant portion of our participating annuity products imposes charges upon an early surrender or withdrawal of the contract.

## **Table of Contents**

### **Joint Life and Universal Products**

We began the sale of joint life and universal products in certain provinces on a trial basis since 2005. In accordance with our overall strategy, which focuses on the sales of traditional and participating products, we steadily increased our sale of joint life and universal products.

Joint life products are life insurance policies, for which there are two or more persons insured under one policy. Joint life products can be term life, whole life or universal products. Universal life products are life insurance policies with flexible premium and benefit amounts. For each universal life policy, we establish a separate account and determine the interest credit rate, mortality and expense charges specifically for such account. The benefits of universal life products are linked to the account value of each separate account.

### ***Marketing and Distribution***

We have historically sold most of our individual life insurance and annuity products to the mass market and will continue to actively serve this market. However, we believe our core individual customer base will evolve as China's economy develops. We will seek to capitalize on the market opportunities in the growing affluent segment of China's population by focusing our marketing efforts on individuals residing in urban and economically developed coastal areas of China, where disposable income is relatively higher and, we believe, demand for life insurance and annuity products is greater. In addition, we are implementing a new customer segmentation sales approach which targets individuals of various income and education levels with different products. Under this sales approach, individuals in different periods of their lives are marketed with different life insurance and annuity products, with these products in many cases supplemented by our individual accident and health products.

We distribute our individual life and annuity products nationwide through multiple channels. Our primary distribution system is comprised of approximately 638,000 exclusive agents operating in approximately 15,500 field offices throughout China. In addition, we are implementing our customer-oriented market segmentation sales initiatives to all exclusive agents nationwide. While continuing to invest in our exclusive agent force, we have also expanded into other distribution channels, primarily non-dedicated agencies located in approximately 90,000 outlets of commercial banks, banking operations of post offices and savings cooperatives, to diversify our distribution channels and to achieve higher growth. See [Distribution Channels](#).

### **Group Life Insurance**

We are a leading group life insurance company in China, providing group life insurance and annuity products to the employees of many of China's large companies and institutions, including many of the Fortune Global 500 companies operating in China. We offer group life insurance and annuity products to the employees of companies and institutions through approximately 13,000 direct sales representatives operating in more than 3,700 branch offices as well as insurance agencies and insurance brokerage companies. The financial results of our group long-term health insurance business are also reflected in our group life insurance business segment. Gross written premiums and policy fees generated from our group life insurance and annuity products totaled RMB 1,503 million (US\$206 million) for the year ended December 31, 2007 and RMB 1,740 million for the year ended December 31, 2006, constituting 1.3% and 1.8% of our total gross written premiums and policy fees for each respective year. The figure for 2007 represented a 13.6% decrease from 2006. First-year gross written premiums from group life products insurance for 2007 were RMB 854 million (US\$117 million), representing a 23.4% decrease from 2006. First-year single gross written premiums for 2007 were RMB 705 million (US\$97 million), representing 82.6% of first-year group life insurance gross written premiums. Deposits generated by our group life insurance and annuity products totaled RMB 22,158 million (US\$3,038 million) for the year ended December 31, 2007 and RMB 21,086 million for the year ended December 31, 2006, constituting 23.5% and 23.1% of our total deposits for those periods. The figure for 2007 represented a 5.1% increase from 2006.



**Table of Contents**

The following table sets forth selected financial and other data regarding our group life insurance business as of the dates or for the periods indicated.

	As of or for the year ended				Compound annual growth rate (2005-2007)
	December 31,				
	2005	2006	2007	2007	
	RMB	RMB	RMB	US\$	
(in millions, except as otherwise indicated)					
Group life gross written premiums and policy fees	1,267	1,740	1,503	206	8.92%
First-year single gross written premiums	811	1,030	705	97	(6.76)%
First-year regular gross written premiums	40	85	149	20	93.00%
<b>First-year gross written premiums</b>	851	1,115	854	117	0.18%
Group life insurance deposits	23,463	21,086	22,158	3,038	(2.82)%
First-year single deposits	23,401	21,072	22,061	3,024	(2.91)%
First-year regular deposits	51	6	82	11	26.80%
<b>First-year deposits</b>	23,452	21,078	22,143	3,036	(2.83)%
Liabilities of long-term traditional insurance contracts	1,199	1,921	1,885	258	25.39%
Deferred income	527	627	547	75	1.88%
Liabilities of long-term investment-type insurance contracts and investment contracts	45,256	49,437	52,370	7,179	7.60%

**Products**

We offer group annuity products and group whole life and term life insurance products to enterprises and institutions. We bundle these products to serve as part of our group customers' overall employee benefit plans. We also market each group product as an independent product. We believe we are the market leader in the development of group annuity products.

The following table sets forth selected financial information regarding our group life insurance and annuity products, including long-term health products, for the periods indicated.

	For the year ended December 31,				
	2005	2006	2007	2007	
	RMB	RMB	RMB	US\$	
(in millions)					
<b>Group annuities:</b>					
Premiums		169	232	189	26
Deposits		21,528	18,411	19,804	2,715
<b>Group whole life and term life insurance:</b>					
Premiums		698	912	687	94
Deposits		101	169	771	106
<b>Endowment:</b>					
Premiums					
Deposits		1,834	2,506	1,583	217
<b>Group Annuities</b>					

In our non-participating group annuities, interest on an annuitant's deposits is credited to each participating employee's personal account.

We also offer participating group annuities. In our participating group annuities, interest on an annuitant's deposits is either credited to the participating employee's personal account or credited to the participating employee's personal account as well as the employer's group account, depending on the source of the deposits,



**Table of Contents**

calculated at a guaranteed interest rate set at the time the product is priced, subject to a cap fixed by the CIRC, which currently is 2.50%. The annuitant is entitled to share a portion of our distributable earnings derived from our participating products, as determined by us based on formulas prescribed by the CIRC, in excess of the rate we guarantee to participating employees.

Group participating annuity products, including Yong Tai Annuity Series (Retirement Supplement), are our major product lines. For the year ended December 31, 2007, total combined deposits of Yong Tai Annuity Series (Retirement Supplement) were RMB 16,831 million (US\$2,307 million), constituting 76% of total deposits of our group life insurance business for that year, representing a 9.1% increase from the year before. Total deposits from our group participating products in 2007 increased by 11.3% to RMB 20,087 million (US\$2,754 million) from RMB 18,043 million in 2006.

The following table sets forth total combined deposits of our Yong Tai Annuity Series (Retirement Supplement) products for the periods indicated.

	For the year ended December 31,			
	2005 RMB	2006 RMB	2007 RMB	2007 US\$
				(in millions)
<b>Yong Tai Annuity Series (Retirement Supplement):</b>				
Deposits	18,669	15,432	16,831	2,307
<b>Group whole life and term life insurance</b>				

We offer group non-participating whole life insurance products and group non-participating term life insurance products. Our group whole life and term life insurance products insure against death and serious disabilities due to accidents and illness.

**Marketing and distribution**

We target our group life insurance and annuity products to large institutional customers in China, including branches of foreign companies, which we believe have a greater awareness of and need for group life insurance and annuity products. We have long-term customer relationships with many of China's largest companies and institutions. We provide large group customers with products having flexible fee and dividend structures, as well as enhanced real-time customer service. While continuing to focus on large institutional clients, we also target small- to medium-sized companies in economically developed regions to supplement our growth and to increase our profits.

We market our group life insurance and annuity products primarily through our direct sales representatives. We also market our group life insurance and annuity products through commercial banks, banking operations of post offices, insurance agency companies and insurance brokerage companies. We believe our sales network has a geographic reach unparalleled by any other life insurance company in China, serving almost every county in China. See Distribution Channels .

**Table of Contents****Accident and Health Insurance**

We are the leading accident insurance and a leading health insurance provider in China.

The following table sets forth selected financial and other data regarding our short-term accident insurance and short-term health insurance businesses as of the dates or for the periods indicated. The financial results of our long-term health insurance and long-term accident businesses are reflected in our individual and group life insurance business segments, respectively. See Individual Life Insurance and Group Life Insurance .

	As of or for the year ended				Compound annual growth rate (2005-2007)
	2005	December 31,		2007	
	RMB	RMB	RMB	US\$	
	(in millions, except as otherwise indicated)				
Short-term accident insurance premiums	5,135	5,148	5,495	753	3.45%
Short-term health insurance premiums	5,732	5,942	6,404	878	5.70%
Accident and health reserves for claims and claim adjustment expenses (gross)	1,784	2,498	2,391	328	15.77%
Accident and health insurance unearned premium reserves (gross)	5,147	5,346	5,728	785	5.49%

**Accident insurance**

We are the leading accident insurance provider in China. Our short-term accident insurance gross written premiums totaled RMB 5,495 million (US\$753 million) for the year ended December 31, 2007 and RMB 5,148 million for the year ended December 31, 2006, constituting 4.9% and 5.2% of our total gross written premiums and policy fees for those periods.

**Products**

We offer a broad array of accident insurance products to both individuals and groups.

**Individual accident insurance**

Individual accident insurance products provide a benefit in the event of death or disability of the insured as a result of an accident, or a reimbursement of medical expenses to the insured in connection with an accident. Typically, a death benefit is paid if the insured dies as a result of the accident within 180 days of the accident, and a disability benefit is paid if the insured is disabled, with the benefit depending on the extent of the disability. If the insured receives medical treatment at a medical institution approved by us as a result of an accident, individual accident insurance products also may provide coverage for medical expenses. We offer a broad array of individual accident insurance products, such as insurance for students and infants against death and disability resulting from accidental injury and comprehensive coverage against accidental injury. We also offer products to individuals requiring special protection, such as accidental death and disability insurance for commercial air travel passengers and automobile passengers and drivers. The terms of individual accident insurance products range from a few hours to one year.

**Group accident insurance**

We offer a number of group accident insurance products and services to businesses, government agencies and other organizations of various sizes. We also offer group accident products targeted at specific industry groups, such as construction worker related accident insurance to construction companies, and law enforcement personnel accident insurance to various law enforcement agencies.

## **Table of Contents**

### ***Marketing and distribution***

We market our individual accident insurance products through our direct sales force and our exclusive agent sales force, as well as intermediaries, such as non-dedicated agencies located at outlets of commercial banks, banking operations of post offices, savings cooperatives, travel agencies, hotels and airline sales counters and insurance agency and insurance brokerage companies. We market our group accident insurance products primarily through our direct sales representatives and the same intermediaries we use to sell our individual accident products. See [Distribution Channels](#) .

We use our individual and group product distribution channels to market our accident products either as primary products, as riders or as supplementary products packaged with our life, annuity or health products. Our direct sales representatives market our short-term individual health products to employees of our institutional customers.

### ***Health insurance***

We are a leading health insurance provider in China. We offer a broad array of short-term health insurance products and services to both individuals and groups, including disease-specific insurance, medical expense insurance and defined benefit insurance. Our short-term health insurance gross written premiums totaled RMB 6,404 million (US\$878 million) for the year ended December 31, 2007 and RMB 5,942 million for the year ended December 31, 2006, constituting 5.7% and 6.0% of our total gross written premiums and policy fees for those periods. The figure for 2007 represented a 7.8% increase from 2006.

Our health insurance business shares our nationwide life insurance sales force and distribution network of exclusive agents. Our policy review and claim adjustment processes are facilitated through a team of supporting personnel with medical training.

### ***Products***

We offer short-term health insurance products to both individuals and groups. We classify our health insurance products as short-term products, having policy terms of less than or up to one year, and long-term products, having policy terms longer than one year. We offer both short-term and long-term defined health benefit plans, medical expense reimbursement plans and disease-specific plans to individuals and groups.

#### ***Defined health benefit plans***

These plans provide a fixed payment based on the number of days of hospitalization for specific diseases or surgical operation. Policyholders either pay premiums in a single payment or on a periodic basis.

#### ***Medical expense reimbursement plans***

These plans provide for the reimbursement of a portion of the participant's outpatient or hospitalization treatment fees and expenses. Policyholders either pay premiums in a single payment or on a periodic basis or, for certain group medical expense reimbursement plans, irregularly as determined by the policyholder.

#### ***Disease-specific plans***

These plans provide a fixed payment benefit for various diseases. Premium payments for disease-specific plans are paid either in a single payment or on a periodic basis.

### ***Marketing and distribution***

We offer our health insurance products to both individuals and groups through the same distribution channels we use to market our life insurance products. We market our individual health insurance products through our exclusive agent sales force. We market our individual short-term health insurance products and group health insurance products primarily through our direct sales representatives. See [Distribution Channels](#) .

**Table of Contents**

We use our individual and group product distribution channels to market our health products either as primary products, as riders or as supplementary products packaged with our life, annuity or accident insurance products. We conduct extensive health insurance related training programs for our direct sales representatives and our exclusive agents.

**Product Development**

In 2007, we completed the development of more than 20 new products, including individual life insurance products, group life insurance products, accident insurance products and health insurance products. We developed a new participating endowment product, Jin Cai Ming Tian, by modifying and upgrading our most important participating endowment product Hong Xin Endowment. Jin Cai Ming Tian was introduced to the market in November 2007.

Also, in 2007, we began to establish regional research centers for product development to study and satisfy market needs and enable us to respond more rapidly to changing market requirements. We currently have five regional product research and development centers in Shanghai, Jiangsu, Chongqing, Shenzhen and Liaoning.

In March 2007, our new product China Life Simple Life and Medical Insurance (SLMI), an individual life insurance product, was launched. The terms of SLMI are simple and easy to understand, taking into account the consumers' affordability and insurance requirements. We have introduced SLMI to the markets of the counties of 22 provinces. First year gross written premiums of SLMI for the year ended December 31, 2007 were RMB 1,220 million (US\$167 million).

**Distribution Channels**

In connection with our restructuring, CLIC transferred its entire distribution force to us. After giving effect to our restructuring, we believe we have the largest distribution force with the most extensive geographic reach compared with any of our competitors. With the opening of our Tibet branch in May 2007, our distribution network reaches almost every county in China. Throughout China, we have approximately 638,000 exclusive agents operating in approximately 15,500 field offices for our individual products and more than 13,000 direct sales representatives in more than 3,600 branch offices for group products. We have a multi-channel distribution network selling individual and group insurance products through intermediaries, primarily non-dedicated agencies located in approximately 90,000 outlets of commercial banks, banking operations of post offices and savings cooperatives as of the end of December 2007, a slight increase from 2006. This increase was primarily due to our closer cooperation relationship with commercial banks and development of new non-dedicated agencies. Commission rates vary by product, based on such factors as the payment terms and period over which the premiums are paid for the product, as well as CIRC regulations. We support our agents and representatives through training programs, sales materials and information technology systems.

**Exclusive agent force**

Our exclusive agent force of approximately 638,000 agents, including those who are not qualified, is the primary distribution channel for our individual life, health and accident insurance products.

The following table sets forth information relating to our exclusive agent force as of the dates indicated.

	As of December 31,		
	2005	2006	2007
Number of exclusive agents (approximately)	640,000	650,000	638,000
Number of field offices	12,000	15,000	15,500

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**Table of Contents**

Our exclusive agent force is among our most valuable assets, allowing us to more effectively control our distribution and build and maintain long-term relationships with our individual customers. The number of our exclusive agents decreased from 650,000 as of the end of 2006 to 638,000 as of the end of 2007. This decrease was primarily due to the strengthened performance review conducted by us in 2007, as a result of which a number of exclusive agents with lower productivity or without a CIRC qualification certificate to conduct business left. We believe that our customers and prospective customers prefer the personal approach of our exclusive agents, and, therefore, we believe our exclusive agent force will continue to serve as our core distribution channel.

From 2006, we also accelerated the development of a special sales force services offered for orphan policies (policies which were serviced by our former individual agents but are no longer serviced by such agents after the departure of such agents from our company) and new business development. As of the end of 2006 and 2007, such sales force included approximately 17,000 and 34,000 exclusive agents respectively, which are included in the 650,000 and 638,000 exclusive agents.

Under the PRC insurance law, an individual agent for an insurance company is required to obtain a qualification certificate from the CIRC, as well as to register with, and obtain a business license from, the agent's local bureau of the SAIC. See Regulatory and Related Matters Regulation of Insurance Agencies, Insurance Brokers and Other Intermediaries. Essentially all of the agents in our exclusive agent sales force do not qualify as individual agents within the meaning of the insurance law because they do not meet the dual requirements of holding a CIRC qualification certificate and a business license from the local bureau of industry and commerce. We believe that this situation is shared by all major life insurance companies in China. Approximately 97.9% of our exclusive agents hold a CIRC qualification certificate, and essentially none has a business license. In May 2004, the CIRC issued a circular requiring insurance companies to take effective measures in carrying out the qualification certification requirement. Furthermore, no insurance company may issue a company certificate to any person identifying that person as its sales representative, if the person does not have a CIRC qualification. Pursuant to the circular, we are also required to take appropriate measures to improve both participation of our agents taking the qualification examination and their success rate, and to report to the CIRC on a quarterly basis the percentage of our agents holding a CIRC qualification certificate. In April 2006, the CIRC issued regulations on administration of individual agents, effective on July 1, 2006, in order to further strengthen the administration of individual agents. Pursuant to these regulations, insurance companies that retain individual agents without CIRC qualification certificates and underwriting certificates to engage in insurance sales activities will be warned and fined up to RMB 30,000 and the responsible member of senior management of such insurance companies will be warned and fined up to RMB 10,000. In serious circumstances, the CIRC may order the insurance companies to remove the responsible member of senior management from office and reject the application of setting up branch offices by such insurance companies. It is our understanding that the SAIC does not have procedures in place to effect the registration and licensing of individual insurance agents, although some local bureaus of industry and commerce have had on occasions required our agents to register. To date, this noncompliance has not had a material adverse effect on us. We are not sure whether or when this registration requirement will be enforced by bureaus of industry and commerce nationwide. If these registration and qualification requirements are enforced, or if they result in a substantial number of policyholders canceling their policies, our business may be materially and adversely affected.

We supervise and provide training to our exclusive agents through more than 9,100 supervisors and more than 1,300 full-time trainers. We set product management and customer service standards, and have developed risk warning and credit rating systems, which we require all of our field offices and agents to meet and apply, and conduct field tests with a view to ensuring quality. We also have an extensive training program.

We compensate our exclusive agent force through a system of commissions and bonuses to reward performance. Our agents are compensated based on a commission rate that generally decreases over the premium period. For short-term insurance products, our exclusive agents are generally compensated with fixed agent fees. We provide pension funds, group commercial supplemental pension insurance, group life and medical insurance

## **Table of Contents**

for our exclusive agents. We motivate our agents by rewarding them with performance-based bonuses and by organizing sales-related competitions among different field offices and sales units. We also try to increase the loyalty of our exclusive agents through other methods, such as through participation in sales conferences.

We believe we have the largest exclusive agent sales force in China. We intend to improve the quality and productivity of our individual exclusive agent force and reduce the attrition rate of our agents by taking the following actions:

improving the overall productivity of our exclusive agents by expanding our customer-oriented market segmentation sales approach and standardized sales services to all agents nationwide;

motivating our exclusive agents with an improved performance-based compensation scheme;

building a more professional exclusive agent force by improving our training programs and enhancing our training efforts, such as the Chartered Insurance Agency Manager courses organized by the Life Insurance Marketing and Research Association, and increasing the number of qualified exclusive agents;

improving the quality of our exclusive agent force by expanding our recruitment program and standardizing our recruitment procedures and admission requirements; and

improving the efficiency of our exclusive agents by providing sales support and equipments, including expanding the China Life sales support system nationwide and equipping our more productive exclusive agents with personal electronic devices to further enhance their marketing, time management and customer service capabilities.

### ***Direct sales force***

Our direct sales force is our primary distribution system for our group life insurance and annuities, group accident insurance and group health insurance products, as well as our individual accident insurance and individual short-term health insurance products.

Our direct sales force of approximately 13,000 direct sales representatives are our full time employees and operate in more than 3,600 branch offices across China. We believe our sales network has a geographic reach unparalleled by any other life insurance company in China, serving almost every county in China.

We believe our direct sales force allows us to more effectively control our distribution and build and maintain long-term relationships with our group customers and, therefore, will continue to serve as our primary distribution system for our group products. We believe maintaining our leading position in the group insurance market depends on a professional and qualified direct sales force, and we have devoted substantial resources to the training and supervision of our direct sales force in recent years. We set product management and customer service standards which we require all of our branch offices and direct sales representatives to meet, and conduct field tests to centralize quality control and management. We also have an extensive training program.

As full time employees, our direct sales representatives are compensated through fixed salaries. We motivate our direct sales representatives by rewarding them with performance-based bonuses and by organizing sales and services-related competitions among different branch offices and sales units.

### ***Intermediaries***

We also offer individual and group products through intermediaries. Our distribution channels are primarily comprised of non-dedicated agencies located in approximately 90,000 outlets of commercial banks, banking operations of post offices and savings cooperatives, as well as insurance agencies and insurance brokerage companies.





## **Table of Contents**

### ***Bancassurance***

We have bancassurance arrangements with major banks, savings cooperatives and banking operations of post offices in China, and currently generate a significant portion of our total sales through bancassurance. Bancassurance is a fast growing channel, and we will continue to dedicate substantial resources, through our bancassurance department, to develop our bancassurance business, with a focus on key cities. We have established strategic alliances with several banks. We intend to improve the attractiveness of our products by providing products and services tailored to each major bank and providing training and integrated systems support to our banking partners.

### ***Other non-dedicated agencies***

In addition to bancassurance, we also sell short-term insurance products through other non-dedicated agencies. Currently, we have non-dedicated agencies operating at outlets of travel agencies, hotels and airline sales counters. We expect non-dedicated agencies to become an increasingly important distribution channel for individual products.

### ***Other intermediaries***

We also market group products through dedicated insurance agencies and insurance brokerage companies. Dedicated insurance agencies and insurance brokerage companies work with companies primarily to select group insurance providers and group products and services in return for commission fees.

Currently, the market of dedicated insurance agencies and insurance brokerage companies in China remains generally underdeveloped. We expect the dedicated insurance agencies and insurance brokerage companies to become effective distribution channels in the medium term.

### **Competition**

Our nearest competitors are Ping An and China Pacific Life.

In the individual life insurance market, Ping An, China Pacific Life and we collectively represented 69% of total individual life insurance premiums in 2006. We primarily compete based on the nationwide reach of our sales network and the level of services we provide, as well as our strong brand name.

In the group life insurance market, Ping An, China Pacific Life and we collectively represented 61% of total group life insurance premiums in 2006. We primarily compete based on the nationwide reach of our sales network and the services we provide, as well as our relationships and reputation among large companies and institutions in China.

In the accident insurance market, Ping An, China Pacific Life and we collectively represented 75% of total accident premiums in 2006. We primarily compete based on the nationwide reach of our sales network and the services we provide and our strong brand name, as well as our cooperative arrangements with other companies and institutions.

In the health insurance market, Ping An, China Pacific Life and we collectively represented 67% of total health premiums in 2006. We primarily compete based on the nationwide reach of our sales network, the services we provide, our multi-layered managed care scheme and systems of policy review and claim management, as well as our strong brand name.

**Table of Contents**

The following table sets forth market share information for the year ended December 31, 2006, the most recent year for which official market information is available, in all segments of the life insurance market in which we do business.

	Individual life premiums market share	Group life premiums market share	Accident premiums market share	Health premiums market share	Total premiums market share
<b>China Life</b>	<b>45%</b>	<b>41%</b>	<b>46%</b>	<b>24%</b>	<b>45%</b>
Ping An Insurance Company of China, Ltd.	15%	11%	13%	35%	17%
China Pacific Life Insurance Co. Ltd.	9%	9%	16%	8%	9%
New China Life Insurance Co. Ltd.	6%	7%	2%	7%	7%
Tai Kang Life Insurance Co. Ltd.	5%	4%	3%	3%	5%
Others <sup>(1)</sup>	20%	28%	20%	23%	17%
Total	100%	100%	100%	100%	100%

- (1) Others include Taiping Life Insurance Co. Ltd., Minsheng Life Insurance Co., Ltd., Sino Life Insurance Co., Ltd., PICC Life Insurance Co., Ltd., PICC Health Insurance Co., Ltd., Hua Tai Life Insurance Co., Ltd., Union Life Insurance Co., Ltd., Greatwall Life Insurance Co., Ltd., Manulife-Sinochem Life Insurance Co. Ltd., Pacific-Antai Life Insurance Co. Ltd., AXA-Minmetals Assurance Co., Ltd., China CMG Life Insurance Co., Ltd., Citic-Prudential Life Insurance Co., Ltd., John Hancock-Tianan Life Insurance Co. Ltd., Generali China Life Insurance Co. Ltd., Sun Life Everbright Life Insurance Co. Ltd., ING Capital Life Insurance Co., Ltd., Haier New York Life Insurance Co., Ltd., Aviva-COFCO Life Insurance Co., Ltd., AEGON-CNOOC Life Insurance Co., Ltd., CIGNA and CMC Life Insurance Co., Ltd., Nissay-SVA Life Insurance Co., Ltd., Heng An Standard Life Insurance Co., Ltd., Skandia-BSM Life Insurance Co., Ltd., Sino-US Metlife Insurance Co., Ltd. and American International Assurance Co., Ltd., Shanghai, Guangdong, Shenzhen, Beijing, Jiangsu, Dongguan and Jiangmen branches, Cathay Life Insurance Co., Ltd., Met Life Insurance Co., Ltd., Allianz China Life Insurance Co., Ltd., Samsung Air China life Insurance Co., Ltd. China Life Insurance (Group) Company, Jiahe Life Insurance Co., Ltd., Reward Health Insurance Co., Ltd., Dragon Life Insurance Co., Ltd., Zhongxin Grand Oriental Person's Life Insurance Co., Ltd., Taikang Life Insurance Co., Ltd., Sino Life Insurance Co., Ltd., Allianz China Life Insurance Co., Ltd.

Source: China Insurance Yearbook 2007

We face competition not only from domestic life insurance companies, but also from non-life insurance companies and foreign-invested life insurers. The number of life insurance companies licensed in China has been growing steadily, which we believe will lead to greater competition in the life insurance industry. There were 43 licensed life insurance companies in China as of December 31, 2005, 45 as of December 31, 2006 and 59 as of December 31, 2007. Property and casualty insurers were allowed to sell accident and short-term health insurance products with regulatory approval starting from January 2003, which we believe will lead to greater competition in the accident and health insurance sectors, especially in the group accident and group health insurance products. In addition, we believe that elimination of geographic limitations on foreign-invested insurance companies will further increase competition in China's life insurance market.

See Item 3. Key Information Risk Factors Risks Relating to the PRC Life Insurance Industry We expect competition in the Chinese insurance industry to increase, which may materially and adversely affect the growth of our business.

We face competition from other financial services providers, primarily licensed mutual fund companies, trust companies and brokerage houses licensed to manage separate accounts. These financial services providers may be permitted to manage employer-sponsored defined contribution pension plans, which we believe will compete directly with our group annuity products. We also face competition in the sale of our individual participating policies and annuities from financial institutions which offer investment products to the public.

## **Table of Contents**

### **Asset Management Business**

On November 23, 2003 we established an asset management joint venture, AMC, with our predecessor, CLIC, in connection with the restructuring for the purpose of operating the asset management business more professionally in a separate entity and to better attract and retain qualified investment management professionals. AMC manages our investment assets and, separately, substantially all of those of CLIC. For a description of our investment assets, see Investments .

AMC is our subsidiary, with us owning 60% and CLIC owning the remaining 40%. Members of the board of directors are Miao Jianmin, Zhuang Zuojin, Liu Jiade, Wan Feng, Lin Huimin, Shi Yucheng and Xia Bin. Directors of AMC are appointed by the shareholders in general meeting. Accordingly, we, as the controlling shareholder, effectively control the composition of its board of directors.

AMC obtained the qualification to serve as the investment manager for enterprise pension funds on August 1, 2005.

As of December 31, 2007, AMC had total assets of RMB 1,963 million (US\$269 million), net assets of 1,751 million (US\$240 million) and net profit of RMB 445 million (US\$61 million).

### **Property and Casualty Business**

We entered into a share subscription agreement on March 13, 2006 and a promoters agreement with CLIC on October 23, 2006 to establish a property and casualty company, CLPCIC, with us owning 40% and CLIC owning the remaining 60%. The property and casualty company obtained its business license on December 30, 2006. On November 27, 2007, our board of directors approved the proposal to increase, together with CLIC, the registered capital of CLPCIC from the current amount of RMB 1,000 million (US\$137 million) to RMB 4,000 million (US\$548 million), pursuant to which we plan to invest RMB 1,200 million (US\$165 million) to RMB 2,000 million (US\$274 million). Such plan is still subject to the approval of relevant authorities.

As of December 31, 2007, CLPCIC had total assets of RMB 1,602 million (US\$220 million), net assets of RMB 712 million (US\$98 million) and net losses of RMB 339 million (US\$46 million).

### **Pension Insurance Business**

We entered into a promoters agreement with CLIC and AMC on March 21, 2006 to establish a pension insurance joint venture, China Life Pension. The pension insurance company obtained its business license on January 15, 2007, with us owning 55%, CLIC owning 25% and AMC owning the remaining 20%. We are the controlling shareholder of China Life Pension as we directly own 55% of the share capital and AMC, which is 60% owned by us, owns 20%. China Life Pension obtained the qualification to serve as trustee and account manager of enterprise pension fund on November 19, 2007. On November 27, 2007, our board of directors approved the proposal to increase, together with CLIC, the registered capital of China Life Pension to 2,500 million (US\$343 million) among which we plan to invest additional approximately RMB 1,855 million (US\$254 million). Such plan is still subject to the approval of relevant authorities.

As of December 31, 2007, China Life Pension had total assets of RMB 708 million (US\$97 million), net assets of RMB 622 million (US\$85 million) and net losses of RMB 9 million (US\$1 million).

### **Customer Support Management**

We seek to provide quality services to our customers and potential customers and to be responsive to their needs, both before and after a sale, through an extensive customer support network. Our customer service

## **Table of Contents**

network is managed by specialized customer service departments, which are responsible for setting uniform standards and procedures for providing policy-related services to customers, handling inquiries and complaints from customers and training customer services personnel.

We deliver customer services primarily through customer service units operating in our branch offices and in field offices throughout China and a sophisticated telephone call center network. We take advantage of alternative customer services channels, such as cellphone messages and the Internet, complementing the customer services provided by our customer service units and the call center network. We also established a specialized customer service department in 2006 to further refine our customer services. The customer service department's role is to provide service to our customers and supervise the quality of service provided by our customer service units.

We held the first China Life Customer Festival and launched the China Life 1+N service brand in 2007.

### ***Customer service units***

We provide customer support through approximately 3,000 customer service units nationwide. We provide approximately 50 different types of policy-related services to our customers, which include collecting regular premiums, renewing policies, purchasing supplemental policies, reinstating lapsed policies, processing surrenders, increasing insured amounts, processing policy loans, paying benefits and updating information regarding holders and beneficiaries of policies. We require our customer service units to provide these policy-related services in accordance with procedures and standards that we implement on a nationwide basis, helping to ensure the quality of the services we provide. We implemented uniform service standards for customer service units nationwide in 2005.

### ***Telephone call service center***

Our telephone call service centers allow customers to make product and service inquiries, file complaints, report claims and losses, make appointments and update the contact information regarding holders of policies. They also provide call-back and greeting message services to customers. We intend to broaden over time the services we offer through these call service centers. With our dedicated, nationwide inquiry line, 95519, our customers can reach us on a 24 hours/7 days basis.

We believe our call centers have become popular with our customers because of the quality of services they provide. We were awarded the best call center in China in 2005, 2006 and 2007 by the Professional Committee for the Promotion and Alliance of Customer Relationship Management of Information under the Ministry of Information Industry, and have obtained the authentication of Chinese national call center operating performance standards. We were also awarded 2006 Top 10 Service Brands in China by China Call Center of CRM Association in December 2006. In September 2007, in the Annual World Call Centre Exhibition and World Call Centre Conference held in San Diego of the USA, our 95519 telephone service centre was awarded The Best Call Centre in the World by International Customer Management Institute (ICMI). We were one of the first two companies in China and the only Chinese insurance company which received this award. We will continue to ensure that we have a sufficient number of lines and staff to service the increasing utilization of our call centers.

We have established system-wide standards for our call centers, which we monitor periodically through test calls to the call centers and operation reports on the call centers.

### ***Cellphone message services***

We utilize wireless telephone services to make instant contact with our agents and customers. We may send short messages to our customers all over China, conveying such information as birthday and holiday greetings, premium payment notices and premium payment confirmations.

## **Table of Contents**

### ***Internet-based services***

Our customers can also utilize our Internet-based services for inquiries, complaints and service requests through our website ([www.e-chinalife.com](http://www.e-chinalife.com)).

### **Reserves of Long-term Traditional Insurance Contracts**

For all of our product lines, we establish, and carry as liabilities, actuarially determined amounts that are calculated to meet our obligations under our insurance policies and annuity contracts.

### ***Financial statement reserves***

In accordance with HKFRS, our reserves for financial reporting purposes are based on actuarially recognized methods for estimating future policy benefits and claims. We expect these reserve amounts, along with future premiums to be received on policies and contracts and investment earnings on these amounts, to be sufficient to meet our insurance policy and contract obligations.

We establish the liabilities for obligations for future policy benefits and claims based on assumptions that are uncertain when made. Our assumptions include assumptions for mortality, morbidity, persistency, expenses, and investment returns, as well as macroeconomic factors such as inflation. These assumptions may deviate from our actual experiences and, as a result, we cannot determine precisely the amounts which we will ultimately pay to settle these liabilities or when these payments will need to be made. These amounts may vary from the estimated amounts, particularly when those payments may not occur until well into the future. We evaluate our liabilities periodically, based on changes in the assumptions used to establish the liabilities, as well as our actual policy benefits and claims experience. We expense changes in our liabilities in the period the liabilities are established or re-estimated. To the extent that trends in actual claims results are less favorable than our underlying assumptions used in establishing these liabilities, and these trends are expected to continue in the future, we may be required to increase our liabilities. This increase could have a material adverse effect on our profitability and, if significant, our financial condition. Any material impairment in our solvency margin could change our customers' or business partners' perception of our financial health, which in turn could affect our sales, earnings and operations.

### ***Statutory reserves***

We are required under China's insurance law to report policy reserves for regulatory purposes. The minimum levels of these reserves are based on methodologies and assumptions mandated by the CIRC. We also maintain assets in excess of policy reserves to meet the solvency requirements under CIRC regulations.

See Item 3. Key Information Risk Factors Risks Relating to Our Business Differences in future actual claims results from the assumptions used in pricing and establishing reserves for our insurance and annuity products may materially and adversely affect our earnings.

## **Business Management**

### ***Underwriting and Pricing***

Our individual and group insurance underwriting involves the evaluation of applications for life, accident and health insurance products by a professional staff of underwriters and actuaries, who determine the type and the amount of risk that we are willing to accept. We have established qualification requirements and review procedures for our underwriting professionals. We employ detailed underwriting policies, guidelines and procedures designed to assist our underwriters to assess and quantify risks before issuing a policy to qualified applicants.

## **Table of Contents**

Our underwriters generally evaluate the risk characteristics of each prospective insured. Requests for coverage are reviewed on their merits, and generally a policy is not issued unless the particular risk or group has been examined and approved for underwriting.

We have different authorization limits and procedures depending on the amount of the claim. We also have authorization limits for personnel depending on their level of qualifications.

In order to maintain high standards of underwriting quality and consistency, we engage in a multilevel series of ongoing internal underwriting audits, and our reinsured business is subject to external audits by our reinsurers.

Individual and group product pricing reflects our insurance underwriting standards. Product pricing on insurance products is based on the expected payout of benefits, calculated through the use of assumptions for mortality, morbidity, persistency, expenses and investment returns, as well as certain macroeconomic factors such as inflation. Those assumptions include a margin for expected profitability and are based on our own experience and published data from other Chinese life insurance companies. For more information on regulation of insurance products, see *Regulatory and Related Matters Insurance Company Regulation* .

We primarily offer products denominated in RMB.

## ***Claims Management***

We manage the claims we receive from policyholders through our claims management staff located in our headquarters and branch offices. Typically, claims are received by our employees or agents, who make a preliminary examination and forward them to our claims settlement team for further verification. If the claim is verified, the amount payable is calculated and, once approved, is distributed to the policyholder.

We manage claims management risk through organizational controls and computer systems controls. Our organizational controls include specified authorization limits for various operating levels, periodic and *ad hoc* inspections at all levels of our organization, expense mechanisms linking payout ratios with expenses for short-term life insurance policies and requirements that, except for some health insurance claims under a certain amount, each claims examination be performed by two staff members. We also impose stringent requirements on the qualification and employment of claims management staff. Our claims management control procedures are supported by a computer processing system which is used for the verification and processing of claims.

## **Reinsurance**

Since 1997 we have entered into various reinsurance agreements with China Life Reinsurance Company Limited, or China Life Re, formerly known as China Reinsurance Company, for the reinsurance of individual death risks, group risks and defined blocks of business. In general, individual death risks are primarily reinsured on a surplus basis, in which we are reinsured for risks above a specified amount. Under our internal reinsurance policy, we reinsure risks over RMB 1 million per person for life insurance, RMB 1 million per person for accident insurance and RMB 0.3 million per person for health insurance. Our group risks are primarily reinsured on a percentage basis, and we decide which group policies are to be reinsured on a case by case basis. In general, our reinsurance agreements with China Life Re do not have a definite term, but may be terminated by either party at the end of a calendar year with advance notice of three to six months.

We also entered into reinsurance agreements with Munich Re Beijing branch, Swiss Re Beijing and Cologne Re Shanghai branch.

These reinsurance agreements spread the risk and reduce the effect on us of potential losses. Under the terms of the reinsurance agreements, the reinsurer agrees to reimburse us for the insured, or ceded, amount in the event the claim is paid. However, we remain liable to our policyholders for the ceded amount if the reinsurer fails to meet the obligations assumed by it.

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## **Table of Contents**

As part of our life insurance business, prior to January 1, 2007, we also assumed policies issued by other insurers. We had previously entered into three reinsurance agreements with three affiliated branches of a United States life insurance company in China that cover individual life insurance risks and risks of death and disability from accidental injuries. These reinsurance agreements expired during 2007. In 2007, we did not assume any new policies issued by other insurers.

### **Investments**

As of December 31, 2007, we had RMB 850,209 million (US\$116,553 million) of investment assets. As required by China's insurance laws and regulations, we invest insurance premiums, deposits and other funds we receive primarily in bank term deposits and structured term deposits; fixed maturity securities, including government securities, bonds issued by state-owned policy banks of the Chinese government, corporate bonds, bonds issued by financial institutions, convertible bonds and certain subordinated bonds and indebtedness; loans; securities investment funds primarily invested in equity securities issued by Chinese companies and traded on China's securities exchanges; shares of companies listed on China's stock markets, which are denominated and traded in Renminbi. We also participate in bond repurchase activities through inter-bank repurchase markets and repurchase exchange markets. We were recently authorized to indirectly invest in domestic infrastructure projects and equity interest of non-listed Chinese commercial banks, and were authorized to make overseas investments in qualified term deposits and debt securities, as well as shares of Chinese companies listed on specified overseas stock exchanges. The Interim Measures for the Overseas Investment with Insurance Funds implemented in June 2007 further allowed the qualified insurance companies to make the following overseas investments: (i) products of currency market including commercial instruments, large-sum negotiable deposit certificates, repurchase agreements and reverse repurchase agreements and currency market funds; (ii) products with fixed proceeds including bank deposits, structured deposits, bonds, convertible bonds, bond funds, securities-featured products and credit-featured products; (iii) equity products including stocks, stock-based funds, equity shares, equity-featured products; and (iv) other investment channels as approved under the PRC Insurance Law or by the State Council. We understand that the detailed implementation rules to this interim measures are still being drafted by relevant regulatory bodies. We are prohibited from making other investments without the CIRC's approval.

We direct and monitor our investment activities through the application of investment guidelines. Our investment guidelines include: (1) performance goals for the investment fund; (2) specified asset allocations and investment scope based on regulatory provisions, level of indebtedness and market forecasts; (3) specified goals for investment duration and asset-liability matching requirements based on asset-liability matching strategies; (4) specified authorization levels required for approval of significant investment projects; and (5) specified risk management policies and prohibitions. The investment guidelines are reviewed and approved by the investment decision committee annually.

Investment proposals typically originate from our investment management department, which is in charge of all of our investment assets. Investment proposals are reviewed by our risk management department for risk assessment and submitted to the investment decision committee for final approval.

AMC, the asset management joint venture established by us and our predecessor, CLIC, manages substantially all of our Renminbi investments following the restructuring and, separately, substantially all of the investments retained by CLIC. See "Asset Management Business". In connection with the restructuring, CLIC transferred to us a portion of its investment assets and specified other assets, and retained the remaining investment and other assets. See "History and Development of the Company" and "Item 7. Major Shareholders and Related Party Transactions - Related Party Transactions".



**Table of Contents**

The following table summarizes information concerning our investment assets as of December 31, 2005, 2006 and 2007.

	2005		As of December 31, 2006		2007	
	Carrying value	% of total	Carrying value	% of total	Carrying value	% of total
(RMB in millions, except as otherwise indicated)						
Cash and cash equivalents	28,051	5.7%	50,213	7.3%	25,317	3.0%
Term deposits (excluding structured deposits)	160,067	32.4%	170,830	24.9%	164,248	19.3%
Structured deposits	4,802	1.0%	4,646	0.7%	4,346	0.5%
Statutory deposits restricted	5,353	1.1%	5,353	0.8%	5,773	0.7%
Debt securities, held-to-maturity	146,297	29.6%	176,559	25.7%	195,703	23.0%
Debt Securities, available-for-sale	96,425	19.5%	176,868	25.8%	241,382	28.4%
Debt securities, financial assets at fair value through income (held-for-trading)	12,832	2.6%	4,471	0.6%	6,096	0.7%
<b>Debt securities</b>	<b>255,554</b>	<b>51.7%</b>	<b>357,898</b>	<b>52.1%</b>	<b>443,181</b>	<b>52.1%</b>
Loans	981	0.2%	2,371	0.3%	7,144	0.8%
Equity securities, available for sale	26,261	5.3%	62,595	9.1%	176,133	20.7%
Equity securities, financial assets at fair value through income (held-for-trading)	13,287	2.7%	32,898	4.8%	19,014	2.2%
<b>Equity securities</b>	<b>39,548</b>	<b>8.0%</b>	<b>95,493</b>	<b>13.9%</b>	<b>195,147</b>	<b>23.0%</b>
Repurchase agreements					5,053	0.6%
<b>Total investment assets</b>	<b>494,356</b>	<b>100%</b>	<b>686,804</b>	<b>100%</b>	<b>850,209</b>	<b>100%</b>
Average cash and investment assets balance	434,623		590,580		768,507	

**Risk management**

Our primary investment objective is to pursue optimal investment yields while considering macroeconomic factors, risk control and regulatory requirements. We are exposed to five primary sources of investment risk:

interest rate risk, relating to the market price and cash flow variability associated with changes in interest rates;

credit risk, relating to the uncertainty associated with the continued ability of a given obligor to make timely payments of principal and interest;

market valuation risk, relating to the changes in market value for our investments, particularly our securities investment fund holdings and shares listed on the Chinese securities exchanges, which are denominated and traded in Renminbi;

liquidity risk, relating to the lack of liquidity in many of the debt securities markets we invest in, due to contractual restrictions on transfer or the size of our investments in relation to the overall market; and

currency exchange risk, relating to the impact of changes in the value of the Renminbi against the U.S. dollar and other currencies on the value of our investments.

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Our investment assets are principally comprised of fixed income securities and term deposits, and therefore changes in interest rates have a significant impact on the rate of our investment return. We manage interest rate risk through adjustments to our portfolio mix and terms, and by managing, to the extent possible, the average duration and maturity of our assets and liabilities. However, because of the general lack of long-term fixed income securities in the Chinese financial markets and the restrictions on the types of investments we may make, the duration of some of our assets is lower than our liabilities. We believe that with the development of China's

## **Table of Contents**

financial markets and the gradual easing of our investment restrictions, our ability to match our assets to our liabilities will improve. Chinese financial markets currently do not provide an effective means for us to hedge our interest rate risk.

We believe we have relatively low credit risk because we are limited in the types of investments we may make. We monitor our credit risk through in-house fundamental analysis of the Chinese economy and the underlying obligors and transaction structures.

We are subject to market valuation risk, particularly because of the relative lack of stability of China's bond and stock markets. We manage valuation risk through industry and issuer diversification and asset allocation.

Since substantially all of our investments are made in China, including term deposits with Chinese banks, debt securities, securities investment funds and shares listed on the Chinese securities exchange, which are denominated and traded in Renminbi, we are exposed to the effect of changes in the Chinese economy and other factors which affect the Chinese banking industry and securities markets.

We are also subject to market liquidity risk for many of the debt securities investments we make, due to the size of our investments in relation to the overall market. We manage liquidity risk through selection of liquid assets and through asset diversification. In addition, we view fundraising through repurchase agreements as a way of managing our short-term liquidity risk.

Our ability to manage our investment risks is limited by the investment restrictions placed on us and the lack of sophisticated investment vehicles in China's capital markets. We understand that the CIRC is considering opening other investment channels to insurance companies. We will consider these alternative ways of investing once they become available to us.

Our assets held in foreign currencies are subject to foreign exchange risks resulting from the fluctuations of the value of the Renminbi against the U.S. dollar and other foreign currencies. We are seeking methods to reduce the foreign exchange risks.

Under China's existing foreign exchange control regulations, the conversion of foreign currencies into the Renminbi requires approval of relevant government agencies. We obtained an approval to settle a portion of our assets held in foreign currencies into the Renminbi in 2005, which partially reduced the foreign exchange risks we are exposed to. We did not obtain approval to settle any portion of our assets held in foreign currencies into the Renminbi in 2006 and 2007 and there is no guarantee that we will be able to obtain any such approval in the future. If we do not obtain such approval, our ability to manage our foreign exchange risks may be limited. There are few financial products available in China to hedge foreign exchange risks, which substantially limits our ability to manage our foreign exchange risks.

As we are approved by the CIRC to invest our assets held in foreign currencies in overseas financial markets, the return from overseas investments could, to certain extent, reduce the foreign exchange risks we are exposed to.

For further information on our management of interest rate risk and market valuation risk, see Item 11. Quantitative and Qualitative Disclosures about Market Risk .

### ***Investment results***

Our investment yields for the years ended December 31, 2007, 2006 and 2005 were 5.8%, 4.3%, and 3.9%, respectively.

**Table of Contents**

The following table sets forth the yields on average assets for each component of our investment portfolios for the periods indicated.

	As of or for the years ended December 31,					
	2005	2006		2007		
	Yield <sup>(1)</sup>	Amount	Yield <sup>(1)</sup>	Amount	Yield <sup>(1)</sup>	Amount
(RMB in millions, except as otherwise indicated)						
<b>Cash, cash equivalents and term deposits:</b>						
Investment income	3.9%	7,903	3.8%	8,207	4.2%	9,094
Ending assets: cash and cash equivalents		28,051		50,213		25,317
Ending assets: statutory deposits restricted		5,353		5,353		5,773
Ending assets: term deposits		164,869		175,476		168,594
Ending assets		198,273		231,042		199,684
<b>Debt securities:</b>						
Investment income	4.2%	8,429	4.0%	12,384	4.2%	16,678
Net realized gains/(losses)		61		(6)		(4,271)
Total		8,490		12,378		12,407
Ending assets		255,554		375,898		443,181
<b>Loans:</b>						
Investment income	3.2%	22	4.8%	80	5.2%	248
Ending assets		981		2,371		7,144
<b>Equity securities:</b>						
Investment income	1.7%	494	9.3%	4,662	13.3%	19,400
Net realized gains/(losses)		(571)		1,601		19,656
Total		(77)		6,263		39,056
Ending assets		39,548		95,493		195,147
<b>Resale and repurchase agreements:</b>						
<b>Resale agreements:</b>						
Investment income	2.2%	3	N/A	23	8.2%	206
Total		3		23		206
Ending assets						5,053
<b>Repurchase agreements:</b>						
Total		(70)		(270)		(1,281)
Ending assets		4,731		8,227		100
<b>Investments in associates:</b>						
Investment income/(losses)					6.5%	409
Ending assets				6,071		6,450
<b>Total investments:</b>						
Net investment income	3.9%	16,685	4.3%	24,942	5.8%	44,020
Net realized gains/(losses)		(510)		1,595		15,385

(1) Yields for 2005, 2006, and 2007 are calculated by dividing the investment income for that year by the average of the ending balances of that year and the previous year.

**Term deposits**

Term deposits consist principally of term deposits with Chinese commercial banking institutions and represented 19.8% of our total investment assets as of December 31, 2007, 25.5% of our total investment assets as of December 31, 2006, and 33.4% of our total investment assets as of December 31, 2005.

We generally make term deposits with state-owned commercial banks and large joint stock commercial banks. The terms of the term deposits vary. Substantially all of them carry variable interest rates which are linked



**Table of Contents**

to deposit rates set by the PBOC from time to time, thus providing us with a measure of protection against rising interest rates and, for a significant portion of them, the variable interest rates also cannot fall below a fixed guaranteed rate. They typically allow us to renegotiate terms with the banks upon prepayment, including calculations methods for accrued interest, if any. We make term deposits to obtain higher yields than can ordinarily be obtained with regular deposits.

The following table sets forth term deposits and structured term deposits by contractual maturity dates, as of the dates indicated.

	As of December 31,		
	2005 Amortized cost	2006 Amortized cost	2007 Amortized cost
	(RMB in millions)		
Due in one year or less	10,563	57,930	46,706
Due after one year and through five years	147,504	111,901	93,372
Due after five years and through ten years	3,502	3,421	26,434
Due after ten years	3,300	2,224	2,082
<b>Total term deposits and structured term deposits</b>	<b>164,869</b>	<b>175,476</b>	<b>168,594</b>

The following table sets forth term deposits and structured term deposits outstanding to Chinese banking institutions as of the dates indicated.

	As of December 31,		
	2005 Amortized cost	2006 Amortized cost	2007 Amortized cost
	(RMB in millions)		
Industrial & Commercial Bank of China	23,416	24,093	5,657
Agriculture Bank of China	11,278	18,079	18,090
Bank of China	19,964	17,519	13,738
China Construction Bank	2,148	1,845	200
Other banks	108,063	113,940	130,909
<b>Total term deposits and structured term deposits</b>	<b>164,869</b>	<b>175,476</b>	<b>168,594</b>

We started to make structured deposits in foreign currencies with commercial banks in 2004. Structured deposits represented 0.5% of our total investment assets as of December 31, 2007.

A structured deposit is a term deposit combined with an opportunity of enhanced returns, which is usually linked to a certain financial market index. The bank providing this service has the right to terminate the structured deposit at its discretion.

**Debt securities**

Debt securities consist of Chinese government bonds, Chinese government agency bonds, Chinese corporate bonds and subordinated bonds and indebtedness, and represented 52.1% of our total investment assets as of December 31, 2007, 52.1% of our total investment assets as of December 31, 2006, and 51.7% of our total investment assets as of December 31, 2005.

Based on estimated fair value, Chinese government bonds, Chinese government agency bonds, Chinese corporate bonds and subordinated bonds/debts comprised 33.4%, 44.4%, 18.1% and 4.1% of our total available-for-sale debt securities as of December 31, 2007, respectively, 34.1%, 44.5%, 17.4% and 4.0% of our total available-for-sale debt securities as of December 31, 2006, respectively, and 51.8%, 31.8%, 11.7% and



**Table of Contents**

4.7% of our total available-for-sale debt securities as of December 31, 2005, respectively. Except for a few series of our debt securities, which collectively had a carrying value of RMB 62,256 million (US\$8,535 million) as of December 31, 2007, most of our debt securities are publicly traded on stock exchanges or in the interbank market in China.

The government bonds are sovereign debt of the Chinese government. The government agency bonds are bonds issued by Chinese policy banks. We invest in bonds issued by Chinese commercial banks as well as corporate bonds rated AA or above by the rating agencies recognized by the CIRC, such as China Chengxin International Credit Rating Co., Ltd and Dagong Global Credit Rating Agency. Subordinated bonds and indebtedness we invest in are mainly the subordinated bonds and indebtedness issued by Chinese commercial banks.

Chengxin International was created by a consortium of companies including Fitch Ratings and International Finance Company. Chengxin International provides ratings on both companies and securities, including insurance companies, securities firms, commercial banks and corporate bonds. AAA is the highest of ten rating categories. Dagong provides ratings on both companies and securities, including insurance companies, commercial banks, mutual funds and long-term and short-term debts. AAA is the highest of nine rating categories. China has other approved rating agencies, such as China Lianhe and Shanghai Far East, both of which have similar rating structures. Ratings given by these entities are not directly comparable to ratings given by U.S. rating agencies.

The following table sets forth the amortized cost and estimated fair value of debt securities, as of the dates indicated.

	2005				As of December 31, 2006				2007			
	Amortized cost	% of total	Estimated fair value	% of total	Amortized cost	% of total	Estimated fair value	% of total	Amortized cost	% of total	Estimated fair value	% of total
<b>(RMB in millions)</b>												
<b>Debt securities, available-for-sale:</b>												
Government bonds	49,180	19.3%	49,922	18.7%	60,058	16.8%	60,352	16.3%	83,137	18.3%	80,588	18.4%
Government agency bonds	30,776	12.1%	30,662	11.5%	78,300	21.9%	78,721	21.3%	111,906	24.7%	107,154	24.4%
Corporate bonds	10,806	4.2%	11,315	4.2%	31,001	8.7%	30,752	8.3%	46,464	10.2%	43,742	10.0%
Subordinated bonds/debts	4,458	1.8%	4,526	1.7%	7,068	2.0%	7,043	1.9%	10,462	2.3%	9,898	2.3%
<b>Total debt securities, available-for-sale</b>	<b>95,220</b>	<b>37.4%</b>	<b>96,425</b>	<b>36.1%</b>	<b>176,427</b>	<b>49.4%</b>	<b>176,868</b>	<b>47.8%</b>	<b>251,969</b>	<b>55.5%</b>	<b>241,382</b>	<b>55.0%</b>
<b>Debt securities, held to maturity:</b>												
Government bonds	90,067	35.4%	98,706	37.0%	94,999	26.6%	102,764	27.9%	96,786	21.3%	96,234	21.9%
Government agency bonds	28,609	11.2%	30,247	11.3%	53,935	15.1%	56,333	15.2%	71,273	15.7%	68,080	15.5%
Corporate bonds	3,257	1.3%	3,567	1.3%	3,257	0.9%	3,553	1.0%	3,272	0.7%	3,403	0.8%
Subordinated bonds/debts	24,364	9.6%	25,265	9.5%	24,368	6.8%	25,642	6.9%	24,372	5.4%	23,872	5.4%
<b>Total debt securities, held to maturity</b>	<b>146,297</b>	<b>57.5%</b>	<b>157,785</b>	<b>59.1%</b>	<b>176,559</b>	<b>49.4%</b>	<b>188,292</b>	<b>51.0%</b>	<b>195,703</b>	<b>43.1%</b>	<b>191,589</b>	<b>43.6%</b>
<b>Debt securities, financial assets at fair value through income (held-for-trading)</b>												
Government bonds	3,229	1.3%	3,229	1.2%	148	0.0%	148	0.0%	693	0.2%	693	0.2%
Government agency bonds	7,116	2.8%	7,116	2.7%	1,915	0.5%	1,915	0.5%	4,583	1.0%	4,583	1.0%
Corporate bonds	1,759	0.7%	1,759	0.7%	2,083	0.6%	2,083	0.6%	513	0.1%	513	0.1%
Subordinated bonds/debts	728	0.3%	728	0.2%	325	0.1%	325	0.1%	307	0.1%	307	0.1%
<b>Total debt securities, financial assets at fair value through income (held-for-trading)</b>	<b>12,832</b>	<b>5.1%</b>	<b>12,832</b>	<b>4.8%</b>	<b>4,471</b>	<b>1.2%</b>	<b>4,471</b>	<b>1.2%</b>	<b>6,096</b>	<b>1.3%</b>	<b>6,096</b>	<b>1.4%</b>



<b>Total debt securities</b>	254,349	100%	267,042	100%	357,457	100%	369,631	100%	453,768	100%	439,067	100%
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**Table of Contents**

The following table shows the amortized cost and estimated fair value of debt securities excluding financial assets at fair value through income (held-for-trading) by contractual maturity dates, as of the dates indicated.

	2005		As of December 31, 2006		2007	
	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value (RMB in millions)	Amortized cost	Estimated fair value
Due in one year or less	2,715	2,737	7,518	7,569	3,512	3,533
Due after one year and through five years	50,918	53,251	78,147	81,361	73,198	73,533
Due after five years and through ten years	91,642	97,249	97,556	100,274	142,001	140,450
Due after ten years	96,242	100,973	169,765	175,956	228,961	215,455
<b>Total debt securities</b>	<b>241,517</b>	<b>254,210</b>	<b>352,986</b>	<b>365,160</b>	<b>447,672</b>	<b>432,971</b>

Under the CIRC's regulations, our investments in each of corporate bonds, including short-term financing debts and convertible bonds, as well as financial bonds and subordinated bonds issued by commercial banks, at any given time may not exceed 30% of our total assets as of the end of the preceding quarter, respectively. We diversify our corporate bonds by industry and issuer. Our corporate bond portfolio does not have significant exposure to a single industry or issuer.

***Problem and restructured debt securities***

We monitor debt securities to identify investments that management considers to be problems. We also monitor investments that have been restructured.

We define problem securities in the debt securities category as securities to which principal or interest payments are in default or are to be restructured pursuant to commenced negotiations, or as securities issued by a debtor that has subsequently entered liquidation.

We define restructured securities in the debt securities category as securities to which we have granted a concession that we would not have otherwise considered but for the financial difficulties of the obligor or issuer.

None of our debt securities is classified as either a problem security or a restructured security.

***Loans***

We offer interest-bearing policy loans to our policyholders, who may borrow from us at total amounts up to 70% of the cash surrender values of their policies. In general, the loans are secured by the policyholders' rights under the policies. As of December 31, 2007, the total amount of our policy loans was RMB 5,944 million (US\$815 million), and represented 0.7% of our total investment assets as of that date.

As of December 31, 2007, we also entrusted AMC to make RMB 1,200 million (US\$165 million) as loans to Shentong Group Debt Investment Plan which had a total investment yield of RMB 19 million (US\$2.6 million) as of December 31, 2007.

***Securities investment funds***

Securities investment funds consist of Chinese domestic investment funds that primarily invest in securities that are issued by Chinese companies and traded on China's securities exchanges, and represented 8.2% of our total investment assets as of December 31, 2007.

We invest in both closed-end securities investment funds, in which the number of shares is fixed and the share value depends on the trading value, and open-end securities investment funds, in which the number of

**Table of Contents**

shares issued by the fund fluctuates and the share value is set by the value of the assets held by the fund. Under the CIRC's regulations, investment holdings in securities investment funds during any given month, based on the cost of investment, may not exceed 15% of the total assets of an insurance company as of the end of the proceeding month. In addition, investment holdings in a single securities investment fund during any given month may not exceed 3% of total assets of the company as of the end of the proceeding month, and no investment in any single closed-end securities investment fund may exceed 10% of that fund. Our holdings in securities investment funds comply with those restrictions.

The following table presents the carrying values of investments in open-end and closed-end securities investment funds as of the dates indicated.

	2005		As of December 31, 2006		2007	
	Carrying value	% of total	Carrying value	% of total	Carrying value	% of total
	(RMB in millions, except as otherwise indicated)					
Open-end	25,114	74.9%	33,006	72.9%	53,555	76.8%
Closed-end	8,408	25.1%	12,245	27.1%	16,214	23.2%
<b>Total</b>	<b>33,522</b>	<b>100%</b>	<b>45,251</b>	<b>100%</b>	<b>69,769</b>	<b>100%</b>

**Stocks**

In March 2005, we were approved by the CIRC to invest in publicly offered and listed equity securities that are denominated and traded in Renminbi. We may hold no more than 10% of the total public portion or 5% of the total equity, whichever is lower, in any one listed company, and may not invest in a listed company or any of its affiliates if the listed company holds directly or indirectly 10% or more of our shares. See

Regulatory and Related Matters Insurance Company Regulation Regulation of investments. As of December 31, 2007, the total amount of our investment in common stocks was RMB 125,351 million (US\$17,184 million), and represented 14.7% of our total investment assets as of that date. We invested approximately US\$250 million in H shares of China Construction Bank Corporation at its initial public offering in 2005, a portion of which was sold early 2006. We invested approximately HK\$1.175 billion in H shares of Bank of China Limited in its initial public offering in May 2006, approximately RMB 3,252 million (US\$417 million) in the targeted offering of CITIC Securities Co., Ltd. in June 2006, approximately HK\$2 billion in H shares of Industrial and Commercial Bank of China Limited in its initial public offering in October 2006 and approximately US\$433 million and RMB 2,282 million (US\$292 million) in Guangdong Development Bank in December 2006. During the year of 2007, we used approximately US\$126 million for investments in H shares of China Molybdenum Co., Ltd, China CITIC Bank Corporation, China National Materials Company Limited and China Dongxiang (Group) Co., Ltd. during their initial public offerings in 2007.

**Repurchase and resale agreements**

We enter into repurchase and resale agreements, which consist of securities repurchase and resell activities in repurchase and resell markets. We did not have securities purchased under agreements to resell as of December 31, 2005 and 2006. As of December 31, 2007, the securities purchased under agreements to resell represented 0.6% of our total investment assets.

**Information Technology**

Our information technology systems provide support to many aspects of our businesses, including product development, sales and marketing, business management, cost control and risk control. Our information technology systems include a core operation system, a data services platform, an actuarial system, a sales management system, a marketing support system, an e-commerce system, a customer service system, an accounting and financial management system, a risk management system, an investment management system and

## **Table of Contents**

an office automation system. We plan to further improve our back-up systems to reduce the risk of system failures and the impacts these failures may have on our business. Our information technology systems are supported by approximately 1,700 experienced engineers, technicians and specialists.

In 2007, we continued to increase our investment in information technology, raising the standards of the information technology applications and services. In the course of upgrading the effectiveness and steadiness of the information technology application system, we completed the development of products analysis system and counter service team management system, and continued to refine the financial management system and customer service system.

In 2007, we completed the data centralization of the key business systems in the headquarters. We plan to establish in Shanghai a data processing center which will contain and process all data relating to our core business. We have selected the location for this center and completed the signing of the relevant project contracts. We also plan to establish in Beijing a research and development center for researching our information technology systems and have selected the location for this center. We expect the center to be established in the next two years.

In 2007, we became a member of the Association for Cooperative Operations Research and Development ( ACORD ), which is a global non-profit insurance association whose mission is to facilitate the development and use of standards for the insurance, reinsurance and related financial services industries. We are now working with ACORD to improve and upgrade our information technology systems to achieve the standards established by ACORD.

## **Trademarks**

We conduct our business under the China Life brand name (in English and Chinese), the ball logos and other business related slogans and logos. CLIC owns these trademarks and has registered them with the Trademark Office of the SAIC. CLIC has entered into a trademark license agreement with us, under which CLIC has agreed to grant us a royalty-free license to use these trademarks. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions Trademark License Agreement .

## **Regulatory and Related Matters**

### ***Development of regulatory framework***

The PRC insurance law was enacted in 1995. It provided the initial framework for regulating the domestic insurance industry. Among the steps taken under the 1995 insurance law were the following:

*Licensing of insurance companies and insurance intermediaries, such as agents and brokers.* The 1995 insurance law established requirements for minimum registered capital levels, form of organization, qualification of senior management and the adequacy of the information systems for insurance companies and insurance agencies and brokers.

*Separation of property and casualty insurance businesses and life insurance businesses.* The 1995 insurance law classified insurance between property, casualty, liability and credit insurance businesses, on the one hand, and life, accident and health insurance businesses on the other, and prohibited companies from engaging in both types of businesses.

*Regulation of market conduct by participants.* The 1995 insurance law prohibited fraudulent and other unlawful conduct by insurance companies, agencies and brokers.

*Substantive regulation of insurance products.* The 1995 insurance law gave insurance regulators the authority to approve the policy terms and premium rates for certain insurance products.

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*Financial condition and performance of insurance companies.* The 1995 insurance law established reserve and solvency standards for insurance companies, imposed restrictions on investment powers and established mandatory reinsurance requirements, and put in place a reporting regime to facilitate monitoring by insurance regulators.

## **Table of Contents**

*Supervisory and enforcement powers of the principal regulatory authority.* The principal regulatory authority, then the PBOC, was given broad powers under the 1995 insurance law to regulate the insurance industry.

### ***Establishment of the China Insurance Regulatory Commission and 2002 amendments to insurance law***

China's insurance regulatory regime was strengthened further with the establishment of the CIRC in 1998. The CIRC was given the mandate to implement reform in the insurance industry, minimize insolvency risk for Chinese insurers and promote the development of the insurance market. The PRC insurance law was also significantly amended in 2002.

Since its establishment, the CIRC has promulgated a series of regulations indicating a gradual shift in the regulatory approach to a more transparent regulatory process and a convergent movement toward international standards. Significant changes include:

more stringent reserve and solvency requirements and their disclosure;

the increase in the level of disclosures required to be made to the CIRC by insurance companies;

greater freedom for insurance companies to develop products to meet market needs, with a significant reduction in the items which require the CIRC's approval;

broader investment powers for insurance companies, including allowing insurers to make equity investments in insurance-related enterprises, such as asset management companies;

tightening of market conduct regulation and increased penalties for violations;

phasing out of mandatory reinsurance by the beginning of 2006; and

reduction of barriers to entry, including allowing property and casualty insurers to enter the accident and short-term health insurance business.

### ***Insurance Company Regulation***

*The CIRC.* The CIRC has extensive supervisory authority over insurance companies, including:

promulgation of regulations applicable to the insurance industry;

examination of insurance companies;

establishment of investment regulations;

approving the policy terms and premium rates for certain insurance products;

setting of standards for measuring the financial soundness of insurance companies;

requiring insurance companies to submit reports concerning their business operations and condition of assets; and

ordering the suspension of all or part of an insurance company's business.

*Licensing requirements.* An insurance company is required to obtain a license from the CIRC in order to engage in an insurance business. In general, a license will be granted only if the company can meet prescribed registered capital requirements and other specified requirements, including requirements relating to its form of organization, the qualifications of its senior management and actuarial staff, the adequacy of its information systems and specifications relating to the insurance products to be offered. Our headquarters and all of our branch offices have obtained the requisite insurance licenses.

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## **Table of Contents**

The CIRC may grant a life insurer a license to offer all or part of the following products: accident insurance, term life insurance, whole life insurance, annuities, short-term and long-term health insurance, endowment insurance (for individuals only) and other personal insurance approved by the CIRC, as well as reinsurance relating to any of the foregoing.

An insurance company may seek approval for establishing branch offices to meet its business needs so long as it meets minimum capital and other requirements. Our headquarters and substantially all of our branch offices have obtained business licenses.

Since June 2007, new administration measures relating to insurance licenses have been implemented. These measures have streamlined the types of insurance licenses by no longer distinguishing originals from duplicates and cancelled the requirement for insurance intermediary institutions to hold legal person licenses. An insurance holding company or insurance group that does not engage in insurance business or insurance asset management business is not required to obtain an insurance license. A license currently held by an insurance institution is still effective if no alteration occurs to the registration items of the license. Upon change of any of the registered capital or names of senior management, or upon the expiry of the valid term of the current license, the insurance company shall get a new license at the CIRC or the relevant insurance regulatory bureau no later than September 30, 2007. Insurance companies should make an announcement in the newspapers designated by the CIRC within 20 days after the new or replaced license is issued.

*Minimum capital requirements.* Under newly implemented insurance company regulations, the minimum paid-in capital for an insurance company is RMB 200 million. For an insurance company whose registered capital is RMB 200 million, the minimum incremental capital for each first branch office in a province other than the province where it is located is RMB 20 million. No additional capital will be required when the paid-in capital has reached RMB 500 million, and the insurer's solvency margin is sound.

*Restriction of ownership in joint stock insurance companies.* Any acquisition of shares which results in the acquirer owning 10% or more of the registered capital of a joint stock insurance company, whether or not listed, requires the approval of the CIRC. A filing with the CIRC is needed with respect to a change of equity interest of less than 10% in an insurance company, unless it is a listed insurance company. Except for insurance holding companies or insurance companies otherwise approved by the CIRC, an individual entity, including its affiliates, may not hold more than a 20% equity interest in an insurance company including any company which issues shares to the public and lists in China. The combined equity interests held by foreign investors may not exceed 25% of the total equity of a single insurance company, unless the investee company is a listed company. An insurance company must provide a written report to the CIRC specifying whether there is any known affiliated relationship between its shareholders. In addition, except for listed companies, when the equity of an insurance company collectively owned by foreign entities exceeds 25%, the company shall be governed by regulations governing foreign-invested insurance companies. Except in the context of a public offering or as otherwise permitted by law or with the prior approval of the State Council of China, no bank or securities company may invest in an insurance company.

*Fundamental changes.* Prior approval must be obtained from the CIRC before specified fundamental changes relating to a Chinese insurance company may occur. These include:

a change of organizational form and change in registered capital;

a merger or spin-off;

a transfer of a 10% or more equity interest in the company;

a termination of branch offices; and

a dissolution or bankruptcy of the company.

In addition, certain other changes relating to the insurance company must be reviewed by or filed with the CIRC.





**Table of Contents**

*Directors and senior management qualification requirements.* Directors and senior management of an insurance company are subject to a set of qualification requirements implemented by the CIRC in September 2006. Prior to an appointment of a director or a member of senior management, an application has to be submitted to the CIRC for the CIRC to verify such person's qualifications. Appointment of managers of sub-branches and field offices must be reported to the CIRC. Any appointment of directors and senior management without being verified by the CIRC as required is void. In April 2007, CIRC issued further regulations on the qualifications for, responsibilities of, and administration on independent directors of insurance companies to ensure that each independent director shall make independent and objective judgement and have sufficient time and energy to duly perform his or her duties.

*Corporate Governance of Insurance Companies.* Based on the CIRC's first comprehensive investigation on the corporate governance practices of insurance companies at the end of 2006, the CIRC has published a series of notices and guidelines with respect to risk management, compliance management, related transaction management, and internal audit. Insurance companies are required to conduct a special audit of their corporate governance practices, draft a report co-signed by the chairman of the board of directors and two independent directors, and submit the report to the CIRC by January 10, 2008.

*Risk management.* Insurance companies should establish and adopt basic procedures, relevant organization structures, systems and measures to identify, evaluate and control the risks involved in its insurance operation with the focus being put on operation objectives. An insurance company is required to determine its risk management objectives, establish and improve a risk management system, standardize risk management procedures and adopt advanced methods and measures for risk management so as to maximize the benefits based at an appropriate risk level. Insurance companies shall report to the CIRC in a timely manner any major risks, and include in the annual report the annual risk evaluation report reviewed by the board of directors.

*Compliance management.* Insurance companies should prevent, identify, evaluate, report and deal with compliance risks by taking measures such as setting up the compliance department, formulating and implementing compliance policies (which are required to be filed with the CIRC), exercising compliance monitoring, and providing compliance trainings, so as to ensure the compliance of the company, its staff and sales agents with the relevant laws and regulations, rules of regulatory authorities, industrial self-discipline rules, internal management systems and codes of ethics. The annual compliance report must be prepared by an insurance company and submitted to the CIRC by April 30 each year. Each insurance company is required by the CIRC to appoint a compliance officer before June 30, 2007. The compliance officer is required to report to both the board of directors and the management. Such compliance officer is also required to report to the CIRC any material non-compliance of the company. As of the date of this annual report, we have identified a candidate to be appointed as compliance officer and submitted our application to the CIRC for its approval. The CIRC regulations do not provide any sanctions for any delay in compliance with such requirement.

*Related transaction management.* Related transactions between an insurance company and any of its related parties are classified into major related transactions and common related transactions. The term major related transactions refers to any single transaction between an insurance company and a related party in which the trading volume accounts for 1% or more of the insurance company's net assets as of the end of the previous year and has a value of more than RMB 5 million, or the transactions between an insurance company and a related party in which the accumulative trading volume within one accounting year accounts for 5% or more of the insurance company's net assets as of the end of the previous year and has a value of more than RMB 50 million. The term common related transactions refers to all related transactions other than major related transactions. When calculating the trading volume of related transactions, the transactions between the insurance company and the related party as well as the transactions between the insurance company and any affiliated parties of the related party are calculated on a consolidated basis. A major related transaction is subject to approval by the board of directors or the shareholders, while a common related transaction must be reviewed in accordance with the internal authorization process of the insurance company. An insurance company is required to maintain a management system of related transactions and file them with the CIRC and take effective

## **Table of Contents**

measures to prevent its shareholders, directors, supervisors, senior managers or other related parties from taking advantage of their special positions to damage the interests of the company or the insured through related transactions or by any other means.

**Internal audit.** Insurance companies are required to establish an independent department for internal audit purposes, staffed with sufficient internal audit personnel (the number of full-time internal audit personnel generally must not be less than 5% of the total number of the company's employees), establish an audit committee, and designate an audit controller whose appointment and replacement must be filed with the CIRC. An internal audit report is to be submitted to the CIRC by April 30 of each year and any major risk perceived during the internal audit process should be reported to the CIRC in a timely manner.

**Reporting and disclosure requirements.** Within the prescribed time period following the end of a fiscal year, an insurance company must submit to the CIRC, among others, an annual report with audited financial statements and an annual report setting forth its solvency margin as of the end of the fiscal year, as well as other regulatory monitoring items. When the insurance company's solvency margin falls below the minimum solvency requirement, the CIRC may require the insurance company to file a corrective plan to bring it into compliance with the minimum requirement. Regulations regarding filing, coordinating, custody, utilization and destroy of the archives and documents relating to life insurance business have been in place since July 1, 2007.

**Internal Control Assessment.** In January 2006, the CIRC issued tentative rules on internal control assessment of life insurance companies to facilitate and supervise the companies to improve their awareness of, and strengthen their controls over, matters such as corporate governance in management, internal controls, and regulatory compliance in operations and risk management. Under these rules, life insurance companies must submit to the CIRC an internal control assessment form and an annual internal control assessment report each year. The CIRC will assess the internal control of life insurance companies within every three years, covering at least one third of the life insurance companies each year.

The CIRC notified life insurance companies in February 2008 of the requirements for processing the internal control self-assessment program and drafting the internal control self-assessment report. The CIRC also clarified and revised the detailed evaluation rules, including those relating to the soundness, reasonableness, and validity of the evaluation proportion. The internal control self-assessment report of year 2007, after review by the board of directors of a life insurance company, is required to be submitted to the CIRC or its local bureaus by April 30, 2008.

We were reviewed by the CIRC in 2006 and found to be in general compliance with the rules and regulations of CIRC, other than a small number of breaches by our branches which resulted in us being sanctioned by way of fines, none of which were material. The breaches mainly included the improper handling of certain premiums received, which violated relevant CIRC rules and regulations. The fines imposed by CIRC ranged from RMB 20,000 (US\$2,563) to RMB 500,000 (US\$64,069). All such fines have been paid in full. In 2007, CIRC conducted a follow-up review on the rectification of the breaches identified in 2006 and found that such breaches have been effectively rectified.

*Regulation of insurance and annuity products generally.* The 1995 insurance law provided that the basic terms and premiums of the principal commercial insurance and annuity products offered by an insurance company will be set by a governmental authority (which today is the CIRC).

The 2002 amendment to the insurance law changed the manner in which insurance products were regulated, giving insurance companies greater freedom to develop products to meet market needs. Under the 2002 amendment, the terms and the rates for premiums and policy fees of non-traditional life insurance and annuity products, insurance products that affect social and public welfare and insurance products that are mandatorily required by statute, are required to be submitted to the CIRC for approval. In determining whether or not to approve a product, the CIRC is required to consider whether the product adequately provides for the protection of social and public welfare and whether it will lead to inappropriate competition. Other insurance products are

## **Table of Contents**

required to be filed with the CIRC. In general, the CIRC requires insurance companies to price their products based on mortality rate, interest rate and policy expense and commission assumptions. The assumed mortality rates are based on experience tables applicable to the PRC life insurance industry. The assumed interest rates represent the insurance company's expectation of its investment returns, subject to CIRC regulations, and the assumed policy expenses and commissions are based on its assessment of its operating and sales expenses, which is also subject to CIRC regulations.

*Regulation of participating products.* A participating product is one which the policyholder or annuitant is entitled to share in the distributable earnings of the insurer through policy dividends. The participation dividend may be in the form of a cash payment or an increase in the insured amount. At least 70% of the distributable earnings is required to be distributed as dividends. Participating products may not be sold or modified without the prior approval of the CIRC. Policyholders and annuitants purchasing participating products must be given, prior to purchase, an explanatory statement that explains the nature and special characteristics of the products, any fees due under the products, the method for allocating dividends under the product policy and the risks to the policyholder or annuitant from holding the product. Insurance companies are required to present in their sales promotional materials three scenarios covering high, medium and low returns for illustration. They are prohibited from making public announcements about the returns of their participating products and from making comparisons with participating, universal or investment-linked products offered by other insurance companies. If cash dividends are to be paid on participating products, the insurance company may not use rates of return or like ratios to describe the dividend.

An insurance company that offers participating products is required to have a computer system that can support these kinds of products, and the agents who sell these products are required to complete a training course designed specially for these products. Investment accounts for participating products are required to be segregated from those of non-participating products as well as from those of supplemental insurance that is added to the participating products.

Insurance companies offering participating products are required to file an annual report with the CIRC. The insurance company is also required to provide a performance report to the holders of its participating products at least once a year, setting forth specified financial and other information regarding the products.

*Regulation of investment-linked products.* An investment-linked product is one which insures the policyholder or annuitant against one or more separate risks and at the same time gives the policyholder or annuitant an interest in one or more separate investment accounts. Investment-linked products may not be sold or amended without the prior approval of the CIRC.

Persons purchasing an investment-linked product must be given, prior to purchase, an explanatory statement that explains the nature and special characteristics of the policy, the risks to the purchaser of holding the product, the investment strategy of the separate investment account, the investment account's performance for the past ten years (or, if shorter, since the date of inception), the applicable fees payable under the product policy and how they are determined, the method of valuation of the assets in the investment account and the future policy or contract value which may accrue from the investment account. Insurance companies are required to present three scenarios covering high, medium and low returns for illustration.

The establishment of separate investment accounts is subject to the CIRC's approval. Transactions between a separate investment account and any other account of the insurance company, other than a transfer of cash to pay for operating expenses of the separate investment account, are prohibited.

The insurance law prohibits investment managers of a separate investment account from engaging in an investment management business similar in nature to the management of the investment account, enter into transactions with the investment account or take any action which adversely affects the investment account. Agents who sell investment-linked products are required to pass a training course designed specially for these products.

## **Table of Contents**

An insurance company offering products with separate investment accounts is required to evaluate monthly the unit value of each investment account and publish a semi-annual notice which includes the financial condition of each investment account, the investment returns in the past five years (or, if shorter, since the date of inception), the investment portfolio as of the date of the report, the management fees charged in the report period and any change in the investment strategy or policy during the period. The insurance company is required to provide an annual report to the holders setting forth information regarding the product.

An insurance company offering products with separate investment accounts is required to submit to the CIRC annual financial reports regarding the investment accounts. In addition, the insurance company must notify the CIRC if on any day the net redemptions from an investment account exceed 1% or more of the total value of the account on the previous day. If the cumulative redemptions since the beginning of a fiscal year reach or exceed 30% of the value of the account at the beginning of the year, or if there have been sustained losses which the investment manager believes to be irreversible or will probably cause serious harm to the interests of policyholders, the insurance company may seek the approval of the CIRC to close the investment account.

Since March 2007, new actuarial rules have applied to investment-linked insurance products. Under the new rules, the sum insured for death risks of an investment-linked insurance product with pension option or a group investment-linked insurance product may be set as zero, while the sum set for an individual investment-linked insurance product should account for no less than 5% of the account value of the insurance policy at the time the policy is issued. There can be no guaranteed minimum rate for investment return from investment-linked insurance and investment account. An insurance company should evaluate the assets in the investment account at least once a week. The capital value of each investment account shall be no lower than the amount of the unit reserve corresponding to such investment account, nor shall the excess amount be higher than 2% of the capital value of the investment account or RMB 5 million, whichever is bigger. No investment-linked insurance product, other than those in compliance with regulatory requirements with respect to investment account evaluation, appraisal of investment unit, and deposit of statutory reserves, may be sold as of October 1, 2007. Insurance companies selling investment-linked products are required to intensify the management of sales people to avoid misleading sales activities. For example, if a sales agent is proved to conduct misleading sales activities in more than two occasions, the sales agent should be prohibited by the insurance company from selling investment-linked insurance products any longer.

*Regulation of pension insurance.* As provided in the administration measures for the pension insurance business issued by the CIRC in November 2007, a life insurance company or a pension insurance company, as approved by the CIRC, may engage in individual and group pension insurance business. The pension insurance clauses and premium rate determined by an insurance company must be filed with or approved by the CIRC in accordance with its regulatory provisions. The content of the description, recommendation, or marketing brochure and other information disclosed with respect to a pension insurance product shall be consistent with the related provisions in the insurance policy. An insurance company is prohibited from misleading applicants by making hyperbole claims about the benefits of the product, either directly or indirectly, or by promising a floor interest rate higher than the interest rate stipulated in the insurance clauses. When selling a pension insurance product over which an applicant has a right to choose the investment form, an insurance company must, before the applicant chooses an investment form, notify the applicant of the investment risks in writing and the written notice must be signed by the applicant. An insurance company selling participating, universal and investment-linked pension insurance products is required to send the policy state report, performance report and other related materials to each applicant, insurant and/or beneficiary in accordance with the requirements of the CIRC. An insurance company must issue an insurance certificate to each insurant concerned with a group pension insurance contract. The insurance certificate must bear the insurance liability specified in the group pension insurance contract and the contractual rights and interests enjoyed by the insurants. When selling an individual pension insurance product, an insurance company must give a demonstration to each applicant showing the amount of each old-age pension contained in the product to be obtained by the applicant. For an applicant purchasing large-sum individual pension insurance, the insurance company is required to check his financial status, payment capacity and other relevant financial aspects.

## **Table of Contents**

*Regulation of enterprise pension fund business.* According to the administrative measures for the pension insurance business issued by the CIRC in November 2007 and relevant administrative measures on the enterprise pension fund issued by the PRC Ministry of Labor and Social Security in February 2004 and December 2004, subject to the approval of the PRC Ministry of Labor and Social Security, insurance companies may serve as the trustee, account manager and investment manager for enterprise pension funds. The trustee is primarily responsible for the selection and replacement of the account manager, custodian bank, investment manager and the other intermediaries of the enterprise pension fund, the establishment of the investment strategies and the preparation of management reports and financial reports. The account manager is primarily responsible for the opening of an enterprise account and personal account of an enterprise pension fund to record the enterprise contribution, employee contribution and investment proceeds of an enterprise pension fund, and the account manager is also required to submit the periodical management reports of an enterprise pension fund account to the trustee and competent regulatory bodies. The investment manager is primarily responsible for the investment of the enterprise pension fund property and the periodical submission of investment management reports to the trustee and competent regulatory bodies. China Life Pension obtained the qualification to serve as trustee and account manager of enterprise pension fund on November 19, 2007. AMC obtained the qualification to serve as the investment manager of enterprise pension fund on August 1, 2005.

*Regulation of health insurance.* Pursuant to the newly implemented health insurance rules issued by the CIRC in August 2006, life insurance companies and health insurance companies established in accordance with applicable laws may, subject to verification by the CIRC, engage in health insurance business. Other insurance companies may, subject to verification by the CIRC, engage in short-term health insurance business.

From January 1, 2007, sale of health insurance products which fail to comply with the specified product requirements set forth in the newly implemented health insurance rules is prohibited. In addition, insurance companies engaged in health insurance business must establish actuarial, accounting calculation, underwriting and other required internal systems by January 1, 2008.

Insurance companies engaged in health insurance business are required to submit an actuarial report or reserve assessment report for the preceding year in accordance with the relevant provisions of the CIRC. Insurance companies must also submit a pricing review report to the CIRC before March 15 of each year regarding the short-term health insurance products, as well as the claims and payments for the short-term health insurance products available for sale for more than one year in the preceding year.

*Foreign exchange denominated insurance.* Insurance companies may seek approval from the CIRC and the State Administration of Foreign Exchange to engage in foreign exchange denominated insurance and reinsurance businesses. This will allow life insurance companies to offer products to non-Chinese policyholders or for non-Chinese beneficiaries, as well as policies covering accidents and illnesses which occur outside China, together with related reinsurance.

*Statutory reinsurance.* All insurance companies were required to reinsure 5% of the risks insured under insurance policies, other than life insurance products, underwritten by them. This requirement began to be phased out beginning in 2003 and was abolished entirely at the beginning of 2006. Insurance companies are required to reinsure, for any single risk, the excess of the maximum potential liability over an amount equal to 10% of the sum of paid-in capital and capital reserves. As a safeguard, the reinsurer of any reinsurance agreement commencing after January 1, 2008 is required to comply with the provisions published by the CIRC in November 2007 with respect to minimum paid-in capital, financial credit rating, solvency and profitability.

*Regulation of issuance of subordinated indebtedness.* Beginning in September 2004, insurance companies that meet a series of qualification tests and are approved by the CIRC may issue subordinated indebtedness with a fixed term of at least five years to certain qualified Chinese legal persons and foreign investors. The audited net asset value of the issuer must be at least RMB 500 million as of the end of the prior year and the total amount of the unpaid indebtedness at any given point after the issuance, including both principal and interest, must not

## **Table of Contents**

exceed the issuer's net asset value as of the end of the prior year. The issuer must fulfil a set of disclosure obligations both at the time of the issuance and during the term of the indebtedness. The issuer may repay the indebtedness only if its solvency ratio remains at least 100% after the repayment of both principal and the interest.

*Regulation of establishment of overseas insurance institutions.* An insurance company may apply to the CIRC for approval for the establishment of overseas branches, overseas insurance companies and overseas insurance intermediaries, or the acquisition of overseas insurance companies or intermediaries. In order to submit such an application, an insurance company must have an operating history of no less than two years, total assets of no less than RMB 5 billion at the end of preceding year and foreign exchange funds of no less than USD15 million or its equivalent in other freely convertible currencies as at the end of the preceding year. The applicant insurance company must also comply with applicable solvency, risk management and other requirements as stipulated by the CIRC.

*Regulation of investments.* The 1995 insurance law requires insurance companies to invest their funds in a sound and prudent manner with the dual objective of seeking a return and preservation of capital. It significantly restricts the investments life insurance companies are allowed to make. Insurance funds may be invested only in bank deposits, Chinese government bonds, government agency bonds issued by quasi-sovereign policy banks of the Chinese government, as well as other investment vehicles approved by the State Council, such as bonds of specified large state-owned enterprises. The 1995 insurance law specifically prohibits insurance companies from establishing any entity engaged in the securities businesses and from investing in enterprises.

Since 1999, the CIRC has implemented a gradual but deliberate regulatory expansion of insurance company investment powers.

Beginning in August 1999, insurance companies which were authorized to become members of the inter-bank market were permitted to engage in purchases and sales of Chinese government bonds and government agency bonds in that market. Beginning in October 1999, insurance companies were allowed to invest in qualified domestic securities investment funds. The amount of investment assets that may be so invested by an insurance company may not exceed a percentage of its total assets as of the end of the prior year as prescribed by the CIRC. The investment in any one fund on a cost basis may not exceed 20% of the maximum amount that may be invested in securities investment funds, and that investment may not account for more than 10% of the fund. These quantitative restrictions were relaxed in January 2003. Since then, the amounts of investment assets that may be so invested by an insurance company may not exceed 15% of its total assets as of the end of the prior month. The investment in any one fund on a cost basis may not exceed 3% of the insurance total assets as of the end of the prior month. The investment in any one closed-end fund may not account for more than 10% of the fund. Notwithstanding the foregoing, insurance companies may invest up to 100% of the assets of one of the investment accounts relating to investment-linked products, up to 80% of the assets of the investment accounts relating to universal life products and up to 15% of the investment assets relating to participating products as of the prior month in qualified domestic securities investment funds.

In October 1999, insurance companies were authorized to make deposits in commercial banks at negotiated rates, provided that the deposits have terms longer than five years and are in amounts of not less than RMB 30 million. The jumbo deposits generally bear more attractive interest rates than interest rates on regular deposits, which are subject to regulation by the central bank.

The 2002 amendment of the insurance law allows insurance companies to invest in insurance companies, asset management companies (restricted to managing insurance company assets) and other insurance-related enterprises upon receipt of regulatory approval from the CIRC. The general prohibition against investing in securities businesses and enterprises other than insurance-related enterprises remains in effect.

Prior to June 2003, insurance companies were only allowed to invest in corporate bonds issued by four types of government enterprises: railway development, the Three Gorges Dam construction project and enterprises in

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**Table of Contents**

the telecommunications and power generation sectors. Furthermore, the total amount of these investments was limited to no more than 10% of an insurer's total assets, and the total investment in any single issue of these four categories of bonds could not exceed 2% of the total assets of the insurer or 10% of the issue, whichever is lower. In June 2003, insurance companies were authorized to invest in any corporate bond provided that the bond has a rating AA or higher from China Chengxin International Credit Rating Co., Ltd., Dagong Global Credit Rating Agency, China Lianhe Credit Rating Co., Ltd., Shanghai Far East Credit Rating Co., Ltd. or other credit rating agencies approved by the CIRC, and its issuance has been authorized by the PRC securities regulators. Beginning in July 2004, insurance companies have been further allowed to invest in convertible bonds issued by qualified listed companies and certain key state-owned enterprises, which have been approved by the PRC securities regulators. An insurer's total investment in all corporate bonds, including convertible bonds, on a cost basis may not exceed 20% of its total assets as of the end of the prior month. Furthermore, the total investment in any single issue of corporate bonds may not exceed the lower of 2% of the total assets of the insurer as of the end of the prior month and 15% of the issue. Notwithstanding the foregoing, up to 100% of the assets of one of the investment accounts relating to investment-linked products and up to 80% of the assets of the investment accounts relating to universal life products may be invested in approved corporate bonds. Up to 20% of the investment assets relating to participating and other separately accounted products as of the end of the prior month may be invested in approved corporate bonds.

In March 2004, insurance companies were allowed to invest in subordinated indebtedness issued by wholly state-owned commercial banks and national joint-stock commercial banks which have fixed terms of six years or less. An insurer's total investment in bank subordinated indebtedness on a cost basis may not exceed 8% (and 2% in any single bank) of its total assets as of the end of the prior month, and the total investment in any single issue of such bank subordinated indebtedness may not exceed 20% of the issue.

Beginning in June 2004, insurance companies have been further allowed to invest in subordinated bonds issued by any commercial bank in connection with either a public offering or a private placement which has been approved by the China Banking Regulatory Commission and the PBOC. An insurer's total investment in bank subordinated bonds on a cost basis may not exceed 15% (and 3% in any single bank) of its total assets as of the end of the prior month, and the total investment in any single issue may not exceed 20% of the issue.

Concurrently with the authorized issuance of subordinated indebtedness by insurance companies, insurance companies have also been permitted to invest in subordinated indebtedness issued by other insurance companies, beginning in September 2004. An insurer's total investment in insurance company subordinated indebtedness on a cost basis may not exceed 20% (and 4% in any single issuer) of its net assets as of the end of the prior month, and the total investment in any single issue may not exceed 20% of the issue.

*Investment in debt securities.* On August 17, 2005, the CIRC issued tentative rules on investments in debt securities by insurance companies to consolidate and further loosen the restrictions on the investments in debt securities by insurance companies.

*Chinese Government Bonds, Government Agency Bonds and Subordinated Bonds and RMB-denominated bonds issued by International Development Institutions.* Insurance companies may invest in Chinese government bonds, government agency bonds and subordinated bonds, as well as RMB-denominated bonds issued by international development institutions. There are no CIRC prescribed maximum percentage of investments by insurance companies in these bonds.

*Financial Bonds and Subordinated Bonds issued by Commercial Banks.* Insurance companies may invest in financial bonds and subordinated bonds issued by any qualified commercial bank in connection with either a public offering or a private placement. An insurer's total investment in bank financial bonds and subordinated bonds on a cost basis may not exceed 30% (and 10% in any single bank) of its total assets as of the end of the prior quarter. The total investment in any single issue by a commercial bank with a rating of AA or above may not exceed 20% of the issue, and the balance of such investment may not exceed 5% of the total assets of such



## **Table of Contents**

insurer as of previous quarter. The total investment in any single issue by a commercial bank with a rating of A or above may not exceed 10% of the issue, and the balance of such investment may not exceed 3% of the total assets of such insurer as of previous quarter.

*Subordinated Indebtedness issued by Commercial Banks and Insurance Companies.* Insurance companies may invest in subordinated indebtedness issued by wholly state-owned commercial banks and national joint-stock commercial banks which have fixed terms of six years or less. An insurer's total investment in bank subordinated indebtedness on a cost basis may not exceed 8% (and 5% in any single bank) of its total assets as of the end of the prior quarter. The total investment in any single issue of such bank subordinated indebtedness may not exceed 10% of the issue and the balance of such investment may not exceed 3% of its total assets as of the end of the previous quarter.

Insurance companies may also invest in subordinated indebtedness issued by other insurance companies that are not controlling, controlled by or under common control with, the investing insurance companies. An insurer's total investment in insurance company subordinated indebtedness on a cost basis may not exceed 20% (and 4% in any single issuer) of its net assets as of the end of the previous quarter. The total investment in any single issue may not exceed 20% of the issue, and the balance of such investment may not exceed 1% of its net assets as of the end of the previous quarter.

*Corporate Bonds, Convertible Bonds and Short-term Financing Bonds.* Insurance companies may invest in corporate bonds issued by qualified enterprises with long-term rating of AA or above. The total amount of investments in all corporate bonds on a cost basis may not exceed 30% (and 10% in any single issuer) of an insurer's total assets as of the previous quarter. An insurer's total investment in any single issue may not exceed, if with irrevocable guarantees by qualified guarantors, 20% of the issue and the balance of such investment may not exceed 5% of its total assets as of the end of the previous quarter, and, if without such guarantees, 10% and 3%, respectively.

Insurance companies may also invest in convertible bonds issued by qualified listed companies and certain key state-owned enterprises, which have been approved by the PRC securities regulators. An insurer's total investment in all such corporate bonds, including convertible bonds, on a cost basis may not exceed 30% (and 10% in any single issuer, among which 5% attributable to convertible bonds) of its total assets as of the end of the previous quarter. An insurer's total investment in any single issue may not exceed, if with irrevocable guarantees by qualified guarantors, 20% of the issue, and the balance of such investment may not exceed 3% of its total assets as of the end of the previous quarter, and, if without such guarantees, 10% and 1%, respectively.

Insurance companies may invest in short-term financial bonds issued by qualified non-financial institutions. An insurer's total investment in all such corporate bonds, including short-term financial bonds, on a cost basis may not exceed 30% (and 10% in any single issuer, among which 3% attributable to short-term financial bonds) of its total assets as of the end of the previous quarter. An insurer's total investment in any single issue may not exceed the lower of 10% of the issue, and the balance of such investment may not exceed 3% of its total assets as of the end of the previous quarter.

The total amount of investments on a cost basis by an insurance companies in various debt securities, excluding government bonds and government agency bonds and subordinated bonds, issued or guaranteed by any single institution, may not exceed 20% of its total assets as of the end of previous quarter.

Up to 100% of the assets of one of the investment accounts relating to investment-linked products and up to 80% of the assets of the investment accounts relating to universal life products may be invested in approved financial bonds and subordinated bonds issued by commercial banks and corporate bonds.

In January 2007, the CIRC issued a set of guidelines for credit rating of debt securities investment by insurers, requiring the insurance companies to conduct an internal credit rating of all types of debt securities

## Table of Contents

invested in, except for investments in Chinese government bonds, central bank notes and other bonds as recognized by the CIRC. Insurers are also required to establish and develop an internal credit rating system and file the same with the CIRC in a timely manner. The credit rating department of an insurer shall comprise of at least two professionals with financial knowledge and capabilities. The credit rating reports produced shall be submitted to relevant departments for use and the risk management department shall supervise the use of such credit rating results.

*Overseas Investment.* Beginning in August 2004, a qualified life insurance company may invest abroad its foreign currency denominated insurance funds in bank deposits or debt securities with specified credit ratings and a limited number of other instruments. Total investments in debt securities issued by any single corporation or enterprise may not exceed on a cost basis 10% of the total quota approved by SAFE. In June 2005, the CIRC further broadened the permitted overseas investments to include shares of Chinese companies listed on the stock exchanges in New York, London, Frankfurt, Tokyo, Singapore and Hong Kong. The total amount of overseas investments in shares of Chinese companies may not exceed 10% of an insurance company's total approved quota, and the investments in a single Chinese company by an insurance company may not exceed 5% of the its total shares issued and outstanding. In January 2005, we submitted an application to allow us to make such overseas investments and obtained such approval in November 2006.

With the announcement of No. 5 circular by the PBOC in April 2006, qualified insurance companies are allowed to invest in overseas products with fixed proceeds and currency market instruments. The Interim Measures for the Overseas Investment with Insurance Funds were implemented in June 2007, under which the requirements for overseas investment by insurance companies and the qualifications to act as investment agents and custodian have been broadened. Insurance companies in good standing, steady financial condition, good corporate governance, and without any violation of relevant laws or regulations during the past three years may engage qualified agents (insurance asset management companies or other professional investment management institution) established in or outside China to make investments abroad and appoint one qualified commercial bank or other custody institution as the custodian to supervise such investments. The overseas investment activities of, and the appointment of agents and custodian by, the insurance company are subject to the CIRC's approval. In addition, the foreign currency quota for investment must be approved by the SAFE and the total amount of investment may not exceed 15% of the total assets of the insurance company as of the end of last year.

The insurance funds may invest in the following categories:

currency market products, e.g., commercial instruments, large-sum negotiable deposit certificates, repurchase agreements and reverse repurchase agreements, and funds of the currency market;

products with fixed proceeds, e.g., bank deposits, structural deposits, bonds, convertible bonds, bond funds, securities-featured products, credit-featured products; and

equity products, e.g., stocks, stock-based funds, equity shares, and equity-linked products (provided that major equity investments are subject to the CIRC approval).

Insurance companies are prohibited from conducting the following activities with insurance funds:

to provide any guarantee to any party with any insurance funds used for overseas investment;

to purchase or sell any foreign currency for speculative purposes;

to launder money;

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to seek any illicit proceeds in collusion with any other organization or individual through its overseas investment with insurance funds; or

to conduct any activity as prohibited by domestic or overseas laws or regulations.

## **Table of Contents**

*Investment in listed stock markets.* In October 2004, the CIRC issued a new regulation further authorizing insurance companies to invest their insurance funds in publicly offered and listed equity securities which are denominated and traded in Renminbi and other stock market investments. Such stock market investments may be made by an insurer directly or through an insurance asset management company, and may be made at primary market offering stage or through secondary market trading. An insurer may not invest in a listed company or any of its affiliates if the listed company holds directly or indirectly 10% or more of the equity interest of the insurer.

Notwithstanding the foregoing, up to 100% of the assets of an investment account relating to investment-linked products, up to 80% of the assets of an investment account relating to universal life products, and up to 5% of the maximum amount of the total assets that may be invested in the stock market as of the end of the prior year, excluding assets relating to investment-linked and universal life products, all at cost basis, may be accounted for stock market investments.

In addition, the total investment in listed companies with fewer than 100 million public shares may not exceed 20% of the maximum amount that may be invested in the stock market, including such amount relating to investment-linked and universal life products. Investment in the public shares of any one listed company may not exceed 5% of the maximum amount that may be invested in stock market on a cost basis, including such amount relating to participating and universal life products, and may not exceed 10% of the total public portion or 5% of the total equity, whichever is lower, of the listed company. The calculation of the above percentages shall take into consideration the number of common shares as a result of the conversion of the convertible bonds.

An insurer is prohibited from investing in any problematic securities that have been identified by the CIRC and is prohibited from engaging in insider trading and other manipulative and illegal activities. Life insurance companies must strictly follow a set of risk control measures prescribed by the CIRC in making such stock market investment.

*Indirect investment in infrastructure projects.* Beginning in March 2006, insurance companies were allowed to invest, indirectly, in infrastructure projects. Insurance funds must be entrusted to trustee companies and invested in accordance with the instructions of the insurance companies and by and in the names of the trustee companies. A life insurance company may invest in infrastructure projects, on cost basis, up to 5% of its total assets as of the previous quarter. The amount of the investment, on a cost basis, by a life insurance company in each infrastructure project may not exceed 20% of the total budget of such project.

*Equity investment in unlisted banks.* In October 2006, the CIRC further expanded the scope of permitted investments to include equity interests in non-listed commercial banks, including state-owned commercial banks, joint stock commercial banks and city commercial banks in China. Such investments are either categorized as ordinary investment, for the investments less than 5% of the bank's share capital or paid-in capital, or as material investment, for investments exceeding 5% of the bank's share capital or paid-in capital. For purposes of such investment, an insurer may use its corporate capital, liability reserves with a liability term of over 10 years, as well as other funds as recognized by the CIRC. Such liability reserves exclude the funds invested in investment-linked and universal life products and other financial management type insurance products. An insurance asset management company may be entrusted to make investments in commercial banks.

The aggregate of ordinary and material investments in the banks may not exceed 3% of an insurer's total assets at the end of the previous year. The balance of ordinary investments in a single bank may not exceed 1% of an insurer's total assets at the end of the previous year. In addition, the balance of other material investments is required to be submitted to the CIRC for approval and the balance of corporate capital applied to material investments may not exceed 40% of the insurer's paid-in capital as at the end of the previous year, minus accumulated losses. Insurers intending to invest in commercial banks using financing facilities must be approved by the CIRC.

The insurers must also satisfy certain requirements, such as good corporate governance, effective risk control, profitability, solvency and compliance requirements, before they can make investments in banks. For

## **Table of Contents**

material investments, the insurers are further required to be able to accurately assess the performance and risks of the target bank. If an insurer wishes to purchase a 5% – 10% stake in a commercial bank, the insurer must have total assets at the end of the previous year of no less than RMB 20 billion (in the case of an insurance holding company) or RMB 100 billion (in the case of an insurance operating company). For investments greater than 10%, the applicable minimum assets test increases to RMB 30 billion (in the case of an insurance holding company) or RMB 150 billion respectively (in the case of an insurance operating company). We are qualified under these rules to make investments for more than 10% ownership in a commercial bank.

In principle, an insurer may not make material investment in more than two commercial banks.

To exit an investment in a commercial bank, an insurer is required to file with the CIRC for the transfer of an ordinary investment and to obtain CIRC approval for a transfer of a material investment. In the event the bank equity owned by an insurer is converted into tradable shares, the cost for acquiring such bank equity is required to be booked as part of the insurer's stock market investment, which needs to comply with CIRC rules in respect thereof. If the specified stock investment percentage is exceeded, an insurer must make necessary adjustment within a specified time period to observe the regulatory restrictions in case of an ordinary investment. For material investments, the CIRC will issue separate provisions therefor.

*Solvency requirements.* In March 2003, the CIRC introduced a new standard, the solvency ratio, to measure the financial soundness of life insurance companies to provide better policyholder protection under a system of corrective regulatory action. The solvency ratio of an insurance company is a measure of capital adequacy, which is calculated by dividing the actual solvency of the company (which is its admissible assets less admissible liabilities determined in accordance with PRC GAAP and relevant rules) by the minimum solvency it is required to meet.

The minimum solvency of a life insurance company is the sum of its minimum solvency for its short-term business (policies having a term of one year or less from the date of issuance) and the minimum solvency for its long-term business (policies having a term of more than one year from the date of issuance).

The minimum solvency for a life insurance company's short-term business is the higher of:

18% of the portion of net premium, deposits and policy fees received in the most recent fiscal year net of business tax and other surcharges which are not in excess of RMB 100 million, plus 16% of the portion which are in excess of RMB 100 million; and

26% of the portion of the average annual claims payments during the most recent three fiscal years which is not in excess of RMB 70 million, plus 23% of the portion which is in excess of RMB 70 million.

The minimum solvency for its long-term business is the sum of:

1% of reserves for its investment-linked insurance business;

4% of reserves for its other insurance businesses;

0.1% of the total sums at risk under term life policies, the coverage period of which expires within three years;

0.15% of the total sums at risk under term life policies, the coverage period of which expires within three to five years;

0.3% of the total sums at risk under term life policies, the coverage period of which will not expire within five years;

0.3% of the total sums at risk under whole life policies; and

0.3% of the sums at risk of all other insurance and annuity products with a coverage period longer than one year.

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## **Table of Contents**

An insurance company with a solvency ratio below 100% may be subject to a range of regulatory actions by the CIRC. If the solvency ratio is above 70%, the CIRC has the right to require the insurance company to submit and implement a corrective plan. If the insurer fails to come into compliance with the solvency requirement within the prescribed time period, the CIRC may require the insurance company, among other things, to raise additional share capital, to seek reinsurance of its insurance obligations, to restrict paying dividends on its shares or to restrict the acquisition of fixed assets or business operations or the establishment of branch offices.

If the solvency ratio of an insurance company falls to or below 70% but stays at or above 30%, in addition to the right to take the above-mentioned measures, the CIRC may also order the insurance company to sell its non-performing assets, transfer its insurance business to others, limit the remuneration and expense accounts of its senior management, restrict its advertising activities or cease any new business development.

If the solvency ratio falls below 30%, in addition to the right to take the regulatory actions described above, the CIRC also has the right to put the insurer into receivership.

Insurance companies are required to calculate and report annually to the CIRC their solvency margin and twelve additional financial ratios to assist it in monitoring the financial condition of insurers. A normal range of results for each of the twelve ratios is used as a benchmark. The departure from the normal range on four or more of the ratios can lead to regulatory actions being taken by the CIRC. The annual report is required to be submitted on or prior to April 15 of each year, based on audited financial information for the prior year. An independent external institution is required to be engaged by the insurance company to audit and issue an opinion on the dynamic solvency test included in the report.

Since June 2007, the CIRC has commenced to set up a Solvency Supervisory Standard Commission and published afterwards a series of related rules so as to reinforce the supervision over the solvency of the insurance industry. Any insurance company which has not satisfied or may not satisfy the solvency requirement is required to take such actions as capital increase or share issuance to meet the requirements by the second quarter of 2007. In addition, the annual and quarterly solvency report must comply with the updated requirements effective as of the year of 2007 and the third quarter of 2007, respectively.

For the financial year of 2007, among the twelve financial ratios, China Life's ten financial ratios were within their normal ranges as determined by the CIRC. Our actual solvency ratio and our surrender rate were slightly higher than the normal range provided by the CIRC. Our solvency margin as of December 31, 2007 was approximately 5.25 times the minimum regulatory requirement. Our surrender rate was also higher than the normal range provided by the CIRC, which was primarily due to the trend towards investments in capital markets and implementation of enterprise annuity policies.

*Registered capital deposit.* Insurance companies in China are required to deposit an amount equal to 20% of their registered capital with no more than three qualified commercial banks, each of which should, among other things, has registered capital of no less than RMB 4,000 million and has no affiliated relationship with the insurance company. These funds may not be used for any purpose other than to pay off debts during a liquidation proceeding. In August 2007, insurance companies were further required to open no more than one deposit account at each bank for each kind of currencies. Only amounts which are part of the registered capital deposit requirement can be placed in this deposit account and the amount of each deposit could not be less than one million (in RMB or other foreign currencies) and the term of deposit should be no shorter than one year. The deposit saving agreement should be filed at the CIRC and the parties are forbidden to rescind the agreement without the CIRC's prior approval. The following actions in relation to the deposits by the insurance company require prior approval from the CIRC:

to change the nature of the savings;

to withdraw the deposit on or before the due date (unless the deposit is re-saved at the same bank);

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**Table of Contents**

to transfer the deposit to another bank;

to use the deposit to pay off debts during a liquidation proceeding;

to partially withdraw the deposit due to the decrease of the registered capital; or

to utilize and dispose of the deposit in any other ways.

*Statutory insurance fund.* Chinese life insurance companies are required to contribute to an insurance guarantee fund 1% of their retained premiums from accident and short-term health insurance. Prior to January 1, 2005, contributions were not required for life insurance and long-term health insurance. Beginning January 1, 2005, life insurance companies are required to contribute 0.15% of retained premiums from long-term life insurance and long-term health insurance with guaranteed return rates, and 0.05% of the retained premiums from long-term life insurance with no guaranteed return rates. Contributions are not required once the total amount in the fund reaches 1% of the insurance company's assets, and shall resume automatically when such amount falls below the 1% threshold. The purpose of the insurance guarantee fund is to provide financial subsidy to a life insurer assuming policy obligations of another life insurer as a result of the dissolution or bankruptcy of the latter. The CIRC is also authorized to use the fund when the insurance industry is facing a severe crisis that is likely to cause serious threat to public interest and national financial security.

The CIRC has opened a special bank account at China Industrial and Commerce Bank to accept deposits of the contributions by life insurance companies, including pension companies, health insurance companies and life reinsurance companies. Insurance companies are required to deposit, by March 31, 2005, 50% of the total accumulated amount of contributions as of the end of 2004, and the balance by the end of 2005 into such account. Thereafter, the contributions will be made quarterly each year, with each payment equalling 25% of the total contributions made in the prior year, and necessary adjustments will be made at the end of the year to reflect the actual amount required to be contributed for that year.

*Statutory reserves.* In addition to the statutory deposit and the statutory insurance fund, insurance companies are required to provide for the following statutory reserves in accordance with regulations established by the CIRC:

reserves for future benefits and claims; and

reserves for pending payments based on insurance claims already made and claims not yet made but for which an insured event has occurred.

These reserves are recorded as liabilities for purposes of determining an insurance company's actual solvency. In May 2003, the CIRC issued a regulation, effective as of January 1, 2004, which affected the calculation of statutory reserves for certain insurance products. It had the general effect of increasing the reserves a life insurance company is required to make, thereby affecting its solvency as well as its income under PRC GAAP.

In January 2005, CIRC issued a new regulation requiring all life insurance companies to submit to the CIRC a new statutory actuarial report, on an annual basis, with respect to the operational results of their insurance business for the previous year. The most significant part of the new regulation is that a life insurance company is required to provide, in the actuarial report, their assessment of the sufficiency of their statutory reserves.

*Actuaries.* Insurance companies are required to appoint one or more actuarial professionals, certified by the CIRC, and must establish a system for actuarial reporting. The CIRC's requirements provide that general actuaries must be appointed by April 30, 2008, after the actuary's qualification has been reviewed and approved by the CIRC. The general actuary must report to the CIRC, in a timely manner, any major risks of the insurance company. The CIRC has further required that as of December 31, 2007, insurance companies must prepare and submit the annual actuarial report in compliance with the updated rules on preparing annual actuarial reports.



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## **Table of Contents**

*Market conduct.* Insurance companies are required to take steps to ensure that sales promotional materials used by their sales representatives and agents are objective, true and correct, with no material omissions or misleading information, contain no forecasts of benefits that are not guaranteed under the insurance or annuity product and do not exaggerate the benefits provided under the insurance or annuity product. The sales promotional materials must also highlight in an appropriate fashion any exclusions of coverage or liability in their products, as well as terms providing for policy or annuity surrenders and return of premiums. If any insurance policy or consulting service is provided through telephone sales, requisite office space, staff, facilities and supervising mechanism should be furnished. In addition, the telephone sale should be conducted directly by the insurance company and the provisions of the insurance policy, insurance rate and business area should be submitted to the CIRC for approval.

Insurance companies are subject to extensive regulation against any anti-competitive behaviour or unfair dealing conduct. They may not pay insurance agents, the insured or the beneficiary any rebates or other illegal payments, nor may they pay their agents commissions over and above the industry norm.

Insurance companies are required to comply with anti-money laundering regulations and establish internal operational procedures and anti-money laundering controlling systems. No insurance activity can be conducted for the purpose of illegal fundraising.

*Compliance with regulatory requirements.* Our management confirms that, except as set out in the sections entitled **Item 3. Key Information Risk Factors Risks Relating to the PRC Life Insurance Industry** All of our agents are required to be qualified and to be registered as business entities. If these qualification and registration requirements are enforced or result in policyholders cancelling their policies, our business may be materially and adversely affected and **Licensing requirements** above, we have complied in all material respects with all applicable regulatory requirements set out above.

### ***Regulation of Foreign-Invested Insurance Companies***

China acceded to the WTO on December 11, 2001. As a result of China's commitments in connection with the accession, the Chinese insurance market is gradually opening up to foreign insurers and insurance-related service providers. A foreign life insurer with total assets of not less than US\$5,000 million and 30 years of industry experience in any WTO member country, and which has had a representative office for two years in China, is permitted to form a life insurance joint venture with a domestic partner of its choice. Foreign life insurers may own up to one-half of the joint venture. In addition, the geographic limitation on foreign life insurers, which were permitted to operate only in specified cities, has been lifted since December 11, 2004. Accordingly, foreign life insurers have been permitted to provide group life insurance, health insurance and annuity and other pension-like products since December 11, 2004. In addition, since December 11, 2006, foreign insurance brokers have been permitted to set up wholly owned subsidiaries in China.

Foreign-invested insurance companies, including Sino-foreign equity joint ventures, wholly foreign-owned insurance companies and branches of foreign insurance companies, are generally regulated in the same manner as domestic insurance companies. Foreign-invested insurance companies may not, without the approval of the CIRC, engage in transactions with their affiliates, including reinsurance transactions and purchases and sales of assets. In addition, where the foreign-invested insurance company is a branch of a foreign insurance company, it is required to notify the CIRC of fundamental events relating to the foreign insurance company within ten days following the occurrence of the event. Reportable events include: (1) a change of name, senior management or jurisdiction of incorporation of the foreign insurance company, (2) a change in the foreign insurance company's share capital, (3) a change in any person beneficially owning 10% or more of the foreign insurance company's shares, (4) a change in business scope, (5) the imposition of administrative sanctions by any applicable regulatory authority, (6) a material loss incurred by the foreign insurance company, (7) a spin-off, merger, dissolution, revocation of corporate franchise or bankruptcy involving the foreign insurance company and (8) other events

## **Table of Contents**

specified by the CIRC. If the foreign insurance company is dissolved, or its corporate franchise is revoked or it is declared bankrupt, the Chinese branch of the foreign insurance company will be prohibited from conducting any new business.

### ***Regulation of Insurance Asset Management Companies***

An insurance asset management company is a limited liability company or joint stock company that manages insurance funds on behalf of others. Insurance asset management companies are regulated by the CIRC.

*Minimum capital requirements.* The registered capital of an insurance asset management company may not be lower than the greater of (1) RMB 30 million in cash; and (2) 0.1% of the insurance funds it manages, provided that the minimum capital is not required to exceed RMB 500 million.

*Business operations.* In accordance with the tentative regulations of insurance asset management companies implemented in June 2004, an insurance asset management company may conduct the following businesses:

managing and operating insurance funds entrusted by its shareholders;

managing and operating insurance funds entrusted by another insurance company controlled by its shareholders;

managing and operating its own insurance funds; and

other businesses otherwise approved by the CIRC or other departments of the State Council.

The investments of the insurance funds by insurance asset management companies are subject to the same requirements and limitations applicable to the investments by the insurance companies themselves. With the regulatory expansion of insurance company investment powers, the investment powers of insurance asset management companies over their own funds have been expanded as well to cover subordinated indebtedness issued by banks and insurance companies and bank subordinated bonds.

In connection with the funds being managed by an insurance asset management company, a custodian is required to be appointed. The custodian must be an independent commercial bank or financial institution satisfying applicable CIRC requirements.

*Shareholding restrictions.* At least 75% of the shares of an insurance asset management company must be owned by domestic insurance companies, and at least one of the shareholders of an insurance asset management company must be an insurance company or insurance holding company satisfying specified requirements.

*Investment risk control.* Both insurance companies and asset management companies must establish structures, arrangements and measures to recognize, assess, manage and control investment risks. Members of senior management may not be responsible for the management of departments in charge of investment decisions, investment transactions and risk controls at the same time. Branches of insurance companies may not manage insurance funds. Insurance asset management companies must arrange for separate investment managers to manage their own funds and the insurance funds from other insurance companies, as well as insurance funds from an insurance company that are of a different nature.

*Major Emergency Response Management.* According to the guidelines of the CIRC announced in May 2007, an insurance asset management company is required to establish a monitoring and precaution mechanism for major emergencies.

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**Table of Contents**

***Regulation of Insurance Agencies, Insurance Brokers and Other Intermediaries***

Insurance agents are business entities or individuals which or who act on behalf of an insurance company in respect of insurance matters. An insurance company is prohibited from using any agent not licensed by the CIRC to market its insurance products, and is responsible for the acts of its agents when the acts are within the scope of their agency. Licensed insurance agencies fall into three groups: dedicated agencies, non-dedicated agencies and individual agents.

A dedicated agency is a partnership or company organized under the PRC company law whose principal business is to act as an agent of insurance companies. Dedicated agencies are subject to minimum capital and other requirements, and their business is generally limited to insurance-related activities.

A non-dedicated agency is a business entity whose principal business is other than as an insurance agency. To receive a license, the agency business must have a direct relationship with its principal business, which the CIRC has interpreted as permitting banks and banking operations of post offices to act as non-dedicated insurance agencies.

An individual agent is an individual acting as agent for an insurer. To receive a license from the CIRC, the individual is required to hold a CIRC qualification certificate issued by the CIRC. An individual agent is also required to register with and obtain a business license from the agent's local bureau of industry and commerce. In addition, the individual must not have committed any criminal offense or violation of any financial or insurance law or regulation and must be engaged in the insurance agency business full time. An individual insurance agent is permitted to act on behalf of only one life insurance company.

Essentially none of our exclusive agents qualifies as an individual agent within the meaning of the insurance law because they do not meet the dual requirements of holding a CIRC qualification certificate and a business license from the local bureau of the SAIC. We believe this situation is shared by all major life insurance companies in China. Approximately 97.9% of our exclusive agents hold a CIRC qualification certificate, and essentially none has a business license. In May 2004, the CIRC issued a circular requiring insurance companies to take effective measures in carrying out the qualification certification requirement. Furthermore, no insurance company may issue a company certificate to any person, identifying that person as its sales representative, if the person does not have a CIRC qualification certificate. Pursuant to the circular, we are also required to take appropriate measures to improve both participation of our agents taking the qualification examination and their success rate, and to report to the CIRC on a quarterly basis the percentage of our agents holding a CIRC qualification certificate. In April 2006, the CIRC issued regulations on the administration of individual agents, effective July 1, 2006, in order to further strengthen the administration of individual agents. Pursuant to these regulations, insurance companies that retain individual agents without CIRC qualification certificates and underwriting certificates to engage in insurance sales activities will be warned and fined up to RMB 30,000, and the responsible members of senior management of such insurance companies will also be warned and fined up to RMB 10,000. In serious circumstances, the CIRC may order the insurance companies to remove the responsible member of senior management from office and reject the application of setting up branch offices by such insurance companies. At the end of 2007, the CIRC further required that no insurance company can enter into any agency agreement with the individual agent who is not holding a qualification certificate or engage the agent in any insurance sale activities. In addition, the agency agreement is not an employment agreement in its nature and the individual agent is not an employee of the insurance company.

We are working with our agents who are not yet CIRC-qualified to obtain the CIRC qualification certificate. It is our understanding that the SAIC does not have procedures in place to affect the registration and licensing of individual insurance agents. See Item 3. Key Information Risk Factors - Risks Relating to the PRC Life Insurance Industry. All of our agents are required to be qualified and to be registered as business entities. If these qualification and registration requirements are enforced or result in policyholders cancelling their policies, our business may be materially and adversely affected.

## **Table of Contents**

All insurance agencies and agents are required to enter into agency agreements that specify the duration of the agency; the amount of the agency fee and the method of payment; the scope of the agency, including the insurance products to be marketed; and other relevant matters. Absent specific CIRC approval, insurance agents are prohibited from signing insurance and annuity products on behalf of the insurance companies they represent. None of our agents is authorized to sign insurance policies or annuity contracts for us.

Insurance agencies are required to open special accounts for the handling of funds that they hold or collect for the insurance companies they represent. They may not engage in the following activities: dealing with unauthorized insurers or insurance intermediaries, engaging in activities beyond their authorized business scope or geographical area, causing injury to the rights of the insurance companies they represent, spreading rumors or otherwise injuring the reputation of others in the insurance industry, misappropriating the funds of the insurance companies they represent, defrauding insurance customers through false or misleading representations or material omissions, using undue influence to induce insurance customers to purchase insurance, or defrauding the insurance companies they represent through collusion with the insured or the insurance beneficiary. In addition, dedicated insurance agencies are subject to various reporting requirements, including submission of annual financial reports, and are subject to supervision and examination by the CIRC.

Insurance brokers, who represent individuals and companies purchasing insurance, and other intermediaries are subject to similar regulatory requirements regarding their activities. Among other things, they are subject to supervision and examination by the CIRC, and fundamental corporate changes must be approved by the CIRC. Only companies organized under the PRC company law and meeting the requirements set by the CIRC are authorized to act as insurance brokers.

### ***Regulation of PRC Listed Companies***

Our A shares have been listed on the SSE since January 9, 2007. As a result, we are subject to regulation by the PRC securities regulatory authorities with respect to our compliance with PRC securities laws and regulations. We are also subject to the rules of the SSE.

**Table of Contents**

**ORGANIZATIONAL STRUCTURE**

- (1) Wholly owned by CLIC
  
- (2) Formerly known as China Life Asset Management (Hong Kong) Company Limited

74

**Table of Contents**

**List of Significant Subsidiaries**

Name of Subsidiary	Jurisdiction of Incorporation	Proportion of Ownership Interest
		Owned by China Life
China Life Insurance Asset Management Company Limited	The People's Republic of China	60%
	Hong Kong	(directly) 50% <sup>(2)</sup>
China Life Franklin Asset Management Company Limited <sup>(1)</sup>		(indirectly through affiliate)
China Life Pension Company Limited <sup>(2)</sup>	The People's Republic of China	75% <sup>(3)</sup>
		(directly and indirectly through affiliate)

(1) Formerly known as China Life Asset Management (Hong Kong) Company Limited

(2) AMC, which is 60% owned by us, owns 50%

(3) We own 55% and AMC, which is 60% owned by us, owns 20%

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**Table of Contents**

**PROPERTY, PLANTS AND EQUIPMENT**

As of December 31, 2007, we owned and leased 4,077 and 4,186 properties respectively, and had 215 properties under construction. Among the 4,077 properties owned by us, 32 properties are leased to independent third parties while the remaining properties are mainly occupied by us as office premises.

Under a renewed property leasing agreement entered into between CLIC and us, CLIC agreed to lease to us over 900 properties owned by CLIC, its subsidiaries and affiliates, which we refer to as the CLIC owned properties. CLIC does not have the legal title to certain number of these CLIC owned properties and is in the process of completing the legal procedures in order to obtain the legal title to these CLIC owned properties. CLIC has undertaken to us 1) to have the building ownership certificates in respect of these properties registered under its name as soon as possible; 2) to be responsible for all costs, expenses and claims incurred and 3) to indemnify us against all losses, claims, charges arising from our occupation of these properties.

We are in the process of purchasing new office buildings for our headquarters in Beijing. We have entered into the relevant agreements for the purchase of the new office buildings and have paid approximately RMB 1,942 million (US\$ 266 million), amounting to 99% of the purchase price. The remaining 1% of the purchase price is retained as retention monies and will be paid when the defects liability period has expired according to the terms of the agreement.

**ITEM 4A. UNRESOLVED STAFF COMMENTS.**

None.

**ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS.**

*You should read the following discussion and analysis in conjunction with the audited consolidated financial statements and accompanying notes included elsewhere in this annual report. For purposes of the following discussion, references to our predecessor mean CLIC, as our predecessor company prior to the restructuring, for the periods in question. In general, the financial results discussed in this section relate to historical consolidated financial data, including both the transferred policies and the non-transferred policies. When financial results discussed in this section relate to the transferred and new policies only, specific reference is made to that fact.*

**Overview**

***Restructuring***

We were formed in connection with CLIC's restructuring. In connection with the restructuring, CLIC transferred to us (1) all long-term insurance policies (policies having a term of more than one year from the date of issuance) issued on or after June 10, 1999, having policy terms approved by or filed with the CIRC on or after June 10, 1999 and either (i) recorded as a long-term insurance policy as of June 30, 2003 in a database attached to the restructuring agreement as an annex or (ii) having policy terms for group supplemental medical insurance (fund type), (2) stand-alone short-term policies (policies having a term of one year or less from the date of issuance) issued on or after June 10, 1999 and (3) all riders supplemental to the policies described in clauses (1) and (2) above, together with the reinsurance contracts specified in an annex to the restructuring agreement. We refer to these policies as the transferred policies. See Item 4. Information on the Company History and Development of the Company Our Restructuring. All other insurance policies as of June 30, 2003 were retained by CLIC. We refer to these policies as the non-transferred policies. We refer to the insurance policies issued by us following the restructuring as the new policies.

The restructuring was effected through a restructuring agreement entered into with CLIC on September 30, 2003, with retroactive effect to June 30, 2003. Pursuant to PRC law and the restructuring agreement, the transferred policies were transferred to us as of June 30, 2003; however, for accounting purposes the

## **Table of Contents**

restructuring is treated as having occurred on September 30, 2003. As of June 30, 2003, we assumed all obligations and liabilities of CLIC under the transferred policies. CLIC continues to be responsible for its liabilities and obligations under the non-transferred policies following the restructuring. The business constituted by the policies and assets transferred to us and the obligations and liabilities assumed by us and the business constituted by the policies, assets, obligations and liabilities retained by CLIC were, prior to the restructuring, under common management from a number of significant aspects. Therefore, our consolidated balance sheet data and income statement data as of and for the year ended December 31, 2003 reflect the restructuring as having occurred on September 30, 2003.

Immediately following the restructuring, CLIC became our sole shareholder. Following our global offering in December 2003, CLIC became and remains our controlling shareholder, holding approximately 72.2% of our voting shares. Following our A share offering in December 2006, CLIC now holds approximately 68.4% of our voting shares as of the date of annual report. We have been providing management and other services to CLIC, including the administration of the run-off of the non-transferred policies, the management of the investment assets retained by CLIC (through AMC) and various other services for CLIC, for which we are paid fees. For a description of the restructuring and the other arrangements entered into in connection with the restructuring, see Item 4. Information on the Company History and Development of the Company Our Restructuring and Item 7. Major Shareholders and Related Party Transactions .

### **Overview of our Business**

We are the leading life insurance company in China. We provide a broad range of insurance products, including individual life insurance, group life insurance, accident insurance and health insurance products. We had nearly 93 million individual and group life insurance policies, annuity contracts and long-term health insurance policies in force as of December 31, 2007. We also offer accident and short-term health insurance policies to individuals and groups.

We report our financial results according to the following three principal business segments:

*Individual life insurance*, which offers participating and non-participating life insurance and annuities to individuals. The financial results of our individual long-term health insurance business are also reflected in our individual life insurance business segment. Our individual life insurance business comprises long-term products, including long-term health and accident insurance products, meaning products having a term of more than one year at the date of their issuance.

*Group life insurance*, which offers participating and non-participating life insurance and annuities products to companies and institutions. The financial results of our group long-term health insurance business are also reflected in our group life insurance business segment. Our group life insurance business comprises long-term products.

*Accident and health insurance*, which offers short-term accident insurance and health insurance to individuals and groups. Our accident and health insurance businesses comprises short-term products, meaning products having a term of one year or less at the date of their execution.

In addition, AMC, an asset management joint venture established by us and CLIC, manages our investment assets and, separately, substantially all of those of CLIC, pursuant to two asset management agreements, one with us and one with CLIC. See Item 4. Information on the Company Business Overview Asset Management Business . We own 60% of the joint venture, with CLIC owning the remaining 40%. We formed a property and casualty joint venture with CLIC, on December 30, 2006, with us owning 40% and CLIC owning the remaining 60%. See Item 4. Information on the Company Business Overview Property and Casualty Business . We formed a professional pension insurance company with CLIC and AMC on January 15, 2007, with us owning 55%, CLIC owning 25% and AMC owning the remaining 20%. See Item 4. Information on the Company Business Overview Pension Insurance Business .



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## **Table of Contents**

### ***Financial Overview of our Business***

We had total gross written premiums and policy fees of RMB 111,886 million (US\$15,338 million) and net profit attributed to our shareholders of RMB 38,879 million (US\$5,330 million) for the year ended December 31, 2007. Our principal business segments had the following results:

*Individual life insurance* had total gross written premiums and policy fees of RMB 98,484 million (US\$13,501 million) in 2007, principally reflecting increases in renewal premiums, policy fees and new policy premiums.

*Group life insurance* had total gross written premiums and policy fees of RMB 1,503 million (US\$206 million) in 2007, principally reflecting decreases primarily due to changes in government policies and market conditions.

*Accident and health insurance* had total gross written premiums of RMB 11,899 million (US\$1,630 million) in 2007, principally reflecting our increased sales efforts for accident and health insurance business.

Our business and the business of CLIC, our predecessor, has been characterized by rapid growth of premium income over the past several years, particularly due to increased sales of participating risk-type products. Our historical results, which present the historical results of our predecessor for the nine months ended September 30, 2003, the date on which the restructuring is treated as having occurred for accounting purposes, reflect the continuing performance of policies that were issued prior to June 10, 1999. Many of these policies paid guaranteed rates of return that, due to declining interest rates, came to be significantly higher than the rates of return on investment assets. This created a negative spread, where the investment return fell below the rate our predecessor had committed to pay on those policies. The policies issued by our predecessor on or after June 10, 1999, which have been transferred to us in the restructuring, were priced at significantly lower guaranteed rates, in line with the 2.50% cap established by the CIRC. We and CLIC have not incurred negative spread on these policies and the new policies issued on or after our establishment, as the average investment returns we and CLIC have been able to generate have been higher than the guaranteed rates. As of December 31, 2007, the average guaranteed rate of return of our products was 2.31%.

### **Factors Affecting Our Results of Operations**

#### ***Revenues, Expenses and Profitability***

We earn our revenues primarily from:

insurance premiums from the sale of life insurance policies and annuity contracts, including participating and non-participating policies and annuity contracts with life contingencies, as well as accident and health insurance products. Net premiums earned accounted for 54.2% of total revenues in 2007.

policy fees for long-term investment type insurance contracts and investment contracts (collectively, investment-type contracts). Policy fees accounted for 4.0% of total revenues in 2007.

investment income and realized and, in some cases, unrealized gains and losses from our investment assets. Net investment income and net realized and unrealized gains and losses accounted for 40.9% of total revenues in 2007.

In addition, following the restructuring, we receive service fees for policy management services we provide to CLIC. AMC, our asset management joint venture with CLIC, also receives asset management fees for asset management services provided to CLIC. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions .

**Table of Contents**

Our operating expenses primarily include:

insurance benefits provided to our policyholders, accident and health claims and claim adjustment expenses;

increases in long-term traditional insurance contract liabilities;

amortization of deferred policy acquisition costs;

underwriting and policy acquisition costs;

policyholder dividends resulting from participation in profits;

interests credited to long-term investment-type insurance contracts and investment contracts;

increases in deferred income; and

administrative and other expenses.

In addition, following the restructuring, we pay rent to CLIC on the properties we lease from it.

Our profitability depends principally on our ability to price and manage risk on insurance and annuity products, our ability to maximize the return on investment assets, our ability to attract and retain customers, and our ability to manage expenses. In particular, factors affecting our profitability include:

our ability to design and distribute products and services and to introduce new products which gain market acceptance on a timely basis;

our ability to price our insurance and investment products at levels that enable us to earn a margin over the costs of providing benefits and the expense of acquiring customers and administering those products;

our returns on investment assets;

our mortality and morbidity experience;

our lapse experience, which affects our ability to recover the cost of acquiring new business over the lives of the contracts;

our cost of administering insurance contracts and providing customer services;

our ability to manage liquidity and credit risk in our investment portfolio and to manage duration risk in our asset and policy portfolios through asset-liability management; and

changes in regulations.

In addition, other factors, such as competition, taxes, securities market conditions and general economic conditions, affect our profitability.

***Interest Rates***

For many of our long-term life insurance and annuity products, we are obligated to pay a minimum interest or crediting rate to our policyholders or annuitants. These products expose us to the risk that changes in interest rates may reduce our spread, or the difference between the rate of return we are able to earn on our investments intended to support our insurance obligations and the amounts that we are required to pay under the policies. The minimum rate we pay is established when the product is priced, subject to a cap set by the CIRC and which may be adjusted from time to time. Currently, the CIRC cap is 2.50%. If the rates of return on our investments fall below the minimum rates we guarantee, our profitability would be adversely affected. In October 2004, the interest rate on one-year term deposits, a key benchmark rate, was raised from 1.98% to 2.25%. In August 2006, the interest rate on one-year term deposits was further raised from 2.25% to 2.52%. During the year 2007, several

**Table of Contents**

revisions were made to the interest rate on one-year term deposits, which resulted in the further increase of the interest rate from 2.52% to 4.14%. Due to China's recent fast growing economy, the Chinese government may take certain measures, including further raising interest rates, in an effort to ensure sustainable economic growth. If the interest rates were to be further increased, but the CIRC did not raise the cap, sales of some of our products, including our non-participating investment-type products, could be adversely impacted. An increase in guaranteed rates caused by a rise in the CIRC cap may lead to an increase in surrenders and withdrawals of our existing products which offer rates lower than the new rates. See [Financial Overview of Our Business](#). As of December 31, 2007, the average guaranteed rate of return of our products was 2.31%.

Interest rates also affect our returns on investment assets, a large proportion of which is held in negotiated bank deposits and debt securities. In a declining interest rate environment, interest rate changes expose us to reinvestment risks. In a rising interest rate environment, higher rates may yield greater interest income but also may generate unrealized capital losses for debt securities designated as trading, causing us to incur realized capital losses for securities we reinvest or requiring us to take an impairment if the market value of debt securities declines for an extended period.

Sustained levels of high or low interest rates also may affect the relative popularity of our various products. For example, the recent popularity of our participating products is partially driven by the protracted comparatively low interest rate environment in China and the 2.50% cap set by the CIRC on the guaranteed rates of return we may apply. The investment nature of the product, including the enhanced yield by means of dividends, has proven to be attractive to China's insurance buyers.

***Investments***

As an insurance company, we are limited by Chinese law and regulations in the types of assets in which we may invest policyholder funds. As prescribed by China's insurance law, we are limited to investing insurance premiums, deposits and other funds we receive primarily in term deposits; fixed maturity securities, including Chinese treasury bonds, Chinese government agency bonds and corporate bonds issued by Chinese companies and meeting specified criteria; and securities investment funds primarily invested in equity securities issued by Chinese companies and traded on China's securities exchanges. We also may participate in bond repurchase activities through domestic inter-bank repurchase markets. Since 2004, we have been allowed to invest in convertible bonds, certain subordinated indebtedness and bonds, shares listed on China's stock markets, which are denominated and traded in Renminbi and infrastructure projects. We received the CIRC's approval in 2006 to make overseas investments in qualified term deposits, fixed maturity securities and shares of Chinese companies listed on specified overseas stock exchanges. The Interim Measures for the Overseas Investment with Insurance Funds implemented in June 2007 provided us with additional overseas investment channels. The detailed implementation rules to such interim measures are in the process of being drafted by relevant regulatory bodies and have not been released. We currently are prohibited from investing in other securities without the CIRC's approval. However, we understand that the CIRC is considering further easing these restrictions in the future. If the CIRC does so, this may permit us to invest in additional asset classes. See [Item 4. Information on the Company Business Overview Regulatory and Related Matters Insurance Company Regulation Regulation of investments](#). Our only material concentration risk relates to our investments in Chinese government securities.

The limitations on the types of investments we are permitted to make affect the investment returns we are able to generate and subject us to various risks that we would not, or to a lesser extent, be subject to if we were able to invest in a wider array of investments. In particular, the limited availability of long-duration investment assets in the markets in which we invest has resulted in the duration of our assets being shorter than that of our liabilities. We believe that with the gradual easing of the investment restrictions imposed on insurance companies in China, such as the permission of overseas investments in qualified term deposits, debt securities and shares of Chinese companies listed on specified stock exchanges, as well as investments in domestic infrastructure projects, our ability to match the duration of our assets to that of our liabilities will improve. We also seek to

**Table of Contents**

reduce the risk of duration mismatch by focusing on product offerings whose maturity profiles are in line with the duration of investments available to us in the prevailing investment environment.

Our results can be materially affected by investment impairments. The following table sets forth impairment charges, which are included in net realized gains and losses, for the years ended December 31, 2005, 2006 and 2007.

	For the year ended December 31,		
	2005	2006	2007
Debt securities	(92)		(3,403)
Equity securities	(651)		
<b>Total</b>	<b>(743)</b>		<b>(3,403)</b>

Impairments relating to the bonds entrusted with Min Fa Security Company Limited that encountered financial difficulties in 2004, resulted in an impairment charge of RMB 92 million for 2005. See Note 21 of the notes to the financial statements included elsewhere in this annual report. Impairments in 2005 relating to certain open-ended investment funds we purchased in previous years at a higher price, resulted in an impairment charge of RMB 651 million. See Note 21 of the notes to the financial statements included elsewhere in this annual report. There were no impairment charges in 2006. Impairments in 2007 relating to the decrease in the value of certain debt securities we purchased in previous years due to recent changes in market conditions and investment environment, resulted in an impairment charge of RMB 3,403 million.

Available-for-sale/non-trading securities comprised of the following asset classes as of December 31, 2005, 2006 and 2007.

	2005		As of December 31, 2006		2007	
	Cost or amortized cost	Estimated fair value	Cost or amortized cost (RMB in millions)	Estimated fair value	Cost or amortized cost	Estimated fair value
<b>Debt securities</b>						
Government bonds	49,180	49,922	60,058	60,352	83,137	80,588
Government agency bonds	30,776	30,662	78,300	78,721	111,906	107,154
Corporate bonds	10,806	11,315	31,001	30,752	46,464	43,742
Subordinated bonds/debts	4,458	4,526	7,068	7,043	10,462	9,898
<b>Subtotal</b>	<b>95,220</b>	<b>96,425</b>	<b>176,427</b>	<b>176,868</b>	<b>251,969</b>	<b>241,382</b>
<b>Equity securities</b>						
Funds	24,845	25,114	20,535	32,869	37,513	60,624
Common stocks	1,009	1,147	15,876	29,725	51,714	115,509
Warrants					1	
<b>Subtotal</b>	<b>25,854</b>	<b>26,261</b>	<b>36,411</b>	<b>62,595</b>	<b>89,227</b>	<b>176,133</b>
<b>Total</b>	<b>121,074</b>	<b>122,686</b>	<b>212,838</b>	<b>239,463</b>	<b>341,196</b>	<b>417,515</b>

We had gross unrealized gains of RMB 88,588 million (US\$12,144 million) and gross unrealized losses of RMB 12,269 million (US\$1,682 million) as of December 31, 2007. We had gross unrealized gains of RMB 28,097 million and gross unrealized losses of RMB 1,472 million as of December 31, 2006. We had gross unrealized gains of RMB 2,674 million and gross unrealized losses of RMB 1,062 million as of December 31, 2005. The total unrealized losses as of December 31, 2007, 2006 and 2005 were 2.9%, 0.6%, and 0.9% of total available-for-sale/non-trading securities. The unrealized losses as of December 31, 2007 related primarily to



**Table of Contents**

decreases in the price of debt securities resulting from the several increases of interest rates by the PBOC in 2007. The unrealized losses as of December 31, 2006 related primarily to mark to market adjustments to bonds and securities investment funds. These unrealized losses as of December 31, 2005 related primarily to mark to market adjustments to government and government agency bonds. The SSE Index, a major stock exchange index in China was 1,161 points on December 31, 2005, a further decrease from 2004. The index was 2,675 points on December 31, 2006, which was a 130.4% increase from 2005. The index was 5,261 points on December 31, 2007, which was a 96.7% increase from 2006. This resulted in a significant decrease in total unrealized losses. We made substantially all of the revaluation adjustments on the basis of quoted market prices at of the relevant balance sheet dates.

The following tables set forth the length of time that each class of available-for-sale/non-trading securities has continuously been in an unrealized loss position as of December 31, 2007, 2006 and 2005.

As of December 31, 2007	0-6 months	7-12 months	More than 12 months	Total
	(RMB in millions)			
<b>Debt securities</b>				
Unrealized losses	(3,790)	(7,942)		(11,732)
Carrying amounts	74,628	62,759		137,387
Unrealized losses as a percentage of carrying amounts	5.08%	12.65%		8.54%
<b>Equity securities</b>				
Unrealized losses	(537)	0		(537)
Carrying amounts	4,324	1		4,325
Unrealized losses as a percentage of carrying amounts	12.42%	0%		12.42%
<b>Total</b>				
Total unrealized losses	(4,327)	(7,942)		(12,269)
Total carrying amounts	78,952	62,760		141,712
Unrealized losses as a percentage of carrying amounts	5.48%	12.65%		8.66%
As of December 31, 2006	0-6 months	7-12 months	More than 12 months	Total
	(RMB in millions)			
<b>Debt securities</b>				
Unrealized losses	(819)	(290)	(227)	(1,336)
Carrying amounts	53,352	9,068	9,212	71,632
Unrealized losses as a percentage of carrying amounts	1.54%	3.20%	2.46%	1.87%
<b>Equity securities</b>				
Unrealized losses	(136)			(136)
Carrying amounts	1,273			1,273
Unrealized losses as a percentage of carrying amounts	10.68%			10.68%
<b>Total</b>				
Total unrealized losses	(955)	(290)	(227)	(1,472)
Total carrying amounts	54,625	9,068	9,212	72,905
Unrealized losses as a percentage of carrying amounts	1.75%	3.20%	2.46%	2.02%

**Table of Contents**

As of December 31, 2005	0-6 months	7-12 months	More than 12 months (RMB in millions)	Total
<b>Debt securities</b>				
Unrealized losses	(647)	(1)	(261)	(909)
Carrying amounts	29,235	17	9,520	38,772
Unrealized losses as a percentage of carrying amounts	2.21%	5.88%	2.74%	2.34%
<b>Equity securities</b>				
Unrealized losses	(58)	(95)		(153)
Carrying amounts	3,267	1,696		4,963
Unrealized losses as a percentage of carrying amounts	1.78%	5.60%		3.08%
<b>Total</b>				
Total unrealized losses	(705)	(96)	(261)	(1,062)
Total carrying amounts	32,502	1,713	9,520	43,735
Unrealized losses as a percentage of carrying amounts	2.17%	5.60%	2.74%	2.43%

Financial assets other than those accounted for as at fair value through income are adjusted for impairments, where these are declines in value that are considered to be other than temporary. In evaluating whether a decline in value is other than temporary for equity securities, we consider several factors including but not limited to the following:

the extent and the duration of the decline;

the financial condition of and near-term prospects of the issuer; and

our ability and intent to hold the investment for a period of time to allow for a recovery of value.

Should we conclude that an unrealized loss is other-than-temporary, relevant financial assets are written down to their net realized value and the charge is recorded in Net realized gains/(losses) on financial assets in the period the impairment is recognized. The impairment loss is reversed through the income statement if in a subsequent period the fair value of a debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized through income statement. See Critical Accounting Policies .

As of December 31, 2007, our total investment assets were RMB 850,209 million (US\$116,553 million) and the investment yield for the year ended December 31, 2007 was 5.76%. The investment yield primarily reflected increased investments in equity securities, favorable adjustment of our investment portfolio and favorable capital market conditions. As of December 31, 2006, our total investment assets were RMB 686,804 million and the investment yield for the year ended December 31, 2006 was 4.27%. The investment yield primarily reflected increased investments in debt and equity securities, favorable capital market conditions in 2006 compared to 2005, particularly the PRC securities market, as well as systematic adjustment of our investment strategies and expanded investment channels for insurance companies.

As of December 31, 2005, our total investment assets were RMB 494,356 million and the investment yield for the year ended December 31, 2005 was 3.86%.

For 2005, 2006 and 2007, we calculated the investment yields for a given year by dividing the net investment income for that year by the average of the ending balance of that year and the previous year.



**Table of Contents****Mix of Products**

The following table sets forth, for the transferred and new policies, premium and deposit information as of or for the years ended December 31, 2005, 2006 and 2007 by type of product in our individual life insurance business, group life insurance business and accident and health insurance business.

	As of or for the year ended				Compound annual growth rate (2005-2007)
	2005 RMB	2006 RMB	2007 RMB	2007 US\$	
<b>Individual life insurance business<sup>(1)</sup></b>					
<b>Whole life and term life insurance:</b>					
Gross written premiums	23,494	28,257	32,118	4,402	16.92%
<b>Endowment:</b>					
Gross written premiums	35,480	43,582	40,278	5,522	6.55%
Deposits	60,310	69,583	70,331	9,741	7.99%
<b>Annuities:</b>					
Gross written premiums	4,231	8,247	19,024	2,608	112.05%
Deposits	2,173	772	1,013	108	(31.72)%
<b>Group life insurance business<sup>(1)</sup></b>					
<b>Whole life and term life insurance:</b>					
Gross written premiums	698	912	687	154	(0.79)%
Deposits	101	169	771	64	176.29%
<b>Annuities:</b>					
Gross written premiums	169	232	189	26	5.75%
Deposits	21,528	18,411	19,804	2,554	(4.09)%
<b>Endowment:</b>					
Premiums					
Deposits	1,834	2,506	1,583	217	(7.10)%
<b>Accident and health insurance business<sup>(2)</sup></b>					
Accident gross written insurance premiums	5,135	5,148	5,495	753	3.45%
Health gross written insurance premiums	5,732	5,942	6,404	878	5.70%

(1) including long-term health and accident products

(2) including short-term health and accident products only

Our revenues and profitability are affected by changes in the mix of products we offer. In recent years, the Chinese insurance market has been moving away from insurance policies offering fixed rates of return in favor of participating and investment-related products, and we expect these trends to continue. Consistent with these trends, participating life insurance and annuity products, have been our fastest-growing individual life insurance products.

Participating products tend to present us with less market risk, since we have more flexibility to set the level of dividends and because participating products are subject to guaranteed rates which are lower than those of non-participating products. In addition, changes in interest rates have less of an impact on their surrender rates than on those of non-participating policies. Conversely, participating products tend to be less profitable for us than non-participating products, largely because the terms of these contracts effectively commit us to sharing a portion of our earnings from participating products with our policyholders. Pursuant to guidelines issued by the



## **Table of Contents**

CIRC, we are required to pay to our participating policyholders dividends which are no less than 70% of the distributable investment earnings and mortality gains on participating products. However, participating products still provide us with attractive profit contributions given the growing level of sales volume they produce.

Products classified as investment-type products also affect our revenues, since only a portion of the payments we receive under them are recorded in our consolidated income statement as policy fees, while the majority of the payments are recorded as deposit liabilities on our balance sheet. For the year ended December 31, 2007, total deposits were RMB 94,227 million (US\$12,917 million), an increase of 3.05% from RMB 91,441 million in 2006. Although deposits are a measure of business volume and contribute to our profitability, they are not reflected in our revenues. Since the fourth quarter of 2003, we have adjusted our product selling strategy to concentrate more on risk-type products, which contribute more to our revenues as premium income.

Another factor affecting our revenue is the fact that a substantial amount of the premiums we receive on many individual and group life insurance products are made in single payments, rather than over the course of the policy. For the years ended December 31, 2007, 2006 and 2005, 7.5%, 9.3% and 9.3% of our total first-year gross written premiums were from single premium products. We believe that the popularity of single premium products is in line with purchasing patterns and demand in China. We have, however, adjusted our premium structure to focus more on sales of products with regular premiums, especially products with regular premiums for ten years or more, which has reduced the proportion of single written premiums of our total first-year gross written premiums in 2005. We believe that such strategy could contribute to a more steady development of our business and enhance the retention rate of our sales agent force.

### ***Reinsurance***

The amounts presented in the historical consolidated statements of income for revenues and policyholder benefits are net of amounts ceded to reinsurers. Under the PRC insurance law and CIRC's regulations, prior to 2003, life insurance companies in China were required to reinsure 20% of its accident and health insurance risks with China Reinsurance (Group) Company, as statutory reinsurer. The statutory reinsurance requirement was phased out beginning in 2003 and from the beginning of 2006 there is no such statutory requirement. We are also party to various reinsurance agreements with China Life Re for the reinsurance of individual risks, group risks and defined blocks of business. As of December 31, 2007, substantially all of our ceded premiums had been ceded to China Life Re.

### ***Regulation***

We operate in a highly regulated industry. Changes in regulation can have a significant impact on our revenues, expenses and profitability. China's insurance regulatory regime is undergoing significant changes toward a more transparent regulatory process and a convergent movement toward international standards. Among other things, recent changes to permitted investment channels for insurance companies have impacted our investment portfolio and returns. See Item 4. Information on the Company Business Overview Regulatory and Related Matters .

### **Critical Accounting Policies**

The preparation of consolidated financial statements in conformity with HKFRS requires us to adopt accounting policies and make estimates and assumptions that affect amounts reported in the consolidated financial statements. In applying these accounting policies, we make subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Many of these policies, estimates and related judgments are common in the insurance and financial services industries; others are specific to our businesses and operations. The following sections discuss the accounting policies applied in preparing our financial statements that we believe are most dependent on the application of these judgments and estimates.

**Table of Contents*****Reserves for Long-term Traditional Insurance Contracts, Long-term Investment Type Insurance Contracts and Investment Contracts with and without Discretionary Participation Feature***

*Long-term Traditional Insurance Contracts.* Long-term traditional insurance contracts include whole life and term life insurance, endowment insurance and annuities policies with significant life contingency risk. Premiums are recognized as revenue when due from policyholders. Benefits and expenses are provided against such revenue to recognize profits over the estimated life of the policies. Hence, for single premium and limited pay contracts, premiums are recorded as income when due with the percent-of-premium profit margin deferred and recognized in income in a constant relationship to the amount of insurance in-force for life insurance contracts and the amount of expected benefit payments for annuities. Liabilities arising from long-term traditional insurance contracts comprise a policyholder reserve based on the net level premium valuation method and actuarial assumptions as to mortality, persistency, expenses, withdrawals and investment return including, where appropriate, a provision for adverse deviation and a deferred profit liability for the deferred percent-of-premium profit margin, as described in Note 2.9 to the consolidated financial statements included elsewhere in this annual report. The assumptions are established at policy issue and remain unchanged unless adverse experience causes a deficiency in liability adequacy test, as described in Note 2.8.1.b to the consolidated financial statements included elsewhere in the annual report.

The determination of the liabilities under long-term traditional insurance contracts is dependent on estimates made by us. For the long-term traditional insurance contracts, estimates are made in two stages. Assumptions about mortality rates, morbidity rates, lapse rates, investment returns and administration and claim settlement expenses are made at inception of the contract. These assumptions are described below. A provision for adverse deviation in experience is added to the assumptions, where appropriate. Assumptions are locked in for the duration of the contract. New estimates are made each subsequent year in order to determine whether the previous liabilities are adequate in the light of these latest estimates. If the liabilities are considered adequate, the assumptions are not altered. If they are not adequate, the assumptions are altered, or unlocked, first by reducing the provision for adverse deviation and then by reflecting current best estimate assumptions. A key feature of the adequacy testing for these contracts is that the effects of changes in the assumptions on the measurement of the liabilities and related assets are not symmetrical. Any improvements in experience will have no impact on the value of the liabilities and related assets until the liabilities are derecognized. However, a significant deterioration in experience can lead to an immediate increase in the liabilities.

We establish liabilities for long-term traditional insurance contracts based on the following assumptions:

Interest rates assumptions are based upon estimates of future yields on our investments. For policies issued prior to 2003, we use discount rates which increase annually from 3.8% for the year of issuance to 5.0% for year 2012 and the years thereafter, with a provision for adverse deviation ranging from 0.25% to 0.50%, as applicable. In determining our interest rate assumptions, we consider past investment experience, the current and future mix of our investment portfolio and trends in yields. Based on a review of our investment performance and market conditions, we established the discount rates for policies issued in 2005, 2004 and 2003, respectively, such that they increase annually from 4.0%, 3.7% and 3.65% for the year of issuance to 5.2% for the year 2013 and the years after, 5.17% for the year 2013 and the years thereafter and 5.0% for the year 2012 and the years thereafter, with a provision for adverse deviation ranging from 0.25% to 0.5%, as applicable. We established the discount rate for policies issued in 2006, such that it is 5.0% for the year of 2006 and increases annually from 4.6% for the year of 2007 to 5.4% for the year 2013 and the years thereafter, with a provision for adverse deviation ranging from 0.25% to 0.6%, as applicable. We established the discount rate for policies issued in 2007, such that it is 5.5% for the year of 2007 and the years after, with a provision for adverse deviation of 0.5%. The interest rates we assume for future years reflect our expectations of the future economic conditions and our investment strategies.

Our assumptions for mortality and morbidity rates vary by age of the insured, and lapse rates vary by contract type. They are based on expected experience at date of contract issue plus, where applicable, a

**Table of Contents**

margin for adverse deviation. We review our assumptions for mortality, morbidity and lapse rates periodically, and adjust the assumption rates, where appropriate, for the policies to be issued in the subsequent year. The lapse rates of our policies in 2007 did not change significantly compared with 2006. The lapse rates of certain types of policies were higher in 2005 than in 2004 and higher in 2004 than in 2003, which we believe was primarily due to an increase in competition and the impact of governmental regulations prohibiting enterprises and other organizations from using their funds to purchase commercial group policies for individuals. In setting the mortality assumption, mortality experience was compared to and expressed as a percentage of the CL series of life tables. These tables were compiled by the People's Insurance Company of China in 1994 and 1995 and issued by the PBOC, which was the principal regulatory authority of the insurance industry at the time. The tables are based on policy samples drawn from 43 subsidiaries and branches and the mortality experience of these sample policies during the period January 1, 1990 to December 31, 1993 were studied. The CIRC recently issued new series of life tables, as well as relevant rules on the application of these new tables, effective as of January 1, 2006, which require all life insurance companies in China to use these new tables for the calculation of minimum statutory reserves under the PRC GAAP. In addition, commencing from January 1, 2006, Chinese life insurance companies are no longer required to use designated life tables for product pricing.

Our assumptions for policy administration expenses are based on an analysis of actual experience. We have estimated the percentage of premiums costs used for year 1999 through 2002 to be 2% of premiums for 2002 and years prior thereto; 1.75% of premiums for 2003, 1.65-2.55% of premiums for individual life products and 1.65% of premiums for group life products, for 2004; 1.50-1.80% of premiums for individual life products and 1.30% of premiums for group life products, for 2005; and 1.60%-1.85% of premiums for individual life products and 1.50% of premiums for group life products, for 2006 and 2007, in each case plus a fixed per-policy expense.

*Long-term Investment Type Insurance Contracts and Investment Contracts with Discretionary Participation Feature.* Long-term investment type insurance contracts include life insurance and annuity contracts with significant investment features but with sufficiently significant insurance risk to still be considered insurance contracts under HKFRS4.

HKFRS4 permits the existing accounting policies to be applied to all contracts deemed to be insurance contracts and investment contracts with discretionary participation features under HKFRS4. As a result, these long-term investment type insurance contracts and investment contracts with discretionary participation features continue to be accounted for as follows: revenue from these contracts consists of various charges, including policy fees, handling fees, management fees and surrender charges, made against the contract for the cost of insurance, expenses and early surrender. Excess first year charges are deferred as an unearned revenue liability and are recognized in income over the life of the contracts in a constant relationship to estimated gross profits. To the extent unrealized gains or losses from available-for-sale securities affect the estimated gross profits, shadow adjustments are recognized in equity. Policy benefits and claims that are charged to expenses include benefit claims incurred in the year in excess of related contract balances and interest credited to these contracts.

The liability for long-term investment type insurance contracts and investment contracts with discretionary participation features are recognized as accumulation of deposits received less charges plus interest credited.

For participating business, included in long-term traditional insurance contracts, long term investment type insurance contracts and investment contracts with discretionary participation features, we determine annually the amount of distributable surplus that must ultimately be paid to the participating policyholders in the form of policyholder dividends. Distributable surplus includes the life policyholders' share of net investment income, unrealized appreciation of certain investments and mortality gains associated with the participating business. This share is specified by the insurance contract or by local insurance regulations. Each year, management determines how much of the total distributable surplus is to be paid in the form of policyholder dividends during the following fiscal year.

## **Table of Contents**

*Investment contracts without discretionary participation feature.* Investment contracts without discretionary participation feature are not considered to be insurance contracts and are accounted for as a financial liability. The liability for investment contracts without discretionary participation feature is recognized as the accumulation of deposits received less charges plus interest credited.

Revenue from these contracts consists of various charges, including policy fees, handling fees, management fees and surrender charges, made against the contract for the cost of insurance, expenses and early surrender. Excess first year charges are deferred as an unearned revenue liability and are recognized in income over the life of the contracts in a constant relationship to estimated gross profits.

*Deferred Income.* 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. Both deferred income amounts will be released to income statement over the remaining lifetime of the business.

## **Valuation of Investments**

Debt securities that we have the ability and positive intent to hold to maturity are classified as held-to-maturity. These investments are carried at amortized cost. Debt securities and equity securities that we purchase with the intention to resell in the short term are classified as financial assets at fair value through income. Debt securities and equity securities other than those classified as held-to-maturity or financial assets at fair value through income are classified as available-for-sale securities. We regularly review the carrying value of our investments. If there is objective evidence of other-than-temporary impairment and if the carrying value of an investment is greater than the recoverable amount, the carrying value is reduced through a charge to income statement. The following are the policies used:

*Financial assets at fair value through income.* This category has two sub-categories: financial assets held for trading and those designated at fair value through income at inception. A financial asset is classified as held for trading at inception if acquired principally for the purpose of selling in the short term or if it forms part of a portfolio of financial assets in which there is evidence of short term profit-taking. Any other additional financial asset may be designated at fair value through income at inception by us.

*Held-to-maturity securities.* Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and debt securities that we have the positive intention and ability to hold to maturity.

*Available-for-sale securities.* Available-for-sale securities are non-derivative financial assets that are either designated in this category or not classified in either of the other categories.

Financial assets other than those accounted as at fair value through income are adjusted for impairments, where there are declines in value that are considered to be other than temporary. In evaluating whether a decline in value is other than temporary for equity securities, we consider several factors including, but not limited to the following: (a) the extent and duration of the decline; (b) the financial condition, and near-term prospects, of the issuer; and (c) our ability and intent to hold the investment for a period of time to allow for a recovery of value. When the decline in value is considered other than temporary, relevant financial assets are written down to their net realized value, and the charge is recorded in Net realized gains/(losses) on financial assets in the period the impairment is recognized. The impairment loss is reversed through the income statement if in a subsequent period the fair value of a debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized through income statement.

## **Table of Contents**

The fair value of the financial assets and liabilities is determined as follows:

*Debt securities.* The fair values of debt securities are generally based on current bid prices. Where current bid prices are not readily available, fair values are estimated using either prices observed in recent transactions, values obtained from current bid prices of comparable investments and valuation techniques when the market is not active.

*Equity securities.* The fair values of equity securities are generally based on current bid prices. Where current bid prices are not readily available, fair values are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Equity securities, for which fair values can not be measured reliably, are recognized at cost less impairment.

*Term deposits (excluding structured deposits), loans and securities purchased or sold under agreements to resell or repurchase.* The fair values of term deposits (excluding structured deposits), loans and securities purchased or sold under agreements to resell or repurchase approximate the carrying amounts of these assets in the balance sheet.

*Structured deposits.* As the market for structured deposits is not active, we establish fair value by using discounted cash flow analysis and option pricing models as the valuation technique. We use the U.S. dollar swap rate, the benchmark rate, to determine the fair value of financial instruments. Due to the complexity of the structured deposits, significant judgment and estimates are involved in the absence of quoted market values. These estimates are based on valuation methodologies and assumptions deemed appropriate in the circumstances.

### ***Deferred Policy Acquisition Costs***

The costs of acquiring new and renewal business including commissions, underwriting and policy issue expenses, which vary with and are primarily related to the production of new and renewal business, are deferred. Deferred policy acquisition costs are subject to recoverability testing at the time of policy issue and at the end of each accounting period. Future investment income is taken into account in assessing recoverability.

Deferred policy acquisition costs for long-term traditional insurance contracts are amortized over the premium paying period as a constant percentage of expected premiums. Expected premiums are based upon assumptions defined at the date of policy issue. These assumptions are consistently applied throughout the premium paying period unless adverse experience causes a deficiency in liability adequacy test.

Deferred policy acquisition costs for long-term investment type insurance contracts and investment contracts are amortized over the expected life of the contracts as a constant percent of the present value of estimated gross profits expected to be realized over the life of the contract. To the extent unrealized gains or losses from available-for-sale securities affect the estimated gross profits, shadow adjustments are recognized in the shareholders' equity. Estimated gross profits include expected amounts to be assessed for mortality, administration, investment and surrender less benefit claims in excess of policyholder balances, administrative expenses and interest credited. Estimated gross profits are revised regularly and the future interest rate used to compute the present value of revised estimates of expected gross profits is the latest revised rate applied to the remaining benefit periods. Deviations of actual results from estimated experience are reflected in the income statement.

### ***Revenue Recognition***

*Premium and policy fees* Premiums from long-term traditional life insurance contracts are recognized as revenue when due from the policyholders. Revenue from long-term investment type insurance contracts and investment contracts consists of policy fees, handling fees, management fees and surrender charges assessed for the cost of insurance, expenses and early surrenders during the year which are recognized when due.

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**Table of Contents**

Premiums from the sale of short-term accident and health insurance contracts are recorded when written and are accreted to earnings on a pro-rata basis over the term of the related policy coverage. Contracts for which the period of risk differs significantly from the contract period recognize premiums over the period of risk in proportion to the amount of insurance protection provided.

*Net investment income* Net investment income is comprised of interest income from term deposits, cash and cash equivalents, debt securities, securities purchased under agreements to resell, loans, and dividend income from equity securities less interest expense from securities sold under agreements to repurchase and investment expenses. Interest income is recorded on an accrual basis using the effective interest rate method. Dividend income is recognized when the right to receive a dividend payment is established.

***Deferred taxation***

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Substantively enacted tax rates are used in the determination of deferred income tax.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be recognized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

***Recently Issued Accounting Standards***

In September 2005, the AICPA issued Statement of Position 05-1, *Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts* (SOP 05-1). SOP 05-1 provides guidance on accounting for DAC on internal replacements of insurance and investment contracts other than those specifically described in FAS 97. SOP 05-1 defines an internal replacement as a modification in product benefits, features, rights, or coverage that occurs by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. We adopted this guidance on January 1, 2007 and it did not have a material effect on our consolidated financial position or results of operations.

In February 2006, the FASB issued FAS 155, *Accounting for Certain Hybrid Financial Instruments* (FAS 155), an amendment of FAS 140 and FAS 133. FAS 155 allows us to include changes in fair value in earnings on an instrument-by-instrument basis for any hybrid financial instrument that contains an embedded derivative that would otherwise be required to be bifurcated and accounted for separately under FAS 133. FAS 155 is effective for our fiscal year ending December 31, 2007. We adopted this guidance on January 1, 2007 and it did not have a material effect on our consolidated financial position or results of operations.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109 (FIN 48), which clarifies the accounting for uncertainty in income tax positions. FIN 48 prescribes a recognition threshold and measurement attributable for the financial statement recognition and measurement of an income tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, and additional disclosures. In May 2007, the FASB issued FSP 48-1, *Definition of Settlement in FASB Interpretation No. 48*, which amended FIN 48, to provide guidance on how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits, effective upon the initial adoption of FIN 48. We adopted FIN 48 on January 1, 2007 and it did not have a material effect on our consolidated financial position or results of operations.



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**Table of Contents**

In September 2006, the FASB issued FAS 157, Fair Value Measurements (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. In February 2008, the FASB issued FSP 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13. Also in February 2008, the FASB issued FSP 157-2, Effective Date of FASB Statement No. 157, which defers the effective date of FAS 157 to fiscal years beginning after 15 November 2008, and interim periods within those fiscal years. We are currently assessing the impact of FAS 157 on our consolidated financial position and results of operations.

In February 2007, the FASB issued FAS 159, The Fair Value Option for Financial Assets and Financial Liabilities (FAS 159). FAS 159 permits entities to choose to measure at fair value many financial instruments and certain other items that are not currently required to be measured at fair value. Subsequent changes in fair value for designated items will be required to be reported in earnings in the current period. FAS 159 also establishes presentation and disclosure requirements for similar types of assets and liabilities measured at fair value. FAS 159 is effective for financial statements issued for accounting periods beginning on or after November 15, 2007. We are currently assessing the impact of FAS 159 on our consolidated financial position and results of operations.

In April 2007, the FASB issued FSP FIN 39-1, Amendment of FASB Interpretation No. 39. FSP FIN 39-1 modifies FIN No. 39, Offsetting of Amounts Related to Certain Contracts, and permits companies to offset cash collateral receivables or payables with net derivative positions under certain circumstances. This FSP is effective for fiscal years beginning after November 15, 2007 and is required to be applied retrospectively to financial statements for all periods presented. We are currently assessing the impact of FSP FIN 39-1 on our consolidated financial position and results of operations.

In December 2007, the FASB issued FAS 160, Noncontrolling Interests in Consolidated Financial Statements. FAS 160 will change the accounting for minority interests, which will be recharacterized as noncontrolling interests and classified by the parent company as a component of equity. The noncontrolling interests' share of subsidiary income should be reported as a part of consolidated net income with disclosure of the attribution of consolidated net income to the controlling and noncontrolling interests on the face of the consolidated statement of income. This statement is effective for fiscal years beginning on or after December 15, 2008, with early adoption prohibited. Upon adoption, FAS 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests and prospective adoption for all other requirements. We are currently assessing the impact of FAS 160 on our consolidated financial position and results of operations.

In December 2007, the FASB issued FAS 141R, Business Combinations. This statement addresses the accounting for business acquisitions with a number of changes. Among other things, the new standard broadened the transactions or events that are considered business combinations. It requires that all acquisition-related costs be expensed as incurred, and that all restructuring costs related to acquired operations be expensed as incurred. This new standard also addresses the current and subsequent accounting for assets and liabilities arising from contingencies acquired or assumed and, for acquisitions both prior and subsequent to December 31, 2008, requires the acquirer to recognize changes in the amount of its deferred tax benefits that are recognizable because of a business combination either in income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. This statement is effective for fiscal years beginning on or after December 15, 2008, with early adoption prohibited, and generally applies to business acquisitions completed after December 31, 2008. We are currently assessing the impact of FAS 141R on our consolidated financial position and results of operations.

In February 2008, the FASB issued FSP FAS 140-3, Accounting for Transfers of Financial Assets and Repurchase Financing Transactions. FSP FAS 140-3 provides guidance on accounting for a transfer of a financial asset and a repurchase financing and presumes that an initial transfer of a financial asset and a

**Table of Contents**

repurchase financing are considered part of the same arrangement (linked transaction) under Statement 140. However, if certain criteria are met, the initial transfer and repurchase financing shall not be evaluated as a linked transaction and shall be evaluated separately under Statement 140. This FSP is effective for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. Earlier application is not permitted. We are currently assessing the impact of this FSP on our consolidated financial position and results of operations.

**Inflation**

In recent years, China has not experienced significant inflation, and thus inflation has not had a significant effect on our business during the past three years. According to the China Statistical Bureau, China's overall national inflation rates, as represented by the general consumer price index, were approximately 4.8%, 1.5%, 1.8%, 3.9% and 1.2% in 2007, 2006, 2005, 2004 and 2003, respectively.

**Foreign Currency Fluctuation**

See Item 3. Key Information Risk Factors Risks Relating to the People's Republic of China Government control of currency conversion and the fluctuation of the Renminbi may materially and adversely affect our operations and financial results and Item 11. Quantitative and Qualitative Disclosures about Market Risk Foreign Exchange Risk .

**Class Action Litigation**

China Life and certain of its former directors (the defendants) have been named in nine putative class action lawsuits filed in the United States District Court for the Southern District of New York between March 16, 2004 and May 14, 2004. The lawsuits have been ordered to be consolidated and restyled *In re China Life Insurance Company Limited Securities Litigation, NO. 04 CV 2112 (TPG)*. Plaintiffs filed a consolidated amended complaint on January 19, 2005, which names China Life, Wang Xianzhang (former director), Miao Fuchun (former director) and Wu Yan (former director) as defendants. The consolidated amended complaint alleges that the defendants named therein violated Sections 10(b) and 20(a) of the U.S. Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder. China Life has engaged U.S. counsel to contest vigorously on the lawsuits. The 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. The likelihood of an unfavorable outcome is still uncertain. No provision has been made with respect to these lawsuits.

**OPERATING RESULTS****Year Ended December 31, 2007 Compared with Year Ended December 31, 2006*****Net Premiums Earned and Policy Fees***

Net premiums earned and policy fees increased by RMB 12,557 million, or 12.7%, to RMB 111,404 million in 2007 from RMB 98,847 million in 2006. This increase was primarily due to increases in net premiums earned from the individual life insurance and accident and health insurance businesses and policy fees from the individual life insurance business. Net premiums earned from participating products of long-term traditional insurance contracts were RMB 46,972 million in 2007, an increase of RMB 5,971 million, or 14.6%, from RMB 41,001 million in 2006. This increase was primarily due to our increased sales efforts for participating endowment products. Of total net premiums earned in 2007, RMB 1,978 million was attributable to single premium products and RMB 90,304 million was attributable to regular premium products (including both first-year and renewal premiums). Of total net premiums earned in 2006, RMB 2,205 million was attributable to single premium products and RMB 78,952 million was attributable to regular premium products (including both first-year and renewal premiums).

## **Table of Contents**

### ***Individual Life Insurance Business***

Net premiums earned and policy fees from the individual life insurance business increased by RMB 11,951 million, or 13.8%, to RMB 98,470 million in 2007 from RMB 86,519 million in 2006. This increase was primarily due to increases in renewal premiums, policy fees and new policy premiums.

### ***Group Life Insurance Business***

Net premiums earned and policy fees from the group life insurance business decreased by RMB 232 million, or 13.4%, to RMB 1,503 million in 2007 from RMB 1,735 million in 2006. This decrease was primarily due to changes in government policies and market conditions.

### ***Accident and Health Insurance Business***

Net premiums earned from the accident and health insurance business (both of which comprise short-term products) increased by RMB 838 million, or 7.9%, to RMB 11,431 million in 2007 from RMB 10,593 million in 2006. Gross written premiums earned from the accident insurance business increased by RMB 347 million, or 6.7%, to RMB 5,495 million in 2007 from RMB 5,148 million in 2006 and gross written premiums earned from the health insurance business increased by RMB 462 million, or 7.8%, to RMB 6,404 million in 2007 from RMB 5,942 million in 2006. These increases were primarily due to our increased sales efforts for accident and health insurance businesses.

### **Net Investment Income**

Net investment income increased by RMB 19,078 million, or 76.5%, to RMB 44,020 million in 2007 from RMB 24,942 million in 2006. This increase was primarily due to the growth in investment assets during 2007 and an increase in investment yield.

As of December 31, 2007, total investment assets were RMB 850,209 million, an increase of RMB 163,405 million, or 23.8%, from RMB 686,804 million in 2006. The net investment yield for the year ended December 31, 2007 was 5.76%, a 1.49 percentage point increase from the net investment yield of 4.27% for the year ended December 31, 2006. This increase was primarily due to increased investments in equity securities, favorable adjustment of our investment portfolio and favorable capital market conditions.

### **Net Realized Gains on Financial Assets**

Net realized gains on financial assets increased by RMB 13,790 million, or 864.6%, to RMB 15,385 million in 2007 from RMB 1,595 million in 2006. This increase was primarily due to an increase of the proportion of equity securities, favorable capital market conditions and the Company realizing gains on a portion of its equity securities.

### **Net Fair Value Gains on Assets at Fair Value Through Income (Held-for-Trading)**

We reflect net fair value gains on assets at fair value through income (held-for-trading) in current year income. Our net fair value gains on assets at fair value through income (held-for-trading) decreased by RMB 1,201 million, or 6.0%, to RMB 18,843 million in 2007 from RMB 20,044 million in 2006. In particular, net fair value gains on assets at fair value through income (held-for-trading) of RMB 366 million on debt securities, which increased RMB 61 million, or 20.0%, from RMB 305 million in 2006. This increase was primarily due to an increase in trading of short-term bonds taking advantage of a raise in interest rates. Net fair value gains on assets at fair value through income (held-for-trading) of RMB 18,477 million on equity securities decreased by RMB 1,262 million, or 6.4%, from RMB 19,739 million in 2006. This decrease was primarily due to a decrease of the proportion of financial assets held for trading.

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**Table of Contents****Other Income**

Other income decreased by RMB 163 million, or 8.7%, to RMB 1,720 million in 2007 from RMB 1,883 million in 2006. This was primarily due to a decrease in the fee income received from China Life Insurance (Group) Company, or CLIC, for assisting CLIC to manage its non-transferred policies.

**Deposits and Policy Fees**

Deposits are gross additions to long-term investment-type insurance contracts and investment contracts (collectively, investment-type contracts). Total deposits increased by RMB 2,786 million, or 3.0%, to RMB 94,227 million in 2007 from RMB 91,441 million in 2006. This increase was primarily due to an increase in business volume. Policy fees increased by RMB 594 million, or 8.4%, to RMB 7,691 million in 2007 from RMB 7,097 million in 2006. 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 increased by RMB 1,432 million, or 1.8%, to RMB 83,181 million in 2007 from RMB 81,749 million in 2006. Total policy fees from participating products increased by RMB 370 million, or 7.1%, to RMB 5,563 million in 2007 from RMB 5,193 million in 2006.

***Individual Life Insurance Business***

Deposits in the individual life insurance business increased by RMB 1,714 million, or 2.4%, to RMB 72,069 million in 2007 from RMB 70,355 million in 2006. This increase was primarily due to an increase in the sales of investment-type contracts. Policy fees from the individual life insurance business increased by RMB 563 million, or 8.7%, to RMB 7,064 million in 2007 from RMB 6,501 million in 2006. This increase was 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 RMB 1,072 million, or 5.1%, to RMB 22,158 million in 2007 from RMB 21,086 million in 2006. This increase was primarily due to an increase in the sales volume of investment-type contracts. Policy fees from the group life insurance business increased by RMB 31 million, or 5.2%, to RMB 627 million in 2007 from RMB 596 million in 2006. This change was primarily due to an increase of the proportion of investment-type contracts with higher policy fee charges.

***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 RMB 7,868 million, or 11.5%, to RMB 76,288 million in 2007 from RMB 68,420 million in 2006. 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 RMB 6,633 million, or 61.4%, to RMB 17,430 million in 2007 from RMB 10,797 million in 2006. This increase was primarily due to an increase in the number of policies in force and the accumulation of liabilities. Life insurance death and other benefits as a percentage of gross written premiums and policy fees were 15.6% and 10.9% in 2007 and 2006 respectively. Interest credited to long-term investment-type insurance contracts increased by RMB 795 million, or 12.4%, to RMB 7,181 million in 2007 from RMB 6,386 million in 2006. This increase primarily reflected an increase in the total policyholder account balance. Insurance benefits and claims, net of amounts ceded through reinsurance, attributable to participating products increased by RMB 4,411 million, or 13.1%, to RMB 37,962 million in 2007 from RMB 33,551 million in 2006. Of these insurance benefits and

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**Table of Contents**

claims attributable to participating products, life insurance death and other benefits increased by RMB 4,596 million, or 98.8%, to RMB 9,248 million in 2007 from RMB 4,652 million in 2006; the increase in liability of long-term traditional insurance contracts decreased by RMB 797 million, or 3.4%, to RMB 22,548 million in 2007 from RMB 23,345 million in 2006; and the interest credited to long-term investment-type insurance contracts increased by RMB 612 million, or 11.0%, to RMB 6,166 million in 2007 from RMB 5,554 million in 2006.

***Individual Life Insurance Business***

Insurance benefits and claims for the individual life insurance business increased by RMB 8,585 million, or 14.2%, to RMB 68,990 million in 2007 from RMB 60,405 million in 2006. This increase was due to an increase in business volume and the accumulation of liabilities. Of these insurance benefits and claims, life insurance death and other benefits increased by RMB 6,338 million, or 62.6%, to RMB 16,463 million in 2007 from RMB 10,125 million in 2006. This increase was primarily due to an increase in the number of policies in force, the accumulation of liabilities and an increase in the number of insurance policies reaching maturity. The increase in liability of long-term traditional insurance contracts increased by RMB 1,455 million, or 3.3%, to RMB 45,370 million in 2007 from RMB 43,915 million in 2006. The increase in liability of long-term traditional insurance contracts was primarily due to an increase in business volume and the accumulation of liabilities.

***Group Life Insurance Business***

Insurance benefits and claims for the group life insurance business decreased by RMB 61 million, or 6.0%, to RMB 955 million in 2007 from RMB 1,016 million in 2006. This decrease was primarily due to a decrease in the increment of long-term traditional insurance contracts liabilities but offset in part by an increase in life insurance death and other benefits. Of these insurance benefits and claims, life insurance death and other benefits increased by RMB 295 million, or 43.9%, to RMB 967 million in 2007 from RMB 672 million in 2006 and the increment in long-term traditional insurance contracts liabilities decreased by RMB 359 million, or 111.1%, to RMB (36) million in 2007 from RMB 323 million in 2006. This decrease was primarily due to a decrease in the contracts in force.

***Accident and Health Insurance Business***

Insurance benefits and claims for the accident and health insurance business decreased by RMB 656 million, or 9.4%, to RMB 6,343 million in 2007 from RMB 6,999 million in 2006. This decrease was primarily due to improvements in our insurance products structure.

***Interest Credited to Investment Contracts***

Interest credited to investment contracts increased by RMB 142 million, or 14.3%, to RMB 1,138 million in 2007 from RMB 996 million in 2006. This increase primarily reflected an increase in the total policyholder account balance. Interest credited to participating investment contracts increased by RMB 138 million, or 14.5%, to RMB 1,089 million in 2007 from RMB 951 million in 2006.

***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. The increase in deferred income decreased by RMB 1,748 million, or 15.1%, to RMB 9,859 million in 2007 from RMB 11,607 million in 2006. This decrease was primarily due to an increase in amortization of deferred income resulting from the increase in investment yield.

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**Table of Contents****Policyholder Dividends Resulting from Participation in Profits**

Policyholder dividends resulting from participation in profits increased by RMB 11,634 million, or 66.0%, to RMB 29,251 million in 2007 from RMB 17,617 million in 2006. This increase was primarily due to an increase in investment yield for participating products, an increase in business volume, as well as an increase in our reserves for participating products.

**Amortization of Deferred Policy Acquisition Costs**

Amortization of deferred policy acquisition costs increased by RMB 3,202 million, or 31.2%, to RMB 13,461 million in 2007 from RMB 10,259 million in 2006. This increase was primarily due to an increase in the number of policies in force and overall amount of business and an increase in investment income in 2007.

**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 RMB 310 million, or 12.8%, to RMB 2,725 million in 2007 from RMB 2,415 million in 2006. Underwriting and policy acquisition costs were approximately 2.5% and 2.4% of net premiums earned and policy fees in 2007 and 2006, respectively.

Of this amount, underwriting and policy acquisition costs in the individual life insurance business and group life insurance business together increased by RMB 157 million, or 8.4%, to RMB 2,019 million in 2007 from RMB 1,862 million in 2006. This increase was primarily due to the increase in business volume during the period. Underwriting and policy acquisition costs in the accident and health insurance business increased by RMB 150 million, or 27.1%, to RMB 703 million in 2007 from RMB 553 million in 2006. This increase was primarily due to the increase in business volume and increased market competition.

**Administrative Expenses**

Administrative expenses include the non-deferrable portion of policy acquisition costs, as well as employees' remuneration and other administrative expenses. Administrative expenses increased by RMB 2,459 million, or 26.3%, to RMB 11,798 million in 2007 from RMB 9,339 million in 2006. This increase primarily reflected the increase in business volume and increased expenses in connection with improvements to company internal management.

**Other Operating Expenses**

Other operating expenses, which primarily consist of foreign exchange losses and expenses for non-core business, increased by RMB 792 million, or 92.2%, to RMB 1,651 million in 2007 from RMB 859 million in 2006. This increase primarily reflected an increase in foreign exchange losses due to the appreciation of the RMB and an increase of policyholder dividend crediting interest.

**Income Tax**

We pay income tax according to applicable Chinese enterprise income tax regulations and rules. Income tax expense, including current and deferred taxations, increased by RMB 777 million, or 14.0%, to RMB 6,331 million in 2007 from RMB 5,554 million in 2006. This increase was primarily due to the increase in our profit. Our effective tax rate for 2007 was 13.9%, which decreased by 7.8% from an effective tax rate for 2006 of 21.7%. The decrease was due to a decrease in the statutory tax rate from 33% for 2007 to 25% for 2008 with effect from January 1, 2008 which resulted in a decrease in our deferred tax liability.

**Net Profit Attributable to Shareholders of the Company**

For the reasons set forth above, net profit attributable to shareholders of the Company increased by RMB 18,923 million, or 94.8%, to RMB 38,879 million in 2007 from RMB 19,956 million in 2006.

**Table of Contents*****Individual Life Insurance Business***

Net profit in the individual life insurance business increased by RMB 17,539 million, or 74.1%, to RMB 41,202 million in 2007 from RMB 23,663 million in 2006. This increase was primarily due to the increases in investment income and business volume.

***Group Life Insurance Business***

Net profit in the group life insurance business increased by RMB 699 million, or 80.9%, to RMB 1,563 million in 2007, from RMB 864 million in 2006. This increase was primarily due to an increase in investment yield.

***Accident and Health Insurance Business***

Net profit in the accident and health insurance business increased by RMB 1,347 million, or 133.5%, to RMB 2,356 million in 2007 from RMB 1,009 million in 2006. The increase in profitability was primarily due to favorable adjustment of our insurance products structure and increase in investment income.

***Year Ended December 31, 2006 Compared with Year Ended December 31, 2005*****Net Premiums Earned and Policy Fees**

Net premiums earned and policy fees increased by RMB 18,809 million, or 23.5%, to RMB 98,847 million in 2006 from RMB 80,038 million in 2005. This increase was primarily due to increases in net premiums earned and policy fees from the individual life insurance and group life insurance businesses. Net premiums earned from participating products of long-term traditional insurance contracts were RMB 41,001 million in 2006, an increase of RMB 9,985 million, or 32.2%, from RMB 31,016 million in 2005. This increase was primarily due to an increased market demand, as well as our increased sales efforts, for participating endowment products. Of total net premiums earned in 2006, RMB 2,205 million was attributable to single premium products and RMB 78,952 million was attributable to regular premium products (including both first-year and renewal premiums). Of total net premiums earned in 2005, RMB 1,896 million was attributable to single premium products and RMB 62,027 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 RMB 17,770 million, or 25.8%, to RMB 86,519 million in 2006 from RMB 68,749 million in 2005. This increase was primarily due to increases in renewal premiums, policy fees and new policy premiums.

***Group Life Insurance Business***

Net premiums earned and policy fees from the group life insurance business increased by RMB 478 million, or 38.0%, to RMB 1,735 million in 2006 from RMB 1,257 million in 2005. This increase was primarily due to increases in sales of whole-life insurance products and an increase in policy fees.

***Accident and Health Insurance Business***

Net premiums earned from the accident and health insurance business (both of which comprise short-term products) increased by RMB 561 million, or 5.6%, to RMB 10,593 million in 2006 from RMB 10,032 million in 2005. Gross written premiums from the accident insurance business increased by RMB 13 million, or 0.3%, to RMB 5,148 million in 2006 from RMB 5,135 million in 2005 and gross written premiums from the health insurance business increased by RMB 210 million, or 3.7%, to RMB 5,942 million in 2006 from RMB 5,732 million in 2005. These increases were primarily due to our increased sales efforts for accident insurance business but 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.

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**Table of Contents****Net Investment Income**

Net investment income increased by RMB 8,257 million, or 49.5%, to RMB 24,942 million in 2006 from RMB 16,685 million in 2005. This increase was primarily due to the growth in investment assets during 2006 and an increase in investment yield.

As of December 31, 2006, total investment assets were RMB 686,804 million and the investment yield for the year ended December 31, 2006 was 4.27%. As of December 31, 2005, total investment assets were RMB 494,356 million and the investment yield for the year ended December 31, 2005 was 3.86%. This increase was primarily due to increased investments in debt and equity securities, favorable adjustment of our investment portfolio, favorable capital market conditions and expanded investment channels for insurance companies. Our investment income is affected by many factors, including the volatility of the securities markets in China. Changes in the PRC capital markets and volatilities in the PRC securities markets in the future could have an impact on our net investment income, and accordingly an adverse impact on our net profit.

**Net Realized Gains/(Losses) on Financial Assets**

Net realized gains on financial assets increased by RMB 2,105 million to RMB 1,595 million in 2006 from net losses of RMB 510 million in 2005. The results in 2006 reflected net realized losses of RMB 6 million on debt securities and net realized gains of RMB 1,601 million on equity securities, which was primarily due to the favorable China stock market in 2006.

**Net Fair Value Gains on Assets at Fair Value Through Income (Held-for-Trading)**

We reflect net fair value gains on assets at fair value through income (held-for-trading) in current year income. Our net fair value gains on assets at fair value through income (held-for-trading) increased by 19,784 million, to RMB 20,044 million in 2006 from RMB 260 million in 2005. The results in 2006 reflected net fair value gains on assets at fair value through income (held-for-trading) of RMB 305 million on debt securities, resulting from favorable conditions in debt securities markets in 2006 and increased investments in debt securities. Net fair value gains on assets at fair value through income (held-for-trading) of RMB 19,739 million on equity securities, resulting from extremely favorable conditions in equity securities markets and increased investments in equity securities.

**Other Income**

Other income increased by RMB 144 million, or 8.3%, to RMB 1,883 million in 2006 from RMB 1,739 million in 2005. This was primarily due to the fee income received from CLIC as the reward for assisting CLIC to mitigate its business risk arising from non-transferred policies.

**Deposits and Policy Fees**

Deposits are gross additions to long-term investment-type insurance contracts and investment contracts (collectively, investment-type contracts). Total deposits increased by RMB 5,495 million, or 6.4%, to RMB 91,441 million in 2006 from RMB 85,946 million in 2005. This increase was primarily due to an increase in business volume. Policy fees increased by RMB 1,014 million, or 16.7%, to RMB 7,097 million in 2006 from RMB 6,083 million in 2005. 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 increased by RMB 5,785 million, or 7.6%, to RMB 81,749 million in 2006 from RMB 75,964 million in 2005. Total policy fees from participating products increased by RMB 917 million, or 21.4%, to RMB 5,193 million in 2006 from RMB 4,276 million in 2005.

***Individual Life Insurance Business***

Deposits in the individual life insurance business increased by RMB 7,872 million, or 12.6%, to RMB 70,355 million in 2006 from RMB 62,483 million in 2005. This increase was primarily due to an increase



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**Table of Contents**

in the sales of investment-type contracts. Policy fees from the individual life insurance business increased by RMB 818 million, or 14.4%, to RMB 6,501 million in 2006 from RMB 5,683 million in 2005. 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 decreased by RMB 2,377 million, or 10.1%, to RMB 21,086 million in 2006 from RMB 23,463 million in 2005. Policy fees from the group life insurance business increased by RMB 196 million, or 49.0%, to RMB 596 million in 2006 from RMB 400 million in 2005. These changes were primarily due to an increase of the proportion of investment-type contracts with higher policy fee charges.

***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 RMB 14,391 million, or 26.6%, to RMB 68,420 million in 2006 from RMB 54,029 million in 2005. 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 RMB 2,486 million, or 29.9%, to RMB 10,797 million in 2006 from RMB 8,311 million in 2005. This increase was principally due to an increase in the number of policies in force and the accumulation of liabilities. Life insurance death and other benefits as a percentage of gross written premiums and policy fees were 10.9% and 10.3% in 2006 and 2005 respectively. Interest credited to long-term investment-type insurance contracts increased by RMB 1,492 million, or 30.5%, to RMB 6,386 million in 2006 from RMB 4,894 million in 2005. This increase primarily reflected an increase in the total policyholder account balance. Insurance benefits and claims, net of amounts ceded through reinsurance, attributable to participating products increased by RMB 8,545 million, or 34.2%, to RMB 33,551 million in 2006 from RMB 25,006 million in 2005. Of these insurance benefits and claims attributable to participating products, life insurance death and other benefits increased by RMB 599 million, or 14.8%, to RMB 4,652 million in 2006 from RMB 4,053 million in 2005, the increase in liability of long-term traditional insurance contracts increased by RMB 6,501 million, or 38.6%, to RMB 23,345 million in 2006 from RMB 16,844 million in 2005, and the interest credited to long-term investment-type insurance contracts increased by RMB 1,445 million, or 35.2%, to RMB 5,554 million in 2006 from RMB 4,109 million in 2005.

***Individual Life Insurance Business***

Insurance benefits and claims for the individual life insurance business increased by RMB 14,244 million, or 30.9%, to RMB 60,405 million in 2006 from RMB 46,161 million in 2005. This increase was due to an increase in business volume and the accumulation of liabilities. Of these insurance benefits and claims, life insurance death and other benefits increased by RMB 2,381 million, or 30.7%, to RMB 10,125 million in 2006 from RMB 7,744 million in 2005 and the increase in liability of long-term traditional insurance contracts increased by RMB 10,365 million, or 30.9%, to RMB 43,915 million in 2006 from RMB 33,550 million in 2005. The increase in liability of long-term traditional insurance contracts was primarily due to an increase in business volume and the accumulation of liabilities.

***Group Life Insurance Business***

Insurance benefits and claims for the group life insurance business decreased by RMB 5 million, or 0.5%, to RMB 1,016 million in 2006 from RMB 1,021 million in 2005. This decrease was primarily due to a decrease in

## **Table of Contents**

the increment of long-term traditional insurance contracts liabilities and interest credited to long-term traditional insurance contracts but offset in part by an increase in life insurance death and other benefits. Of these insurance benefits and claims, life insurance death and other benefits increased by RMB 105 million, or 18.5%, to RMB 672 million in 2006 from RMB 567 million in 2005 and the increase in long-term traditional insurance contracts liabilities decreased by RMB 104 million, or 24.4%, to RMB 323 million in 2006 from RMB 427 million in 2005. This decrease was primarily due to a decrease in the contracts in force.

### ***Accident and Health Insurance Business***

Insurance benefits and claims for the accident and health insurance business increased by RMB 152 million, or 2.2%, to RMB 6,999 million in 2006 from RMB 6,847 million in 2005. This increase was primarily due to increases in business volume in our accident and health insurance business.

### **Interest Credited to Investment Contracts**

Interest credited to investment contracts increased by RMB 23 million, or 2.4%, to RMB 996 million in 2006 from RMB 973 million in 2005. This increase primarily reflected an increase in the total policyholder account balance. Interest credited to participating investment contracts increased by RMB 12 million, or 1.3%, to RMB 951 million in 2006 from RMB 939 million in 2005.

### **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. The increase in deferred income increased by RMB 3,086 million, or 36.2%, to RMB 11,607 million in 2006 from RMB 8,521 million in 2005. This increase was primarily due to an increase in business volume.

### **Policyholder Dividends Resulting from Participation in Profits**

Policyholder dividends resulting from participation in profits increased by RMB 12,258 million, or 228.7%, to RMB 17,617 million in 2006 from RMB 5,359 million in 2005. This increase was primarily due to an increase in business volume and, accordingly, an increase in our reserves for participating products, as well as an increase in investment yield for participating products.

### **Amortization of Deferred Policy Acquisition Costs**

Amortization of deferred policy acquisition costs increased by RMB 2,493 million, or 32.1%, to RMB 10,259 million in 2006 from RMB 7,766 million in 2005. This increase was primarily due to an increase in the number of policies and overall amount of in-force business and an increase in investment income in 2006.

### **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 RMB 570 million, or 30.9%, to RMB 2,415 million in 2006 from RMB 1,845 million in 2005. Underwriting and policy acquisition costs were 2.4% and 2.3% of net premiums earned and policy fees in 2006 and 2005, respectively.

Of this amount, underwriting and policy acquisition costs in the individual life insurance business and group life insurance business together increased by RMB 444 million, or 31.3%, to RMB 1,862 million in 2006 from RMB 1,418 million in 2005. This increase was primarily due to the increase in business volume during the

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**Table of Contents**

period, as well as an increase in the sales of risk-type 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 RMB 126 million, or 29.5%, to RMB 553 million in 2006 from RMB 427 million in 2005. This increase was primarily due to the increase in business volume and increased market competition.

**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 RMB 2,102 million, or 29.0%, to RMB 9,339 million in 2006 from RMB 7,237 million in 2005. 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, increased by RMB 61 million, or 7.6%, to RMB 859 million in 2006 from RMB 798 million in 2005. This increase primarily reflected an increase in charity donations including RMB 50 million for the establishment of a charitable foundation.

**Income Tax**

We pay income tax according to applicable Chinese enterprise income tax regulations and rules. Income tax expense, including current and deferred taxations, increased by RMB 3,409 million, or 158.9%, to RMB 5,554 million in 2006 from RMB 2,145 million in 2005. This increase was primarily due to the increase in business volume. Our effective tax rate for 2006 was 21.7% 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 RMB 10,650 million, or 114.4%, to RMB 19,956 million in 2006 from RMB 9,306 million in 2005. This increase was primarily due to the increases in net profits of individual life and group life insurance businesses.

***Individual Life Insurance Business***

Net profit in the individual life insurance business increased by RMB 12,993 million, or 121.8%, to RMB 23,663 million in 2006 from RMB 10,670 million in 2005. This increase was primarily due to the increases in investment income and business volume of regular payment products.

***Group Life Insurance Business***

Net profit in the group life insurance business increased by RMB 1,377 million to RMB 864 million in 2006, from a net loss of RMB 513 million in 2005. This increase was primarily due to the increases in investment income and business volume of regular payment products.

***Accident and Health Insurance Business***

Net profit in the accident and health insurance business decreased by RMB 271 million, or 21.2%, to RMB 1,009 million in 2006 from RMB 1,280 million in 2005. The decrease in profitability was primarily due to increased market competition, which led to an increase in administrative expenses, offset in part by net fair value gains on assets at fair value through income (held-for-trading) in our accident and health insurance business.

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**Table of Contents**

**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. See Item 4. Information on the Company Business Overview Investments .

Additional sources of liquidity to meet unexpected cash outflows are available from our investment portfolio. As of December 31, 2007, the amount of cash and cash equivalents was RMB 25,317 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, 2007, the amount of term deposits was RMB 168,594 million.

Our investment portfolio also provides us with a source of liquidity to meet unexpected cash outflows. As of December 31, 2007, investments in debt securities had a fair value of RMB 439,067 million. As of December 31, 2007, investments in equity securities had a fair value of RMB 195,147 million. However, the 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 RMB 122,854 million in 2007, an increase of RMB 42,502 million from RMB 80,352 million in 2006. This increase was primarily due to increased sales and the maturity of financial assets at fair value through income (held-for-trading). Net cash provided by operating activities was RMB 80,352 million in the year ended December 31, 2006, an increase of RMB48,524 million from RMB 31,828 million in the year ended December 31, 2005. This increase was primarily due to increased sales and the maturity of financial assets at fair value through income (held-for-trading)

Net cash used in investment activities was RMB 138,514 million in 2007, a decrease of RMB 2,524 million from RMB 141,038 million in 2006. This decrease was primarily due to our increased sales of debt securities. Net cash used in investment activities was RMB 141,038 million in the year ended December 31, 2006, an increase of RMB 49,698 million from 2005. This increase in cash used in investing activities was primarily due to an increase in our debt securities and term deposits.

Net cash provided by financing activities was RMB (8,729) million in 2007, a decrease of RMB 92,042 million from RMB 83,313 million in 2006. This change was primarily due to large benefit

**Table of Contents**

payments under long-term investment type insurance contracts and investment contracts. Net cash provided by financing activities was RMB 83,313 million in the year ended December 31, 2006, an increase of RMB 22,596 million from 2005. The changes in cash provided by financing activities over these periods were primarily due to the cash proceeds from our A shares offering in December 2006.

Our global share offering in December 2003 provided cash proceeds of approximately RMB 24,707 million (US\$3,062 million). As at the end of 2007, part of the cash proceeds from our global offering was held in bank deposit accounts denominated in foreign currencies in China, part of which were held as structured deposits. We gradually converted approximately US\$300 million of the cash proceeds into Renminbi to reduce foreign exchange risks. In addition, we used approximately US\$250 million of the cash proceeds for investments in H shares of China Construction Bank Corporation during its initial public offering in 2005, a portion of which was sold early 2006, and approximately US\$425 million for investments in foreign-currency denominated debts in China. We used approximately HK\$1,175 million for investments in H shares of Bank of China Limited during its initial public offering in May 2006, approximately HK\$2,000 million for investments in H shares of Industrial and Commercial Bank of China Limited in its initial public offering in October 2006 and approximately US\$433 million for investments in Guangdong Development Bank in December 2006. During the year of 2007, we used approximately US\$126 million for investments in H shares of China Molybdenum Co., Ltd, China CITIC Bank Corporation Limited, China National Materials Company Limited and China Dongxiang (Group) Co., Ltd. during their initial public offerings in 2007.

Our A share offering in December 2006 provided cash proceeds of approximately RMB 27,810 million. We received such cash proceeds on December 29, 2006. The cash proceeds from our A share offering were used to increase our share capital.

**Insurance Solvency Requirements**

The solvency ratio of an insurance company is a measure of capital adequacy, which is calculated by dividing the actual solvency margin of the company (which is its admissible assets less admissible liabilities, determined in accordance with relevant rules) by the minimum solvency margin it is required to meet. See Item 4. Information on the Company Business Overview Regulatory and Related Matters Insurance Company Regulation Solvency requirements The following table shows the Company's solvency ratio as of December 31, 2007:

	<b>As of December 31, 2007</b> <b>(RMB in millions,</b> <b>except percentage data)</b>
Actual solvency margin	168,357
Minimum solvency margin	32,054
Solvency ratio	525%

Insurance companies are required to calculate and report annually to the CIRC their solvency margin 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 margin as of December 31, 2007 was approximately 5.25 times the minimum regulatory requirement. Among the twelve financial ratios, ten financial ratios were within their normal ranges as determined by CIRC. Our actual solvency ratio was slightly higher than the normal range provided by the CIRC. The increase in our actual solvency ratio was due to a change in relevant CIRC requirements for the calculation of the solvency ratio and a significant increase in our investment income. Our surrender rate was also higher than the normal range provided by the CIRC, which was primarily due to the trend towards investments in capital markets and implementation of enterprise annuity policies.

**Table of Contents****Contractual Obligations and Commitments**

The following tables set out our contractual obligations and commitments as of December 31, 2007.

	Not later than 1 year	Later than 1 year but not later than 3 years	Later than 3 years but not later than 5 years	Later than 5 years	Total
(RMB in millions)					
<b>As of December 31, 2007</b>					
Securities sold under agreements to repurchase	100				100
Off balance sheet operating leases	206	234	82	29	551
Capital commitments	663				663
<b>Total</b>	<b>969</b>	<b>234</b>	<b>82</b>	<b>29</b>	<b>1,314</b>
<b>Long-term Business</b>					
Long-term traditional insurance contracts	23,870	50,536	52,127	925,213	1,051,746
Long-term investment type insurance contracts	76,974	102,931	93,760	158,383	432,048
Investment contracts with discretionary participation feature	14,101	16,141	9,829	43,361	83,432
Investment contracts without discretionary participation feature	871	519	246	821	2,457
<b>Short-term Business</b>	<b>5,564</b>				<b>5,564</b>

Capital commitments represent our commitments with respect to the acquisition of property, plant and equipment.

The amounts set forth in the table above for long-term business and short-term business in each column are the cash flows representing expected future benefit payments on policies in force as at December 31, 2007, relating to premiums received through December 31, 2007. No consideration is given to future premiums payments or deposits from policyholders (and the cash flows resulting therefrom), even though in the case for traditional insurance policies and certain investment contracts, the receipt of such premiums is necessary for the policies to remain in full force. The estimate is affected by numerous assumptions (depending on the product type), including assumptions related to mortality, morbidity, lapses, withdrawals, credited rates, loss ratio, claim adjustment expenses and other assumptions which affect our estimates of future payments. Many of these assumptions are inherently uncertain and outside our control. Accordingly, the actual experience may differ from our estimates.

Furthermore, as the benefit payments reported in the table above are not discounted from the date of payment back to December 31, 2007 and do not reflect the impact of future premiums or future new deposits, the sum of these payment amounts are different from the amount of corresponding liabilities in our consolidated balance sheet as of December 31, 2007. Policyholder dividends will not become a contractual obligation until the applicable policy anniversary is reached and the dividend amount is credited to the policy benefit liability or paid to the policyholder, and hence are not included in the table above. Reinsurance recoveries have not been taken into account.

Other than as set forth under capital commitments, we had no material, individually or in the aggregate, purchase obligations as of December 31, 2007.

**RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES**

None.

**Table of Contents****TREND INFORMATION**

Please refer to our discussion in each section under Overview , Factors Affecting Our Results of Operations , Critical Accounting Policies and Operating Results .

**OFF-BALANCE SHEET ARRANGEMENTS**

As of December 31, 2007, we have not entered into any off-balance sheet arrangements.

**TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS**

See Liquidity and Capital Resources Contractual Obligations and Commitments .

**RECONCILIATION OF HONG KONG FINANCIAL REPORTING STANDARDS (HKFRS) AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (U.S. GAAP)**

The consolidated financial statements contained in this annual report have been prepared in accordance with HKFRS. There are no material differences between HKFRS and U.S. GAAP that had an effect on net profit for the years ended December 31, 2006 and 2005 and shareholders equity as at December 31, 2007 and 2006.

The corporate income tax rate applicable to China Life decreased from 33% for 2007 to 25% for 2008 with effect from January 1, 2008. Such tax rate changes are treated differently under HKFRS and U.S. GAAP, which resulted in an increase of RMB 4,746 million for the net profit under U.S. GAAP and a corresponding decrease of RMB 4,746 million for the equity reserves balance under U.S. GAAP for the year ended December 31, 2007. See Note 35 of the notes to the consolidated financial statements included elsewhere in this annual report.

**ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES.****DIRECTORS AND SENIOR MANAGEMENT**

The following table sets forth information regarding our current directors and executive officers. Unless otherwise indicated, their business address is c/o China Life Insurance Company Limited, 16 Chaowai Avenue, Chaoyang District, Beijing 100020, China.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Yang Chao	58	Chairman of the Board and executive director
Wan Feng	50	Executive director and Vice President
Lin Dairen	49	Vice President
Liu Yingqi	50	Vice President
Liu Jiade	45	Vice President
Zhou Ying	54	Chairman of Communist Party Disciplinary Commission
Su Hengxuan	45	Assistant to President
Shi Guoqing	56	Non-executive director
Zhuang Zuojin	56	Non-executive director
Long Yongtu	64	Independent non-executive director
Sun Shuyi	67	Independent non-executive director
Ma Yongwei	65	Independent non-executive director
Chau Tak Hay	65	Independent non-executive director
Cai Rang	51	Independent non-executive director
Ngai Wai Fung	46	Independent non-executive director
Liu Lefei	35	Chief investment officer
Liu Anlin	45	Chief information technology officer
Liu Ting an	46	Secretary of the Board
Shiu Wai Chung	54	Chief actuary





**Table of Contents****Directors**

**Yang Chao** became the Chairman of the Company in July 2005 and the President of China Life Insurance (Group) Company in May 2005. Between May 2005 and January 2006, he was the President of the Company. Between 2000 and 2005, Mr. Yang was the Chairman and President of both China Insurance (Holdings) Company Limited and China Insurance H.K. (Holding) Company Limited. Between 1996 and 2000, Mr. Yang was the Chairman and President of CIC Holding (Europe) Limited. Between 1977 and 1996, Mr. Yang had been a staff member of Bank of China, Shanghai branch, a staff member, Deputy Division Chief, Assistant to General Manager and Deputy General Manager of The People's Insurance Company of China, Shanghai branch, the General Manager of The People's Insurance Company of China, Shanghai Pudong branch, the General Manager of the Sales Department of The People's Insurance Company of China and the General Manager of the Sales Department of The People's Insurance (Group) Company of China. Mr. Yang graduated from Shanghai International Studies University and Middlesex University in the United Kingdom, majored in English and Business Administration, and had obtained a Master's degree in Business Administration. Mr. Yang, a Senior Economist, has more than 30 years of experience in the insurance and banking industries.

**Wan Feng** has been our president since September 2007. He is also the vice president of CLIC and the chairman of China Life Pension. He has been an executive director of our company since June 2006 and a vice president of our company since 2003. Mr. Wan has been in charge of our daily operations and management as authorized by our board resolution since January 31, 2007. Mr. Wan also serves as a director of CLPCIC since November 2006 and a director of China Life Insurance Asset Management Company Limited since January 2006. Prior to joining China Life, Mr. Wan served as a vice president of CLIC and general manager of its Shenzhen branch since 1999 and director of China Life CMG since 1999. Other positions in Mr. Wan's 26-year career in the insurance industry include general manager of the Shenzhen branch of PICC Life from 1997 to 1999. Before that, Mr. Wan had also served as a director and senior vice president of the Hong Kong branch of Tai Ping Life Insurance Company, assistant president of the Hong Kong branch of CLIC and deputy chief of the life insurance division at The People's Insurance Company of China, Jilin branch. He graduated from Jilin College of Finance and Trade with a bachelor's degree in economics; The Open University of Hong Kong with a Master's degree in Business Administration; and Nankai University in Tianjin with a doctorate degree in finance. Mr. Wan was awarded special allowance by the State Council and is a senior economist.

**Shi Guoqing** has been a non-executive director of our company since 2004 and a vice president of CLIC since August 2003. He is also the chairman of China Life Insurance (Overseas) Co., Ltd., the chairman of Shanghai PICC Tower Limited, and director of China Life-CMG, Beijing Oriental Plaza Co., Ltd., Hong Kong Huiyen Holding Company Limited, China International Trade Center Limited, China International Trade Center Company Limited, China World Trade Investments Limited and Shanghai Lujiazui Finance & Trade Zone United Development Co., Ltd., respectively. Before taking these positions, he served as assistant to general manager of CLIC from 1999 to 2003. Between 1995 and 1999, Mr. Shi acted as deputy general manager of PICC Life. From 1976 to 1995, he acted as a section member, section chief and deputy chief of overseas business divisions of PICC (acting chief), deputy general manager and general manager of China Insurance Co., Ltd., Macao branch, and executive deputy general manager of the international department of PICC. Mr. Shi graduated from Foreign Trade Business College of Beijing in 1976. During over 30 years in the insurance industry, he has accumulated extensive experiences both in operation and management of insurance businesses. Mr. Shi is a senior economist.

**Zhuang Zuojin** has been a non-executive director of our company since June 2006, and a vice president of CLIC since August 2003. Ms. Zhuang also serves on the boards of China Life Insurance Asset Management Company Limited since June 2004, China Life Asset Management (Hong Kong) Company Limited (since renamed China Life Franklin Asset Management Company Limited) since May 2006, and China Life-CMG since June 2000. Ms. Zhuang was an assistant to the president of CLIC from March 1999 to August 2003, and a vice general manager of the Zhejiang branch of CLIC, and the general manager of the Hangzhou branch of CLIC from March 1999 to October 2000. Ms. Zhuang was also the president of China Life Insurance Trust and Investment Company from June 1999 to October 2000, and a vice general manager of the Zhejiang branch of

**Table of Contents**

PICC Life, and the general manager of the Hangzhou branch of PICC Life from July 1996 to March 1999. From 1981 to 1996, she acted as accounting staff, deputy chief, chief and chief accountant of the planning and finance division of the Zhejiang branch of the People's Insurance Company of China. Ms. Zhuang graduated from the Correspondence College of the Central Party School with major in economics management, and studied Probability Statistics (insurance actuarial oriented) at Zhejiang University from September 1999 to January 2000. She is a senior accountant and has worked in insurance companies for over 27 years with extensive experience in insurance business operation and management. She is currently the vice president of Financial Accounting Society of China.

**Long Yongtu** has been an independent non-executive director of our company since 2003 and is also the General Secretary of Boao Asian Forum. Before leaving government service in early 2003, Mr. Long served as Vice Minister and Chief Negotiation Representative of MOFTEC, now the Ministry of Commerce, from 1997 onwards. Mr. Long also served as Assistant to the Minister, Director of International Trade and Economic Affairs and as Director of International Communication in the same ministry. Between 1980 and 1991, Mr. Long served as a senior officer at the regional project department of UNDP, Deputy Representative of the UNDP Korean Delegate Office and Deputy Director of China International Center for Economic and Technical Exchanges. A 1965 graduate of the Foreign Language Department of Guizhou University, Mr. Long studied at the London School of Economics between 1973 and 1974 and received an Honorary Doctorate of Economics from the London School of Economics and Political Science in 2005.

**Sun Shuyi** has been an independent non-executive director of our company since 2004. Mr. Sun is also the executive vice president of China Federation of Industrial Economics, vice chairman of United China Enterprise Association, executive vice president of China Enterprise Association, deputy supervisor of China Brand Promotion Committee and member of the 10th Chinese People's Political Consultative Conference. From 1993 to 2001, Mr. Sun acted as the deputy chief of General Office, deputy director of the Personnel Department of the Central Steering Committee of Financial Affairs of China, deputy party secretary of Central Government Enterprise Working Committee. From 1988 to 1993, he was the deputy head of the Finance Management Department and the deputy head and head of the Production System Department of the State System Reform Commission. Mr. Sun graduated from the University of Science and Technology of China in 1963 and is a senior engineer and a certified public accountant.

**Ma Yongwei** has been an independent non-executive director of our company since 2006. Mr. Ma has been a member of the Standing Committee of National Committee of Chinese People's Political Consultative Conference since 2003. He was the chairman of the CIRC from 1998 to 2002. Mr. Ma possesses more than 37 years' experience in the banking and insurance industries. From 1996 to 1998, he served as the chairman and president of former China Insurance Group Company. From 1994 to 1996, he served as chairman and president of former PICC. From 1982 to 1994, Mr. Ma served as deputy chief of the agricultural credit division of Agricultural Bank of China, Anhui Branch, vice governor of Anhui Branch, and vice governor and governor of Agricultural Bank of China. Mr. Ma graduated from Finance Department of Liaoning Finance and Economic University in 1966. Mr. Ma is a researcher.

**Chau Tak Hay** has been an independent non-executive director of our company since 2003. Prior to this, Mr. Chau occupied a number of important positions in the Hong Kong Government. They include Secretary for Commerce and Industry, Secretary for Broadcasting, Culture and Sport, Director General of Trade and Secretary for Health and Welfare. Mr. Chau graduated from the University of Hong Kong in 1967.

**Cai Rang** has been an independent non-executive director of our company since 2004. Mr. Cai is the party secretary and deputy general manager of China Steel Research Technology Group, and vice chairman of Advanced Technology & Materials Co., Ltd. He is also a committee member of Chinese People's Political Consultative Conference of Beijing and a committee member of Chinese People's Political Consultative Conference. From 1998 to 2007, he was the president of Advanced Technology of Materials Co., Ltd. From 1987 to 2001, he was a division chief, deputy chief economist, assistant to director and deputy director of the Central

## **Table of Contents**

Iron and Steel Research Institute. Mr. Cai graduated from the Machinery Faculty of the Northeastern Industry University in 1982 with a bachelor's degree of engineering. He studied at the New York State University from 1984 to 1986, and graduated with an MBA degree. He pursued on-the-job studies at the School of Business Administration of Renmin University of China from 1997 to 2001 and obtained a doctorate degree in business administration. From 1997 to 1998, Mr. Cai was a visiting professor at the Cambridge University in the United Kingdom. Mr. Cai is a professor-level senior engineer and was awarded special allowance by the State Council.

**Ngai Wai Fung** became an Independent Non-Executive Director of the Company in December 2006. He is the Non-executive Chairman of Top Orient Group of Companies, Director and head of listing services of KCS Limited (formally the commercial division of KPMG and GT), vice president of the Hong Kong Institute of Chartered Secretaries, and the Chairman of its China Affairs Committee and Membership Committee. He has held many senior management positions, including executive Director, chief financial officer and company secretary of a number of listed companies in Hong Kong, including COSCO, China Unicom Limited and Industrial and Commercial Bank of China (Asia) Ltd. Mr. Ngai has over 18 years of senior management experience, most of which is in the areas of finance, accounting, internal control and regulatory compliance for issuers including major H share and red chip companies. Mr. Ngai played a leading role or took part in important corporate finance projects such as listing, acquisitions and mergers and bond issuance. He has provided professional services and support in regulatory compliance, corporate governance and secretarial services to various state-owned enterprises and red chip companies. He is a fellow of The Association of Chartered Certified Accountants, Hong Kong Institute of Certified Public Accountants, fellow member of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries, and member of The Hong Kong Institute of Directors and Hong Kong Securities Institute. Mr. Ngai graduated from Andrews University of Michigan in 1992, and obtained a Masters Degree in Business Administration, and graduated from Hong Kong Polytechnic University in 2002, and obtained a Masters Degree in Finance. He is currently studying for a doctorate in Finance at the Shanghai University of Finance and Economics.

## **Board of Supervisors**

### ***Supervisors***

The following table sets forth information regarding our current supervisors.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Xia Zhihua	53	Chairperson of Board of Supervisors
Wu Weimin	56	Supervisor
Qing Ge	57	Employee Representative Supervisor
Yang Hong	41	Employee Representative Supervisor
Tian Hui	56	Outside supervisor

**Xia Zhihua** has been the chairperson of our supervisory committee since March 2006. As the representative of the PRC State Council, Ms. Xia supervised CLIC, and China Export & Credit Insurance Corporation between August 2003 and December 2005, China Great Wall Asset Management Corporation between November 2001 and July 2003, and China Economic Development Trust & Investment Corporation between July 2000 and November 2001. She served as deputy chief of the Supervisory Committee, deputy chief of Administration Office, chief of supervisory committee and head of Administration Office respectively. Ms. Xia joined the Ministry of Finance in December 1984, and positions she held in this ministry include the assistant inspector of the Treasury from June 2000 to July 2000; the deputy department chief of Treasury Bond Finance Department from July 1998 to June 2000; the deputy department chief of Treasury Bond Department from July 1997 to June 1998; a staff member of the Training and Administrative Finance Department, section chief, deputy division chief and division chief in the Domestic Debt Management Department from December 1984 to June 1997. Ms. Xia graduated from Economics Department of Xiamen University and received a bachelor's degree in politics and economics and a master's degree in world economics.

**Table of Contents**

**Wu Weimin** has been a supervisor of our company since 2003. Mr. Wu serves as the general manager of the compliance department of our company. Prior to assuming this role, Mr. Wu had served as deputy secretary of the disciplinary committee, director of the supervision office, deputy general manager of the organization department and vice general manager of the personnel education department of CLIC since 1998. Earlier in his career, Mr. Wu served as vice general manager of the human resources department and division chief of the compensation division of PICC Group between 1995 and 1998. Before entering the insurance industry, Mr. Wu held a position with the labor wages bureau of the Ministry of Communications. In 1997, he studied insurance at the China Insurance Management Staff Institute. He is a senior economist.

**Qing Ge** has been a supervisor of our company since June 2006. He is currently the person in charge of the project team of our Beijing IT Center, and has been both the general manager of the working department and the

**Table of Contents**

deputy director of the Trade Union of our company since September 2005. Between September 2003 and September 2005, Mr. Qing was the deputy general manager of our Beijing branch. From 1999 to September 2003, he was the general manager of Inner Mongolia branch and deputy general manager of Beijing branch of CLIC. From July 1996 to April 1999, he was the general manager of Inner Mongolia branch of PICC Life. From 1993 to 1996, he was the deputy general manager and party secretary of The People's Insurance Company of China, Inner Mongolia branch. Mr. Qing graduated from South China University of Technology with undergraduate education qualification. He is a senior economist.

**Yang Hong** has been a supervisor of our company since October 2006 and has acted as the general manager of our Customer Service Department since October 2006. From October 1998 to October 2006, Ms. Yang held positions in our Business Management Department including a staff member of Deed Division, head and deputy division chief of Customer Service Division, assistant to general manager and division chief of Customer Service Division, assistant to general manager and deputy general manager. From December 1995 to October 1998, Ms. Yang served as a staff member of the Equipment Division and Network Division of Information Technology Department of PICC Life. Between August 1989 and December 1995, Ms. Yang worked for the Development Division of Computer Department of The People's Insurance Company of China and the Second Marketing Department of PICC Electronics Company Limited. Ms. Yang graduated from the Computer Department of Jilin University with a bachelor degree.

**Tian Hui** became a Supervisor of the Company in June 2004. He is currently the Director and Party Secretary of China Coal International Engineering Research Institute. He was the Director and Party Secretary of China Coal International Engineering Research Institute, from June 2006 to January 2007, Director and Deputy Party Secretary of China Coal International Engineering Research Institute from 2000 to 2006. From 1998 to 2000, he was the Director and Deputy Party Secretary of the Beijing Coal Design Institute (Group). From 1982 to 1998, Mr. Tian was the Deputy Division Chief, Division Chief and Deputy Director of Shenyang Design Institute of the Ministry of Coal Industry. He became Deputy Chairman of the China Coal Industry Association from 2003. Mr. Tian obtained Bachelor's and Doctor's degrees from Fuxin Minery School and China University of Mining & Technology Beijing respectively. Mr. Tian is a professor-level senior engineer and a Master of China Construction Design, and was awarded special allowance by the State Council.

***Senior Management***

**Lin Dairen** has been a vice president of our company since 2003 and has been an executive director and president of China Life Pension since November 2006. Prior to joining China Life, Mr. Lin served as general manager of CLIC's Jiangsu branch from 2001 to 2003, deputy general manager of CLIC's Jiangsu branch from 1999 to 2001, and deputy general manager of PICC Life's Jiangsu branch from 1996 to 1999. Prior to that, Mr. Lin served as a division chief of life insurance division of PICC Jiangsu Branch from 1994 to 1996 and vice president of Nanjing Life Insurance Company Limited; a deputy division chief of life insurance division of PICC Jiangsu Branch from 1989 to 1994 (acting chief); and deputy manager, section chief, vice section chief and section member of domestic business department of PICC Jiangsu Branch. As a senior economist, Mr. Lin brings to China Life his 27 years' extensive operations and management experience in the insurance industry.

**Liu Yingqi** has been a vice president of our company since January 2006. Ms. Liu was the chairperson of our Board of Supervisors from August 2003 to January 2006. Ms. Liu became the General Manager of Group Insurance Department of former China Life Insurance Company, Deputy General Manager of former China Life Insurance Company, Anhui branch, and Deputy General Manager of former China Life Insurance Company, Hefei branch (General Manager rank) from 1997. Prior to this, Ms. Liu worked with former PICC's Anhui branch, where she served as both division chief of the accident insurance division and deputy division chief of the life insurance division. Ms. Liu graduated with a BA in Economics from Anhui University in 1982. Ms. Liu has over 21 years operational and management experience in the life insurance industry in China. Ms. Liu, a senior economist, has extensive experience in operation and management.

**Table of Contents**

**Liu Jiade** has been a vice president of our company since 2003 and has been a director of China Life Asset Management Company Limited since June 2004. Mr. Liu served as Director of China Life Franklin Asset Management Company Limited from May 2006 and became the Director of Guangdong Development Bank in December 2006. He was the vice director of the Finance Bureau of the Ministry of Finance since 2000, and the division chief in the Treasury Bond Bureau of the Ministry of Finance from 1998 to 2000. Prior to this, Mr. Liu was the Deputy County Chief of the People's Government of Guan Tao County in Hebei Province, and Deputy Division Chief and Division Chief in the Commercial Finance Bureau in the Ministry of Finance. During his tenure at the Ministry of Finance, Mr. Liu gained extensive experience in the administration of assets, finance and taxation of insurance companies, banks, trust companies and securities institutions. Mr. Liu graduated from Central Finance College in 1984 (now Central University of Finance and Economics) with a bachelor's degree in economics.

**Zhou Ying** became the secretary of the commission for disciplinary inspection of the Company in November 2006. Mr. Zhou served as Director of the Fifth Office (at Deputy Bureau level) and as a Designated Director in Beijing State-owned Enterprise Supervisory Committee (at Deputy Bureau level) from May 2004 to November 2006. He was the Party Commission Member, Team Leader of Discipline Inspection Group, Deputy Party Secretary, Secretary of the Disciplinary Committee of Hua Xia Bank from January 1998 to May 2004. He was the Deputy Director of Central Office for Taiwan Affairs of Beijing Municipal Government for August 1992 to January 1998. From February 1981 to August 1992, he held various positions including the Vice President of the Propaganda Department, Deputy Office Director, Office Director, Committee Member and Office Director, Committee Member and Secretary, and Deputy Party Secretary of Beijing Municipal Committee of China Communist Youth League. Mr. Zhou graduated from University of Science and Technology of China with a MBA.

**Su Hengxuan** became the Assistant President of the Company from January 2006. Mr. Su acted as Director of CLPCIC from November 2006, and became the Director of Insurance Professional College from December 2006 and Director of China Life Security Insurance Agency Company Limited from December 2007. He was the General Manager of the Company's Individual Life Insurance Business Department from 2003 to 2006. From 1998 to 2003, Mr. Su served as Deputy General Manager, Division Chief of Agency Management Office and Manager of Sales Department of former China Life Insurance Company, Henan branch, and General Manager of Individual Business Department of former China Life Insurance Company. Prior to this, Mr. Su served as the Division Chief of Life Insurance Division and Division Chief of Sales Division of PICC Life, Henan branch from 1996 to 1998. From 1983 to 1996, Mr. Su served as Deputy Chief and Section Chief of Life Insurance Division of PICC, Henan Branch. Mr. Su graduated from Banking School, Henan Province in 1983 and graduated from Wuhan University in 1998 with a Bachelor's degree in Insurance and Finance, majoring in Insurance. Mr. Su, a senior economist, has over 25 years of experience in the Chinese life insurance industry and insurance management.

**Liu Lefei** has been our chief investment officer and the general manager of our investment management department of the Company from July 2006 and August 2004, respectively. Mr. Liu became the Director of Guangdong Development Bank from December 2006. He has been a director of China Life Franklin Asset Management Company since October 2007. He was the General Manager of Investment Management Department of China Galaxy Securities Company Limited, and General Manager of Beijing Galaxy Investment Advisers Company from 2003 to 2004. Mr. Liu acted as Deputy General Manager of Zhongye Anxin Industrial Corporation under the Ministry of Metallurgy of the State, and Executive Director of Capital Securities Company from 1998 to 2003. During the period from 1995 to 1998, Mr. Liu worked for the General Department of the Ministry of Finance. Mr. Liu was the Member of the 9th and the 10th Sessions of All China Youth Federation, and served as a Member of Xinhua FTSE Index Committee and a Member of Reuters China Pension Index Advisory Committee. Mr. Liu graduated from Renmin University of China with a Bachelor's degree in Economics in 1995, Graduate School of the Chinese Academy of Social Sciences in 1998, and China Europe International Business School with a Master's degree in Business Administration majoring in Finance in 2006.

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**Table of Contents**

**Liu Anlin** became the Chief Information Technology Officer of the Company in July 2006. Mr. Liu was the Deputy Head and General Manager of Information Technology Department of the Company from November 2002 to July 2006, and General Manager of Human Resources Department of former China Life Insurance Company from November 2001 to November 2002. Prior to this, he was the Deputy Division Chief of Company Division of former China Life Insurance Company, Gansu Branch, and Assistant General Manager of former China Life Insurance Company, Gansu Branch from April 1999 to November 2001, Assistant Deputy Chief and Deputy Division Chief of Computer Division of PICC Life, Gansu Branch from June 1996 to April 1999, Manager of Technology Division of Computer Center of PICC, Gansu Branch, and Manager of Technology Development Division of PICC Technology and Electronics Company Limited in Gansu from January 1995 to June 1996. Mr. Liu graduated from Mathematics and Mechanics Department of Lanzhou University and majored in Computer Mathematics, with a Bachelor's degree in Science in 1985 and obtained a Master's degree in Business Administration from Tsinghua University in 2006. He is studying the doctorate in Risk Management in Beijing Normal University.

**Liu Ting an** has been the secretary of our board of directors since 2003 and our spokesman since November 2007. From 2000 to 2004, he acted as the general manager of the investment department of former China Life Insurance Company. From 1995 to 2000, he served as the assistant to the head of former Hainan Development Bank. From 1997 to 2000, he served as the head of former Hainan Development Bank, Guangzhou Branch. Prior to this, he was the division chief and deputy division chief of the Planning Division and Integrated Planning and Pilot Division of the State Restructuring and Reform Commission. Mr. Liu graduated from Jiangxi Finance and Economic College, Renmin University of China and obtained Bachelor's and Master's degrees in Economics respectively. From 1990 to 1991, he studied in St. Edmund School of Oxford University in Britain. Mr. Liu is a senior economist.

**Shiu Wai Chung** has served as the Chief Actuary of the Company since March 2007. Ms. Shiu had been the Senior Deputy President and Chief Actuary of subsidiaries under Prudential Financial Group of the United States, and has accumulated extensive working experience in insurance companies. She acted as the President and Senior Officer of many actuary societies, and obtained the qualifications of CFA (Chartered Financial Consultant), CEBS (Certified Employee Benefit Specialist), CHFC (Chartered Financial Consultant), CLU (Chartered Life Underwriter), MAAA (Member of the American Academy of Actuaries), FSA. Ms. Shiu obtained a Bachelor's degree from National Chengchi University in Taiwan and a Master's degree from University of Iowa, US.

## COMPENSATION

### Compensation of Directors, Supervisors and Officers

Our directors, supervisors and executive officers receive compensation in the form of salaries, bonuses, housing allowances and other benefits-in-kind, including our contribution to the pension plan on behalf of our directors, supervisors and executive officers. As required by PRC regulations, we participate in various defined contribution retirement plans organized by provincial and municipal governments for our employees, including employees who are directors, supervisors and executive officers.

**Table of Contents**

The following table sets forth the amounts of compensations payable to each of our directors and supervisors for the fiscal year ended December 31, 2007.

Name	Salaries/Fees	Discretionary Bonus	Inducement Fees	Other Benefits In RMB	Employer's Contribution To Pension Scheme	Compensation for loss of office as director	Total
Yang Chao	640,000	1,325,333			21,164		1,986,497
Wu Yan <sup>(1)</sup>	53,333	1,105,722			1,640		1,160,695
Wan Feng	613,625	1,248,425			21,164		1,883,214
Shi Guoqing							
Zhuang Zuojin							
Long Yongtu	250,000						250,000
Sun Shuyi	270,000						270,000
Ma Yongwei	250,000						250,000
Chau Tak Hay	270,000						270,000
Cai Rang	270,000						270,000
Ngai Wai Fung	270,000						270,000
Xia Zhihua	533,500	1,095,367			21,164		1,650,031
Wu Weimin	331,500	499,900			21,164		852,564
Qing Ge	334,208	500,775			21,164		856,147
Yang Hong	344,500	463,417			21,164		829,081
Tian Hui				120,000			120,000
<b>Total</b>	<b>4,430,666</b>	<b>6,238,939</b>		<b>120,000</b>	<b>128,624</b>		<b>10,918,229</b>

(1) resigned as the executive director on January 26, 2007.

The following table sets forth the amounts of compensations payable to each of our executive officers other than those disclosed in the table above, including vice presidents and assistant to president who are not our directors and our chief investment officer, chief information technology officer, chief actuary and chairman of communist party disciplinary commission, for the year ended December 31, 2007.

The HKSE Listing Rules do not require the disclosure of compensation of senior management on an individual basis. The following information was disclosed by us in our A share annual report for the fiscal year ended December 31, 2007.

Name	Total In RMB
Lin Dairen	1,740,000
Liu Yingqi	1,740,000
Liu Jiade	1,840,000
Zhou Ying	820,000
Su Hengxuan	1,420,000
Liu Lefei	1,430,000
Liu Anlin	1,290,000
Liu Tingan	1,330,000
Shiu Wai Chung	6,030,000
<b>Total</b>	<b>17,640,000</b>





## **Table of Contents**

RMB 169,312 (US\$23,211) was contributed to various defined contribution retirement plans as described above.

The aggregate amount of compensation we paid to our five highest paid individual employees during the year ended December 31, 2007 was approximately RMB 13,489,377 (US\$1,849,227).

### ***Senior Management Compensation System***

In order to provide better incentives for our senior management and to enhance further the alignment between our senior management's performance and our shareholders' value, our shareholders, upon the recommendation of our board of directors, have adopted a compensation system for our senior management, which was designed with the assistance of an independent compensation consulting firm. The system is designed to link our senior management's financial interests with our results of operations and the performance of our shares. Under this system, our senior management's compensation will consist of three components:

basic salaries and other fixed allowances;

short-term incentive compensation (annual performance bonuses); and

long-term incentive compensation in the form of stock appreciation rights, which generally entitle recipients to receive cash payments when the market price of our H shares rises above the exercise price granted in the stock appreciation rights.

The variable components in our senior management's compensation, which consist of performance bonuses and stock appreciation rights, account for 30% to 70% of their total potential compensation. Generally, the more direct impact the recipient's responsibilities have on our final operating results, the larger the variable portion of the recipient's compensation package will be.

The annual performance bonuses are closely linked with our annual results of operations and the individual performance of our senior management. We have established a complete performance management system, under which key performance indicators are assigned to each position. For example, the key performance indicators assigned to our chief actuary position include the ratio of profitable products to all insurance products, as well as the profit ratio of new insurance products. The key performance indicators assigned to the general manager of our human resources department include the retention rate of specified key positions, the degree of satisfaction of other departments in the general manager's performance and the duration of vacancies of our senior management.

The issuance of stock appreciation rights does not involve any issuance of new shares, nor does it have a dilutive effect on our shareholders. Stock appreciation rights may be awarded to the senior management and other outstanding personnel, including members of the board of directors and the board of supervisors (but excluding independent non-executive directors and independent supervisors), the president, vice presidents, heads of the departments and divisions in our headquarters, general managers and deputy general managers of our principal and municipal branches, senior professionals and technicians of key positions, such as the chief actuary, as well as exclusive agents with outstanding performance. Our board of directors will determine the recipients of stock appreciation rights according to internal procedures.

Stock appreciation rights will be awarded in units, with each unit representing one H share. Among the senior management to whom stock appreciation rights are awarded, the ratio between the highest and the lowest awards will in general not exceed 18:1, with the number of units of the highest award not exceeding 10% of the total units awarded to all participants. The total number of stock appreciation rights that have been awarded but not exercised or cancelled and the total number of stock appreciation rights that have been exercised may not exceed 0.5% of our issued share capital, including both A shares and H shares. During any fiscal year, the number of stock appreciation rights awarded may not exceed 0.2% of our issued share capital.

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**Table of Contents**

According to this plan, all stock appreciation rights will have an exercise period of five years and will not be exercisable before the fourth anniversary of the date of award unless specified market or other conditions have been met. Under these market conditions, the exercise right may be accelerated, on a cumulative basis, if the share price rises by the percentages and within the time periods indicated below. Upon an employee's completion of four years of continuous service after the date of award, all of the stock appreciation rights will be exercisable, regardless of the extent, if any, to which the performance criteria set forth below have been satisfied.

A total of one-third of the stock appreciation rights may be exercised provided that within 6 to 18 months from the date of award, the share price is at least 10% higher than the exercise price for a period of 20 consecutive trading days;

If such portion of the stock appreciation rights have not already become exercisable during the period between 6 and 18 months from the award date, a total of one-third of the stock appreciation rights may be exercised provided that within 18 to 30 months from the date of award, the share price is 10% to 20% higher than the exercise price for a period of 20 consecutive trading days. Additionally, a total of two-thirds of the stock appreciation rights (that is, inclusive of any portion of the stock appreciation rights that have been exercisable by achieving the lower stock thresholds in the relevant period) may be exercised if, during the period from 18 to 30 months from the date of award, the share price is more than 20% higher than the exercise price for a period of 20 consecutive trading days; and

If such portion of the stock appreciation rights have not already become exercisable during the period between 6 and 30 months from the award date, a total of one-third of the stock appreciation rights may be exercised provided that after 30 months from the date of award, the share price is 10% to 20% higher than the exercise price for a period of 20 consecutive trading days and a total of two-thirds of the stock appreciation rights may be exercised if the share price is more than 20% higher during such period. Additionally, all of the stock appreciation rights may be exercised if the share price is more than 30% higher for a period of 20 consecutive trading days at any time after 30 months from the award date.

The exercise price of stock appreciation rights will be the average closing price of the shares in the five trading days prior to the date of the award. Upon exercise of the stock appreciation rights, the exercising participant will receive payment in Renminbi, subject to any withholding tax, equal to the number of stock appreciation rights exercised times the difference between the exercise price and market price of the H shares at the time of exercise.

As disclosed in our annual report under the rules of Hong Kong Stock Exchange for the fiscal year of 2004 and submitted to the SEC on Form 6-K on May 5, 2005, subject to the approval by our board of directors, we planned to award stock appreciation rights to our senior management personnel in 2005. Accordingly, our board of directors approved, on January 5, 2006, an initial award of stock appreciation rights of 4,053,015 units of stock appreciation rights, each representing one H share, to our senior management personnel, including our chairman of the board of directors, executive directors, non-executive directors (excluding independent non-executive directors), chairman of the board of supervisors, internal supervisors, president, vice presidents, secretary to the board of directors, appointed actuary and appointed legal officer as required by the CIRC, head of key departments in our headquarters and heads of our branches at the provincial level. The award covered 68 personnel existing at July 1, 2005, and the exercise price of the rights was the average closing price of our H shares in the five trading days prior to July 1, 2005.

On January 5, 2006, our board of directors approved in principle our second award plan of stock appreciation rights. On August 21, 2006, our board of directors further approved the second award plan of stock appreciation rights consisting of approximately 53,220,000 units awarded to the senior management and outstanding personnel, including the personnel covered under our initial award plan, deputy managers and assistants to the managers of the departments in our headquarters, managers and certain qualified deputy managers of the divisions in our headquarters, deputy managers and equivalent management personnel of our branches at the provincial level, assistants to the managers, outstanding management personnel of our branches at

**Table of Contents**

the municipal level and outstanding exclusive agents. The exercise price of the rights was the average closing price of our H shares in the five trading days prior to January 1, 2006.

On December 29, 2006, our board of directors also approved in principle our third award plan of stock appreciation rights, and the exercise price of the rights is the average closing price of our shares in the five trading days prior to January 1, 2007. On June 12, 2007, our board of directors further approved the third award plan of stock appreciation rights consisting of approximately 51 million units to be awarded to the management and outstanding personnel, including the personnel who, during the period from June 30, 2006 to January 1, 2007, joined us at the positions or were promoted to the positions which would otherwise be eligible to be awarded the stock appreciation rights under our second award plan; general managers and deputy general managers (including equivalent management personnel) of the branches at the municipal level excluding those who have already been awarded the stock appreciation rights; general managers and deputy managers at the county level who had outstanding performance in 2006; and outstanding exclusive agents and model employees. As of the date of this annual report, the third award of stock appreciation rights had not been granted.

The table below sets forth the numbers of stock appreciation rights awarded to members of our senior management under award plan described above.

Name	Number of Stock Appreciation Rights Awarded
Yang Chao	990,000
Wu Yan <sup>(1)</sup>	900,000
Wan Feng	808,000
Shi Guoqing	668,000
Zhuang Zuojin	668,000
Xia Zhihua	742,000
Wu Weimin	282,000
Qing Ge	282,000
Yang Hong	174,000
Other executive officers	3,448,000
<b>Total</b>	<b>8,962,000</b>

(1) resigned as the president on January 31, 2007

**BOARD PRACTICES****General**

Our board of directors consists of ten members. Our directors are elected to serve a term of three years, which is renewable upon re-election. Our directors are elected at meetings of our shareholders, and, unless they resign at an earlier date, are deceased or removed, will serve three-year terms. The term of our current board of directors started in June 2006 and will expire in June 2009. Our directors are not currently entitled to severance benefits other than benefits provided by law upon termination of employment. In the event China Life is acquired, including an acquisition of control by another person, and a director leaves employment or retires following the acquisition, the director may receive severance and other payments upon approval by the shareholders in general meeting.

We have identified various board members as being independent, in accordance with Hong Kong laws and regulations. These requirements vary in certain respects from independence requirements under U.S. law. The members of our audit committee are independent as construed by the rules of New York Stock Exchange applicable to us.

**Table of Contents**

The PRC company law requires a joint stock company with limited liability to establish a board of supervisors. Our board of supervisors is responsible for monitoring our financial matters and supervising the actions of our board of directors and our management personnel. Our board of supervisors consists of five members. One-third of our board of supervisors must be elected by our employees. The remaining members must be elected by our shareholders in a general meeting. One member of our board of supervisors is designated as the chairman. Members of our board of supervisors may not serve as director or member of senior management. The term of office for our supervisors is three years, which is renewable upon re-election.

**Board Committees**

We have established standing audit, nomination and remuneration, risk management and strategic committees.

The primary duties of the audit committee are to review and supervise the financial reporting process, to access the effectiveness of our internal control system, to supervise our internal audit system and to implement and recommend engagement or replacement of external auditors. Our audit committee is currently comprised of Sun Shuyi, Chau Tak Hay, Cai Rang and Ngai Wai Fung.

The primary duties of the nomination and remuneration committee are to review the structure of the board of directors, review and recommend the appointment of directors and senior management, as well as to formulate the training and compensation policies for our senior management and to manage our senior management compensation system. Our nomination and remuneration committee is currently comprised of Cai Rang, Sun Shuyi, and Shi Guoqing.

The primary duties of the risk management committee are to assist the management in managing our internal and external risks. Our risk management committee is currently comprised of Ma Yongwei, Wan Feng and Zhuang Zuojin.

The primary duties of the strategic committee are to formulate our overall development plans and investment decision-making procedures. Our strategic committee is currently comprised of Long Yongtu, Wan Feng and Shi Guoqing.

**EMPLOYEES**

As of December 31, 2005, 2006 and 2007, we had approximately 76,000, 77,000 and 96,700 employees, respectively. The following table sets forth the number of our employees by their functions as of December 31, 2007.

	2005		As of December 31 2006		2007	
	Number of employees	% of total	Number of employees	% of total	Number of employees	% of total
Management and administrative staff	9,303	12.28%	11,643	15.06%	18,535	19.17%
Financial and auditing staff	5,335	7.05%	5,501	7.11%	7,931	8.20%
Sales and marketing staff <sup>(1)</sup>	33,674	44.47%	32,373	41.87%	25,473	26.34%
Underwriters, claim specialists and customer service staff	15,950	21.06%	17,108	22.13%	33,703	34.85%
Other professional and technical staff <sup>(2)</sup>	1,779	2.35%	1,905	2.46%	2,742	2.84%
Other	9,687	12.79%	8,788	11.37%	8,314	8.60%
<b>Total</b>	<b>75,728</b>	<b>100%</b>	<b>77,318</b>	<b>100%</b>	<b>96,698</b>	<b>100%</b>

(1) Includes direct sales representatives.

(2) Includes actuaries, product development personnel, investment management personnel and information technology specialists.

**Table of Contents**

As of December 31, 2005, 2006 and 2007, we had approximately 640,000, 650,000 and 638,000 exclusive agents, respectively. The decrease in number of our exclusive agents from 2006 to 2007 was primarily due to the strengthened performance review conducted by us in 2007, as a result of which a number of exclusive agents with lower productivity or without a CIRC qualification left.

None of our employees is subject to collective bargaining agreements governing employment with us. We believe that our employee relations are satisfactory.

**SHARE OWNERSHIP**

As of the date of this annual report, except for our independent director, Mr. Ngai Wai Fung, who owns 2,000 H shares, none of our directors, supervisors or senior managers is a legal or beneficial owner of any shares of our share capital.

**ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS.****MAJOR SHAREHOLDERS**

The table sets forth information regarding the ownership of our share capital as of April 14, 2008 by all persons who are known to us to be the beneficial owners of 5% or more of each class of our share capital.

Title of Class	Identity of Person or Group	Amount Owned	Percentage of Class	Percentage of Total Share Capital
A Shares	China Life Insurance (Group) Company	19,323,530,000(L)	92.80%	68.37%
H Shares	Lee Shau Kee <sup>(1)</sup>	428,358,620(L)	5.76%	1.52%
H Shares	Leeworld (Cayman) Limited <sup>(1)</sup>	428,358,620(L)	5.76%	1.52%
H Shares	Leesons (Cayman) Limited <sup>(1)</sup>	428,358,620(L)	5.76%	1.52%
H Shares	Lee Financial (Cayman) Limited <sup>(1)</sup>	428,358,620(L)	5.76%	1.52%
H Shares	Shau Kee Financial Enterprises Limited <sup>(1)</sup>	428,358,620(L)	5.76%	1.52%
H Shares	Richbo Investment Limited <sup>(1)</sup>	428,358,620(L)	5.76%	1.52%
H Shares	Deutsche Bank Aktiengesellschaft <sup>(2)</sup>	863,050,852(L)	11.60%	3.05%
		591,314,167(S)	7.95%	2.09%
H Shares	JPMorgan Chase & Co. <sup>(3)</sup>	594,332,529(L)	7.99%	2.10%
		182,693,978(S)	2.46%	0.65%
		134,008,400(P)	1.80%	0.47%
H Shares	UBS AG <sup>(4)</sup>	461,238,864(L)	6.20%	1.63%
		146,951,348(S)	1.97%	0.52%

The letter L denotes a long position. The letter S denotes a short position. The letter P denotes interest in a lending pool.

(1) These references to 428,358,620 H Shares relate to the same block of shares in the Company.

These 428,358,620 H shares were held by Richbo Investment Limited ( Richbo ), an indirect wholly-owned subsidiary of Shau Kee Financial Enterprises Limited ( Shau Kee Financial ). Lee Financial (Cayman) Limited ( Lee Financial ) as trustee of a unit trust (the Unit Trust ) owned all the issued shares of Shau Kee Financial. Leeworld (Cayman) Limited ( Leeworld ) and Leesons (Cayman) Limited ( Leesons ), as trustees of respective discretionary trusts, held units in the Unit Trust. Mr. Lee Shau Kee owned the entire issued share capital of Lee Financial, Leeworld and Leesons. Accordingly, Mr. Lee Shau Kee, Lee Financial, Leeworld, Leesons, Shau Kee Financial and Richbo were taken to have an interest in these 428,358,620 H shares.



**Table of Contents**

- (2) Deutsche Bank Aktiengesellschaft was interested in a total of 863,050,852 H shares in accordance with the provisions of Part XV, SFO. Of these shares, Deutsche Asset Management (Asia) Limited, Deutsche Asset Management International GmbH, DWS Investment GmbH, Deutsche Vermögensbildungsgesellschaft mit beschränkter Haftung, DWS Investment S.A., Luxemburg, Deutsche Bank AG Frankfurt, Deutsche Bank (Suisse) S.A, Deutsche Bank AG Singapore Branch, Deutsche Investment Management Americas Inc., DWS Trust Company, Deutsche Bank Trust Company Americas and Deutsche Bank AG London Branch were interested in 13,184,000 H shares, 922,000 H shares, 3,000,000 H shares, 330,000 H shares, 9,880,000 H shares, 18,000 H shares, 110,000 H shares, 330,000 H shares, 1,476,000 H shares, 7,500 H shares, 416,000 H shares and 754,600 H shares respectively. All of these entities are either controlled or indirectly controlled subsidiaries of Deutsche Bank Aktiengesellschaft.

Deutsche Bank Aktiengesellschaft held by way of attribution a short position as defined under Part XV, SFO in 591,314,167 H shares (7.95%).

- (3) JPMorgan Chase & Co. was interested in a total of 594,332,529 H shares in accordance with the provisions of Part XV, SFO. Of these shares, JPMorgan Chase Bank, N.A., J.P. Morgan Investment Management Inc., JPMorgan Asset Management (UK) Limited, JF Asset Management (Singapore) Limited Co Reg #:197601586K, JF Asset Management Limited, J.P. Morgan Securities Ltd., J.P. Morgan Whitefriars Inc., China International Fund Management Ltd and JF Asset Management (Taiwan) Limited were interested in 134,438,400 H shares, 3,907,912 H shares, 16,967,109 H shares, 13,924,000 H shares, 150,734,000 H shares, 12,862,589 H shares, 251,162,519 H shares, 9,335,000 H shares and 1,001,000 H shares respectively. All of these entities are either controlled or indirectly controlled subsidiaries of JPMorgan Chase & Co.

Included in the 594,332,529 H shares are 134,008,400 H shares (1.80%) which are held in the lending pool, as defined under Section 5(4) of the Securities and Futures (Disclosure of Interests Securities Borrowing and Lending) Rules.

In addition, JPMorgan Chase & Co. held by way of attribution a short position as defined under Part XV, SFO in 182,693,978 H shares (2.46%).

- (4) UBS AG was interested in a total of 461,238,864 H shares in accordance with the provisions of Part XV, SFO. Of these shares, UBS Global Asset Management (UK) Limited, UBS Fund Services (Luxembourg) SA, UBS Fund Management (Switzerland) AG, UBS Securities LLC, UBS Global Asset Management (Canada) Inc., UBS Global Asset Management (Hong Kong) Ltd, UBS Global Asset Management (Japan) Ltd, UBS Global Asset Management (Singapore) Ltd, UBS Bank (Canada) and UBS O Connor LLC were interested in 2,550,000 H shares, 2,755,400 H shares, 1,335,000 H shares, 554,865 H shares, 294,000 H shares, 7,297,500 H shares, 4,284,000 H shares, 10,816,000 H shares, 44 H shares and 1,300,000 H shares respectively. All of these entities are either controlled or indirectly controlled subsidiaries of UBS AG.

In addition, UBS AG held by way of attribution a short position as defined under Part XV, SFO in 146,951,348 H shares (1.97%).



**Table of Contents**

Our A shares and H shares generally vote together as a single class, including the election of directors. Each A share and each H share is entitled to one vote. In addition, in certain matters which affect the rights of the holders of H shares or A shares, the H shares or A shares, as the case may be, are entitled to vote as a separate class.

CLIC converted and sold 676,470,000 domestic shares in the form of H shares or ADSs in connection with our global offering in December 2003.

Based on the information provided by JPMorgan Chase Bank, N.A., the depositary bank, as of December 31, 2007 and March 31, 2008, there were, respectively, 24,642,873 ADRs representing 369,643,095 H shares, with 56 registered holders, and 23,853,193 ADRs representing 357,797,895 H shares, with 57 registered holders. Since certain of the ADSs are held by nominees, the above number may not be representative of the actual number of U.S. beneficial holders of ADSs or number of ADSs beneficially held by U.S. persons.

CLIC, our controlling shareholder, is a wholly state-owned enterprise controlled by the PRC government. See Item 4. Information on the Company History and Development of the Company . None of our major shareholders has voting rights that differ from the voting rights of other shareholders, except that in certain matters which affect the rights of the holders of H shares or A shares, holders of H shares or A shares, as the case may be, are entitled to vote as a separate class. We are not aware of any arrangement which may at a subsequent date result in a change of control of our company.

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**Table of Contents**

**RELATED PARTY TRANSACTIONS**

As at the date of this annual report, CLIC owns approximately 68.4% of our issued share capital. CLIC is therefore considered as our connected person under the HKSE Listing Rules. CLIC and we renewed the property leasing agreement in January 2007. We also entered into an asset purchase agreement and a supplementary asset sale and purchase agreement with CLIC in January 2007 and in September 2007, respectively, for purchase of certain real estate, construction in progress, land use rights, vehicles and equipments. The asset management agreement between AMC and ourselves was automatically renewed in December 2007. The transactions contemplated under these agreements constitute connected transactions for us under the HKSE Listing Rules.

As at the date of this annual report, we own a 20% equity interest in Guangdong Development Bank, or GDB. In March 2007, we entered into a strategic cooperation agreement with GDB; in April and December 2007, two negotiated deposit agreements with GDB; and in April 2007, an individual bancassurance products cooperation agreement with GDB. These transactions are not regarded as connected transactions for us under the HKSE Listing Rules.

Set forth below are details of the related party transactions.

**Restructuring Agreement**

We have entered into a restructuring agreement with CLIC under which CLIC agreed to transfer to us a portion of its insurance business and various investment and operating assets, management personnel and employees, and we assumed various obligations and liabilities, as described under Item 4. Information on the Company History and Development of the Company Our Restructuring . We received the benefits of all of the rights and interests, and assumed all the liabilities and obligations, associated with the transferred assets and policies, commencing as of June 30, 2003, the effective date of the restructuring. The remaining business of CLIC primarily comprised the non-transferred policies and non-core businesses which are not insurance-related, including investments in property, hotels and other operations through subsidiaries. As a result of the restructuring, CLIC's management and personnel are different from ours and we work independently of CLIC.

Under the restructuring agreement, CLIC made various representations and warranties in relation to the business, assets and liabilities transferred to us in the restructuring.

In addition, under the restructuring agreement, CLIC indemnified us against all claims, losses, damages, payments or other expenses incurred by us in connection with or arising from, among others:

- 1) all taxes, fees, surcharges, penalties and interest payable by CLIC as determined under the restructuring agreement;
- 2) the negligence or fault of CLIC in acting on our behalf while holding any assets, interests or liabilities that were to be transferred to us, but for which third-party consents had not been obtained by the effective date;
- 3) any dispute regarding our status as the insurer of the insurance policies issued by CLIC on or after June 30, 2003 until the date when we begin to write policies on our own behalf;
- 4) all claims by policyholders under long-term insurance policies issued on or after June 10, 1999, having policy terms approved by or filed with the CIRC on or after June 10, 1999, but which for whatever reason failed to be recorded as long-term insurance policies as of June 30, 2003 in the database attached to the restructuring agreement as an annex;
- 5) the failure of CLIC to transfer the assets, interests and liabilities to us in accordance with the restructuring agreement and other restructuring documents;
- 6) the assets, interests and liabilities retained by CLIC after the restructuring;
- 7) the transfer of the assets, interests and liabilities to us under the restructuring;

## **Table of Contents**

8) a breach of any provision of the restructuring agreement on the part of CLIC; and

9) any actual, pending or threatened arbitration or litigation affecting any asset transferred to us.

The restructuring agreement provides, among other things, that any profits or losses incurred on the transferred assets and policies from June 30, 2002 to June 30, 2003 are for the benefit of or to be borne by CLIC.

We agreed to indemnify CLIC against any claims or losses arising from our breach of the restructuring agreement.

## **Policy Management Agreement**

### ***General***

As part of the restructuring, CLIC transferred its entire branch services network to us. In order to capitalize on the large customer base of CLIC, increase the utilization of our customer service network and increase our revenue sources, CLIC engaged us to provide policy administration services relating to the non-transferred policies after the restructuring.

We and CLIC entered into a policy management agreement on September 30, 2003 which sets out our responsibilities and duties to CLIC under these policy administration arrangements. Such agreement expired in December 2005, and we and CLIC entered into a renewed policy management agreement on December 24, 2005. The renewed policy management agreement will expire on December 31, 2008. In order to better implement this agency arrangement, CLIC formulated a detailed manual of procedures which sets out the procedures to be followed when handling non-transferred policies, as well as rules for the day-to-day monitoring of the policy servicing operations.

### ***Terms of the Policy Management Agreement***

Pursuant to the renewed policy management agreement, we agreed to provide policy administration services to CLIC relating to the non-transferred policies, including day-to-day insurance administration services, customer services, statistics and file management, invoice and receipt management, reinstatement of non-transferred policies, applications for and renewal of additional coverage to the non-transferred policies, reinsurance, and handling of disputes relating to the non-transferred policies. We act as a service provider under the agreement and do not acquire any rights or assume any obligations as an insurer under the non-transferred policies.

Under the renewed policy management agreement, we will issue a monthly funding request to CLIC, based on actuarially determined forecasts and supporting data, for amounts to be payable to CLIC policyholders. CLIC will transfer, within five business days prior to each calendar month, to an account under our control, funds sufficient to pay insurance benefits and commissions to be paid under the non-transferred policies, as well as estimated third-party costs and expenses, for that calendar month. We may also request emergency funding from CLIC, if we reasonably believe that the account balance will become insufficient in ten business days to make those payments. We are not required to make any advances on behalf of CLIC to cover any shortfall of funds.

In consideration of our services provided under the agreement, CLIC will pay us a service fee based on our estimated cost of providing the services, to which a profit margin is added. The service fee is equal to, for each semi-annual payment period, the sum of (1) the number of non-transferred policies in force as of the last day of the period, multiplied by RMB 8.0 per policy; and (2) 2.50% of the actual premiums and deposits in respect of such policies collected during the period. For these purposes, the number of policies in-force for group insurance policies is equal to the number of individuals covered by the policies (excluding those whose policies have lapsed or matured).

The renewed policy management agreement is valid for a term of three years effective from January 1, 2006 and expiring on December 31, 2008. Subject to the HKSE Listing Rules, the agreement will be automatically renewed for successive three years terms, unless terminated by either party by giving to the other party not less

## **Table of Contents**

than 180 days prior written notice to terminate the agreement at the expiration of the then current term. We are also permitted to terminate the agreement, upon giving 30 days prior written notice, if (1) CLIC fails to pay us the service fee in accordance with the agreement in an aggregate amount of at least RMB 100 million; or (2) we are unable to make timely payment of insurance benefits, commissions and/or third-party costs in an aggregate amount of at least RMB 300 million as a result of CLIC failing to transfer sufficient funds to the account controlled by us in accordance with the agreement.

### ***Measures Taken to Ensure that We Have Sufficient Cash to Settle Claims Relating to Non-Transferred Policies***

The following is a description of the measures that we currently have in place to ensure that we have sufficient cash to settle claims relating to non-transferred policies.

Under the renewed policy management agreement, the operations relating to the transferred policies and the non-transferred policies must be separately managed, settled (including daily and monthly settlement) and checked, and we are not required to make any advances on behalf of CLIC to cover deficiencies in the payment of claims under the non-transferred policies. In order to ensure that there is sufficient cash to pay claims under the non-transferred policies on a day-to-day basis, we and CLIC have implemented the following procedures:

Our headquarters and all branch offices at provincial level have opened and are using segregated bank accounts to manage funds and payments in relation to claims and benefits under the non-transferred policies. Substantially all of our branches below the provincial level have already opened segregated bank accounts, and the remaining branches will also open segregated bank accounts as necessary.

We will, based on actuarially determined forecasts and supporting data relating to the non-transferred policies, maintain a minimum daily balance for each segregated account. The segregated accounts will be brought up to this minimum daily balance should they fall below the required level on any given day.

In the event of an unexpectedly large claim or benefit payment, or a claim or benefit payment which exceeds the minimum daily balance, a request for funds will be made to the branch at the next higher level. If a provincial-level branch does not have sufficient funds to make a payment, it will make a request for funding to our headquarters. If there is a deficiency at the headquarters level, we will make a payment request to CLIC or to the special purpose fund established by the MOF and CLIC.

### **Asset Management Agreements**

AMC has entered into two asset management agreements, effective on November 30, 2003, one with us and one with CLIC.

We renewed the agreement with AMC on December 29, 2005 for a term of two years expiring on December 31, 2007. Subject to the HKSE Listing Rules, the agreement will be automatically renewed for successive one year term, unless terminated by either party giving the other party not less than 90 days prior written notice to terminate the agreement at the expiration of the then current term. The agreement was automatically renewed on the same terms as the previous year in December 2007 for a one year term expiring on December 31, 2008.

In connection with the asset management agreement with AMC and in order to ensure the safeguarding of our insurance assets, we entered into a custodian agreement with Industrial and Commercial Bank of China, as the custodian bank of our assets, and a memorandum on the investment management and custody of insurance assets among Industrial and Commercial Bank of China, AMC and us.

**Table of Contents**

The material terms of the renewed asset management agreement between China Life and AMC are set forth below.

Under the asset management agreement between AMC and China Life, AMC agreed to invest and manage assets entrusted to it by China Life on a discretionary basis, subject to the investment guidelines and instructions given by China Life.

In accordance with the agreement, China Life retains the title of the entrusted assets and AMC is authorized to operate the accounts associated with the entrusted assets for and on behalf of China Life. China Life may add to or withdraw from the assets managed by AMC pursuant to the agreement. All investment losses relating to the assets managed by AMC pursuant to the agreement will be borne by China Life, except for losses and liabilities arising from AMC's misconduct. China Life has the right to establish, and amend from time to time, the investment guidelines which set forth the general investment principles regarding the assets under AMC's management and, for specific periods, requirements relating to, among others, investment scope, portfolio, risk control and benchmark investment rate of return. China Life also has the right to give instructions for the liquidation of assets to meet its cash needs and the right to monitor the investment management activities of AMC.

In addition to acting as China Life's investment manager, AMC is permitted to invest its own assets and provide investment management services to third-party insurance companies. AMC agreed to inform China Life in the event that it, in its professional judgment, believes that there is a conflict of interest in the activities on behalf of itself and others. AMC has discretion to take such actions and measures which in its professional judgment are fair, reasonable and necessary to resolve any such conflict.

In consideration of its services provided under the agreement, China Life agreed to pay AMC service fees, comprised of a monthly service fee and an annual floating service fee. The monthly service fee payable is comprised of two parts: (1) the aggregate of the monthly service fee for each specified category of assets that are not under the custody of Industrial and Commercial Bank of China and (2) the aggregate of the monthly service fee for each specified category of assets that are under the custody of Industrial and Commercial Bank of China. The monthly service fee for assets not under custody is calculated on a monthly basis, by multiplying the average of net asset value of the assets in each such category under management at the end of any given month and the end of the previous month by the applicable annual rate for that month set forth in the table below (by reference to basis points), divided by twelve. The monthly service fee for assets under custody is calculated on a daily basis, by multiplying the net asset value of the assets in each such category under management at the end of any given day by the applicable annual rate set forth in the table below (by reference to basis points), divided by 360.

AMC and China Life may, within the first month of each year, agree to change the annual rate for that year, but if there is no new agreement, the existing annual rate for the prior year will remain in force. In relation to any new type of investment product (not included in the categories below) which may be permitted by applicable law or the CIRC in the future, the agreement provides that AMC and China Life will agree on a fair and reasonable annual rate to be applicable to that type of investment product.

**Table of Contents**

The following table sets forth the applicable annual rates in relation to the total net asset value of the assets managed by AMC.

Item	Total net asset value of managed assets at the end of relevant month/day			
	RMB 450 billion below (bps)	More than and equal to RMB 450 billion and less than RMB 550 billion (bps)	More than and equal to RMB 550 billion and less than RMB 650 billion (bps)	More than RMB 650 billion (bps)
<b>Term deposits</b>				
Existing	1.2	1.2	0.7	0.4
Incremental	1.2	1.2	0.7	0.4
<b>Debt securities<sup>(1)</sup></b>				
Held-to-maturity	5	4.2	3	2
Held-for-sale	5	4.2	3	2
Held-for-trading	30	28	26	22
<b>Securities investment funds</b>				
Stocks	25	25	22	20
Index	15	13	11	10
<b>Equity investment</b>				
Active	50	48	45	40
Passive	30	25	20	15
Cash	1	1	1	1

(1) In March 2007, AMC and China Life made small revisions to the classification of debt securities in accordance with the new accounting standards applicable to PRC listed companies from January 1, 2007.

In addition to the monthly service fee, China Life will pay AMC an annual floating service fee. Within 90 days of the submission of the annual report for the previous year by the joint venture, China Life will review the investment performance of AMC for the previous year and conclude a performance score that ranges from 0 to 100. The annual floating service fee for any given year is calculated by multiplying ten percent of the aggregate of the monthly service fee paid for that year by performance score divided by 100.

The service fee under the asset management agreement was determined by China Life and AMC based on an analysis of the cost of providing the service, market practice and the size and composition of the asset pool to be managed.

As a result of a substantial increase in market activity of the capital markets in the PRC and the market capitalization of the A share market in the PRC in 2007, there was a corresponding increase in the value of the assets managed by AMC. Accordingly, China Life raised the annual cap on the service fee paid to AMC for the year of 2007 from RMB 360 million to RMB 450 million. China Life also set the annual cap at RMB 700 million for the year of 2008.

CLIC renewed the agreement with AMC on December 27, 2005 for a term of three years expiring on December 31, 2008. Subject to the HKSE Listing Rules, the parties may negotiate the term of the renewal not less than 90 days prior to the expiration of the current term.

The material terms of the renewed asset management agreement between CLIC and AMC are set forth below.

Under the asset management agreement between AMC and CLIC, AMC agreed to invest and manage assets entrusted to it by CLIC on a discretionary basis, subject to the investment guidelines and instructions given by CLIC.

## **Table of Contents**

In accordance with the agreement, CLIC retains the title of the entrusted assets and AMC is authorized to operate the accounts associated with the entrusted assets for and on behalf of CLIC. CLIC may add to or withdraw from the assets managed by AMC pursuant to the agreement. CLIC has the right to establish, and amend from time to time, the investment guidelines which set forth the general investment principles regarding the assets under AMC's management and, for specific periods, requirements relating to, among others, investment scope, portfolio, liquidity, risk control and benchmark investment return. CLIC also has the right to monitor the investment management activities of AMC.

In addition to acting as CLIC's investment manager, AMC is permitted to invest its own assets and provide investment management services to third-party insurance companies.

In consideration of its services provided under the agreement, CLIC agreed to pay AMC a monthly service fee and an annual bonus or deduction, where applicable. The monthly service fee is calculated on a monthly basis, by multiplying the average of account balance value of the assets under management (less funds from sale of securities under the agreement to repurchase and interest thereof) at the beginning and the end of any given month by the basis annual rate of 0.05%, divided by twelve.

After the conclusion of each fiscal year, CLIC will review the investment performance of AMC for the previous year. If the investment return for the assets managed for a particular year exceeds the benchmark investment return, as previously agreed between CLIC and AMC for those assets for that year, AMC will be entitled to an annual performance bonus fee determined by CLIC, the amount of which shall not exceed the difference between the actual investment return and the benchmark investment return set for the previous year. If the actual investment return is less than the benchmark investment return as agreed between CLIC and AMC for those assets for that year, AMC will be required to rebate a portion of its monthly fees received for the previous year determined by the CLIC, the amount of which shall not exceed the difference between the actual investment return and the benchmark investment return set for the previous year.

During the year of 2007, as a result of a substantial increase in market activity of the capital markets in the PRC, the market capitalization of the A share market in the PRC and a change in the valuation method under the PRC Accounting Standard for Business Enterprises (2006), CLIC paid AMC an asset management fee of RMB 104 million, which slightly exceeded the annual cap amount as previously announced by RMB 2 million. China Life set the annual cap at RMB 280 million for the year of 2008.

## **Property Leasing Agreement**

We have entered into a property leasing agreement with CLIC on September 30, 2003, pursuant to which CLIC agreed to lease to us (1) 833 buildings owned by CLIC, its subsidiaries and affiliates, which we refer to as the CLIC owned properties, and (2) 1,764 buildings that CLIC is entitled to sublet, which we refer to as the CLIC leased properties, for an aggregate initial annual rent (payable quarterly) of approximately RMB 335 million.

We renewed the agreement on December 23, 2005 with respect to 963 CLIC owned properties and 707 CLIC leased properties for a fixed term expiring on December 31, 2006.

We further renewed the agreement with CLIC on January 4, 2007 under substantially the same terms of the agreement entered into on September 30, 2003. Pursuant to the renewed agreement, which will expire on December 31, 2009, CLIC agreed to lease to us 1,174 CLIC owned properties and 126 CLIC leased properties, for an aggregate initial annual rent (payable semi-annually) of approximately RMB 66 million.

The properties occupied by us are mainly used as our office premises. The annual rent payable by us to CLIC in relation to the CLIC owned properties is determined by reference to market rent or, where there is no available comparison, by reference to the costs incurred by CLIC in holding and maintaining the properties, plus a margin of approximately 5%. The annual rent payable by us to CLIC in relation to the CLIC leased properties

**Table of Contents**

will be determined by reference to the rent payable under the head lease plus the actual costs incurred by CLIC arising in connection with the subletting of the properties.

Each party may, by giving notice to the other party no later than November 30 of each year, reduce or increase the number of properties under the lease and make adjustments accordingly to the rent payable for the next year. The parties will also revise the annual rent payable at the year end to reflect, in addition to any decrease or increase to the number of properties to be leased, any change of the market rates.

CLIC agreed to indemnify us, among other things, against all claims and losses incurred by us arising in connection with (1) the CLIC owned properties which CLIC does not have full legal title; and (2) the subletting of the CLIC leased properties to us.

The agreement also contains rights of first refusal allowing us to purchase the underlying property if CLIC wishes to sell the property. In this regard, we will comply with the provisions of Chapter 14A of the HKSE Listing Rules if we exercise the right of first refusal to acquire the properties from CLIC unless we apply for, and obtain, a separate waiver from the HKSE.

**Compliance with HKSE Listing Rules**

Given that the annual consideration payable under each of the above mentioned renewed policy management agreement dated December 24, 2005 and the two renewed asset management agreements dated December 27, 2005 and December 29, 2005 represents less than 2.5% of the applicable percentage ratios, as defined in the HKSE Listing Rules, each of the agreements is only subject to reporting, announcement and annual review requirements under the HKSE Listing Rules and is exempt from independent shareholders' approval. In compliance with applicable HKSE Listing Rules requirements, we made an announcement disclosing the above agreements on December 30, 2005. For the asset management agreement between us and AMC, we made an announcement on December 20, 2007 regarding the adjustment of annual caps for 2007 and 2008. For the asset management agreement between CLIC and AMC, we made an announcement on March 25, 2008 regarding the exceeded cap for 2007 and the revised cap for 2008. The property leasing agreement dated January 4, 2007 is exempt from reporting, announcement and independent shareholders' approval requirements under the HKSE Listing Rules.

**Figures for the year ended December 31, 2007**

The aggregate value of each of the transactions contemplated under the policy management agreement, the asset management agreements and the property leasing agreement for the year ended December 31, 2007 is set out below:

<b>Connected Transactions</b>	<b>The aggregate value for the year ended December 31, 2007 (RMB in millions)</b>
1. Policy management agreement	1,426
2. Asset management agreement	
(a) between CLIC and AMC	104
(b) between AMC and the Company	390
3. Property leasing agreement	66

**Confirmation of Independent Non-executive Directors:**

Our independent non-executive directors have reviewed the above related party transactions which were subject to reporting and announcement requirements and confirmed that:

(i) the transactions were entered into in the ordinary and usual course of the business of China Life;



## **Table of Contents**

- (ii) the transactions were conducted either on normal commercial terms or on terms that are fair and reasonable so far as our independent shareholders are concerned;
- (iii) the transactions were entered into in accordance with the agreements governing those transactions; and
- (iv) except for the amount of asset management fee earned from CLIC, the amounts of the transactions had not exceeded the relevant annual caps as announced by China Life.

## **Trademark License Agreement**

We conduct our business under the China Life brand name (in English and Chinese), the ball logos and other business related slogans and logos. We entered into a trademark license agreement with CLIC on September 30, 2003, pursuant to which CLIC granted to us and our branches a royalty-free license to use these trademarks in the PRC and other countries and territories in which CLIC has registered these trademarks. CLIC has registered these trademarks with the Trademark Office of the SAIC. CLIC undertook in the trademark license agreement to maintain and renew, at its own expense, the registration of the licensed trademarks. If requested by us, CLIC will procure, at its own expense, registration of the trademarks in additional products and service classifications and/or additional countries or territories. CLIC will retain ownership of these trademarks.

We may also license a third party to use the trademarks with the written consent of CLIC. CLIC and its subsidiaries and affiliates are entitled to use these trademarks. CLIC may not license or transfer these trademarks to any other third party or allow any other third party to use the trademarks.

The trademark license agreement permits us to use the trademarks until such time as either the trademark license agreement is terminated either by agreement between CLIC and ourselves, or pursuant to relevant laws, regulations or consent orders, or at the expiration of the registration of the trademarks, and is renewable at our option. The registration of China Life brand name (in English and Chinese) and the ball logo, which are the major trademarks used in our business, will expire on August 13, 2016 and February 6, 2016, respectively.

## **Non-Competition Agreement**

We entered into a non-competition agreement with CLIC on September 30, 2003 pursuant to which CLIC undertook that during the term of the agreement, unless we otherwise consent in writing in advance, it will not, and it will use its best efforts to procure its subsidiaries and affiliates not to, directly or indirectly, participate, operate or engage in any life, accident or health insurance or other businesses in China which may compete with our insurance businesses. Before entering into the share subscription agreement in connection with the formation of a property and casualty insurance joint stock company on March 13, 2006, as described below, we consented in writing that CLIC may engage in accident and short-term health businesses indirectly through a property and casualty joint venture with us. CLIC also undertook (1) to refer to us any corporate business opportunity that falls within our business scope and which may directly or indirectly compete with our business and (2) to grant us a right of first refusal, on the same terms and conditions, to purchase any new business developed by CLIC. The non-competition agreement allows CLIC to continue its business under the non-transferred policies.

In addition, CLIC currently holds a 51% interest in China Life-CMG Life Assurance Company Ltd., a Sino-foreign joint venture with CMG, an Australian insurance company. The joint venture is registered in Shanghai, China and engaged in the business of life insurance and related reinsurance in Shanghai. CLIC agreed to dispose of all of its interests in this joint venture to third parties or eliminate any competition between China Life-CMG Life Assurance Company Ltd. and us within three years of our listing on the HKSE. As of the date of this annual report, the transfer of CLIC's equity interest in this joint venture was still ongoing.

CLIC also agreed with us in the non-competition agreement that we will have a right of first refusal in respect of the transfer of the non-transferred policies retained by CLIC.

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## **Table of Contents**

The non-competition agreement will remain valid and in full force until the earlier of (1) CLIC beneficially holding, directly or indirectly, less than 30% of our issued share capital and ceasing to control the majority of our board of directors; and (2) our H shares or ADSs no longer being listed on the HKSE or any other stock exchange.

### **Asset Purchase Agreement**

We entered into an asset purchase agreement with CLIC in January 2007 pursuant to which we purchased from CLIC certain assets which were owned by CLIC or which CLIC had the rights to dispose of, including real estate, construction in progress, land use rights, cars and equipment. We paid approximately RMB 488 million for these assets. In September 2007, we entered into a supplemental asset purchase agreement with CLIC to purchase additional real estate, construction in progress and land use rights. We paid approximately RMB 21 million for these assets. The price for these assets was determined by a valuation provided by a third-party assets valuator mutually engaged by CLIC and us. Most of the assets purchased by us were previously leased to us by CLIC and are being used by our branch offices.

### **Strategic Cooperation Agreement, Negotiated Deposit Agreements and Individual Bancassurance Products Cooperation Agreement with GDB**

We entered into a strategic cooperation agreement with GDB in March 2007, pursuant to which we agreed to cooperate with GDB in various areas, including, among others, insurance business, bank cards business, financial business, e-commerce, client resources sharing, information technology, product development and brand promotion. With regards to the cooperation in the insurance business, GDB undertook to provide bancassurance services on our behalf. Subject to relevant laws and regulations, we undertook to offer our insurance products to GDB under certain preferential terms, while GDB agreed to purchase our products in priority under the same terms and conditions. The term of this agreement is five years.

We entered into two negotiated deposit agreements with GDB in April and December 2007 respectively. Under the agreement entered into in April 2007, we agreed to deposit in GDB a total of RMB 3,000 million (US\$411 million) for a term of 61 months. The annual interest rate will be determined based on the interest rate on one-year term deposits announced by the PBOC. When the interest rate on one-year term deposits announced by PBOC is at or lower than 2.79%, the annual interest rate applicable to our deposits will be fixed at 4.41%. When the interest rate on one-year term deposits announced by the PBOC is higher than 2.79%, the annual interest rate applicable to our deposits will be the interest rate on one-year term deposits announced by the PBOC plus 1.62%. Under the agreement entered into in December 2007, we agreed to deposit in GDB a total of RMB 3,000 million (US\$411 million) for a term of 61 months. The annual interest rate applicable to our deposits will be the interest rate on one-year term deposits announced by the PBOC plus 1.62% provided that, in any event, the annual interest rate will not be lower than 4.50%. The currently applicable annual interest rate under this agreement is 5.76%. The interest payable on the deposits is paid annually.

We entered into an individual bancassurance products cooperation agreement with GDB in April 2007, pursuant to which GDB will sell our individual insurance products suitable for sale through banks. Under this agreement, GDB will act as an intermediary to sell our individual insurance products and will also act on our behalf to receive premiums and pay insurance benefits. In return, we will pay GDB commission fees including: (i) a monthly commission fee for sales by GDB as an intermediary, calculated on a monthly basis, by multiplying the total premiums received and a fixed commission rate, which ranges from 2.0% to 25%; and (ii) a monthly commission fee for acting on our behalf to receive premiums and pay insurance benefits, calculated on a monthly basis, by multiplying the number of policies handled by GDB and a fixed commission fee which is not more than RMB 1 per policy. The commission fees will be paid monthly. The term of this agreement is five years.

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**Table of Contents**

**INTERESTS OF EXPERTS AND COUNSEL**

Not applicable.

**ITEM 8. FINANCIAL INFORMATION.**

**CONSOLIDATED FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION**

Our audited consolidated financial statements are set forth beginning on page F-1.

**Legal and Regulatory Proceedings**

***Class Action Litigations***

China Life and certain of its former directors (the defendants) have been named in nine putative class action lawsuits filed in the United States District Court for the Southern District of New York between March 16, 2004 and May 14, 2004. The lawsuits have been ordered to be consolidated and restyled *In re China Life Insurance Company Limited Securities Litigation, NO. 04 CV 2112 (TPG)*. Plaintiffs filed a consolidated amended complaint on January 19, 2005, which names China Life, Wang Xianzhang (former director), Miao Fuchun (former director) and Wu Yan (former director) as defendants. The consolidated amended complaint alleges that the defendants named therein violated Sections 10(b) and 20(a) of the U.S. Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder. China Life has engaged U.S. counsel to contest vigorously on the lawsuits. The 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. The likelihood of an unfavorable outcome is still uncertain. No provision has been made with respect to these lawsuits.

***Others***

We are involved in litigation involving our insurance operations on an ongoing basis. In addition, the CIRC, as well as other PRC governmental agencies, including tax, commerce and industrial administration and audit bureaus, from time to time make inquiries and conduct examinations or investigations concerning our compliance with PRC laws and regulations. These litigation and administrative proceedings have in the past resulted in damage awards, settlements or administrative sanctions, including fines, which have not been material to us. While we cannot predict the outcome of any pending or future litigation, examination or investigation, we do not believe that any pending legal matter will have a material adverse effect on our business, financial condition or results of operations. However, we cannot assure you that any future litigation or regulatory proceeding will not have an adverse outcome, which could have a material adverse effect on our operating results or cash flows.

We currently have control procedures in place to monitor our litigation and regulatory exposure. We have established a systematic prevention system whereby our management at each corporate level is responsible for compliance with laws, regulations and internal codes of conduct within their individual territories or departments. Our branches at the provincial level are required to report material litigation and regulatory matters to our corporate headquarters on a timely basis. We plan to continue to improve our control and compliance policies in the future.

We may penalize our employees or individual agents who commit misconduct or fraud, breach the terms of their employment or agency agreements, exceed their authorization limits or fail to follow prescribed procedures in delivering insurance policies and premium payments, in each case having regard to the severity of the offense. Employees or individual agents are required to reimburse us for any losses suffered by us resulting from their misconduct or fraud. In serious cases, we may terminate their employment or agency agreements. We report

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**Table of Contents**

criminal offenses to the PRC authorities and may also bring concurrent civil actions against employees or individual agents. We have experienced agent and employee misconduct that has resulted in litigation and administrative actions against us and these agents and employees, and in some cases criminal proceedings and convictions against the agent or employee in question. None of these actions has resulted in material losses, damages, fines or other sanctions against us. We cannot assure you, however, that agent or employee misconduct will not lead to a material adverse effect on our business, results of operations or financial condition.

In April 2006, the CIRC announced that it will assess the effectiveness of internal controls, as well as regulatory compliance matters relating to business operations, of Chinese insurance companies, health insurance companies and pension insurance companies during a three-year period immediately after the announcement, in accordance with the tentative rules on internal control assessment of life insurance companies. The purposes of such assessment 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. We were reviewed by the CIRC in 2006 and were found to be in general compliance with the rules and regulations of CIRC, other than a small number of breaches by our branches which resulted in us being sanctioned by way of fines, none of which were material. The breaches mainly included improper handling of certain premiums received, which violated relevant CIRC rules and regulations. The fines imposed by CIRC ranged from RMB 20,000 (US\$2,563) to RMB 500,000 (US\$64,069). All the fines have been paid in full. In 2007, CIRC conducted a follow-up review on the rectification of the breaches identified in 2006 and found that such breaches have been effectively rectified.

**Policy on Dividend Distributions**

Our board of directors has passed a resolution on March 25, 2008 to propose for approval at the annual general meeting, of the declaration of final dividends of RMB 0.42 per share, totaling approximately RMB 11,871 million (US\$1,627 million), for the year ended December 31, 2007. The proposed dividends have not been provided for in our consolidated financial statements for the year ended December 31, 2007.

The payment of any dividend by us must be approved by shareholders in a shareholders meeting. Our board of directors intends to make its recommendations regarding the declaration of cash dividends to the shareholders in general meeting. The decision to make a recommendation for the payment of any dividend and the amount of the dividend for the years following 2007 will depend on:

our results of operations and cash flows;

our financial position;

statutory solvency requirements as determined under PRC GAAP with reference to CIRC rules;

our shareholders' interests;

general business conditions;

our future prospects;

statutory and regulatory restrictions on the payment of dividends by us; and

other factors that our board of directors deems relevant.

We will pay dividends out of our after-tax profits only after we have made the following allowances and allocations:

recovery of accumulated losses, if any;

allocations to the statutory common reserve fund equivalent to 10% of our after-tax income, as determined under PRC GAAP; and

allocations to a discretionary common reserve fund as approved by the shareholders in a shareholders meeting.

## **Table of Contents**

When the statutory common reserve fund reaches and is maintained at or above 50% of our registered capital, as determined under PRC GAAP, no further allocations to this fund will be required.

Under Chinese law, dividends may be paid only out of distributable profits. Distributable profits means our after-tax profits as determined under PRC GAAP or HKFRS, whichever is lower, less any recovery of accumulated losses and allocations to statutory funds that we are required to make. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years. However, ordinarily we will not pay any dividends in a year in which we do not have any distributable profits.

Payment of dividends by us is also regulated by the PRC insurance law. If we do not meet the minimum solvency margin required by the CIRC, we may be prohibited from paying dividends. See Item 4. Information on the Company Business Overview Regulatory and Related Matters Insurance Company Regulation Solvency requirements .

We declared no dividends in respect of 2004 and paid dividends of RMB 0.05 per share in respect of 2005 and RMB 0.14 per share in respect of 2006. Our board of directors has recommended the declaration of final dividends of RMB 0.42 per share in respect of 2007. We expect to continue to pay dividends in line with our financial performance thereafter. We will declare dividends, if any, in Renminbi with respect to the H shares on a per share basis and will pay such dividends in Hong Kong dollars.

## **SIGNIFICANT CHANGES**

See Item 5. Operating and Financial Review and Prospects Class Action Litigation .

## **EMBEDDED VALUE**

### **Background**

China Life prepares financial statements to public investors in accordance with Hong Kong Financial Reporting Standards ( HKFRS ). An alternative measure of the value and profitability of a life insurance company can be provided by the embedded value method. Embedded value is an actuarially determined estimate of the economic value of the life insurance business of an insurance company based on a particular set of assumptions about future experience, excluding the economic value of future new business. In addition, the value of one year's sales represents an actuarially determined estimate of the economic value arising from new life insurance business issued in one year.

China Life believes that reporting our embedded value and value of one year's sales provides useful information to investors in two respects. First, the value of our in-force business represents the total amount of distributable earnings, in present value terms, which can be expected to emerge over time, in accordance with the assumptions used. Second, the value of one year's sales provides an indication of the value created for investors by new business activity and hence the potential of the business. However, the information on embedded value and value of one year's sales should not be viewed as a substitute of financial measures under HKFRS or any other accounting basis. Investors should not make investment decisions based solely on embedded value information and the value of one year's sales.

It is important to note that actuarial standards with respect to the calculation of embedded value are still evolving. There is still no universal standard which defines the form, calculation methodology or presentation format of the embedded value of an insurance company. Hence, differences in definition, methodology, assumptions, accounting basis and disclosures may cause inconsistency when comparing the results of different companies.

Also, embedded value calculation involves substantial technical complexity and estimates can vary materially as key assumptions are changed. Therefore, special care is advised when interpreting embedded value results.

## **Table of Contents**

The values shown below do not consider the future financial effect of the Policy Management Agreement between CLIC and China Life, the Non-competition Agreement between CLIC and China Life, the Trademark License Agreement between CLIC and China Life and the Property Leasing Agreement between CLIC and China Life, nor the future financial impact of transactions of China Life with AMC, China Life Pension, and CLPCIC.

### **Definitions of Embedded Value and Value of One Year's Sales**

The embedded value of a life insurer is defined as the sum of the adjusted net worth and the value of in-force business allowing for the cost of capital supporting a company's desired solvency margin.

Adjusted net worth is equal to the sum of:

Net assets, defined as assets less policy reserves and other liabilities, all measured on a PRC statutory basis; and

Net-of-tax adjustments for relevant differences between the market value of assets and the value determined on a PRC statutory basis, together with relevant net-of-tax adjustments to other liabilities.

According to the PRC accounting basis, some investment assets are not measured on market value. As the embedded value is based on market value, it is necessary to make adjustments to the value of net assets under the PRC accounting basis.

The market value of assets can fluctuate significantly over time due to the impact of the prevailing market environment. Hence the adjusted net worth can fluctuate significantly between valuation dates.

The value of in-force business and the value of one year's sales are defined here as the discounted value of the projected stream of future after-tax distributable profits for existing in-force business at the valuation date and for one year's sales in the 12 months immediately preceding the valuation date. Distributable profits arise after allowance for PRC statutory policy reserves and solvency margins at the required regulatory minimum level.

The value of in-force business and the value of one year's sales have been determined using a traditional deterministic discounted cash flow methodology. This methodology makes implicit allowance for the cost of investment guarantees and policyholder options, asset/liability mismatch risk, credit risk and the economic cost of capital through the use of a risk-adjusted discount rate.

### **Assumptions**

#### ***Economic assumptions***

The calculations are based upon assumed corporate tax rate of 33% in 2007 and 25% thereafter. The investment returns are assumed to be 5.5% level throughout the projection period. An average of 25% in 2007, grading to 14% in 2017 (remaining level thereafter) of the investment returns is assumed to be exempt from income tax. These returns and tax exempt assumptions are based on our long term strategic asset mix and expected future returns. The risk-adjusted discount rate used is 11.5%.

Other operating assumptions such as mortality, morbidity, lapses and expenses are based on our recent operating experience and expected future outlook.

### **Preparation**

The embedded value and the value of one year's sales were prepared by China Life in accordance with Life Insurance Embedded Value Reporting Guidelines issued by China Insurance Regulatory Commission. The

**Table of Contents**

Tillinghast insurance consulting business of Towers Perrin ( Tillinghast ), an international firm of consulting actuaries performed a review of China Life s embedded value. The review statement from Tillinghast is contained in the Embedded Value Review Statement section.

**Summary of Results**

The embedded value as at 31 December 2007, the value of one year s sales for the 12 months to 31 December 2007 and their corresponding numbers in 2006 are shown below.

**Table 1****Components of Embedded Value and Value of One Year s Sales (RMB million)**

Item	2007	2006
A Adjusted Net Worth	168,175	117,700
B Value of In-Force Business before Cost of Solvency Margin	100,659	78,296
C Cost of Solvency Margin	(16,266)	(14,006)
D Value of In-Force Business after Cost of Solvency Margin (B + C)	84,393	64,290
<b>E Embedded Value (A + D)</b>	<b>252,568</b>	<b>181,989</b>
F Value of One Year s Sales before Cost of Solvency Margin	14,578	12,971
G Cost of Solvency Margin	(2,531)	(2,489)
<b>H Value of One Year s Sales after Cost of Solvency Margin (F + G)</b>	<b>12,047</b>	<b>10,481</b>

Note: Numbers may not be additive due to rounding.

**Movement Analysis**

The following analysis tracks the movement of the embedded value from the start to the end of the reporting period.

**Table 2****Analysis of Embedded Value Movement in 2007 (RMB million)**

Item	RMB Million
A Embedded Value at Start of Year	181,989
B Expected Return on Embedded Value	12,736
C Value of New Business in the Period	12,047
D Operating Experience Variance	1,075
E Investment Experience Variance	51,923
F Methodology, Model and Assumption Changes	3,269
G Market Value Adjustment	(4,181)
H Exchange Gains or Losses	(1,032)
I Shareholder Dividend Distribution	(3,957)
J Other	(1,301)
<b>K Embedded Value as at 31 December 2007 (sum A through J)</b>	<b>252,568</b>

Notes: 1) Numbers may not be additive due to rounding.

2) Items B through J are explained below:



- B Reflects 11.5% of the opening value of in-force business and value of new business sales in 2007 plus the expected return on investments supporting the 2007 opening net worth.
  
- C Value of new business sales in 2007.

**Table of Contents**

- D Reflects the difference between actual 2007 experience (including lapse, mortality, morbidity, and expense.) and the assumptions.
- E Compares actual with expected investment returns during 2007.
- F Reflects the effect of projection method enhancements, model and assumption revisions.
- G Change in the market value adjustment from the beginning of year 2007 to the end of the year 2007.
- H Reflect the gains or losses due to change in exchange rate.
- I Reflects dividends distributed to shareholders during 2007.
- J Other miscellaneous items.

**Sensitivity Testing**

Sensitivity testing was performed using a range of alternative assumptions. In each of the sensitivity tests, only the assumption referred to was changed, with all other assumptions remaining unchanged. The results are summarized below.

**Table 3****Sensitivity Results (RMB million)**

	<b>Value of In-force Business after Cost of Solvency Margin</b>	<b>Value of One Year's Sales after Cost of Solvency Margin</b>
Base case scenario	84,393	12,047
Risk discount rate of 12.5%	76,252	10,706
Risk discount rate of 10.5%	93,750	13,606
10% increase in investment return	99,478	14,186
10% decrease in investment return	69,314	9,884
10% increase in expenses	83,254	11,214
10% decrease in expenses	85,532	12,815
10% increase in mortality rate for non-annuity products and 10% decrease in mortality rate for annuity products	83,362	11,909
10% decrease in mortality rate for non-annuity products and 10% increase in mortality rate for annuity products	85,437	12,185
10% increase in lapse rates	82,863	11,776
10% decrease in lapse rates	86,010	12,335
10% increase in morbidity rates	83,238	11,895
10% decrease in morbidity rates	85,557	12,200
Solvency margin at 150% of statutory minimum	77,373	10,712
10% increase in claim ratio of short term business	84,208	11,674
10% decrease in claim ratio of short term business	84,578	12,420

**Embedded Value Review Statement****To:**

**The Directors**

**China Life Insurance Company Limited**

China Life Insurance Company Limited ( China Life ) has engaged the Tillinghast insurance consulting business of Towers Perrin ( Tillinghast ) to review China Life 's embedded value as at December 31, 2007 and the value of one year 's sales in respect of business written in the 12 months to December 31, 2007.

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**Table of Contents**

Tillinghast's scope of work covered:

a review of the methodology used to develop the embedded value and value of one year's sales;

a review of the economic and operating assumptions used to develop the embedded value and value of one year's sales;

a review of the results of the embedded value and value of one year's sales, the results of the analysis of movement of embedded value, and the sensitivity results of the value of in force business and value of one year's sales.

Based on this review, Tillinghast has concluded that, in preparing the embedded value and value of one year's sales as at December 31, 2007:

the embedded value methodology used by China Life is consistent with the requirements of the Life Insurance Embedded Value Reporting Guidelines issued by China Insurance Regulatory Commission;

the economic assumptions used by China Life have made allowance for the company's current and future asset mix and investment strategy, and consistent with available market information and market environment;

the operating assumptions used by China Life have been set with appropriate regard to past, current and expected future experience;

the results of China Life's calculations have been determined in a manner consistent with the methodology and assumptions described above.

Tillinghast's opinion has relied on the general accuracy of audited and unaudited data and information provided by China Life.

**Tillinghast insurance consulting business of Towers Perrin**

**Adrian Liu, FIAA**

**Title: Senior Consultant**

**21 March 2008**

**ITEM 9. THE OFFER AND LISTING.**

**Lawrence Lee, FSA**

**Title: Consultant**

In connection with our initial public offering, our American depositary shares, or ADSs, each representing 40 H shares, were listed and commenced trading on New York Stock Exchange on December 17, 2003 under the symbol "LFC". Our H shares were listed and commenced trading on the Hong Kong Stock Exchange on December 18, 2003 under the stock code "2628". Prior to these listings, there was no public market for our equity securities. The New York Stock Exchange and the Hong Kong Stock Exchange are the principal trading markets for our ADSs and H shares, which are not listed on any other exchanges in or outside the United States.

On December 29, 2006, the ratio of ADSs to H shares was reduced from 40 H shares to 15 H shares. Our A shares were listed and commenced trading on the Shanghai Stock Exchange on January 9, 2007 under the stock code "601628".

**Table of Contents**

The high and low closing sale prices of the H shares on the HKSE, the ADSs on the NYSE and the A shares on the SSE for the periods indicated are as follows:

	Price per H Share (HK\$)		Price per ADS <sup>(1)</sup> (US\$)		Price per A share (RMB)	
	High	Low	High	Low	High	Low
<b>Annual</b>						
2003	6.4000	4.5250	13.03	8.61		
2004	6.5500	3.8500	12.96	7.49		
2005	6.9000	4.8500	13.49	9.45		
2006	27.2000	7.0500	52.18	13.76		
2007	52.0000	19.2600	106.56	36.70	75.0800 <sup>(2)</sup>	32.0400 <sup>(2)</sup>
<b>Quarterly</b>						
First Quarter, 2006	10.1500	7.0500	19.34	13.76		
Second Quarter, 2006	12.8500	9.9000	24.54	19.28		
Third Quarter, 2006	16.0000	12.0000	31.13	23.12		
Fourth Quarter, 2006	27.2000	15.3400	52.18	29.33		
First Quarter, 2007	28.3000	19.2600	55.75	36.70	46.8600 <sup>(2)</sup>	32.0400 <sup>(2)</sup>
Second Quarter, 2007	28.9500	22.4000	55.37	43.20	44.9100	33.9600
Third Quarter, 2007	44.6500	27.6000	86.22	52.55	62.4100	39.2800
Fourth Quarter, 2007	52.0000	39.0000	106.56	74.03	75.0800	52.9000
First Quarter, 2008	39.8500	25.1500	76.75	50.00	58.9700	26.7100
<b>Monthly</b>						
October 2007	52.0000	45.6500	106.56	86.66	75.0800	67.0400
November 2007	44.6500	39.0000	96.75	75.37	73.0500	52.9000
December 2007	51.8500	39.0000	88.24	74.03	61.0500	54.7500
January 2008	39.8500	27.6000	76.75	55.75	58.9700	39.2300
February 2008	32.2500	28.0000	61.46	55.26	43.6000	35.4400
March 2008	30.1000	25.1500	58.26	50.00	39.1000	26.7100
April 2008 (through April 23, 2008)	31.3000	27.2000	63.82	54.74	32.6600	27.0300

(1) Each ADS represented 40 H shares until December 29, 2006 when the ratio was altered such that each ADS represented 15 H shares. The market quotations shown in the table above have been restated for all periods to reflect the current ratio of 15 H shares per ADS.

(2) From the date of listing: January 9, 2007.

**ITEM 10. ADDITIONAL INFORMATION.****SHARE CAPITAL**

Not applicable.

**ARTICLES OF ASSOCIATION**

Our current articles of association were amended at the second interim shareholders meeting of 2006 and approved by the CIRC on March 26, 2007. At the same interim shareholders meeting held on October 16, 2006, a special resolution was passed for us to issue not more than 1,500,000,000 A shares by way of public offering in the PRC. On December 26, 2006, we issued 1,500,000,000 A shares. The A shares have been listed on the SSE since January 9, 2007.

In addition to the A share offering, the amendment addressed, among others, the following aspects:

alteration of our registered capital and shareholding structure;

**Table of Contents**

regulations on the proceedings of shareholders annual general meetings;

regulations on the election and appointment of directors and supervisors;

regulations on the rights and obligations of shareholders, directors, supervisors, president, vice-president and other senior management;

provisions in relation to the rules and procedures of the shareholders general meetings, board meetings and supervisory committee meetings; and

other provisions as required by any applicable laws and regulations for complying with A shares in issue.

It is proposed that a special resolution be passed at the shareholders annual general meeting to be held on May 28, 2008 to authorize our board of directors to issue additional shares, and amend the articles of association accordingly, in a nominal amount of no more than 20% of each of the aggregate nominal amount of our domestic shares and H shares in issue as at the date of such resolution, by the conclusion of next shareholders annual general meeting, or the expiration of the 12-month period following the passing of this resolution, or the date on which the resolution is otherwise revised or revoked by a special resolution of our shareholders, whichever is the earliest. Our board of directors has no immediate plan to issue any new shares.

We are organized under the PRC company law as a joint stock company. We are registered with the State Administration for Industry and Commerce in Beijing, China and our business license carries the registration number 1000001003796.

Our business scope, set forth in Article 10 of our articles of association, is to engage in life, accident and health insurance businesses; reinsurance business relating to the foregoing; fund investment businesses authorized by laws, regulations or the State Council; and agency business, consulting business and provision of services, in each case relating to life insurance.

The following is a summary of information relating to our share capital, based upon provisions of our articles of association and the PRC company law. You should refer to the text of our articles of association and to the texts of applicable laws and regulations for further information.

Our share capital consists of A shares and H shares, including the H shares represented by ADSs. They are all ordinary shares in our share capital. The par value of both our A shares and H shares is RMB 1.00 per share. A shares are the RMB ordinary shares that are listed on the SSE, and may only be subscribed for by, and traded among, legal or natural persons of the PRC and certain qualified foreign institutional investors, and must be subscribed for and traded in Renminbi. We must pay all dividends on A shares in Renminbi. H shares are overseas listed foreign-invested shares that have been admitted for listing on the Hong Kong Stock Exchange, the par value of which is denominated in Renminbi, and that are subscribed for and traded in Hong Kong dollars by and among investors of Hong Kong, Macau, Taiwan and any country other than the PRC. H shares may also be listed on a stock exchange in the United States in the form of American depositary shares evidenced by American depositary receipts.

Holders of A shares and H shares are deemed to be shareholders of different classes for various matters which may affect their respective interests. For instance, if we propose an increase in A shares, holders of H shares will be entitled to vote on that proposal as a separate class. See Voting Rights and Shareholders Meetings .

As of the date of this annual report, our total share capital consisted of 20,823,530,000 A shares and 7,441,175,000 H shares.

Our global offering in 2003 consisted solely of an offering of H shares and ADSs representing H shares. Consequently, the following discussion primarily concerns H shares and the rights of holders of H shares. The

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## **Table of Contents**

holders of ADSs will not be treated as our shareholders and will be required to surrender their ADSs for cancellation and withdrawal from the depositary facility in which the H shares are held in order to exercise rights as holders of H shares. The depositary agreed, so far as it is practical, to vote or cause to be voted the amount of H shares represented by ADSs in accordance with the non-discretionary written instructions of the holders of such ADSs.

### **Sources of Shareholders' Rights**

The primary sources of shareholders' rights are the PRC company law, our articles of association, Special Rules applicable to overseas listed joint stock companies promulgated by the State Council, or Special Rules, relevant CSRC regulations, the Shanghai Stock Exchange Listing Rules, and the Hong Kong Stock Exchange Listing Rules that, among other things, impose certain standards of conduct, fairness and disclosure on us, our directors and CLIC, our controlling shareholder. The PRC company law was enacted in December 1993 and serves as the primary body of law regulating corporate actions of companies organized in the PRC and its directors and shareholders.

Our articles of association have incorporated the provisions set forth in the Mandatory Provisions for the Articles of Association of Companies Listed Overseas, or the Mandatory Provisions, adopted in 1994 pursuant to the requirements of the CSRC and the provisions set forth in the Guidelines on the Articles of Association of Listed Companies, or the Guidelines, as amended in 2006 by the CSRC. Any amendment to those provisions will only become effective after approval by the relevant governmental departments authorized by the State Council and the CSRC. The Hong Kong Stock Exchange Listing Rules require a number of provisions in addition to the Mandatory Provisions to be included in our articles of association.

According to the HKSE Listing Rules, we may not amend certain provisions of our articles of association that have been mandated by the Hong Kong Stock Exchange. These provisions include, among others:

varying the rights of existing classes of shares;

voting rights;

our power to purchase our own shares;

rights of minority shareholders; and

liquidation procedures.

In addition, upon the listing of the H shares and for so long as the H shares are listed on the Hong Kong Stock Exchange, we will be subject to the relevant ordinances, rules and regulations applicable to companies listed on the Hong Kong Stock Exchange, including, among other things, the Hong Kong Stock Exchange Listing Rules, the Securities and Futures Ordinance and the Hong Kong Codes on Takeovers and Mergers and Share Repurchases.

Unless otherwise specified, all rights, obligations and protections discussed below are derived from our articles of association and the PRC company law.

### **Enforceability of Shareholders' Rights**

Enforceability of our shareholders' rights may be limited.

In accordance with the rules applicable to Chinese overseas listed companies, our articles of association provide that, with certain limited exceptions, all disputes or claims based on our articles of association, the PRC company law or other relevant laws or administrative rules, and concerning matters between holders of H shares and holders of A shares, us, or our directors, supervisors, president, vice presidents or other senior officers, must be submitted for arbitration at either the China International Economic and Trade Arbitration Commission or the





## **Table of Contents**

Hong Kong International Arbitration Center. If an applicant chooses to have the dispute arbitrated at the Hong Kong International Arbitration Center, either party may request that venue be changed to Shenzhen, a city in mainland China near Hong Kong. The governing law for the above-mentioned disputes or claims is Chinese law unless otherwise provided by Chinese law. Our articles of association provide that any such arbitration will be final and conclusive.

In June 1999, an arrangement was made between the People's Courts of the PRC and the courts of Hong Kong for mutual enforcement of arbitration awards rendered in the PRC and Hong Kong according to their respective laws. This arrangement was approved by the Supreme Court of the PRC and the Hong Kong Legislative Council and became effective on February 1, 2000.

There has not been any published report of judicial enforcement in the PRC by H shareholders of their rights under charter documents of PRC joint stock companies or the PRC company law or in the application or interpretation of the PRC or Hong Kong regulatory provisions applicable to PRC joint stock companies.

The PRC company law allows shareholders to sue, on behalf of the corporation, against persons, including corporate officers, directors, who have allegedly wronged the corporation, where the corporation itself has failed to enforce such claim against such persons directly. Class action lawsuits based on violations of securities laws are generally not available.

We are subject to the Hong Kong Exchange Listing Rules, the Hong Kong Securities and Futures Ordinance, or Securities and Futures Ordinance, and the Hong Kong Codes on Takeovers and Mergers and Share Repurchases. However, holders of H shares will not be able to bring actions on the basis of violations of the Hong Kong Stock Exchange Listing Rules and must instead rely on the Hong Kong Stock Exchange to enforce its rules. The Hong Kong Codes on Takeovers and Mergers and Share Repurchases do not have the force of law and are only standards of commercial conduct considered acceptable for takeover and merger transactions and share repurchases in Hong Kong as established by the Securities and Futures Commission of Hong Kong and the securities and futures industry in Hong Kong. The Securities and Futures Ordinance establishes various obligations in relation to disclosure of shareholders' interests in Hong Kong listed companies, the violation of which is subject to prosecution by the Securities and Futures Commission of Hong Kong.

See Item 3. Key Information Risk Factors Risks Relating to the People's Republic of China The laws in China differ from the laws in the United States and may afford less protection to our minority shareholders and Item 3. Key Information Risk Factors Risks Relating to the People's Republic of China You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in the PRC based on U.S. or other foreign laws against us, our management and some of the experts named in the annual report .

## **Dividends**

Our board of directors may propose dividend distributions at any time. A distribution of dividends for any fiscal year is subject to shareholders approval. Dividends may be distributed in the form of cash or shares. The H shares will rank equally with A shares with regard to dividend rights. A distribution of shares must be approved by special resolution of the shareholders.

We may only distribute dividends after allowance has been made for:

recovery of accumulated losses, if any;

allocations to the statutory common reserve fund equivalent to 10% of our after-tax income, as determined under PRC GAAP; and

allocations to a discretionary common reserve fund as approved by the shareholders in a shareholders' meeting.

## **Table of Contents**

Under Chinese law, dividends may be paid only out of distributable profits. Distributable profits means our after-tax profits as determined under PRC GAAP or HKFRS, whichever is lower, less any recovery of accumulated losses and allocations to statutory funds that we are required to make. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years. However, we will ordinarily not pay any dividends in a year when we do not have any distributable profits.

Payment of dividends by us is also regulated by the PRC insurance law. If we do not meet the minimum solvency margin required by the CIRC, we will be prohibited from paying dividends. See [Item 4. Information on the Company Business Overview Regulation and Related Matters Insurance Company Regulation Solvency requirements](#) .

Our articles of association require us to appoint, on behalf of the holders of H shares, a receiving agent that is registered as a trust corporation under the Trustee Ordinance of Hong Kong to receive dividends declared by us in respect of the H shares on behalf of such shareholders. Our articles of association require that cash dividends in respect of H shares be declared in Renminbi and paid by us in Hong Kong dollars. The depository will convert these proceeds into U.S. dollars and will remit the converted proceeds to holders of our ADSs.

We anticipate that our controlling shareholder, CLIC, may incur future operating losses arising in part from the runoff of policies retained by it in connection with the restructuring. Dividends received from us may become one of CLIC's principal means of funding these losses. Although we believe that the reserves held by CLIC and other financial resources available to it will fund substantially all of any future operating shortfalls arising out of these policies, which should reduce CLIC's reliance on dividends from us, subject to the relevant provisions of the PRC company law and our articles of association as described above and in [Item 8. Financial Information Consolidated Financial Statements and Other Financial Information Policy on Dividend Distributions](#) , CLIC may seek to increase the amount of dividends we pay in order to satisfy its cash flow requirements. See [Item 3. Key Information Risk Factors Risks Relating to the Restructuring](#) .

Dividend payments may be subject to Chinese withholding tax. See [Taxation The People's Republic of China Taxation of Dividends](#) .

## **Voting Rights and Shareholders Meetings**

Our board of directors will convene a shareholders' annual general meeting once every year within six months from the end of the preceding fiscal year. Our board of directors must convene an interim meeting within two months of the occurrence of any of the following events:

where the number of directors is less than the number stipulated in the PRC company law or two-thirds of the number specified in our articles of association;

where our unrecovered losses reach one-third of the total amount of our share capital;

where shareholders, individually or jointly, holding 10% or more of our issued and outstanding voting shares so request in writing;

whenever our board of directors deems necessary or our board of supervisors so requests; or

any other event as maybe provided by applicable laws, rules, regulations or our articles of association.

All shareholders' meetings must be convened by our board of directors by written notice given to shareholders not less than 45 days before the meeting. Shareholders holding at least one-half of our total voting shares will constitute a quorum for a shareholders' meeting. If a quorum is not reached, we are required to notify our shareholders within five days by public announcement of the agenda, the date and the venue of the adjourned meeting. After the notice, the board of directors may conduct the shareholders' meeting. The accidental omission by us to give notice of a meeting to, or the non-receipt of notice of a meeting by, a shareholder will not invalidate the proceedings at that shareholders' meeting.

## **Table of Contents**

Shareholders at meetings have the power, among other matters, to approve or reject our profit distribution plans, annual budget, financial statements, increases or decreases in share capital, issuances of debentures, mergers, liquidation, any equity-based incentive plan and any amendment to our articles of association. In addition, the rights of a class of shareholders may not be modified or abrogated, unless approved by a special resolution of shareholders at a general shareholders meeting and by a special resolution of shareholders of that class of shares at a separate meeting. Our articles of association enumerate various amendments which would be deemed to be a modification or abrogation of the rights of a class of shareholders, including, among others, increasing or decreasing the number of shares of a class disproportionate to increases or decreases of other classes of shares, removing or reducing rights to receive dividends in a particular currency or creating shares with voting or equity rights superior to those of shares of that class. There are no restrictions under PRC law or our articles of association on the ability of investors that are not Chinese residents to hold H shares and exercise voting rights, except that the prior approval of the CIRC is required in respect of any acquisition which results in the acquirer holding more than 10% of the outstanding share capital of our company and the other restrictions set out under Item 4. Information on the Company Business Overview Regulatory and Related Matters Insurance Company Regulation Restriction of ownership in joint stock insurance companies .

Each of our ordinary shares, whether it be an A share or an H share, is entitled to one vote on all matters submitted for vote at all shareholders meetings, except for meetings of a special class of shareholders where only holders of shares of the affected class are entitled to vote on the basis of one vote per share of the affected class.

Shareholders are entitled to attend and vote at meetings either in person or by proxy. Proxies must be in writing and deposited at our legal address or such other place as is specified in the meeting notice, not less than 24 hours before the time for holding the meeting at which the proxy proposes to vote or the time appointed for the passing of the relevant resolution.

Resolutions on any of the following matters must be approved by more than two-thirds of the voting rights held by shareholders who are present in person or by proxy:

an increase or decrease in our share capital or the issuance of shares, warrants, debentures and other similar securities;

our division, merger, dissolution or liquidation (shareholders who object to a proposed merger are entitled to demand that either we or the shareholders who approved the merger purchase their shares at a fair price);

amendments to our articles of association;

amendment of shareholders rights of any class of shares;

any equity-based incentive plan; and

any other matters as provided under applicable laws or regulations or determined by a majority of shareholders at a general meeting to have a material impact on us and should be approved by two-thirds of the voting rights.

All other actions taken by the shareholders will be approved by a majority of the voting rights held by shareholders who are present in person or by proxy at the shareholders meeting.

Any shareholder resolution that is in violation of any laws or regulations of China or the articles of association will be null and void.

## **Liquidation Rights**

We are organized as a joint stock company with limited liability of indefinite duration, but must pass the annual inspection with the SAIC. In the event of our liquidation, the H shares will rank equally with the A shares,



## **Table of Contents**

and payment of debts out of our remaining assets shall be made in the order of priority prescribed by applicable laws and regulations or, if no such standards exist, in accordance with such procedures as the liquidation committee that has been appointed either by us or the People's Courts of China may consider to be fair and reasonable. After payment of debts, we shall distribute the remaining property to shareholders in proportion to the number of shares they hold.

### **Information Rights**

Our shareholders may, without charge, inspect copies of the minutes of the shareholders' general meetings during our business hours. Shareholders may also request copies of such minutes from us, and we must deliver those copies to the relevant shareholders within seven days of receipt of such reasonable fees as we may require.

Our fiscal year is the calendar year ending December 31. We must send to holders of H shares, not less than 21 days before the date of the shareholders' annual general meeting, our audited financial statements for each fiscal year, together with the auditor's report as required by the Hong Kong Stock Exchange Listing Rules relating to that fiscal year. These and any interim financial statements must be prepared in accordance with PRC accounting standards and, for so long as our H shares are listed on the Hong Kong Stock Exchange, in accordance with either Hong Kong accounting standards or HKFRS. The financial statements must be approved by a majority of our shareholders who are present in person or by proxy at the annual general meeting.

The Hong Kong Stock Exchange Listing Rules also require us to prepare for the first six months of each fiscal year an interim report no later than sixty days after the end of such period. Further, a preliminary announcement of such interim report is required to be published in newspapers on the next business day after such report is approved by our board of directors. A copy of such interim report is also required to be sent to every shareholder as soon as reasonably practicable after such publication.

According to the HKSE Listing Rules, we are required to keep the Hong Kong Stock Exchange, our shareholders and other holders of our listed securities informed as soon as reasonably practicable of any information relating to us and our subsidiaries, including information on any major new developments that is not public information, which:

is necessary to enable them and the public to appraise the position of us and our subsidiaries;

is necessary to avoid the establishment of a false market in our securities; and

might reasonably be expected to affect materially market activity in, and the price of, our securities.

We are also required to disclose to our shareholders details of various acquisitions or disposals of assets and other transactions (including transactions with controlling shareholders).

### **Restrictions on Transferability and the Share Register**

Unless otherwise permitted by relevant PRC rules or regulations or approved by relevant PRC authorities, H shares may be traded only among investors who are legal or natural persons resident outside of China, and may not be sold to investors resident within the PRC. There are no restrictions under PRC law or our articles of association on the ability of investors who are not PRC residents to hold H shares. However, under relevant PRC law, a legal person resident outside of China is only allowed to hold not more than 10% of our issued share capital and legal persons resident outside of China are only allowed to hold in aggregate not more than 25% of our issued share capital.

We are required to keep a register of our shareholders, which shall be comprised of various parts, including one part which is to be maintained in Hong Kong in relation to holders of H shares. Shareholders have the right to inspect and, for a reasonable charge, to copy the share register. No transfers of ordinary shares will be recorded in our share register within thirty days prior to the date of a shareholders' general meeting or within five days prior to the record date established for the purpose of distributing a dividend.

## **Table of Contents**

We have appointed Computershare Hong Kong Investor Services Limited to act as the registrar of our H shares. This registrar maintains our register of holders of H shares and enters transfers of H shares in such register upon the presentation of the documents described above.

### **Increases in Share Capital**

Under our articles of association, issuance of new securities, including ordinary shares, securities convertible into ordinary shares, options, warrants or similar rights to subscribe for any ordinary shares or convertible securities, must be approved by two-thirds of all shareholders. In addition, the issuance of A shares or H shares must be approved by two-thirds of the class of domestic shares or H shares, as the case may be, unless the number of shares to be issued shall not exceed 20% of the number of shares of the same class then outstanding in any 12-month period.

It is proposed that a special resolution be passed at the shareholders' annual general meeting to be held on May 28, 2008 to authorize our board of directors to issue additional shares, and amend the articles of association accordingly, in a nominal amount of no more than 20% of each of the aggregate nominal amount of our domestic shares and H shares in issue as at the date of such resolution, by the conclusion of next shareholders' annual general meeting, or the expiration of the 12-month period following the passing of this resolution, or the date on which the resolution is otherwise revised or revoked by a special resolution of our shareholders, whichever is the earliest. Our board of directors has no immediate plan to issue any new shares.

Shareholders are not liable to make any further contribution to the share capital other than according to the terms that were agreed upon by the subscriber of the relevant shares at the time of subscription. New issues of shares must also be approved by relevant Chinese authorities.

### **Decreases in Share Capital and Repurchases**

We may reduce our registered share capital only upon obtaining the approval of at least two-thirds of our shareholders and, in certain circumstances, of relevant Chinese authorities. The number of H shares that may be repurchased is subject to the Hong Kong Codes on Takeovers and Mergers and Share Repurchases.

### **Restrictions on Ownership**

You may not individually or with your nominees or other persons acting in concert own more than 20% of our share capital without the prior approval of the CIRC. Other restrictions on ownership of our shares apply. See [Item 4. Information on the Company](#) [Business Overview](#) [Regulation and Related Matters](#) [Insurance Company Regulation](#) [Restriction of ownership in joint stock insurance companies](#) .

### **Restrictions on Large or Controlling Shareholders**

Our articles of association define a controlling shareholder as any person who acting alone or in concert with others:

is in a position to elect more than one-half of the board of directors;

has the power to exercise, or to control the exercise of, 30% or more of our voting rights;

holds 30% or more of our issued and outstanding shares; or

has de facto control of us in any other way.

As of the date of this annual report, CLIC, a wholly state-owned enterprise, is our only controlling shareholder.

## **Table of Contents**

Our articles of association provide that, in addition to any obligation imposed by laws and administrative regulations or required by the Hong Kong Stock Exchange Listing Rules, a controlling shareholder shall not exercise its voting rights in a manner prejudicial to the interests of other shareholders:

to relieve a director or supervisor from his or her duty to act honestly in our best interests;

to approve the appropriation by a director or supervisor, for his or her own benefit or for the benefit of any other person, of our assets in any way, including without limitation opportunities which may be advantageous to us; or

to approve the appropriation by a director or supervisor, for his or her own benefit or for the benefit of another person, of the individual rights of other shareholders, including without limitation rights to distributions and voting rights (except in accordance with a restructuring of our company which has been submitted for approval by the shareholders at a general meeting in accordance with our articles of association).

Our articles of association also provide that a controlling shareholder or an actual controlling person shall not exploit its affiliated relation in a manner prejudicial to the interest of our company, and shall be liable for any losses suffered by us as a result thereof. The controlling shareholder or actual controlling person shall have fiduciary duties to both our company and our public shareholders. The controlling shareholder shall exercise its rights as a capital contributor of our company in strict compliance with the law. The controlling shareholder shall not cause any damage to the lawful rights and interest of our company and our public shareholders through, among others, any connected transactions, profit distribution, asset restructuring, external investment, fund appropriation and loan guarantee, or impair the interest of our company and our public shareholders through its controlling position.

## **Board of Directors**

Our directors are elected by our shareholders at shareholders' general meetings. Because our A shares and H shares do not have cumulative voting rights, a holder of a majority of our ordinary shares is able to elect all of the directors. Directors are elected for a term of three years and may serve consecutive terms if re-elected.

Article 23 of Special Regulations on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies provides that directors, supervisors, and senior officers of a company owe duties of honesty, care and diligence to their company.

Our articles of association provide that, in exercising their duties and powers, our directors, supervisors and senior officers will act with the care, diligence and skills that are expected of a reasonable person under similar circumstances, observe fiduciary principles and not place themselves in a situation where their interests conflict with the duties they are charged with performing. In addition to these fiduciary duties to our company, each director, supervisor and officer is obligated to each shareholder:

to act honestly in our company's best interests;

not to exploit corporate assets for personal gains; and

not to expropriate the rights of our shareholders.

If directors, supervisors or officers are found to have misappropriated our company's assets or misused their position for personal gain, the PRC company law provides that any misappropriated or misused property be returned and any illegal proceeds received by the supervisor be confiscated, and allows us to impose punishment on them. In serious cases, criminal liability may also be imposed. According to our articles of association, our shareholders may bring a derivative suit against any director, supervisor or officer who has breached his fiduciary duties. Most disputes between H shareholders and directors, supervisors and officers are required to be resolved by final and binding arbitration.





## **Table of Contents**

Moreover, our articles of association provide that our directors, supervisors and senior officers must not enter into transactions or contracts with us or agree to make corporate loans to any persons or provide guarantees for loans of any shareholder or any other person with corporate assets. In particular, our directors, supervisors and senior officers have obligations to disclose to the board of directors any direct or indirect material interest they may have in any contracts or transactions with us. They may not vote on any contracts, transactions or arrangements in which they have any material interest. Further, we may not make loans or provide guarantees to directors, supervisors or senior officers, unless such loans or guarantees are approved at a shareholders' meeting or made in the ordinary course of business and to the extent permitted by applicable laws. All decisions relating to the compensation of directors are made at shareholders' meetings.

There are no provisions under our articles of association or PRC law which relate to:

the retirement or non-retirement of directors under any age limit requirement;

directors' borrowing power; or

number of shares required for directors' qualification.

Subject to all relevant laws and administrative regulations, the shareholders may remove any director before the expiration of his or her term of office by a majority vote of the shareholders present in person or by proxy at shareholders' general meetings. A director, supervisor, president, vice president or other senior officer may be relieved of liability for a specific breach of his or her duties by the consent of shareholders so long as specified conditions are met.

## **Board of Supervisors**

Our board of supervisors consists of five supervisors. At least one-third of our board of supervisors must be employee representatives elected by our employees. The remaining members must be elected by our shareholders in a general meeting. One member of our board of supervisors is designated as the chairman. Members of the board of supervisors may not serve as director, president, vice president or other senior management of our company. The term of office for our supervisors is three years, which is renewable upon re-election.

The primary duty of the board of supervisors is to monitor our financial matters and management. The board of supervisors' powers are generally limited to carrying out investigations and reporting to shareholders, the China Securities Regulatory Commission and other relevant governmental authorities having jurisdiction over our affairs and to convening shareholders' interim meetings. Reasonable expenses incurred by the board of supervisors in carrying out its duties will be paid by us.

Our supervisors owe fiduciary duties to our company and our shareholders. Please see the discussion of the duties and the nature of recourse our shareholders may have against supervisors in breach of these duties in the subsection entitled "Board of Directors".

The board of supervisors is accountable, and will report, to the shareholders at the shareholders' general meetings.

## **Certain Differences Between PRC Company Law and Delaware Corporate Law**

The PRC company law and other laws applicable to us differ in a number of respects from laws generally applicable to United States corporations and their shareholders. The description set forth below includes a summary of certain provisions of the PRC company law, Special Rules, Mandatory Provisions and the Guidelines applicable to companies listed both in the PRC and overseas, such as us, which differ from provisions of the corporate law of the State of Delaware.

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**Table of Contents****General**

We are a PRC joint stock company, which is a corporate entity organized under the PRC company law. Under the PRC company law, the registered capital of a joint stock company is divided into shares of equal par value. These shares are commonly called domestic ordinary shares. Each share of a joint stock company ranks equally with all other shares in its class as to voting rights (except for specified class voting rights) and rights to dividends and other distributions. Upon receiving approval from the relevant authorities, a joint stock company may offer its shares for sale to the public and seek to be listed on a stock exchange. The State Council may formulate separate regulations for the issuance of other classes of shares, including H shares. All of our issued shares are fully paid and nonassessable. Holders of H shares may transfer their shares without the approval of other shareholders. Among other things, a joint stock company must have (1) not fewer than two, and not more than 200, initial shareholders, (2) minimum paid-in capital of not less than RMB 5 million, (3) a board of directors of not fewer than five and not more than 19 members and (4) a board of supervisors of not fewer than three members.

The shareholders' meeting of a joint stock company is the highest authority of the company and exercises the powers of the company with respect to significant matters, subject to applicable law and the articles of association of the company. The business of a joint stock company is under the overall management of a board of directors, subject to the PRC company law, other applicable laws and regulations (which in our case include the PRC insurance law and regulations), the company's articles of association and duly adopted resolutions of its shareholders. The day-to-day operations of a joint stock company are under the direction of its general manager or president, subject to the applicable laws and regulations, the company's articles of association and duly adopted resolutions of the directors and shareholders. In addition, the PRC company law provides for the establishment of a board of supervisors for each joint stock company. The supervisors perform and exercise the functions and powers described below, including examination of the joint stock company's affairs and monitoring the actions of the directors and officers of the company. The directors, supervisors and officers are not required to hold any qualifying shares in the joint stock company.

A joint stock company may be liquidated involuntarily due to insolvency or voluntarily in accordance with the terms of its articles of association or duly adopted shareholders' resolutions. The property of a joint stock company remaining after full payment of its liquidation expenses, wages, labor insurance premiums of its employees and statutory compensations, outstanding taxes and debts, is distributed in proportion to the holdings of its shareholders.

**Meetings of shareholders**

Under PRC law, shareholders are given the power to approve specified matters. See "Voting Rights and Shareholders' Meetings". In addition, the Mandatory Provisions provide that at shareholders' meetings shareholders are entitled to consider any proposals made by shareholders holding in the aggregate at least 3% of voting power over the company's shares.

Under Delaware law, the business and affairs of a Delaware corporation are, in general, managed by or under the direction of its board of directors. Only certain fundamental matters regarding the corporation are reserved by statute to be exercised by the shareholders. These matters include, in general, the election and removal of directors, the retention and dismissal of the corporation's independent auditors, mergers and other business combinations involving the corporation, the amendment of the corporation's certificate of incorporation and a liquidation and dissolution of the corporation.

**Shareholders' approval by written consent**

PRC law does not provide shareholders of overseas joint stock listed companies with rights to approve corporate matters by written consent. Under Delaware law, unless otherwise provided in the certificate of incorporation, any action which is required or permitted to be taken at any shareholders' meeting may be taken without a meeting, subject to various conditions.

## **Table of Contents**

### ***Amendments of articles of association***

Under PRC law, an amendment of the articles of association must be approved by an affirmative vote of two-thirds of shareholders attending a shareholders' meeting. Under the Mandatory Provisions, the proposal to amend the articles is required to be approved by the board of directors, as well as the shareholders. Amendments with respect to the Mandatory Provisions only become effective after approval by the relevant governmental department authorized by the State Council and the China Securities Regulatory Commission.

Under Delaware law, board as well as shareholder approval are required for any amendment to the certificate of incorporation, but no governmental approval is generally required.

### ***Powers and responsibilities of directors***

Under PRC law, the board of directors is responsible for specified actions, including the following functions and powers of a joint stock company:

convening shareholders' meetings and reporting its work to shareholders at these meetings;

implementing shareholders' resolutions;

determining the company's business plans and investment proposals;

formulating the company's annual financial budgets and final accounts;

formulating the company's profit distribution plans and loss recovery plans;

formulating proposals for the increase or decrease in the company's registered capital and the issue of debentures;

formulating major acquisition and disposal plans and plans for the merger, division or dissolution of the company;

deciding on the company's internal management structure and formulating its basic management system; and

appointing or removing the company's principal executive officers; appointing and removing other senior officers based on the recommendation of the principal executive officer and deciding on the remuneration of the senior officers.

In addition, the Mandatory Provisions provide that the board has the authority to formulate any proposal to amend the articles of association and to exercise any other power conferred by a decision of the shareholders' meeting.

Under Delaware law, the business and affairs of a Delaware corporation are managed by or under the direction of its board of directors. Their powers include fixing the remuneration of directors, except as otherwise provided by statute or in the certificate of incorporation or by-laws of the corporation.

### ***Powers and responsibilities of supervisors***

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Under PRC law, a PRC joint stock company must have a board of supervisors consisting of shareholder representatives and one or more employee representatives. Supervisors attend board meetings as non-voting observers. Directors, officers and company personnel in charge of financial matters may not serve as supervisors. The supervisors perform and exercise the following functions and powers:

examining the company's financial affairs;

monitoring compliance with laws, regulations, the articles of association of the company and the shareholders resolutions by the directors and officers of the company; and suggesting removing the directors and officers who violate these laws and regulations;

## **Table of Contents**

requiring corrective action from directors and officers whose actions are contrary to the interests of the company;

proposing the holding of extraordinary shareholders' meetings;

proposing new items to be inserted in the agenda of the shareholders' meeting.

bringing lawsuits against directors or members of senior management, if they violate laws, regulations or articles of association of the company; and

exercising and performing other powers and functions provided for in the company's articles of association.

In addition, the Mandatory Provisions provide that supervisors of overseas listed joint stock companies are entitled to retain auditors in the name of the company to examine any financial or business reports or profit distribution proposals to be submitted by the directors to a meeting of the shareholders which the supervisors consider questionable, and negotiate or take legal action against any director or the directors in the name of the company. The fees and expenses of attorneys and other professionals incurred by the supervisors in connection with the discharge of their duties are to be paid by the company.

Delaware law makes no provision for a comparable corporate institution.

### ***Duties of directors, supervisors and officers***

Under PRC law, directors, supervisors and officers of a joint stock company are required to comply with relevant laws and regulations and the company's articles of association. A director, supervisor or officer who contravenes any law, regulation or the company's articles of association in the performance of his duties shall be personally liable to the company for any loss incurred by the company. Directors, supervisors and officers are required to carry out their duties honestly, diligently and protect the interests of the company. They are also under a duty of confidentiality to the company and prohibited from divulging confidential information concerning the company, except as permitted by relevant laws and regulations or by a decision of a shareholders' meeting. They may not use their position and authority in the company to seek personal gain. Directors and officers may not directly or indirectly engage in the same business as the company or in any other business detrimental to the interests of the company, and they are required to forfeit any profits from these activities to the company.

Under Delaware law, the business and affairs of a corporation are managed by or under the direction of its board of directors. In exercising their powers, directors are charged with a fiduciary duty of care to protect the interests of the corporation and a fiduciary duty of loyalty to act in the best interests of its shareholders.

### ***Limitations on transactions with interested directors, supervisors and officers***

Under PRC law, directors and officers of a joint stock company may not enter into any contracts or transactions with the company unless permitted by the articles of association or approved by the shareholders. Under PRC law, a company may not provide any guarantees to shareholders or any de facto control person of the company unless such guarantees are approved by a majority of shareholders present at the shareholders' meeting, excluding the shareholder who will be provided such guarantees. Under the Mandatory Provisions, a director, supervisor or officer is required to disclose to the board any transaction with the company in which he has a direct or indirect interest or in which there is a material conflict of interest between the company and himself. A director is not entitled to vote or be counted for quorum purposes in any board decision on any such transaction. The company may set aside any interested transaction which did not comply with these requirements, unless the other party to such transaction was honestly unaware of the breach of obligations by the interested director, supervisor or officer. The company may not loan or provide any guarantees to directors, supervisors or officers (including persons related to them), except for the loans made in accordance with employment contracts approved by the shareholders, or unless the company's business scope allows for the provision of loans and guarantees and such loans or guarantees are made under regular commercial terms.

## **Table of Contents**

Under Delaware law, an interested transaction is not voidable if (1) the material facts as to such interested director's relationship or interests are disclosed or are known to the board of directors and the board in good faith authorizes the transaction by the affirmative vote of a majority of the disinterested directors, (2) such material facts are disclosed or are known to the shareholders entitled to vote on such transaction and the transaction is specifically approved in good faith by vote of the majority of shares entitled to vote thereon or (3) the transaction is fair as to the corporation as of the time it is authorized, approved or ratified. Under Delaware law, the interested director could be held liable for a transaction in which such a director derived an improper personal benefit.

### ***Election and removal of directors***

Under PRC law, the term of office of directors of a joint stock company must be specified in the articles of association, but may not exceed three years. Directors may be re-elected. No director may be removed from office without cause by shareholders prior to the expiration of the director's term. PRC law does not contemplate a classified board of directors.

Under Delaware law, directors of a Delaware corporation can be removed from office with or without cause by the holders of a majority of shares then entitled to vote at an election of directors, provided that except where the certificate of incorporation of the Delaware corporation otherwise provides, a member of a classified board may be removed by shareholders only for cause, and in a corporation with cumulative voting, if less than all of the directors are removed, no director may be removed if the votes cast against the director's removal is sufficient to elect the director if cumulatively voted at an election of directors.

### ***Dividend payments***

Under PRC law, proposals for distribution of profits are formulated by the board of directors and submitted for shareholder approval at a shareholders' meeting. Dividends may be distributed in the form of cash or shares.

Under Delaware law, the board of directors of a Delaware corporation may declare dividends out of distributable earnings and profits without the approval of the shareholders.

### ***Amalgamations and business combinations; appraisal rights***

Under PRC law, amalgamations and divisions involving joint stock companies are required to be approved by shareholders voting at a shareholders' meeting. The Mandatory Provisions require an amalgamation or division involving the company to be approved by an affirmative vote of two-thirds of the votes present at the shareholders' meeting called to consider the transaction. Any shareholder opposing such an amalgamation or business combination may request the company or the consenting shareholders to purchase its shares at a fair price. In addition, a sale of fixed assets having a value exceeding one-third of the total fixed assets of the company requires the approval of at least two thirds of shareholders at the meeting where a quorum presents.

Under Delaware law, with certain exceptions, a merger, consolidation or sale of all or substantially all the assets of a corporation must be approved by the board of directors and holders of a majority of the outstanding shares entitled to vote. A shareholder objecting to the merger is entitled to appraisal rights pursuant to which the shareholder may receive cash in the amount of the fair value of the shares held by such shareholder (as determined by a court) in lieu of the consideration the shareholder would otherwise receive in the transaction.

### ***Transactions with significant shareholders***

Under Delaware law, a business combination between a Delaware corporation and an interested shareholder which takes place at any time during a period of three years commencing with the date the interested shareholder became an interested shareholder would need prior approval from the board of directors or a supermajority of the

## **Table of Contents**

shareholders of the corporation, unless the corporation opted out of the relevant Delaware business combination statute. Under Delaware law, an interested shareholder of a corporation is someone who, together with its affiliates and associates, owns more than 15% of the outstanding common shares of the corporation. No such business combination statute or regulation applies to PRC joint stock companies.

### ***Shareholders' lawsuits***

The PRC law provides that most disputes involving an H shareholder are to be resolved by final and binding arbitration.

Class actions and derivative actions generally are available to shareholders under Delaware law for, among other things, breach of fiduciary duty, corporate waste and actions not taken in accordance with applicable law.

### ***Limitations on liability and indemnification of directors and officers***

PRC law does not provide for any specific limitations on liability or indemnification of directors and officers.

Under Delaware law, a corporation may indemnify a director or officer of the corporation against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred in defense of an action, suit or proceeding by reason of such position if (1) the director or officer acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation and (2) with respect to any criminal action or proceeding, the director or officer had no reasonable cause to believe his conduct was unlawful.

### ***Shareholders' rights of inspection of corporate records***

Under PRC law, shareholders are entitled to inspect the articles of association, register of shareholders, corporate bond counter foils, minutes of shareholders' meetings and board meetings and reports of the financial accounts of the company. In addition, the Mandatory Provisions provide that, after paying reasonable fees, shareholders are entitled to inspect the company's shareholder list, certain personal information on the directors, supervisors and officers, the company's capital position and certain information regarding share repurchases conducted by the company during the most recent fiscal year.

Delaware law permits any shareholder of a Delaware corporation to inspect or obtain copies of or extracts from the corporation's shareholder list and its other books and records for any purpose reasonably related to such person's interest as a shareholder.

## **MATERIAL CONTRACTS**

See Item 7. Major Shareholders and Related Party Transactions - Related Party Transactions for certain arrangements we have entered into with CLIC, AMC and GDB.

## **EXCHANGE CONTROLS**

The Renminbi currently is not a freely convertible currency. The State Administration of Foreign Exchange, under the authority of the PBOC, controls the conversion of Renminbi into foreign currency. Until July 20, 2005, the PBOC had been setting and publishing daily a base exchange rate with reference primarily to the supply and demand of Renminbi against the U.S. dollar in the market during the prior day. The PBOC also took into account other factors, such as the general conditions existing in the international foreign exchange markets. From 1994 to July 20, 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable. On



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## **Table of Contents**

July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by 2.0% against the U.S. dollar. Since then, the PRC government has made, and may in the future make, further adjustments to the exchange rate system. The PBOC announces the closing price of a foreign currency traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day, and makes it the central parity for the trading against the Renminbi on the following working day.

Although PRC governmental policies were introduced in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currency for current account items, conversion of Renminbi into foreign exchange for capital items, such as foreign direct investment, loans or securities, requires the approval of the State Administration for Foreign Exchange and other relevant authorities.

In the event of shortages of foreign currencies, we may be unable to convert sufficient Renminbi into foreign currency to meet our foreign currency obligations or to pay dividends in foreign currency.

Our H shares are traded on the Hong Kong Stock Exchange. There are no limitations on the right of non-resident or foreign owners to remit dividends or capital including capital gains imposed by Hong Kong law.

## **TAXATION**

The taxation of income and capital gains of holders of H shares or ADSs is subject to the laws and practices of China and of jurisdictions in which holders of H shares or ADSs are resident or otherwise subject to tax. The following summary of certain relevant taxation provisions is based on current law and practice, is subject to change and does not constitute legal or tax advice. The discussion does not deal with all possible tax consequences relating to an investment in the H shares or ADSs. In particular, the discussion does not address the tax consequences under state, local and other laws, such as non-U.S. federal laws other than the laws of the PRC and Hong Kong. Accordingly, you should consult your own tax adviser regarding the tax consequences of an investment in the H shares and ADSs. The discussion is based upon laws and relevant interpretations in effect as of the date of this annual report, all of which are subject to change.

### **The People's Republic of China**

The following is a discussion of the material Chinese tax provisions relating to the ownership and disposition of H shares or ADSs held by the investors as capital assets. This discussion does not address all of the tax considerations that may be relevant to specific investors in light of their particular circumstances or to other investors subject to special treatment under the tax laws of the PRC. This discussion is based on the tax laws of China as in effect as of the date of this annual report, as well as on the Agreement between the United States of America and the People's Republic of China for the Avoidance of Double Taxation, or the Treaty, all of which are subject to change (or changes in interpretation), possibly with retroactive effect.

This discussion does not address any aspects of Chinese taxation other than income taxation, capital taxation, stamp taxation and estate taxation. Prospective investors are urged to consult their tax advisers regarding Chinese and other tax consequences of owning and disposing of H shares.

### ***Taxation of Dividends***

*Individual investors.* According to the PRC Individual Income Tax Law, as amended, dividends paid by Chinese companies are ordinarily subject to a Chinese withholding tax levied at a flat rate of 20%. For a foreign

**Table of Contents**

individual who is not a resident of China, the receipt of dividends from a company in China is normally subject to a withholding tax of 20% unless reduced by an applicable tax treaty. However, the Chinese State Administration of Taxation, or the SAT, the Chinese central government tax authority which succeeded the State Tax Bureau, issued, on July 21, 1993, a Notice of the Chinese State Administration of Taxation Concerning the Taxation of Gains on Transfer and Dividends from Share (Equities) Received by Foreign Investment Enterprises, Foreign Enterprises and Foreign Individuals, or the Tax Notice, which states that dividends paid by a Chinese company to individuals with respect to shares listed on an overseas stock exchange, or Overseas Shares, such as H shares, are temporarily not subject to Chinese withholding tax. The relevant tax authority has not collected withholding tax on dividend payments on Overseas Shares, including H shares and ADSs.

In a letter dated July 26, 1994 to the former State Commission for Restructuring the Economic System, the former State Council Securities Commission and the China Securities Regulatory Commission, the SAT reiterated the temporary tax exemption stated in the Tax Notice for dividends received from a Chinese company listed overseas. In the event that this letter is withdrawn, a 20% tax may be withheld on dividends in accordance with the Provisional Regulations and the PRC Individual Income Tax Law, as amended. The withholding tax may be reduced under an applicable double taxation treaty. To date, the relevant tax authorities have not collected withholding tax from dividend payments on the shares exempted under the Tax Notice.

*Enterprises.* According to the PRC Enterprise Income Tax Law and its implementation rules, effective on January 1, 2008, dividends paid by Chinese companies to foreign enterprises, which have no establishment or residence in China or whose dividends from China do not relate to their establishment or residence in China, are ordinarily subject to a Chinese withholding tax levied at a flat rate of 10%. However, according to the Tax Notice, a foreign enterprise with no permanent establishment in China receiving dividends paid with respect to a Chinese company's Overseas Shares will temporarily not be subject to the 10% withholding tax. If the withholding tax becomes applicable in the future, the rate could be reduced under an applicable double-taxation treaty.

*Tax treaties.* Investors who do not reside in China and reside in countries that have entered into treaties for the avoidance of double-taxation with China may be entitled to a reduction of the withholding tax imposed on the payment of dividends to investors of the Company who do not reside in China. China currently has treaties for the avoidance of double-taxation with a number of other countries, which include Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States.

Under the treaty between China and the United States, the China-US Treaty, China may tax a dividend paid by us to an Eligible U.S. Holder up to a maximum of 10% of the gross amount of the dividend. It is arguable that under the China-US Treaty, China may only tax gains from the sale or disposition by an Eligible U.S. Holder of H shares representing an interest in the Company of 25% or more, but this position is uncertain and the Chinese authorities may take a different position. For the purposes of this discussion, an Eligible U.S. Holder is a U.S. holder that (i) is a resident of the United States for the purposes of the China-US Treaty, (ii) does not maintain a permanent establishment or fixed base in China to which H shares are attributable and through which the beneficial owner carries on or has carried on business (or, in the case of an individual, performs or has performed independent personal services) and (iii) is not otherwise ineligible for benefits under the China-US Treaty with respect to income and gains derived in connection with the H shares.

***Taxation of Capital Gains***

According to the PRC Enterprise Income Tax Law and its implementation rules, effective on January 1, 2008, capital gains realized by foreign enterprises, which have no establishment or residence in China or whose capital gains from China do not relate to their establishment or residence in China, are ordinarily subject to capital gains tax at the rate of 10%. The Tax Notice provides that gains realized by enterprises that are holders of

## **Table of Contents**

Overseas Shares would, temporarily, not be subject to capital gains taxes. With respect to individual holders of H shares, the Provisions for Implementation of Individual Income Tax Law of China, as amended, or the Provisions, stipulated that income tax on gains realized on the sale of equity shares would be regulated in separate rules to be drafted by the Ministry of Finance. However, no income tax on gains realized on the sale of equity shares has been collected. Gains on the sale of shares by individuals were temporarily exempted from individual income tax pursuant to notices issued by the SAT dated February 9, 1996 and March 30, 1998. According to the Tax Notice, individual holders of Overseas Shares, such as H shares, are temporarily not subject to capital gains tax.

### ***Additional Chinese Tax Considerations***

*Chinese stamp duty.* Chinese stamp duty imposed on the transfer of shares of Chinese publicly traded companies under the Provisional Regulations of China Concerning Stamp Duty should not apply to the acquisition and disposal by non-Chinese investors of H shares or ADSs outside of China by virtue of the Provisional Regulations of China Concerning Stamp Duty, which became effective on October 1, 1988 and which provide that Chinese stamp duty is imposed only on documents executed or received within China that are legally binding in China and are protected under Chinese law.

*Estate tax.* No liability for estate tax under Chinese law will arise from non-Chinese nationals holding H shares.

### **Hong Kong**

The following is a discussion of the material Hong Kong tax provisions relating to the ownership and disposition of H shares or ADSs held by the investors as capital assets. This discussion does not address all of the tax considerations that may be relevant to specific investors in light of their particular circumstances or to investors subject to special treatment under the tax laws of Hong Kong. This discussion is based on the tax laws of Hong Kong as in effect on the date of this annual report, which are subject to change (or changes in interpretation), possibly with retroactive effect. This discussion does not address any aspects of Hong Kong taxation other than income taxation, capital taxation, stamp taxation and estate taxation. Prospective investors are urged to consult their tax advisers regarding Hong Kong and other tax consequences of owning and disposing of H shares.

### ***Tax Treaties***

There is no relevant tax treaty in effect between Hong Kong and the United States.

### ***Tax on Dividends***

Under current practice, no tax is payable in Hong Kong in respect of dividends paid by us.

### ***Tax on Gains from Sale***

No tax is imposed in Hong Kong in respect of capital gains from the sale of property. However, trading gains from the sale of property by persons carrying on a trade, profession or business in Hong Kong where the gains are derived from or arise in Hong Kong from such trade, profession or business will be chargeable to Hong Kong profits tax, which is currently imposed at the rate of 17.5% on corporations and at a maximum rate of 16% on individuals. Certain categories of taxpayers are likely to be regarded as deriving trading gains rather than capital gains (for example, financial institutions, insurance companies and securities dealers) unless these taxpayers could prove that the investment securities are held for long-term investment purpose.

## **Table of Contents**

Trading gains from sales of H shares effected on the Hong Kong Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H shares effected on the Hong Kong Stock Exchange realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

There will be no liability for Hong Kong profits tax in respect of profits from the sale of ADSs, where purchases and sales of ADSs are effected outside Hong Kong, for example, on the New York Stock Exchange.

### ***Stamp Duty***

Hong Kong stamp duty, currently charged at the *ad valorem* rate of 0.1% on the higher of the consideration for, or the market value of, the H shares, will be payable by the purchaser on every purchase and by the seller on every sale of H shares (in other words, a total of 0.2% is currently payable on a typical sale and purchase transaction involving H shares). In addition, a fixed duty of HK\$5.00 is currently payable on any instrument of transfer of H shares. Where one of the parties to a transfer is resident outside Hong Kong and does not pay the *ad valorem* duty due by it, the duty not paid will be assessed on the instrument of transfer (if any) and will be payable by the transferee. If stamp duty is not paid on or before the due date, a penalty of up to ten times the duty payable may be imposed.

The withdrawal of H shares upon the surrender of ADRs, and the issuance of ADRs upon the deposit of H shares, will also attract stamp duty at the rate described above for sale and purchase transactions unless such withdrawal or deposit does not result in a passing of the beneficial interest in the H shares under Hong Kong law, in which case only a fixed duty of HK\$5.00 is payable on the transfer. The issuance of the ADRs upon the deposit of H shares issued directly to the depository of the ADSs, or for the account of the depository, will not be subject to any stamp duty. No Hong Kong stamp duty is payable upon the transfer of ADSs outside Hong Kong.

### ***Estate Duty***

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application for a grant of representation in respect of holders of H Shares whose deaths occur on or after February 11, 2006.

## **United States of America**

The following is a discussion of the material United States federal income tax consequences relating to the purchase, ownership and disposition of H shares or ADSs by U.S. Holders (as defined below) that acquire the shares or ADSs for cash and hold them as capital assets. This discussion is based on the Internal Revenue Code of 1986, as amended, or the Code, Treasury regulations promulgated thereunder, and administrative and judicial interpretations thereof, all as in effect on the date hereof and all of which are subject to change, possibly with retroactive effect. This discussion does not address all of the tax considerations that may be relevant to specific U.S. Holders in light of their particular circumstances or to U.S. Holders subject to special treatment under U.S. federal income tax law (such as banks, insurance companies, tax-exempt entities, retirement plans, regulated investment companies, partnerships, dealers in securities, brokers, U.S. expatriates, persons who have acquired our H shares or ADSs as part of a straddle, hedge, conversion, or other integrated investment, persons who own, directly or by attribution, 10% or more of the combined voting power of all classes of stock of China Life or persons that have a functional currency other than the U.S. dollar). This discussion does not address any U.S. state or local or any U.S. federal estate, gift or alternative minimum tax considerations.

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**Table of Contents**

As used in this discussion, the term **U.S. Holder** means a beneficial owner of H shares or ADSs that is, for U.S. federal income tax purposes, (i) an individual who is a citizen or resident of the United States, (ii) a corporation created or organized in or under the laws of the United States or of any state or political subdivision thereof or therein, including the District of Columbia or (iii) an estate or trust the income of which is subject to U.S. federal income tax regardless of the source thereof.

Investors are urged to consult their own tax advisers as to the particular tax considerations applicable to them relating to the purchase, ownership and disposition of H shares or ADSs in their individual circumstances, including the applicability of U.S. federal, state and local tax laws, any changes in applicable tax laws and any pending or proposed legislation or regulations.

***Taxation of Dividends***

Subject to the discussion below under **Special Rules**, cash distributions with respect to the H shares or ADSs owned by a U.S. Holder will, upon receipt, be includible in the gross income of such U.S. Holder as ordinary dividend income to the extent of our current and accumulated earnings and profits, as determined under U.S. federal income tax principles. To the extent that the amount of any such cash distribution exceeds our current and accumulated earnings and profits as so computed, it will be treated first as a non-taxable return of capital to the extent of the U.S. Holder's adjusted tax basis in such H shares or ADSs and, to the extent the amount of such cash distribution exceeds adjusted tax basis, will be treated as gain from the sale of such H shares or ADSs. Dividends paid by us generally will constitute income from sources outside the United States for foreign tax credit limitation purposes and will not be eligible for the **dividends received** deduction.

Dividends received by individuals during taxable years beginning on or before December 31, 2010 from **qualified foreign corporations** are generally subject to a maximum U.S. federal income tax rate of 15%, so long as certain holding period requirements are met. A non-U.S. corporation (other than a passive foreign investment company) generally will be considered to be a qualified foreign corporation (i) if it is eligible for the benefits of a comprehensive income tax treaty with the United States which the Secretary of the Treasury determines is satisfactory for purposes of the relevant provision and which includes an exchange of information program or (ii) with respect to any dividend it pays on stock which is readily tradable on an established securities market in the United States. The Treasury Department has determined that the U.S.-China income tax treaty as currently in effect meets the requirements described in clause (i) above. In addition, the ADSs are readily tradable on the New York Stock Exchange, an established securities market in the United States. Each U.S. Holder that is an individual is urged to consult his or her tax adviser regarding the applicability of this reduced rate to dividends received with respect to the H shares or ADSs in his particular circumstance.

The U.S. dollar value of any distribution made by us in Hong Kong dollars (or other currency that is not the U.S. dollar, or a foreign currency), should be calculated by reference to the exchange rate in effect on the date of receipt of such distribution by JPMorgan Chase Bank, N.A., as depositary, in the case of ADSs, or by the U.S. Holder, in the case of H shares held directly by such U.S. Holder regardless of whether the Hong Kong dollars (or such other foreign currency) so received are converted into U.S. dollars on the date of receipt. If the Hong Kong dollars (or such other foreign currency) so received are converted into U.S. dollars on the date of receipt, such U.S. Holder generally should not recognize foreign currency gain or loss on such conversion. If the Hong Kong dollars (or such other foreign currency) are not converted into U.S. dollars on the date of receipt, such U.S. Holder will have a basis in the Hong Kong dollars (or such other foreign currency) equal to their U.S. dollar value on the date of receipt. Any gain or loss on a subsequent conversion or other disposition of the Hong Kong dollars (or such other foreign currency) generally will be treated as ordinary income or loss from sources within the United States for foreign tax credit limitation purposes.

As described above under **The People's Republic of China Taxation of Dividends**, under current practice, Chinese withholding tax is not collected from dividends paid with respect to overseas shares; such as H shares and ADSs, to a recipient who is an individual or is a foreign enterprise that does not maintain a permanent establishment in China (or whose dividends do not relate to its permanent establishment in China). If, in the future, Chinese withholding tax were to be collected from dividends

**Table of Contents**

paid on H shares or ADSs, a U.S. Holder should be entitled, at its option, to either a deduction or a tax credit for the amount paid or withheld. There are significant and complex limitations that apply to foreign tax credits. The availability of the foreign tax credit and the application of the limitations on the credit are fact specific and U.S. Holders are urged to consult their own U.S. tax advisers with respect to foreign tax credit considerations in their individual circumstances.

***Sale or other Disposition of H Shares or ADSs***

Subject to the discussion below under *Special Rules*, a U.S. Holder generally will recognize gain or loss for U.S. federal income tax purposes upon a sale or other disposition of H shares or ADSs that it owns in an amount equal to the difference between the amount realized from the sale or disposition and the U.S. Holder's adjusted tax basis in such H shares or ADSs. The gain or loss generally will be a capital gain or loss and will be long-term capital gain (taxable at a reduced rate for individuals) or loss if, on the date of sale or disposition, such H shares or ADSs were held by the U.S. Holder for more than one year and will generally be U.S. source gain or loss. The claim of a deduction in respect of a capital loss may be subject to limitations.

A U.S. Holder that receives Hong Kong dollars (or other foreign currency) from the sale or disposition generally will realize an amount equal to the U.S. dollar value of the Hong Kong dollars (or such other foreign currency) on the settlement date of the sale or disposition if (i) the U.S. Holder is a cash basis or electing accrual basis taxpayer and our H shares or ADSs, as the case may be, are treated as being traded on an established securities market for this purpose or (ii) the settlement date is the date of the sale or disposition. If the Hong Kong dollars (or such other foreign currency) so received are converted into U.S. dollars on the settlement date, the U.S. Holder should not recognize foreign currency gain or loss on the conversion. If the Hong Kong dollars (or such other foreign currency) so received are not converted into U.S. dollars on the settlement date, the U.S. Holder will have a basis in the Hong Kong dollars (or such other foreign currency) equal to the U.S. dollar value on the settlement date. Any gain or loss on a subsequent conversion or other disposition of the Hong Kong dollars (or such other foreign currency) generally will be treated as ordinary income or loss from sources within the United States for foreign tax credit limitation purposes. A U.S. Holder should consult its own tax adviser regarding the U.S. federal income tax consequences of receiving Hong Kong dollars (or other currency) from a sale or disposition of the H shares or ADSs in cases not described in this paragraph.

***Special Rules***

*Related Person Insurance Income.* Certain adverse U.S. income and tax reporting rules may apply to U.S. shareholders who, directly or indirectly, own stock of a non-U.S. corporation that earns related person insurance income (RPII), if 25% or more of the non-U.S. corporation's direct or indirect shareholders are U.S. persons. RPII is generally defined as insurance income derived from the insurance (or reinsurance) of insureds who are U.S. shareholders in the non-U.S. corporation or who are related to such U.S. shareholders. If applicable, these rules would require U.S. Holders to include in taxable income each year their pro rata share of any RPII incurred by us for the year, regardless of whether such income is distributed, and also to file I.R.S. Form 5471, disclosing certain information regarding their direct or indirect ownership of China Life. Special rules apply for purposes of determining each U.S. shareholder's pro rata share of any RPII. For organizations that are otherwise exempt from U.S. federal income tax under section 501(a) of the Code, any such income would constitute unrelated business taxable income. These rules could also apply to convert some or all of the gain recognized from the sale or disposition of H shares or ADSs from capital gain to ordinary income and to require such gain to be reported on I.R.S. Form 5471.

Under a statutory exception, these rules do not apply if less than 20% of the non-U.S. corporation's insurance income is RPII or if less than 25% of the non-U.S. corporation's stock is owned by U.S. shareholders. Because CLIC holds 68.4% of our share capital, and because we do not offer or intend to offer our products and services in the United States, it is highly unlikely that the RPII rules will apply. If more of our shares are sold to the public in the future, it is possible that such rules could apply at a later date.

## Table of Contents

*Passive Foreign Investment Company.* In general, a non-U.S. corporation will be a passive foreign investment company, or a PFIC, if 75% or more of its gross income constitutes passive income or 50% or more of its assets produce passive income or are held for the production of passive income.

For the purpose of determining whether a non-U.S. corporation is a PFIC, passive income is defined to include income of the kind which would be foreign personal holding company income under section 954(c) of the Code, and generally includes interest, dividends, annuities and other investment income. Passive income does not include interest income or dividends received from controlled subsidiaries or certain other related persons, to the extent properly allocable to income of such related person that is not passive income. In addition, the PFIC provisions specifically exclude from the definition of passive income any income derived in the active conduct of an insurance business by a corporation which is predominantly engaged in an insurance business and which would be subject to tax under subchapter L if it were a domestic corporation. This exception is intended to ensure that income derived by a bona fide insurance company is not treated as passive income. Thus, to the extent that income is attributable to financial reserves in excess of the reasonable needs of the insurance business, it may be treated as passive income.

We believe that we were in 2007, and we anticipate that we will continue to be, predominantly engaged in an insurance business and we believe that we did not in 2007, and will not, have financial reserves in excess of the reasonable needs of our insurance business. Accordingly, our income and assets should not be passive income and passive assets. As a result, we do not expect to be classified as a PFIC for any tax year. However, an actual determination of PFIC status is inherently factual in nature and cannot be made until the close of each applicable tax year and, accordingly, no assurances can be given that we will not become a PFIC at some point in the future.

In general, a U.S. shareholder of a PFIC is subject to a special tax and an interest charge at the time of the sale of (or receipt of an excess distribution with respect to) its shares in the PFIC. In general, a shareholder is treated as having received an excess distribution if the amount of the distribution was more than 125% of the average distribution with respect to its shares during the three preceding taxable years (or shorter period during which the taxpayer held the shares). The special tax is computed by assuming that the excess distribution or, in the case of a sale, the gain with respect to the shares was earned in equal portions throughout the holder's period of ownership. The portion allocable to each year prior to the year of sale is taxed at the maximum marginal tax rate applicable for each such period. The interest charge is determined based on the applicable rate imposed on underpayments of U.S. federal income tax for the period. The special tax and the interest charge generally will not apply to a U.S. shareholder that validly makes a qualified electing fund election under section 1295 of the Code with respect to the shares of the PFIC. We do not intend to comply with the requirements necessary to permit a U.S. Holder to make such an election with respect to H shares or ADSs.

The above results may also be avoided if a mark-to-market election is available and a U.S. Holder validly makes such an election. If the election is made, such U.S. Holder generally will be required to take into account the difference, if any, between the fair market value of, and its adjusted tax basis in, its H shares or ADSs at the end of each taxable year as ordinary income or ordinary loss (to the extent of any net mark-to-market gain previously included in income), and to make corresponding adjustments to the tax basis of such H shares or ADSs. In addition, any gain from a sale or other disposition of H shares or ADSs will be treated as ordinary income, and any loss will be treated as ordinary loss (to the extent of any net mark-to-market gain previously included in income). A mark-to-market election is available to a U.S. Holder only if our H shares or ADSs are considered marketable stock for these purposes. Generally, stock will be considered marketable stock if it is regularly traded on a qualified exchange within the meaning of applicable U.S. Treasury regulations. A class of stock is regularly traded during any calendar year during which such class of stock is traded, other than in *de minimis* quantities, on at least 15 days during each calendar quarter. A non-U.S. securities exchange will constitute a qualified exchange if it is regulated or supervised by a governmental authority of the country in which the market is located and meets certain trading, listing, financial disclosure and other requirements set forth in the Treasury Regulations. We do not know whether our H shares or ADSs will be treated as marketable stock for these purposes.

## **Table of Contents**

### ***Reportable Transactions***

U.S. Holders that participate in reportable transactions (as defined in Treasury Regulations) must attach to their federal income tax returns a disclosure statement on Form 8886. We urge U.S. Holders to consult their own tax advisers as to the possible obligation to file Form 8886 with respect to the ownership or disposition of any Hong Kong dollars (or other foreign currency) received as a dividend or as proceeds from the sale of H shares or ADSs, or any other aspect of the purchase, ownership or disposition of H shares or ADSs.

### **DIVIDENDS AND PAYING AGENTS**

Not applicable.

### **STATEMENT BY EXPERTS**

Not applicable.

### **DOCUMENTS ON DISPLAY**

You may read and copy documents referred to in this annual report on Form 20-F that have been filed with the U.S. Securities and Exchange Commission, or SEC, at its public reference room located at 100 F Street, NE, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms and their copy charges. The SEC also maintains a website at <http://www.sec.gov> that contains reports, proxy statements and other information regarding the registrations that file electronically with the SEC.

The SEC allows us to incorporate by reference the information we filed with the SEC. This means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be part of this annual report on Form 20-F.

### **SUBSIDIARY INFORMATION**

Not applicable.

### **ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

Our exposure to financial market risks relates primarily to changes in interest rates, equity prices and exchange rates.

The following discussions and tables, which constitute forward-looking statements that involve risks and uncertainties, summarize our market-sensitive financial instruments including fair value and maturity. Such discussions address market risk only and do not present other risks which we face in the normal course of business.

#### **Interest Rate Risk**

Our profitability is affected by changes in interest rates. Although the PBOC increased several times the benchmark deposit rate in from 2004 to 2007, we are currently experiencing a comparatively low interest rate environment in general. If interest rates were to further increase in the future, surrenders and withdrawals of insurance and annuity policies and contracts may increase as policyholders seek other investments with higher perceived returns. This process may result in cash outflows requiring that we sell investment assets at a time when the prices of those assets are adversely affected by the increase in market interest rates, which may result in realized investment losses. In addition, if interest rates were to increase, but the CIRC did not raise the cap set by the CIRC on the rates we guarantee, sales of some of our products, including our non-participating investment type products, could be adversely affected. If interest rates were to decline, the income we realize from our investments may decline, affecting our profitability. In addition, as instruments in our investment portfolio mature, we might have to reinvest the funds we receive in investments bearing a lower interest rate.



**Table of Contents**

For the years ended December 31, 2007 and 2006, the investment yield was 5.76% and 4.27%, respectively. Traditional insurance policies with an investment component and investment contracts are generally priced with guaranteed interest rates, subject to a cap on guaranteed rates set by the CIRC, which is currently 2.50%. Dividends on participating policies are required to be at least 70% of distributable earnings attributable to such policies.

The following tables set forth selected assets and liabilities with exposure to interest rates as of December 31, 2007 and 2006.

As of December 31, 2007	Expected Maturity Date						Total	Fair value
	2008	2009	2010	2011	2012	Thereafter		
(RMB in millions, except as otherwise stated)								
<b>Assets</b>								
<b>Held-to-maturity and available-for-sale debt securities</b>								
<b>Fixed rate bonds</b>								
in RMB	3,477	22,257	4,181	26,336	8,769	351,885	416,905	412,631
Average interest rate	4.11%	4.35%	4.31%	4.40%	4.31%	4.30%	4.31%	
in US\$	15						15	15
Average interest rate	3.65%						3.65%	
<b>Variable rate bonds</b>								
in RMB	16	3,600	4,417	1,404	854	6,770	17,061	17,221
Average interest rate	3.62%	5.97%	6.29%	4.89%	4.84%	4.79%	5.44%	
in US\$			913			2,191	3,104	3,104
Average interest rate			5.75%			5.94%	5.89%	
<b>Term deposits (excluding structured deposits)</b>								
in RMB	46,487	41,200	6,380	4,500	41,000	24,462	164,029	164,029
Average interest rate	5.38%	6.00%	5.99%	4.33%	5.47%	5.73%	5.60%	
in US\$	219						219	219
Average interest rate	4.11%						4.11%	
<b>Structured deposits<sup>(1)</sup></b>								
in US\$					292	4,054	4,346	4,281
Average interest rate					5.55%	8.01%	7.85%	
<b>Securities purchased under agreements to resell</b>								
in RMB	5,053						5,053	5,053
Average interest rate	2.44%						2.44%	
<b>Liabilities</b>								
Securities sold under agreements to repurchase	100						100	100
Average interest rate	2.01%						2.01%	
<b>Long-term investment type insurance contracts (excluding universal life contracts)</b>								
Average interest rate	2.00%	2.01%	2.91%	2.96%	2.90%	3.13%	2.65%	
Investment contracts	4,053	900	1,134	677	1,257	43,281	51,302	41,866
Average interest rate	2.34%	2.08%	1.96%	2.54%	2.53%	2.55%	2.51%	

(1) assuming the interest rates are within the specified ranges and the deposits are not terminated earlier by the banks.

**Table of Contents**

As of December 31, 2006	Expected Maturity Date						Total	Fair value
	2007	2008	2009 (RMB in millions, except as otherwise stated)	2010	2011	Thereafter		
<b>Assets</b>								
<b>Held-to-maturity and available-for-sale debt securities</b>								
<b>Fixed rate bonds</b>								
in RMB	7,104	3,958	28,523	5,103	29,151	258,862	332,701	344,253
Average interest rate	3.45%	3.41%	3.94%	2.79%	4.13%	3.96%	3.93%	
in US\$		16					16	16
Average interest rate		3.65%					3.65%	
<b>Variable rate bonds</b>								
in RMB	431	16	6,236	2,555	1,966	6,187	17,391	17,570
Average interest rate	2.89%	3.15%	5.06%	3.95%	3.73%	3.74%	4.22%	
in US\$				976		2,343	3,319	3,319
Average interest rate				4.69%		5.88%	5.53%	
<b>Term deposits (excluding structured deposits)</b>								
in RMB	54,806	46,487	41,200	6,380	17,600	999	167,472	167,472
Average interest rate	4.24%	3.84%	4.38%	4.38%	3.85%	5.77%	4.14%	
in US\$	3,124	234					3,358	3,358
Average interest rate	5.67%	4.11%					5.56%	
<b>Structured deposits<sup>(1)</sup></b>								
in US\$						4,646	4,646	4,419
Average interest rate						7.46%	7.46%	
<b>Liabilities</b>								
Securities sold under agreements to repurchase	8,227						8,227	8,227
Average interest rate	2.36%						2.36%	
Long-term investment type insurance contracts (excluding universal life contracts)	49,555	55,975	44,115	36,572	53,954	42,349	282,520	276,129
Average interest rate	2.01%	2.00%	2.01%	2.92%	2.95%	3.10%	2.47%	
Investment contracts	2,773	1,105	1,461	957	1,050	41,266	48,612	42,034
Average interest rate	2.41%	1.79%	1.80%	2.51%	2.51%	2.51%	2.47%	

**Equity Price Risk**

Our investments in securities investment funds or equity securities expose us to changes in equity prices. We manage this risk on an integrated basis with other risks through our asset-liability management strategies. We also manage equity price risk through industry and issuer diversification and asset allocation techniques.

The following table sets forth our exposure to equity securities as of December 31, 2007 and 2006.

	As of December 31,			
	2006		2007	
	Carrying amount	Fair value	Carrying amount	Fair value
	(RMB in millions)			
Equity securities	95,493	95,493	195,147	195,147
Financial assets at fair value through income (held-for-trading)	32,898	32,898	19,014	19,014
Available-for-sale	62,595	62,595	176,133	176,133



**Table of Contents**

A hypothetical 10% decline in the December 31, 2006 and 2007 value of the available-for-sale equity securities would result in an unrealized loss of approximately RMB 6,260 million and RMB 17,613 million, respectively.

A hypothetical 10% decline in the December 31, 2006 and 2007 value of the financial assets at fair value through income equity securities would result in a charge to the income statement of approximately RMB 3,290 million and RMB 1,901 million, respectively.

The selection of a 10% immediate change in the value of equity securities should not be construed as a prediction by us of future market events but rather as an illustration of the potential impact of such an event.

**Foreign Exchange Risk**

Our exposure to fluctuations in foreign currency exchange rates against RMB results primarily from our holdings in non-RMB denominated structured deposits and term deposits. Our indebtedness and capital expenditures are predominantly in RMB and the principal currencies which create foreign currency exchange rate risk in our deposits are the U.S. dollar, Japanese yen and Hong Kong dollar. We recorded RMB 1,032 million (US\$141 million) foreign exchange losses for the year ended December 31, 2007, resulting from our assets held in foreign currencies, which were affected by the appreciation of the Renminbi. Future movements in the exchange rate of RMB against the U.S. dollar and other foreign currencies may adversely affect our results of operations and financial condition.

The following tables set forth assets denominated in currencies other than RMB as of December 31, 2007 and 2006.

As of December 31, 2007	Expected Maturity Date						Total	Fair value
	2008	2009	2010	2011	2012	Thereafter		
	(in millions)							
<b>Debt securities</b>								
in US\$	2		125			300	427	427
Average interest rate	3.65%		5.75%			5.94%	5.87%	
<b>Term deposits (excluding structured deposits)</b>								
in US\$	30						30	30
Average interest rate	4.11%						4.11%	
<b>Structured deposits<sup>(1)</sup></b>								
in US\$					40	555	595	586
Average interest rate					5.55%	8.01%	7.85%	
<b>Cash and Cash equivalents</b>								
in US\$	937						937	937
Average interest rate	5.29%						5.29%	
in HK\$	48						48	48
Average interest rate	1.67%						1.67%	

**Table of Contents**

As of December 31, 2006	Expected Maturity Date						Total	Fair value
	2007	2008	2009	2010	2011	Thereafter		
	(in millions)							
<b>Debt securities</b>								
in US\$		2		125		300	427	427
Average interest rate		3.65%		4.69%		5.88%	5.52%	
<b>Term deposits (excluding structured deposits)</b>								
in US\$	400	30					430	430
Average interest rate	5.67%	4.11%					5.56%	
<b>Structured deposits<sup>(1)</sup></b>								
in US\$						595	595	566
Average interest rate						7.46%	7.46%	
<b>Cash and Cash equivalents</b>								
in US\$	651						651	651
Average interest rate	5.36%						5.36%	
in HK\$	82						82	82
Average interest rate	3.62%						3.62%	

(1) assuming the interest rates are within the specified range and the deposits are not terminated earlier by the banks.

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES.**

Not applicable.

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**Table of Contents**

**PART II**

**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES.**

None.

**ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS.**

**Material Modification To The Rights Of Security Holders**

See Item 10. Additional Information Articles of Association .

**Use Of Proceeds**

The following use of proceeds information relates to our registration statement on Form F-1 (File No. 333-110615), filed by us in connection with our initial public offering of H shares in the United States. In connection with the registration of the H shares, a registration statement on Form F-6 (File No.333-110622) was also filed for ADSs representing such H shares. Each of these two registration statements was declared effective by the SEC on December 11, 2003. Our H shares commenced trading on the Hong Kong Stock Exchange on December 18, 2003 and the ADSs on the New York Stock Exchange on December 17, 2003.

The net proceeds from the initial public offering of our shares, after deduction of fees and expenses, amounted to RMB 24,707 million and were held in either H.K. dollars or U.S. dollars. 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 denominated in foreign currencies in China, part of which were held as structured deposits. We gradually converted approximately US\$300 million of the cash proceeds into Renminbi to reduce foreign exchange risks. In addition, we used approximately US\$250 million of the cash proceeds for investments in H shares of China Construction Bank Corporation during its initial public offering in 2005, a portion of which was sold early 2006, and approximately US\$425 million for investments in foreign-currency denominated debts in China. We used approximately HK\$1.175 billion of the cash proceeds for investments in H shares of Bank of China Limited during its initial public offering in May 2006, approximately HK\$2 billion for investments in H shares of Industrial and Commercial Bank of China Limited in its initial public offering in October 2006 and approximately US\$433 million for investments in Guangdong Development Bank in December 2006. During the year of 2007, we used approximately US\$126 million for investments in H shares of China Molybdenum Co., Ltd, China CITIC Bank Corporation, China National Materials Company Limited and China Dongxiang (Group) Co., Ltd. during their initial public offerings in 2007. In March 2008, we used approximately US\$264 million for investments in the shares of Visa, Inc. during its initial public offering in 2008.

**ITEM 15. CONTROLS AND PROCEDURES.**

**DISCLOSURE CONTROLS AND PROCEDURES**

As required by Rule 13a-15(b) of the Securities Act of 1934, we have carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, of the effectiveness of our disclosure controls and procedures as of December 31, 2007, the end of the period covered by this annual report. Based on that evaluation, our chief executive officer and our chief financial officer concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of December 31, 2007.

**MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management of China Life Insurance Company Limited (together with its consolidated subsidiaries, the Group) is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. The Group's internal control over financial reporting is a process designed to provide reasonable assurance regarding the

## **Table of Contents**

reliability of financial reporting and the preparation of financial statements for external purposes in accordance with applicable generally accepted accounting principles. The Group's internal control over financial reporting includes those policies and procedures that:

pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets and liabilities of the Group;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the applicable generally accepted accounting principles, and that receipts and expenditures of the Group are being made only in accordance with authorizations of management and directors of the Group; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Group's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Group's internal control over financial reporting as of December 31, 2007. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ) in *Internal Control Integrated Framework*. Based on this assessment, management determined that the Group's internal control over financial reporting was effective as of December 31, 2007.

The Group's internal control over financial reporting as of December 31, 2007 has been audited by PricewaterhouseCoopers, an independent registered public accounting firm, as stated in their report which is on page F-2 of this annual report, which expresses an unqualified opinion on the effectiveness of the Group's internal control over financial reporting as of December 31, 2007.

## **CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

There were no changes to the Group's internal control over financial reporting as defined in Exchange Act Rule 13a-15(f) during the year ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, the Group's internal control over financial reporting.

## **ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT.**

Our board of directors has determined that Mr. Ngai Wai Fung qualifies as an audit committee financial expert as defined in Item 16A of Form 20-F. Mr. Ngai is independent in accordance with the applicable requirements of Rule 10A-3 of the U.S. Securities Exchange Act. Mr. Ngai was appointed as an independent non-executive director and a member of the audit committee of our company in December 2006. For Mr. Ngai's biographical information, see Item 6. Directors, Senior Management and Employees.

## **ITEM 16B. CODE OF ETHICS.**

At the board meeting held on June 29, 2004, we adopted a code of business conduct and ethics that applies to our chief executive officer, chief financial officer, controller and other senior officers of our company. We have filed the adopted code of business conduct and ethics as an exhibit to our annual report on Form 20-F for the fiscal year ended December 31, 2004, as filed on May 27, 2005.

**Table of Contents****ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES.**

The following table sets forth the aggregate audit fees, audit-related fees, tax fees and all other fees paid to our principal accountants for the fiscal years of 2007 and 2006.

	Audit Fees	Audit-Related Fees (RMB in millions)	Tax Fees	All Other Fees
2007	66 <sup>(1)</sup>			
2006	94 <sup>(1)</sup>			

(1) Audit fees include fees billed for professional services rendered for audits of the consolidated financial statements, review of interim financial statements, statutory audits of China Life and its subsidiaries.

According to our current internal rules, before our principal accountants are engaged by us to render audit or non-audit services, the engagement must be approved by our audit committee.

**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES.**

Not applicable.

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS.**

As of December 31, 2007, China Life and its subsidiaries have not purchased, sold or redeemed any of China Life's shares.



**Table of Contents**

**PART III**

**ITEM 17. FINANCIAL STATEMENTS**

We have elected to provide the financial statements and related information specified in Item 18 in lieu of Item 17.

**ITEM 18. FINANCIAL STATEMENTS.**

See Index to Consolidated Financial Statements for a list of all financial statements filed as part of this annual report.

**ITEM 19. EXHIBITS.**

(a) See Item 18 for a list of the financial statements filed as part of this annual report.

(b) Exhibits to this annual report.

**Table of Contents**

**EXHIBIT INDEX**

<b>No.</b>	<b>Description of Exhibit</b>
1.1	Amended and Restated Articles of Association of the Registrant <sup>(6)</sup>
2.1	Form of H share certificate <sup>(1)</sup>
2.2	Form of Deposit Agreement, including the Form of American Depositary Receipt <sup>(2)</sup>
2.3	Form of Amendment to Deposit Agreement, including the Form of American Depositary Receipt <sup>(3)</sup>
4.1	Restructuring Agreement <sup>(1)</sup>
4.2	Trademark License Agreement <sup>(1)</sup>
4.3	Policy Management Agreement <sup>(5)</sup>
4.4	Asset Management Agreement between China Life Insurance Company Limited and China Life Insurance Asset Management Company Limited <sup>(5)</sup>
4.5	Asset Management Agreement between China Life Insurance (Group) Company and China Life Insurance Asset Management Company Limited <sup>(5)</sup>
4.6	Property Leasing Agreement <sup>(6)</sup>
4.7	Non-Competition Agreement <sup>(1)</sup>
4.8	Asset Purchase Agreement <sup>(6)</sup>
8.1	List of subsidiaries of the Registrant
11.1	Code of Business Conduct and Ethics <sup>(4)</sup>
12.1	Certification pursuant to Rule 13a-14(a)
12.2	Certification pursuant to Rule 13a-14(a)
13.1	Certification pursuant to Rule 13a-14(a) and Section 1350 of Chapter 63 of Title 18 of the United States Code

  

(1) Incorporated by reference to the Registration Statement on Form F-1 (File No. 333-110615), filed with the Commission on December 9, 2003.

(2) Incorporated by reference to the Registration Statement on Form F-6 (File No. 333-110622), filed with the Commission on December 9, 2003.

(3) Incorporated by reference to the post-effective Amendment to the Registration Statement on Form 6 (File No. 333-110622), filed with the Commission on December 14, 2006.

(4) Incorporated by reference to the Annual Report on Form 20-F for the fiscal year ended December 31, 2004, filed with the Commission on May 27, 2005.

(5) Incorporated by reference to the Annual Report on Form 20-F for the fiscal year ended December 31, 2005, filed with the Commission on May 30, 2006.

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- (6) Incorporated by reference to the Annual Report on Form 20-F for the fiscal year ended December 31, 2006, filed with the Commission on May 18, 2007.

**Table of Contents**

**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

China Life Insurance Company Limited

**By:** /s/ WAN FENG  
**Name:** Wan Feng  
**Title:** President and Executive Director

Date: April 25, 2008

**Table of Contents**

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13.1	Certification pursuant to Rule 13a-14(a) and Section 1350 of Chapter 63 of Title 18 of the United States Code

(1) Incorporated by reference to the Registration Statement on Form F-1 (File No. 333-110615), filed with the Commission on December 9, 2003.

(2) Incorporated by reference to the Registration Statement on Form F-6 (File No. 333-110622), filed with the Commission on December 9, 2003.

(3) Incorporated by reference to the post-effective Amendment to the Registration Statement on Form 6 (File No. 333-110622), filed with the Commission on December 14, 2006.

(4) Incorporated by reference to the Annual Report on Form 20-F for the fiscal year ended December 31, 2004, filed with the Commission on May 27, 2005.

(5) Incorporated by reference to the Annual Report on Form 20-F for the fiscal year ended December 31, 2005, filed with the Commission on May 30, 2006.

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- (6) Incorporated by reference to the Annual Report on Form 20-F for the fiscal year ended December 31, 2006, filed with the Commission on May 18, 2007.

**Table of Contents**

**CHINA LIFE INSURANCE COMPANY LIMITED**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

**Historical Consolidated Financial Statements**

<u>Report of Independent Registered Accounting Firm</u>	F-2
<u>Consolidated Balance Sheets as of December 31, 2007 and 2006</u>	F-3
<u>Consolidated Income Statements for the years ended December 31, 2007, 2006 and 2005</u>	F-5
<u>Consolidated Statements of Changes in Equity for the years ended December 31, 2007, 2006 and 2005</u>	F-6
<u>Consolidated Cash Flow Statements for the years ended December 31, 2007, 2006 and 2005</u>	F-7
<u>Notes to the Consolidated Financial Statements</u>	F-9

F-1

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

**To the Board of Directors and Shareholders of**

**China Life Insurance Company Limited and Subsidiaries**

In our opinion, the accompanying consolidated balance sheets and the related consolidated income statements, consolidated cash flow statements and consolidated statements of changes in equity present fairly, in all material respects, the financial position of China Life Insurance Company Limited and its subsidiaries (hereinafter the Group ) at December 31, 2007 and December 31, 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in Hong Kong. Also in our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Group's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 15. Our responsibility is to express opinions on these financial statements and on the Group's internal control over financial reporting based on our audits (which were integrated audits in 2007 and 2006). We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Accounting principles generally accepted in Hong Kong vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 35.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

**PricewaterhouseCoopers**

**Hong Kong, March 25, 2008**



**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****CONSOLIDATED BALANCE SHEET****AS AT 31 DECEMBER 2007**

		As at	As at
		31 December	31 December
		2007	2006
	Note	RMB million	RMB million
<b>ASSETS</b>			
Property, plant and equipment	6	16,771	14,565
Deferred policy acquisition costs ( DAC )	7	40,851	39,230
Investments in associates	8	6,450	6,071
<b>Financial assets</b>			
<b>Debt securities</b>			
held-to-maturity securities	9.1	195,703	176,559
available-for-sale securities	9.2	241,382	176,868
at fair value through income (held-for-trading)	9.3	6,096	4,471
<b>Equity securities</b>			
available-for-sale securities	9.2	176,133	62,595
at fair value through income (held-for-trading)	9.3	19,014	32,898
Term deposits	9.5	168,594	175,476
Statutory deposits-restricted	9.6	5,773	5,353
Loans	9.7	7,144	2,371
Securities purchased under agreements to resell	9.8	5,053	
Accrued investment income	9.9	9,857	8,461
Premiums receivables	11	6,218	6,066
Reinsurance assets	12	966	986
Other assets	13	2,382	2,212
Cash and cash equivalents		25,317	50,213
<b>Total Assets</b>		<b>933,704</b>	<b>764,395</b>

The notes on page F-9 to F-72 form an integral part of these consolidated financial statements.

**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****CONSOLIDATED BALANCE SHEET (continued)****AS AT 31 DECEMBER 2007**

		As at 31 December	As at 31 December
	Note	2007 RMB million	2006 RMB million
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Insurance contracts			
Long-term traditional insurance contracts	14	218,165	172,875
Long-term investment type insurance contracts	14	284,588	282,672
Short-term insurance contracts:			
reserves for claims and claim adjustment expenses	14	2,391	2,498
unearned premium reserves	14	5,728	5,346
Deferred income	15	48,308	41,371
Financial Liabilities			
Investment contracts			
with Discretionary Participation Feature ( DPF )	16	49,068	45,998
without DPF	16	2,234	2,614
Securities sold under agreements to repurchase	17	100	8,227
Policyholder dividends payable		58,344	26,057
Annuity and other insurance balances payable		14,111	8,891
Premiums received in advance		2,201	2,329
Other liabilities	18	8,870	5,333
Deferred tax liabilities	25	24,786	19,022
Current income tax liabilities		8,312	843
Statutory insurance fund	19	122	114
<b>Total liabilities</b>		<b>727,328</b>	<b>624,190</b>
<b>Shareholders equity</b>			
Share capital	30	28,265	28,265
Reserves	31	114,825	77,368
Retained earnings		62,410	34,032
<b>Total shareholders equity</b>		<b>205,500</b>	<b>139,665</b>
<b>Minority interest</b>		876	540
<b>Total equity</b>		<b>206,376</b>	<b>140,205</b>
<b>Total liabilities and equity</b>		<b>933,704</b>	<b>764,395</b>

Approved and authorized for issue by the Board of Directors on 25 March 2008

**Yang Chao**  
Director

**Wan Feng**  
Director

The notes on page F-9 to F-72 form an integral part of these consolidated financial statements.



**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****CONSOLIDATED INCOME STATEMENT****FOR THE YEAR ENDED 31 DECEMBER 2007**

	Note	2007 RMB million	2006 RMB million	2005 RMB million
<b>REVENUES</b>				
Gross written premiums and policy fees (including gross written premiums and policy fees from insurance contracts 2007: RMB 111,286 million, 2006: RMB 98,840 million, 2005: RMB 80,651 million)		111,886	99,417	81,022
Less: premiums ceded to reinsurers		(85)	(140)	(769)
Net written premiums and policy fees		111,801	99,277	80,253
Net change in unearned premium reserves		(397)	(430)	(215)
<b>Net premiums earned and policy fees</b>		<b>111,404</b>	<b>98,847</b>	<b>80,038</b>
Net investment income	20	44,020	24,942	16,685
Net realised gains on financial assets	21	15,385	1,595	(510)
Net fair value gains on assets at fair value through income (held-for-trading)	22	18,843	20,044	260
Other income		1,720	1,883	1,739
<b>Total revenues</b>		<b>191,372</b>	<b>147,311</b>	<b>98,212</b>
<b>BENEFITS, CLAIMS AND EXPENSES</b>				
Insurance benefits and claims				
Life insurance death and other benefits	23	(17,430)	(10,797)	(8,311)
Accident and health claims and claim adjustment expenses	23	(6,343)	(6,999)	(6,847)
Increase in long-term traditional insurance contracts liabilities	23	(45,334)	(44,238)	(33,977)
Interest credited to long-term investment type insurance contracts	23	(7,181)	(6,386)	(4,894)
Interest credited to investment contracts		(1,138)	(996)	(973)
Increase in deferred income		(9,859)	(11,607)	(8,521)
Policyholder dividends resulting from participation in profits		(29,251)	(17,617)	(5,359)
Amortisation of deferred policy acquisition costs	7	(13,461)	(10,259)	(7,766)
Underwriting and policy acquisition costs		(2,725)	(2,415)	(1,845)
Administrative expenses		(11,798)	(9,339)	(7,237)
Other operating expenses		(1,651)	(859)	(798)
Statutory insurance fund		(219)	(194)	(174)
<b>Total benefits, claims and expenses</b>		<b>(146,390)</b>	<b>(121,706)</b>	<b>(86,702)</b>
Share of results of associates	8	409		
<b>Net profit before income tax expenses</b>	24	<b>45,391</b>	<b>25,605</b>	<b>11,510</b>
Income tax expenses	25	(6,331)	(5,554)	(2,145)
<b>Net profit</b>		<b>39,060</b>	<b>20,051</b>	<b>9,365</b>
Attributable to:				
shareholders of the Company		<b>38,879</b>	<b>19,956</b>	<b>9,306</b>
minority interest		181	95	59

<b>Basic and diluted earnings per share</b>	26	RMB 1.38	RMB 0.75	RMB 0.35
<b>Dividends</b>	28	<b>11,871</b>	<b>3,957</b>	<b>1,338</b>

The notes on pages F-9 to F-72 form an integral part of these consolidated financial statements.

**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****CONSOLIDATED STATEMENT OF CHANGES IN EQUITY****FOR THE YEAR ENDED 31 DECEMBER 2007**

	Attributable to shareholders					
	Share capital RMB million	of the Company		Retained earnings RMB million	Minority Interest RMB million	Total RMB million
		(Note 30)	Reserves RMB million (Note 31)			
As at 1 January 2005	26,765	31,573	8,192	372	66,902	
Net profit			9,306	59	9,365	
Appropriation to reserves		1,110	(1,110)			
Unrealised gains, net of tax		4,542			4,542	
<b>As at 31 December 2005</b>	<b>26,765</b>	<b>37,225</b>	<b>16,388</b>	<b>431</b>	<b>80,809</b>	
As at 1 January 2006	26,765	37,225	16,388	431	80,809	
Net profit			19,956	95	20,051	
Issue of shares	1,500	26,820			28,320	
Share issue expenses		(510)			(510)	
Dividends paid			(1,338)		(1,338)	
Dividends to minority interest				(8)	(8)	
Appropriation to reserves		974	(974)			
Unrealised gains, net of tax		12,859		22	12,881	
<b>As at 31 December 2006</b>	<b>28,265</b>	<b>77,368</b>	<b>34,032</b>	<b>540</b>	<b>140,205</b>	
As at 1 January 2007	28,265	77,368	34,032	540	140,205	
Net profit			38,879	181	39,060	
Dividends paid			(3,957)		(3,957)	
Dividends to minority interest				(42)	(42)	
Appropriation to reserves		6,544	(6,544)			
Unrealised gains, net of tax		30,913		21	30,934	
Capital contribution				179	179	
Others				(3)	(3)	
<b>As at 31 December 2007</b>	<b>28,265</b>	<b>114,825</b>	<b>62,410</b>	<b>876</b>	<b>206,376</b>	

The notes on pages F-9 to F-72 form an integral part of these consolidated financial statements.

**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****CONSOLIDATED CASH FLOW STATEMENT****FOR THE YEAR ENDED 31 DECEMBER 2007**

	2007 RMB million	2006 RMB million	2005 RMB million
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net profit before income tax expenses:	45,391	25,605	11,510
Adjustments for:			
Net investment income	(45,803)	(23,495)	(15,059)
Net realised and unrealised gains on financial assets	(34,228)	(21,639)	250
Amortisation of deferred policy acquisition costs	13,461	10,259	7,766
Increase in deferred income	9,859	11,614	8,570
Interest credited to long-term investment type insurance contracts and investment contracts	8,319	7,382	5,867
Policy fees	(7,691)	(7,097)	(6,083)
Depreciation and amortisation	1,070	912	948
Amortisation of premiums and discounts	(648)	(267)	(130)
Loss on foreign exchange and impairments	641	642	646
Changes in operational assets and liabilities:			
Deferred policy acquisition costs	(17,480)	(15,914)	(14,131)
Financial assets at fair value through income (held-for-trading)	31,187	8,943	(20,321)
Receivables and payables	28,626	15,412	2,804
Reserves for claims and claim adjustment expenses	(107)	714	569
Unearned premium reserves	382	199	(65)
Long-term traditional insurance contracts	45,344	44,263	34,108
Income tax paid	(1,261)	(535)	(279)
Interest received	26,392	18,939	14,552
Dividends received	19,400	4,415	306
<b>Net cash inflow from operating activities</b>	<b>122,854</b>	<b>80,352</b>	<b>31,828</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Sales and maturities:			
Sales of debt securities	26,891	6,635	15,094
Maturities of debt securities	8,548	4,129	408
Sales of equity securities	46,829	43,363	46,555
Property, plant and equipment	207	53	31
Purchases:			
Debt securities	(134,205)	(122,246)	(102,427)
Equity securities	(80,322)	(52,050)	(58,214)
Property, plant and equipment	(3,388)	(2,742)	(1,484)
Acquisition of associate		(6,071)	
Term deposits, net	6,572	(10,719)	9,008
Securities purchased under agreements to resell, net	(5,053)		279
Other	(4,593)	(1,390)	(590)
<b>Net cash outflow from investing activities</b>	<b>(138,514)</b>	<b>(141,038)</b>	<b>(91,340)</b>

The notes on pages F-9 to F-72 form an integral part of these consolidated financial statements.





**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****CONSOLIDATED CASH FLOW STATEMENT (continued)****FOR THE YEAR ENDED 31 DECEMBER 2007**

	2007 RMB million	2006 RMB million	2005 RMB million
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from investment in securities sold under agreements to repurchase, net	(8,127)	3,496	4,731
Deposits in long-term investment type insurance contracts and investment contracts	94,227	91,441	85,946
Withdrawals from long-term investment type insurance contracts and investment contracts	(90,904)	(38,088)	(29,960)
Net proceeds from shares issued		27,810	
Contribution from minority shareholders	29		
Dividends paid to Company's shareholders	(3,957)	(1,338)	
Dividends paid to minority interest	(42)	(8)	
Cash flow from other financing activities	45		
<b>Net cash inflow/(outflow) from financing activities</b>	<b>(8,729)</b>	<b>83,313</b>	<b>60,717</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(24,389)</b>	<b>22,627</b>	<b>1,205</b>
<b>Cash and cash equivalents</b>			
<b>Beginning of year</b>	<b>50,213</b>	<b>28,051</b>	<b>27,217</b>
<b>Foreign currency losses on cash and cash equivalents</b>	<b>(507)</b>	<b>(465)</b>	<b>(371)</b>
<b>End of year</b>	<b>25,317</b>	<b>50,213</b>	<b>28,051</b>
<b>Analysis of balance of cash and cash equivalents</b>			
Cash at bank and in hand	18,536	45,130	12,448
Short-term bank deposits	6,781	5,083	15,603

The notes on pages F-9 to F-72 form an integral part of these consolidated financial statements.

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**Table of Contents**

**CHINA LIFE INSURANCE COMPANY LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**1 ORGANIZATION AND PRINCIPAL ACTIVITIES**

China Life Insurance Company Limited (the Company) was established in the People's Republic of China (China or PRC) on 30 June 2003 as a joint stock company with limited liability as part of a group restructuring of China Life Insurance (Group) Company (formerly China Life Insurance Company) (CLIC) and its subsidiaries (the Restructuring). The Company and its subsidiaries are hereinafter collectively referred to as the Group. The Group's principal activity is the writing of life insurance business, providing life, annuities, accident and health insurance products in China.

The Company is a limited liability company incorporated and located in China. The address of its registered office is: 16 Chaowai Avenue, Chaoyang District, Beijing, PRC. The Company is listed on the Stock Exchange of Hong Kong, the New York Stock Exchange and the Shanghai Stock Exchange.

These consolidated financial statements are presented in millions of Renminbi (RMB million) unless otherwise stated.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented.

**2.1 Basis of preparation**

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (HKFRS), under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets at fair value through income.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

The Hong Kong Institute of Certified Public Accountants has issued the following standards, amendments and interpretations which were effective for accounting periods beginning on or after 1 January 2007.

(a) Standards, amendments and interpretations to published standards effective in 2007

HKFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to HKAS 1, Presentation of Financial Statements Capital Disclosures. HKFRS 7 introduces new disclosures relating to financial instruments. HKFRS 7 also amends HKFRS 4 requiring that insurance contracts issued and reinsurance contracts held are considered as if they were in the scope of HKFRS 7 for disclosures in relation to credit, liquidity and market risk. This standard does not have any impact on the classification and valuation of the Group's financial instruments.

HK(IFRIC)-Int 8, Scope of HKFRS2. HK(IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments where the identifiable consideration received is less than the fair value of the equity instruments issued to establish whether or not they fall within the scope of HKFRS 2. This standard does not have any impact on the Group's financial statements.



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**Table of Contents**

**CHINA LIFE INSURANCE COMPANY LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.1 Basis of preparation (continued)**

(a) Standards, amendments and interpretations to published standards effective in 2007 (continued)

HK(IFRIC)-Int 9, Reassessment of Embedded Derivatives. HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. This standard does not have any impact on the Group's financial statements.

HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment. HK(IFRIC)-Int 10 prohibits the impairment losses recognized in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's financial statements.

(b) Standards, amendments and interpretations to published standards effective in 2007 but not relevant to the Group's operations

HK(IFRIC)-Int 7, Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies.

(c) Standards, amendments and interpretations to published standards that are not yet effective and have not been early adopted by the Group

The following have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods but that the Group has not early adopted. The Group is in the process of making an assessment of the impact of these new and revised standards and interpretations.

HKFRS 8, Operating Segments (effective from 1 January 2009). HKFRS 8 replaces HKAS 14. The new standard requires a management approach, under which segment information is presented on the same basis as that used for internal reporting purposes. The group will apply HKFRS 8 from 1 January 2009. The expected impact is still being assessed in detail by management.

(d) Interpretations to published standards that are not yet effective and not relevant for the Group's operations

HKAS 23 (Revised), Borrowing Costs

HK(IFRIC)-Int 11, HKFRS2 Group and Treasury Share Transactions.

HK(IFRIC)-Int 12, Service Concession Arrangements.

HK(IFRIC)-Int 13, Customer Loyalty Programmes.

HK(IFRIC)-Int 14, HKAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

F-10

**Table of Contents**

**CHINA LIFE INSURANCE COMPANY LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.2 Consolidation**

**Subsidiaries**

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are those entities in which the Company controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the Board of Directors; or to cast the majority of votes at the meetings of the Board of Directors.

Inter-company transactions and balances within the Group are eliminated on consolidation. Minority interest represents the interest of outside shareholders in the operating results and net assets of subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date of acquisition or up to the date of disposal, as appropriate. The gains or losses on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill which was not previously charged or recognized in the consolidated income statement.

In the Company only balance sheet the investments in subsidiaries is stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

**Associates**

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. Equity investment other than subsidiaries and associates are classified as available-for-sale securities when they are not designated to be measured at fair value through income.

The Group's share of its associates' post-acquisition profits or losses is recognized in the consolidated income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Associates' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

**Table of Contents**

**CHINA LIFE INSURANCE COMPANY LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.2 Consolidation (continued)**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of acquired associate at the date of acquisition. Goodwill on acquisitions of associates is included in investments in associates and is tested annually for impairment as part of the overall balance. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

In the Company only balance sheet the investments in associates is stated at cost less provision for impairment losses. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

**2.3 Segment reporting**

Business segments provide products or services that are subject to risks and returns that are different from those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments. In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format. All assets and operations of the Group are located in the PRC, which is considered as one geographical location in an economic environment with similar risks and returns. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Details of the segment information are presented in Note 5.

**2.4 Foreign currency translation**

The functional currency of the Group's operations is RMB. Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are recognized in the income statement.

**2.5 Property, plant and equipment**

Property, plant and equipment are stated at historical costs less accumulated depreciation and any accumulated impairment losses.

The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. The cost of a major renovation is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group.

Assets under construction represent buildings and fixtures under construction and are stated at cost. Costs include construction and acquisition costs. No provision for depreciation is made on assets under construction until such time as the relevant assets are completed and ready for use.





**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****2.5 Property, plant and equipment (continued)**

## Depreciation

Depreciation is computed on a straight-line basis to write down the cost of each asset to its residual value over its estimated useful life as follows:

	<b>Estimated useful life</b>
Buildings	15 to 35 years
Office equipment, furniture and fixtures	5 to 10 years
Motor vehicles	4 to 8 years
Leasehold improvements	Over the remaining term of the lease

The useful life and depreciation method is reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

## Impairment and gain or loss on sales

Property, plant and equipment are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized in the income statement for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use.

The gain or loss on disposal of a property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognized in the income statement.

**2.6 Financial assets****2.6.a Classification**

The Group classifies its investments in securities into the following categories: held-to-maturity securities, financial assets at fair value through income and available-for-sale securities. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition. Financial assets other than investment in securities are loans and receivables which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group intends to sell in the short term or available for sale. Loans and receivables mainly comprise term deposits, loans, securities purchased under agreements to resell and accrued investment income as presented separately in the balance sheet.

(i) Held-to-maturity securities

Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and debt securities that the Group has the positive intention and ability to hold to maturity.

**Table of Contents**

**CHINA LIFE INSURANCE COMPANY LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.6 Financial assets (continued)**

**2.6.a Classification (continued)**

(ii) Financial assets at fair value through income

This category has two sub-categories: financial assets held for trading and those designated at fair value through income at inception. A financial asset is classified as held for trading at inception if acquired principally for the purpose of selling in the short term or if it forms part of a portfolio of financial assets in which there is evidence of short term profit-taking. Any other additional financial assets may be designated at fair value through income at inception by the Group. The Group presently has no financial assets designated at fair value through income at inception.

(iii) Available-for-sale securities

Available-for-sale securities are non-derivative financial assets that are either designated in this category or not classified in either of the other categories.

**2.6.b Recognition and measurement**

Purchases and sales of investments are recognized on trade date, on which the Group commits to purchase or sell assets. Investments are initially recognized at fair value plus, in the case of all financial assets not carried at fair value through income, transaction costs that are directly attributable to their acquisition. Investments are derecognized when the rights to receive cash flows from the investments have expired or when they have been transferred and the Group has also transferred substantially all risks and rewards of ownership.

Available-for-sale securities and financial assets at fair value through income are carried at fair value. Held-to-maturity securities are carried at amortised cost using the effective interest method. Investment gains and losses on sales of securities are determined principally by specific identification. Realised and unrealised gains and losses arising from changes in the fair value of the financial assets at fair value through income category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of financial assets classified as available-for-sale securities are recognized in equity. When securities classified as available-for-sale securities are sold or impaired, the accumulated fair value adjustments are included in the income statement as realised gains/losses on financial assets.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models.

**2.6.c Term deposits**

Term deposits include both traditional bank deposits and structured deposits. Term deposits have fixed maturity dates and are stated at amortised cost.

**Table of Contents**

**CHINA LIFE INSURANCE COMPANY LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.6 Financial assets (continued)**

**2.6.d Loans**

Loans originated by the Group are carried at amortised cost, net of provision for impairment in value.

**2.6.e Securities purchased under agreements to resell**

The Group enters into purchases of securities under agreements to resell substantially identical securities. These agreements are classified as secured loans. Securities purchased under agreements to resell are recorded at amortised cost, i.e. their cost plus accrued interest at the balance sheet date, which approximates fair value. The amounts advanced under these agreements are reflected as assets in the consolidated balance sheet. The Group does not take physical possession of securities purchased under agreements to resell. Sales or transfers of the securities are not permitted by the respective clearing house on which they are registered while the loan is outstanding. In the event of default by the counterparty to repay the loan, the Group has the right to the underlying securities held by the clearing house.

**2.6.f Impairment of financial assets other than at fair value through income**

Financial assets other than those accounted for as at fair value through income are adjusted for impairments, where there are declines in value that are considered to be other than temporary. In evaluating whether a decline in value is other than temporary for equity securities, the Group considers several factors including, but not limited to the following: (1) the extent and the duration of the decline; (2) the financial condition of and near-term prospects of the issuer; and (3) the Group's ability and intent to hold the investment for a period of time to allow for a recovery of value. When the decline in value is considered other than temporary, relevant financial assets are written down to their net realised value and the charge is recorded in Net realised gains/(losses) on financial assets in the period the impairment is recognized. The impairment loss is reversed through the income statement if in a subsequent period the fair value of a debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized through income statement.

**2.7 Cash and cash equivalents**

Cash amounts represent cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments with original maturities of 90 days or less, whose carrying value approximates fair value.

**Table of Contents**

**CHINA LIFE INSURANCE COMPANY LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.8 Insurance contracts and investment contracts**

**2.8.1 Insurance contracts and investment contracts with DPF**

**2.8.1.a Recognition and measurement**

The Group issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. They may also transfer financial risk. Investment contracts are those contracts that transfer financial risk with no significant insurance risk. A number of insurance and investment contracts contain a DPF. This feature entitles the holder to receive, as a supplement to benefits under the contracts, additional benefits or bonuses that are, at least in part, discretionary to the Group. Insurance contracts and investment contracts with DPF are classified into three main categories.

(i) Short-term insurance contracts

Premiums from the sale of short duration accident and health insurance products are recorded when written and are accreted to earnings on a pro-rata basis over the term of the related policy coverage. The unearned premium reserve represents the portion of the premiums written relating to the unexpired terms of coverage.

Reserves for claims and claim adjustment expenses represent liabilities for claims arising under short duration accident and health insurance contracts. Claims and claim adjustment expenses are charged to the income statement as incurred. Unpaid claims and claim adjustment expense reserves represent the accumulation of estimates for ultimate losses and include provisions for claims incurred but not yet reported. The reserves represent estimates of future payments of reported and unreported claims for losses and related expenses with respect to insured events that have occurred. Reserving is a complex process dealing with uncertainty, requiring the use of informed estimates and judgements. The Group does not discount its claims reserves, other than for settled claims with fixed payment terms. Any changes in estimates are reflected in results of operations in the period in which estimates are changed.

(ii) Long-term traditional insurance contracts

Long-term traditional insurance contracts include whole life and term life insurance, endowment insurance and annuities policies with significant life contingency risk. Premiums are recognized as revenue when due from policyholders. Benefits and expenses are provided against such revenue to recognize profits over the estimated life of the policies. Hence, for single premium and limited payment contracts, premiums are recorded as income when due with the percent-of-premium profit margin deferred and recognized in income in a constant relationship to the amount of insurance in-force for life insurance contracts and the amount of expected benefit payments for annuities.

Liabilities arising from long-term traditional insurance contracts comprise a policyholder reserve based on the net level premium valuation method and actuarial assumptions as to mortality, persistency, expenses, withdrawals, and investment return including,

where appropriate a provision for adverse deviation, and a deferred profit liability for the deferred percent-of-premium profit margin, as described in Note 2.9. The assumptions are established at policy issue and remain unchanged unless adverse experience causes a deficiency in liability adequacy test as described in Note 2.8.1.b.

**Table of Contents**

**CHINA LIFE INSURANCE COMPANY LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.8 Insurance contracts and investment contracts (continued)**

**2.8.1 Insurance contracts and investment contracts with DPF (continued)**

**2.8.1.a Recognition and measurement (continued)**

(iii) Long-term investment type insurance contracts and investment contracts with DPF  
Long-term investment type insurance contracts include life insurance and annuity contracts with significant investment features but with sufficiently significant insurance risk to still be considered insurance contracts under HKFRS 4.

The liabilities for long-term investment type insurance contracts and investment contracts with DPF are recognized as accumulation of deposits received less charges plus interest credited. Revenue from a contract consists of various charges (policy fees, handling fees, management fees, surrender charges) made against the contract for the cost of insurance, expenses and early surrender. Excess first year charges are deferred as an unearned revenue liability and are recognized in income over the life of the contracts in a constant relationship to estimated gross profits (as defined below in Note 2.8.3). To the extent unrealised gains or losses from available-for-sale securities affect the estimated gross profits, shadow adjustments are recognized in equity. Policy benefits and claims that are charged to expenses include benefit claims incurred in the year in excess of related contract balances and interest credited to these contracts.

**2.8.1.b Liability adequacy test**

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related DAC. In performing these tests, current best estimates of future cash flows for each category of contracts are used to determine any deficiency for those contracts. Any deficiency is immediately charged to the income statement initially by writing off DAC and by subsequently establishing a provision for losses arising from the liability adequacy tests.

Any DAC written off as a result of the liability adequacy test cannot be subsequently reinstated.

**2.8.1.c Reinsurance contracts held**

Contracts with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts with reinsurers that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Group under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

The benefits to which the Group is entitled under its reinsurance contracts held are recognized as reinsurance assets. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for



reinsurance contracts and are recognized as an expense when due. In certain cases a reinsurance contract is entered into for existing in-force business. Where the premium due to the reinsurer differs from the liability established by the Group for the related business, the difference is amortised over the estimated remaining settlement period.

**Table of Contents**

**CHINA LIFE INSURANCE COMPANY LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.8 Insurance contracts and investment contracts (continued)**

**2.8.1 Insurance contracts and investment contracts with DPF (continued)**

**2.8.1.c Reinsurance contracts held (continued)**

The Group assesses its reinsurance assets for impairment as at the balance sheet date. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes that impairment loss in the income statement. If a reinsurer is unable to satisfy its obligation under the reinsurance contracts, the liability becomes the responsibility of the Group.

**2.8.1.d DPF in long-term insurance contracts and investment contracts**

DPF is contained in certain long-term insurance contracts and investment contracts. These contracts are collectively called participating contracts. The Group is obligated to pay to the policyholders of participating contracts at 70% of distributable surplus, or at the rate specified in the contracts when higher. The distributable surplus mainly arises from net investment income, gains and losses arising from the assets supporting these contracts; if this surplus has not been declared and paid, it is included in the policyholder dividends payable.

**2.8.2 Investment contracts without DPF**

Investment contracts without DPF are not considered to be insurance contracts and are accounted for as a financial liability. The liability for investment contracts without DPF is recognized as the accumulation of deposits received less charges plus interest credited.

Revenue from these contracts consists of various charges (policy fees, handling fees, management fees and surrender charges) made against the contract for the cost of insurance, expenses and early surrender. Excess first year charges are deferred as an unearned revenue liability and are recognized in income over the life of the contracts in a constant relationship to estimated gross profits (defined in Note 2.8.3).

**2.8.3 Deferred policy acquisition costs ( DAC )**

The costs of acquiring new and renewal business including commissions, underwriting and policy issue expenses, which vary with and are primarily related to the production of new and renewal business, are deferred. DAC are subject to recoverability testing at the time of policy issue and at the end of each accounting period. Future investment income is taken into account in assessing recoverability.

DAC for long-term traditional insurance contracts are amortised over the premium paying period as a constant percentage of expected premiums. Expected premiums are based upon assumptions defined at the date of policy issue. These assumptions are consistently applied throughout the premium paying period unless adverse experience causes a deficiency in liability adequacy test as described in Note 2.8.1.b.

**Table of Contents**

**CHINA LIFE INSURANCE COMPANY LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.8 Insurance contracts and investment contracts (continued)**

**2.8.3 Deferred policy acquisition costs ( DAC ) (continued)**

DAC for long-term investment type insurance contracts and investment contracts are amortised over the expected life of the contracts as a constant percent of the present value of estimated gross profits expected to be realised over the life of the contract. To the extent unrealised gains or losses from available-for-sale securities affect the estimated gross profits, shadow adjustments are recognized in the shareholders' equity.

Estimated gross profits include expected amounts to be assessed for mortality, administration, investment and surrender less benefit claims in excess of policyholder balances, administrative expenses and interest credited. Estimated gross profits are revised regularly and the future interest rate used to compute the present value of revised estimates of expected gross profits is the latest revised rate applied to the remaining benefit periods. Deviations of actual results from estimated experience are reflected in the income statement.

**2.9 Deferred income**

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. Both are described in Note 2.8.1.a and Note 2.8.2. Both deferred income amounts will be released to income statement over the remaining lifetime of the business.

**2.10 Securities sold with agreements to repurchase**

Securities sold under agreements to repurchase, which are classified as secured borrowings, generally mature within 180 days from the transaction date. The Group may be required to provide additional collateral based on the fair value of the underlying securities. Securities sold under agreements to repurchase are recorded at amortised cost, i.e. their cost plus accrued interest at the balance sheet date. It is the Group's policy to maintain effective control over securities sold under agreements to repurchase which includes maintaining physical possession of the securities. Accordingly, such securities continue to be carried on the consolidated balance sheet.

**2.11 Derivative instruments**

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. The resulting gain or loss of derivative financial instruments is recognized in income statement. Fair values are obtained from quoted market prices in active markets, including recent market transactions and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value

of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

**Table of Contents**

**CHINA LIFE INSURANCE COMPANY LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.11 Derivative instruments (continued)**

Embedded derivatives that are not closely related to their host contracts and meet the definition of a derivative are separated and fair valued through profit or loss. The Group does not separately measure embedded derivatives that meet the definition of an insurance contract or embedded options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate). All the other embedded derivatives held by the Group are deemed either to be closely related to the host contracts or measured at fair value with changes in fair value recognized in the income statement.

**2.12 Employee benefits**

*Pension benefits*

The full-time employees of the Group are covered by various government-sponsored pension plans under which the employees are entitled to a monthly pension based on certain formulas. These government agencies are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these plans, the Group has no legal or constructive obligation for retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

*Housing benefits*

All full-time employees of the Group are entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each year.

**2.13 Share capital**

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds.

**2.14 Revenue recognition**

Turnover of the Group represents the total revenues.

**Premiums and policy fees**

Premiums from long-term traditional life insurance contracts are recognized as revenue when due from the policyholders. Revenue from long-term investment type insurance contracts and investment contracts consists of policy fees, handling fees, management fees and surrender charges assessed for the cost of insurance, expenses and early surrenders during the year which are recognized when due.

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Premiums from the sale of short-term accident and health insurance contracts are recorded when written and are accreted to earnings on a pro-rata basis over the term of the related policy coverage. Contracts for which the period of risk differs significantly from the contract period recognize premiums over the period of risk in proportion to the amount of insurance protection provided.

F-20

**Table of Contents**

**CHINA LIFE INSURANCE COMPANY LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.14 Revenue recognition (continued)**

**Net investment income**

Net investment income is comprised of interest income from term deposits, cash and cash equivalents, debt securities, securities purchased under agreements to resell, loans, and dividend income from equity securities less interest expense from securities sold under agreements to repurchase and investment expenses. Interest income is recorded on an accrual basis using the effective interest rate method. Dividend income is recognized when the right to receive dividend payment is established.

**2.15 Deferred taxation**

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Substantively enacted tax rates are used in the determination of deferred income tax.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be recognized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

**2.16 Operating leases**

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments under operating leases are charged to the income statement on a straight-line basis over the lease periods.

**2.17 Contingencies**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized in the balance sheet but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and can be reliably measured, it will then be recognized as a provision.



**2.18 Dividend distribution**

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the year in which the dividends are approved by the Company's shareholders.

F-21

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**Table of Contents**

**CHINA LIFE INSURANCE COMPANY LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.19 Stock appreciation rights**

Compensation under the stock appreciation rights is measured based on the fair value of the liabilities incurred and is expensed over the vesting period. Valuation techniques including option pricing models are used to estimate fair value of relevant liabilities. The liability is remeasured at each balance sheet date to its fair value until settlement with all changes included in administrative expenses in the consolidated income statement. The related liability is included in other liabilities.

**3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES**

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**3.1 Estimate of future benefit payments and premiums arising from long-term traditional insurance contracts and related deferred policy acquisition costs**

The determination of the liabilities under long-term traditional insurance contracts is dependent on estimates made by the Group. For the long-term traditional insurance contracts, estimates are made in two stages. Assumptions about mortality rates, morbidity rates, lapse rates, investment returns, and administration and claim settlement expenses are made at inception of the contract. A provision for adverse deviation in experience is added to the assumptions, where appropriate. Assumptions are locked in for the duration of the contract. New estimates are made each subsequent year in order to determine whether the previous liabilities are adequate in the light of these latest estimates. If the liabilities are considered adequate, the assumptions are not altered. If they are not adequate, the assumptions are altered (unlocked) first by reducing the provision for adverse deviation and then by reflecting current best estimate assumptions. A key feature of the adequacy testing for these contracts is that the effects of changes in the assumptions on the measurement of the liabilities and related assets are not symmetrical. Any improvements in experience will have no impact on the value of the liabilities and related assets until the liabilities are derecognized. However, significant deterioration in experience can lead to an immediate increase in the liabilities.

The assumed lapsed rates, mortality rates and morbidity rates are described in Note 14. Investment return assumptions are based on estimates of future yields on the Group's investments as described in Note 14. The assumption for policy administration expenses has been based on expected unit costs plus, where applicable, a margin for adverse deviation as described in Note 14.

**3.2 Liability adequacy test**

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the insurance contract liabilities net of related DAC. Liability adequacy testing is performed by portfolio of contracts that are subject to broadly similar risks. In performing these tests, current best estimates of future cash flows under the contracts are used. As set out in Note 3.1 above, liability assumptions for long-term traditional insurance contracts are defined at the inception of the contract. When the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions (without margins for adverse deviation) are used for the subsequent measurement of these liabilities. Any DAC written off as a result of this test cannot subsequently be reinstated.



**Table of Contents**

**CHINA LIFE INSURANCE COMPANY LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES (continued)**

**3.3 Investments**

The Group's principal investments are debt securities, equity securities and term deposits. The critical estimates and judgments are those associated with the recognition of impairment and the determination of fair value.

The Group considers a wide range of factors in the impairment assessment as described in Note 2.6.f.

Fair value is defined as the amount at which the financial assets and liabilities could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, rather than in a forced or liquidation sale. The methods and assumptions used by the Group in estimating the fair value of the financial assets and liabilities are:

Debt securities: fair values are generally based upon current bid prices. Where current bid prices are not readily available, fair values are estimated using either prices observed in recent transactions, values obtained from current bid prices of comparable investments and valuation techniques when the market is not active.

Equity securities: fair values are generally based upon current bid prices. Where current bid prices are not readily available, fair values are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Equity securities, for which fair values cannot be measured reliably, are recognized at cost less impairment.

Term deposits (excluding structured deposits), loans and securities purchased or sold under agreements to resell or repurchase: the carrying amounts of these assets in the balance sheet approximate fair values.

Structured deposits: the market for structured deposits is not active, the Group establishes fair value by using discounted cash flow analysis and option pricing models as the valuation technique. The Group uses the US\$ swap rate (the benchmark rate) to determine the fair value of financial instruments. Due to the complexity of structured deposits, significant judgement and estimates are involved in the absence of quoted market values. These estimates are based on valuation methodologies and assumptions deemed appropriate in the circumstances.

**Table of Contents**

**CHINA LIFE INSURANCE COMPANY LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**4 MANAGEMENT OF INSURANCE AND FINANCIAL RISK**

The Group issues contracts that transfer insurance risk or financial risk or both. This section summarises these risks and the way the Group manages them.

**4.1 Insurance risk**

The risk under any one insurance contract is the possibility that an insured event occurs and there is uncertainty about the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This occurs when the frequency or severity of claims and benefits exceeds the estimates. Insurance events are random and the actual number of claims and the amount of benefits paid will vary each year from estimates established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. The Group manages insurance risk through underwriting strategy, reinsurance arrangements and claims handling.

The Group manages insurance risks through two types of reinsurance agreements, ceding on a quota share basis or a surplus basis, to cover insurance liability risk. The products reinsured include: life insurance, accident, health insurance, and risk liability embedded annuity or death, disability, accident, illness and assistance in terms of product category or function respectively. The Group has entered into six reinsurance agreements. These reinsurances agreements spread insured risk to a certain extent and reduce the effect of potential losses to the Group. However, the Group's direct insurance liabilities to the policyholder are not eliminated because of credit risk associated with the failure of reinsurance companies to fulfil their responsibilities.

**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**4 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)****4.1 Insurance risk (continued)**

The Group offers life insurance, annuity, accident and health insurance products. All operations of the Group are located in the PRC. The table below presents the Group's major products of long-term traditional insurance contracts:

**Product name**

	2007		2006	
	RMB million	%	RMB million	%
<b>Premium</b>				
Kang Ning Whole Life <sup>(a)</sup>	29,850	32.3%	26,079	32.0%
Hong Xin Endowment <sup>(b)</sup>	21,673	23.5%	26,781	33.0%
Meiman Yisheng Annuity <sup>(d)</sup>	10,322	11.2%	1,359	1.7%
Others	30,451	33.0%	27,011	33.3%
<b>Total</b>	<b>92,296</b>	<b>100.0%</b>	<b>81,230</b>	<b>100.0%</b>
<b>Insurance benefits</b>				
Kang Ning Whole Life <sup>(a)</sup>	3,184	18.3%	2,498	23.1%
Hong Xin Endowment <sup>(b)</sup>	3,961	22.7%	1,368	12.7%
Qian Xi Endowment <sup>(c)</sup>	3,706	21.3%	2,454	22.7%
Others	6,579	37.7%	4,477	41.5%
<b>Total</b>	<b>17,430</b>	<b>100.0%</b>	<b>10,797</b>	<b>100.0%</b>
<b>Liabilities of long-term traditional insurance contracts</b>				
Kang Ning Whole Life <sup>(a)</sup>	73,405	33.6%	57,406	33.2%
Hong Xin Endowment <sup>(b)</sup>	48,868	22.4%	37,647	21.8%
Qian Xi Endowment <sup>(c)</sup>	25,022	11.5%	23,700	13.7%
Others	70,870	32.5%	54,122	31.3%
<b>Total</b>	<b>218,165</b>	<b>100.0%</b>	<b>172,875</b>	<b>100.0%</b>

- (a) Kang Ning Whole Life is long-term individual whole life traditional insurance contract with options for premium term of single, 10 years or 20 years. Its critical illness benefit accounts for 200% of basic sum insured. Both death and disability benefit are paid at 300% of basic sum insured less any paid critical illness benefit.

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- (b) Hong Xin Endowment is long-term individual endowment traditional insurance contract with options for premium term of single, 3 years, 5 years or 10 years. The insured can be benefited up to age of 80. Its endowment benefit accounts for 9% of basic sum insured every three years. Death and maturity benefit are paid at 200% and 150% of basic sum insured, respectively.
  
- (c) Qian Xi Endowment is long-term individual endowment traditional insurance contract with options for premium term of single, 10 years, 20 years or 30 years. The benefit term is whole life. Its endowment benefit accounts for 5% of basic sum insured every three years and death benefit is increased by 5% of basic sum insured every year that renewal premium is paid.

F-25

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**Table of Contents**

**CHINA LIFE INSURANCE COMPANY LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**4 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)**

**4.1 Insurance risk (continued)**

- (d) Meiman Yisheng Annuity is long-term individual participating traditional insurance contract with options for premium term of 3 years, 5 years, 8 years or 12 years. The insured can be benefited up to age of 75. Its endowment benefit accounts for 1% of basic sum insured multiplied by number of premium payments every year. Death and maturity benefit are paid at 110% and 100% of basic sum insured multiplied by number of premium payments, respectively.

For long-term investment type insurance contracts, Hong Feng Endowment is the major product with RMB48,430 million of deposits in 2007 (2006: RMB47,742 million), representing 66.8% (2006: 67.7%) of total received deposits for long-term investment type insurance contracts.

Participating contracts for the year ended 31 December 2007 represented approximately 53% of gross and net life insurance premium and policy fees, respectively (2006: 52%, 2005: 50%). The net investment income, net realised gains on financial assets and net fair value gains on assets at fair value through income (held-for-trading) attributable to participating contracts in 2007 are RMB29,133 million, RMB10,673 million and RMB11,125 million respectively (2006: RMB16,600 million, RMB849 million and RMB16,149 million, 2005 RMB11,102 million, RMB(318) million and RMB98 million).

*Sensitivity Analysis*

For liabilities under long-term traditional insurance contracts and long-term investment type insurance contracts, changes in mortality rates, morbidity rates will not cause a change to the carrying amount of the liabilities, unless the change is severe enough to trigger a liability adequacy test adjustment. If the actual mortality rates or morbidity rates increase/decrease from current assumptions by 10%, there will be no impact to the Group's consolidated financial statements as the deviation will not trigger a liability adequacy test adjustment.

For liabilities under long-term traditional insurance contracts, long-term investment type insurance contracts and investment contracts with DPF, changes in investment returns will not cause a change to the carrying amount of the liabilities, unless the change is severe enough to trigger a liability adequacy test adjustment. If the investment returns are 50 basis points lower or higher than current assumptions, there will be no impact to the Group's consolidated financial statements since the variance will not trigger a liability adequacy test adjustment.

As disclosed in Note 2.8.3 and Note 2.8.1.a, DAC and unearned revenue liability (URL) for long-term investment type insurance contracts and investment contracts are amortised and recognized in income respectively over the expected life of the contracts as a constant percent of the present value of estimated gross profits expected to be realised over the life of the contract. Although the Group measures the expected gross profits based on an investment return assumption updated on an annual basis, change in the investment return assumption will not cause material impact on the Group's consolidated financial statements since the net amount of DAC amortization and change of URL is not material.

Short-term insurance contract liabilities are not directly sensitive to the level of investment returns, as they are undiscounted and contractually non-interest-bearing. Investment contracts without DPF are accounted for at amortised cost and their carrying amounts are not sensitive to changes in the level of investment returns.



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For liabilities under short-term insurance contracts, if the loss ratio had increased/decreased by 100 basis points with all other variables held constant, pre-tax profit for the year would have been RMB114 million (2006: RMB106 million) lower/higher.

F-26

**Table of Contents**

**CHINA LIFE INSURANCE COMPANY LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**4 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)**

**4.2 Financial risk**

The Group's activities are exposed to a variety of financial risks. The key financial risk is that proceeds from the sale of financial assets will not be sufficient to fund obligations arising from the Group's insurance and investment contracts. The most important components of financial risk are market risk, credit risk and liquidity risk.

The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. Risk management is carried out by a designated department under policies approved by management. The responsible department identifies, evaluates and manages financial risks in close cooperation with the Group's operating units. The Group provides written principles for overall risk management, as well as written policies covering specific areas, such as managing market risk, credit risk, and liquidity risk.

The Group manages financial risk by holding an appropriately diversified investment portfolio as permitted by laws and regulations designed to reduce the risk of concentration in any one specific industry or issuer. The structure of the investment portfolio held by the Group is seen in Note 9 to the consolidated financial statements.

The sensitivity analyses below are based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur, and changes in some of the assumptions may be correlated (for example, change in interest rate and change in market values).

**4.2.1 Market risk**

**(i) Interest rate risk**

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group's financial assets are principally comprised of term deposits and debt securities. Changes in the level of interest rates can have a significant impact on the Group's overall investment return. Many of the Group's insurance policies offer guaranteed returns to policyholders. These guarantees expose the Group to interest rate risk.

The Group manages interest rate risk through adjustments to portfolio structure and duration, and, to the extent possible, by monitoring the mean duration of its assets and liabilities.

The sensitivity analysis for interest rate risk illustrates how changes in interest income and the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date.

At 31 December 2007, if market interest rates had been 50 basis points higher/lower with all other variables held constant, pre-tax profit for the year would have been RMB527 million (2006: RMB664 million) higher/lower, mainly as a result of higher/lower interest income on floating rate cash and cash equivalents, term deposits, statutory deposits-restricted and debt securities and the fair value losses/gains on debt securities assets at fair value through income (held-for-trading), net of impact thereof on undistributed participating policyholders' dividends. Pre-tax available-for-sale reserve in equity would have been RMB6,489 million (2006: RMB4,068 million) lower/higher as a result of a decrease/increase in the fair value of available-for-sale securities, net of impact thereof on undistributed participating policyholders' dividends and other shadow adjustments.



**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**4 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)****4.2 Financial risk (continued)****4.2.1 Market risk (continued)****(ii) Price risk**

Price risk arises mainly from the volatility of prices of equity securities held by the Group. Prices of equity securities are determined by market forces. The Group is subject to increased market risk largely because China's stock markets are relatively volatile.

The Group manages price risk by holding an appropriately diversified investment portfolio as permitted by laws and regulations designed to reduce the risk of concentration in any one specific industry or issuer.

At 31 December 2007, if all the Group's equity securities' prices had increased/decreased by 10% with all other variables held constant, pre-tax profit for the year would have been RMB1,072 million (2006: RMB1,548 million) higher/lower, mainly as a result of an increase/decrease in fair value of equity securities excluding available-for-sale securities, net of impact thereof on undistributed participating policyholders' dividends. Pre-tax available-for-sale reserve in equity would have been RMB12,079 million higher/lower (2006: RMB4,244 million) as a result of an increase/decrease in fair value of available-for-sale equity securities, net of impact thereof on undistributed participating policyholders' dividends and other shadow adjustments.

**(iii) Currency risk**

Currency risk is volatility of fair value or future cash flows of financial instruments resulting from changes in foreign currency exchange rates. The Group operates principally in the PRC except for limited exposure to foreign exchange rate risk arising primarily with respect to structured deposits, debt securities and common stocks denominated in US dollar ( US\$ ) or HK dollar ( HK\$ ).

The Group holds shares traded on the HK stock market which are traded in HK dollars. Investment income from H share holdings have offset the adverse impact of the appreciation of the Renminbi and thus spread the risk indirectly.

The following table summaries financial assets denominated in currencies other than RMB as at 31 December 2007 and 2006.

<b>As at 31 December 2007</b>	<b>US\$ RMB million</b>	<b>HK\$ RMB million</b>	<b>Total RMB million</b>
Equity securities		8,476	8,476
Debt securities	3,119		3,119
Term deposits (excluding structured deposits)	219		219
Structured deposits	4,346		4,346
Cash and cash equivalents	6,844	45	6,889

<b>Total</b>	<b>14,528</b>	<b>8,521</b>	<b>23,049</b>
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	US\$ RMB million	HK\$ RMB million	Total RMB million
<b>As at 31 December 2006</b>			
Equity securities		6,884	6,884
Debt securities	3,334		3,334
Term deposits (excluding structured deposits)	3,358		3,358
Structured deposits	4,646		4,646
Cash and cash equivalents	5,083	82	5,165
<b>Total</b>	<b>16,421</b>	<b>6,966</b>	<b>23,387</b>

F-28

**Table of Contents**

**CHINA LIFE INSURANCE COMPANY LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**4 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)**

**4.2 Financial risk (continued)**

**4.2.1 Market risk (continued)**

Monetary assets are exposed to currency risk whereas non-monetary assets, such as equity securities, expose themselves to price risk. As at 31 December 2007, if RMB had strengthened/weakened by 10% against USD and HK dollar with all other variables held constant, pre-tax profit for the year would have been RMB1,457 million (2006: RMB1,650 million) lower/higher, mainly as a result of foreign exchange losses/gains on translation of USD and HK dollar denominated financial assets other than the equity securities included in the table above.

**4.2.2 Credit risk**

Credit risk is the risk that one party to a financial transaction or the issuer of a financial instrument will fail to discharge an obligation and cause another party to incur a financial loss. Because the Group is limited in the types of investments as permitted by China Insurance Regulatory Commission ( CIRC ) and a significant portion of the portfolio is in government bonds, government agency bonds and term deposits with the state-owned commercial banks, the Group's overall exposure to credit risk is relatively low.

Credit risk is controlled by the application of credit approvals, limits and monitoring procedures. The Group manages credit risk through in-house fundamental analysis of the Chinese economy and the underlying obligors and transaction structures. Where appropriate, the Group obtains collateral in the form of rights to cash, securities, property and equipment.

*Credit exposure*

The carrying amount of financial assets included on the consolidated balance sheet represents the maximum credit exposure without taking account of any collateral held or other credit enhancements attached. The Group has no credit risk exposures relating to off-balance sheet items as at 31 December 2007 and 2006.

*Collateral and other credit enhancements*

Securities purchased under agreements to resell are pledged by counterpart's debt securities or term deposits of which the Group could take the ownership should the owner of the collateral default. Policy loans and premium receivables are collateralized by their policies' cash value according to the terms and conditions of policy loan contracts and policy contracts respectively signed by the Group together with policyholders.

*Credit quality*

The Group's debt securities investment includes government bonds, government agency bonds, corporate bonds and subordinated bonds/debts. As at 31 December 2007, 98.9% (as at 31 December 2006: 99.9%) of the corporate bonds held by the Group have credit rating of AA/A-2 or above. As at 31 December 2007, 99.1% (as at 31 December 2006: 99.1%) of the subordinated bonds/debts held by the Group either have credit rating of AA/A-2 or above, or were issued by national commercial

banks. The bond/debt's credit rating is assigned by a qualified appraisal institution in the PRC at the time of its issuance.

**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**4 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)****4.2 Financial risk (continued)****4.2.2 Credit risk (continued)**

As at 31 December 2007, 94.8% (as at 31 December 2006: 96.8%) of the Group's bank deposits are with the four largest state-owned commercial banks and other national commercial banks in the PRC, and almost all of the reinsurance agreements of the Group are with a state-owned reinsurance company. The Group believes these commercial banks and the reinsurance company have a high credit quality. As a result, the Group concludes credit risk associated with term deposits and accrued investment income thereof, statutory deposits-restricted, cash equivalents and reinsurance assets will not cause material impact on the Group's consolidated financial statements as at 31 December 2007 and 2006.

The credit risk associated with securities purchased under agreements to resell, policy loans and premium receivables will not cause a material impact on the Group's consolidated financial statements taking into consideration of their collateral held and maturity term of no more than one year as at 31 December 2007 and 2006.

**4.2.3 Liquidity risk**

Liquidity risk is the risk that the Group will not have access to sufficient funds to meet its liabilities as they become due.

In the normal course of business, the Group attempts to match the maturity of investment assets to the maturity of insurance liabilities.

The following tables set forth the contractual undiscounted cash flows for financial liabilities excluding investment contracts as well as expected undiscounted cash flows for insurance contracts and investment contracts.

		Contractual and expected cash flows			
		Carrying amount	Not later than 1 year	(undiscounted)	
As at 31 December 2007			Later than 1 year but not later than 3 years	Later than 3 years but not later than 5 years	
(RMB million)					
<b>Financial and insurance liabilities</b>					
<b>Expected cash flows out/(in)</b>					
Short term insurance contracts	8,119	5,564			
Long-term traditional insurance contracts	218,165	(43,182)	(52,962)	(24,852)	717,464



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Long-term investment type insurance contracts	284,588	67,012	85,571	79,443	123,878
Investment contracts	51,302	14,345	15,450	8,910	37,279
<b>Contractual cash flows out</b>					
Securities sold under agreements to repurchase	100	100			
Annuity and other insurance balances payable	14,111	14,111			

F-30

**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**4 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)****4.2 Financial risk (continued)****4.2.3 Liquidity risk (continued)**

As at 31 December 2006	Carrying amount	Contractual and expected cash flows (undiscounted)			
		Not later than 1 year	Later than 1 year but not later than 3 years	Later than 3 years but not later than 5 years	Later than 5 years
<b>Financial and insurance liabilities</b>					
<b>Expected cash flows out/(in)</b>					
Short term insurance contracts	7,844	5,438			
Long-term traditional insurance contracts	172,875	(36,803)	(45,574)	(25,033)	561,609
Long-term investment type insurance contracts	282,672	52,614	105,460	83,673	109,851
Investment contracts	48,612	12,897	15,842	10,546	20,956
<b>Contractual cash flows out</b>					
Securities sold under agreements to repurchase	8,227	8,227			
Annuity and other insurance balances payable	8,891	8,891			

The amounts set forth in the tables above for insurance and investment contracts in each column are the cash flows representing expected future benefit payments taking into consideration of future premiums payments or deposits from policyholders. The estimate is affected by assumptions related to mortality, morbidity, lapses, withdrawals, credited rates, loss ratio, claim adjustment expenses and other assumptions. Actual experience may differ from estimates.

As at 31 December 2007, declared dividends of RMB26,238 million (as at 31 December 2006: RMB9,018 million) included in policyholder dividends payable have a maturity not later than one year. For the remaining policyholder dividends payable, the amount and timing of the cash flows are indeterminate due to the uncertainty of future experiences including investment returns and are subject to future declarations by the Group.

Another maturity analysis assuming all long-term insurance contracts and investment contracts were surrendered immediately would have been RMB571,465 million at 31 December 2007 (at 31 December 2006: RMB512,353 million), payable within one year. Although contractually these options can be exercised immediately by all policyholders, at once, the Group's expected cash flows are as shown in the above tables based on its experience and future expectations.

**4.2.4 Capital management**

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The Group's objectives when managing capital are to comply with the insurance capital requirements required by the CIRC to meet the minimum solvency margin and safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders.

F-31

**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**4 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)****4.2 Financial risk (continued)****4.2.4 Capital management (continued)**

The Group is also subject to other local capital requirements, such as Statutory deposits-restricted requirement and Statutory reserve fund requirement, discussed in detail under Note 9.6 and Note 31, respectively.

The Group ensures its continuous and full compliance with the regulations mainly through monitoring quarterly and annual static solvency margin, as well as the dynamic solvency margin, which predicts the solvency margin for the next three years based on different scenarios. It has complied with all the local capital requirements.

The table below summarises the solvency ratio of the Company, the regulatory capital held (represented by actual solvency margin) against the minimum required capital (represented by minimum solvency margin).

	<b>As at 31 December</b>	
	<b>2007</b>	<b>2006</b>
	<b>RMB million</b>	<b>RMB million</b>
Actual solvency margin	168,357	96,297
Minimum solvency margin	32,054	27,549
Solvency ratio	525%	350%

According to CIRC Order [2003] No.1, all insurance companies have to report their actual solvency margin (i.e. admitted statutory capital and surplus) to the CIRC at the end of each fiscal year. The solvency ratio is computed by dividing the actual solvency margin by the minimum solvency margin (i.e. minimum statutory capital and surplus necessary to satisfy regulatory requirement). CIRC will closely monitor those insurance companies with solvency ratio less than 100% and may, depending on the individual circumstances, undertake certain regulatory measures, including but not limited to restricting the payment of dividends.

**Table of Contents**

**CHINA LIFE INSURANCE COMPANY LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**5 SEGMENT INFORMATION**

**5.1 Business segments**

The Group has the following main business segments:

(i) Individual life insurance business

Individual life insurance business relates primarily to the sale of insurance contracts and investment contracts to individuals and comprises participating and non-participating business. Participating life insurance business relates primarily to the sale of participating contracts, which provides the policyholder with a participation in the profits arising from the invested assets relating to the policy and mortality gains, as described in Note 2.8.1.d. Non-participating insurance business relates primarily to non-participating life insurance and annuity products, which provides guaranteed benefits to the insured without a participation in the profits.

(ii) Group life insurance business

Group life insurance business relates primarily to the sale of insurance contracts and investment contracts to group entities and comprises participating and non-participating business as described above.

(iii) Accident and health insurance business

Accident and health insurance business relates primarily to the sale of accident and health insurance and accident only products.

(iv) Corporate and other

Corporate and other business relates primarily to income and expenses in respect of the provision of the services to CLIC, as described in Note 29, share of results of associates and unallocated income taxes.

**5.2 Basis of allocating net investment income, realised and unrealised gains or losses and administrative and other operating expenses**

Net investment income, net realised gains or losses on financial assets, net fair value gains or losses on assets at fair value through income (held-for-trading) and foreign exchange losses within other operating expenses are allocated among segments in proportion to each respective segment's average statutory policyholder reserve and claims provision at the beginning and end of the year. Administrative and other operating expenses are allocated among segments in proportion to the unit cost of products in the respective segments.

**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**5 SEGMENT INFORMATION (continued)**

	For the year ended 31 December 2007				Total
	Individual life	Group life	Accident & Health (RMB million)	Corporate & other	
<b>Revenues</b>					
Gross written premiums and policy fees	98,484	1,503	11,899		111,886
Gross written premiums	91,420	876	11,899		
Term Life	175	9			
Whole Life	31,943	678			
Endowment	40,278				
Annuity	19,024	189			
Policy fees	7,064	627			
Net premiums earned and policy fees	98,470	1,503	11,431		111,404
Net investment income	39,489	3,902	629		44,020
Net realised gains on financial assets	13,801	1,364	220		15,385
Net fair value gains on assets at fair value through income (held-for-trading)	16,904	1,670	269		18,843
Other income				1,720	1,720
<b>Segment revenues</b>	<b>168,664</b>	<b>8,439</b>	<b>12,549</b>	<b>1,720</b>	<b>191,372</b>
<b>Benefits, claims and expenses</b>					
Insurance benefits and claims					
Life insurance death and other benefits	(16,463)	(967)			(17,430)
Accident and health claims and claim adjustment expenses			(6,343)		(6,343)
Increase/decrease in long-term traditional insurance contracts liabilities	(45,370)	36			(45,334)
Interest credited to long-term investment type insurance contracts	(7,157)	(24)			(7,181)
Interest credited to investment contracts		(1,138)			(1,138)
Increase in deferred income	(9,828)	(31)			(9,859)
Policyholder dividends resulting from participation in profits	(25,729)	(3,522)			(29,251)
Amortisation of deferred policy acquisition costs	(12,182)	(485)	(794)		(13,461)
Underwriting and policy acquisition costs	(2,013)	(6)	(703)	(3)	(2,725)
Administrative expenses	(7,214)	(606)	(2,192)	(1,786)	(11,798)
Other operating expenses	(1,343)	(132)	(106)	(70)	(1,651)
Statutory insurance fund	(163)	(1)	(55)		(219)
<b>Segment benefits, claims and expenses</b>	<b>(127,462)</b>	<b>(6,876)</b>	<b>(10,193)</b>	<b>(1,859)</b>	<b>(146,390)</b>
Share of results of associates				409	409

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<b>Segment results</b>	<b>41,202</b>	<b>1,563</b>	<b>2,356</b>	<b>270</b>	<b>45,391</b>
Income tax expenses				(6,331)	(6,331)
<b>Net profit/(loss)</b>	<b>41,202</b>	<b>1,563</b>	<b>2,356</b>	<b>(6,061)</b>	<b>39,060</b>
Attributable to:					
shareholders of the Company	41,202	1,563	2,356	(6,242)	38,879
minority interest				181	181
<b>Unrealised gains/(losses) included in shareholders equity</b>	<b>27,758</b>	<b>2,743</b>	<b>442</b>	<b>(30)</b>	<b>30,913</b>

F-34

**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**5 SEGMENT INFORMATION (continued)**

	As at 31 December 2007				Total
	Individual life	Group life	Accident & Health ( RMB million )	Corporate & other	
<b>Assets</b>					
Financial assets	748,831	73,988	11,930		834,749
Deferred policy acquisition costs	39,037	764	1,050		40,851
Cash and cash equivalents	22,711	2,244	362		25,317
<b>Segment assets</b>	<b>810,579</b>	<b>76,996</b>	<b>13,342</b>		<b>900,917</b>
<b>Unallocated</b>					
Property, plant and equipment					16,771
Other assets					16,016
<b>Total</b>					<b>933,704</b>
<b>Liabilities</b>					
Insurance contracts					
Long-term traditional insurance contracts	216,280	1,885			218,165
Long-term investment type insurance contracts	283,520	1,068			284,588
Short-term insurance contracts:					
reserves for claims and claim adjustment expenses			2,391		2,391
unearned premium reserves			5,728		5,728
Deferred income	47,761	547			48,308
Financial liabilities					
Investment contracts					
with DPF		49,068			49,068
without DPF		2,234			2,234
Securities sold under agreements to repurchase	90	9	1		100
<b>Segment liabilities</b>	<b>547,651</b>	<b>54,811</b>	<b>8,120</b>		<b>610,582</b>
<b>Unallocated</b>					
Other liabilities					116,746
<b>Total</b>					<b>727,328</b>





**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**5 SEGMENT INFORMATION (continued)**

	Individual life	For the year ended 31 December 2006			Total
		Group life	Accident & Health	Corporate & other	
<b>Revenues</b>					
Gross written premiums and policy fees	86,587	1,740	11,090		99,417
Gross written premiums	80,086	1,144	11,090		
Term Life	177	26			
Whole Life	28,079	886			
Endowment	43,583				
Annuity	8,247	232			
Policy fees	6,501	596			
Net premiums earned and policy fees	86,519	1,735	10,593		98,847
Net investment income	22,215	2,462	265		24,942
Net realised gains on financial assets	1,421	157	17		1,595
Net fair value gains on assets at fair value through income (held-for-trading)	17,852	1,979	213		20,044
Other income				1,883	1,883
<b>Segment revenues</b>	<b>128,007</b>	<b>6,333</b>	<b>11,088</b>	<b>1,883</b>	<b>147,311</b>
<b>Benefits, claims and expenses</b>					
Insurance benefits and claims					
Life insurance death and other benefits	(10,125)	(672)			(10,797)
Accident and health claims and claim adjustment expenses			(6,999)		(6,999)
Increase in long-term traditional insurance contracts liabilities	(43,915)	(323)			(44,238)
Interest credited to long-term investment type insurance contracts	(6,365)	(21)			(6,386)
Interest credited to investment contracts		(996)			(996)
Increase in deferred income	(11,307)	(300)			(11,607)
Policyholder dividends resulting from participation in profits	(15,536)	(2,081)			(17,617)
Amortisation of deferred policy acquisition costs	(9,391)	(265)	(603)		(10,259)
Underwriting and policy acquisition costs	(1,822)	(40)	(553)		(2,415)
Administrative expenses	(5,109)	(699)	(1,855)	(1,676)	(9,339)
Other operating expenses	(629)	(71)	(21)	(138)	(859)
Statutory insurance fund	(145)	(1)	(48)		(194)
<b>Segment benefits, claims and expenses</b>	<b>(104,344)</b>	<b>(5,469)</b>	<b>(10,079)</b>	<b>(1,814)</b>	<b>(121,706)</b>
<b>Segment results</b>	<b>23,663</b>	<b>864</b>	<b>1,009</b>	<b>69</b>	<b>25,605</b>
Income tax expenses				(5,554)	(5,554)

<b>Net profit/(loss)</b>	<b>23,663</b>	<b>864</b>	<b>1,009</b>	<b>(5,485)</b>	<b>20,051</b>
Attributable to:					
shareholders of the Company	23,663	864	1,009	(5,580)	19,956
minority interest				95	95
<b>Unrealised gains included in shareholders equity</b>	<b>11,452</b>	<b>1,270</b>	<b>137</b>		<b>12,859</b>

F-36

**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**5 SEGMENT INFORMATION (continued)**

	Individual life	As at 31 December 2006			Total
		Group life	Accident & Health (RMB million)	Corporate & other	
<b>Assets</b>					
Financial assets	574,503	63,685	6,864		645,052
Deferred policy acquisition costs	37,591	845	794		39,230
Cash and cash equivalents	44,721	4,958	534		50,213
<b>Segment assets</b>	<b>656,815</b>	<b>69,488</b>	<b>8,192</b>		<b>734,495</b>
<b>Unallocated</b>					
Property, plant and equipment					14,565
Other assets					15,335
<b>Total</b>					<b>764,395</b>
<b>Liabilities</b>					
Insurance contracts					
Long-term traditional insurance contracts	170,954	1,921			172,875
Long-term investment type insurance contracts	281,847	825			282,672
Short-term insurance contracts:					
reserves for claims and claim adjustment expenses			2,498		2,498
unearned premium reserves			5,346		5,346
Deferred income	40,744	627			41,371
Financial liabilities					
Investment contracts					
with DPF		45,998			45,998
without DPF		2,614			2,614
Securities sold under agreements to repurchase	7,327	812	88		8,227
<b>Segment liabilities</b>	<b>500,872</b>	<b>52,797</b>	<b>7,932</b>		<b>561,601</b>
<b>Unallocated</b>					
Other liabilities					62,589
<b>Total</b>					<b>624,190</b>

**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**5 SEGMENT INFORMATION (continued)**

	For the year ended 31 December 2005				Total
	Individual life	Group life	Accident & Health	Corporate & other	
	<i>(RMB million)</i>				
<b>Revenues</b>					
Gross written premiums and policy fees	68,888	1,267	10,867		81,022
Gross written premiums	63,205	867	10,867		
Term Life	184	24			
Whole Life	23,310	674			
Endowment	35,480				
Annuity	4,231	169			
Policy fees	5,683	400			
Net premiums earned and policy fees	68,749	1,257	10,032		80,038
Net investment income	14,682	1,788	215		16,685
Net realised losses on financial assets	(448)	(55)	(7)		(510)
Net fair value gains on assets at fair value through income (held-for-trading)	229	28	3		260
Other income				1,739	1,739
<b>Segment revenues</b>	<b>83,212</b>	<b>3,018</b>	<b>10,243</b>	<b>1,739</b>	<b>98,212</b>
<b>Benefits, claims and expenses</b>					
Insurance benefits and claims					
Life insurance death and other benefits	(7,744)	(567)			(8,311)
Accident and health claims and claim adjustment expenses			(6,847)		(6,847)
Increase in long-term traditional insurance contracts liabilities	(33,550)	(427)			(33,977)
Interest credited to long-term investment type insurance contracts	(4,867)	(27)			(4,894)
Interest credited to investment contracts		(973)			(973)
Increase in deferred income	(8,484)	(37)			(8,521)
Policyholder dividends resulting from participation in profits	(4,965)	(394)			(5,359)
Amortisation of deferred policy acquisition costs	(6,955)	(544)	(267)		(7,766)
Underwriting and policy acquisition costs	(1,350)	(68)	(427)		(1,845)
Administrative expenses	(3,863)	(415)	(1,338)	(1,621)	(7,237)
Other operating expenses	(646)	(78)	(29)	(45)	(798)
Statutory insurance fund	(118)	(1)	(55)		(174)
<b>Segment benefits, claims and expenses</b>	<b>(72,542)</b>	<b>(3,531)</b>	<b>(8,963)</b>	<b>(1,666)</b>	<b>(86,702)</b>
<b>Segment results</b>	<b>10,670</b>	<b>(513)</b>	<b>1,280</b>	<b>73</b>	<b>11,510</b>
Income tax expenses				(2,145)	(2,145)

<b>Net profit/(loss)</b>	<b>10,670</b>	<b>(513)</b>	<b>1,280</b>	<b>(2,072)</b>	<b>9,365</b>
Attributable to					
shareholders of the Company	10,670	(513)	1,280	(2,131)	9,306
minority interest				59	59
<b>Unrealised gains included in shareholders equity</b>	<b>3,997</b>	<b>487</b>	<b>58</b>		<b>4,542</b>

F-38

**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**6 PROPERTY, PLANT AND EQUIPMENT**

	2007					
	Buildings RMB million	Office equipment, furniture and fixtures RMB million	Motor vehicles RMB million	Assets under construction RMB million	Leasehold improvements RMB million	Total RMB million
<b>Cost</b>						
As at 1 January 2007	12,925	3,210	1,815	2,160	218	20,328
Additions	1,014	789	310	1,190	122	3,425
Disposals	(51)	(151)	(98)	(142)	(7)	(449)
Transfers upon completion	614			(614)		
<b>As at 31 December 2007</b>	<b>14,502</b>	<b>3,848</b>	<b>2,027</b>	<b>2,594</b>	<b>333</b>	<b>23,304</b>
<b>Accumulated depreciation and impairment</b>						
As at 1 January 2007	(2,509)	(1,800)	(1,337)		(117)	(5,763)
Charges for the year	(408)	(446)	(124)		(42)	(1,020)
Disposals	13	146	91			250
<b>As at 31 December 2007</b>	<b>(2,904)</b>	<b>(2,100)</b>	<b>(1,370)</b>		<b>(159)</b>	<b>(6,533)</b>
<b>Net book value</b>						
As at 1 January 2007	10,416	1,410	478	2,160	101	14,565
<b>As at 31 December 2007</b>	<b>11,598</b>	<b>1,748</b>	<b>657</b>	<b>2,594</b>	<b>174</b>	<b>16,771</b>

F-39

**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**6 PROPERTY, PLANT AND EQUIPMENT (continued)**

	2006					
	Buildings RMB million	Office equipment, furniture and fixtures RMB million	Motor vehicles RMB million	Assets under construction RMB million	Leasehold improvements RMB million	Total RMB million
<b>Cost</b>						
As at 1 January 2006	12,144	2,746	1,711	1,086	152	17,839
Additions	152	561	212	1,773	61	2,759
Disposals	(41)	(119)	(108)		(2)	(270)
Transfers upon completion	670	22		(699)	7	
<b>As at 31 December 2006</b>	<b>12,925</b>	<b>3,210</b>	<b>1,815</b>	<b>2,160</b>	<b>218</b>	<b>20,328</b>
<b>Accumulated depreciation and impairment</b>						
As at 1 January 2006	(2,164)	(1,540)	(1,325)		(100)	(5,129)
Charges for the year	(345)	(373)	(112)		(18)	(848)
Impairment loss	(3)					(3)
Disposals	3	113	100		1	217
<b>As at 31 December 2006</b>	<b>(2,509)</b>	<b>(1,800)</b>	<b>(1,337)</b>		<b>(117)</b>	<b>(5,763)</b>
<b>Net book value</b>						
As at 1 January 2006	9,980	1,206	386	1,086	52	12,710
<b>As at 31 December 2006</b>	<b>10,416</b>	<b>1,410</b>	<b>478</b>	<b>2,160</b>	<b>101</b>	<b>14,565</b>

F-40



**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**7 DEFERRED POLICY ACQUISITION COSTS**

	2007 RMB million	2006 RMB million	2005 RMB million
<b>Gross</b>			
As at 1 January	39,245	37,841	32,981
Acquisition costs deferred	17,490	15,929	14,231
Amortisation charged through income	(13,476)	(10,359)	(7,960)
Amortisation charged through equity	(2,398)	(4,166)	(1,411)
As at 31 December	40,861	39,245	37,841
<b>Ceded</b>			
As at 1 January	(15)	(100)	(194)
Acquisition costs deferred	(10)	(15)	(100)
Amortisation charged through income	15	100	194
As at 31 December	(10)	(15)	(100)
<b>Net</b>			
As at 1 January	39,230	37,741	32,787
Acquisition costs deferred	17,480	15,914	14,131
Amortisation charged through income	(13,461)	(10,259)	(7,766)
Amortisation charged through equity	(2,398)	(4,166)	(1,411)
As at 31 December	40,851	39,230	37,741
DAC excluding unrealised gains	47,862	43,843	38,188
DAC recorded in unrealised gains	(7,011)	(4,613)	(447)
<b>Total</b>	<b>40,851</b>	<b>39,230</b>	<b>37,741</b>
Current	1,050	794	603
Non-current	39,801	38,436	37,138
<b>Total</b>	<b>40,851</b>	<b>39,230</b>	<b>37,741</b>

**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**8 INVESTMENTS IN ASSOCIATES**

	2007 RMB million	2006 RMB million
<b>At 1 January</b>	6,071	
Acquisition of Guangdong Development Bank ( GDB ) (a)		5,671
Investment in China Life Property & Casualty Insurance Company Limited ( CLP&C ) (b)		400
Share of results	409	
Other equity movements (Note 31)	(30)	
<b>At 31 December</b>	<b>6,450</b>	<b>6,071</b>

(a) The Group acquired 20% of the share capital of GDB on 18 December 2006 for a cash consideration of RMB5,671 million.

(b) As approved by CIRC, the Company entered an agreement with CLIC to establish CLP&C with total paid-in capital of RMB1,000 million in 2006. The Company and CLIC own 40% and 60% of CLP&C, respectively. CLP&C obtained its business license and commenced operation on 30 December 2006.

The Group's share in investment in associates is as follows:

	Country of incorporation	Assets	Liabilities	Revenues	Profit/ (Loss)	Interest held
<i>(RMB million)</i>						
GDB	PRC	77,901	72,230	59		20%
CLP&C	PRC	400				40%
<b>Total at 31 December 2006</b>		<b>78,301</b>	<b>72,230</b>	<b>59</b>		
GDB	PRC	90,584	84,419	2,534	544	20%
CLP&C	PRC	641	356	81	(135)	40%
<b>Total at 31 December 2007</b>		<b>91,225</b>	<b>84,775</b>	<b>2,615</b>	<b>409</b>	

F-42

**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**9 FINANCIAL ASSETS****9.1 Held-to-maturity securities**

	Amortised cost RMB million	Gross unrealised gains RMB million	Gross unrealised losses RMB million	Estimated fair value RMB million
<b>As at 31 December 2007</b>				
<b>Debt securities</b>				
Government bonds	96,786	1,228	(1,780)	96,234
Government agency bonds	71,273	1,110	(4,303)	68,080
Corporate bonds	3,272	171	(40)	3,403
Subordinated bonds/debts	24,372	62	(562)	23,872
<b>Total</b>	<b>195,703</b>	<b>2,571</b>	<b>(6,685)</b>	<b>191,589</b>

	Amortised cost RMB million	Gross unrealised gains RMB million	Gross unrealised losses RMB million	Estimated fair value RMB million
<b>As at 31 December 2006</b>				
<b>Debt securities</b>				
Government bonds	94,999	7,791	(26)	102,764
Government agency bonds	53,935	2,642	(244)	56,333
Corporate bonds	3,257	296		3,553
Subordinated bonds/debts	24,368	1,282	(8)	25,642
<b>Total</b>	<b>176,559</b>	<b>12,011</b>	<b>(278)</b>	<b>188,292</b>

**Contractual maturity schedule**

	Amortised cost		Estimated fair value	
	As at 31 December 2007 RMB million	As at 31 December 2006 RMB million	As at 31 December 2007 RMB million	As at 31 December 2006 RMB million
<b>Maturing:</b>				
Within one year	2,896	2,974	2,921	3,008
After one year but within five years	50,059	51,483	50,861	54,345
After five years but within ten years	52,508	37,295	52,835	40,279

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After ten years	90,240	84,807	84,972	90,660
<b>Total</b>	<b>195,703</b>	<b>176,559</b>	<b>191,589</b>	<b>188,292</b>

F-43

**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**9 FINANCIAL ASSETS (continued)****9.2 Available-for-sale securities**

	Amortised cost/Cost RMB million	Gross unrealised gains RMB million	Gross unrealised losses RMB million	Estimated fair value RMB million
<b>As at 31 December 2007</b>				
<b>Debt securities</b>				
Government bonds	83,137	183	(2,732)	80,588
Government agency bonds	111,906	686	(5,438)	107,154
Corporate bonds	46,464	120	(2,842)	43,742
Subordinated bonds/debts	10,462	156	(720)	9,898
<b>Subtotal</b>	<b>251,969</b>	<b>1,145</b>	<b>(11,732)</b>	<b>241,382</b>
<b>Equity securities</b>				
Funds	37,513	23,328	(217)	60,624
Common stocks	51,714	64,115	(320)	115,509
<b>Subtotal</b>	<b>89,227</b>	<b>87,443</b>	<b>(537)</b>	<b>176,133</b>
<b>Total</b>	<b>341,196</b>	<b>88,588</b>	<b>(12,269)</b>	<b>417,515</b>

	Amortised cost/Cost RMB million	Gross unrealized gains RMB million	Gross unrealized losses RMB million	Estimated fair value RMB million
<b>As at 31 December 2006</b>				
<b>Debt securities</b>				
Government bonds	60,058	863	(569)	60,352
Government agency bonds	78,300	664	(243)	78,721
Corporate bonds	31,001	238	(487)	30,752
Subordinated bonds/debts	7,068	12	(37)	7,043
<b>Subtotal</b>	<b>176,427</b>	<b>1,777</b>	<b>(1,336)</b>	<b>176,868</b>

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<b>Equity securities</b>				
Funds	20,535	12,437	(103)	32,869
Common stocks	15,876	13,882	(33)	29,725
Warrants		1		1
<b>Subtotal</b>	<b>36,411</b>	<b>26,320</b>	<b>(136)</b>	<b>62,595</b>
<b>Total</b>	<b>212,838</b>	<b>28,097</b>	<b>(1,472)</b>	<b>239,463</b>

F-44

**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**9 FINANCIAL ASSETS (continued)****9.2 Available-for-sale securities (continued)**

Debt securities  contractual maturity schedule	Amortised cost		Estimated fair value	
	As at	As at	As at	As at
	31 December 2007 RMB million	31 December 2006 RMB million	31 December 2007 RMB million	31 December 2006 RMB million
Maturing:				
Within one year	616	4,544	612	4,561
After one year but within five years	23,139	26,664	22,672	27,016
After five years but within ten years	89,493	60,261	87,615	59,995
After ten years	138,721	84,958	130,483	85,296
<b>Total</b>	<b>251,969</b>	<b>176,427</b>	<b>241,382</b>	<b>176,868</b>

**9.3 Financial assets at fair value through income (held-for-trading)**

	As at	As at
	31 December 2007 RMB million	31 December 2006 RMB million
<b>Debt securities</b>		
Government bonds	693	148
Government agency bonds	4,583	1,915
Corporate bonds	513	2,083
Subordinated bonds/debts	307	325
<b>Subtotal</b>	<b>6,096</b>	<b>4,471</b>
<b>Equity securities</b>		
Funds	9,145	12,382
Common stocks	9,842	20,460
Warrants	27	56
<b>Subtotal</b>	<b>19,014</b>	<b>32,898</b>

**Total**

**25,110**

**37,369**

F-45



**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**9 FINANCIAL ASSETS (continued)****9.4 Listed and unlisted investments at carrying value**

	As at	As at
	31 December	31 December
	2007	2006
	RMB million	RMB million
<b>Listed debt securities in PRC</b>		
Government bonds	51,296	64,562
Corporate bonds	6,571	6,839
<b>Subtotal</b>	<b>57,867</b>	<b>71,401</b>
<b>Unlisted debt securities in PRC</b>		
Government bonds	126,771	90,937
Government agency bonds	183,010	134,571
Corporate bonds	40,956	29,253
Subordinated bonds/debts	34,577	31,736
<b>Subtotal</b>	<b>385,314</b>	<b>286,497</b>
<b>Listed equity securities in PRC</b>		
Common stocks		
listed in HK, PRC	8,476	6,884
listed in mainland, PRC	116,873	43,301
Funds listed in mainland, PRC	17,677	12,861
Warrants listed in mainland, PRC	27	57
<b>Subtotal</b>	<b>143,053</b>	<b>63,103</b>
<b>Unlisted equity securities in PRC</b>		
Funds	52,092	32,390
Common stocks	2	
<b>Subtotal</b>	<b>52,094</b>	<b>32,390</b>
<b>Total</b>	<b>638,328</b>	<b>453,391</b>

As at 31 December 2007, the amount of unlisted debt securities, traded in the inter-bank market, is RMB 323,058 million (as at 31 December 2006: RMB 260,289 million).

## 9.5 Term deposits

	As at	As at
	31 December	31 December
	2007	2006
	RMB million	RMB million
Maturing:		
Within one year	46,706	57,930
After one year but within five years	93,372	111,901
After five years but within ten years	26,434	3,421
After ten years	2,082	2,224
<b>Total</b>	<b>168,594</b>	<b>175,476</b>

Included in term deposits are structured deposits of RMB 4,346 million (31 December 2006: RMB4,646 million). The interest rate on these deposits fluctuates based on changes in interest rate indexes. The Group uses structured deposits primarily to enhance the returns on investments. Structured deposits are stated at amortised cost.

**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**9 FINANCIAL ASSETS (continued)****9.6 Statutory deposits restricted**

	As at	As at
	31 December	31 December
	2007	2006
	RMB million	RMB million
Contractually maturing:		
Within one year	5,353	
After one year but within five years	420	5,353
<b>Total</b>	<b>5,773</b>	<b>5,353</b>

Insurance companies in China are required to deposit an amount equal to 20% of their registered capital with banks designated by CIRC. These funds may not be used for any purpose, other than to pay off debts during a liquidation proceeding.

**9.7 Loans**

	As at	As at
	31 December	31 December
	2007	2006
	RMB million	RMB million
Policy loans	5,944	2,371
Other loans	1,200	
<b>Total</b>	<b>7,144</b>	<b>2,371</b>

  

	As at	As at
	31 December	31 December
	2007	2006
	RMB million	RMB million
Maturing:		
Within one year	5,944	2,371
After five years but within ten years	1,200	
<b>Total</b>	<b>7,144</b>	<b>2,371</b>

9.8 Securities purchased under agreements to resell

	As at 31 December 2007 RMB million	As at 31 December 2006 RMB million
Maturing:		
With 30 days	5,053	
<b>Total</b>	<b>5,053</b>	

F-47

**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**9 FINANCIAL ASSETS (continued)****9.9 Accrued investment income**

	As at 31 December	As at 31 December
	2007 RMB million	2006 RMB million
Bank deposits	3,700	3,259
Debt securities	6,014	5,008
Others	143	194
<b>Total</b>	<b>9,857</b>	<b>8,461</b>

	As at 31 December	As at 31 December
	2007 RMB million	2006 RMB million
Current	9,824	8,439
Non-current	33	22
<b>Total</b>	<b>9,857</b>	<b>8,461</b>

**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**10 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES**

The estimates and judgments to determine the fair value of financial assets are described in Note 3.3.

The fair value of long-term investment type insurance contracts and investment contracts are determined by using valuation techniques, with consideration of the surrender value before surrender charges that the Group is required to pay if such payment is immediately demanded by the holders of investment contracts.

The table below presents the estimated fair value and carrying value of financial assets and liabilities.

	Carrying value		Estimated fair value	
	As at	As at	As at	As at
	31 December	31 December	31 December	31 December
	2007	2006	2007	2006
	RMB million	RMB million	RMB million	RMB million
Debt securities	443,181	357,898	439,067	369,631
Equity securities	195,147	95,493	195,147	95,493
Term deposits (excluding structured deposits)	164,248	170,830	164,248	170,830
Structured deposits	4,346	4,646	4,281	4,419
Statutory deposits-restricted	5,773	5,353	5,773	5,353
Securities purchased under agreements to resell	5,053		5,053	
Loans	7,144	2,371	7,144	2,371
Cash and cash equivalents	25,317	50,213	25,317	50,213
Long-term investment type insurance contracts (excluding universal life insurance contracts)	(282,645)	(282,520)	(271,523)	(276,129)
Investment contracts with DPF	(49,068)	(45,998)	(39,551)	(39,575)
Investment contracts without DPF	(2,234)	(2,614)	(2,315)	(2,459)
Securities sold under agreements to repurchase	(100)	(8,227)	(100)	(8,227)

**11 PREMIUMS RECEIVABLES**

The aging of premiums receivables is within 12 months.

**12 REINSURANCE ASSETS**

As at

As at

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	31 December	31 December
	2007	2006
	RMB million	RMB million
Claims recoverable from reinsurers (Note 14)	24	15
Ceded unearned premiums (Note 14)	45	60
Long-term traditional insurance contracts ceded (Note 14)	707	704
Due from reinsurance companies	190	207
<b>Total</b>	<b>966</b>	<b>986</b>

F-49

**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**12 REINSURANCE ASSETS (continued)**

	As at	As at
	31 December	31 December
	2007	2006
	RMB million	RMB million
Current	259	282
Non-current	707	704
<b>Total</b>	<b>966</b>	<b>986</b>

**13 OTHER ASSETS**

	As at	As at
	31 December	31 December
	2007	2006
	RMB million	RMB million
Due from CLIC (Note 29(c))	739	996
Deposits on fund units pending issuance/receivable on funds redeemed	500	135
Advances	206	102
Others	937	979
<b>Total</b>	<b>2,382</b>	<b>2,212</b>

	As at	As at
	31 December	31 December
	2007	2006
	RMB million	RMB million
Current	2,297	1,650
Non-current	85	562
<b>Total</b>	<b>2,382</b>	<b>2,212</b>

**14 INSURANCE CONTRACTS****(a) Process used to decide on assumptions**



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(i) Investment return assumptions are based on estimates of future yields on the Group's investments. In determining interest rate assumptions, the Group considers expectations about future economic conditions and company's investment strategy. The assumed rate of investment return and provision for adverse deviation used for the past five years are as follows:

<b>Year of policy issue</b>	<b>Interest rate assumptions</b>	<b>Provision for adverse deviation</b>
2003	3.65% - 5.00%	0.25% - 0.50%
2004	3.70% - 5.17%	0.25% - 0.50%
2005	4.00% - 5.20%	0.25% - 0.50%
2006	4.60% - 5.40%	0.25% - 0.60%
2007	5.50%	0.50%

F-50

**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**14 INSURANCE CONTRACTS (continued)**  
**(a) Process used to decide on assumptions (continued)**

(ii) Estimates are made for mortality and morbidity rates in each of the years that the Group is exposed to risk. The assumed mortality rates and morbidity rates, varying by age of the insured and contract type, are based upon expected experience at the date of contract issue plus, where applicable, a margin for adverse deviation.

The Group bases its mortality assumptions on China Life Insurance Mortality Table (1990-1993) and China Life Insurance Mortality Table (2000-2003), adjusted where appropriate to reflect the Group's recent historical mortality experience. Appropriate but not excessively prudent allowance is made for future mortality improvement on contracts that insure the risk of longevity, such as annuities. The main source of uncertainty with life insurance contracts is that epidemics such as Avian Flu, AIDS, SARS and wide-ranging lifestyle changes could result in deterioration in future mortality experience, thus leading to an inadequate liability. Similarly, continuing advancements in medical care and social conditions could result in improvements in longevity that exceed those allowed for in the estimates used to determine the liability for contracts where the Group is exposed to longevity risk.

The Group bases its morbidity assumptions for critical illness products on Taiwanese experience in the critical illness market, as the best proxy for the China's market adjusted where appropriate to reflect the Group's recent historical and projected future experience. There are two main sources of uncertainty. First, wide-ranging lifestyle changes could result in future deterioration in morbidity experience. Second, future development of medical technologies and improved coverage of medical facilities available to policyholders may bring forward the timing of diagnosing critical illness, which demands earlier payment of the critical illness benefits. Both could ultimately result in an inadequate liability if current morbidity assumptions do not properly reflect such secular trends.

(iii) The assumption for policy administration expenses has been based on expected unit costs plus, where applicable, a margin for adverse deviation. Unit costs have been based on an analysis of actual experience. The unit cost factors are expressed on both a per-policy and a percent-of-premium basis for the past five years, as follows:

Year of policy issue	Individual Life		Group Life	
	RMB Per Policy	% of Premium	RMB Per Policy	% of Premium
2003	12.5	1.75%	12.5	1.75%
2004	10.0 - 17.5	1.65% - 2.55%	17.5	1.65%
2005	14.5 - 19.5	1.50% - 1.80%	4.0	1.30%
2006	15.0 - 22.0	1.60% - 1.85%	6.5	1.50%
2007	15.0 - 22.0	1.60% - 1.85%	6.5	1.50%

(iv) Lapse rates and other assumptions are determined with reference to past experience where creditable, current conditions and future expectations.

The Group did not change its process used to decide on assumptions for the insurance contracts disclosed in this note.

**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**14 INSURANCE CONTRACTS (continued)****(b) Net liabilities of insurance contracts and investment contracts**

	As at 31 December	As at 31 December
	2007 RMB million	2006 RMB million
<b>Gross</b>		
Long-term traditional insurance contracts	218,165	172,875
Long-term investment type insurance contracts	284,588	282,672
Short-term insurance contracts		
claims and claim adjustment expenses	2,391	2,498
unearned premiums	5,728	5,346
Investment contracts		
with DPF	49,068	45,998
without DPF	2,234	2,614
<b>Total, gross</b>	<b>562,174</b>	<b>512,003</b>
<b>Recoverable from reinsurers</b>		
Long-term traditional insurance contracts (Note 12)	(707)	(704)
Short-term insurance contracts		
claims and claim adjustment expenses (Note 12)	(24)	(15)
unearned premiums (Note 12)	(45)	(60)
<b>Total, ceded</b>	<b>(776)</b>	<b>(779)</b>
<b>Net</b>		
Long-term traditional insurance contracts	217,458	172,171
Long-term investment type insurance contracts	284,588	282,672
Short-term insurance contracts		
claims and claim adjustment expenses	2,367	2,483
unearned premiums	5,683	5,286
Investment contracts		
with DPF	49,068	45,998
without DPF	2,234	2,614
<b>Total, net</b>	<b>561,398</b>	<b>511,224</b>

**(c) Claims incurred ratio**

	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<b>RMB million</b>	<b>RMB million</b>	<b>RMB million</b>
Claims incurred-net	6,343	6,999	6,847
Claims incurred ratio	55%	66%	68%

F-52

**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**14 INSURANCE CONTRACTS (continued)****(d) Movements in liabilities of short-term insurance contracts**

The table below presents movement of reserves of claims and claim adjustment expenses:

	2007 RMB million	2006 RMB million
Notified claims	487	638
Incurred but not reported	2,011	1,146
<b>Total as at 1 January Gross</b>	<b>2,498</b>	<b>1,784</b>
Cash paid for claims settled in year		
Cash paid for current year claims	(4,750)	(4,346)
Cash paid for prior year claims	(1,790)	(2,149)
Claims incurred in year		
Claims arising in current year	7,082	6,771
Claims arising in prior year	(649)	438
<b>Total as at 31 December Gross</b>	<b>2,391</b>	<b>2,498</b>
Notified claims	368	487
Incurred but not reported	2,023	2,011
<b>Total as at 31 December Gross</b>	<b>2,391</b>	<b>2,498</b>

The table below presents movement of unearned premium reserves:

	2007 RMB million			2006 RMB million		
	Gross	Ceded	Net	Gross	Ceded	Net
<b>At as 1 January</b>	5,346	(60)	5,286	5,147	(291)	4,856
Increase in the period	5,728	(45)	5,683	5,346	(60)	5,286
Release in the period	(5,346)	60	(5,286)	(5,147)	291	(4,856)
<b>At as 31 December</b>	<b>5,728</b>	<b>(45)</b>	<b>5,683</b>	<b>5,346</b>	<b>(60)</b>	<b>5,286</b>

**(e) Movements in liabilities for long-term traditional insurance contracts**

The table below presents movement in the liabilities of long-term traditional insurance contracts:

	2007	2006
	RMB million	RMB million
<b>As at 1 January</b>	172,875	124,656
Valuation premiums	57,979	54,764
Liabilities released for death or other termination and related expenses	(20,598)	(13,169)
Accretion of interest	7,511	5,634
Other movements	398	990
<b>As at 31 December</b>	<b>218,165</b>	<b>172,875</b>

Valuation premiums are the premiums that would be required to meet the benefits and administration expenses based on the valuation assumptions used.

**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**14 INSURANCE CONTRACTS (continued)****(f) Movements in liabilities of long-term investment type insurance contracts**

The table below presents movement in the liabilities of long-term investment type insurance contracts:

	2007 RMB million	2006 RMB million
<b>As at 1 January</b>	282,672	237,001
Deposits received	72,516	70,472
Deposits withdrawn and paid on death and other benefits	(70,690)	(24,667)
Fees deducted from account balances	(7,091)	(6,520)
Interest credited	7,181	6,386
<b>As at 31 December</b>	<b>284,588</b>	<b>282,672</b>

**15 DEFERRED INCOME**

The table below presents movement of deferred income:

	2007 RMB million	2006 RMB million
<b>As at 1 January</b>	41,371	34,631
Income deferred	21,867	18,234
Amortisation charged through income	(12,011)	(6,620)
Amortisation charged through equity	(2,919)	(4,874)
<b>As at 31 December</b>	<b>48,308</b>	<b>41,371</b>
Deferred income excluding unrealised gains	56,586	46,730
Deferred income recognized in unrealised gains	(8,278)	(5,359)
<b>Total deferred income</b>	<b>48,308</b>	<b>41,371</b>

**16 LIABILITIES OF INVESTMENT CONTRACTS**

The table below presents movement of investment contracts:

	2007	2006
	RMB million	RMB million
<b>As at 1 January</b>	48,612	44,102
Deposits received	21,711	20,969
Deposits withdrawn and paid on death and other benefits	(19,559)	(16,878)
Policy fees deducted from account balances	(600)	(577)
Interest credited	1,138	996
<b>As at 31 December</b>	<b>51,302</b>	<b>48,612</b>
<b>Investment contracts</b>		
with DPF	49,068	45,998
without DPF	2,234	2,614
<b>Total</b>	<b>51,302</b>	<b>48,612</b>

F-54



**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**17 SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE**

	As at	As at
	31 December	31 December
	2007	2006
	RMB million	RMB million
Maturing:		
Within thirty days	100	8,202
After thirty but within ninety days		25
<b>Total</b>	<b>100</b>	<b>8,227</b>

The carrying values of debt securities pledged as collateral are as follows:

	As at	As at
	31 December	31 December
	2007	2006
	RMB million	RMB million
Debt securities pledged	99	8,351
<b>Total</b>	<b>99</b>	<b>8,351</b>

**18 OTHER LIABILITIES**

	As at	As at
	31 December	31 December
	2007	2006
	RMB million	RMB million
Salary and staff welfare payable	1,973	1,805
Commission and brokerage payable	1,134	1,025
Agent deposits	602	554
Tax payable	739	299
Payable to constructors	293	249
Stock appreciation rights(Note 27)	1,290	444
Others	2,839	957
<b>Total</b>	<b>8,870</b>	<b>5,333</b>

	As at	As at
	31 December 2007	31 December 2006
	RMB million	RMB million
Current	8,870	5,248
Non-current		85
<b>Total</b>	<b>8,870</b>	<b>5,333</b>

## 19 STATUTORY INSURANCE FUND

As required by CIRC Order [2004] No. 16, all insurance companies have to pay statutory insurance fund contribution to the CIRC. The Group is subject to statutory insurance fund contribution at 1%, 0.15% and 0.05% of net premium from accident and short-term health policies, long-term life policies with guaranteed return and long-term health policies and long-term life policies without guaranteed return, respectively. When the accumulated statutory insurance fund contributions reach 1% of the Group's total assets, no additional contribution to the statutory insurance fund contribution is required.

**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**20 NET INVESTMENT INCOME**

	For the year ended 31 December		
	2007	2006	2005
	RMB million	RMB million	RMB million
Debt securities	16,678	12,384	8,429
held-to-maturity securities	8,305	7,341	5,645
available-for-sale securities	7,881	4,825	2,724
at fair value through income (held-for-trading)	492	218	60
Equity securities	19,400	4,662	494
available-for-sale securities	15,728	3,591	316
at fair value through income (held-for-trading)	3,672	1,071	178
Bank deposits	9,094	8,207	7,903
Loans	248	80	22
Securities purchased under agreements to resell	206	23	3
Other	2		
<b>Subtotal</b>	<b>45,628</b>	<b>25,356</b>	<b>16,851</b>
Securities sold under agreements to repurchase	(1,281)	(270)	(70)
Investment expenses	(327)	(144)	(96)
<b>Total</b>	<b>44,020</b>	<b>24,942</b>	<b>16,685</b>

The interest income of impaired assets for the year ended as at 31 December 2007 is RMB463 million (2006: Nil, 2005: Nil).

**21 NET REALISED GAINS/(LOSSES) ON FINANCIAL ASSETS**

	For the year ended 31 December		
	2007	2006	2005
	RMB million	RMB million	RMB million
Debt securities			
Gross realised gains	388	20	158
Gross realised losses	(1,256)	(26)	(5)
Impairments	(3,403)		(92)
<b>Subtotal</b>	<b>(4,271)</b>	<b>(6)</b>	<b>61</b>
Equity securities			
Gross realised gains	19,868	1,601	143
Gross realised losses	(212)		(63)
Impairments			(651)

<b>Subtotal</b>	<b>19,656</b>	<b>1,601</b>	<b>(571)</b>
<b>Total</b>	<b>15,385</b>	<b>1,595</b>	<b>(510)</b>

F-56

**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**21 NET REALISED GAINS/(LOSSES) ON FINANCIAL ASSETS (continued)**

The proceeds from sales and maturities of available-for-sale securities and the gross realised gains/ (losses) for the years ended 31 December 2007, 2006 and 2005 were as follows:

	2007 RMB million	2006 RMB million	2005 RMB million
Proceeds from sales of available-for-sale securities	79,287	49,902	59,806
Gross realised gains	20,256	1,621	301
Gross realised losses	(1,468)	(26)	(68)

**22 NET FAIR VALUE GAINS ON ASSETS AT FAIR VALUE THROUGH INCOME (HELD-FOR-TRADING)**

	For the year ended 31 December		
	2007 RMB million	2006 RMB million	2005 RMB million
Debt securities	366	305	88
Equity securities	18,477	19,739	172
<b>Total</b>	<b>18,843</b>	<b>20,044</b>	<b>260</b>

**23 INSURANCE BENEFITS AND CLAIMS**

	Gross RMB million	Ceded RMB million	Net RMB million
<b>For the year ended 31 December 2007</b>			
Life insurance death and other benefits	17,444	(14)	17,430
Accident and health claims and claim adjustment expenses	6,433	(90)	6,343
Increase in long-term traditional insurance contracts	45,337	(3)	45,334
Interest credited to long-term investment type insurance contracts	7,181		7,181
<b>Total insurance benefits and claims</b>	<b>76,395</b>	<b>(107)</b>	<b>76,288</b>
<b>For the year ended 31 December 2006</b>			
Life insurance death and other benefits	10,814	(17)	10,797
Accident and health claims and claim adjustment expenses	7,209	(210)	6,999

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Increase in long-term traditional insurance contracts	44,264	(26)	44,238
Interest credited to long-term investment type insurance contracts	6,386		6,386
<b>Total insurance benefits and claims</b>	<b>68,673</b>	<b>(253)</b>	<b>68,420</b>
<b>For the year ended 31 December 2005</b>			
Life insurance death and other benefits	8,320	(9)	8,311
Accident and health claims and claim adjustment expenses	7,506	(659)	6,847
Increase in long-term traditional insurance contracts	34,114	(137)	33,977
Interest credited to long-term investment type insurance contracts	4,894		4,894
<b>Total insurance benefits and claims</b>	<b>54,834</b>	<b>(805)</b>	<b>54,029</b>

F-57

**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**24 NET PROFIT BEFORE INCOME TAX EXPENSES**

Net profit before income tax expenses is stated after charging the following:

	For the year ended 31 December		
	2007	2006	2005
	RMB million	RMB million	RMB million
Employ salary and welfare cost	5,766	4,197	3,118
Housing benefits	272	256	251
Contribution to the defined contribution pension plan	575	358	342
Depreciation	1,020	848	884
Loss on disposal of property, plant and equipment			7
Exchange loss	1,032	639	639

**25 TAXATION**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax relate to the same fiscal authority.

- (a) The amount of taxation charged to the consolidated income statement represents:

	For the year ended 31 December		
	2007	2006	2005
	RMB million	RMB million	RMB million
Current taxation-enterprises income tax	8,730	858	772
Deferred taxation	(2,399)	4,696	1,373
Taxation charges	6,331	5,554	2,145

- (b) The reconciliation between the Group's effective tax rate and the statutory tax rate of 33% in the PRC is as follows:

		For the year ended 31 December		
		2007	2006	2005
		RMB million	RMB million	RMB million
Net profit before income tax expenses		45,391	25,605	11,510
Tax computed at the statutory tax rate of 33%		14,979	8,450	3,798
Non-taxable income	(i)	(6,802)	(3,250)	(1,763)
Additional tax liability from expenses not deductible for tax purposes	(i)	1,310	354	110

Effect on change in statutory tax rate	(ii)	(3,156)		
Income taxes at effective tax rate		6,331	5,554	2,145

(i) Non-taxable income mainly includes interest income from government bonds and fund distribution. Expenses not deductible for tax purposes mainly include salary, commission, brokerage and donation expenses in excess of deductible amounts as allowed by relevant tax regulations.

(ii) On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the new CIT Law). The new CIT Law reduces the domestic corporate income tax rate from 33% to 25% with effect from 1 January 2008.



**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**25 TAXATION (continued)**

(c) As at 31 December 2007, deferred income taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 25% (as at 31 December 2006:33%).

The movement on the deferred income tax liabilities account is as follows:

	2007 RMB million	2006 RMB million
As at 1 January	19,022	7,982
Deferred taxation charged to income statement	(2,399)	4,696
Deferred taxation charged to equity	8,163	6,344
<b>As at 31 December</b>	<b>24,786</b>	<b>19,022</b>

(d) The movement in deferred tax assets and liabilities during the year is as follows:

Deferred tax	Long-term insurance contracts and investment		Short-term insurance	Investments RMB million	DAC RMB million	Others RMB million	Total RMB million
	contracts RMB million	contracts RMB million					
As at 1 January 2006	3,615	158		389	(12,454)	310	(7,982)
(Charged)/credited to income statement	1,900	500		(5,097)	(1,865)	(134)	(4,696)
(Charged)/credited to equity	536			(8,255)	1,375		(6,344)
<b>As at 31 December 2006</b>	<b>6,051</b>	<b>658</b>		<b>(12,963)</b>	<b>(12,944)</b>	<b>176</b>	<b>(19,022)</b>
As at 1 January 2007	6,051	658		(12,963)	(12,944)	176	(19,022)
(Charged)/credited to income statement	(5,247)	(304)		5,238	2,502	210	2,399
(Charged)/credited to equity	1,902			(10,295)	230		(8,163)
<b>As at 31 December 2007</b>	<b>2,706</b>	<b>354</b>		<b>(18,020)</b>	<b>(10,212)</b>	<b>386</b>	<b>(24,786)</b>

	As at 31 December	
	2007	2006
	RMB million	RMB million
Deferred tax assets:		
deferred tax asset to be recovered after more than 12 months	8,042	8,094
deferred tax asset to be recovered within 12 months	1,027	1,405
<b>Subtotal</b>	<b>9,069</b>	<b>9,499</b>
Deferred tax liabilities:		
deferred tax liability to be settled after more than 12 months	(33,504)	(28,169)
deferred tax liability to be settled within 12 months	(351)	(352)
<b>Subtotal</b>	<b>(33,855)</b>	<b>(28,521)</b>
<b>Total net deferred income tax liabilities</b>	<b>(24,786)</b>	<b>(19,022)</b>

F-59

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**Table of Contents**

**CHINA LIFE INSURANCE COMPANY LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**26 EARNINGS PER SHARE**

There is no difference between basic and diluted earnings per share. The basic and diluted earnings per share for the year ended 31 December 2007 are based on the weighted average number of 28,264,705,000 ordinary shares (for the year ended 31 December 2006: 26,777,033,767).

**27 STOCK APPRECIATION RIGHTS**

Stock appreciation rights have been awarded in units, with each unit representing the value of one H share. No shares of common stock will be issued under the stock appreciation rights plan. According to the Company's plan, all stock appreciation rights will have an exercise period of five years from date of award and will not be exercisable before the fourth anniversary of the date of award unless specified market or other conditions have been met. The exercise price of stock appreciation rights will be the average closing price of the shares in the five trading days prior to the date of the award. Upon the exercise of stock appreciation rights, exercising recipients will receive payments in RMB, subject to any withholding tax, equal to the number of stock appreciation rights exercised times the difference between the exercise price and market price of the H shares at the time of exercise.

The Board of Directors of the Company approved, on 5 January 2006, an award of stock appreciation rights of 4.05 million units and on 21 August 2006, another award of stock appreciation rights of 53.22 million units to eligible employees. The exercise prices of the two awards were HK\$5.33 and HK\$6.83, respectively, the average closing price of shares in the five trading days prior to 1 July 2005 and 1 January 2006, the dates for vesting and exercise price setting purposes of this award. No unit of the stock appreciation rights was exercised, forfeited or expired in 2007. As at 31 December 2007, there are 55.71 million units outstanding (as at 31 December 2006: 55.71 million) and 36.62 million units exercisable (as at 31 December 2006: 17.05 million). As at 31 December 2007, the amount of intrinsic value for the vested stock appreciation rights is RMB 1,152 million (as at 31 December 2006: RMB 356 million).

The fair value of the stock appreciation rights is estimated on the date of valuation using lattice-based option valuation models based on expected volatility from 37% to 47%, an expected dividend yield of no higher than 0.5% and risk-free interest rates from 1.8% to 1.9%.

As at 31 December 2007, the Company recognized compensation cost of RMB 846 million (as at 31 December 2006: RMB 444 million) which was included in administrative expenses. RMB 1,277 million and RMB 13 million were included in other liabilities (Note 18) for the units not exercised and exercised but not paid as at 31 December 2007 (as at 31 December 2006: RMB 431 million and RMB 13 million respectively). The unrecognized compensation cost of outstanding units is approximately RMB 471 million as at 31 December 2007 (as at 31 December 2006: RMB 761 million), which is expected to be recognized within the next year (as at 31 December 2006: within the next 2 years).

On 12 June 2007, another award of stock appreciation rights was approved by the Board of Directors of the Company. The exercise price of the award was HK\$25.71, the average closing price of shares in the five trading days prior to 1 January 2007. As at 31 December 2007, the stock appreciation rights had not been granted.

**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**28 DIVIDENDS**

Pursuant to the shareholders' approval at the Annual General Meeting in June 2007, a final dividend of RMB 0.14 per ordinary share totalling RMB 3,957 million in respect of the year ended 31 December 2006 was declared and was paid in July 2007. These dividends have been recorded in the consolidated financial statements for the year ended 31 December 2007.

Pursuant to a resolution passed at the meeting of the Board of Directors on 25 March 2008, a final dividend of RMB 0.42 per ordinary share totalling approximately RMB 11,871 million for the year ended 31 December 2007 was proposed for shareholders' approval at the Annual General Meeting. The dividend has not been provided in the consolidated financial statements for the year ended 31 December 2007.

**29 SIGNIFICANT RELATED PARTY TRANSACTIONS****(a) Related parties**

Related parties are those parties which have the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. The table set forth below summarises the names of significant related parties and nature of relationship with the Company as at 31 December 2007:

<b>Significant related party</b>	<b>Relationship with the Company</b>
China Life Insurance (Group) Company ( CLIC )	The ultimate holding company
China Life Insurance Asset Management Company Limited ( AMC )	A subsidiary of the Company
Guangdong Development Bank ( GDB )	An associate of the Company
China Life Property & Casualty Insurance Company Limited ( CLP&C )	An associate of the Company
China Life Pension Company Limited ( Pension Company )	A subsidiary of the Company
Beijing Zhongbaoxin Real Estate Development Co., Limited ( Zhongbaoxin )	A subsidiary of a subsidiary of the ultimate holding company
China Life Insurance (Overseas) Co., Limited. ( China Life Overseas )	Under common control of the ultimate holding company
China Life Franklin Asset Management Co., Limited ( AMC HK )	A subsidiary of a subsidiary of the Company

**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**29 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)****(b) Transactions with significant related parties**

The following table summarises significant transactions carried out by the Group with its significant related parties for the year ended 31 December 2007.

	Note	For the year ended 31 December		
		2007 RMB million	2006 RMB million	2005 RMB million
<b>Transactions with CLIC and its subsidiaries</b>				
Policy management fee income earned from CLIC	(i)	1,426	1,555	1,567
Asset management fee earned from CLIC	(ii)	104	84	84
Rewards from CLIC for non-transferred policies	(iii)	70	177	
Non-performing assets management fee earned from CLIC				11
Dividends to CLIC		2,705	966	
Property, plant and equipment purchased from CLIC	(iv)	495		
Property leasing expense charged by CLIC	(v)	66	168	335
Dividends to CLIC from AMC		42		
Pre-operating salary expenses paid on behalf of Pension Company by CLIC		9		
Asset management fee earned from China Life Overseas	(ii)	15		
Asset management fee earned from CLP&C	(ii)	4		
Property insurance payments to CLP&C		24		
Rentals, deposits and project payments to Zhongbaoxin	(vi)	16	36	
<b>Transaction with AMC</b>				
Asset management fee expense charged to the Company by AMC	(ii)	390	283	239
Asset management fee expense charged to Pension Company by AMC	(ii)	2		
Dividends to the Company		62		
<b>Transaction with Pension Company</b>				
Pre-operating salary expenses paid on behalf of Pension Company		8		
<b>Transaction with GDB</b>				
Brokerage fee charged by GDB	(vii)	7		
Interest income earned from GDB		140		

Notes:

(i) As part of the restructuring, CLIC transferred its entire branch services network to the Company. CLIC and the Company have entered into an agreement to engage the Company to provide policy administration services to CLIC relating to the non-transferred policies. The Company, as a service provider, does not acquire any rights or assume any obligations as an insurer under the non-transferred policies. In consideration of the services provided under the agreement, CLIC will pay the Company a service fee based on the estimated cost of providing the services, to which a profit margin is added. The service fee is equal to, for each semi-annual payment period, the sum of (1) the number of non-transferred policies in force that were within their policy term as at the last day of the period, multiplied by RMB 8.00 per policy and (2) 2.50% of the actual premiums and deposits in respect of such policies collected during the period. The policy management fee income is included in other income in consolidated income statement.



**Table of Contents**

**CHINA LIFE INSURANCE COMPANY LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**29 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)**

**(b) Transactions with significant related parties (continued)**

*Notes (continued):*

(ii) CLIC and the AMC have entered into an agreement, whereby CLIC agreed to pay the AMC a service fee at the rate of 0.05% per annum. The service fee is calculated and payable on a monthly basis, by multiplying the average of balance of book value of the assets under management (after deducting the funds obtained and interests accrued from repurchase transactions) at the beginning and at the end of any given month by the rate of 0.05%, divided by 12. Such rate was determined with reference to the applicable management fee rate pre-determined for each specified category of assets managed by the AMC to arrive at a comprehensive service fee rate.

The Company and the AMC have entered into a separate agreement, whereby the Company agreed to pay the AMC a fixed service fee and a variable service fee. The fixed service fee is payable monthly and is calculated with reference to the net asset value of the assets in each specified category managed by the AMC and the applicable management fee rates pre-determined by the parties on an arm's length basis. The variable service fee equals to 10% of the fixed service fee per annum payable annually. The service fees were determined by the Company and the AMC based on an analysis of the cost of service, market practice and the size and composition of the asset pool to be managed.

Although the description of the service fee rates under the two agreements are different, the ultimate comprehensive service fee rate calculated under each of these two agreements is basically the same.

In March 2007, P&C and the AMC have entered into an agreement, whereby CLP&C agreed to pay the AMC a fixed service fee and a variable service fee. The fixed service fee is payable monthly and the service fee is calculated and payable on a monthly basis, by multiplying the average of balance of book value of the assets under management at the beginning and at the end of any given month by the rate of 0.2%, divided by 12. The variable service fee equals to 10% of the excess return per annum payable annually.

In September 2007, China Life Overseas and the AMC HK have entered into an agreement, whereby China Life Overseas agreed to pay the AMC HK a management service fee at a basis rate and calculated based on actual net investment return yield.

In April 2007, Pension Company and the AMC have entered into an agreement, whereby Pension Company agreed to pay the AMC a fixed service fee and a bonus for excess return per annum. The fixed service fee is calculated and payable on a monthly basis, by multiplying the average of balance of book value of the assets under management at the beginning and at the end of any given month by the rate of 0.05%, divided by 12. The bonus equals to 10% of the excess return per annum payable annually.

The asset management fee charged to the Company and Pension Company by AMC is eliminated through the consolidated income statement.

(iii) The Company assisted CLIC to mitigate business risk arising from non-transferred policies, and received in 2007 a fee income of RMB 70 million (2006: RMB 177 million) from CLIC as the reward for such non-transferrable policies.

(iv) On 4 January 2007, the Company and CLIC entered into an agreement on purchasing part of CLIC's buildings, construction in progress, rights to the use of the land, motor vehicles and equipments etc. The purchase price was based on the valuation of China Enterprise Appraisals' assets appraisal report issued on 8 December 2006, which totalling RMB 488 million. On 28 September 2007, the Company and CLIC established a supplementary agreement on the above business under the same purchase price. The purchase price was based on the valuation of China Enterprise Appraisals' assets appraisal report issued on 8 December 2006, which totalling RMB 21 million.



**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**29 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)****(b) Transactions with significant related parties (continued)***Notes (continued):*

(v) The Company has entered into a property leasing agreement with CLIC, pursuant to which CLIC agreed to lease to the Company some of its owned and leased buildings. The annual rent payable by the Company to CLIC in relation to the CLIC owned properties is determined by reference to market rent or, the costs incurred by CLIC in holding and maintaining the properties, plus a margin of approximately 5%. The annual rent payable by the Company to CLIC in relation to the CLIC leased properties is determined by reference to the rent payable under the head lease plus the actual costs incurred by CLIC arising in connection with the subletting of the properties. The Company has directly paid the relevant rental expenses raised from CLIC leased properties to the third-party instead of CLIC.

(vi) The Group made certain project payments to third parties through Zhongbaoxin and paid other miscellaneous expenditures mainly comprised of rentals and deposits to Zhongbaoxin.

(vii) On 29 April 2007, the Company and GDB entered into a five year individual bank insurance agency agreement. All insurance products suitable for delivery through bank channels are involved in the agreement. GDB will provide services, including selling insurance products, receiving premiums, paying benefits. The company has agreed to pay commission fees as follows: 1) A monthly service fee, calculated on a monthly basis, by multiplying total premium received and a fixed commission rate. 2) A monthly commission fee, calculated on a monthly basis, by multiplying number of policy being handled and fixed commission rate which is not more than RMB 1 per policy, where GDB handles premiums receipts and benefits payments.

**(c) Amounts due from / to significant related parties**

The following table summarises the resulting balance due from and to significant related parties. The balance is non-interest bearing, unsecured and has no fixed repayment terms except for the deposits in GDB.

	As at	As at
	31 December 2007	31 December 2006
	RMB million	RMB million
Amount due from CLIC (Note 13)	739	996
Amount due to CLIC	(40)	(3)
Amount due from China Life Overseas	13	
Amount due from CLP&C	5	
Amount due from Zhongbaoxin	1	1
Amount due to Zhongbaoxin	(5)	

**(d) Key management compensation**

	For the year ended 31 December		
	2007	2006	2005
	RMB million	RMB million	RMB million
Salaries and other short-term employee benefits	27	17	9
Termination benefits			
Post-employment benefits			
Other long-term benefits			
<b>Total</b>	<b>27</b>	<b>17</b>	<b>9</b>

F-64

**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**29 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)****(e) Transactions with state-owned enterprises**

Under HKAS 24, business transactions between state-owned enterprises controlled by the PRC government are within the scope of related party transactions. CLIC, the ultimate holding company of the Group, is a state-owned enterprise. The Group's key business and therefore the business transactions with other state-owned enterprises are primarily related to insurance and investment activities. The related party transactions with other state-owned enterprises were conducted in the ordinary course of business. Due to the complex ownership structure, the PRC government may hold indirect interests in many companies. Some of these interests may, in themselves or when combined with other indirect interests, be controlling interests which may not be known to the Group. Nevertheless, the Group believes that the following captures the material related parties.

As at 31 December 2007, more than 68% (as at 31 December 2006: more than 70%) of bank deposits were with state-owned banks; approximately 96% (as at 31 December 2006: approximately 95%) of the issuers of corporate bonds and subordinated bonds held by the Group were state-owned enterprises. For the year ended 31 December 2007, more than 74% (for the year ended 31 December 2006: more than 71%) of the group insurance business of the Group were with state-owned enterprises; approximately 83% (for the year ended 31 December 2006: approximately 89%) of bank assurance brokerage charges of RMB 2,085 million (for the year ended 31 December 2006: RMB 1,989 million) were paid to state-owned banks and post office; almost all of the reinsurance agreements of the Group are entered into with a state-owned reinsurance company; more than 68% (for the year ended 31 December 2006: more than 70%) of bank deposit interest income were from state-owned banks.

**30 SHARE CAPITAL**

	As at 31 December 2007		As at 31 December 2006	
	No. of shares	RMB million	No. of shares	RMB million
Registered, authorized, issued and fully paid Ordinary shares of RMB 1 each	28,264,705,000	28,265	28,264,705,000	28,265

As at 31 December 2007, the Company's share capital is as follows:

	As at 31 December 2007	
	No. of shares	RMB million
Owned by CLIC	19,323,530,000	19,324
Owned by other shareholders	8,941,175,000	8,941
Including: Domestic listed	1,500,000,000	1,500
Overseas listed	7,441,175,000	7,441
<b>Total</b>	<b>28,264,705,000</b>	<b>28,265</b>

Overseas listed shares are traded on the Stock Exchange of Hong Kong and the New York Stock Exchange. 600,000,000 shares of the domestic listed shares may only be traded on the Shanghai Stock Exchange since 9 January 2008. The shares owned by CLIC are not transferable until 11 January 2010.



**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**31 RESERVES**

	Additional paid in capital RMB million	Unrealised gains/(losses) RMB million	Reserve fund RMB million (a)	General reserve RMB million (b)	Total RMB million
As at 1 January 2005	34,776	(3,855)	652		31,573
Unrealised gains					
arising from available-for-sale securities					
during the period		7,427			7,427
reclassification adjustment for gains					
included in income statement		(153)			(153)
impact from available-for-sale securities on					
other assets and liabilities		(495)			(495)
Subtotal		6,779			6,779
tax on unrealised gains		(2,237)			(2,237)
Appropriation to reserve			1,110		1,110
Change in the year		4,542	1,110		5,652
<b>As at 31 December 2005</b>	<b>34,776</b>	<b>687</b>	<b>1,762</b>		<b>37,225</b>
Issue of shares	26,820				26,820
Share issue expenses	(510)				(510)
Unrealised gains					
arising from available-for-sale securities					
during the period		25,093			25,093
reclassification adjustment for gains					
included in income statement		(115)			(115)
impact from available-for-sale securities on					
other assets and liabilities		(5,785)			(5,785)
Subtotal		19,193			19,193
tax on unrealised gains		(6,334)			(6,334)
Appropriation to reserve			974		974
Change in the year	26,310	12,859	974		40,143
<b>As at 31 December 2006</b>	<b>61,086</b>	<b>13,546</b>	<b>2,736</b>		<b>77,368</b>
Unrealised gains					
arising from available-for-sale securities					
during the period		64,328			64,328
reclassification adjustment for gains					
included in income statement		(14,658)			(14,658)

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impact from available-for-sale securities on other assets and liabilities	(10,568)			(10,568)
Subtotal	39,102			39,102
tax on unrealised gains arising from share of results of associates	(8,159)			(8,159)
	(30)			(30)
Appropriation to reserve		3,752	2,792	6,544
Change in the year	30,913	3,752	2,792	37,457
<b>As at 31 December 2007</b>	<b>61,086</b>	<b>44,459</b>	<b>6,488</b>	<b>114,825</b>

F-66

**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**31 RESERVES (continued)**

(a) Under relevant PRC law, the Company is required to transfer 10% of its net profit to statutory reserve fund. The Company appropriated 10% of net profit which is RMB2,792 million to statutory reserve fund for the year ended 31 December 2007. At 12 June 2007, approved by Annual General Meeting, the Company appropriated 10% of net profit for the year ended 31 December 2006 which is RMB960 million to discretionary welfare fund. The total appropriation to statutory reserve fund and discretionary welfare fund in 2007 is RMB3,752 million.

(b) Pursuant to Financial Standards of Financial Enterprises Implementation Guide issued by Ministry of Finance of People's Republic of China on 30 March 2007, the Company appropriated 10% of net profit which is RMB2,792 million to general reserve for future uncertain disasters, which can not be used for dividend distribution or share capital increment.

Under related PRC law, dividends may be paid only out of distributable profits. Distributable profits generally means the Company's after-tax profits as determined under accounting standards generally accepted in PRC or HKFRS, whichever is lower, less any recovery of accumulated losses and allocations to statutory funds that the Company is required to make, subject to further regulatory restrictions. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years. The amount of distributable retained earnings based on the above is RMB31,881 million as at 31 December 2007.

**32 CONTINGENCIES**

The following is a summary of the significant contingent liabilities:

	As at	As at
	31 December	31 December
	2007	2006
	RMB million	RMB million
Pending lawsuits (b)	66	54

- (a) The Company and certain of its past directors (the defendants) have been named in nine putative class action lawsuits filed in the United States District Court for the Southern District of New York between 16 March 2004 and 14 May 2004. The lawsuits have been ordered to be consolidated and restyled *In re China Life Insurance Company Limited Securities Litigation, NO.04 CV 2112 (TPG)*. Plaintiffs filed a consolidated amended complaint on 19 January 2005, which names the Company, Wang Xianzhang (past director), Miao Fuchun (past director) and Wu Yan (past director) as defendants. The consolidated amended complaint alleges 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. The Company has engaged U.S. counsel to contest vigorously on the lawsuits. The defendants jointly moved to dismiss the consolidated amended complaint on 21 March 2005. Plaintiffs then further amended their complaint. Defendants moved to dismiss the second amended complaint on 18 November 2005. That motion has been fully briefed and is pending before the Court. The likelihood of an unfavourable outcome is

still uncertain. No provision has been made with respect to these lawsuits.

- (b) The Group has been named in a number of lawsuits arising in the ordinary course of business. Provision has been made for the probable losses to the Group on those claims when management can reasonably estimate the outcome of the lawsuits taking into account the legal advice. No provision has been made for pending lawsuits when the outcome of the lawsuits cannot be reasonably estimated or management believes a loss is not probable.

F-67



**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**33 COMMITMENTS****(a) Capital commitments**

- i) Capital commitments for property, plant and equipment

	As at 31 December 2007 RMB million	As at 31 December 2006 RMB million
Contracted but not provided for	310	990

- ii) Capital commitments to acquire Bohai Venture Capital Fund

The Group committed to contribute RMB500 million to Bohai Venture Capital Fund and RMB5 million to Bohai Venture Capital Fund Management Company of which RMB152 million had been paid at 31 December 2007. The remaining RMB353 million will be paid when called.

**(b) Operating lease commitments**

The future minimum lease payments under non-cancelable operating leases are as follows:

	As at 31 December 2007 RMB million	As at 31 December 2006 RMB million
Land and buildings		
Not later than one year	206	242
Later than one year but not later than five years	316	386
Later than five years	29	50
<b>Total</b>	<b>551</b>	<b>678</b>

The operating lease payments charged to the consolidated income statement for the year ended 31 December 2007 was RMB391 million (for the year ended 31 December 2006: RMB391 million).

**34      ULTIMATE HOLDING COMPANY**

The directors regard China Life Insurance (Group) Company, a company incorporated in the PRC, as being the ultimate holding company.

F-68

**Table of Contents****SUPPLEMENTARY INFORMATION FOR ADS HOLDERS****FOR THE YEAR ENDED 31 DECEMBER 2007****35 Reconciliation of HKFRS and United States generally accepted accounting principles ( US GAAP )**

- (a) The consolidated financial statements of the Group have been prepared in accordance with HKFRS, which differs in certain significant respects from US GAAP. Difference between HKFRS and US GAAP, which may have significant impacts on consolidated net profit/(loss) and consolidated shareholders' equity, are described below.

## Deferred Taxes and Tax Reversal

The tax rate changes as disclosed in Note 25(b)(ii) are accounted for consistently with the accounting for the transaction itself. Therefore, if the underlying temporary difference and related deferred taxes have been recorded in equity, a change due to tax law/tax rates is recorded in equity as well. Under US GAAP, the impact of changes in tax rate/tax law is included in net income even if the original deferred taxes have been recognized in equity. For the year ended 31 December 2007, this difference results in a RMB4,746 million increase in the US GAAP net profit and a corresponding RMB4,746 million decrease to the US GAAP equity reserves balance.

There are no material differences between HKFRS and US GAAP that had an effect on shareholders' equity as at 31 December 2007 and 2006 and net profit for the year ended 31 December 2006 and 2005.

- (b) Disclosures about available-for-sale securities held continuously in an unrealised loss position for the time periods.

		As at 31 December 2007			
		Less	More than	More	
		than	6 months but	than	
		6 months	less than	12 months	Total
		RMB million	12 months	RMB million	RMB million
		RMB million	RMB million	RMB million	RMB million
<b>Debt securities</b>					
Government bonds	Fair value	15,596	29,715		45,311
	Unrealised losses	(300)	(2,432)		(2,732)
Government agency bonds	Fair value	31,872	21,289		53,161
	Unrealised losses	(1,366)	(4,072)		(5,438)
Corporate bonds	Fair value	21,308	11,340		32,648
	Unrealised losses	(1,498)	(1,344)		(2,842)
Subordinate bonds/debts	Fair value	5,852	415		6,267
	Unrealised losses	(626)	(94)		(720)
<b>Equity securities</b>					
	Fair value	4,324	1		4,325
	Unrealised losses	(537)			(537)
<b>Total temporarily impaired securities</b>					
	Fair value	<b>78,952</b>	<b>62,760</b>		<b>141,712</b>
	Unrealised losses	<b>(4,327)</b>	<b>(7,942)</b>		<b>(12,269)</b>



**Table of Contents****SUPPLEMENTARY INFORMATION FOR ADS HOLDERS****FOR THE YEAR ENDED 31 DECEMBER 2007****35 Reconciliation of HKFRS and United States generally accepted accounting principles ( US GAAP ) (continued)**

- (b) Disclosures about available-for-sale securities held continuously in an unrealised loss position for the time periods. (continued)

		As at 31 December 2006			
		Less	6 months but	More	
		than	less than	than	
		6 months	12 months	12 months	Total
		RMB million	RMB million	RMB million	RMB million
<b>Debt securities</b>					
Government bonds	Fair value	22,050	1,198	7,149	30,397
	Unrealised losses	(362)	(15)	(192)	(569)
Government agency bonds	Fair value	15,471	1,265	1,497	18,233
	Unrealised losses	(180)	(41)	(22)	(243)
Corporate bonds	Fair value	13,502	6,605	566	20,673
	Unrealised losses	(240)	(234)	(13)	(487)
Subordinate bonds/debts	Fair value	2,329			2,329
	Unrealised losses	(37)			(37)
<b>Equity securities</b>	Fair value	1,273			1,273
	Unrealised losses	(136)			(136)
<b>Total temporarily impaired securities</b>	<b>Fair value</b>	<b>54,625</b>	<b>9,068</b>	<b>9,212</b>	<b>72,905</b>
	<b>Unrealised losses</b>	<b>(955)</b>	<b>(290)</b>	<b>(227)</b>	<b>(1,472)</b>

Available-for-sale securities have generally been identified as temporarily impaired if their amortised cost as at 31 December 2007 was greater than their fair value, resulting in an unrealised loss. Unrealised losses in respect of financial assets at fair value through income have been included in net income and have been excluded from the above table. Unrealised losses from debt securities are largely due to interest rate fluctuations. Based on a review of these financial assets, it is believed that the contractual terms of these available-for-sale securities will be met. A total 218 debt securities positions and 77 equity securities positions were in an unrealised loss position at 31 December 2007 of which 100 debt securities and 76 equity securities positions were in a continuous loss position for less than 6 months, 172 debt securities and 1 equity security positions for more than 6 months but less than 12 months.

- (c) Comprehensive income

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	2007	2006	2005
	RMB million	RMB million	RMB million
Net profit attributable to shareholders of the Company	43,625	19,956	9,306
Total other comprehensive income, unrealised gains, net of tax	26,167	12,859	4,542
<b>Total comprehensive income</b>	<b>69,792</b>	<b>32,815</b>	<b>13,848</b>

F-70

**Table of Contents****SUPPLEMENTARY INFORMATION FOR ADS HOLDERS****FOR THE YEAR ENDED 31 DECEMBER 2007****35 Reconciliation of HKFRS and United States generally accepted accounting principles ( US GAAP ) (continued)****(d) Recently issued accounting standards**

In September 2005, the AICPA issued Statement of Position 05-1, *Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts* (SOP 05-1). SOP 05-1 provides guidance on accounting for DAC on internal replacements of insurance and investment contracts other than those specifically described in FAS 97. SOP 05-1 defines an internal replacement as a modification in product benefits, features, rights, or coverage that occurs by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. The Group adopted this guidance on 1 January 2007 and it did not have a material effect on the Group's consolidated financial position or results of operations.

In February 2006, the FASB issued FAS 155, *Accounting for Certain Hybrid Financial Instruments* (FAS 155), an amendment of FAS 140 and FAS 133. FAS 155 allows the Group to include changes in fair value in earnings on an instrument-by-instrument basis for any hybrid financial instrument that contains an embedded derivative that would otherwise be required to be bifurcated and accounted for separately under FAS 133. FAS 155 is effective for the Group's fiscal year ending 31 December 2007. The Group adopted this guidance on 1 January 2007 and it did not have a material effect on the Group's consolidated financial position or results of operations.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109 (FIN 48), which clarifies the accounting for uncertainty in income tax positions. FIN 48 prescribes a recognition threshold and measurement attributable for the financial statement recognition and measurement of an income tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, and additional disclosures. In May 2007, the FASB issued FSP 48-1, *Definition of Settlement in FASB Interpretation No. 48*, which amended FIN 48, to provide guidance on how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits, effective upon the initial adoption of FIN 48. The Group adopted FIN 48 on 1 January 2007 and it did not have a material effect on the Group's consolidated financial position or results of operations.

In September 2006, the FASB issued FAS 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. In February 2008, the FASB issued FSP 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13*. Also in February 2008, the FASB issued FSP 157-2, *Effective Date of FASB Statement No. 157*, which defers the effective date of FAS 157 to fiscal years beginning after 15 November 2008, and interim periods within those fiscal years. The Group is currently assessing the impact of FAS 157 on the Group's consolidated financial position and results of operations.

In February 2007, the FASB issued FAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159). FAS 159 permits entities to choose to measure at fair value many financial instruments and certain other items that are not currently required to be measured at fair value. Subsequent changes in fair value for designated items will be required to be reported in earnings in the current period. FAS 159 also establishes presentation and disclosure requirements for similar types of assets and liabilities measured at fair value. FAS 159 is effective for financial statements issued for accounting periods beginning on or after 15 November 2007. The Group is currently assessing the impact of FAS 159 on the Group's consolidated financial position and results of operations.

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**Table of Contents****SUPPLEMENTARY INFORMATION FOR ADS HOLDERS****FOR THE YEAR ENDED 31 DECEMBER 2007****35 Reconciliation of HKFRS and United States generally accepted accounting principles ( US GAAP ) (continued)****(d) Recently issued accounting standards (continued)**

In April 2007, the FASB issued FSP FIN 39-1, Amendment of FASB Interpretation No. 39. FSP FIN 39-1 modifies FIN No. 39, Offsetting of Amounts Related to Certain Contracts, and permits companies to offset cash collateral receivables or payables with net derivative positions under certain circumstances. This FSP is effective for fiscal years beginning after 15 November 2007 and is required to be applied retrospectively to financial statements for all periods presented. The Group is currently assessing the impact of FSP FIN 39-1 on the Group's consolidated financial position and results of operations.

In December 2007, the FASB issued FAS 160, Noncontrolling Interests in Consolidated Financial Statements. FAS 160 will change the accounting for minority interests, which will be recharacterized as noncontrolling interests and classified by the parent company as a component of equity. The noncontrolling interests' share of subsidiary income should be reported as a part of consolidated net income with disclosure of the attribution of consolidated net income to the controlling and noncontrolling interests on the face of the consolidated statement of income. This statement is effective for fiscal years beginning on or after 15 December 2008, with early adoption prohibited. Upon adoption, FAS 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests and prospective adoption for all other requirements. The Group is currently assessing the impact of FAS 160 on the Group's consolidated financial position and results of operations.

In December 2007, the FASB issued FAS 141R, Business Combinations. This statement addresses the accounting for business acquisitions with a number of changes. Among other things, the new standard broadened the transactions or events that are considered business combinations. It requires that all acquisition-related costs be expensed as incurred, and that all restructuring costs related to acquired operations be expensed as incurred. This new standard also addresses the current and subsequent accounting for assets and liabilities arising from contingencies acquired or assumed and, for acquisitions both prior and subsequent to 31 December 2008, requires the acquirer to recognize changes in the amount of its deferred tax benefits that are recognizable because of a business combination either in income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. This statement is effective for fiscal years beginning on or after 15 December 2008, with early adoption prohibited, and generally applies to business acquisitions completed after 31 December 2008. The Group is currently assessing the impact of FAS 141R on the Group's consolidated financial position and results of operations.

In February 2008, the FASB issued FSP FAS 140-3, Accounting for Transfers of Financial Assets and Repurchase Financing Transactions. FSP FAS 140-3 provides guidance on accounting for a transfer of a financial asset and a repurchase financing and presumes that an initial transfer of a financial asset and a repurchase financing are considered part of the same arrangement (linked transaction) under Statement 140. However, if certain criteria are met, the initial transfer and repurchase financing shall not be evaluated as a linked transaction and shall be evaluated separately under Statement 140. This FSP is effective for fiscal years beginning after 15 November 2008, and interim periods within those fiscal years. Earlier application is not permitted. The Group is currently assessing the impact of this FSP on the Group's consolidated financial position and results of operations.