MERCURY AIR GROUP INC
Form DEF 14A
August 12, 2005

Table of Contents

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

Filed by the Registrant R
Filed by a Party other than the Registrant £
Check the appropriate box:

£ Preliminary Proxy Statement
£ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
R Definitive Proxy Statement
£ Definitive Additional Materials
£ Soliciting Material Pursuant to Section 240.14a-11(c) or Section 240.14a-12

MERCURY AIR GROUP, INC.

(Name of Registrant as Specified In Its Charter) (Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

R No fee required.

£ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of Securities to which Transaction applies:

2) Aggregate number of securities to which Transaction applies:

3) Per unit price or other underlying value of Transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of Transaction:

5) Total fee paid:

£ Fee paid previously with preliminary materials.

£ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

Table of Contents

MERCURY AIR GROUP, INC.
5456 MCCONNELL AVENUE
LOS ANGELES, CALIFORNIA 90066
(310) 827-2737
August 12, 2005

Dear Stockholder:

You are cordially invited to attend a Special Meeting of Stockholders of Mercury Air Group, Inc. on September 16, 2005, at 8:00 a.m., at The Ritz-Carlton, 4375 Admiralty Way, Marina Del Rey, California. We look forward to greeting those stockholders who are able to attend.

At this important meeting, you will be asked to vote on two proposals to effectuate a proposed transaction that, if approved, is expected to result in termination of the registration of Mercury Air Group s common stock under the federal securities laws and thereby eliminate the significant expense required to comply with the reporting and related requirements under those laws. The proposed Transaction will reduce the number of common stockholders of record to fewer than 300, permitting Mercury Air Group to file for termination of registration of its common stock under the federal securities laws. The reduction in the number of common stockholders will be accomplished by amending our Certificate of Incorporation to provide for a 1-for-501 reverse stock split, followed immediately by a 501-for-1 forward stock split of our common stock. The proposed amended and restated certificate of incorporation is attached as Appendix A to this proxy statement.

If approved at the Special Meeting, the Transaction will affect Mercury Air Group s common stockholders as follows:

COMMON STOCKHOLDER BEFORE THE TRANSACTION	NET EFFECT AFTER THE TRANSACTION
common stockholder holding 501 or more shares:	None.
common stockholder holding fewer than 501 shares:	The common stockholder will receive from Mercury $4.00 in cash per share, without interest.

Because Mercury Air Group has a large number of common stockholders who own fewer than 501 shares, we expect that the number of common stockholders of record will be reduced from approximately 331 to approximately 33, while the number of outstanding shares will decrease by only approximately 6.3%, a reduction of approximately 192,613 common shares from the 3,056,355 common shares outstanding as of June 30, 2005. No reduction in the number of shares held by preferred stockholders will occur as a result of this Transaction.

After careful consideration, the Board of Directors has concluded that the costs associated with being a Securities and Exchange Commission (SEC) reporting company, especially in light of the additional costs associated with compliance with Section 404 of the Sarbanes-Oxley Act of 2002, are not justified by the benefits in view of our common stock s limited trading activity. Mercury Air Group estimates that it will save up to $3,000,000 which would have been expended through June 30, 2007 and approximately $500,000 annually thereafter in Section 404 compliance costs. We believe that these cost-savings will be in the best interest of Mercury Air Group and its stockholders who remain after the Transaction. Although our common stock will no longer be listed on the American Stock Exchange if the Transaction is completed, we believe that our shares would be quoted on the pink sheets and our remaining stockholders would be able to trade their shares in the over-the-counter markets. In addition, the Transaction would allow our common stockholders who hold fewer than 501 shares immediately before the Transaction the opportunity to receive cash for their shares at a premium to the closing price of our common stock on the last trading day before the public announcement of the approval of the Transaction by the Special Committee and the Board of Directors, without having to pay brokerage commissions and other transaction costs.

A special committee comprised of independent directors has reviewed the proposed Transaction and considered its fairness to preferred stockholders and to common stockholders who hold fewer than 501 shares of common stock as well as those common stockholders holding 501 or more shares of common stock, and received a fairness opinion from its financial advisor with regard to the per share cash amount to be paid to the unaffiliated common stockholders holding fewer than 501 shares of common stock.

Table of Contents

ACCORDINGLY, AFTER CONSIDERING THE RECOMMENDATION OF THE SPECIAL COMMITTEE AND CONDUCTING ITS OWN DELIBERATIONS OF THE ISSUES IT DEEMED PERTINENT, INCLUDING ALTERNATIVES TO THE TRANSACTION, THE COSTS AND BENEFITS OF REMAINING AN SEC REPORTING COMPANY AND THE FAIRNESS OF THE TRANSACTION TO STOCKHOLDERS, YOUR BOARD OF DIRECTORS BELIEVES THIS TRANSACTION IS IN THE BEST INTERESTS OF MERCURY AIR GROUP AND ITS STOCKHOLDERS AND UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE TWO PROPOSALS REQUIRED TO EFFECTUATE THE TRANSACTION. The enclosed proxy statement includes a discussion of the alternatives and factors considered by the board in connection with the board s approval of the Transaction. See Special Factors Background of the Transaction and Special Factors Recommendation of the Board of Directors; Fairness of the Proposed Transaction.

Consummation of the Transaction is subject to certain conditions, including the affirmative vote on each of the first two proposals presented of at least a majority of the shares of Mercury Air Group s common and preferred stock entitled to vote at the Special Meeting, voting as a single class. It is anticipated that the Transaction will become effective at 11:59 p.m. on September 16, 2005, or as soon as reasonably practicable thereafter. Details of the proposed Transaction are set forth in the accompanying proxy statement, which we urge you to read carefully in its entirety.

At the Special Meeting, you will also be asked to grant Mercury s board of directors discretionary authority to adjourn the Special Meeting, if necessary.

The executive officers and director of Mercury have indicated that they intend to vote FOR each proposal required to approve the Transaction and FOR the proposal to grant discretionary authority to adjourn the Special Meeting. If Mercury s executive officers and directors exercise presently exercisable options they hold prior to the record date for the Special Meeting, they would own approximately 42.8% of the then outstanding shares of common and preferred stock, voting as a single class entitled to vote at the Special Meeting.

IT IS VERY IMPORTANT THAT YOUR SHARES ARE REPRESENTED AND VOTED AT THE MEETING, WHETHER OR NOT YOU PLAN TO ATTEND. ACCORDINGLY, PLEASE SIGN, DATE AND RETURN YOUR PROXY IN THE ENCLOSED ENVELOPE AT YOUR EARLIEST CONVENIENCE.

Your interest and participation in the affairs of the Company are greatly appreciated. Thank you for your continued support.

Sincerely,
/s/ Joseph A. Czyzyk
Chairman of the Board,
Chief Executive Officer and President

Table of Contents

MERCURY AIR GROUP, INC.
5456 MCCONNELL AVENUE
LOS ANGELES, CALIFORNIA 90066
(310) 827-2737
NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD SEPTEMBER 16, 2005
August 12, 2005

To the Stockholders of Mercury Air Group, Inc.:

NOTICE IS HEREBY GIVEN that a Special Meeting of Stockholders (the Special Meeting) of Mercury Air Group, Inc., a Delaware corporation (the Company or Mercury), will be held at The Ritz-Carlton, 4375 Admiralty Way, Marina Del Rey, California , on the 16th day of September, 2005, at 8:00 a.m., for the following purposes:

1. To consider and vote upon a proposal to amend the Company s Certificate of Incorporation to effect a 1-for-501 reverse stock split of the Company s common stock (the Reverse Stock Split).

2. To consider and vote upon a proposal to amend the Company s Certificate of Incorporation to effect a 501-for-1 forward stock split of the Company s common stock (the Forward Stock Split , and proposals 1 and 2 collectively referred to as the Transaction).

3. To grant the Company s Board of Directors discretionary authority to adjourn the Special Meeting if necessary to satisfy the conditions to completing the Transaction, including for the purpose of soliciting proxies to vote in favor of the Transaction.

Please note that the amendment to the Certificate of Incorporation to effect the Forward Stock Split is conditioned upon stockholder approval of the amendment to the Certificate of Incorporation to effect the Reverse Stock Split, and that the amendment to the Certificate of Incorporation to effect the Reverse Stock Split is conditioned upon stockholder approval of the amendment to the Certificate of Incorporation to effect the Forward Stock Split.

As a result of the Transaction, (a) each stockholder owning fewer than 501 shares of common stock immediately before the Transaction will receive from the Company $4.00 in cash, without interest, for each of such stockholder s shares of the Company s common stock; and (b) each share of common stock held by a stockholder owning 501 or more shares will continue to represent one share of the Company after completion of the Transaction. The proposed Amended and Restated Certificate of Incorporation, which effectuates the Transaction, is attached as Appendix A to this proxy statement.

Owners of record of the Company s common and preferred stock at the close of business on August 8, 2005, the record date, will be entitled to vote at the meeting. If your shares are held in the name of a broker, trust or other nominee (often referred to as held in street name), you must instruct them on how to vote your shares. Whether or not you plan to attend the meeting, please date, sign and mail the enclosed proxy in the envelope provided. Thank you for your cooperation.

The Board of Directors has carefully considered the terms of the Transaction and believes that they are fair to, and in the best interests of, Mercury and its stockholders. The Board of Directors unanimously recommends that you vote FOR Proposals 1 and 2, which will effectuate the Transaction, and FOR Proposal 3, which will grant the Board of Directors discretionary authority to adjourn the Special Meeting.

By Order of the Board of Directors

/s/ Joseph A. Czyzyk
Chairman of the Board, Chief Executive
Officer and President

Table of Contents

PLEASE SIGN AND MAIL THE ENCLOSED PROXY
IN THE ACCOMPANYING ENVELOPE
NO POSTAGE NECESSARY IF MAILED IN THE UNITED STATES

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS: APPROVED OR DISAPPROVED OF THE TRANSACTION; PASSED UPON THE MERITS OR FAIRNESS OF THE TRANSACTION; OR PASSED UPON THE ADEQUACY OR ACCURACY OF THE DISCLOSURE IN THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

MERCURY AIR GROUP, INC.
5456 MCCONNELL AVENUE
LOS ANGELES, CALIFORNIA 90066
(310) 827-2737

August 12, 2005

PROXY STATEMENT FOR
2005 SPECIAL MEETING OF STOCKHOLDERS

INTRODUCTION

This Proxy Statement is furnished to the stockholders of Mercury Air Group, Inc., a Delaware corporation (the Company or Mercury), in connection with the solicitation by the board of directors of the Company of proxies to be used at the Special Meeting of Stockholders (the Special Meeting) to be held at The Ritz-Carlton, 4375 Admiralty Way, Marina Del Rey, California, on September 16, 2005, at 8:00 a.m., local time, and at any adjournment thereof, and is being mailed to the stockholders on or about the date set forth above.

All shares represented by properly executed proxies received by the board of directors pursuant to this solicitation will be voted in accordance with the stockholder s directions specified on the proxy or, in the absence of specific instructions to the contrary, will be voted in accordance with the board of directors unanimous recommendations, which are:

FOR the proposal to amend the Company s Certificate of Incorporation to effect a 1-for-501 reverse stock split of the Company s common stock (the Reverse Stock Split).

FOR the proposal to amend the Company s Certificate of Incorporation to effect a 501-for-1 forward stock split of the Company s common stock (the Forward Stock Split and both proposals collectively referred to as the Transaction).

FOR granting the Company s Board of Directors discretionary authority to adjourn the Special Meeting if necessary to satisfy the conditions to completing the Transaction, including for the purpose of soliciting proxies in favor of the Transaction.

Please note that the amendment to the Certificate of Incorporation to effect the Forward Stock Split is conditioned upon stockholder approval of the proposal to amend the Certificate of Incorporation to effect the Reverse Stock Split, and that the amendment to the Certificate of Incorporation to effect the Reverse Stock Split is conditioned upon stockholder approval of the amendment to the Certificate of Incorporation to effect the Forward Stock Split.

As a result of the Transaction, (a) each stockholder owning fewer than 501 shares of common stock, $0.01 par value (common stock) immediately before the Transaction will receive from the Company $4.00 in cash, without interest, for each of such stockholder s shares of the Company s common stock; and (b) each share of common stock held by a stockholder owning 501 or more shares will continue to represent one share of common stock of the Company after completion of the Transaction.

If the Transaction is approved, as permitted by Delaware law, common stockholders whose shares are converted into less than one whole share in the reverse split (meaning they held fewer than 501 shares at the effective time of the reverse split) will receive a cash payment from Mercury for their fractional shares interests equal to $4.00 cash, without interest, for each share of common stock they held immediately prior to the reverse split.

Table of Contents

Stockholders who own 501 or more shares of common stock at the effective time of the Transaction will not be entitled to receive any cash for their fractional share interests resulting from the reverse stock split. The forward split that will immediately follow the reverse split will reconvert their whole share and fractional share interests back into the same number of shares of common stock they held immediately prior to the effective time of the Transaction. As a result, the total number of shares held by such a stockholder will not change after completion of the Transaction.

After the Transaction, Mercury anticipates that it will have approximately 33 common stockholders of record. In the event that there are fewer than 300 common stockholders of record following the Transaction, Mercury intends to file a Form 15 with the Securities and Exchange Commission to terminate registration of its common stock under the federal securities laws. As a result, Mercury would no longer be subject to the annual and periodic reporting requirements under the federal securities laws that are applicable to Securities and Exchange Commission (SEC) reporting companies although Mercury currently intends to continue to provide reports as to its financial condition and results of operation which Mercury expects may be accessed at www.pinksheets.com. In addition, Mercury common stock would cease to be listed on the American Stock Exchange, any trading in Mercury s common stock after the Transaction and deregistration of the common stock will only occur in the over-the-counter market or in privately negotiated sales, and Mercury s common stock will likely only be quoted in the pink sheets.

This Transaction cannot occur unless the holders of more than a majority of the issued and outstanding shares of Mercury s common stock and Series A 8% Cumulative Convertible Preferred Stock, $0.01 par value (preferred stock), voting as a single class, approve both the proposal to effect the Reverse Stock Split and the proposal to effect the Forward Stock Split. If both proposals are approved, Mercury intends to file the proposed Amended and Restated Certificate of Incorporation, which is attached as Appendix A to this proxy statement.

The amendment of the Certificate of Incorporation to effect the Forward Stock Split is contingent upon stockholder approval of the Reverse Stock Split and the amendment of the Certificate of Incorporation to effect the Reverse Stock Split is contingent upon stockholder approval of the Forward Stock Split. The Forward Stock Split will be effected only after completion of the Reverse Stock Split.

The executive officers and directors of Mercury have indicated that they intend to vote FOR both proposals required to effectuate the Transaction. If Mercury s executive officers and directors exercise presently exercisable options they hold prior to the record date for the Special Meeting, they would own approximately 42.8% of the then outstanding shares of common and preferred stock, voting as a single class, entitled to vote at the Special Meeting.

A proxy may be revoked, without affecting any vote previously taken, by written notice mailed to the Company (attention Wayne Lovett) or delivered in person at the meeting, by filing a duly executed, later dated proxy, or by attending the meeting and voting in person.

Only stockholders of record at the close of business on August 8, 2005, are entitled to notice of and to vote at the Special Meeting and any adjournment thereof. Each share so held entitles the holder thereof to one vote upon each matter to be voted on. As of the record date, the Company had outstanding 3,056,355 shares of common stock and 462,627 shares of preferred stock. The presence of holders of a majority of the issued and outstanding shares of common and preferred stock, represented as a single class, entitled to vote at the Special Meeting, either in person or represented by a properly executed proxy, is necessary to constitute a quorum for the transaction of business at the Special Meeting.

This document provides you with detailed information about the proposed Transaction. Please see Where You Can Find More Information for additional information about Mercury on file with the Securities and Exchange Commission.

This Proxy Statement and the accompanying proxy were first mailed to stockholders on or about August 12, 2005.

Table of Contents

TABLE OF CONTENTS

Table of Contents

Mercury s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2005	D

Table of Contents

SUMMARY TERM SHEET

THIS SUMMARY TERM SHEET, TOGETHER WITH THE QUESTIONS AND ANSWERS SECTION THAT FOLLOWS, PROVIDES AN OVERVIEW OF ALL MATERIAL MATTERS THAT ARE PRESENTED IN THE PROXY STATEMENT, INCLUDING THE MATERIAL TERMS OF THE PROPOSED TRANSACTION. FOR A MORE COMPLETE DESCRIPTION WE URGE YOU TO CAREFULLY READ THIS PROXY STATEMENT AND ALL OF ITS APPENDICES BEFORE YOU VOTE. FOR YOUR CONVENIENCE, WE HAVE CROSS-REFERENCED TO THE LOCATION IN THIS PROXY STATEMENT WHERE YOU CAN FIND A MORE COMPLETE DISCUSSION OF EACH ITEM BELOW.

AS USED IN THIS PROXY STATEMENT, MERCURY, THE COMPANY, WE, OUR, OURS AND US TO MERCURY AIR GROUP, INC., A DELAWARE CORPORATION, AND THE TRANSACTION REFERS TO THE 1-FOR-501 REVERSE STOCK SPLIT AND THE 501-FOR-1 FORWARD STOCK SPLIT, TOGETHER WITH THE RELATED CASH PAYMENTS TO COMMON STOCKHOLDERS HOLDING FEWER THAN 501 SHARES AT THE EFFECTIVE TIME OF THE TRANSACTION.

THE TRANSACTION

If the Transaction is approved and completed:

- Mercury s stockholders holding fewer than 501 shares of Mercury s common stock before the Transaction will receive a cash payment from Mercury of $4.00 per share, without interest, for each share of common stock held immediately prior to the Transaction;

- Mercury s stockholders holding 501 or more shares of Mercury s common stock at the effective time of the Transaction will continue to hold the same number of shares of Mercury s common stock after completion of the Transaction and will not receive any cash payment;

- Mercury s preferred stockholders will continue to hold the same number of shares of Mercury s preferred stock after completion of the Transaction and will not receive any cash payment;

- the officers and directors of Mercury at the effective time will continue to serve as the officers and directors of Mercury immediately after the Transaction;

- Mercury believes it will have fewer than 300 holders of record of common stock and intends to file a Form 15 to terminate registration of its common stock with the SEC, which will terminate its obligation to continue filing periodic reports and proxy statements pursuant to the Securities Exchange Act of 1934 (the Exchange Act), although Mercury currently intends to continue to provide reports as to its financial condition and results of operation which Mercury expects may be accessed at www.pinksheets.com;

- after a 90 day period following the filing of a Form 15 with the SEC to terminate the registration of its common stock under the federal securities laws (the 90 day waiting period), Mercury s executive officers, directors and 10% stockholders will no longer be required to file reports relating to their transactions in Mercury s common stock with the SEC, and trading in Mercury s securities by such executive officers, directors and 10% stockholders will no longer become subject to the reporting and recovery of profits provision of the Exchange Act;

- after the 90 day waiting period, persons acquiring 5% of Mercury s common stock will no longer be required to report their beneficial ownership under the Exchange Act;

- after the 90 day waiting period, tender offers for the beneficial ownership of more than 5% of Mercury s common stock will no longer be regulated;

- after the 90 day waiting period, tender offer transactions by issuers and affiliates will no longer be regulated;

Mercury will not be required to comply with Section 404 of the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley Act), the cost of which is estimated to be up to $3,000,000 through June 30, 2007 and approximately $500,000 per year thereafter;

1

Table of Contents

Mercury s common stock will no longer be listed on the American Stock Exchange, any trading in its common stock will only occur in the over-the-counter markets and in privately negotiated sales, and its common stock will likely only be quoted in the pink sheets ;

outstanding options held by Mercury s employees, officers, and directors to acquire Mercury s common stock will remain outstanding following the Transaction;

the number of Mercury s common stockholders of record will be reduced from approximately 331 to approximately 33, and the number of outstanding shares of Mercury s common stock will be reduced by approximately 6.3%, from 3,056,355 shares, to approximately 2,863,742 shares;

exercise of all options exercisable within sixty days of the date of this proxy statement, the percentage ownership of Mercury s common and preferred stock beneficially owned by the directors and officers of Mercury as a group will increase from 42.8% to 45.1% based on shares outstanding as of June 30, 2005. Because Mercury s common and preferred stockholders vote as a single class on all matters presented to the stockholders (including the Transaction), the Transaction will not affect control of Mercury;

aggregate stockholders equity of Mercury as of March 31, 2005, will be reduced from $13,869,00 on a historical basis to approximately $12,786,000 on a pro forma basis;

the book value per share of common stock as of March 31, 2005, will be reduced from $4.54 per share on a historical basis to approximately $4.46 per share on a pro forma basis;

Mercury will pay cash of approximately $1,092,000 in the aggregate, net of tax benefits, to repurchase fractional shares and pay the costs of the Transaction; and

Mercury expects its business and operations to continue as they are currently being conducted and, except as disclosed in this proxy statement, the Transaction is not anticipated to have any effect upon the conduct of such business.

For a more detailed discussion on the Transaction, see Special Factors beginning on page 12. For a description of the provisions regarding the treatment of shares held in street name, see Special Factors Certain Effects of the Transaction beginning on page 38.

ADJOURNMENT OF THE SPECIAL MEETING

Mercury s board of directors is seeking discretionary authority to adjourn the Special Meeting if necessary to satisfy the conditions to completion of the Transaction, including for the purpose of soliciting proxies to vote in favor of the Transaction. For more information, see Adjournment of Meeting beginning on page 45.

VOTE REQUIRED

The required vote for each of the proposals presented at the Special Meeting are as follows:

The proposal to amend the Company s Certificate of Incorporation to effect the Reverse Stock Split requires the affirmative vote of holders of a majority of the outstanding shares of Mercury s common and preferred stock, counted as a single class.

The proposal to amend the Company s Certificate of Incorporation to effect the Forward Stock Split requires the affirmative vote of holders of a majority of the outstanding shares of Mercury s common and preferred stock, counted as a single class.

Approval of granting the board of directors discretionary authority to adjourn the Special Meeting requires the affirmative vote of a majority of Mercury s common and preferred stock, voting as a single class on the proposal.

Please note that the amendment to the Certificate of Incorporation to effect the Forward Stock Split is conditioned upon stockholder approval of the amendment to the Certificate of Incorporation to effect the Reverse Stock Split, and that the amendment to the Certificate of Incorporation to effect the Reverse Stock Split is conditioned upon stockholder approval of the amendment to the Certificate of Incorporation to effect the Forward Stock Split.

As of June 30, 2005, Mercury s current directors and executive officers owned 1,329,280 common shares, and 25,820 preferred shares, or approximately 38.5% of Mercury s 3,056,355 outstanding shares of common stock and 462,627 outstanding shares of preferred stock, voting as a single class, that would be entitled to vote at the Special Meeting. If Mercury s directors and executive officers exercised presently exercisable options they hold prior to the record date for the Special Meeting, they would own approximately 1,595,408 common shares and 25,820 preferred shares or approximately 42.8% of the then outstanding shares of common and preferred stock, voting as a single class, entitled to vote at the Special Meeting. See Security Ownership of Certain Beneficial Owners on page 60, and Special Factors Interests of Mercury s Directors and Executive Officers in the Transaction on page 34.

The officers and directors of Mercury have indicated that they intend to vote FOR the approval of both proposals required to effectuate the Transaction. Other than such expressed intent of the officers and directors to vote their shares for the Transaction, Mercury has not obtained any assurances or agreements from any of its stockholders as to how they will vote on the Transaction.

THE VOTING MATERIALS

We sent you the enclosed materials because Mercury s Board of Directors is soliciting your vote for use at our Special Meeting of Stockholders, which will take place on September 16, 2005. As a stockholder, you are invited to attend the Special Meeting and are entitled to and requested to vote on the proposals described in this proxy statement.

This proxy statement provides information that you need to know in order to cast an informed vote at the meeting. You do not need to attend the Special Meeting, however, to vote your shares. Instead, you may simply complete, sign and return the enclosed proxy card.

We began sending this proxy statement, notice of Special Meeting, and enclosed proxy card on or about August 12, 2005 to all stockholders entitled to notice of and to vote at the Special Meeting. The record date for stockholders entitled to vote is August 8, 2005. On that date, there were 3,056,355 shares of our common stock and 462,627 shares of our preferred stock outstanding. Stockholders are entitled to one vote for each share of common stock and one vote for each share of preferred stock held as of the record date.

TIME AND PLACE OF THE SPECIAL MEETING

The Special Meeting will be held at The Ritz-Carlton, 4375 Admiralty Way, Marina Del Rey, California at 8:00 a.m., Pacific Time on September 16, 2005.

SOLICITATION OF PROXIES

This proxy is solicited by the Board of Directors of Mercury.

SHARES THAT CAN BE VOTED

You may vote all shares of Mercury s common and preferred stock that you own as of the close of business on the record date, which was August 8, 2005. These shares include shares held:

- directly in your name as the stockholder of record, and

- for you as the beneficial owner either through a broker, bank or other nominee.

OWNERSHIP OF SHARES

Many of our stockholders hold their shares through a broker, bank or other nominee rather than directly in their own name. Mercury intends to treat stockholders holding common stock in street name through a nominee (such as a bank or broker) in the same manner as stockholders whose shares are registered in their names (shareholder of record). Nominees may have different procedures, however, and stockholders holding common stock in street name should contact their nominees. As summarized below, there are some distinctions between shares held of record and those owned beneficially.

Stockholder of Record

If your shares are registered directly in your name with our transfer agent, American Stock Transfer & Trust Company (the Transfer Agent), you are considered, with respect to those shares, the stockholder of record , and these proxy materials are being sent to you by Mercury. As the stockholder of record, you have the right to vote by proxy or to vote in person at the Special Meeting. Mercury has enclosed a proxy card for you to use.

Beneficial Owner

If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial owner of shares held in street name with respect to those shares, and the proxy materials are being forwarded to you by your broker or other nominee. Your broker or other nominee is considered, with respect to those shares, the stockholder of record. As the beneficial owner, you have the right to direct your broker or other nominee how to vote and are also invited to attend the Special Meeting. As a beneficial owner, however, you are not the stockholder of record, and you may not vote these shares in person at the Special Meeting unless you obtain a signed proxy appointment form from the stockholder of record giving you the right to vote the shares. Your broker or nominee has enclosed or provided a voting instruction card for you to use in directing the broker or nominee how to vote your shares.

ATTENDANCE AT THE SPECIAL MEETING AND ELIGIBILITY TO VOTE

All holders of our common and preferred stock may attend the Special Meeting in person. Only holders of record of our common and preferred stock as of August 8, 2005 may cast their votes in person at the Special Meeting.

VOTING OF SHARES WITHOUT ATTENDING THE SPECIAL MEETING

Whether you hold your shares directly as stockholder of record or beneficially in street name, you may direct your vote without attending the Special Meeting. You may vote by signing your proxy card or, for shares held in street name, by signing the voting instruction card included by your broker or nominee, and mailing it in the enclosed, pre-addressed envelope. If you provide specific voting instructions, your shares will be voted as you instruct. If you hold your shares of record and sign your proxy card, but do not provide instructions, your shares will be voted as described below in How are my votes counted?

COUNTING OF VOTES

You may vote FOR, AGAINST or ABSTAIN on the proposal to amend the Company s Certificate of Incorporatio to effect the Reverse Stock Split, FOR , AGAINST or ABSTAIN on the proposal to amend the Company s Certificate of Incorporation to effect the Forward Stock Split (both of which together constitute the Transaction) and FOR , AGAINST or ABSTAIN on the proposal granting the Company s Board of Directors discretionary authority to adjourn the Special Meeting if necessary to satisfy the condition to completing the Transaction, including for the purpose of soliciting proxies to vote in favor of the Transaction (the Adjournment Proposal). If you ABSTAIN on either the proposal to amend the Company s Certificate of Incorporation to effect the Reverse Stock Split or on the proposal to amend the Company s Certificate of Incorporation to effect the Forward Stock Split, each abstention would have the same effect as a vote AGAINST such proposal. If you vote ABSTAIN on the Adjournment Proposal, it has no effect on such proposal. If you sign and date your proxy form with no further instructions, your shares will be voted FOR the approval of both the Reverse Stock Split and the Forward Stock Split and FOR the approval of the Adjournment Proposal.

The amendment of the Certificate of Incorporation to effect the Forward Stock Split is contingent upon stockholder approval of the Reverse Stock Split and the amendment of the Certificate of Incorporation to effect the Reverse Stock Split is contingent upon stockholder approval of the Forward Stock Split. The Forward Stock Split will be effected only after completion of the Reverse Stock Split.

Table of Contents

NO APPRAISAL OR DISSENTERS RIGHTS; ESCHEAT LAWS

Stockholders do not have appraisal or dissenters rights under Delaware state law or Mercury s Certificate of Incorporation or Bylaws in connection with the Transaction.

The unclaimed property and escheat laws of each state provide that under circumstances defined in that state s statutes, holders of unclaimed or abandoned property must surrender that property to the state. Persons whose shares are eliminated and whose addresses are unknown to Mercury, or who do not return their common stock certificate(s) and request payment therefore, generally will have a period of years (depending on applicable state law) from the effective date of the Transaction in which to claim the cash payment payable to them. Following the expiration of that period, the escheat laws of states of residence of stockholders, as shown by the records of Mercury, generally provide for such state to obtain either (i) custodial possession of property that has been unclaimed until the owner reclaims it or (ii) escheat of such property to the state. If Mercury does not have an address for the holder of record of the shares, then unclaimed cash-out payments, without interest, would be turned over to Mercury s state of incorporation, the state of Delaware, in accordance with its escheat laws.

PURPOSE OF AND REASONS FOR THE TRANSACTION

If approved, the Transaction will enable Mercury to terminate its registration as an SEC reporting company and thus terminate its obligation to comply with Section 404 of the Sarbanes-Oxley Act. The Transaction will also terminate Mercury s obligation to file annual and periodic reports and make other filings with the SEC, although Mercury intends to continue to provide reports as to its financial condition and results of operation which Mercury expects may be accessed at www.pinksheets.com. The reasons for the proposed Transaction and subsequent termination of SEC registration include:

- eliminating the costs of compliance with Section 404 of the Sarbanes-Oxley Act and related regulations estimated to be up to $3,000,000 through June 30, 2007 and approximately $500,000 per year thereafter;

- affording stockholders holding fewer than 501 shares immediately before the Transaction the opportunity to receive cash for their shares at a price that represents a premium of approximately 19% over the closing price of $3.36 on March 21, 2005, which was the last trading day before the public announcement of the approval of the proposed Transaction by the Special Committee of the Board of Directors (Special Committee) and by the Board, without having to pay brokerage commissions and other transaction costs; and

- reducing the substantial time that management and other employees will have to spend to implement the Section 404 internal controls certificate provisions of the Sarbanes-Oxley Act, thus enabling them to devote more of their time and energy to Mercury s strategy and operations.

Joseph A. Czyzyk, President, Chief Executive Officer, Chairman and a principal stockholder of Mercury, Frederick H. Kopko, Jr., a director and a principal stockholder of Mercury and CK Partners, a partnership comprised of Messrs. Czyzyk and Kopko, may be deemed to be engaged in the proposed Transaction as a result of their affiliation with Mercury, and thus are filing persons with Mercury as set forth on the Schedule 13E-3 filed with the Securities and Exchange Commission in connection with the proposed Transaction. For purposes of this proxy statement, Joseph A. Czyzyk, Frederick H. Kopko, Jr. and CK Partners are sometimes referred to as the Transaction Affiliates . Mr. Kopko also serves as outside legal counsel on various corporate legal matters. Mr. Czyzyk and Mr. Kopko fully concur with the purpose, reasons, benefits and disadvantages of the Transaction described herein.

Please read Special Factors Purpose of and Reasons for the Transaction beginning on page 22.

BENEFITS OF THE TRANSACTION

Benefits of the Transaction to Mercury are expected to include the following:

- Mercury will benefit from eliminating the costs of compliance with Section 404 of the Sarbanes-Oxley Act and related regulations estimated to be up to $3,000,000 through June 30, 2007 and approximately $500,000 per year thereafter;

Mercury will benefit from reducing the substantial time that management and other employees will have to spend to implement the Section 404 internal controls certificate provisions of the Sarbanes-Oxley Act, thus enabling them to devote more of their time and energy to Mercury s strategy and operations; and

Mercury will benefit because it will no longer be obligated to continue filing periodic reports and proxy statements pursuant to the Exchange Act, although Mercury currently intends to continue to provide reports as to its financial condition and results of operation which Mercury expects may be accessed at www.pinksheets.com.

Benefits of the Transaction to affiliates of Mercury are expected to include the following:

assuming the exercise of all options that are exercisable within sixty days of the date of this proxy statement, Mercury s officers and directors, including the Transaction Affiliates, will increase their percentage ownership in Mercury from 42.8% to 45.1%;

assuming the exercise of all options that are exercisable within sixty days of the date of this proxy statement, the Transaction Affiliates will increase their percentage ownership in Mercury from 37.7% to 39.8%;

affiliated stockholders may benefit from the reduction in total shares outstanding or from the cost savings by Mercury not being public, either or both of which may result in higher earnings per share, which in turn may result in a higher price for their shares than they would have received if Mercury remained public;

Mercury s officers and employees will benefit from eliminating the time and effort associated with implementation of the Section 404 internal controls certification provisions of the Sarbanes-Oxley Act;

Mercury s officers and directors, and persons holding 5% or more of Mercury s common stock, will benefit because, after the 90 day waiting period, tender offer transactions by issuers and affiliates will no longer be regulated;

Mercury s officers and directors, and persons holding 5% or more of Mercury s common stock, including the Transaction Affiliates, will benefit because after the 90 day waiting period, such officers, directors and 5% stockholders will no longer be required to report their acquisition, disposition or ownership of shares under the Exchange Act; and

affiliated stockholders may benefit from future operating results of Mercury.

See Special Factors Purpose of and Reasons For the Transaction Benefits of the Transaction beginning on page 22 and Special Factors Interests of Mercury s Directors and Executive Officers in the Transaction beginning on page 34.

Benefits of the Transaction to unaffiliated stockholders of Mercury are expected to include the following:

Unaffiliated stockholders holding fewer than 501 shares immediately before the Transaction will have the opportunity to receive cash for their shares at a price that represents a premium of approximately 19% over the closing price of $3.36 on March 21, 2005, which was the last trading day before the public announcement of the approval of the proposed Transaction by the Special Committee and the Board, without having to pay brokerage commissions and other transaction costs;

Unaffiliated stockholders receiving $4.00 for their shares are receiving an amount that is within the range of implied equity values in the per share analysis presented by Imperial Capital, LLC (Imperial Capital), financial advisor to the Special Committee and the Board. (See Special Factors Opinion of Imperial Capital, LLC beginning on page 34.)

remaining unaffiliated stockholders may benefit from the reduction in total shares outstanding or from the cost savings by Mercury not being public, either or both of which may result in higher earnings per share, which in turn may result in a higher price for their shares than they would have received if Mercury remained public;

and remaining unaffiliated stockholders may benefit from future operating results of Mercury.

See Special Factors Purpose of and Reasons for the Transaction Benefits of the Transaction beginning on page 22.

DISADVANTAGES OF THE TRANSACTION

Disadvantages of the Transaction to Mercury are expected to include the following:

- Mercury s working capital and assets will be decreased and/or indebtedness increased to fund the purchase of fractional shares, and to pay the other costs of the Transaction; and

- the limited ability that Mercury has to raise capital in the public securities markets or to use its stock as an acquisition currency will be effectively eliminated.

See Special Factors-Disadvantages of the Transaction beginning on page 24.

Disadvantage of the Transaction to affiliates of Mercury are expected to include the following:

- Mercury s officers and directors, including the Transaction Affiliates, are likely to experience reduced liquidity for their shares of common stock, even if the common stock trades on the pink sheets , and this reduced liquidity may adversely affect the market price of the common stock.

See Special Factors Disadvantages of the Transaction beginning on page 24.

Disadvantages of the Transaction to unaffiliated stockholders of Mercury are expected to include the following:

- the cash price offered to stockholders under the proposed Transaction could be less than the market price at the time the Board decides to implement the Transaction and is less than the $4.54 book value of the Common Stock as of March 31, 2005;

- remaining stockholders are likely to experience reduced liquidity for their shares of common stock, even if the common stock trades on the pink sheets , and this reduced liquidity may adversely affect the market price of the common stock;

- less public information about Mercury will be required or available after the Transaction and officers will no longer be required to certify the accuracy of Mercury s financial statements, although Mercury currently intends to provide reports as to its financial condition and results of operations, which Mercury s expects may be accessed at www.pinksheets.com (see Special Factors Purpose of and Reasons For the Transaction beginning on page 22);

- after the 90 day waiting period, officers, directors and persons holding or acquiring 5% of Mercury s common stock will no longer be required to report their beneficial ownership, or change in beneficial ownership, under the Exchange Act;

- after the 90 day waiting period, tender offers for the beneficial ownership of more than 5% of Mercury s common stock will no longer be regulated;

- after the 90 day waiting period, tender offer transactions by issuers and affiliates will no longer be regulated;

- stockholders who are cashed out will be unable to participate in any future operating results of Mercury unless they buy stock after the Transaction; and

- stockholders who are cashed out for $4.00 per share in the Transaction may receive less for their shares than they would if the common stock continued trading on the American Stock Exchange.

See Special Factors Disadvantages the Transaction beginning on page 24.

DETERMINATION OF THE FAIRNESS OF THE TRANSACTION BY THE SPECIAL COMMITTEE, THE BOARD, AND THE TRANSACTION AFFILIATES

At a meeting held on March 21, 2005, the Special Committee, consisting of two independent directors, Messrs. Michael Janowiak and Angelo Pusateri, unanimously determined that the Transaction and the $4.00 cash consideration per pre-split share to be paid to stockholders who hold less than 501 shares of common stock before the Transaction (cash consideration) are advisable, fair to and

7

Table of Contents

in the best interests of Mercury and its stockholders, including all unaffiliated stockholders of Mercury (both those receiving the cash consideration and those remaining as stockholders following the Transaction), and the Special Committee recommended that the Board approve the Transaction. See Special Factors Recommendation of the Special Committee.

At a meeting held on March 21, 2005, the Board of Directors unanimously determined that the Transaction and the cash consideration to be paid to stockholders who hold less than 501 shares of common stock before the Transaction are advisable, fair to and in the best interests of Mercury and its stockholders, including all unaffiliated stockholders of Mercury (both those receiving the cash consideration and those remaining as stockholders following the Transaction). On March 21, 2005, the Transaction Affiliates also unanimously determined that the Transaction and the cash consideration to be paid to stockholders who hold less than 501 shares of common stock before the Transaction are advisable, fair to and in the best interests of Mercury and its stockholders, including all unaffiliated stockholders of Mercury (both those receiving the cash consideration and those remaining as stockholders following the Transaction). The Board of Directors, with Messrs. Kopko and Czyzyk abstaining, therefore unanimously approved the Transaction and recommends that you vote FOR approval of this matter at the Special Meeting.

The Special Committee, the Board of Directors and the Transaction Affiliates, all considered a number of factors that they believe supports their determination that the Transaction is substantively and procedurally fair to Mercury s unaffiliated stockholders, including each of the following factors:

current and historical market prices;

net book value and net tangible book value;

going concern value;

earnings of Mercury;

prices at which Mercury has repurchased shares;

the opinion and presentation of the Special Committee s financial advisor;

limited liquidity of Mercury s common stock;

future cost savings;

interests of unaffiliated stockholders who will remain; and

certain negative considerations.

For a complete discussion of the factors that were considered by the Special Committee, the Board of Directors and the Transaction Affiliates to determine fairness, see Special Factors Recommendation of the Special Committee beginning on page 26, Special Factors Recommendation of the Board; Fairness of the Transaction beginning on page 29, and Determination of the Fairness of the TransactionIGN="bottom">

Total as at 31 December 2006

78,301 72,230 59

GDB

PRC 90,584 84,419 2,534 544 20%

CLP&C

PRC	641	356	81	(135)	40%
Total as at 31 December 2007					
	91,225	84,775	2,615	409	

6

Commission File Number 001-31914

7 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**
	RMB million	***RMB million***
Employee salary and welfare cost	**5,766**	4,197
Housing benefits	**272**	256
Contribution to the defined contribution pension plan	**575**	358
Depreciation	**1,020**	848
Exchange loss	**1,032**	639
Auditor s remuneration	**66**	76

8 TAXATION

(a) The amount of taxation charged to the consolidated income statement represents:

	For the year ended 31 December	
	2007	**2006**
	RMB million	***RMB million***
Current taxation-Enterprises income tax	**8,730**	858
Deferred taxation	**(2,399)**	4,696
Taxation charges	**6,331**	5,554

(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**
		RMB million	***RMB million***
Net profit before income tax expenses		**45,391**	25,605
Tax computed at the statutory tax rate of 33%		**14,979**	8,450
Non-taxable income	*(i)*	**(6,802)**	(3,250)
Additional tax liability from expenses not deductible for tax purposes	*(i)*	**1,310**	354
Effect on change in statutory tax rate	*(ii)*	**(3,156)**	
Income taxes at effective tax rate		**6,331**	5,554

7

(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.

(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
As at 31 December	**24,786**	19,022

9 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).

10 DIVIDENDS

Pursuant to the shareholders approval at the Annual General Meeting in June 2007, a final dividend of RMB0.14 per ordinary share totalling RMB3,957 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 RMB0.42 per ordinary share totalling approximately RMB11, 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.

Commission File Number 001-31914

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER

	As at 31 December 2007 *RMB million*	**As at 31 December 2006** *RMB million*
ASSETS		
Property, plant and equipment	**16,771**	14,565
Deferred policy acquisition costs (DAC)	**40,851**	39,230
Investments in associates	**6,450**	6,071
Financial assets		
Debt securities:	**443,181**	357,898
held-to-maturity securities	**195,703**	176,559
available-for-sale securities	**241,382**	176,868
at fair value through income (held-for-trading)	**6,096**	4,471
Equity securities:	**195,147**	95,493
available-for-sale securities	**176,133**	62,595
at fair value through income (held-for-trading)	**19,014**	32,898
Term deposits	**168,594**	175,476
Statutory deposits-restricted	**5,773**	5,353
Loans	**7,144**	2,371
Securities purchased under agreements to resell	**5,053**	
Accrued investment income	**9,857**	8,461
Premiums receivables	**6,218**	6,066
Reinsurance assets	**966**	986
Other assets	**2,382**	2,212
Cash and cash equivalents	**25,317**	50,213
Total Assets	**933,704**	764,395

9

Commission File Number 001-31914

	As at 31 December 2007 *RMB million*	As at 31 December 2006 *RMB million*
LIABILITIES AND EQUITY		
Liabilities		
Insurance contracts		
Long-term traditional insurance contracts	**218,165**	172,875
Long-term investment type insurance contracts	**284,588**	282,672
Short-term insurance contracts		
reserves for claims and claim adjustment expenses	**2,391**	2,498
unearned premium reserves	**5,728**	5,346
Deferred income	**48,308**	41,371
Financial Liabilities		
Investment contracts		
with Discretionary Participation Feature (DPF)	**49,068**	45,998
without DPF	**2,234**	2,614
Securities sold under agreements to repurchase	**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	**8,870**	5,333
Deferred tax liabilities	**24,786**	19,022
Current income tax liabilities	**8,312**	843
Statutory insurance fund	**122**	114
Total liabilities	**727,328**	624,190
Shareholders equity		
Share capital	**28,265**	28,265
Reserves	**114,825**	77,368
Retained earnings	**62,410**	34,032
Total shareholders equity	**205,500**	139,665
Minority interest	**876**	540
Total equity	**206,376**	140,205
Total liabilities and equity	**933,704**	764,395

Commission File Number 001-31914

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER

	Attributable to shareholders of the Company				
	Share capital *RMB million*	**Reserves** *RMB million*	**Retained earnings** *RMB million*	**Minority Interest** *RMB million*	**Total** *RMB million*
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 reserve		974	(974)		
Unrealised gains, net of tax		12,859		22	12,881
As at 31 December 2006	**28,265**	**77,368**	**34,032**	**540**	**140,205**
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 reserve		6,544	(6,544)		
Unrealised gains, net of tax		30,913		21	30,934
Capital contribution				179	179
Others				(3)	(3)
As at 31 December 2007	28,265	114,825	62,410	876	206,376

11

Commission File Number 001-31914

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER

	2007 *RMB million*	**2006** *RMB million*
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit before income tax expenses:	**45,391**	25,605
Adjustments for:		
Net investment income	**(45,803)**	(23,495)
Net realised and unrealised gains on financial assets	**(34,228)**	(21,639)
Amortisation of deferred policy acquisition costs	**13,461**	10,259
Increase in deferred income	**9,859**	11,614
Interest credited to long-term investment type insurance contracts and investment contracts	**8,319**	7,382
Policy fees	**(7,691)**	(7,097)
Depreciation and amortisation	**1,070**	912
Amortisation of premiums and discounts	**(648)**	(267)
Loss on foreign exchange and impairments	**641**	642
Changes in operational assets and liabilities:		
Deferred policy acquisition costs	**(17,480)**	(15,914)
Financial assets at fair value through income (held-for-trading)	**31,187**	8,943
Receivables and payables	**28,626**	15,412
Reserves for claims and claim adjustment expenses	**(107)**	714
Unearned premium reserves	**382**	199
Long-term traditional insurance contracts	**45,344**	44,263
Cash inflow from operating activities		
Income tax paid	**(1,261)**	(535)
Interest received	**26,392**	18,939
Dividends received	**19,400**	4,415
Net cash inflow from operating activities	**122,854**	80,352

12

Commission File Number 001-31914

	2007 *RMB million*	2006 *RMB million*
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales and maturities:		
Sales of debt securities	**26,891**	6,635
Maturities of debt securities	**8,548**	4,129
Sales of equity securities	**46,829**	43,363
Property, plant and equipment	**207**	53
Purchases:		
Debt securities	**(134,205)**	(122,246)
Equity securities	**(80,322)**	(52,050)
Property, plant and equipment	**(3,388)**	(2,742)
Acquisition of associate		(6,071)
Term deposits, net	**6,572**	(10,719)
Securities purchased under agreements to resell, net	**(5,053)**	
Other	**(4,593)**	(1,390)
Net cash outflow from investing activities	**(138,514)**	(141,038)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from investment in securities sold under agreements to repurchase, net	**(8,127)**	3,496
Deposits in long-term investment type insurance contracts and investment contracts	**94,227**	91,441
Withdrawals from long-term investment type insurance contracts and investment contracts	**(90,904)**	(38,088)
Net proceeds from shares issued		27,810
Contribution from minority shareholders	**29**	
Dividends paid to the Company s shareholders	**(3,957)**	(1,338)
Dividends paid to minority interest	**(42)**	(8)
Cash flow from other financing activities	**45**	
Net cash inflow/(outflow) from financing activities	**(8,729)**	83,313
Net increase/(decrease) in cash and cash equivalents	**(24,389)**	22,627
Cash and cash equivalents		
Beginning of year	**50,213**	28,051
Foreign currency losses on cash and cash equivalents	**(507)**	(465)
End of year	**25,317**	50,213
Analysis of balance of cash and cash equivalents		
Cash at bank and in hand	**18,536**	45,130
Short-term bank deposits	**6,781**	5,083

13

BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

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 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.

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 recognised 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.

Commission File Number 001-31914

CHAIRMAN S STATEMENT

Dear Shareholders,

I am pleased to present to you the Group s operating results for the financial year ended 31 December 2007.

In 2007, the growth momentum of China s insurance industry remained strong, with investment yields on insurance funds reaching the highest level in history. The Company continued to focus on the sales of traditional and participating products and continual improvement in profitability of the insurance business and products, the sales of long-term regular premium products to optimize our business structure and maintain a steady growth of our business, the exclusive agents force as the core distribution channel while exploring the group insurance channel and bancassurance channel, and a combination of overall development strategy and local market competitiveness tactics. During the reporting period, we achieved steady business growth and maintained our leading market position, optimized our business structure, significantly increased investment income and profitability, further strengthened corporate governance, and improved operational management and risk control to higher level.

We are the core member of the China Life group, which was among Fortune 500 announced by Fortune magazine and World s Top 500 Brands released by World Brand Laboratory in 2007. In December 2007, the Company won the Overall Winner Award for Corporate Governance Excellence in the first The Hong Kong Corporate Governance Excellence Awards 2007 .

Steady Business Growth and Continuous Business Structure Improvement

For the year ended 31 December 2007, the Group s total revenues reached RMB191,372 million, an increase of 29.9% from 2006. Gross written premiums and policy fees for 2007 were RMB111,886 million, an increase of 12.5% from 2006.

In 2007, the Company s gross written premiums reached RMB104,195 million, an increase of 12.9% from 2006. The first-year regular gross written premiums reached RMB24,356 million on growth of 12.9% over 2006, 2.1 percentage points higher than the growth of first-year gross written premiums. First-year regular gross written premiums accounted for 92.5% of first-year gross written premiums of long-term traditional insurance contracts.

As at 31 December 2007, the Company s embedded value was RMB252,568 million, up 38.8% from the end of 2006. One year new business value of the Company was RMB12,047 million for 2007, an increase of 14.9% from 2006.

Commission File Number 001-31914

In 2007, we achieved stable growth of our business as well as continual optimization of our business structure by emphasizing on the sales of traditional and participating products. The Company maintained its leading position in the life insurance market in China despite increasing competition pressure from new entrants in the market, the maturity payout peak and discontinuation of renewal premium payment on expiration of premium-payment terms of a key regular premium product. In accordance with the data released by the China Insurance Regulatory Commission (CIRC), under PRC Generally Accepted Accounting Principles (PRC GAAP), the Company s market share in 2007 was 39.7%.

Substantial increase in Investment Income and Enhanced Profitability

As at 31 December 2007, the Group s investment assets were RMB850,209 million, an increase of RMB163,405 million, or 23.8%, from 2006. Net investment income reached RMB44,020 million, up 76.5% from 2006. The Group s net investment yield for 2007 reached 5.76% (investment assets included financial assets and cash and cash equivalents but excluded accrued investment income), an increase of 1.49 percentage points from 2006. The gross investment yield of 2007 was 10.24%[2], an increase of 2.27 percentage points from 2006.

As at 31 December 2007, the Group s total assets were RMB933,704 million, up 22.1% from 2006. Total shareholders equity (attributable to the shareholders of the Company) reached RMB205,500 million, an increase of 47.1% from 2006. The Company s solvency margin was 5.25 times the minimum regulatory requirement at the end of 2007. During the reporting period, the Group s net profit (attributable to shareholders of the Company) was RMB38,879 million, up 94.8% from 2006. Basic and diluted earnings per share were RMB1.38, a record high for the Company.

Enhancing Distribution Channels and Upgrading Service Standard

As at 31 December 2007, the Company had over 15,500 field offices and around 638,000 exclusive agents. The proportion of exclusive agents holding valid licenses was 97.9%, an increase of 3.2 percentage points over 2006. The Company had over 13,000 direct sales representatives. In addition, the Company had more than 90,000 bancassurance outlets intermediaries including outlets of commercial bank branches, post savings and cooperative saving institutions and with over 18,000 customer service managers. These three major sales channels remained stable during the year, and we have started to reap the benefits of sharing customer resources and cross-selling.

[1] The net investment yield = net investment income/((investment assets at the beginning of the period securities sold under agreements to repurchase at the beginning of the period + investment assets at the end of the period securities sold under agreements to repurchase at the end of the period)/2)

[2] The gross investment yield = (net investment income + net realized gains on financial assets + net fair value gains at fair value through income(held-for-trading))/((investment assets at the beginning of the period securities sold under agreements to repurchase at the beginning of the period + investment assets at the end of the period securities sold under agreements to repurchase at the end of the period)/2)

Commission File Number 001-31914

In 2007, the Company held its first China Life Customer Festival and launched the China Life 1+N service brand for the first time. The Company is committed to providing customers with differentiated, professional service. During the year, the Company completed the largest maturity benefit payment in the history of China s life insurance industry. The Company paid over RMB50 billion in 2007 on matured policies and made payments against near 2.5 million policies, which demonstrated the Company s strong service capability and financial strength.

Stronger Internal Controls and Prevention of Operational Risk

In 2007, the Company completed the centralization of business management, customer services, financial management and information technology functions at the provincial branch level. At the same time, it continued to improve its internal control systems, compliance work to meet the requirements of Section 404 of the Sarbanes-Oxley Act, auditing of key tasks and the Company s ability to prevent operational risks.

To comply with certain securities legislations of the United States, management completed a self assessment on internal control over financial reporting as of 31 December 2007, and confirmed such internal control was effective. The Company has also received from our registered independent auditor s unqualified opinion on the effectiveness of our internal control over financial reporting as of 31 December 2007. Management s assessment and the report of our registered independent auditor will be included in the Form 20-F (the US version of annual report) to be submitted to the U.S. Securities and Exchange Commission (SEC).

Focusing on the Value of People and Improving the Quality of our Team

Focusing on the value of people is core to the Company s human resource management. We aim to strengthen our workforce and improve the quality of our staff. This principle is the foundation of our long-term sustainable growth. In 2007, the Company restructured the management teams of branches, resulting in younger, more professional and more competitive management teams.

In 2007, the Company continued to commit itself to consolidating its internal and external educational resources to establish a training system that can meet the Company s future development requirements. Through setting up the China Life Online College , strengthening the team building ability of exclusive agents trainers and increasing internal and external training, the Company continued to improve on professional and management skills.

Strengthening Our Brand and Fulfilling Social Responsibilities

In 2007, the Company continued to actively execute its brand strategy and stepped up brand promotion. Awareness of the China Life brand and its impact has greatly improved, with the Company aiming to move its brand from well-known to outstanding, from industrial to social and from domestic to international brand. In August 2007, the World Brand Laboratory selected China Life with brand value worth RMB58.867 billion as one of the World s Top 500 Brands and Top Ten Most Valuable Brands in China for the fourth consecutive year.

The Company actively contributed to building new socialist rural village communities in China. It placed strong emphasis on developing the New Village Cooperative Medical Scheme (New Type Rural Healthcare Scheme). This scheme now covers 84 counties (towns and communities) in 14 branches, an increase of 42 counties (towns and communities) from 2006. In March 2007, the Company launched the China Life New Simple Life Mutual Cooperative Insurance (New Simple Life Insurance), a product tailored to the rural market to meet the needs of farmers. The Company continued to provide insurance services for ethnic minority regions and less-developed regions. The Company s Tibet branch was formally opened for business in May 2007.

In 2007 the Company donated over RMB17 million to various charitable causes. The 18 China Life Long March Primary Schools were put into operation in succession. The Company donated RMB 50 million to establish the China Life Charity Foundation and launched the Healthy New Village Project and the China Life Program for Rural Medical Services and Poverty Relief . The Foundation made a total donation of RMB6.75 million to various causes in 2007.

In early 2008, the Company donated RMB10 million to southern Chinese provinces hit by severe snowstorm damage. The Company also offered complimentary short-term accident insurance to snowstorm fighting staff of National Grid and Southern Grid and police officers of the Ministry of Public Security.

Final Dividend

The Board of Directors recommended the payment of a final dividend of RMB0.42 per share for the year ended 31 December 2007 to shareholders of the Company. This will come into effect after shareholders approval at the Annual General Meeting to be held on Wednesday, 28 May 2008.

Outlook

In 2008, the Company will face further challenges in view of the keen competition in the insurance industry and the uncertainty of the capital markets. Guided by the China Life group s mission to build itself into a leading international financial and insurance group, the Company will endeavor to develop life insurance business with our own unique characteristics, continue to reform operational and management systems, transform the model of development, maintain steady business growth, optimize our business structure, increase investment income, strengthen risk control and promote the company s overall sustainable development. We will dedicate ourselves to building the Company into a first-class international life insurance company and to creating greater value for our shareholders.

Commission File Number 001-31914

GROSS WRITTEN PREMIUMS AND DEPOSITS

For the year ended December 31

	2007 *RMB million*	**2006** *RMB million*
Individual life insurance		
Gross written premiums	**91,420**	80,086
First-year gross written premiums	**25,480**	22,659
Single gross written premiums	**1,273**	1,175
First-year regular gross written premiums	**24,207**	21,484
Renewal gross written premiums	**65,940**	57,427
Deposits	**72,069**	70,355
First-year deposits	**60,182**	56,560
Single deposits	**56,644**	53,658
First-year regular deposits	**3,538**	2,902
Renewal deposits	**11,887**	13,795
Group life insurance		
Gross written premiums	**876**	1,144
First-year gross written premiums	**854**	1,115
Single gross written premiums	**705**	1,030
First-year regular gross written premiums	**149**	85
Renewal gross written premiums	**22**	29
Deposits	**22,158**	21,086
First-year deposits	**22,143**	21,078
Single deposits	**22,061**	21,072
First-year regular deposits	**82**	6
Renewal deposits	**15**	8
Accident and short-term health insurance		
Gross written premiums	**11,899**	11,090
Short-term accident insurance		
Gross written premiums	**5,495**	5,148
Short-term health insurance		
Gross written premiums	**6,404**	5,942
Total gross written premiums	**104,195**	92,320
Total deposits	**94,227**	91,441

Commission File Number 001-31914

EMBEDDED VALUE

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
E	Embedded Value (A + D)	**252,568**	181,989
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)
H	Value of One Year s Sales after Cost of Solvency Margin (F + G)	**12,047**	10,481

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)
K	**Embedded Value as at 31 December 2007 (sum A through J)**	**252,568**

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.

D Reflects the difference between actual 2007 experience (including lapse, mortality, morbidity, and expense etc.) 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.

Commission File Number 001-31914

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)

	VALUE OF IN-FORCE BUSINESS AFTER COST OF SOLVENCY MARGIN	VALUE OF ONE YEAR S SALES AFTER COST OF SOLVENCY MARGIN
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

Commission File Number 001-31914

DIFFERENCE IN ACCOUNTING STANDARDS

1. Net profit reconciliation from PRC GAAP to HKFRS

	For the year ended 31 December 2007 *RMB million*	For the year ended 31 December 2006 *RMB million*
Net profit attributable to shareholders of the Company under the PRC GAAP	**28,116**	14,384
Reconciling items:		
Insurance related adjustments	**10,486**	8,223
Deferred policy acquisition costs(a)	**4,019**	5,653
Premiums, benefits and reserves of insurance and investment contracts (b)	**6,467**	2,570
Reversal of property, plant and equipment revaluation surplus and its related depreciation (c)	**112**	93
Deferred tax effects thereof	**165**	(2,744)
Net profit attributable to shareholders of the Company under HKFRS	**38,879**	19,956

2. Shareholders equity reconciliation from PRC GAAP to HKFRS

	As at 31 December 2007 *RMB million*	As at 31 December 2006 *RMB million*
Shareholders equity attributable to shareholders of the Company under the PRC GAAP	**170,213**	115,557
Reconciling items:		
Insurance related adjustments	**48,393**	37,438
Deferred policy acquisition costs(a)	**40,852**	39,230
Premiums, benefits and reserves of insurance and investment contracts (b)	**7,541**	(1,792)
Reversal of property, plant and equipment revaluation surplus and its related depreciation (c)	**(1,344)**	(1,456)
Deferred tax effects thereof	**(11,762)**	(11,874)
Shareholders equity attributable to shareholders of the Company under HKFRS	**205,500**	139,665

Commission File Number 001-31914

Notes:

(a) Deferred policy acquisition costs (DAC)

Under the PRC GAAP, commission, brokerage and operating expenses are recorded in the income statement when incurred. The actuarial reserving method employed under the PRC GAAP makes an implicit allowance for first year expenses in excess of policy loadings. Under HKFRS, the costs of acquiring new and renewal business which vary with and are primarily related to the production of new and renewal business, are deferred. DAC for long-term traditional insurance contracts are amortised over the premium paying period as a constant percentage of expected premiums. DAC for long-term investment type insurance contracts and investment contracts are amortised over the expected life of the contracts as a constant percentage of the present value of estimated gross profits expected to be realised over the life of the contracts.

(b) Premiums, benefits and reserves of insurance and investment contracts

Under the PRC GAAP, the long-term products comprise life insurance and long-term health insurance, whose premiums received and benefits paid are recognised in current period s income statement. Under HKFRS, the long-term products are classified into four categories: long-term traditional insurance contracts, long-term investment type insurance contracts, investment contracts with DPF and investment contracts without DPF. For the last three categories, premiums and interests earned are accounted as deposits to the related policy accounts while benefits as well as policy fees, mortality and surrender charges are accounted as withdrawals from the related policy accounts. The reconciling item also includes an amount resulting from differences in actuarial reserving methodologies. Under the PRC GAAP, unearned premium reserve is provided for the future insurance obligations from insurance business with policy terms of no more than one year. In accordance with HKFRS 4 Insurance Contract, premiums from short-duration contracts ordinarily shall be recognised as revenue over the period of the contract in proportion to the amount of insurance protection provided.

(c) Reversal of property, plant and equipment revaluation surplus and its related depreciation

Under the PRC GAAP, the Group recognise capital surplus arising from assets revaluation (mainly property, plant and equipment). Under Hong Kong Accounting Standard 16 Property, Plant and Equipment, the Company has chosen the cost model as its accounting policy and does not recognise any revaluation relating to property, plant and equipment. The revaluation surplus and its related depreciation under the PRC GAAP are reversed under HKFRS.

Commission File Number 001-31914

CORPORATE GOVERNANCE

During the year 2007, the Company complied with all the code provisions under the Code on Corporate Governance Practices (the Code) published by The Stock Exchange of Hong Kong Limited (the Hong Kong Stock Exchange). The Company also adopted certain recommended best practices under applicable circumstances.

Currently the board of directors of the Company (the Board of Directors) consists of 10 members and 6 of them are independent non-executive directors. This is over half of the Board of Directors and complies with the minimum requirements of Rules Governing the Listing of Securities on the Hong Kong Stock Exchange relating to the appointment of at least 3 independent non-executive directors and also exceeds the recommended best practice under the Code that one third of the Board of Directors be represented by independent non-executive directors.

In order to further enhance the Company s corporate governance framework, the Company further defines the duties and powers of the Board of Directors, and formulates deliberation processes and working procedures of the Board of Directors and the board committees, to ensure the Board of Directors and board committees can effectively implement the duties and responsibilities conferred by the shareholders. The Board of Directors also adopted and implemented The Work System of the Independent Directors , revised The Rules and Procedures for Meetings of the Strategic Committee and The Rules and Procedures for Meetings of the Risk Management Committee , which provides clear procedural guidelines for the effective functioning of the Board of Directors and the board committees.

In order to ensure the compliance with certain recommended best practices under the Code, to improve the corporate governance structure and to further the function of independent non-executive directors and non-executive directors, the Company held a special meeting for the independent non-executive directors and the non-executive directors in Nanjing, Jiangsu on 27 November 2007.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY S SHARE

On 26 December 2006, the Company completed its initial public offering of 1,500 million A Shares. On 9 January 2007, the A Shares commenced trading on the Shanghai Stock Exchange.

Apart from the foregoing, during the financial year ended 31 December 2007, the Group has not purchased, sold or redeemed any of the Company s securities.

Commission File Number 001-31914

ELIGIBILITY FOR ATTENDING THE ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS OF H SHARE

The Company s Annual General Meeting will be held on Wednesday, 28 May 2008. The H Share register of members of the Company will be closed for the purpose of determining H Share shareholders entitlement to attend the Annual General Meeting, from Monday, April 28, 2008 to Wednesday, 28 May 2008 (both days inclusive), during which period no transfer of shares will be registered. In order to attend the Annual General Meeting, H Share shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company s H share registrar, Computershare Hong Kong Investor Services Limited, at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen s Road East, Hong Kong, not later than 4:30 p.m. on Friday, 25 April 2008.

The Company will announce separately on the Shanghai Stock Exchange details of A Share Shareholders eligibility for attending the Annual General Meeting.

RECOMMENDATION OF FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS OF H SHARE

The Board of Directors has recommended a final dividend of RMB0.42 per share, amounting to approximately RMB11,871 million, subject to the approval of shareholders at the forthcoming Annual General Meeting. If approved, the final dividend is expected to be paid on Friday, 11 July 2008 to the H Share shareholders whose names appear on the H Share register of members of the Company on Wednesday, 11 June 2008. The H Share register of members of the Company will be closed from Friday, 6 June 2008 to Wednesday, 11 June 2008 (both days inclusive), during which period no transfer of shares will be registered. In order to be entitled to the dividend, H share shareholders should ensure that all transfer documents, accompanied by the relevant share certificates are lodged with the Company s H share registrar, Computershare Hong Kong Investor Services Limited, at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen s Road East, Hong Kong, not later than 4:30 p.m. on Thursday, 5 June 2008.

The Company will announce separately on the Shanghai Stock Exchange details of the arrangement regarding the distribution of 2007 final dividend to A Share Shareholders.

REVIEW OF ACCOUNTS

The Audit Committee of the Company has reviewed the Group s consolidated financial statements for the year ended 31 December 2007, including the accounting principles and practices adopted by the Group, in conjunction with the Company s external auditor and internal auditor.

Commission File Number 001-31914

PUBLICATION OF DETAILED RESULTS ON THE WEBSITE OF THE HONGKONG STOCK EXCHANGE AND THE COMPANY

This announcement is published on the website of the Hong Kong Stock Exchange at www.hkex.com.hk and the website of the Company at www.e-chinalife.com.

This announcement is published in both English and Chinese languages. Should there be any inconsistency between the Chinese and English versions, the Chinese version shall prevail.

As at the date of the announcement, the Directors of the Company are as follows:

Executive Directors:	Yang Chao, Wan Feng
Non-executive Directors:	Shi Guoqing, Zhuang Zuojin
Independent Non-executive Directors:	Long Yongtu, Sun Shuyi, Ma Yongwei,
	Chau Tak Hay, Cai Rang, Ngai Wai Fung

By order of the Board of
CHINA LIFE INSURANCE COMPANY LIMITED
Yang Chao
Chairman

Beijing, China, 25 March 2008

28