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 insurance, annuity, 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 has a primary listing on the Stock Exchange of Hong Kong and the New York Stock Exchange.

These consolidated financial statements are presented in millions of RenMinBi ("RMB million") unless otherwise stated. These consolidated financial statements have been approved for issue by the board of directors on 18 April 2006.

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, unless otherwise stated.

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"). The accounting policies and methods of computation used in the preparation of these consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2004 except that the Group has changed certain of its accounting policies following its adoption of HKFRS that were effective for accounting periods commencing on or after 1 January 2005. Other than reclassification of certain investment and insurance accounts there was no material impact from the adoption of the new HKFRS on shareholders' equity and net profit. These statements have been prepared 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.

In 2005, the Group adopted the new or revised standards of HKFRS listed below, which are relevant to its operations. Reclassifications of certain accounts have been made to the 2004 comparatives, as required, in accordance with the relevant requirements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

HKAS 1	Presentation of Financial Statements
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 34	Interim Financial Reporting
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 3	Business Combinations
HKFRS 4	Insurance Contract

The adoption of new or revised HKASs 1, 7, 8, 10, 12, 14, 16, 17, 18, 19, 21, 24, 27, 32, 33, 34, 36, 37, 38 and HKFRS 3 did not result in substantial changes to the Group's accounting policies. In summary:

– HKASs 7, 8, 10, 12, 14, 16, 17, 18, 19, 21, 27, 33, 34, 36, 37, 38 and HKFRS 3 had no material effect on the Group's policies.

– HKAS 1 has affected the order in which assets and liabilities are presented in the balance sheet and other disclosures and the presentation of minority interest in the income statement and in the statement of change in equity.

– HKAS 24 has affected the identification of related parties and related-party disclosures.

– HKAS 32 has required additional disclosures of information in respect of financial assets and financial liabilities.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than HKAS 39 which does not permit the Group to recognise, derecognise or measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investments in securities" to investments in securities for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 January 2005.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

The impact of the adoption of HKAS 39 and HKFRS 4 to the financial statements of the Group is as follows:

(i) *HKAS 39*

The adoption of HKAS 39 resulted in a change in the accounting policy relating to the classification of financial assets at fair value through income and available-for-sale securities but no change in equity at 1 January 2005. The details of the adjustments to the consolidated balance sheet at 31 December 2005 and consolidated income statement for the year ended 31 December 2005 are as follows:

Consolidated balance sheet

	As at 31 December 2005 RMB million
Increase:	
Available-for-sale securities	122,686
Decrease:	
Non-trading securities	(122,686)
Increase:	
Financial assets at fair value through income	26,119
Decrease:	
Trading securities	(26,119)

Consolidated income statement

	2005 RMB million
Increase:	
Net realised losses on financial assets	(510)
Decrease:	
Net realised losses on investments	510
Increase:	
Net fair value gains on assets at fair value through income	260
Decrease:	
Net unrealised gains on trading securities	(260)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(ii) *HKFRS 4*

The adoption of HKFRS 4 has resulted in a change in the classification of insurance contracts and investment contracts. HKFRS 4 applies to (i) all direct and assumed risk insurance contracts ("insurance contracts") and (ii) all investment contracts with a discretionary participation feature ("investment contracts with DPF") of the Group. All other contracts ("investment contracts without DPF") of the Group fall into the scope of HKAS 39.

The adoption of HKFRS 4 has no change on shareholders' equity at 1 January 2005. The details of the adjustments to the consolidated balance sheets as at 31 December 2005 and 31 December 2004 and the consolidated income statement for the year ended 31 December 2005 and 2004 are as follows:

Consolidated balance sheet

	As at 31 December 2005 RMB million	As at 31 December 2004 RMB million
Increase:		
Long-term traditional insurance contracts	**124,656**	89,698
Deferred income	**34,631**	27,603
Decrease:		
Future life policyholder benefits	**(159,287)**	(117,301)
Increase:		
Long-term investment type insurance contracts	**237,001**	191,885
Investment contracts		
– with DPF	**42,230**	32,476
– without DPF	**1,872**	1,635
Decrease:		
Policyholder contract deposits and other funds	**(281,103)**	(225,996)

Consolidated income statement

	2005 RMB million	2004 RMB million
Increase:		
Insurance benefits and claims		
– Increase in long-term traditional insurance contracts liabilities	**(33,977)**	(25,361)
Increase in deferred income	**(8,521)**	(7,793)
Decrease:		
Insurance benefits and claims		
– Increase in future life policyholder benefits	**42,498**	33,154
Increase:		
Insurance benefits and claims		
– Interest credited to long-term investment type insurance contracts	**(4,894)**	(3,704)
Interest credited to investment contracts	**(973)**	(616)
Decrease:		
Interest credited to policyholder contract deposits	**5,867**	4,320

There was no impact on basic and diluted earnings per share from the adoption of HKAS 39 and HKFRS 4.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new and revised standards and interpretations as set out below which are effective for accounting periods beginning on or after 1 January 2006. The Group has not early adopted these new and revised standards and interpretations in the financial statements for the year ended 31 December 2005. The Group is in the process of making an assessment of the impact of these new and revised standards and interpretations. So far the Group do not expect the adoption of these new and revised standards and interpretations will have substantial changes to the Group's accounting policies.

HKAS 1 (Amendment)	Capital Disclosures
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 (Amendment) and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS 7	Financial Instruments: Disclosures
HKFRS Interpretation 4	Determining whether an Arrangement contains a Lease

2.2 Consolidation

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 interests represent the interests 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 unamortised goodwill which was not previously charged or recognised in the consolidated income statement.

In the Company only balance sheet the investment 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.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Foreign currency translation

The functional currency of the Group's operations is Renminbi. 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 dealt with in the income statement.

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment loss, except for certain assets acquired prior to 1 January 1997. These assets were acquired as a result of the prior restructuring in 1996 of People's Insurance Company of China ("PICC"), a state-owned enterprise. The restructuring created CLIC's predecessor as a specialised life insurance subsidiary of PICC. CLIC is unable to obtain historical cost information for assets which were transferred to CLIC in that restructuring. Accordingly, these assets are stated at deemed costs less accumulated depreciation. Deemed cost is determined on the basis of a valuation performed as of 1 January 2000.

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 major renovations 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 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.

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:

	Estimated useful life
Buildings	30 to 35 years
Leasehold improvements	Over the remaining term of the lease
Office equipment, furniture and fixtures	5 to 10 years
Motor vehicles	4 to 8 years

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 recognised 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 recognised in the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial assets

2.6.a Investment in securities

From 1 January 2004 to 31 December 2004 the Group classified its investments in securities, other than subsidiaries, as held-to-maturity securities, trading securities and non-trading securities as further described below.

(i) Held-to-maturity securities

Debt securities classified as held-to-maturity are those which the Group has the ability and positive intent to hold to maturity. Held-to-maturity securities are stated in the balance sheet at cost plus/less any premium/discount amortised to date. The premium or discount is amortised over the period to maturity and included as investment income in the income statement.

(ii) Trading securities

Debt securities and equity securities which the Group purchases with the intention to resell in the near term are classified as trading and are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities are recognised in the income statement. Profit or loss on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, is recognised in the income statement.

(iii) Non-trading securities

Investments other than those classified as held-to-maturity or trading are defined as non-trading and are stated at fair value at the balance sheet date. Changes in the fair value of individual securities are credited or debited to the reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant securities, together with any surplus/deficit transferred from the reserve, is recognised in the income statement.

From 1 January 2005 onwards, the Group classifies its investments 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.

(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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial assets (continued)

2.6.a Investment in securities (continued)

(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 recognised on trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus, in the case of all financial assets not carried at fair value through income statement, transaction costs that are directly attributable to their acquisition. Investments are derecognised 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 recognised 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.

2.6.d Policy loans

Policy loans originated by the Group are carried at amortised cost, net of provision for impairment in value. All policy loans are due in 6 months.

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 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial assets (continued)

2.6.f Impairment of financial assets other than at fair value through income

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, 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 recognised. 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 recognised 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, which approximates fair value.

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. For these contracts, there was no major change in accounting policies as a result of adoption of new HKFRS.

(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.

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)

(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 recognised as revenue when due from policyholders. Benefits and expenses are provided against such revenue to recognise 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 recognised 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.c.

(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.

During 2005, HKFRS 4 was adopted. HKFRS 4 permits the existing accounting policies to be applied to all contracts deemed to be insurance contracts under HKFRS 4. As a result, these long-term investment type insurance contracts and investment contracts with DPF continue to be accounted for as follows: revenue from these contracts 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 recognised in income over the life of the contracts in a constant relationship to estimated gross profits (as defined below in section 2.8.1.b). To the extent unrealised gains or losses from available-for-sale securities affect the estimated gross profits, shadow adjustments are recognised 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 policyholder liability for long-term investment type insurance contracts and investment contracts with DPF represents the accumulation of premium received less charges, as described above.

2.8.1.b 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.c.

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.b Deferred policy acquisition costs ("DAC") (continued)

DAC for long-term investment type insurance contracts and investment contracts with DPF 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 recognised 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.

2.8.1.c 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 income statement initially by writing off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

Any DAC written off as a result of the liability adequacy test cannot be subsequently reinstated.

2.8.1.d 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 recognised 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 recognised 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.

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 recognises that impairment loss in the income statement. If a reinsurer is unable to satisfy its obligation under the reinsurance contracts, the liability become the responsibility of the Group.

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.e 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 least 70% of distributable surplus, which includes interest and realised gains and losses arising from the assets supporting these contracts; if this eligible surplus has not been declared and paid, it is included in the policyholder dividends payable. The policyholders' share of unrealised gains or losses in respect of assets held by the Group, which may be paid to participating policyholders in the future under the policy terms in respect of assets, is also 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 represents the accumulation of premium received less charges.

Revenue from these contracts 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 recognised in income over the life of the contracts in a constant relationship to estimated gross profits (defined in section 2.8.1.b). 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.

2.9 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 with DPF. Both are described in Note 2.8.1.a. Both deferred income amounts will be released to income statement over the remaining lifetime of the business. These amounts were previously included in the liability for future life policyholder benefits.

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 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 sheets.

2.11 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. Voluntary payments made to certain former employees and which were not made pursuant to a formal or informal plan are expensed as paid.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Employee benefits (continued)

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.

2.12 Revenue recognition

Turnover of the Group represents the total revenues.

Premium and policy fees

Premiums from long-term traditional life insurance contracts are recognised 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 recognised when due.

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 recognise 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, policy 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 recognised when the right to receive dividend payment is established.

2.13 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. Currently enacted tax rates are used in the determination of deferred income tax.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries 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.

2.14 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 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 recognised 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 recognised 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 recognised as a provision.

2.16 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.17 Comparatives

The Group previously disclosed "proceeds from investment in securities sold under agreements to repurchase, net" within "cash flow from investing activities" in cash flow statement. Management of the Group believes that their inclusion in "cash flow from financing activities" in cash flow statement is a fairer representation of the Group's activities.

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 derecognised. However, significant deterioration in experience can lead to an immediate increase in the liabilities.

Investment return assumptions are based on estimates of future yields on the Group's investments as described in Note 13. If the investment return assumptions in all years were 1% lower or higher than the above, the insurance liabilities would increase by RMB8,885 million or decrease by RMB8,557 million. In these cases, there is no relief arising from reinsurance contracts held.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES (continued)

3.1 Estimate of future benefit payments and premiums arising from long-term traditional insurance contracts and related deferred policy acquisition costs (continued)

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 are described in Note 13. Where the mortality rates increased or decreased by 10% from current assumptions, the liability would increase by RMB257 million or decrease by RMB263 million respectively. Where the morbidity rates increased or decreased by 10% from management's estimate, the liability would increase by RMB310 million or decrease by RMB310 million respectively.

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 13.

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. 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.

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 based on current bid prices.

– Term deposits (excluding structured deposits), 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.

– Policy loans: the carrying values for policy loans approximate fair value.

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 expect 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 has entered into two reinsurance agreements. One agreement cedes 35% of the business associated with a critical illness product to a reinsurer on a quota share basis. The other agreement, written on a surplus basis, reinsures the Group for losses above a specified amount, which is RMB1 million per person for life insurance, RMB1 million per person for accident insurance and RMB0.3 million per person for health insurance. These agreements spread insured risk and reduce the effect of potential losses to the Group.

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	2005		2004	
	RMB million	%	RMB million	%
Premium				
Kang Ning Whole Life *	**21,425**	**33.4%**	18,014	35.7%
Hong Xin endowment *	**20,994**	**32.8%**	12,279	24.3%
Others	**21,653**	**33.8%**	20,164	40.0%
Total	**64,072**	**100.0%**	50,457	100.0%
Insurance benefits				
Qian Xi endowment *	**3,222**	**38.8%**	2,359	34.6%
Kang Ning Whole Life *	**2,121**	**25.5%**	1,668	24.5%
Others	**2,968**	**35.7%**	2,789	40.9%
Total	**8,311**	**100.0%**	6,816	100.0%
Liabilities of long-term traditional insurance contracts				
Kang Ning Whole Life *	**42,859**	**34.4%**	31,822	35.5%
Hong Xin endowment *	**21,549**	**17.3%**	8,480	9.5%
Others	**60,248**	**48.3%**	49,396	55.0%
Total	**124,656**	**100.0%**	89,698	100.0%

* Hong Xin endowment and Qian Xi endowment are two major long-term individual endowment traditional insurance contracts with DPF. Kang Ning Whole life is the biggest long-term individual whole life traditional insurance contract.

For long-term investment type insurance contracts, Hong Feng Endowment is the major product provided by the Group in 2005. Hong Feng Endowment had RMB34,915 million of deposits in 2005, 55.5% of total received deposits of long-term investment type insurance contracts. Hong Tai Endowment and Hong Rui Endowment are the major products of long-term investment type insurance contracts provided by the Group in 2004. Hong Tai Endowment had RMB36,357 million of deposits in 2004, 54.0% of total received deposits of long-term investment type insurance contracts. Hong Rui Endowment had RMB17,521 million of deposits in 2004, 26.0% of total received deposits of long-term investment type insurance contracts.

Participating contracts for the year ended 31 December 2005 represented approximately 50% and 50% of gross and net life insurance premium and policy fees, respectively (2004: 47% and 47%). The net investment income, net realised gains/(losses) on financial assets and net fair value gains/(losses) on assets at fair value through income in 2005 are RMB11,102 million, RMB(318) million and RMB98 million respectively (2004: RMB7,140 million, RMB76 million and RMB(913) million).

4 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

4.2 Financial risk

The Group's activities expose it 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 interest rate risk, 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 hedges 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 interest rate risk, market risk, credit risk, and liquidity 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 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 table below summaries the effective interest rate at the balance sheet date rate across major applicable financial assets and financial liabilities.

As at 31 December	2005	2004
Financial assets other than at fair value through income		
Debt securities		
– held-to-maturity securities	**4.6%**	4.7%
– available-for-sale securities/non-trading securities	**3.7%**	3.4%
Term deposits	**4.1%**	4.3%
Cash and cash equivalents	**3.0%**	1.6%
Investment contracts with DPF	**2.5%**	2.5%
Investment contracts without DPF	**2.3%**	2.4%

The interest rates that are used to measure long-term traditional insurance contracts are disclosed in Note 13.

4 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

4.2 Financial risk (continued)

(i) *Interest rate risk (continued)*

The following table summaries the major financial assets and liabilities subject to interest rate risk at their contractual or estimated maturity date:

As at 31 December 2005	2006	2007	2008	2009	2010	Thereafter	Total
				(RMB million)			
Debt securities at carrying value							
– fixed rate	9,460	4,084	4,355	28,980	6,669	183,587	237,135
– variable rate	377	567	16	6,284	3,262	7,913	18,419
Term deposits							
– fixed rate	6,133	1,845	2,489	100	60	4,479	15,106
– variable rate	4,430	51,350	44,240	41,100	6,320	2,323	149,763
Cash and cash equivalents	28,051	–	–	–	–	–	28,051
Total	48,451	57,846	51,100	76,464	16,311	198,302	448,474
Long-term traditional insurance contracts	188	10	12	19	23	124,404	124,656
Long-term investment type insurance contracts	7,612	47,013	57,987	47,880	37,099	39,410	237,001
Investment contracts							
– with DPF	6,390	632	612	828	959	32,809	42,230
– without DPF	178	224	664	18	24	764	1,872
Securities sold under agreements to repurchase	4,731	–	–	–	–	–	4,731
Total	19,099	47,879	59,275	48,745	38,105	197,387	410,490

As at 31 December 2004	2005	2006	2007	2008	2009	Thereafter	Total
				(RMB million)			
Debt securities at carrying value							
– fixed rate	1,147	5,549	5,505	5,066	26,424	88,855	132,546
– variable rate	–	2,300	666	446	6,129	8,147	17,688
Term deposits							
– fixed rate	5,505	200	1,845	2,200	265	15,400	25,415
– variable rate	2,300	3,527	51,350	45,640	41,266	6,000	150,083
Securities purchased under agreement to resell	279	–	–	–	–	–	279
Cash and cash equivalents	27,217	–	–	–	–	–	27,217
Total	36,448	11,576	59,366	53,352	74,084	118,402	353,228
Long-term traditional insurance contracts	1,172	215	223	209	237	87,642	89,698
Long-term investment type insurance contracts	1,815	6,841	46,978	60,485	48,950	26,816	191,885
Investment contracts							
– with DPF	2,166	447	447	440	558	28,418	32,476
– without DPF	72	124	293	12	16	1,118	1,635
Total	5,225	7,627	47,941	61,146	49,761	143,994	315,694

4 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

4.2 Financial risk (continued)

(ii) *Market risk*

The Group's investments principally include term deposits, debt securities and equity securities. Prices of debt and equity securities are determined by market forces. The Group is subject to increased market risk largely because China's bond and stock markets are relatively unstable.

The Group manages market 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 Group operates principally in PRC except for limited exposure to foreign exchange rate risk arise primarily with respect to structured deposits, debt securities and common stock denominated in US dollar ("US$") or HK dollar ("HK$").

The following table summaries financial assets denominated in currencies other than RMB as at 31 December 2005 and 2004.

At 31 December 2005	US$ RMB million	HK$ RMB million	Total RMB million
Equity securities	–	2,295	2,295
Debt securities	1,025	–	1,025
Term deposits (excluding structured deposits)	242	–	242
Structured deposits	4,802	–	4,802
Cash and cash equivalents	15,502	212	15,714
Total	21,571	2,507	24,078

At 31 December 2004	US$ RMB million	HK$ RMB million	Total RMB million
Term deposits (excluding structured deposits)	5,462	–	5,462
Structured deposits	4,800	–	4,800
Cash and cash equivalents	15,237	316	15,553
Total	25,499	316	25,815

(iii) *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 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.

4 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

4.2 Financial risk (continued)

(iv) 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.

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 traditional business. Participating life insurance business relates primarily to the sale of participating contracts, as described in Note 2.8.1.e. Traditional life 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 life insurance business and traditional life insurance 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 services to CLIC, as described in Note 28, 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 losses on financial assets/net realised losses on investments, net fair value gains on assets at fair value through income/net unrealised losses on trading securities and foreign exchange loss 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.

5 SEGMENT INFORMATION (continued)

	For the year ended 31 December 2005				
	Individual life	Group life	Accident & Health (RMB million)	Corporate & other	Total
Revenues					
Gross written premiums and policy fees	68,888	1,267	10,867	–	81,022
Gross written premiums	63,205	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	229	28	3	–	260
Other income	–	–	–	1,739	1,739
Segment revenues	83,212	3,018	10,243	1,739	98,212
Benefits, claims and expenses					
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)
Amortization of deferred policy acquisition costs	(6,955)	(544)	(267)	–	(7,766)
Underwriting and policy acquisition costs expensed in the year	(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)
Segment benefits, claims and expenses	(72,542)	(3,531)	(8,963)	(1,666)	(86,702)
Segment results	10,670	(513)	1,280	73	11,510
Income tax expenses	–	–	–	(2,145)	(2,145)
Net profit/(loss)	10,670	(513)	1,280	(2,072)	9,365
Attributable to:					
– shareholders of the Company	10,670	(513)	1,280	(2,131)	9,306
– minority interest	–	–	–	59	59
Unrealised gains included in shareholders' equity	3,997	487	58	–	4,542

5 SEGMENT INFORMATION (continued)

	As at 31 December 2005				
	Individual life	Group life	Accident & Health (RMB million)	Corporate & other	Total
Assets					
Financial assets	416,310	50,713	6,095	–	473,118
Deferred policy acquisition costs	36,229	909	603	–	37,741
Cash and cash equivalents	24,683	3,007	361	–	28,051
Segment assets	477,222	54,629	7,059	–	538,910
Unallocated					
Property, plant and equipment					12,710
Other assets					7,599
Total					559,219
Liabilities					
Insurance contracts					
Short-term insurance contracts:					
– reserves for claims and claim adjustment expenses	–	–	1,784	–	1,784
– unearned premium reserves	–	–	5,147	–	5,147
Long-term traditional insurance contracts	123,457	1,199	–	–	124,656
Long-term investment type insurance contracts	235,847	1,154	–	–	237,001
Deferred income	34,104	527	–	–	34,631
Financial liabilities					
Investment contracts					
– with DPF	–	42,230	–	–	42,230
– without DPF	–	1,872	–	–	1,872
Securities sold under agreements to repurchase	4,163	507	61	–	4,731
Segment liabilities	397,571	47,489	6,992	–	452,052
Unallocated					
Other liabilities					26,358
Total					478,410

5 SEGMENT INFORMATION (continued)

	For the year ended 31 December 2004				
	Individual life	Group life	Accident & Health (RMB million)	Corporate & other	Total
Revenues					
Gross written premiums and policy fees	54,909	742	10,606	–	66,257
Gross written premiums	50,113	344	–	–	
– Term Life	183	28	–	–	
– Whole Life	19,629	316	–	–	
– Endowment	26,511	–	–	–	
– Annuity	3,790	–	–	–	
Policy fees	4,796	398	–	–	
Net premiums earned and policy fees	54,902	742	9,364	–	65,008
Net investment income	9,986	1,137	194	–	11,317
Net realised losses on investments	(209)	(24)	(4)	–	(237)
Net unrealised losses on trading securities	(936)	(107)	(18)	–	(1,061)
Other income	–	–	–	1,779	1,779
Segment revenues	63,743	1,748	9,536	1,779	76,806
Benefits, claims and expenses					
Insurance benefits and claims					
Life insurance death and other benefits	(6,422)	(394)	–	–	(6,816)
Accident and health claims and claim adjustment expenses	–	–	(6,418)	–	(6,418)
Increase in long-term traditional insurance contracts liabilities	(25,341)	(20)	–	–	(25,361)
Interest credited to long-term investment type insurance contracts	(3,678)	(26)	–	–	(3,704)
Interest credited to investment contracts	–	(616)	–	–	(616)
Increase in deferred income	(7,672)	(121)	–	–	(7,793)
Policyholder dividends resulting from participation in profits	(1,909)	(139)	–	–	(2,048)
Amortization of deferred policy acquisition costs	(5,888)	(197)	(178)	–	(6,263)
Underwriting and policy acquisition costs expensed in the year	(1,038)	(13)	(421)	–	(1,472)
Administrative expenses	(3,241)	(510)	(1,231)	(1,603)	(6,585)
Other operating expenses	(51)	(8)	(20)	(52)	(131)
Statutory insurance fund	–	–	(96)	–	(96)
Segment benefits, claims and expenses	(55,240)	(2,044)	(8,364)	(1,655)	(67,303)
Segment results	8,503	(296)	1,172	124	9,503
Income tax expenses	–	–	–	(2,280)	(2,280)
Net profit/(loss)	8,503	(296)	1,172	(2,156)	7,223
Attributable to:					
– shareholders of the Company	8,503	(296)	1,172	(2,208)	7,171
– minority interest	–	–	–	52	52
Unrealised losses included in shareholders' equity	(2,715)	(309)	(53)	–	(3,077)

5 SEGMENT INFORMATION (continued)

	As at 31 December 2004				
	Individual life	Group life	Accident & Health	Corporate & other	Total
			(RMB million)		
Assets					
Financial assets	311,271	35,451	6,035	–	352,757
Deferred policy acquisition costs	31,466	1,054	267	–	32,787
Cash and cash equivalents	24,015	2,736	466	–	27,217
Segment assets	366,752	39,241	6,768	–	412,761
Unallocated					
Property, plant and equipment					12,250
Other assets					8,660
Total					433,671
Liabilities					
Insurance contracts					
Short-term insurance contracts:					
– reserves for claims and claim adjustment expenses	–	–	1,215	–	1,215
– unearned premium reserves	–	–	5,212	–	5,212
Long-term traditional insurance contracts	88,985	713	–	–	89,698
Long-term investment type insurance contracts	190,791	1,094	–	–	191,885
Deferred income	27,039	564	–	–	27,603
Financial liabilities					
Investment contracts					
– with DPF	–	32,476	–	–	32,476
– without DPF	–	1,635	–	–	1,635
Segment liabilities	306,815	36,482	6,427	–	349,724
Unallocated					
Other liabilities					17,045
Total					366,769

6 PROPERTY, PLANT AND EQUIPMENT

Group

	2005					
	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
Cost or deemed cost						
At 1 January 2005	11,669	2,304	1,722	803	126	16,624
Additions	72	484	56	753	17	1,382
Disposals	(26)	(68)	(67)	(5)	(1)	(167)
Transfers upon completion	429	26	–	(465)	10	–
At 31 December 2005	**12,144**	**2,746**	**1,711**	**1,086**	**152**	**17,839**
Accumulated depreciation						
At 1 January 2005	(1,788)	(1,289)	(1,214)	–	(83)	(4,374)
Charges for the year	(380)	(313)	(174)	–	(17)	(884)
Disposals	4	62	63	–	–	129
At 31 December 2005	(2,164)	(1,540)	(1,325)	–	(100)	(5,129)
Net book value						
At 1 January 2005	9,881	1,015	508	803	43	12,250
At 31 December 2005	**9,980**	**1,206**	**386**	**1,086**	**52**	**12,710**

6 PROPERTY, PLANT AND EQUIPMENT (continued)

Group

	2004					
	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
Cost or deemed cost						
At 1 January 2004	11,018	1,868	1,689	1,101	153	15,829
Additions	48	443	77	477	18	1,063
Disposals	(164)	(15)	(44)	–	(45)	(268)
Transfers upon completion	767	8	–	(775)	–	–
At 31 December 2004	11,669	2,304	1,722	803	126	16,624
Accumulated depreciation and impairment						
At 1 January 2004	(1,674)	(992)	(1,100)	–	(55)	(3,821)
Charges for the year	(208)	(311)	(155)	–	(72)	(746)
Impairment loss	(3)	–	–	–	–	(3)
Disposals	97	14	41	–	44	196
At 31 December 2004	(1,788)	(1,289)	(1,214)	–	(83)	(4,374)
Net book value						
At 1 January 2004	9,344	876	589	1,101	98	12,008
At 31 December 2004	9,881	1,015	508	803	43	12,250

6 PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	2005					
	Buildings	Office equipment, furniture and fixtures	Motor vehicles	Assets under construction	Leasehold improvements	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Cost or deemed cost						
At 1 January 2005	11,669	2,299	1,720	803	126	16,617
Additions	72	476	55	501	17	1,121
Disposals	(26)	(68)	(67)	(5)	(1)	(167)
Transfers upon completion	429	26	–	(465)	10	–
At 31 December 2005	**12,144**	**2,733**	**1,708**	**834**	**152**	**17,571**
Accumulated depreciation						
At 1 January 2005	(1,788)	(1,287)	(1,214)	–	(83)	(4,372)
Charges for the year	(380)	(312)	(173)	–	(17)	(882)
Disposals	4	62	63	–	–	129
At 31 December 2005	(2,164)	(1,537)	(1,324)	–	(100)	(5,125)
Net book value						
At 1 January 2005	9,881	1,012	506	803	43	12,245
At 31 December 2005	**9,980**	**1,196**	**384**	**834**	**52**	**12,446**

6 PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	2004					
	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
Cost or deemed cost						
At 1 January 2004	11,018	1,864	1,689	1,101	153	15,825
Additions	48	442	75	477	18	1,060
Disposals	(164)	(15)	(44)	–	(45)	(268)
Transfers upon completion	767	8	–	(775)	–	–
At 31 December 2004	11,669	2,299	1,720	803	126	16,617
Accumulated depreciation and impairment						
At 1 January 2004	(1,674)	(992)	(1,100)	–	(55)	(3,821)
Charges for the year	(208)	(309)	(155)	–	(72)	(744)
Impairment loss	(3)	–	–	–	–	(3)
Disposals	97	14	41	–	44	196
At 31 December 2004	(1,788)	(1,287)	(1,214)	–	(83)	(4,372)
Net book value						
At 1 January 2004	9,344	872	589	1,101	98	12,004
At 31 December 2004	9,881	1,012	506	803	43	12,245

7 DEFERRED POLICY ACQUISITION COSTS

Group and Company	2005 RMB million	2004 RMB million
Gross		
At 1 January	**32,981**	25,164
Acquisition costs deferred	**14,231**	13,672
Amortisation charged through income	**(7,960)**	(6,559)
Amortisation charged through equity	**(1,411)**	704
At 31 December	**37,841**	32,981
Ceded		
At 1 January	**(194)**	(296)
Acquisition costs deferred	**(100)**	(194)
Amortisation charged through income	**194**	296
At 31 December	**(100)**	(194)
Net		
At 1 January	**32,787**	24,868
Acquisition costs deferred	**14,131**	13,478
Amortisation charged through income	**(7,766)**	(6,263)
Amortisation charged through equity	**(1,411)**	704
At 31 December	**37,741**	32,787
DAC excluding unrealised (gains)/losses	**38,188**	31,823
DAC recorded in unrealised (gains)/losses	**(447)**	964
Total	**37,741**	32,787
Current	**603**	267
Non-current	**37,138**	32,520
Total	**37,741**	32,787

8 FINANCIAL ASSETS

8.1 Held-to-maturity securities

	Amortised cost RMB million	Gross unrealised gains RMB million	Gross unrealised losses RMB million	Estimated fair value RMB million
Group and Company				
At 31 December 2005				
Debt securities				
Government bonds	**90,067**	**8,652**	**(13)**	**98,706**
Government agency bonds	**28,609**	**1,650**	**(12)**	**30,247**
Corporate bonds	**3,257**	**310**	**–**	**3,567**
Subordinated bonds/debts	**24,364**	**901**	**–**	**25,265**
Total	**146,297**	**11,513**	**(25)**	**157,785**

	Amortised cost RMB million	Gross unrealised gains RMB million	Gross unrealised losses RMB million	Estimated fair value RMB million
Group and Company				
At 31 December 2004				
Debt securities				
Government bonds	52,512	68	(146)	52,434
Government agency bonds	4,942	5	(59)	4,888
Corporate bonds	2,714	86	(18)	2,782
Subordinated bonds/debts	19,435	209	(28)	19,616
Total	79,603	368	(251)	79,720

	Group and Company			
Contractual maturity schedule	Amortised cost		Estimated fair value	
	2005 RMB million	2004 RMB million	**2005 RMB million**	2004 RMB million
Maturing:				
Within one year	**687**	–	**694**	–
After one year but within five years	**35,481**	31,010	**37,256**	30,948
After five years but within ten years	**53,750**	42,832	**58,878**	43,071
After ten years	**56,379**	5,761	**60,957**	5,701
Total	**146,297**	79,603	**157,785**	79,720

8 FINANCIAL ASSETS (continued)

8.2 Available-for-sale securities/Non-trading securities

	Amortised cost RMB million	Gross unrealised gains RMB million	Gross unrealised losses RMB million	Estimated fair value RMB million
Group				
At 31 December 2005				
Debt securities				
Government bonds	49,180	1,157	(415)	49,922
Government agency bonds	30,776	344	(458)	30,662
Corporate bonds	10,806	523	(14)	11,315
Subordinated bonds/debts	4,458	90	(22)	4,526
Subtotal	95,220	2,114	(909)	96,425
Equity securities				
Funds	24,845	422	(153)	25,114
Common stock	1,009	138	–	1,147
Subtotal	25,854	560	(153)	26,261
Total	121,074	2,674	(1,062)	122,686
Company				
At 31 December 2005				
Debt securities				
Government bonds	48,703	1,155	(415)	49,443
Government agency bonds	30,776	344	(458)	30,662
Corporate bonds	10,806	523	(14)	11,315
Subordinated bonds/debts	4,458	90	(22)	4,526
Subtotal	94,743	2,112	(909)	95,946
Equity securities				
Funds	24,703	421	(151)	24,973
Common stock	1,009	138	–	1,147
Subtotal	25,712	559	(151)	26,120
Total	120,455	2,671	(1,060)	122,066

8 FINANCIAL ASSETS (continued)

8.2 Available-for-sale securities/Non-trading securities (continued)

	Amortised cost RMB million	Gross unrealised gains RMB million	Gross unrealised losses RMB million	Estimated fair value RMB million
Group				
At 31 December 2004				
Debt securities				
Government bonds	43,871	109	(4,368)	39,612
Government agency bonds	26,645	231	(438)	26,438
Corporate bonds	4,292	3	(554)	3,741
Subtotal	74,808	343	(5,360)	69,791
Equity securities				
Funds	13,243	22	(668)	12,597
Total	88,051	365	(6,028)	82,388
Company				
At 31 December 2004				
Debt securities				
Government bonds	43,587	109	(4,368)	39,328
Government agency bonds	26,645	231	(438)	26,438
Corporate bonds	4,292	3	(554)	3,741
Subtotal	74,524	343	(5,360)	69,507
Equity securities				
Funds	13,243	22	(668)	12,597
Total	87,767	365	(6,028)	82,104

8 FINANCIAL ASSETS (continued)

8.2 Available-for-sale securities/Non-trading securities (continued)

	Group			
Debt securities-contractual maturity schedule	Amortised cost		Estimated fair value	
	2005	2004	2005	2004
	RMB million	RMB million	RMB million	RMB million
Maturing:				
Within one year	2,028	1,145	2,043	1,147
After one year but within five years	15,437	20,477	15,995	20,235
After five years but within ten years	37,892	32,923	38,371	30,797
After ten years	39,863	20,263	40,016	17,612
Total	95,220	74,808	96,425	69,791

	Company			
Debt securities-contractual maturity schedule	Amortised cost		Estimated fair value	
	2005	2004	2005	2004
	RMB million	RMB million	RMB million	RMB million
Maturing:				
Within one year	1,862	1,145	1,877	1,147
After one year but within five years	15,126	20,477	15,682	20,235
After five years but within ten years	37,892	32,639	38,371	30,513
After ten years	39,863	20,263	40,016	17,612
Total	94,743	74,524	95,946	69,507

The proceeds from sales of available-for-sale securities/non-trading securities and the gross realised gains/(losses) for the years ended 31 December 2005 and 2004 were as follows:

	Group and Company	
	2005	2004
	RMB million	RMB million
Proceeds from sales of available-for-sale securities/non-trading securities	59,806	26,160
Gross realised gains	301	127
Gross realised losses	(68)	(32)

8 FINANCIAL ASSETS (continued)

8.3 Financial assets at fair value through income/trading securities

	Group		Company	
	2005	2004	2005	2004
	RMB million	RMB million	RMB million	RMB million
Debt securities				
Government bonds	3,229	840	3,229	840
Government agency bonds	7,116	–	7,116	–
Corporate bonds	1,759	–	1,695	–
Subordinated bonds/debts	728	–	728	–
Subtotal	12,832	840	12,768	840
Equity securities				
Funds	8,408	4,674	8,408	4,674
Common stocks	4,875	–	4,875	–
Warrants	4	–	4	–
Subtotal	13,287	4,674	13,287	4,674
Total	26,119	5,514	26,055	5,514

8 FINANCIAL ASSETS (continued)

8.4 Listed and unlisted debt securities and equity securities at carrying value

	2005 RMB million	2004 RMB million
Group		
Listed debt securities – mainland, PRC		
Government bonds	62,192	45,232
Corporate bonds	4,377	2,954
Subtotal	66,569	48,186
Unlisted debt securities		
Government bonds	81,026	47,732
Government agency bonds	66,387	31,380
Corporate bonds	11,954	3,501
Subordinated bonds/debts	29,618	19,435
Subtotal	188,985	102,048
Listed equity securities		
Common stocks		
– listed in HK, PRC	2,294	–
– listed in mainland, PRC	3,728	–
Funds – listed in mainland, PRC	5,057	4,674
Warrants – listed in mainland, PRC	4	–
Subtotal	11,083	4,674
Unlisted equity securities		
Funds	28,465	12,597
Total	295,102	167,505

As of 31 December 2005, the amount of unlisted debt securities, contracted in the over-the-counter market, is RMB184,913 million (2004: RMB84,025 million).

8 FINANCIAL ASSETS (continued)

8.4 Listed and unlisted debt securities and equity securities at carrying value (continued)

	2005 RMB million	2004 RMB million
Company		
Listed debt securities – mainland, PRC		
Government bonds	61,713	44,948
Corporate bonds	4,333	2,954
Subtotal	66,046	47,902
Unlisted debt securities		
Government bonds	81,026	47,732
Government agency bonds	66,387	31,380
Corporate bonds	11,934	3,501
Subordinated bonds/debts	29,618	19,435
Subtotal	188,965	102,048
Listed equity securities		
Common stocks		
– listed in Hong Kong, PRC	2,294	–
– listed in mainland, PRC	3,728	–
Funds – listed in mainland, PRC	4,968	4,674
Warrants – listed in mainland, PRC	4	–
Subtotal	10,994	4,674
Unlisted equity securities		
Funds	28,413	12,597
Total	294,418	167,221

8.5 Term deposits

	Group		Company	
	2005 RMB million	2004 RMB million	2005 RMB million	2004 RMB million
Contractually maturing:				
Within one year	10,563	7,805	10,563	7,805
After one year but within five years	147,504	146,293	147,504	146,293
After five years but within ten years	3,502	17,503	3,502	17,503
After ten years	3,300	3,897	3,300	3,897
Total	164,869	175,498	164,869	175,498

Included in term deposits are structured deposits of RMB4,802 million (2004: RMB4,800 million). The interest rates of these deposits fluctuate based on changes in certain interest rate indexes. The Group uses structured deposits primarily to enhance the returns on investments. Structured deposits are carried at amortised cost.

8 FINANCIAL ASSETS (continued)

8.6 Statutory deposits – restricted

	Group		Company	
	2005	2004	**2005**	2004
	RMB million	RMB million	**RMB million**	RMB million
Contractually maturing:				
After one year but within five years	**5,353**	4,000	**5,353**	4,000

Insurance companies in China are required to deposit an amount equal to 20% of their registered capital with a bank designated by the CIRC. These funds may not be used for any purpose, other than to pay off debts during a liquidation proceeding.

8.7 Securities purchased under agreements to resell

	Group		Company	
	2005	2004	**2005**	2004
	RMB million	RMB million	**RMB million**	RMB million
Contractually maturing:				
Within 30 days	**–**	79	**–**	79
After 30 days but within 90 days	**–**	200	**–**	200
Total	**–**	279	**–**	279

8.8 Accrued investment income

	Group		Company	
	2005	2004	**2005**	2004
	RMB million	RMB million	**RMB million**	RMB million
Term deposits	**2,983**	2,843	**2,983**	2,843
Debt securities	**3,805**	2,203	**3,790**	2,199
Others	**25**	38	**24**	38
Total	**6,813**	5,084	**6,797**	5,080

	Group		Company	
	2005	2004	**2005**	2004
	RMB million	RMB million	**RMB million**	RMB million
Current	**6,802**	5,081	**6,786**	5,077
Non-current	**11**	3	**11**	3
Total	**6,813**	5,084	**6,797**	5,080

9 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The estimates and judgments to determine the fair value of investments 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.

	Estimated fair value	
	2005	2004
	RMB million	RMB million
Debt securities	**267,042**	150,351
Equity securities	**39,548**	17,271
Term deposits (excluding structured deposits)	**160,067**	170,698
Structured deposits	**4,538**	4,789
Statutory deposits – restricted	**5,353**	4,000
Securities purchased under agreements to resell	**–**	279
Policy loans	**981**	391
Cash and cash equivalents	**28,051**	27,217
Long-term investment type insurance contracts	**(219,973)**	(176,711)
Investment contracts with DPF	**(35,039)**	(26,117)
Investment contracts without DPF	**(1,673)**	(1,377)
Securities sold under agreements to repurchase	**(4,731)**	–

	Carrying value	
	2005	2004
	RMB million	RMB million
Debt securities	**255,554**	150,234
Equity securities	**39,548**	17,271
Term deposits (excluding structured deposits)	**160,067**	170,698
Structured deposits	**4,802**	4,800
Statutory deposits – restricted	**5,353**	4,000
Securities purchased under agreements to resell	**–**	279
Policy loans	**981**	391
Cash and cash equivalents	**28,051**	27,217
Long-term investment type insurance contracts	**(237,001)**	(191,885)
Investment contracts with DPF	**(42,230)**	(32,476)
Investment contracts without DPF	**(1,872)**	(1,635)
Securities sold under agreements to repurchase	**(4,731)**	–

10 PREMIUMS RECEIVABLES

The aging of premiums receivables is within 2 months.

11 REINSURANCE ASSETS

	Group		Company	
	2005	2004	**2005**	2004
	RMB million	RMB million	**RMB million**	RMB million
Claims recoverable from reinsurers *(Note 13)*	**106**	136	**106**	136
Ceded unearned premiums *(Note 13)*	**291**	571	**291**	571
Long-term traditional insurance contracts ceded *(Note 13)*	**674**	–	**674**	–
Due from reinsurance companies	**111**	590	**111**	590
Total	**1,182**	1,297	**1,182**	1,297

	Group		Company	
	2005	2004	**2005**	2004
	RMB million	RMB million	**RMB million**	RMB million
Current	**508**	1,297	**508**	1,297
Non-current	**674**	–	**674**	–
Total	**1,182**	1,297	**1,182**	1,297

12 OTHER

	Group		Company	
	2005	2004	**2005**	2004
	RMB million	RMB million	**RMB million**	RMB million
Due from CLIC *(Note 28(c))*	**851**	1,387	**843**	1,379
Receivable for fund units redeemed	**176**	1,500	**176**	1,500
Others	**431**	564	**424**	551
Total	**1,458**	3,451	**1,443**	3,430

	Group		Company	
	2005	2004	**2005**	2004
	RMB million	RMB million	**RMB million**	RMB million
Current	**1,333**	3,282	**1,063**	3,261
Non-current	**125**	169	**380**	169
Total	**1,458**	3,451	**1,443**	3,430

13 INSURANCE CONTRACTS

(a) Process used to decide on assumptions

(i) Investment return assumptions are based on estimates of future yields on the Group's investments. In determining interest rate assumptions, the Group considers past investment experience, the current and future mix of its investment portfolio and trends in yields. The assumed rate of investment return in future years reflect increased investment in higher yielding securities and term deposits, including corporate bonds, subordinated bonds/debts, longer duration debt securities, equity securities and structured deposits. The assumed rate of investment return and provision for adverse deviation used are as follows:

Policies issued	Interest rate assumptions	Provision for adverse deviation
Prior to 2003	3.8% – 5.0%	0.25% – 0.5%
2003	3.65% – 5.0%	0.25% – 0.5%
2004	3.7% – 5.17%	0.25% – 0.5%
2005	4.00% – 5.20%	0.25% – 0.5%

(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 date of contract issue plus, where applicable, a margin for adverse deviation.

The Group bases its mortality assumptions on China Life 1990-1993 Industry Experience Life Tables, 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 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, as follows:

	Individual Life		Group Life	
Policies issued	RMB Per Policy	% of Premium	RMB Per Policy	% of Premium
Prior to 2003	15.0	2.00%	15.0	2.00%
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%

13 INSURANCE CONTRACTS (continued)

(b) Change in assumptions

The Group did not change its process used to decide on assumptions for the insurance contracts disclosed in this note.

(c) Net liabilities of insurance contracts and investment contracts

Group and Company	2005 RMB million	2004 RMB million
Gross		
Short term insurance contracts:		
– claims and claim adjustment expenses	1,784	1,215
– unearned premiums	5,147	5,212
Long-term traditional insurance contracts	124,656	89,698
Long-term investment type insurance contracts	237,001	191,885
Investment contracts		
– with DPF	42,230	32,476
– without DPF	1,872	1,635
Total, gross	412,690	322,121
Recoverable from reinsurers		
Short-term insurance contracts:		
– claims and claim adjustment expenses *(Note 11)*	(106)	(136)
– unearned premiums *(Note 11)*	(291)	(571)
Long-term traditional insurance contracts *(Note 11)*	(674)	–
Total, ceded,	(1,071)	(707)
Net		
Short term insurance contracts:		
– claims and claim adjustment expenses	1,678	1,079
– unearned premiums	4,856	4,641
Long-term traditional insurance contracts	123,982	89,698
Long-term investment type insurance contracts	237,001	191,885
Investment contracts		
– with DPF	42,230	32,476
– without DPF	1,872	1,635
Total, net	411,619	321,414

13 INSURANCE CONTRACTS (continued)

(d) Claims incurred ratio

	2005 RMB million	2004 RMB million
Claims incurred-net	6,847	6,418
Claims incurred ratio	68%	69%

(e) Movements in liabilities of short-term insurance contracts

The table below presents movement of reserves of claims and claim adjustment expenses:

Group and Company	2005 RMB million	2004 RMB million
Notified claims	651	467
Incurred but not reported	564	347
Total at 1 January – Gross	1,215	814
Cash paid for claims settled in year		
– Cash paid for current year claims	(4,962)	(5,961)
– Cash paid for prior year claims	(1,975)	(1,107)
Claims incurred in year		
– Claims arising in current year	6,653	7,132
– Claims arising in prior year	853	337
Total at 31 December – Gross	1,784	1,215
Notified claims	638	651
Incurred but not reported	1,146	564
Total at 31 December – Gross	1,784	1,215

The table below presents movement of unearned premium reserves:

	2005 RMB million			2004 RMB million		
Group and Company	Gross	Ceded	Net	Gross	Ceded	Net
At 1 January	5,212	(571)	4,641	5,382	(808)	4,574
Changes in the year	(65)	280	215	(170)	237	67
At 31 December	5,147	(291)	4,856	5,212	(571)	4,641

13 INSURANCE CONTRACTS (continued)

(f) Movements in liabilities for long-term traditional insurance contracts

The table below presents movement in the liabilities of long-term traditional insurance contracts:

Group and Company	2005 RMB million
At 1 January	**89,698**
Valuation premium	**42,271**
Liabilities released for death or other termination and related expenses	**(11,486)**
Accretion of interest	**3,880**
Other movements	**293**
At 31 December	**124,656**

(g) 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:

Group and Company	2005 RMB million
At 1 January	**191,885**
Deposits received	**62,945**
Deposits withdrawn	**(17,011)**
Fees deducted from account balances	**(5,712)**
Interest credited	**4,894**
At 31 December	**237,001**

14 DEFERRED INCOME

The table below presents movement of deferred income:

Group and Company	2005 RMB million	2004 RMB million
At 1 January	**27,603**	18,753
Change in the year	**7,028**	8,850
At 31 December	**34,631**	27,603
Deferred income excluding unrealised (gains)/losses	**35,116**	26,546
Deferred income recognised in unrealised (gains)/losses	**(485)**	1,057
Total deferred income	**34,631**	27,603

15 LIABILITIES OF INVESTMENT CONTRACTS

The table below presents movement of investment contracts:

Group and Company	2005 RMB million	2004 RMB million
At 1 January	**34,111**	18,749
Deposits received	**23,001**	21,353
Deposits withdrawn	**(13,612)**	(6,228)
Policy fees deducted from account balances	**(371)**	(379)
Interest credited	**973**	616
At 31 December	**44,102**	34,111
Investment contracts		
– with DPF	**42,230**	32,476
– without DPF	**1,872**	1,635
Total	**44,102**	34,111

16 SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Liabilities are due within thirty days from the balance sheet date. The carrying values of debt securities and term deposits pledged as collateral are as follows:

	Group		Company	
	2005 RMB million	2004 RMB million	2005 RMB million	2004 RMB million
Term deposits pledged	**600**	–	**600**	–
Debt securities pledged	**4,131**	–	**4,025**	–
Total	**4,731**	–	**4,625**	–

17 OTHER LIABILITIES

	Group		Company	
	2005 RMB million	2004 RMB million	2005 RMB million	2004 RMB million
Salary and staff welfare payable	**1,533**	1,608	**1,500**	1,593
Commission and brokerage payable	**997**	958	**997**	958
Agent deposits	**498**	478	**498**	478
Tax payable	**183**	158	**180**	163
Payable to constructors	**115**	217	**114**	217
Others	**780**	1,503	**800**	1,521
Total	**4,106**	4,922	**4,089**	4,930

17 OTHER LIABILITIES (continued)

	Group		Company	
	2005	2004	**2005**	2004
	RMB million	RMB million	**RMB million**	RMB million
Current	**4,106**	4,922	**4,089**	4,930

18 STATUTORY INSURANCE FUND

According to the PRC "Financial Regulations for Insurance Companies", insurance companies are required to provide for the insurance guarantee fund at 1% of the net premiums of general insurance, accident insurance, short-term health insurance and reinsurance business, and 0.15% of those of life insurance business with a guaranteed interest rate, and 0.05% of those of life insurance business without a guaranteed interest rate.

19 NET INVESTMENT INCOME

	2005	2004
	RMB million	RMB million
Debt securities	**8,429**	3,720
Term deposits and cash and cash equivalents	**7,903**	6,744
Equity securities	**494**	646
Policy loans	**22**	11
Securities purchased under agreements to resell	**3**	253
Subtotal	**16,851**	11,374
Securities sold under agreements to repurchase	**(70)**	(10)
Investment expenses	**(96)**	(47)
Total	**16,685**	11,317

20 NET REALISED LOSSES ON FINANCIAL ASSETS/NET REALISED LOSSES ON INVESTMENTS

		2005 RMB million	2004 RMB million
Debt securities			
Gross realised gains		158	18
Gross realised losses		(5)	(15)
Impairments	*(i)*	(92)	(320)
Subtotal		61	(317)
Equity securities			
Gross realised gains		143	97
Gross realised losses		(63)	(17)
Impairments	*(ii)*	(651)	–
Subtotal		(571)	80
Total		(510)	(237)

Note:

(i) The Group has government bonds deposited with Min Fa Securities Limited Company ("Min Fa"). During the year ended 31 December 2004, while the underlying government bonds themselves were not considered to be impaired, the Group recorded an impairment charge against these bonds as the financial difficulties at Min Fa were deemed to have impaired the Group's estimated future cash flows from these bonds. An impairment charge of RMB320 million was recorded to reduce the carrying value of these government bonds held by Min Fa to RMB92 million.

During the year ended 31 December 2005, Min Fa was ordered by the China Securities Regulatory Commission to wind up and liquidation proceedings against Min Fa were commenced. As a result, the Group recorded an impairment provision in 2005 for the remaining RMB92 million carrying value in government bonds held by Min Fa.

(ii) The Group recorded impairment losses approximately RMB651 million (2004: Nil). In the opinion of the Group's management, it is possible on equity securities of that the Group may not realise a full recovery on these investments which incurred an other-than-temporary decline in value in accordance with the accounting policies disclosed in Note 2.6.f.

21 NET FAIR VALUE GAINS ON ASSETS AT FAIR VALUE THROUGH INCOME/NET UNREALISED LOSSES ON TRADING SECURITIES

	2005 RMB million	2004 RMB million
Debt securities	88	11
Equity securities	172	(1,072)
Total	260	(1,061)

22 INSURANCE BENEFITS AND CLAIMS

	Gross RMB million	Ceded RMB million	Net RMB million
For the year ended 31 December 2005			
Life insurance death and other benefits	**8,320**	**(9)**	**8,311**
Accident and health claims and claim adjustment expenses	**7,506**	**(659)**	**6,847**
Increases in long-term traditional insurance contracts liabilities	**34,114**	**(137)**	**33,977**
Interest credited to long-term investment type insurance contracts	**4,894**	**–**	**4,894**
Total insurance benefits and claims	**54,834**	**(805)**	**54,029**
For the year ended 31 December 2004			
Life insurance death and other benefits	6,816	–	6,816
Accident and health claims and claim adjustment expenses	7,469	(1,051)	6,418
Increases in long-term traditional insurance contracts liabilities	25,361	–	25,361
Interest credited to long-term investment type insurance contracts	3,704	–	3,704
Total insurance benefits and claims	43,350	(1,051)	42,299

23 NET PROFIT BEFORE INCOME TAX EXPENSES

Net profit before income tax expenses is stated after charging the following:

	2005 RMB million	2004 RMB million
Salary and welfare	**3,118**	2,827
Housing benefits	**251**	199
Contribution to the defined contribution pension plan	**342**	295
Depreciation	**884**	746
Loss on disposal of property, plant and equipment	**7**	5
Exchange loss	**639**	59
Auditor’s remuneration	**46**	32

24 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 taxes relate to the same fiscal authority.

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

	2005 RMB million	2004 RMB million
Current taxation – Enterprises income tax	772	79
Deferred taxation	1,373	2,201
Taxation charges	2,145	2,280

(b) The reconciliation between the Group's effective tax rate and the statutory tax rate of 33% in the PRC is as follows:

	2005 RMB million	2004 RMB million
Net profit before income tax expenses	11,510	9,503
Tax computed at the statutory tax rate of 33%	3,798	3,136
Tax exception from taxable income at the statutory tax rate of 33%	(1,763)	(923)
Addition tax liability from expenses not deductible for tax purposes	110	67
Income taxes at effective tax rate	2,145	2,280

Non-taxable income includes mainly interest income from government bonds. Expenses not deductible for tax purposes include mainly commission, brokerage and donation expenses in excess of deductible amounts as allowed by relevant tax regulations.

(c) At 31 December 2005, deferred income taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 33%.

The movement on the deferred income tax liabilities account is as follows:

	Group and Company	
	2005 RMB million	2004 RMB million
At 1 January	4,371	3,686
Deferred taxation charged to income statement	1,373	2,201
Taxation charged to equity	2,238	(1,516)
At 31 December	7,982	4,371

24 TAXATION (continued)

(d) The movement in deferred tax assets and liabilities prior to offsetting during the year is as follows:

Deferred tax

Group and Company	Long-term insurance contracts and investment contracts RMB million	Short-term insurance contracts RMB million	Investments RMB million	DAC RMB million	Others RMB million	Total RMB million
At 1 January, 2004	3,512	117	357	(8,206)	534	(3,686)
(Charged)/credited to income statement	92	(126)	232	(2,381)	(18)	(2,201)
Charged to equity	348	–	1,400	(232)	–	1,516
At 31 December, 2004	3,952	(9)	1,989	(10,819)	516	(4,371)
At 1 January, 2005	3,952	(9)	1,989	(10,819)	516	(4,371)
(Charged)/credited to income statement	(34)	167	801	(2,101)	(206)	(1,373)
Charged to equity	(303)	–	(2,401)	466	–	(2,238)
At 31 December, 2005	3,615	158	389	(12,454)	310	(7,982)

	Group and Company 2005 RMB million	Group and Company 2004 RMB million
Gross deferred tax assets	**4,472**	6,457
Gross deferred tax liabilities	**(12,454)**	(10,828)
Net deferred tax liabilities	**(7,982)**	(4,371)

	Group and Company 2005 RMB million	Group and Company 2004 RMB million
Deferred tax assets:		
– deferred tax asset to be recovered after more than 12 months	**3,697**	6,457
– deferred tax asset to be recovered within 12 months	**775**	–
Subtotal	**4,472**	6,457
Deferred tax liabilities:		
– deferred tax liability to be settled after more than 12 months	**(12,255)**	(10,731)
– deferred tax liability to be settled within 12 months	**(199)**	(97)
Subtotal	**(12,454)**	(10,828)
Net deferred tax liabilities	**(7,982)**	(4,371)

25 NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The net profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of RMB9,218 million (2004: RMB7,093 million).

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 2005 is based on the number of 26,764,705,000 ordinary shares.

27 DIVIDENDS PROPOSED AFTER THE BALANCE SHEET DATE

A dividend in respect of 2005 of RMB0.05 per ordinary share, amounting to a total dividend of RMB1,338 million, is to be proposed at the Annual General Meeting in June 2006. These financial statements do not reflect this dividend payable.

28 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 of 31 December 2005:

Significant related party	Relationship with the Company
China Life Insurance (Group) Company ("CLIC")	The ultimate holding company
China Life Insurance Asset Management Company Limited ("AMC")	A subsidiary of the Company
China Life Asset Management (Hong Kong) Corporation Limited	A subsidiary of AMC
Beijing Zhongbaoxin Real Estate Development Co. Ltd	A subsidiary of the ultimate holding company

(b) Transactions with CLIC and AMC

The following table summarises significant recurring transactions carried out by the Group with CLIC and AMC for the year ended 31 December 2005.

	Note	**2005 RMB million**	2004 RMB million
Transaction with CLIC			
Policy management fee income earned from CLIC	*(i)*	**1,567**	1,667
Asset management fee receivable earned from CLIC	*(ii)*	**84**	73
Non-performing assets management fee earned from CLIC	*(iii)*	**11**	13
Property leasing expense charged by CLIC	*(iv)*	**335**	335
Transaction with AMC			
Asset management fee expense charged by AMC	*(ii)*	**239**	139

28 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with CLIC and AMC (continued)

Note:

(i) As part of the restructuring, CLIC transferred its entire branch services network to the Company. CLIC and the Company have entered into a Policy Management Agreement on 30 September 2003 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 of the last day of the period, multiplied by RMB8 per policy and (2) 2.5% 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 through consolidated income statement.

(ii) On 30 November 2003, CLIC and the Company separately entered into asset management agreements with China Life Insurance Asset Management Company Limited ("AMC"), the Company's 60% owned subsidiary. The terms of the two agreements are the same. Under the agreement, AMC agreed to invest and manage assets entrusted to it by CLIC and the Company on a discretionary basis, subject to the investment guidelines and instructions given by them. In consideration of its services provided under the agreement, CLIC and the Company agreed to pay AMC a monthly service fee.

The monthly service fee 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 agreement. The rate was determined based on the analysis of the cost of providing the service, market practice and the size and composition of the asset pool to be managed. If the average investment rate of return for the assets managed for a particular year exceeds a target investment rate of return, as previously agreed, by at least ten basis points, AMC will be entitled to an annual performance bonus, the amount of which shall not exceed 50% of the annual service fees for that year. If the average investment rate of return is less than the target investment rate of return, as agreed, by at least ten basis points, AMC will be required to rebate a portion of its fee, the amount of which shall not exceed 25% of the annual service fees for that year.

Under a separate agreement signed by CLIC and the Company on 30 September 2003, the Company agreed to invest and manage the assets entrusted to it by CLIC for the period prior to the establishment of AMC on 30 November 2003. Under the agreement, the scope of service to be provided by the Company and the calculation basis of the monthly service are the same as the agreement signed between CLIC and AMC as mentioned above.

The asset management fee charged the Company by AMC is eliminated through the consolidated income statement.

(iii) The Group assisted CLIC to realise in cash certain non-performing assets of CLIC and as a result, received in 2005 a fee of RMB11 million (2004: RMB13 million), being approximately 7% of cash realised by CLIC (2004: 7%).

(iv) The Company has entered into a property leasing agreement with CLIC on 30 September 2003, 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.

28 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(c) Amounts due from/to CLIC and its subsidiaries

The following table summarises the resulting balance due from and to CLIC and its subsidiaries. The balance is non-interest bearing, unsecured and has no fixed repayment terms.

	2005 RMB million	2004 RMB million
Amount due from CLIC *(Note 12)*	851	1,387
Amount due to CLIC	(20)	(52)
Amount due to Beijing Zhongbaoxin Real Estate Development Co. Ltd	–	(35)

(d) Key management compensation

	2005 RMB million	2004 RMB million
Salaries and other short-term employee benefits	7	5
Termination benefits	–	–
Post-employment benefits	–	–
Other long-term benefits	–	–
Share-based payments	–	–
Total	7	5

(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 2005, more than 63% (2004: more than 72%) of bank deposits were with state-owned banks; approximately 94% (2004: approximately 91%) of the issuers of corporate bonds and subordinated bonds/debts held by the Group were state-owned enterprises. For the year end 31 December 2005, more than 82% (2004: more than 89%) of the group insurance business of the Group were with state-owned enterprises; approximately 88% (2004: approximately 67%) of bankassurance brokerage charges of RMB3,144 million (2004: RMB1,929 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 63% (2004: more than 72%) of bank deposit interest income were from state-owned banks.

28 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(f) Renewed connected transaction agreements

(i) On 24 December 2005, the Company and CLIC have entered into the Renewed Policy Management Agreement. There is no significant change in respect of relevant terms and conditions.

(ii) On 27 December 2005, CLIC and the AMC entered into the renewed CLIC asset management agreement. Under the new agreement, 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 by the AMC and CLIC with reference to the applicable management fee rate pre-determined for each specified category of assets managed by the AMC under the renewed Company asset management agreement, which was a comprehensive service fee rate arrived at.

On 29 December 2005, the Company and the AMC entered into the renewed Company asset management agreements. Under the new agreement, the Company agrees 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 under the renewed Company asset management agreement 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 representation of the service fee rates under the renewed CLIC asset management agreement and the renewed Company asset management agreement is different, the ultimate comprehensive service fee rate calculated under each of these two agreements is basically the same.

(iii) The Company entered into the Renewed Property Leasing Agreement with CLIC on 23 December 2005 to renew the Property Leasing Agreement in the foregoing statement. There is no significant difference between two agreements with regard to relevant terms and conditions for some supplementary information.

(iv) CLIC is a connected person of the Company by virtue of its being a controlling shareholder of the Company. AMC, a 60% owned subsidiary of the Company, is owned as to 40% by CLIC and is thus a connected person of the Company under Rule 14A11(5) of the Listing Rules. Given that the annual consideration payable under each of the Agreements represents less than 2.5% of the applicable percentage ratios, as defined in the Listing Rules, each of the Agreements falls within Rule 14A34 and is only subject to reporting, announcement and annual review requirements under the Listing Rules and is exempt from independent shareholders' approval.

29 SHARE CAPITAL

	Registered, issued and fully paid Ordinary shares of RMB1 each	
	No. of shares	RMB million
At 31 December 2004	26,764,705,000	26,765
At 31 December 2005	**26,764,705,000**	**26,765**

30 RESERVES

	Additional Paid in Capital RMB million	Unrealised gains/(losses) RMB million	Statutory Reserve Fund RMB million *(a)*	Statutory Welfare Fund RMB million *(a)*	Total RMB million
The Group					
At 1 January 2004	34,776	(778)	27	26	34,051
Unrealised losses, net of tax					
– arising from non-trading securities during the period	–	(2,902)	–	–	(2,902)
– reclassification adjustment for gains/(losses) included in income statement	–	61	–	–	61
– impact from non-trading securities on other assets and liabilities	–	(236)	–	–	(236)
Appropriation to statutory reserves	–	–	299	300	599
Change in the year	–	(3,077)	299	300	(2,478)
At 31 December 2004	34,776	(3,855)	326	326	31,573
Unrealised gains, net of tax					
– arising from available-for-sale securities during the period	**–**	**4,977**	**–**	**–**	**4,977**
– reclassification adjustment for gains/(losses) included in income statement	**–**	**(103)**	**–**	**–**	**(103)**
– impact from available-for-sale securities on other assets and liabilities	**–**	**(332)**	**–**	**–**	**(332)**
Appropriation to statutory reserves	**–**	**–**	**555**	**555**	**1,110**
Change in the year	**–**	**4,542**	**555**	**555**	**5,652**
At 31 December 2005	**34,776**	**687**	**881**	**881**	**37,225**

30 RESERVES (continued)

	Additional Paid in Capital RMB million	Unrealised gains/(losses) RMB million	Statutory Reserve Fund RMB million (a)	Statutory Welfare Fund RMB million (a)	Total RMB million
The Company					
At 1 January 2004	33,697	(778)	27	26	32,972
Unrealised losses, net of tax					
– arising from non-trading securities during the period	–	(2,902)	–	–	(2,902)
– reclassification adjustment for gains/(losses) included in income statement	–	61	–	–	61
– impact from non-trading securities on other assets and liabilities	–	(236)	–	–	(236)
Appropriation to statutory reserves	–	–	292	292	584
Change in the year	–	(3,077)	292	292	(2,493)
At 31 December 2004	33,697	(3,855)	319	318	30,479
Unrealised gains, net of tax					
– arising from available-for-sale securities during the period	–	4,975	–	–	4,975
– reclassification adjustment for gains/(losses) included in income statement	–	(103)	–	–	(103)
– impact from available-for-sale securities on other assets and liabilities	–	(331)	–	–	(331)
Appropriation to statutory reserves	–	–	545	546	1,091
Change in the year	–	4,541	545	546	5,632
At 31 December 2005	33,697	686	864	864	36,111

(a) Under related PRC law, the Group should appropriate 10% of net profit under PRC GAAP as statutory reserve fund and 5%-10% as statutory welfare fund. With approval of the related authority, statutory reserve fund can be used to offset accumulative losses or increase additional paid-in capital. Statutory welfare fund is used for employees' welfare. In 2005, the Group appropriate 10% of net profit under PRC GAAP which is RMB555 million as statutory reserve fund (2004: RMB299 million) and 10% of net profit under PRC GAAP which is RMB555 million as statutory welfare fund (2004: RMB300 million).

Under related PRC law, dividends may be paid only out of distributable profits. Distributable profits means the Group's after-tax profits as determined under PRC GAAP or Hong Kong GAAP, whichever is lower, less any recovery of accumulated losses and allocations to statutory funds that the Group is required to make. 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 RMB6,878 million as at 31 December 2005.

31 CONTINGENCIES

The following is a summary of the significant contingent liabilities:

	Group		Company	
	2005	2004	**2005**	2004
	RMB million	RMB million	**RMB million**	RMB million
Pending lawsuits *(b)*	**31**	22	**31**	22

(a) Nine putative class action lawsuits filed in the United States District Court for the Southern District of New York against the Group and certain of its officers and directors between 16 March 2004 and 14 May 2004 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 Group, Wang Xianzhang, Miao Fuchun and Wu Yan 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 Group has engaged U.S. counsel to contest vigorously on behalf of the Group. 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 November 18, 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.

32 COMMITMENTS

(a) Capital commitments for property, plant and equipment

	Group		Company	
	2005	2004	**2005**	2004
	RMB million	RMB million	**RMB million**	RMB million
Contracted but not provided for	**121**	290	**121**	290

32 COMMITMENTS (continued)

(b) Operating lease commitments

The Group has commitments to make the following future minimum lease payments under non-cancelable operating leases:

	Group		Company	
	2005 RMB million	2004 RMB million	**2005 RMB million**	2004 RMB million
Land and buildings				
Not later than one year	**250**	338	**250**	338
Later than one year but not later than five years	**248**	4	**248**	4
Later than five years	**23**	–	**23**	–

The operating lease payments charged to the consolidated income statement for the year ended 31 December 2005 was RMB409 million (2004: RMB400 million).

33 INVESTMENT IN SUBSIDIARIES

Company	**2005 RMB million**	2004 RMB million
Unlisted investment at cost:	**480**	480

Name	**Place of incorporation and operation**	**Principal activities**	**Percentage of equity interest held**
China Life Insurance Asset Management Company Limited	People's Republic of China	Asset management	60% directly
China Life Asset Management (Hong Kong) Corporation Limited	Hong Kong	Asset management	60% indirectly

34 DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S REMUNERATION

(a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year ended 31 December 2005 are as follows:

Name	Fee RMB	Salaries RMB	Discretionary bonuses RMB	Inducement fees RMB	Other benefits RMB	Employer's contribution to pension scheme RMB	Compen-sation for loss of office as director RMB	Total RMB
Yang Chao *(a)*	–	225,000	225,000	–	–	7,087	–	457,087
Miao Fuchun	–	533,500	436,500	–	–	16,363	–	986,363
Wu Yan	–	–	–	–	–	–	–	–
Shi Guoqing	–	–	–	–	–	–	–	–
Long Yongtu	220,000	–	–	–	–	–	–	220,000
Chau Tak Hay	220,000	–	–	–	–	–	–	220,000
Sun Shuyi	220,000	–	–	–	–	–	–	220,000
Cai Rang	220,000	–	–	–	–	–	–	220,000
Wang Xianzhang *(b)*	–	315,000	315,000	–	–	9,276	–	639,276
Fan Yingjun *(b)*	–	–	–	–	–	–	–	–

Notes:

(a) Appointed on 29 July 2005.

(b) Resigned on 29 July 2005.

Above mentioned directors' emoluments do not include the fee, which is RMB137,500 respectively, paid to Mr. Sun Shuyi and Mr. Cai Rang for the year of 2004. The fee was recognized and paid in September 2005, which was not included in 2004.

Mr. Fan Yingjun resigned and abandoned all the emoluments with free will on the day of 29 July 2005.

34 DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S REMUNERATION (continued)

(a) Directors' emoluments (continued)

The aggregate amounts of emoluments payable to directors of the Company during the year ended 31 December 2004 are as follows:

Name	Fee	Salaries	Discretionary bonuses	Inducement fees	Other benefits	Employer's contribution to pension scheme	Compen-sation for loss of office as director	Total
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Wang Xianzhang	–	540,000	540,000	–	–	–	–	1,080,000
Miao Fuchun	–	533,500	436,500	–	–	–	–	970,000
Wu Yan	–	–	–	–	–	–	–	–
Shi Guoqing	–	–	–	–	–	–	–	–
Long Yongtu	220,000	–	–	–	–	–	–	220,000
Chau Tak Hay	220,000	–	–	–	–	–	–	220,000
Sun Shuyi	–	–	–	–	–	–	–	–
Cai Rang	–	–	–	–	–	–	–	–
Fan Yingjun	–	–	–	–	–	–	–	–

In addition to the directors' emoluments disclosed above, certain directors of the Company receive emoluments from CLIC, part of which is in respect of their services to the Company and its subsidiaries. No apportionment has been made as the directors consider that it is impracticable to apportion this amount between their services to the Company and their services to CLIC.

(b) Supervisors' emoluments

The aggregate amounts of emoluments payable to supervisors of the Company during the year ended 31 December 2005 are as follows:

Name	Salaries	Discretionary bonuses	Inducement fees	Employer's contribution to pension scheme	Total
Liu Yingqi	489,500	400,500	–	16,363	906,363
Wu Weimin	292,500	157,500	–	16,363	466,363
Zhou Xinping	73,125	39,375	–	3,607	116,107
Jia Yuzeng	219,375	118,125	–	12,757	350,257
Ren Hongbin	100,000	–	–	–	100,000
Tian Hui	100,000	–	–	–	100,000

Note: The above amount reflected the emoluments for the servicing period of supervisors. The emolument paid to Mr. Zhou is for the servicing period from 1 January 2005 to 1 April 2005. The emolument paid to Mr. Jia is for the servicing period from 1 April 2005 to 31 December 2005.

34 DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S REMUNERATION (continued)

(b) Supervisors' emoluments (continued)

The aggregate amounts of emoluments payable to supervisors of the Company during the year ended 31 December 2004 are as follows:

Name	Salaries	Discretionary bonuses	Inducement fees	Employer's contribution to pension scheme	Total
Liu Yingqi	489,500	400,500	–	13,929	903,929
Wu Weimin	292,500	157,500	–	13,929	463,929
Zhou Xinping	297,500	119,167	–	13,929	430,596
Ren Hongbin	62,500	–	–	–	62,500
Tian Hui	62,500	–	–	–	62,500

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include one (2004: two) directors whose emoluments are reflected in the analysis presented above.

Details of remuneration of the remaining four (2004: three) highest paid individuals are as follows:

	2005 RMB million	2004 RMB million
Fees	**–**	–
Basic salaries, housing allowances, and other allowances and benefits in kind	**3,625,452**	2,670,000
	3,625,452	2,670,000

The emoluments fell within the following bands:

	Number of individuals **2005**	2004
Nil – RMB1,000,000	**4**	3

No emoluments have been paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

35 SUBSEQUENT EVENTS

(i) Preliminary Agreement in relation to the establishment of the Property and Casualty Insurance Joint Stock Company

On 13 March 2006, CLIC and the Company entered into a Preliminary Agreement in relation to the establishment of the Property and Casualty Insurance Joint Stock Company. The proposed registered capital of the Property and Casualty Insurance Joint Stock Company will be RMB1,000 million ordinary shares of RMB1.00 each. Upon its establishment, CLIC will own 60% of the Property and Casualty Insurance Joint Stock Company and the Company will own the remaining 40%. The terms of the Preliminary Agreement are subject to approval by CIRC and once approved, CLIC and the Company will enter into the Definitive Agreement which will replace the Preliminary Agreement.

(ii) Promoters Agreement in relation to the establishment of China Life Pension Company

On 21 March 2006, the Company, CLIC and AMC entered into the Promoters Agreement, whereby the Company, CLIC and AMC agreed to act as promoters and set up China Life Pension Company as a professional pension insurance company in the PRC for developing its pension insurance business. Upon its establishment, China Life Pension Company will become a subsidiary of the Company. The total registered capital of China Life Pension Company will be RMB600 million, divided into 600,000,000 shares. The Company, CLIC and AMC will contribute 55%, 25% and 20% of the registered capital respectively. The Promoters Agreement and the transactions contemplated thereunder are subject to the approval of CIRC. CLIC is the holding company of the Company, currently holding an approximate 72.2% of the issued share capital of the Company, and therefore is a substantial shareholder (as defined in the Listing Rules) of the Company. AMC, held by CLIC as to 40%, is an associate (as defined in the Listing Rules) of CLIC. Accordingly, both CLIC and AMC are connected persons of the Company and therefore the Promoters Agreement and the transactions contemplated thereunder constitute a connected transaction for the Company under Chapter 14A of the Listing Rules. Since the applicable percentage ratios set out in Rule 14.07 of the Listing Rules for the Company and AMC with regard to the Promoters Agreement exceed 0.1% but are less than 2.5%, according to Rule 14A.32, the Company is only subject to the reporting and announcement requirements and is exempt from the independent shareholders' approval requirements under the Listing Rules.

(iii) Proposed dividends

After the balance sheet date, the board of directors proposed a dividend in respect of 2005. Further details are disclosed in Note 27.

36 ULTIMATE HOLDING COMPANY

The directors regard China Life Insurance (Group) Company, a company incorporated in the PRC, as being the ultimate holding company.