1. CORPORATE INFORMATION

PICC Property and Casualty Company Limited (the "Company") is a limited liability joint stock company incorporated in the People's Republic of China (the "PRC").

The registered office of the Company is located at No. 69, Dongheyan Street, Xuanwumen, Beijing, the PRC.

The principal activity of the Company and its subsidiaries (the "Group") is mainly providing property and casualty insurance services. The details of the business segments are set out in note 4 of the financial statements.

In the opinion of the directors, the parent and the ultimate holding company of the Company is PICC Holding Company (the "Holding Company"), which is incorporated in the PRC.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain debt securities, equity securities, derivatives and structured deposits, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest million except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. For the year ended 31 December 2006, the net profit attributable to minority interests amounted to RMB228 (2005: Nil). As at 31 December 2006, the net assets attributable to minority interests amounted to RMB105,228 (2005: Nil).

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements. The adoption of these revised standards did not have any significant effect on the Group's financial statements. They did however give rise to additional disclosures.

HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts

HKAS 39 Amendment – The Fair Value Option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The adoption of this amendment did not affect the Group's operational results or its financial position, as no reclassification was necessary as all existing designated financial assets met the new criteria. The Group used this option for certain financial instruments containing one or more embedded derivatives.

HKAS 39 & HKFRS 4 Amendments – Financial Guarantee Contracts

The amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. The Group issues certain credit insurance contracts, but regards such contracts as insurance contracts and will apply the recognition and measurement criteria under HKFRS 4 *Insurance Contracts* to such contracts.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(CONTINUED)*

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures on qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Group regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosures of information about the Group's operating segments, the products and services provided by the segments, the geographical areas in which the Group operates, and the revenues from its major customers. The standard will supersede HKAS 14 *Segment Reporting*.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF THE IMPACT OF CHANGE IN AN ACCOUNTING POLICY

During the year, the Group changed its accounting policy to defer government levies and surcharges arising from the sales of insurance policies and amortise them over the relevant terms of insurance policies. Previously such costs were expensed when incurred. In the opinion of directors, this change better matches with the pattern of the income and expenses of the Group and is closely in line with the current industry practice. The effect of this change in an accounting policy to the financial statements was as follows:

(a) Effect on the Consolidated/Company's balance sheet

	2006 *RMB million*	2005 *RMB million*
Consolidated/Company's balance sheet at 1 January		
Assets – increase		
Deferred acquisition costs	1,732	1,694
Deferred tax assets	98	–
	1,830	1,694
Liabilities – (increase)		
Deferred acquisition costs-reinsurers' share	(297)	–
Deferred tax liabilities	(571)	(559)
	(868)	(559)
Total increase in net assets	962	1,135

	2006 *RMB million*	2005 *RMB million*
Consolidated/Company's balance sheet at 31 December		
Assets – increase		
Deferred acquisition costs	1,964	1,732
Deferred tax assets	80	98
	2,044	1,830
Liabilities – (increase)		
Deferred acquisition costs-reinsurers' share	(242)	(297)
Deferred tax liabilities	(648)	(571)
	(890)	(868)
Total increase in net assets	1,154	962

2.4 SUMMARY OF THE IMPACT OF CHANGE IN AN ACCOUNTING POLICY *(CONTINUED)*

(b) Effect on the Consolidated income statement

	2006 *RMB million*	2005 *RMB million*
Consolidated income statement for the year ended 31 December		
Increase in net premiums earned	**3,907**	3,582
Increase in amortisation of deferred acquisition costs, net	**(3,093)**	(3,209)
Increase in general and administrative expenses	**(527)**	(631)
(Increase)/decrease in tax	**(95)**	85
Total increase/(decrease) in profit	**192**	(173)
Increase/(decrease) in basic earnings per share attributable to ordinary equity holders of the parent (in RMB)	**0.017**	(0.016)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Associate

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of its associate is included in the consolidated income statement and the consolidated statement of changes in equity, respectively. The Group's investment in its associate is stated in the balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of the associate are included in the Company's income statement to the extent of dividends received and receivable. The Company's investment in the associate is treated as an asset and is stated at cost less any impairment losses.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Related parties

A party is considered to be related to the Group if:

(a) the party directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a member of the key management personnel of the Group or its parent;

(d) the party is a close member of the family of any individual referred to in (a) or (c); or

(e) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d).

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis so as to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Land and buildings	2.77% – 19.40%
Motor vehicles	16.17% – 24.25%
Office equipment, furniture and fixtures	8.82% – 32.30%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement of the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Construction in progress

Construction in progress represents buildings under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs, less accumulated depreciation and any impairment losses at the balance sheet date.

Depreciation is computed on a straight-line basis, after taking into account the estimated residual value (3% of the original cost), over the estimated useful lives. The estimated useful lives of investment properties vary from 30 to 35 years.

The useful life and depreciation methods are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from the individual investment properties.

Any gains or losses on retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

Transfers to, or from, investment properties are made when, and only when, there is evidence of a change in use.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in property, plant and equipment, and rentals receivable under the operating leases are credited to the income statement on a straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on a straight-line basis over the lease terms.

Prepaid land premiums under operating leases are initially stated at cost and subsequently recognised on a straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on these financial assets are recognised in the income statement.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment of financial assets *(continued)*

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified in any of the two preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis and option pricing models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to premiums receivable and agents' balances, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment of financial assets *(continued)*

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the assets, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including payables to reinsurers, accrued insurance protection fund, other liabilities and accruals, policyholders' deposits and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of interest rate swap contracts is determined by reference to market values for similar instruments or reference to the present value of estimated future cash flows.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Derivative financial instruments and hedging *(continued)*

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting for cash flow hedges are accounted for as follows:

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised immediately in the income statement.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects the income statement, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

If the forecast transaction or firm commitment is no longer expected to occur, the amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of an asset's or cash generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment of non-financial assets other than goodwill *(continued)*

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits with maturity of generally within three months when acquired, and assets similar in nature to cash, which are not restricted as to use.

Product classification

Insurance contracts

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract, or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant. The significance of insurance risk is dependent on both the probability of an insurance event and the magnitude of its potential effect.

Once a contract has been classified as an insurance contract, it remains as an insurance contract for the remaining of its life time, even if the insurance risk reduces significantly during this period, unless all rights and obligations expire.

Investment contracts

Any contracts issued to policyholders but not considered as insurance contracts under HKFRS 4 are classified as investment contracts. Investment contracts can be reclassified as insurance contracts after inception if the insurance risk becomes significant.

Where contracts contain both a deposit component and an insurance component and the cash flows from the two components are distinct, the underlying amounts are unbundled. Any premiums relating to the insurance component are accounted for through the income statement and the remaining element is accounted for as a deposit through the balance sheet as described above.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Insurance contract liabilities

Unearned premium reserves

Unearned premium reserves are recognised to cover the unexpired portion of the risks written. Premiums are earned over the terms of the related insurance contracts on a 365-day basis.

Loss and loss adjustment expense reserves

The loss and loss adjustment expense reserves are recorded on an undiscounted basis and comprise estimated provisions for losses reported at the balance sheet date, losses incurred but not yet reported at the balance sheet date and direct and indirect unallocated loss adjustment expenses.

The loss and loss adjustment expense reserves are calculated at a realistically estimated amount considered necessary to settle the loss in full, less a deduction for the estimated value of salvage and other recoveries, using the recognised actuarial method. Past experience is taken into account as well as the current and future expected social and economic factors.

Liability adequacy tests

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related deferred acquisition cost assets. In performing these tests, current best estimates of future contractual cash flows, loss adjustment and policy administration expenses, as well as investment income from assets backing such liabilities, are used. Any deficiency is immediately charged to the income statement initially by writing off deferred acquisition cost assets and by subsequently establishing a provision for losses arising from the liability adequacy tests. An amount of provision is made for each class of business individually. Any deferred acquisition cost asset written off cannot be reinstated subsequently.

Derecognition of insurance contract liabilities

Insurance contract liabilities are derecognised when they expire, are discharged or cancelled.

Deferred acquisition costs

Policy acquisition costs which vary with and are primarily related to the production of new and renewing businesses (consisting principally of commission expenses, underwriting personnel expenses, government levies and surcharges) are deferred and amortised over the terms of the related insurance policies. Reinsurers' share of deferred acquisition costs is separately presented in the balance sheet as a liability item. Deferred acquisition costs are derecognised when the related contracts are settled or disposed of.

Income tax

Income tax comprises current tax and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Income tax *(continued)*

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that they are probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Reinsurance

The Group assumes and/or cedes reinsurance in the normal course of business. Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Premiums on reinsurance assumed are recognised as revenue in the same manner as they would be recognised if the reinsurance was considered a direct business, taking into account the product classification of the reinsured business. Amounts due to reinsurers are estimated in a manner consistent with the associated reinsured policies and in accordance with the terms of the reinsurance contracts. Premiums ceded and claims reimbursed are presented on a gross basis.

An impairment review is performed on all reinsurance assets when an indication of impairment occurs.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Employee benefits

Pension scheme

The employees of the Group are required to participate in a central pension scheme operated by the local municipal government of Mainland China. The Group is required to contribute 13.0% to 39.5% of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Share-based payment transactions

Senior executives working in the Group are granted share appreciation rights, which are settleable only in cash (cash-settled transactions). The cost of cash-settled transactions is measured initially at fair value using the Black-Scholes model at the grant date taking into account the terms and conditions upon which the instruments were granted (see note 44). This fair value is expensed over the period until vesting with the recognition of a corresponding liability. The liability is remeasured at each balance sheet date up to and including the settlement date with changes in fair value recognised in the income statement.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following basis:

(a) premium income, which earned on a pro rata basis over the term of the related policy coverage, on the policy inception;

(b) rental income, on a time proportion basis over the lease terms;

(c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(d) dividend income, when the shareholders' right to receive payment has been established.

Claims

Claims incurred include all claim losses occurring during the year, whether reported or not, including the related loss adjustment expenses, the reduction for the value of salvage and other recoveries and any adjustments to claims outstanding from previous years.

Loss adjustment expenses include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all general administrative costs directly attributable to the claims function.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

Profit appropriation

In accordance with the PRC Company Law and the Group's articles of association, the Group is required to appropriate 10% of the annual statutory net profit after tax (after offsetting any prior years' losses), determined in accordance with PRC GAAP, to the statutory surplus reserve. When the balance of such reserve fund reaches 50% of the capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, such balance of the statutory surplus reserve must be maintained at a minimum of 25% of the capital after any such usage.

As a result of the amendment to the PRC Company Law, the Group was no longer required to appropriate the net profit after tax (after offsetting any prior years' loss) to the statutory public welfare fund with effect on 1 January 2006.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in Renminbi, which is the Company's functional and presentation currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, corporate management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Classification of financial assets

The Group classifies its financial assets in accordance with HKAS 39 as financial assets at fair value through profit or loss, loans and receivables or available-for-sale financial assets, as appropriate. Certain of these classifications require judgements. In making these judgements, the Group considers the intention of holding these financial assets, compliance with the requirements of HKAS 39 and their implications to the presentation in the financial statements.

Impairment of available-for-sale equity financial instruments

The Group determines that available-for-sale equity financial instruments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, including the normal volatility in share price, the financial health of the investee, the industry and sector performance, the changes in technology and the operating and financing cash flows.

Impairment of reinsurance assets

The Group performs an impairment review on its reinsurance assets when an indication of impairment occurs. In considering whether a reinsurance asset is impaired, the Group considers whether (a) there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Group may not be able to receive all amounts due to it under the terms of the contract; and (b) the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

Claims liability arising from insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Group's most critical accounting estimate. There are several sources of uncertainty, including legislative changes and speed of settlement, that need to be considered in the estimation of the liability that the Group will ultimately pay for those claims. The Group uses a number of different actuarial techniques and assumptions to estimate the liability.

The directors believe that the loss and loss adjustment expense reserves at the balance sheet date are adequate to cover the ultimate costs of all incurred losses and direct loss adjustment expenses to that date, but the reserves are necessarily based on estimates and no representation is made that the ultimate liability may not exceed or be less than such estimates.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(CONTINUED)*

Estimation uncertainty *(continued)*

Amounts due from certain securities companies

For amounts due from certain securities companies under liquidation or restructuring as explained in note 27 to the financial statements, estimation is required when the Company determines the extent of impairment.

4. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary reporting basis, by business segment. No further geographical segment information is presented as all of the Group's customers and operations are located in the PRC.

Summary details of the business segments are as follows:

(a) the motor vehicle segment provides insurance products covering motor vehicles;

(b) the commercial property segment provides insurance products covering commercial properties;

(c) the cargo segment provides insurance products covering vessels, crafts or conveyances;

(d) the liability segment provides insurance products covering policyholders' liabilities;

(e) the accidental injury segment provides insurance products covering accidental injuries; and

(f) the "other" segment mainly represents insurance products related to marine hull, homeowners, aviation and oil and gas.

4. SEGMENT INFORMATION *(CONTINUED)*

Information on the Group's reportable business segments is as follows:

	2006 *RMB million*	2005 *RMB million* (Restated)
Turnover		
Motor vehicle	49,837	44,501
Commercial property	8,193	8,669
Cargo	2,763	2,793
Liability	3,013	2,561
Accidental injury	2,561	2,371
Other	4,981	5,019
	71,348	65,914
Net premiums earned		
Motor vehicle	41,502	38,898
Commercial property	5,747	6,100
Cargo	2,073	2,269
Liability	2,160	1,923
Accidental injury	1,827	1,777
Other	2,307	2,417
	55,616	53,384
Net investment income		
Other	271	255
Net realised and unrealised gains/(losses) on investments		
Other	64	(123)

4. SEGMENT INFORMATION *(CONTINUED)*

	2006 *RMB million*	2005 *RMB million* (Restated)
Net claims incurred		
Motor vehicle	(30,295)	(27,593)
Commercial property	(4,074)	(4,519)
Cargo	(744)	(986)
Liability	(1,123)	(1,300)
Accidental injury	(1,004)	(695)
Other	(1,376)	(1,242)
	(38,616)	(36,335)
Amortisation of deferred acquisition costs, net		
Motor vehicle	(6,935)	(6,270)
Commercial property	(805)	(828)
Cargo	(315)	(377)
Liability	(309)	(298)
Accidental injury	(262)	(261)
Other	(256)	33
	(8,882)	(8,001)
Insurance protection expenses		
Motor vehicle	(467)	(390)
Commercial property	(55)	(60)
Cargo	(21)	(21)
Liability	(23)	(19)
Accidental injury	(18)	(18)
Other	(26)	(29)
	(610)	(537)
Interest expenses credited to policyholders' deposits		
Other	(138)	(143)
Segment profit before unallocated income and expenses		
Motor vehicle	3,805	4,645
Commercial property	813	693
Cargo	993	885
Liability	705	306
Accidental injury	543	803
Other	846	1,168
	7,705	8,500

4. SEGMENT INFORMATION *(CONTINUED)*

	2006 *RMB million*	2005 *RMB million* (Restated)
Unallocated operating income and expenses		
Net investment income	1,418	1,223
Net realised and unrealised gains/(losses) on investments	2,262	(213)
General and administrative expenses	(6,904)	(7,003)
Exchange losses, net	(426)	(305)
Sundry income	85	26
Sundry expenses	(133)	(102)
Finance costs	(209)	(181)
Share of profit of an associate	2	–
Profit before tax	3,800	1,945
Tax	(1,718)	(1,005)
Net profit attributable to equity holders of the parent	2,082	940

Net investment income and net realised and unrealised gains/(losses) on investments attributable to homeowners' insurance products can be separately identified based on the results of its designated pool of investments and therefore are separately disclosed. Depreciation and capital expenditure, which are not attributable to particular insurance products, are not allocated and are included under unallocated operating income and expenses.

	2006 *RMB million*	2005 *RMB million* (Restated)
Segment assets		
Motor vehicle	10,141	10,570
Commercial property	4,343	4,650
Cargo	639	550
Liability	1,047	820
Accidental injury	952	676
Other	6,109	5,872
	23,231	23,138
Unallocated assets	82,893	71,974
Total assets	106,124	95,112

4. SEGMENT INFORMATION *(CONTINUED)*

	2006 *RMB million*	2005 *RMB million* (Restated)
Segment liabilities		
Motor vehicle	**42,090**	38,296
Commercial property	**6,323**	6,766
Cargo	**1,492**	1,346
Liability	**2,622**	2,211
Accidental injury	**2,256**	1,747
Other	**18,756**	17,325
	73,539	67,691
Unallocated liabilities	**11,858**	9,623
Total liabilities	**85,397**	77,314

5. TURNOVER AND NET PREMIUMS EARNED

Turnover represents direct premiums written and reinsurance premiums assumed.

	Group	
	2006 *RMB million*	2005 *RMB million* (Restated)
Turnover		
Direct premiums written	**71,300**	65,898
Reinsurance premiums assumed	**48**	16
	71,348	65,914
Net premiums earned		
Turnover	**71,348**	65,914
Less: Reinsurance premiums ceded	**(10,311)**	(12,474)
Net premiums written	**61,037**	53,440
Less: Change in net unearned premium reserves	**(5,421)**	(56)
Net premiums earned	**55,616**	53,384

6. NET CLAIMS INCURRED

	Group 2006 RMB million	2005 RMB million
Gross claims paid	44,432	42,426
Less: Paid losses recoverable from reinsurers	(6,991)	(7,072)
Net claims paid	37,441	35,354
Change in net loss and loss adjustment expense reserves *(note 39)*	1,175	981
Net claims incurred	38,616	36,335

7. NET INVESTMENT INCOME

	Group 2006 RMB million	2005 RMB million
Interest income from cash and cash equivalents and term deposits	761	725
Interest income from debt securities	647	541
Interest income from subordinated debts held by the Company	147	141
Dividend income from equity securities	98	36
Rental income from investment properties	36	35
	1,689	1,478

8. NET REALISED AND UNREALISED GAINS/(LOSSES) ON INVESTMENTS

	Group	
	2006	2005
	RMB million	*RMB million*
Debt securities:		
Realised gains	**47**	180
Unrealised losses	**(17)**	(40)
Equity securities:		
Realised losses	**(246)**	(210)
Unrealised gains	**2,667**	21
Derivatives embedded in structured deposits:		
Unrealised losses	**(84)**	–
Reversal of impairment/(impairment loss) on available-for-sale securities	**5**	(245)
	2,372	(294)
Less: investment management fee	**(46)**	(42)
	2,326	(336)

9. EXCHANGE LOSSES, NET

Exchange gains/(losses) can be attributable to the following functions:

	Group	
	2006	2005
	RMB million	*RMB million*
Net realised and unrealised losses on term deposits	**(403)**	(310)
Net claims incurred	**8**	7
General and administrative expenses	**(31)**	(2)
	(426)	(305)

10. FINANCE COSTS

	Group 2006 RMB million	2005 RMB million
Interest on subordinated loan/debts issued by the Company	111	110
Interest on securities sold under agreements to repurchase	56	30
Other finance costs	42	41
	209	181

11. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Notes	2006 *RMB million*	2005 *RMB million*
Auditors' remuneration, including interim review		18	15
Depreciation for property, plant and equipment	30	933	1,096
Depreciation for investment properties	31	15	6
Amortisation for prepaid land premiums	33	102	93
Employee expenses (including directors' remuneration *(note 12)*):			
Wages salaries and staff welfare		4,665	4,634
Cash-settled share appreciation rights expense		102	10
Pension scheme contributions		409	432
Impairment loss on premiums receivable		86	136
Minimum lease payments under operating leases – land and buildings		394	336
Net loss on disposals of items of property, plant and equipment and construction in progress		3	8

12. DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' and supervisors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2006	2005
	RMB million	*RMB million*
Fees	**2,841**	2,436
Other emoluments:		
Salaries, allowances and benefits in kind	**4,636**	3,999
Performance related bonuses	**–**	2,272
Cash-settled share appreciation rights expense	**17,570**	1,833
Pension scheme contributions	**850**	754
	25,897	11,294

Certain directors and supervisors are entitled to bonuses which are determined by a number of factors including the operating results of the Group.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2006	2005
	RMB'000	*RMB'000*
Mr. Cheng Wai Chee, Christopher	**293**	303
Mr. Lu Zhengfei	**295**	302
Mr. Luk Kin Yu, Peter	**293**	303
Mr. Ding Ning Ning	**295**	–
Mr. Wang Tung Shun, Peter	**–**	21
	1,176	929

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

12. DIRECTORS' AND SUPERVISORS' REMUNERATION *(CONTINUED)*

(b) Chairman of Board, executive directors, non-executive directors and supervisors

	Fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Performance related bonuses *RMB'000*	(Note) Cash-settled share appreciation rights expense *RMB'000*	Pension scheme contributions *RMB'000*	Total remuneration *RMB'000*
2006						
Chairman of Board:						
Mr. Tang Yunxiang	137	863	–	2,299	159	3,458
Executive directors:						
Mr. Wang Yi (President)	137	820	–	1,876	152	2,985
Mr. Wang Yincheng	137	699	–	1,366	120	2,322
Mdm. Liu Zhenghuan	137	737	–	1,391	125	2,390
Non-executive directors:						
Mr. Tse Sze-Wing, Edmund	137	–	–	1,127	–	1,264
Mr. Ding Yunzhou	137	–	–	1,603	–	1,740
Mr. Wu Gaolian	–	–	–	–	–	–
Mr. Zhou Shurui	137	–	–	1,416	–	1,553
Mr. Li Tao	–	–	–	431	–	431
Supervisors:						
Mr. Ding Yunzhou (Chairman)	–	–	–	–	–	–
Mr. Sheng Hetai	–	–	–	–	–	–
Mr. He Bangshun	–	353	–	629	71	1,053
Past supervisors:						
Mr. Deng Zhaoyu (ex-Chairman)	137	820	–	2,104	152	3,213
Mr. Tang Wei	137	–	–	1,673	–	1,810
Mr. Liu Qilong	137	344	–	1,655	71	2,207
Independent supervisor:						
Mr. Li Dianjun	295	–	–	–	–	295
	1,665	4,636	–	17,570	850	24,721

Note: Certain directors and supervisors were granted share appreciation rights, in respect of their services to the Group, further details of which are set out in note 44 to the financial statements. The fair value of such rights, which has been recognised to the income statement over the vesting period, was determined as at the date of grant according to a number of assumptions and remeasured at each balance sheet date and the amount included in the financial statements for the current year is included in the above directors' and supervisors' remuneration disclosures. The amount charged to the income statement, therefore, does not necessarily represent any benefits received by the directors and supervisors upon exercise of their share appreciation rights, and may deviate from the actual future benefits received by the directors and supervisors.

12. DIRECTORS' AND SUPERVISORS' REMUNERATION *(CONTINUED)*

(b) Chairman of Board, executive directors, non-executive directors and supervisors *(continued)*

	Fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Performance related bonuses *RMB'000*	Cash-settled share appreciation rights expense *RMB'000*	Pension scheme contributions *RMB'000*	Total remuneration *RMB'000*
2005						
Chairman of Board:						
Mr. Tang Yunxiang	137	737	505	220	132	1,731
Executive directors:						
Mr. Wang Yi (President)	137	700	480	220	127	1,664
Mr. Wang Yincheng	137	537	299	158	103	1,234
Mdm. Liu Zhenghuan	137	567	316	158	108	1,286
Mr. Fu Zhu	137	493	104	107	95	936
Non-executive directors:						
Mr. Ding Yunzhou	137	–	–	158	–	295
Mr. Zhou Shurui	137	–	–	158	–	295
Mr. Tse Sze-Wing, Edmund	137	–	–	118	–	255
Supervisors:						
Mr. Deng Zhaoyu (Chairman)	137	700	480	220	127	1,664
Mr. Tang Wei	137	–	–	158	–	295
Mr. Liu Qilong	137	265	88	158	62	710
	1,507	3,999	2,272	1,833	754	10,365

There was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the year.

13. FIVE HIGHEST PAID EMPLOYEES

All of the five highest paid employees during the year and the prior year were either directors or supervisors of the Company.

14. TAX

The provision for PRC income tax is calculated based on the statutory rate of 33% (2005: 33%) in accordance with the relevant PRC income tax rules and regulations.

	2006 *RMB million*	2005 *RMB million* (Restated)
Group:		
Current – charge for the year	**780**	1,043
Deferred *(note 37)*	**938**	(38)
Total tax charge for the year	**1,718**	1,005

A reconciliation of the tax expense applicable to profit before tax using the statutory tax rate for the PRC, in which the Group is domiciled, to the tax expense at the effective tax rate, and a reconciliation of the applicable rate, i.e. statutory tax rate, to the effective tax rate, are as follows:

Group	**2006** *RMB million*	*%*	2005 *RMB million* (Restated)	*%*
Profit before tax	**3,800**		1,945	
Tax at the statutory tax rate of 33%	**1,254**	**33.0**	642	33.0
Income not subject to tax	**(144)**	**(3.8)**	(98)	(5.0)
Expenses not deductible for tax	**608**	**16.0**	461	23.7
Tax charge for the year	**1,718**	**45.2**	1,005	51.7

15. BASIC EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit for the year attributable to the ordinary equity holders of the parent of RMB2,082 million (2005: RMB940 million) and the 11,142 million (2005: 11,142 million) ordinary shares in issue during the year.

Diluted earnings per share amounts for the years ended 31 December 2006 and 2005 have not been disclosed as no diluting events existed during these years.

16. DIVIDEND PER SHARE

During the year ended 31 December 2006, the Board of Directors did not declare any interim dividend (2005: RMB802 million). The Board of Directors did not propose any final dividend for the year (2005: Nil).

17. CASH AND CASH EQUIVALENTS

	Group		Company	
	2006 RMB million	2005 RMB million	2006 RMB million	2005 RMB million
Cash in hand	25	25	25	25
Demand deposits	12,623	13,116	12,620	13,116
Securities purchased under resale agreements with original maturity of less than three months	307	–	307	–
Deposits with banks and other financial institutions with original maturity of less than three months	8,651	2,754	8,651	2,754
	21,606	15,895	21,603	15,895

Demand deposits earn interest at floating rates based on daily bank deposit rates. Securities purchased under resale agreements and short term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit/agreed rates. The carrying amounts of the cash and cash equivalents approximate to their fair values.

At 31 December 2006, RMB217 million (2005: RMB195 million) was included in deposits with banks and other financial institutions as an accrued insurance protection fund. The amount was maintained in accordance with the relevant PRC insurance law and regulations for insurance protection and restricted in use. Details of the restrictions are disclosed in note 35 to the financial statements.

At 31 December 2006, included in deposits with banks and other financial institutions was a clearing account deposit of RMB30 million (2005: RMB64 million) deposited with a PRC securities company.

18. TERM DEPOSITS

	Group and Company 2006 RMB million	2005 RMB million
Structured deposits with banks and other financial institutions:		
at fair value	1,093	3,107
at amortised cost	2,785	838
Deposits with banks and other financial institutions with original maturity of more than three months, at amortised cost	2,890	7,696
	6,768	11,641

Certain structured deposits maintained with PRC banks and other financial institutions are designated as financial instruments at fair value through profit or loss upon the initial adoption of HKAS 39. The returns of certain structured deposits are linked to certain US dollar-denominated debt instruments or the London inter-bank offered rate. Embedded in some of these structured deposits are options to enter into new and different structured deposit arrangements at their maturity dates. Their fair values are estimated by certain interest option pricing models.

The carrying amounts of the term deposits stated at amortised cost approximate to their fair values.

19. DERIVATIVE FINANCIAL ASSETS

	Group and Company 2006 RMB million	2005 RMB million
Interest rate swaps	6	–

The carrying amounts of interest rate swaps are the same as their fair values.

The Company is exposed to the variability of cash flows on financial assets which bear interest at a variable rate and therefore, uses interest rate swaps by receiving interest at a fixed rate from the counterparties and paying a variable rate interest payment to hedge its risks. The terms of these swap contracts are as follows:

Floating Rate	**Fixed rate**	**Maturity**	**Aggregate notional amount** *RMB million*
7-day fixing Repo rate or 1-year deposit rate by the People's Bank of China	2.781% – 2.980%	30 August 2007 – 6 December 2011	550

19. DERIVATIVE FINANCIAL ASSETS *(CONTINUED)*

The terms of the cash flow hedges matched the terms of the underlying hedge items. The cash flow hedges were assessed to be highly effective and a net gain of RMB4 million (2005: Nil) was included in the hedging reserve.

In addition, the Company has entered into various interest rate swap contracts which do not meet the criteria for hedge accounting. Changes in fair value of the non-hedging derivatives amounting to RMB0.02 million (2005: Nil) were charged to the income statement during the year.

20. DEBT SECURITIES

	Group and Company	
	2006	2005
	RMB million	*RMB million*
Listed debt securities, at fair value:		
Debt securities issued by the PRC central government	12,404	9,630
Debt securities issued by corporate entities	1,278	544
	13,682	10,174
Unlisted debt securities, at fair value:		
Debt securities issued by the PRC central government	1,527	4,053
Debt securities issued by banks and other financial institutions	3,507	1,889
Debt securities issued by corporate entities	4,173	2,408
	9,207	8,350
	22,889	18,524
Classification of debt securities:		
Fair value through profit or loss – held for trading	1,273	3,398
Available-for-sale	21,616	15,126
	22,889	18,524

The fair values are based on market prices or broker/dealer price quotations.

As at 31 December 2006, debt securities of RMB90 million (2005: RMB563 million) were registered under the exchange trading seat of a PRC securities company. During the year, the securities company has announced a restructuring plan and sold its business and relevant assets to a new joint stock securities company (the "New Securities Company"). On 27 December 2006, the Company entered into an agreement with the securities company to obtain a right of a 1.96% interest in the issued share capital of the New Securities Company by offering the Company's debt securities registered under the exchange trading seat of that securities company as a consideration. On the same date, an amount of RMB468 million, which represented part of the proceeds from the disposal of the above-mentioned debt securities, was paid as the consideration for this transaction. This amount was accounted for as a prepayment as at 31 December 2006.

20. DEBT SECURITIES *(CONTINUED)*

Subsequent to the balance sheet date, on 12 January 2007, the securities company disposed of the Company's remaining debt securities registered under its exchange trading seat and an amount of RMB120 million was collected by it as a further consideration of the Company's right to an equity interest in the New Securities Company.

According to the agreement between the securities company and the Company, if the Company cannot properly register as a shareholder of the New Securities Company on or before 27 June 2007, the securities company shall return the consideration together with the relevant income to the Company.

21. EQUITY SECURITIES

	Group and Company	
	2006	2005
	RMB million	*RMB million*
Listed investments, at fair value:		
Mutual funds	3,043	2,262
Shares	3,871	189
	6,914	2,451
Unlisted investments, at fair value:		
Mutual funds	1,048	389
	7,962	2,840
Classification of equity securities:		
Fair value through profit or loss – held for trading	4,167	2,840
Available-for-sale	3,795	–
	7,962	2,840

The fair values are based on market prices or bid prices quoted by mutual fund management companies.

22. SUBORDINATED DEBTS HELD BY THE COMPANY

	Group and Company	
	2006	2005
	RMB million	*RMB million*
Unlisted subordinated debts issued by banks and other financial institutions, at amortised cost	**2,910**	2,910

The total fair value of these subordinated debts is RMB3,088 million (2005: RMB3,180 million). Fair values have been estimated using quoted market prices of securities with similar credit, maturity and yield characteristics.

23. CAPITAL SECURITY FUND

In accordance with the PRC Insurance Law, the Group is required to maintain a deposit equivalent to 20% of its registered capital with banks designated by the China Insurance Regulatory Commission ("CIRC") as a security fund. The use of the security fund is subject to the approval of the CIRC.

24. PREMIUMS RECEIVABLE AND AGENTS' BALANCES, NET

	Group and Company	
	2006	2005
	RMB million	*RMB million*
Premiums receivable and agents' balances	**4,343**	4,064
Less: Impairment loss on premiums receivable	**(383)**	(297)
	3,960	3,767

An aged analysis of the premiums receivable and agents' balances as at the balance sheet date, based on the payment due date and net of impairment, is as follows:

	Group and Company	
	2006	2005
	RMB million	*RMB million*
Within 3 months	**3,287**	3,163
Over 3 months but less than 6 months	**466**	457
Over 6 months	**207**	147
	3,960	3,767

The carrying amounts disclosed above reasonably approximate to their fair values at year end.

25. DEFERRED ACQUISITION COSTS

Group and Company	Gross amount *RMB million*	Reinsurers' share *RMB million*	Net amount *RMB million*
At 1 January 2006	5,719	(1,642)	4,077
Costs deferred during the year	13,242	(2,935)	10,307
Amortisation	(12,144)	3,262	(8,882)
At 31 December 2006	6,817	(1,315)	5,502
At 1 January 2005	6,100	(2,153)	3,947
Costs deferred during the year	11,708	(3,577)	8,131
Amortisation	(12,089)	4,088	(8,001)
At 31 December 2005	5,719	(1,642)	4,077

Group and Company	2006			2005		
	Gross amount *RMB million*	Reinsurers' share *RMB million*	Net amount *RMB million*	Gross amount *RMB million*	Reinsurers' share *RMB million*	Net amount *RMB million*
Current	6,043	(1,166)	4,877	4,978	(1,429)	3,549
Non-current	774	(149)	625	741	(213)	528
	6,817	(1,315)	5,502	5,719	(1,642)	4,077

26. RECEIVABLES FROM REINSURERS

An aged analysis of the receivables from reinsurers as at the balance sheet date is as follows:

	Group and Company	
	2006 *RMB million*	2005 *RMB million*
Within 3 months	2,554	2,316
Over 3 months but less than 6 months	41	31
Over 6 months	114	153
	2,709	2,500

The carrying amounts disclosed above reasonably approximate to their fair values at year end.

27. PREPAYMENTS AND OTHER RECEIVABLES

	Group and Company	
	2006	2005
	RMB million	*RMB million*
Interests receivable	616	434
Prepayments and deposits	624	163
Amount due from the Holding Company *(note 49(c))*	–	155
Other receivables	618	461
	1,858	1,213

In September 2004, a PRC securities company engaged by PICC Asset Management Company Limited ("PICC AMC") was placed under operational control by a special manager as instructed by the China Securities Regulatory Commission. As the securities company went into liquidation in September 2005, the balance of RMB116 million (31 December 2005: RMB120 million), net of impairment, was accounted for as an other receivable as at 31 December 2006.

Included in the balance as at 31 December 2006 was the consideration of RMB468 million (2005: Nil) paid to a securities company for a future equity interest in the New Securities Company as further explained in note 20 to these financial statements.

The carrying amounts disclosed above reasonably approximate to their fair values at year end.

28. INVESTMENT IN AN ASSOCIATE

	Group		Company	
	2006	2005	2006	2005
	RMB million	*RMB million*	*RMB million*	*RMB million*
Unlisted shares, at cost	–	–	160	–
Share of net assets	162	–	–	–
	162	–	160	–

Particulars of the associate are as follows:

Name	Place of registration and operations	Nominal value of registered share capital *RMB million*	Percentage of equity directly attributable to the Group
PICC Asset Management Company Limited	Mainland China	800	20

28. INVESTMENT IN AN ASSOCIATE *(CONTINUED)*

The principal activity of the associate is the provision of asset management services.

The following table illustrates the summarised financial information of the Group's associate.

	2006 *RMB million*	2005 *RMB million*
Assets	845	–
Liabilities	37	–
Turnover	68	–
Net profit	9	–

Management do not have any intention to dispose of the investment within the near future.

The Group's management fees payable of RMB10 million to an associate in 2006 (2005: payable to a fellow subsidiary of RMB9 million) are disclosed in notes 36 and 49(c) to the financial statements.

29. INVESTMENTS IN SUBSIDIARIES

	Company	
	2006 *RMB million*	2005 *RMB million*
Unlisted shares, at cost	3	–

Particulars of the subsidiaries are as follows:

Name	Place of registration and operations	Nominal value of registered share capital *RMB million*	Percentage of equity directly attributable to the Group
PICC Hebi Insurance Agency Company Limited*	Mainland China	0.5	100
PICC Qingdao Insurance Agency Company Limited*	Mainland China	0.5	90
PICC Hebei Insurance Agency Company Limited*	Mainland China	1.0	100
PICC Haikou Training Center Company Limited*	Mainland China	0.1	100

* These subsidiaries are all registered as company limited enterprises under the PRC Company Law.

The principal activities of these subsidiaries are mainly providing insurance agency services and training services to the Group.

30. PROPERTY, PLANT AND EQUIPMENT

Group and Company

	Land and buildings *RMB million*	**Motor vehicles** *RMB million*	**Office equipment, furniture and fixtures** *RMB million*	**Total** *RMB million*
Cost:				
At 1 January 2006	9,873	1,446	2,610	13,929
Additions	65	148	185	398
Transfers from construction in progress *(note 32)*	355	–	11	366
Transfers to investment properties *(note 31)*	(279)	–	–	(279)
Disposals	(152)	(150)	(181)	(483)
At 31 December 2006	9,862	1,444	2,625	13,931
Accumulated depreciation:				
At 1 January 2006	(1,092)	(994)	(1,267)	(3,353)
Charge for the year	(339)	(140)	(454)	(933)
Transfers to investment properties *(note 31)*	34	–	–	34
Disposals	31	144	177	352
As 31 December 2006	(1,366)	(990)	(1,544)	(3,900)
Net book value:				
As 31 December 2006	8,496	454	1,081	10,031
Cost:				
At 1 January 2005	9,850	1,472	2,155	13,477
Additions	5	122	574	701
Transfers *(note 32)*	60	–	–	60
Disposals	(42)	(148)	(119)	(309)
At 31 December 2005	9,873	1,446	2,610	13,929
Accumulated depreciation:				
At 1 January 2005	(752)	(880)	(880)	(2,512)
Charge for the year	(345)	(257)	(494)	(1,096)
Disposals	5	143	107	255
As 31 December 2005	(1,092)	(994)	(1,267)	(3,353)
Net book value:				
As 31 December 2005	8,781	452	1,343	10,576

30. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

The Group's land and buildings are situated in Mainland China and held under medium term leases.

As at 31 December 2006, certain acquired buildings of the Group with a net book value of RMB733 million (2005: RMB385 million) were in the process of title registration for their title certificates.

The net book value of the Group's property, plant and equipment held under finance leases included in the total amount of property, plant and equipment at 31 December 2006 amounted to RMB1,874 million (2005: RMB1,938 million).

31. INVESTMENT PROPERTIES

	Group and Company	
	2006	2005
	RMB million	*RMB million*
Cost:		
At 1 January	**269**	189
Additions	**–**	80
Transfers from property, plant and equipment *(note 30)*	**279**	–
At 31 December	**548**	269
Accumulated depreciation:		
At 1 January	**(56)**	(50)
Charge for the year	**(15)**	(6)
Transfers from property, plant and equipment *(note 30)*	**(34)**	–
At 31 December	**(105)**	(56)
Net book value at 31 December	**443**	213

The fair value of the investment properties is RMB612 million (2005: RMB294 million). The fair value of the properties is determined by the directors with reference to recent market transactions.

The Group's investment properties are situated in Mainland China and held under medium term leases.

32. CONSTRUCTION IN PROGRESS

	Group and Company	
	2006	2005
	RMB million	*RMB million*
At 1 January	**1,756**	949
Additions	**522**	887
Transfers to property, plant and equipment *(note 30)*	**(366)**	(60)
Transfers to prepaid land premiums *(note 33)*	**(40)**	–
Disposals	**–**	(20)
At 31 December	**1,872**	1,756

The Group's construction in progress is situated in Mainland China and held under medium term leases.

33. PREPAID LAND PREMIUMS

	Group and Company	
	2006	2005
	RMB million	*RMB million*
At 1 January	**4,000**	4,065
Additions	**22**	28
Transfers from construction in progress *(note 32)*	**40**	–
Amortisation for the year	**(102)**	(93)
At 31 December	**3,960**	4,000

The leasehold land is situated in Mainland China and held under the following terms:

	Group and Company	
	2006	2005
	RMB million	*RMB million*
Long term leases	**90**	92
Medium term leases	**3,870**	3,908
	3,960	4,000

34. PAYABLES TO REINSURERS

Payables to reinsurers are analysed as follows:

	Group and Company	
	2006	2005
	RMB million	*RMB million*
Reinsurance payables	3,322	3,169
Reinsurance funds withheld	69	362
	3,391	3,531

The reinsurance payables are non-interest-bearing and are due within three months from the balance sheet date or are repayable on demand. The reinsurance funds withheld as at 31 December 2006 and 2005 are repayable upon the expiration of the related reinsurance contracts.

The carrying amounts disclosed above reasonably approximate to their fair values at year end.

35. ACCRUED INSURANCE PROTECTION FUND

	Group and Company	
	2006	2005
	RMB million	*RMB million*
At 1 January	195	1,099
Accrued during the year	610	537
Offset against the amount due from the provincial government	–	(1,210)
Paid during the year	(588)	(231)
At 31 December	217	195

The Group is obligated to pay into an insurance protection fund based on a rate of 1% of its annual retained premiums in accordance with the relevant PRC insurance law and regulations. No further provision is required once the accumulated balance has reached 6% (2005: 6%) of the Group's total assets determined in accordance with PRC GAAP.

Insurance companies are required to deposit their insurance protection fund in a bank account designated by the CIRC on a quarterly basis.

36. OTHER LIABILITIES AND ACCRUALS

	Group and Company	
	2006	2005
	RMB million	*RMB million*
Premiums received in advance	**2,333**	1,827
Salaries and staff welfare payables	**1,461**	1,710
Securities sold under agreements to repurchase	**200**	–
Amount due to the Holding Company *(note 49(c))*	**26**	116
Accrued capital expenditure	**116**	128
Amount due to an associate *(note 49(c))*	**10**	–
Amount due to a fellow subsidiary *(note 49(c))*	**–**	9
Liabilities arising from share appreciation rights *(note 44)*	**84**	10
Others	**2,398**	2,209
	6,628	6,009

The carrying amounts disclosed above reasonably approximate to their fair values at year end.

37. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Group and Company

	Notes	Revaluation of fair value through profit or loss RMB million	Revaluation of available-for-sale financial instruments RMB million	Cash flow hedging RMB million	Depreciation of property, plant and equipment RMB million	Deferred income recognition at fair value through profit or loss RMB million	Deferred acquisition costs RMB million	Others RMB million	Total RMB million
Deferred tax assets:									
At 1 January 2006									
As previously reported		267	37	–	225	–	444	268	1,241
Effect of change in an accounting policy	2.4(a)	–	–	–	–	–	98	–	98
As restated at 1 January 2006		267	37	–	225	–	542	268	1,339
Deferred tax (charged)/credited to the income statement during the year *(note 14)*		(520)	–	–	(35)	–	(108)	75	(588)
Deferred tax debited to equity during the year		–	(414)	(2)	–	–	–	–	(416)
Gross deferred tax assets at 31 December 2006		(253)	(377)	(2)	190	–	434	343	335
Deferred tax liabilities:									
At 1 January 2006									
As previously reported		–	–	–	–	(3)	(1,316)	–	(1,319)
Effect of change in an accounting policy	2.4(a)	–	–	–	–	–	(571)	–	(571)
As restated at 1 January 2006		–	–	–	–	(3)	(1,887)	–	(1,890)
Deferred tax credited/(charged) to the income statement during the year *(note 14)*		–	–	–	–	14	(363)	(1)	(350)
Gross deferred tax liabilities at 31 December 2006		–	–	–	–	11	(2,250)	(1)	(2,240)
Net deferred tax liabilities at 31 December 2006									(1,905)

37. DEFERRED TAX *(CONTINUED)*

Group and Company

	Revaluation of fair value through profit or loss *RMB million*	Revaluation of available-for-sale financial instruments *RMB million*	Depreciation of property, plant and equipment *RMB million*	Deferred income recognition at fair value through profit or loss *RMB million*	Deferred acquisition costs *RMB million*	Others *RMB million*	Total *RMB million*
Deferred tax assets:							
At 1 January 2005							
As previously reported	334	163	209	–	710	189	1,605
Effect of change in an accounting policy	–	–	–	–	–	–	–
As restated at 1 January 2005	334	163	209	–	710	189	1,605
Deferred tax (charged)/credited to the income statement during the year *(note 14)*	(67)	55	16	–	(168)	79	(85)
Deferred tax debited to equity during the year	–	(181)	–	–	–	–	(181)
Gross deferred tax assets at 31 December 2005	267	37	225	–	542	268	1,339
Deferred tax liabilities:							
At 1 January 2005							
As previously reported	–	–	–	–	(1,454)	–	(1,454)
Effect of change in an accounting policy	–	–	–	–	(559)	–	(559)
As restated at 1 January 2005	–	–	–	–	(2,013)	–	(2,013)
Deferred tax credited/(charged) to the income statement during the year *(note 14)*	–	–	–	(3)	126	–	123
Gross deferred tax liabilities at 31 December 2005	–	–	–	(3)	(1,887)	–	(1,890)
Net deferred tax liabilities at 31 December 2005							(551)

37. DEFERRED TAX *(CONTINUED)*

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

The change in respect of the deferred tax asset recognised arising from the revaluation of available-for-sale financial instruments is taken to the available-for-sale financial instrument revaluation reserve.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities as they relate to the same tax authority.

38. UNEARNED PREMIUM RESERVES

Group and Company	2006			2005		
	Gross amount *RMB million*	Reinsurers' share *RMB million*	Net amount *RMB million*	Gross amount *RMB million*	Reinsurers' share *RMB million*	Net amount *RMB million*
At 1 January	32,507	(5,967)	26,540	30,803	(4,319)	26,484
Increase during the year	33,808	4,908	38,716	29,952	(5,498)	24,454
Release during the year	(29,473)	(3,822)	(33,295)	(28,248)	3,850	(24,398)
At 31 December	36,842	(4,881)	31,961	32,507	(5,967)	26,540
Current	32,367	(4,038)	28,329	28,305	(5,204)	23,101
Non-current	4,475	(843)	3,632	4,202	(763)	3,439
	36,842	(4,881)	31,961	32,507	(5,967)	26,540

39. LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

Group and Company	2006			2005		
	Gross amount *RMB million*	Reinsurers' share *RMB million*	Net amount *RMB million*	Gross *RMB million*	Reinsurers' share *RMB million*	Net amount *RMB million*
At 1 January	22,026	(5,185)	16,841	21,817	(5,957)	15,860
Claims incurred during the year	45,286	(6,670)	38,616	42,635	(6,300)	36,335
Claims paid during the year	(44,432)	6,991	(37,441)	(42,426)	7,072	(35,354)
At 31 December	22,880	(4,864)	18,016	22,026	(5,185)	16,841
Current	17,330	(3,603)	13,727	16,033	(3,059)	12,974
Non-current	5,550	(1,261)	4,289	5,993	(2,126)	3,867
	22,880	(4,864)	18,016	22,026	(5,185)	16,841

40. POLICYHOLDERS' DEPOSITS

Policyholders' deposits consist of interest-bearing and non-interest-bearing deposits placed by policyholders.

An analysis of interest-bearing and non-interest-bearing deposits is set out below:

	Group and Company	
	2006	2005
	RMB million	*RMB million*
Interest-bearing deposits	**6,742**	6,158
Non-interest-bearing deposits	**2,152**	2,291
	8,894	8,449

Certain contracts offered by the Group require that the policyholders place a deposit with the Group which is refundable upon maturity, which varies from one year to perpetuity, and bears no interest. A contract holder can terminate the contract before the maturity date without penalties. The main feature of this product is that an insurance coverage is fixed at the inception of the policy and remains in effect during the policy period or until terminated by the contract holder.

From 2002, the Group has underwritten policies of another kind of homeowners insurance product containing both insurance and investment features. Policyholders deposit a fixed principal amount which is only refundable upon the maturity of the policy of three years or five years and the policyholders receive a fixed rate of interest. Penalties on early termination are charged according to the terms stated in the contract.

The carrying amounts disclosed above reasonably approximate to their fair values at year end.

41. SUBORDINATED LOAN/DEBTS ISSUED BY THE COMPANY

On 10 October 2003, the Company signed a loan agreement with China Development Bank which advanced a subordinated loan of RMB2,000 million to the Company. The loan was unsecured and bore interest at 90% of the People's Bank of China long term borrowing interest rate per annum. It was originally contracted to be repayable in November 2023 but was fully repaid by the Company on 21 December 2006.

On 19 December 2006, the Company issued subordinated debts of RMB3,000 million to a number of institutional investors. These debts are unsecured and have a maturity period of 10 years, bear interest at a rate of 4.08% per annum in the first five years and a rate of 6.08% per annum in the remaining years. The Company has an option to redeem the subordinated debts at the end of the first five years.

The fair value of these subordinated loan/debts is RMB3,425 million (2005: RMB2,674 million). Fair value has been estimated using quoted market prices for securities with similar credit, maturity and characteristics.

42. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS – TERMS, ASSUMPTIONS AND SENSITIVITIES

(a) Insurance contracts liabilities

Terms

Loss and loss adjustment expense reserves are refined on a half-yearly basis as part of a regular ongoing process as claims experience develops, certain claims are settled and further claims are reported. The reserves are not discounted for the time value of money.

The measurement process primarily includes projection of future claim costs through a combination of actuarial and statistical projection techniques.

Gross loss and loss adjustment expense reserves for aviation and oil and gas businesses are estimated by using claims incurred loss development and the claims incurred Bornheutter-Ferguson methodology. Gross loss and loss adjustment expense reserves for other lines of business are estimated by using incremental/cumulative claims loss developments, payment per claim incurred, expected loss ratio or cumulative loss Bornheutter-Ferguson methodologies for each major class of business. Larger claims are usually separately assessed.

Reinsurance recoveries on unpaid claims are separately estimated for statutory, non-statutory treaty and facultative reinsurance arrangements. Statutory reinsurance recoveries are estimated as a certain percentage of gross claim liabilities; non-statutory reinsurance recoveries are estimated by using the claims incurred Bornheutter-Ferguson methodology; and facultative reinsurance recoveries are estimated by using the large claim recovery information provided by the claims department.

Assumptions and sensitivities

The principal assumption underlying the estimates is the Group's past claims development experience. Judgement is used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

As different statistical projection techniques may produce different estimates, the directors choose results that are considered appropriate for the observed claims development patterns. The range of reasonable estimates of loss and loss adjustment expense reserves, projected by different statistical techniques and varying key assumptions, represents the different views of the fluctuation impacts on the speed of settlements, the changes in premium rates and the underwriting controls over ultimate losses. As at 31 December 2006, the net loss and loss adjustment reserve recorded in these financial statements was RMB18,016 million (see note 39), which was within a range of reasonable actuarial estimates.

The sensitivity of certain variables like legislative change, uncertainty in the estimation process, etc., is not possible to quantify with any degree of confidence. Furthermore, because of delays that arise between the occurrence of a claim and its subsequent notification and eventual settlement, the loss and loss adjustment reserves are not quantifiable with certainty at the balance sheet date. One of the most significant assumptions used to estimate the net loss and loss adjustment reserve of motor vehicles insurance as at 31 December 2006 was the expected ultimate loss ratio for accidents which that have occurred in the second half year of 2006. A 1% change in that ratio will result in a change in net loss and loss adjustment reserve as at 31 December 2006 by approximately RMB215 million.

42. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS – TERMS, ASSUMPTIONS AND SENSITIVITIES *(CONTINUED)*

(a) Insurance contracts liabilities *(continued)*

Assumptions and sensitivities (continued)

Reproduced below is an analysis that shows the development of claims over a period of time on gross and net bases:

Accident year	2001	2002	2003	2004	2005	2006	Total
Gross basis	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Estimate of ultimate claims costs							
At the end of accident year			35,469	41,015	39,768	42,674	
One year later		33,297	37,724	40,758	40,397		
Two years later	28,078	34,081	38,706	41,334			
Three years later	28,198	34,192	38,803				
Four years later	28,229	34,215					
Five years later	28,175						
Current estimate of cumulative claims	28,175	34,215	38,803	41,334	40,397	42,674	225,598
Cumulative payments to date	(28,138)	(33,688)	(38,483)	(40,168)	(36,818)	(26,039)	(203,334)
Liability recognised in the balance sheet	37	527	320	1,166	3,579	16,635	22,264
Liability in respect of prior years and unallocated loss adjustment expenses							616
Total gross liability included in the balance sheet							22,880

42. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS – TERMS, ASSUMPTIONS AND SENSITIVITIES *(CONTINUED)*

(a) Insurance contracts liabilities *(continued)*

Assumptions and sensitivities (continued)

Accident year Net basis	2001 *RMB million*	2002 *RMB million*	2003 *RMB million*	2004 *RMB million*	2005 *RMB million*	2006 *RMB million*	Total *RMB million*
Estimate of ultimate claims costs							
At the end of accident year			27,215	33,316	32,788	35,405	
One year later		25,631	29,421	33,119	33,406		
Two years later	21,779	26,357	30,225	33,651			
Three years later	21,863	26,274	30,306				
Four years later	21,877	26,242					
Five years later	21,813						
Current estimate of cumulative claims	21,813	26,242	30,306	33,651	33,406	35,405	180,823
Cumulative payments to date	(21,790)	(25,988)	(30,125)	(32,906)	(30,724)	(21,871)	(163,404)
Liability recognised in the balance sheet	23	254	181	745	2,682	13,534	17,419
Liability in respect of prior years and unallocated loss adjustment expenses							597
Total net liability included in the balance sheet							18,016

The liabilities as at 31 December 2001 and 2002, which are based on an actuarial valuation performed on 27 October 2003, are extracted from the Company's prospectus dated 27 October 2003 issued in respect of the listing of its shares on the Main Board of The Stock Exchange of Hong Kong Limited ("HKSE").

The ultimate liabilities will vary as a result of subsequent developments. Differences resulting from the re-assessment of the ultimate liabilities are recognised in subsequent years' financial statements.

42. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS – TERMS, ASSUMPTIONS AND SENSITIVITIES *(CONTINUED)*

(b) Reinsurance assets – Terms, assumptions and methods

The Group limits its exposure to loss within insurance operations through participation in reinsurance arrangements. The majority of the business ceded is placed on a quota share basis or surplus line basis with retention limits varying by product line. In the prior year, the Group is required to cede 5% of its business to a state-owned reinsurance company in according with the PRC Insurance Law. Excess of loss catastrophic reinsurance is also arranged to limit the Group's exposure to certain catastrophic events.

Even though the Group may have reinsurance arrangements, it is not relieved of its direct obligations to its policyholders. The Group's premiums ceded to the top three reinsurance companies amounted to RMB7,513 million (2005: RMB9,610 million) and thus a credit exposure exists with respect to the business ceded, to the extent that any of these reinsurers is unable to meet its obligations assumed under such reinsurance agreements.

43. ISSUED SHARE CAPITAL

	2006 ***RMB million***	2005 *RMB million*
Shares		
Registered, issued and fully paid:		
7,685,820,000 domestic shares of RMB1.00 each	**7,686**	7,686
3,455,980,000 H shares of RMB1.00 each	**3,456**	3,456
	11,142	11,142

44. SHARE APPRECIATION RIGHTS

The shareholders of the Company approved the adoption of a scheme of share appreciation rights ("SAR") for senior management on 30 July 2003. The scheme is designed to link the interest of the Company's senior management with the Group's results of operations and the Company's share value (market price of its H Shares). The Board of Directors of the Company is responsible for making decisions under the scheme and administering the scheme. No shares will be issued under the scheme. Therefore, the shareholdings of shareholders will not be diluted as a result of the issuance of share appreciation rights.

Under the SAR scheme, the Board of Directors (excluding independent non-executive directors) and the Supervisory Committee (excluding independent supervisors), president, vice presidents, chief financial officer, division managers of the Company, presidents of the provincial/municipal level branch offices, employees with special contribution to the Company as determined by the Company's Nomination, Remuneration and Review Committee, and other senior management at equivalent levels are eligible to receive share appreciation rights.

SAR will be granted in units with each unit representing one H Share. SAR granted in aggregate may not exceed 10% of the issued share capital at any time, and share appreciation rights granted to any individual may not exceed 1% of the issued share capital in any 12-month period. The number of SAR units granted to a person may also be adjusted in accordance with the result of his or her performance evaluation.

Under the SAR scheme, all SAR are valid for five years, but are not exercisable in the first year after the date of grant. As at each of the second, third, fourth and fifth anniversary of the date of grant, the total number of units of SAR exercised may not in aggregate exceed 25%, 50%, 75% and 100%, respectively, of the total number of units of SAR granted to such person. Thereafter, SARs which have not been exercised will lapse. If a grantee deceases or becomes severely disabled during the five-year period, his or her share appreciation rights will be fully vested immediately.

The exercise price of the SAR initially granted was equal to the offer price of the initial public offering of the Company. The exercise price of the SAR subsequently granted is equal to the higher of (i) the closing price of the H Shares on the date of grant and (ii) the average closing price of the H Shares on the five consecutive trading days before the date of grant. Upon exercise of the SAR, the person will receive cash payment, subject to any applicable withholding tax, equal to the product of the number of units of SAR exercised and the difference between the exercise price and market price of H Shares at the time of exercise.

44. SHARE APPRECIATION RIGHTS *(CONTINUED)*

The following table illustrates the number and the weighted average exercise price of, and movements in, SAR during the year.

	2006 Number of units '000	2006 Weighted average exercise (HK$)	2005 Number of units '000	2005 Weighted average exercise price (HK$)
As at 1 January	136,515	1.90	28,356	1.80
Granted during the year	8,624	1.93	109,698	1.93
Forfeited	(4,770)	1.92	(614)	1.80
Exercised	(23,297)	1.88	(925)	1.80
As at 31 December	117,072	1.91	136,515	1.90
Exercisable at 31 December	21,562		7,244	
Liabilities arising from SAR at 31 December (RMB million) *(note 36)*	84		10	
Intrinsic value of vested SAR as at 31 December (RMB million)	45		3	
Weighted average remaining contractual life of the outstanding SAR	3.42		4.30	
Range of exercise price for the outstanding SAR		1.80-1.93		1.80-1.93
Weighted average share price at the date of exercise		3.00		2.58

During the year, the Group recognised a share-based transaction expense of RMB102 million (2005: RMB10 million).

44. SHARE APPRECIATION RIGHTS *(CONTINUED)*

The fair value of SAR is measured by using the Black-Scholes option pricing model taking into account the term and conditions at the balance sheet date. The following table lists the inputs to the model used for the computation as at 31 December 2006:

	2006	2005
Dividend yield (%)	–	1.850
Expected volatility (%)	38.78	32.70
Historical volatility (%)	38.78	32.70
Risk-free interest rate (%)	3.316	3.240
Expected life of share appreciation rights (years)	2 – 3	3 – 4
Share price at the balance sheet date (HK$)	3.990	2.225

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

No other features of the SAR granted were incorporated into the measurement of the fair value.

45. RISK MANAGEMENT OBJECTIVES AND POLICIES

Similar to other insurance entities, the Group holds substantial financial assets including debt securities, equity securities and bank deposits as an integral part of its operations. The Group also borrowed a subordinated loan or issued subordinated debts to enhance its solvency position. The Group has various other financial assets and liabilities such as premiums receivable and agents' balances, net, and reinsurance funds withheld, which arise directly from its operations. The main risks from the Group's financial instruments are credit risk, liquidity or funding risk and market risk. The details of these risks, together with insurance risk, and the Group's management policies are set out below:

(a) Financial Risks

(1) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group is exposed to deposits placed with security firms, banks and similar institutions. As at 31 December 2006, the aggregate balance of cash and term deposits placed with the three most major banks amounted to RMB16,353 million (2005: RMB16,811 million).

The Group is also subject to credit risk of debt securities. The Group heavily invests in debt securities issued by the PRC government, banks and financial institutions. Details of these debt securities are set out in note 20 to the financial statements. The Group only invests in corporate debt securities with a PRC rating higher than AA.

45. RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

(a) Financial Risks *(continued)*

(1) Credit risk *(continued)*

The Group only issues insurance policies on credit to corporate customers or to individuals who purchase policies through insurance intermediaries. A policyholder usually has a maximum credit period of three months but a longer period can be granted on a discretionary basis. For large corporate customers and certain multi-year policies, payments by instalments are usually arranged. One of the major performance indicators is the ability to collect premiums receivable on a timely basis. The Group's premiums receivable relate to a large number of diversified customers and therefore there is no significant concentration of credit risk.

Reinsurance of the Group is mainly placed with reinsurers with A.M. Best rating of A– or above. Management performs regularly assessment of creditworthiness of reinsurers to update reinsurance purchase strategies and ascertain suitable allowances for impairment of reinsurance assets. As at 31 December 2006, the top three insurance companies owed an aggregate amount of RMB1,845 million (2005: RMB2,111 million) to the Group.

(2) Liquidity or funding risk

Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or a counterparty failing to repay a contractual obligation; or an insurance liability falling due for payment earlier than expected; or the inability to generate cash inflows as anticipated.

The major liquidity risk the Group confronts is the daily calls on its available cash resources in respect of claims arising from insurance contracts.

It is unusual for a Group primarily transacting insurance business to predict the requirements of funding with absolute certainty as the theory of probability is applied on insurance contracts to ascertain the likely provision and the time period when such liabilities will require settlement. The amounts and maturity periods of these insurance liabilities are thus based on management's best estimate based on statistical techniques and past experience.

The Group holds 20% (2005: 17%) of the total assets as demand deposits and term deposits with original maturity less than three months to ensure sufficient liquid assets are available. 60% (2005: 55%) of the debt securities are listed on stock exchanges. Additions to illiquid assets, properties in particular, were closely monitored by management.

45. RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

(a) Financial Risks *(continued)*

(3) Market risk

Market risk is the risk of changes in fair value of financial instruments from fluctuations in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether any such change in price is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The Group mitigates its market risk through proper diversification of its investment portfolio. An investment mandate was also approved by an investment committee to direct investment decisions.

(i) Currency risk

The Group's principal transactions are carried out in Renminbi.

Certain policies issued by the Group, however, in particular cargo, commercial properties and aviation insurance, were denominated in United States dollars. Therefore, premiums received, reinsurance premiums ceded, claims paid and paid losses recovered from reinsurers in respect of these policies are transacted in United States dollars.

Moreover, the Group holds deposits of RMB11,851 million (2005: RMB12,089 million) of which their carrying values were mainly exposed to fluctuations of foreign exchange rates.

(ii) Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of the changes in market interest rates.

The Group mainly invests in financial assets of which the maturity periods vary from one to seven years in view of the short duration of insurance liabilities. The Group intends to maintain the duration of its investment portfolio below the market level of financial assets with similar characteristics. A high proportion of interest-sensitive financial assets are also held by the Group to reduce its interest rate risk.

45. RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

(a) Financial Risks *(continued)*

(3) Market risk *(continued)*

(ii) Interest rate risk

The following tables sets out the interest rates that the Group's financial instruments are exposed to during the reporting periods:

	2006	2005
Assets:		
Cash and cash equivalents	0.72% – 4.50%	0.72% – 4.38%
Term deposits	1.71% – 10.58%	1.89% – 11.50%
Derivative financial assets	2.52% – 2.98%	–
Debt securities	0.76% – 11.83%	0.34% – 11.83%
Subordinated debts held by the Company	4.87% – 5.17%	4.87% – 5.17%
Capital security fund	2.25%	2.25%
Liabilities:		
Payables to reinsurers – reinsurance funds withheld	2.25% – 2.52%	2.25%
Policyholders' deposits – interest-bearing	2.20% – 3.84%	2.20% – 2.63%
Securities sold under agreements to repurchase	1.98%	–
Subordinated loan/debts issued by the Company	4.95%	5.51%

45. RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

(a) Financial Risks *(continued)*

(3) Market risk *(continued)*

(ii) Interest rate risk (continued)

The following tables sets out the carrying amounts, by maturity, of the Group's financial instruments that are exposed to interest rate risk:

31 December 2006

Fixed rate	Within 1 year *RMB million*	1-2 years *RMB million*	2-3 years *RMB million*	3-4 years *RMB million*	4-5 years *RMB million*	More than 5 years *RMB million*	Total *RMB million*
Assets:							
Cash and cash equivalents	8,958	–	–	–	–	–	8,958
Term deposits	2,139	–	–	300	200	250	2,889
Debt securities	2,855	2,708	5,158	607	3,305	6,081	20,714
Capital security fund	2,228	–	–	–	–	–	2,228
Liabilities:							
Payables to reinsurers							
– reinsurance funds withheld	(69)	–	–	–	–	–	(69)
Securities sold under agreements to repurchase	(200)	–	–	–	–	–	(200)
Policyholders' deposits							
– interest-bearing	(5,597)	–	(443)	–	(702)	–	(6,742)
Subordinated loan/debts issued by the Company	–	–	–	–	–	(3,000)	(3,000)

Floating rate	Within 1 year *RMB million*	1-2 years *RMB million*	2-3 years *RMB million*	3-4 years *RMB million*	4-5 years *RMB million*	More than 5 years *RMB million*	Total *RMB million*
Assets:							
Cash and cash equivalents	12,648	–	–	–	–	–	12,648
Term deposits	206	–	39	77	50	3,507	3,879
Derivative financial assets	6	–	–	–	–	–	6
Debt securities	73	–	–	1,493	114	495	2,175
Subordinated debts held by the Company	–	–	1,220	1,600	–	90	2,910

45. RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

(a) Financial Risks *(continued)*

(3) Market risk *(continued)*

(ii) Interest rate risk (continued)

31 December 2005

Fixed rate	Within 1 year *RMB million*	1-2 years *RMB million*	2-3 years *RMB million*	3-4 years *RMB million*	4-5 years *RMB million*	More than 5 years *RMB million*	Total *RMB million*
Assets:							
Cash and cash equivalents	2,754	–	–	–	–	–	2,754
Term deposits	7,076	300	20	–	300	–	7,696
Debt securities	1,248	2,087	3,081	3,891	1,162	4,011	15,480
Capital security fund	2,228	–	–	–	–	–	2,228
Liabilities:							
Payables to reinsurers – reinsurance funds withheld	(362)	–	–	–	–	–	(362)
Policyholders' deposits – interest-bearing	(2,275)	(3,883)	–	–	–	–	(6,158)

Floating rate	Within 1 year *RMB million*	1-2 years *RMB million*	2-3 years *RMB million*	3-4 years *RMB million*	4-5 years *RMB million*	More than 5 years *RMB million*	Total *RMB million*
Assets:							
Cash and cash equivalents	13,141	–	–	–	–	–	13,141
Term deposits	923	241	40	320	173	2,248	3,945
Debt securities	–	1,204	–	24	1,127	689	3,044
Subordinated debts held by the Company	–	–	–	1,220	1,690	–	2,910
Liabilities:							
Subordinated loan/debts issued by the Company	–	–	–	–	–	(2,000)	(2,000)

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instruments.

The other financial instruments of the Group that are not included in the above tables are non-interest-bearing and are not subject to interest rate risk.

45. RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

(b) Insurance Risk

The risk under an insurance contract arises from the possibility of occurrence of an insured event and the uncertainty of the amount and timing of any resulting claim. The principal risk the Group faces under such contracts is that the actual claims payments and the costs of claims settlement exceed the carrying amount of insurance liabilities. This could occur due to any of the following:

Occurrence risk – the possibility that the number of insured events will differ from those expected.

Severity risk – the possibility that the costs of the events will differ from those expected.

Development risk – the possibility that changes may occur in the amount of an insurer's obligation at the end of the contract period.

The Group has an objective to control and minimise insurance risk, to reduce the volatility of the operating profits. The Group manages insurance risk through the following mechanism:

- The launch of any new product has to be approved by appropriate authorities;
- Underwriting and claim-handling authorities at different levels are properly established;
- Treaty reinsurance and most facultative reinsurance arrangements are centrally managed at the head office level; and
- Catastrophic reinsurance is used to limit the Group's exposure to flooding, earthquakes and typhoons.

Claims of certain provinces in the PRC are often affected by natural disasters including flooding, earthquakes and typhoons. Therefore, an undue concentration of risk units in these areas may have an impact on the severity of claim payments on a portfolio basis. The Group has achieved geographical diversification by accepting risks in different provinces of the PRC.

The Group's concentration of insurance risk before and after reinsurance, measured by geographical turnover and net premiums written, is as follows:

	2006		2005	
	Gross *RMB million*	Net *RMB million*	Gross *RMB million*	Net *RMB million*
Coastal and developed provinces/cities	33,065	27,292	30,070	23,607
North-eastern China	6,140	5,258	5,699	4,619
North China	10,508	9,370	9,833	8,264
Central China	8,008	7,120	7,792	6,518
Western China	13,627	11,997	12,520	10,432
Total	71,348	61,037	65,914	53,440

46. CONTINGENT LIABILITIES

Owing to the nature of insurance business, the Group is involved in legal proceedings in the ordinary course of business, including being the plaintiff or the defendant in litigation and arbitration. Such legal proceedings mostly involve claims on the Group's insurance policies and any losses arising therefrom will probably be indemnified by reinsurers or other recoveries including salvages and subrogation. While the outcome of such contingencies, lawsuits or other proceedings cannot be determined at present, management believes that any resulting liabilities will not have a material adverse effect on the financial position or operating results of the Group.

47. OPERATING LEASE COMMITMENTS

The Group leases certain of its land and buildings and motor vehicles under operating lease arrangements. Leases for land and buildings are negotiated for terms ranging from one to twenty years, and those for motor vehicles are negotiated for terms ranging from one to four years.

At 31 December 2006, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group and Company	
	2006	2005
	RMB million	*RMB million*
Within one year	**257**	310
In the second to fifth years, inclusive	**143**	292
After five years	**48**	46
	448	648

48. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 47 above, the Group and the Company had the following commitments at the balance sheet date:

	Group and Company	
	2006	2005
	RMB million	*RMB million*
Contracted, but not provided for:		
property, plant and equipment	**473**	835
Authorised, but not contracted for:		
property, plant and equipment	**28**	44
acquisition of an investment	**–**	160
	501	1,039

49. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

	Notes	2006 RMB million	2005 RMB million
Transactions with the Holding Company:			
Property rental expenses	(i)	211	211
Property rental income	(i)	11	11
Motor vehicle rental expenses	(ii)	22	22
Motor vehicle rental income	(ii)	4	4
Services fee income	(iii)	4	4
Management fee	(iv)	3	3
Transactions with an associate/fellow subsidiary:			
Management fee	(v)	39	36
Acquisition of an associate	(vi)	160	–
Transactions with a fellow subsidiary:			
Commissions received	(vii)	–	–
Commissions paid	(vii)	–	–
Transactions with a major shareholder:			
Reinsurance premiums ceded	(viii)	739	619
Claims recoverable	(viii)	246	139
Reinsurance commission received/receivables	(viii)	234	174

Notes:

(i) The Company entered into a Property Leasing Agreement with the Holding Company on 9 October 2003 under which the Company rented certain properties from the Holding Company and the Holding Company rented certain properties from the Company. The rental charges in respect of these properties are based on market rates. The term of the Property Leasing Agreement is four years effective from 7 July 2003.

(ii) The Company entered into a Motor Vehicle Rental Agreement with the Holding Company on 9 October 2003 under which the Company rented certain motor vehicles from the Holding Company and the Holding Company rented certain motor vehicles from the Company. The rental charges for the motor vehicles are based on market rates. The term of the Motor Vehicle Rental Agreement is four years effective from 7 July 2003.

(iii) The Company entered into an Information System Services Agreement with the Holding Company on 9 October 2003 pursuant to which the Company agreed to provide the Holding Company with certain information services, including (i) facilities leasing services and network services; (ii) software and application services; (iii) other computer-related facility maintenance services; and (iv) other information system services agreed by both parties. The services fee payables to the Company by the Holding Company are no less than market rates, and are determined with reference to the costs associated with the labour and the equipment required to provide the services and support pursuant to the Information System Services Agreement between the Company and the Holding Company. The term of the Information System Services Agreement is four years.

49. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(a) Transactions with related parties *(continued)*

Notes: *(continued)*

(iv) The Company entered into an agreement with the Holding Company on 9 August 2004, under which the Company took the responsibility of managing the payments of retirement benefits to the retired employees of the provincial and municipal offices of the Holding Company. Management fee is calculated based on a rate of RMB300 per annum for each retired employee of the Holding Company. The term of the agreement is three years effective from 1 January 2004.

(v) On 10 October 2003, the Company and PICC AMC, which was a fellow subsidiary of the Company, entered into an asset management agreement which became effective on the same date. Pursuant to the asset management agreement, PICC AMC provides investment management services in respect of certain financial assets of the Company. The Company pays an annual management fee to PICC AMC, which is calculated based on the average daily net asset value of the assets under the management of PICC AMC in that particular year and the applicable annual rate. The term of the asset management agreement is four years.

(vi) On 25 July 2006, the Company entered into an agreement with the Holding Company, certain fellow subsidiaries and an independent third party to contribute to enlarged registered capital of PICC AMC. After having made a capital contribution of RMB160 million, the Company holds a 20% interest in PICC AMC.

(vii) The Company entered into a mutual insurance agency agreement with PICC Life Insurance Company Limited ("PICC Life") on 19 October 2006, pursuant to which the Company and PICC Life mutually acts as the agency for selling the insurance products and receiving agency premiums on behalf for each other. The Company will pay an agency fee to PICC Life in consideration of the agency services provided by PICC Life on the Company's insurance products. The Company will receive an agency fee from PICC Life in consideration of the agency services provided by the Company on PICC Life's insurance products. The agency fees are calculated by the actual agency premiums received multiplied by the agreed commission rates. The term of the mutual insurance agency agreement is three years commencing from 1 September 2006. PICC Life is a fellow subsidiary of the Company.

(viii) The Company entered into a Technical Assistance and Co-operation Agreement with AIG on 29 September 2003, pursuant to which the Company and one of AIG's wholly-owned subsidiaries will co-operate in the development of the accident and health insurance products and the Company will cede quota share reinsurance at fixed cession percentages. This obligation was reflected in a separate reinsurance agreement, which was entered into in the Company's ordinary and usual course of business. The intention of the parties is to continue the co-operation indefinitely. Either party may request to review the key terms of the Technical Assistance and Co-operation Agreement every 15 years. Moreover, the Company entered into a Quota Share Reinsurance Arrangement with AIG in respect of its aviation and accidental injury business on a normal and commercial basis.

The transactions mentioned in (i) to (vii) above constitute connected transactions under the HKSE Listing Rules. For items (i) to (iii) and (v) above, a waiver has been granted by the HKSE to the Company from strict compliance with requirements of connected transaction rules of the HKSE Listing Rules in respect of the connected transactions set out above.

49. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(b) Transactions with other state-owned enterprises in the PRC

The Company operates in an economic environment predominated by enterprises directly or indirectly owned or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively "State-owned Enterprises"). During the year, the Company had transactions with State-owned Enterprises including but not limited to the sale of insurance policies. The directors consider that transactions with other State-owned Enterprises are activities in the ordinary course of the Company's business, and that the dealings of the Company have not been significantly or unduly affected by the fact that the Company and the other State-owned Enterprises are ultimately controlled or owned by the PRC government. The Company has also established pricing policies for insurance products, and such pricing policies do not depend on whether or not the customers are State-owned Enterprises. Having due regard to the substance of the relationships, the directors are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

(c) Outstanding balances with related parties

	Due from related parties		Due to related parties	
	2006	2005	**2006**	2005
	RMB million	*RMB million*	***RMB million***	*RMB million*
The Holding Company	**–**	155	**26**	116
An associate	**–**	–	**10**	–
A fellow subsidiary	**–**	–	**–**	9
A major shareholder	**172**	12	**240**	46
	172	167	**276**	171

The balances with the Holding Company, an associate, a fellow subsidiary and a major shareholder are unsecured, interest-free and settled on a quarterly basis.

(d) Compensation of key management personnel (including Chairman of Board and executive directors)

	2006	2005
	RMB'000	*RMB'000*
Short term employee benefits	**3,667**	5,423
Post-employment benefits	**556**	565
Cash-settled share appreciation rights expense	**6,932**	863
Total compensation paid to key management personnel	**11,155**	6,851

Further details of directors' emoluments are included in note 12 to the financial statements.

50. EVENT AFTER THE BALANCE SHEET DATE

(a) During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ('the New Corporate Income Tax Law') was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. The reduction in income tax rate will directly reduce the Group's effective tax rate and its deferred tax liabilities in the future. Other than that, since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage.

(b) On 17 April 2007, the Board of Directors approved that the Company preliminarily intended to acquire a 29% interest in the enlarged share capital of PICC Life for a consideration of approximately RMB841 million. At the date of approving these financial statements, the Company has not yet entered into any agreement in relation to this investment, and this proposed transaction may or may not proceed or proceed as intended.

51. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Board of Directors on 17 April 2007.