Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

1 ORGANISATION AND PRINCIPAL ACTIVITIES

China Life Insurance Company Limited (the "Company") was established in the People's Republic of China ("China" or "PRC") on 30 June 2003 as a joint stock company with limited liability as part of a group restructuring of China Life Insurance (Group) Company (formerly China Life Insurance Company) ("CLIC") and its subsidiaries (the "Restructuring"). The Company and its subsidiaries are hereinafter collectively referred to as the "Group". The Group's principal activity is the writing of life insurance business, providing life, annuities, accident and health insurance products in China.

The Company is a limited liability company incorporated and located in China. The address of its registered office is: 16 Chaowai Avenue, Chaoyang District, Beijing, PRC. The Company was listed on the Stock Exchange of Hong Kong and the New York Stock Exchange. In December 2006, the Company issued 1.5 billion new shares (the "A Shares") through public offering on the Shanghai Stock Exchange, at the offer price of RMB18.88 per share raising RMB28.32 billion. The A Shares of the Company commenced trading on the Shanghai Stock Exchange on 9 January 2007.

These consolidated financial statements are presented in millions of RenMinBi ("RMB million") unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 17 April 2007.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented.

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("HKFRS"), under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets at fair value through income.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

The Hong Kong Institute of Certified Public Accountants has issued the following revised standards which were effective for accounting periods beginning on or after 1 January 2006.

(a) *Standards, amendments and interpretations to published standards effective in 2006 but not relevant to the Group's operations*

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

- HKAS 19 (Amendment), Employee Benefits;
- HKAS 21 (Amendment), New Investment in a Foreign Operation;
- HKAS 39 (Amendment), The Fair Value Option;
- HKAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- HKAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts;
- HKFRS 6, Exploration for and Evaluation of Mineral Resources;
- HKFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
- HK(IFRIC)-Int 4, Determining whether an Arrangement contains a Lease;
- HK(IFRIC)-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- HK(IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) *Standards, amendment and Interpretations to published standards that are not yet effective and have not been early adopted by the Group*

The following have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods but that the Group has not early adopted. The Group is in the process of making an assessment of the impact of these new and revised standards and interpretations. So far the Group do not expect the adoption of these new and revised standards and interpretations will have substantial changes to the Group's accounting policies.

- HKFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosures. HKFRS 7 introduces new disclosures relating to financial instruments. The Group will apply HKFRS 7 from 1 January 2007; and

- HK(IFRIC)-Int 8, Scope of HKFRS 2 (effective from annual periods beginning on or after 1 May 2006). HK(IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments–where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC)-Int 8 from 1 January 2007; and

- HK(IFRIC)-Int 9, Reassessment of embedded derivatives. HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Group will apply HK(IFRIC)-Int 9 from 1 January 2007; and

- HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from 1 January 2007.

(c) *Interpretations to published standards that are not yet effective and not relevant for the Group's operations*

- HK(IFRIC)-Int 7, Applying the Restatement Approach under IAS/HKAS 29, Financial Reporting in Hyperinflationary Economies.
- HK(IFRIC)-Int 11, HKFRS 2-Group and Treasury Share Transactions.
- HK(IFRIC)-Int 12, Service Concession Arrangements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation

Subsidiaries

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are those entities in which the Company controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the Board of Directors; or to cast the majority of votes at the meetings of the Board of Directors.

Inter-company transactions and balances within the Group are eliminated on consolidation. Minority interest represents the interest of outside shareholders in the operating results and net assets of subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date of acquisition or up to the date of disposal, as appropriate. The gains or losses on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill which was not previously charged or recognised in the consolidated income statement.

In the Company only balance sheet the investments in subsidiaries is stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investments in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. Equity investment other than subsidiaries and associates are classified as available-for-sale securities when they are not designated to be measured at fair value through income.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Associates' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of acquired associate at the date of acquisition. Goodwill on acquisitions of associates is included in investments in associates and is tested annually for impairment as part of the overall balance. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

In the Company only balance sheet the investments in associates is stated at cost less provision for impairment losses. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Segment reporting

Business segments provide products or services that are subject to risks and returns that are different from those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments. In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format. All assets and operations of the Group are located in the PRC, which is considered as one geographical location in an economic environment with similar risks and returns. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Details of the segment information are presented in Note 5.

2.4 Foreign currency translation

The functional currency of the Group's operations is RMB. Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the income statement.

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical costs less accumulated depreciation and any accumulated impairment losses.

The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group.

Assets under construction represent buildings and fixtures under construction and are stated at cost. Costs include construction and acquisition costs. No provision for depreciation is made on assets under construction until such time as the relevant assets are completed and ready for use.

Depreciation

Depreciation is computed on a straight-line basis to write down the cost of each asset to its residual value over its estimated useful life as follows:

	Estimated useful life
Buildings	15 to 35 years
Office equipment, furniture and fixtures	5 to 10 years
Motor vehicles	4 to 8 years
Leasehold improvements	Over the remaining term of the lease

The useful life and depreciation method is reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment (continued)

Impairment and gain or loss on sales

Property, plant and equipment are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use.

The gain or loss on disposal of a property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

2.6 Financial assets

2.6.a Classification

The Group classifies its investments in securities into the following categories: held-to-maturity securities, financial assets at fair value through income and available-for-sale securities. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition. Financial assets other than investment in securities are loans and receivables which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group intends to sell in the short term or available for sale. Loans and receivables mainly comprise term deposits, policy loans, securities purchased under agreements to resell and accrued investment income as presented separately in the balance sheet.

(i) Held-to-maturity securities

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

(ii) Financial assets at fair value through income

This category has two sub-categories: financial assets held for trading and those designated at fair value through income at inception. A financial asset is classified as held for trading at inception if acquired principally for the purpose of selling in the short term or if it forms part of a portfolio of financial assets in which there is evidence of short term profit-taking. Any other additional financial assets may be designated at fair value through income at inception by the Group. The Group presently has no financial assets designated at fair value through income at inception.

(iii) Available-for-sale securities

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6.b Recognition and measurement

Purchases and sales of investments are recognised on trade date, on which the Group commits to purchase or sell assets. Investments are initially recognised at fair value plus, in the case of all financial assets not carried at fair value through income, transaction costs that are directly attributable to their acquisition. Investments are derecognised when the rights to receive cash flows from the investments have expired or when they have been transferred and the Group has also transferred substantially all risks and rewards of ownership.

Available-for-sale securities and financial assets at fair value through income are carried at fair value. Held-to-maturity securities are carried at amortised cost using the effective interest method. Investment gains and losses on sales of securities are determined principally by specific identification. Realised and unrealised gains and losses arising from changes in the fair value of the "financial assets at fair value through income" category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of financial assets classified as available-for-sale securities are recognised in equity. When securities classified as available-for-sale securities are sold or impaired, the accumulated fair value adjustments are included in the income statement as realised gains/losses on financial assets.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models.

2.6.c Term deposits

Term deposits include both traditional bank deposits and structured deposits. Term deposits have fixed maturity dates and are stated at amortised cost.

2.6.d Policy loans

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

2.6.e Securities purchased under agreements to resell

The Group enters into purchases of securities under agreements to resell substantially identical securities. These agreements are classified as secured loans. Securities purchased under agreements to resell are recorded at their cost plus accrued interest at the balance sheet date, which approximates fair value. The amounts advanced under these agreements are reflected as assets in the consolidated balance sheet. The Group does not take physical possession of securities purchased under agreements to resell. Sales or transfers of the securities are not permitted by the respective clearing house on which they are registered while the loan is outstanding. In the event of default by the counterparty to repay the loan, the Group has the right to the underlying securities held by the clearing house.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Financial assets other than those accounted for as at fair value through income are adjusted for impairments, where there are declines in value that are considered to be other than temporary. In evaluating whether a decline in value is other than temporary, the Group considers several factors including, but not limited to the following: (1) the extent and the duration of the decline; (2) the financial condition of and near-term prospects of the issuer; and (3) the Group's ability and intent to hold the investment for a period of time to allow for a recovery of value. When the decline in value is considered other than temporary, relevant financial assets are written down to their net realised value and the charge is recorded in "Net realised gains/(losses) on financial assets" in the period the impairment is recognised. The impairment loss is reversed through the income statement if in a subsequent period the fair value of a debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised through income statement.

2.7 Cash and cash equivalents

Cash amounts represent cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments with original maturities of 90 days or less, which approximates fair value.

2.8 Insurance contracts and investment contracts

2.8.1 Insurance contracts and investment contracts with DPF

2.8.1.a Recognition and measurement

The Group issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. They may also transfer financial risk. Investment contracts are those contracts that transfer financial risk with no significant insurance risk. A number of insurance and investment contracts contain a DPF. This feature entitles the holder to receive, as a supplement to benefits under the contracts, additional benefits or bonuses that are, at least in part, discretionary to the Group. Insurance contracts and investment contracts with DPF are classified into three main categories.

(i) Short-term insurance contracts

Premiums from the sale of short duration accident and health insurance products are recorded when written and are accreted to earnings on a pro-rata basis over the term of the related policy coverage. The unearned premium reserve represents the portion of the premiums written relating to the unexpired terms of coverage.

Reserves for claims and claim adjustment expenses represent liabilities for claims arising under short duration accident and health insurance contracts. Claims and claim adjustment expenses are charged to the income statement as incurred. Unpaid claims and claim adjustment expense reserves represent the accumulation of estimates for ultimate losses and include provisions for claims incurred but not yet reported. The reserves represent estimates of future payments of reported and unreported claims for losses and related expenses with respect to insured events that have occurred. Reserving is a complex process dealing with uncertainty, requiring the use of informed estimates and judgements. The Group does not discount its claims reserves, other than for settled claims with fixed payment terms. Any changes in estimates are reflected in results of operations in the period in which estimates are changed.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Insurance contracts and investment contracts (continued)

2.8.1 Insurance contracts and investment contracts with DPF (continued)

2.8.1.a Recognition and measurement (continued)

(ii) Long-term traditional insurance contracts

Long-term traditional insurance contracts include whole life and term life insurance, endowment insurance and annuities policies with significant life contingency risk. Premiums are recognised as revenue when due from policyholders. Benefits and expenses are provided against such revenue to recognise profits over the estimated life of the policies. Hence, for single premium and limited payment contracts, premiums are recorded as income when due with the percent-of-premium profit margin deferred and recognised in income in a constant relationship to the amount of insurance in-force for life insurance contracts and the amount of expected benefit payments for annuities.

Liabilities arising from long-term traditional insurance contracts comprise a policyholder reserve based on the net level premium valuation method and actuarial assumptions as to mortality, persistency, expenses, withdrawals, and investment return including, where appropriate a provision for adverse deviation, and a deferred profit liability for the deferred percent-of-premium profit margin, as described in Note 2.9. The assumptions are established at policy issue and remain unchanged unless adverse experience causes a deficiency in liability adequacy test as described in Note 2.8.1.b.

(iii) Long-term investment type insurance contracts and investment contracts with DPF

Long-term investment type insurance contracts include life insurance and annuity contracts with significant investment features but with sufficiently significant insurance risk to still be considered insurance contracts under HKFRS 4.

Long-term investment type insurance contracts and investment contracts with DPF are accounted for as follows: revenue from a contract consists of various charges (policy fees, handling fees, management fees, surrender charges) made against the contract for the cost of insurance, expenses and early surrender. Excess first year charges are deferred as an unearned revenue liability and are recognised in income over the life of the contracts in a constant relationship to estimated gross profits (as defined below in Note 2.8.3). To the extent unrealised gains or losses from available-for-sale securities affect the estimated gross profits, shadow adjustments are recognised in equity. Policy benefits and claims that are charged to expenses include benefit claims incurred in the year in excess of related contract balances and interest credited to these contracts.

The policyholder liability for long-term investment type insurance contracts and investment contracts with DPF represents the accumulation of premium received less charges, as described above.

2.8.1.b Liability adequacy test

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related DAC. In performing these tests, current best estimates of future cash flows for each category of contracts are used to determine any deficiency for those contracts. Any deficiency is immediately charged to income statement initially by writing off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Insurance contracts and investment contracts (continued)

2.8.1 Insurance contracts and investment contracts with DPF (continued)

2.8.1.c Reinsurance contracts held

Contracts with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts with reinsurers that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Group under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due. In certain cases a reinsurance contract is entered into for existing in-force business. Where the premium due to the reinsurer differs from the liability established by the Group for the related business, the difference is amortised over the estimated remaining settlement period.

The Group assesses its reinsurance assets for impairment as at the balance sheet date. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the income statement. If a reinsurer is unable to satisfy its obligation under the reinsurance contracts, the liability become the responsibility of the Group.

2.8.1.d DPF in long-term insurance contracts and investment contracts

DPF is contained in certain long-term insurance contracts and investment contracts. These contracts are collectively called participating contracts. The Group is obligated to pay to the policyholders of participating contracts at least 70% of distributable surplus, which includes mainly net investment income and realised gains and losses arising from the assets supporting these contracts; if this eligible surplus has not been declared and paid, it is included in the policyholder dividends payable. The policyholders' share of unrealised gains or losses in respect of assets held by the Group, which may be paid to participating policyholders in the future under the policy terms in respect of assets, is also included in the policyholder dividends payable.

2.8.2 Investment contracts without DPF

Investment contracts without DPF are not considered to be insurance contracts and are accounted for as a financial liability. The liability for investment contracts without DPF represents the accumulation of premium received less charges.

Revenue from these contracts consists of various charges (policy fees, handling fees, management fees and surrender charges) made against the contract for the cost of insurance, expenses and early surrender. Excess first year charges are deferred as an unearned revenue liability and are recognised in income over the life of the contracts in a constant relationship to estimated gross profits (defined in Note 2.8.3). Policy benefits and claims that are charged to expenses include benefit claims incurred in the year in excess of related contract balances and interest credited to these contracts.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Insurance contracts and investment contracts (continued)

2.8.3 Deferred policy acquisition costs ("DAC")

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

DAC for long-term traditional insurance contracts are amortised over the premium paying period as a constant percentage of expected premiums. Expected premiums are based upon assumptions defined at the date of policy issue. These assumptions are consistently applied throughout the premium paying period unless adverse experience causes a deficiency in liability adequacy test as described in Note 2.8.1.b.

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

2.9 Deferred income

Deferred income includes the deferred profit liability arising from long-term traditional insurance contracts and the unearned revenue liability arising from long-term investment type insurance contracts and investment contracts. Both are described in Note 2.8.1.a and Note 2.8.2. Both deferred income amounts will be released to income statement over the remaining lifetime of the business.

2.10 Securities sold with agreements to repurchase

Securities sold under agreements to repurchase, which are classified as secured borrowings, generally mature within 180 days from the transaction date. The Group may be required to provide additional collateral based on the fair value of the underlying securities. Securities sold under agreements to repurchase are recorded at their cost plus accrued interest at the balance sheet date. It is the Group's policy to maintain effective control over securities sold under agreements to repurchase which includes maintaining physical possession of the securities. Accordingly, such securities continue to be carried on the consolidated balance sheet.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Employee benefits

Pension benefits

The full-time employees of the Group are covered by various government-sponsored pension plans under which the employees are entitled to a monthly pension based on certain formulas. These government agencies are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these plans, the Group has no legal or constructive obligation for retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

Housing benefits

All full-time employees of the Group are entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each year.

2.12 Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds.

2.13 Revenue recognition

Turnover of the Group represents the total revenues.

Premiums and policy fees

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

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

Net investment income

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Deferred taxation

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

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

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

2.15 Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments under operating leases are charged to the income statement on a straight-line basis over the lease periods.

2.16 Contingencies

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised in the balance sheet but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and can be reliably measured, it will then be recognised as a provision.

2.17 Dividend distribution

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

2.18 Stock appreciation rights

Compensation under the stock appreciation rights is measured based on the fair value of the liabilities incurred and is expensed over the vesting period. Valuation techniques including option pricing models are used to estimate fair value of relevant liabilities. The liability is remeasured at each balance sheet date to its fair value until settlement with all changes included in administrative expenses in the consolidated income statement, the related liability is included in other liabilities.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

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

Investment return assumptions are based on estimates of future yields on the Group's investments as described in Note 14. If the investment return assumptions in all years were 1% lower or higher than the above, the insurance liabilities would increase by RMB12,918 million or decrease by RMB11,302 million respectively. In these cases, there is no relief arising from reinsurance contracts held.

Estimates are made for mortality and morbidity rates in each of the years that the Group is exposed to risk. The assumed mortality rates and morbidity rates are described in Note 14. Where the mortality rates increased or decreased by 10% from current assumptions, the liability would increase by RMB336 million or decrease by RMB344 million respectively. Where the morbidity rates increased or decreased by 10% from management's estimate, the liability would increase by RMB395 million or decrease by RMB395 million respectively.

The assumption for policy administration expenses has been based on expected unit costs plus, where applicable, a margin for adverse deviation as described in Note 14.

3.2 Liability adequacy test

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the insurance contract liabilities net of related DAC. In performing these tests, current best estimates of future cash flows under the contracts are used. As set out in Note 3.1 above, liability assumptions for long-term traditional insurance contracts are defined at the inception of the contract. When the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions (without margins for adverse deviation) are used for the subsequent measurement of these liabilities. Any DAC written off as a result of this test cannot subsequently be reinstated.

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

3.3 Investments

The Group's principal investments are debt securities, equity securities and term deposits. The critical estimates and judgments are those associated with the recognition of impairment and the determination of fair value.

The Group considers a wide range of factors in the impairment assessment as described in Note 2.6.f.

Fair value is defined as the amount at which the financial assets and liabilities could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, rather than in a forced or liquidation sale. The methods and assumptions used by the Group in estimating the fair value of the financial assets and liabilities are:

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

– Equity securities: fair values are based on current bid prices.

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

– Structured deposits: the market for structured deposits is not active, the Group establishes fair value by using discounted cash flow analysis and option pricing models as the valuation technique. The Group uses the US$ swap rate (the benchmark rate) to determine the fair value of financial instruments. Due to the complexity of structured deposits, significant judgement and estimates are involved in the absence of quoted market values. These estimates are based on valuation methodologies and assumptions deemed appropriate in the circumstances.

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

4 MANAGEMENT OF INSURANCE AND FINANCIAL RISK

The Group issues contracts that transfer insurance risk or financial risk or both. This section summarises these risks and the way the Group manages them.

4.1 Insurance risk

The risk under any one insurance contract is the possibility that an insured event occurs and there is uncertainty about the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This occurs when the frequency or severity of claims and benefits exceeds the estimates. Insurance events are random and the actual number of claims and the amount of benefits paid will vary each year from estimates established using statistical techniques.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

4 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

4.1 Insurance risk (continued)

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. The Group manages insurance risk through underwriting strategy, reinsurance arrangements and claims handling.

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

The Group offers life insurance, annuity, accident and health insurance products. All operations of the Group are located in the PRC. The table below presents the Group's major products of long-term traditional insurance contracts:

Product name	2006		2005	
	RMB million	%	RMB million	%
Premium				
Kang Ning Whole Life *	26,079	32.0%	21,425	33.4%
Hong Xin Endowment *	26,781	33.0%	20,994	32.8%
Qian Xi Endowment *	6,298	7.8%	6,344	9.9%
Others	22,072	27.2%	15,309	23.9%
Total	81,230	100.0%	64,072	100.0%
Insurance benefits				
Kang Ning Whole Life *	2,498	23.1%	2,121	25.5%
Hong Xin Endowment *	1,368	12.7%	631	7.6%
Qian Xi Endowment *	2,454	22.7%	3,222	38.8%
Others	4,477	41.5%	2,337	28.1%
Total	10,797	100.0%	8,311	100.0%
Liabilities of long-term traditional insurance contracts				
Kang Ning Whole Life *	57,406	33.2%	42,859	34.4%
Hong Xin Endowment *	37,647	21.8%	21,549	17.3%
Qian Xi Endowment *	23,700	13.7%	21,232	17.0%
Others	54,122	31.3%	39,016	31.3%
Total	172,875	100.0%	124,656	100.0%

4 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

4.1 Insurance risk (continued)

* Kang Ning Whole Life is long-term individual whole life traditional insurance contract with options of premium term of single, 10 years or 20 years. Its critical illness benefit accounts for 200% of basic sum insured. Both death and disability benefit are paid at 300% basic sum insured less any paid critical illness benefit.

* Hong Xin Endowment is long-term individual endowment traditional insurance contract with options of premium term of single, 3 years, 5 years or 10 years. The insured can be benefited up to age of 80. Its endowment benefit accounts for 9% of basic sum insured every three years. Death and maturity benefit are paid at 200% and 150% of basic sum insured, respectively.

* Qian Xi Endowment is long-term individual endowment traditional insurance contract with options of premium term of single, 10 years, 20 years or 30 years. The benefit term is whole life. Its endowment benefit accounts for 5% of basic sum insured every three years and death benefit is increased by 5% of basic sum insured every year that renewal premium is paid.

For long-term investment type insurance contracts, Hong Feng Endowment is the major product with RMB47,742 million of deposits in 2006 (2005: RMB34,915 million), representing 67.7% (2005: 55.5%) of total received deposits of long-term investment type insurance contracts.

Participating contracts for the year ended 31 December 2006 represented approximately 52% and 52% of gross and net life insurance premium and policy fees, respectively (2005: 50% and 50%). The net investment income, net realised gains/(losses) on financial assets and net fair value gains on assets at fair value through income (held-for-trading) attributable to participating contracts in 2006 are RMB16,600 million, RMB849 million and RMB16,149 million respectively (2005: RMB11,102 million, RMB(318) million and RMB98 million).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

4 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

4.2 Financial risk

The Group's activities are exposed to a variety of financial risks. The key financial risk is that proceeds from the sale of financial assets will not be sufficient to fund obligations arising from the Group's insurance and investment contracts. The most important components of financial risk are interest rate risk, market risk, credit risk and liquidity risk.

The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. Risk management is carried out by a designated department under policies approved by management. The responsible department identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The Group provides written principles for overall risk management, as well as written policies covering specific areas, such as managing interest rate risk, market risk, credit risk, and liquidity risk.

(i) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group's financial assets are principally comprised of term deposits and debt securities. Changes in level of interest rates can have a significant impact on the Group's overall investment return. Many of the Group's insurance policies offer guaranteed returns to policyholders. These guarantees expose the Group to interest rate risk.

The Group manages interest rate risk through adjustments to portfolio structure and duration, and, to the extent possible, by monitoring the mean duration of its assets and liabilities.

The table below summaries the effective interest rates at the balance sheet date across major applicable financial assets and financial liabilities.

As at 31 December	**2006**	2005
Financial assets other than at fair value through income		
Debt securities		
-held-to-maturity securities	**4.5%**	4.6%
-available-for-sale securities	**3.6%**	3.7%
Term deposits	**4.3%**	4.1%
Cash and cash equivalents	**1.8%**	3.0%
Investment contracts with DPF	**2.5%**	2.5%
Investment contracts without DPF	**1.9%**	2.3%

The interest rates that are used to measure long-term traditional insurance contracts are disclosed in Note 14.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

4 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

4.2 Financial risk (continued)

(i) *Interest rate risk (continued)*

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

As at 31 December 2006	2007	2008	2009	2010 (RMB million)	2011	Thereafter	Total
Debt securities at carrying value							
– fixed rate	9,054	4,323	28,774	5,802	29,543	259,163	336,659
– variable rate	431	16	6,338	3,531	2,066	8,857	21,239
Term deposits							
– fixed rate	5,799	2,481	100	60	16,600	3,708	28,748
– variable rate	52,131	44,240	41,100	6,320	1,000	1,937	146,728
Statutory deposits-restricted	-	5,353	-	-	-	-	5,353
Cash and cash equivalents	50,213	-	-	-	-	-	50,213
Total	**117,628**	**56,413**	**76,312**	**15,713**	**49,209**	**273,665**	**588,940**
Long-term traditional insurance contracts	563	29	48	61	72	172,102	172,875
Long-term investment type insurance contracts	49,555	55,975	44,115	36,572	53,954	42,501	282,672
Investment contracts							
– with DPF	2,492	564	766	941	1,034	40,201	45,998
– without DPF	281	541	695	16	16	1,065	2,614
Securities sold under agreements to repurchase	8,227	-	-	-	-	-	8,227
Total	**61,118**	**57,109**	**45,624**	**37,590**	**55,076**	**255,869**	**512,386**

As at 31 December 2005	2006	2007	2008	2009 (RMB million)	2010	Thereafter	Total
Debt securities at carrying value							
– fixed rate	9,460	4,084	4,355	28,980	6,669	183,587	237,135
– variable rate	377	567	16	6,284	3,262	7,913	18,419
Term deposits							
– fixed rate	6,133	1,845	2,489	100	60	4,479	15,106
– variable rate	4,430	51,350	44,240	41,100	6,320	2,323	149,763
Statutory deposits-restricted	-	-	5,353	-	-	-	5,353
Cash and cash equivalents	28,051	-	-	-	-	-	28,051
Total	**48,451**	**57,846**	**56,453**	**76,464**	**16,311**	**198,302**	**453,827**
Long-term traditional insurance contracts	188	10	12	19	23	124,404	124,656
Long-term investment type insurance contracts	7,612	47,013	57,987	47,880	37,099	39,410	237,001
Investment contracts							
– with DPF	6,390	632	612	828	959	32,809	42,230
– without DPF	178	224	664	18	24	764	1,872
Securities sold under agreements to repurchase	4,731	-	-	-	-	-	4,731
Total	**19,099**	**47,879**	**59,275**	**48,745**	**38,105**	**197,387**	**410,490**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

4 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

4.2 Financial risk (continued)

(ii) Market risk

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

The Group manages market risk by holding an appropriately diversified investment portfolio as permitted by laws and regulations designed to reduce the risk of concentration in any one specific industry or issuer.

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

The following table summaries financial assets denominated in currencies other than RMB as at 31 December 2006 and 2005.

As at 31 December 2006	US$ RMB million	HK$ RMB million	Total RMB million
Equity securities	–	6,884	6,884
Debt securities	3,334	–	3,334
Term deposits (excluding structured deposits)	3,358	–	3,358
Structured deposits	4,646	–	4,646
Cash and cash equivalents	5,083	82	5,165
Total	**16,421**	**6,966**	**23,387**

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

4 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

4.2 Financial risk (continued)

(iii) Credit risk

Credit risk is the risk that one party to a financial transaction or the issuer of a financial instrument will fail to discharge an obligation and cause another party to incur a financial loss. Because the Group is limited in the types of investments as permitted by China Insurance Regulatory Commission ("CIRC") and a significant portion of the portfolio is in government bonds, government agency bonds and term deposits with the state-owned commercial banks, the Group's exposure to credit risk is relatively low.

Credit risk is controlled by the application of credit approvals, limits and monitoring procedures. The Group manages credit risk through in-house fundamental analysis of the Chinese economy and the underlying obligors and transaction structures. Where appropriate, the Group obtains collateral in the form of rights to cash, securities, property and equipment.

(iv) Liquidity risk

Liquidity risk is the risk that the Group will not have access to sufficient funds to meet its liabilities as they become due.

In the normal course of business, the Group attempts to match the maturity of investment assets to the maturity of insurance liabilities.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

5 SEGMENT INFORMATION

5.1 Business segments

The Group has the following main business segments:

(i) Individual life insurance business

Individual life insurance business relates primarily to the sale of insurance contracts and investment contracts to individuals and comprises participating and non-participating business. Participating life insurance business relates primarily to the sale of participating contracts, which provides the policyholder with a participation in the profits arising from the invested assets relating to the policy and mortality gains, as described in Note 2.8.1.d. Non-participating insurance business relates primarily to non-participating life insurance and annuity products, which provides guaranteed benefits to the insured without a participation in the profits.

(ii) Group life insurance business

Group life insurance business relates primarily to the sale of insurance contracts and investment contracts to group entities and comprises participating and non-participating business as described above.

(iii) Accident and health insurance business

Accident and health insurance business relates primarily to the sale of accident and health insurance and accident only products.

(iv) Corporate and other

Corporate and other business relates primarily to income and expenses in respect of the provision of the services to CLIC, as described in Note 30 and unallocated income taxes.

5.2 Basis of allocating net investment income, realised and unrealised gains or losses and administrative and other operating expenses

Net investment income, net realised gains or losses on financial assets, net fair value gains on assets at fair value through income (held-for-trading) and foreign exchange losses within other operating expenses are allocated among segments in proportion to each respective segment's average statutory policyholder reserve and claims provision at the beginning and end of the year. Administrative and other operating expenses are allocated among segments in proportion to the unit cost of products in the respective segments.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

5 SEGMENT INFORMATION (continued)

	For the year ended 31 December 2006				
	Individual life	Group life	Accident & Health	Corporate & other	Total
			(RMB million)		
Revenues					
Gross written premiums and policy fees	86,587	1,740	11,090	–	99,417
Gross written premiums	80,086	1,144	–	–	
– Term Life	177	26	–	–	
– Whole Life	28,079	886	–	–	
– Endowment	43,583	–	–	–	
– Annuity	8,247	232	–	–	
Policy fees	6,501	596	–	–	
Net premiums earned and policy fees	86,519	1,735	10,593	–	98,847
Net investment income	22,215	2,462	265	–	24,942
Net realised gains on financial assets	1,421	157	17	–	1,595
Net fair value gains on assets at fair value through income (held-for-trading)	17,852	1,979	213	–	20,044
Other income	–	–	–	1,883	1,883
Segment revenues	128,007	6,333	11,088	1,883	147,311
Benefits, claims and expenses					
Insurance benefits and claims					
Life insurance death and other benefits	(10,125)	(672)	–	–	(10,797)
Accident and health claims and claim adjustment expenses	–	–	(6,999)	–	(6,999)
Increase in long-term traditional insurance contracts liabilities	(43,915)	(323)	–	–	(44,238)
Interest credited to long-term investment type insurance contracts	(6,365)	(21)	–	–	(6,386)
Interest credited to investment contracts	–	(996)	–	–	(996)
Increase in deferred income	(11,307)	(300)	–	–	(11,607)
Policyholder dividends resulting from participation in profits	(15,536)	(2,081)	–	–	(17,617)
Amortisation of deferred policy acquisition costs	(9,391)	(265)	(603)	–	(10,259)
Underwriting and policy acquisition costs	(1,822)	(40)	(553)	–	(2,415)
Administrative expenses	(5,109)	(699)	(1,855)	(1,676)	(9,339)
Other operating expenses	(629)	(71)	(21)	(138)	(859)
Statutory insurance fund	(145)	(1)	(48)	–	(194)
Segment benefits, claims and expenses	(104,344)	(5,469)	(10,079)	(1,814)	(121,706)
Segment results	23,663	864	1,009	69	25,605
Income tax expenses	–	–	–	(5,554)	(5,554)
Net profit/(loss)	23,663	864	1,009	(5,485)	20,051
Attributable to					
–shareholders of the Company	23,663	864	1,009	(5,580)	19,956
–minority interest	–	–	–	95	95
Unrealised gains included in shareholders' equity	11,452	1,270	137	–	12,859

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

5 SEGMENT INFORMATION (continued)

	As at 31 December 2006				
	Individual life	Group life	Accident & Health	Corporate & other	Total
			(RMB million)		
Assets					
Financial assets	574,503	63,685	6,864	–	645,052
Deferred policy acquisition costs	37,591	845	794	–	39,230
Cash and cash equivalents	44,721	4,958	534	–	50,213
Segment assets	656,815	69,488	8,192	–	734,495
Unallocated					
Property, plant and equipment					14,565
Other assets					15,335
Total					764,395
Liabilities					
Insurance contracts					
Short-term insurance contracts:					
– reserves for claims and claim adjustment expenses	–	–	2,498	–	2,498
– unearned premium reserves	–	–	5,346	–	5,346
Long-term traditional insurance contracts	170,954	1,921	–	–	172,875
Long-term investment type insurance contracts	281,847	825	–	–	282,672
Deferred income	40,744	627	–	–	41,371
Financial liabilities					
Investment contracts					
– with DPF	–	45,998	–	–	45,998
– without DPF	–	2,614	–	–	2,614
Securities sold under agreements to repurchase	7,327	812	88	–	8,227
Segment liabilities	500,872	52,797	7,932	–	561,601
Unallocated					
Other liabilities					62,589
Total					624,190

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

5 SEGMENT INFORMATION (continued)

	For the year ended 31 December 2005				
	Individual life	Group life	Accident & Health	Corporate & other	Total
			(RMB million)		
Revenues					
Gross written premiums and policy fees	68,888	1,267	10,867	–	81,022
Gross written premiums	63,205	867	–	–	
– Term Life	184	24	–	–	
– Whole Life	23,310	674	–	–	
– Endowment	35,480	–	–	–	
– Annuity	4,231	169	–	–	
Policy fees	5,683	400	–	–	
Net premiums earned and policy fees	68,749	1,257	10,032	–	80,038
Net investment income	14,682	1,788	215	–	16,685
Net realised losses on financial assets	(448)	(55)	(7)	–	(510)
Net fair value gains on assets at fair value through income (held-for-trading)	229	28	3	–	260
Other income	–	–	–	1,739	1,739
Segment revenues	83,212	3,018	10,243	1,739	98,212
Benefits, claims and expenses					
Insurance benefits and claims					
Life insurance death and other benefits	(7,744)	(567)	–	–	(8,311)
Accident and health claims and claim adjustment expenses	–	–	(6,847)	–	(6,847)
Increase in long-term traditional insurance contracts liabilities	(33,550)	(427)	–	–	(33,977)
Interest credited to long-term investment type insurance contracts	(4,867)	(27)	–	–	(4,894)
Interest credited to investment contracts	–	(973)	–	–	(973)
Increase in deferred income	(8,484)	(37)	–	–	(8,521)
Policyholder dividends resulting from participation in profits	(4,965)	(394)	–	–	(5,359)
Amortisation of deferred policy acquisition costs	(6,955)	(544)	(267)	–	(7,766)
Underwriting and policy acquisition costs	(1,350)	(68)	(427)	–	(1,845)
Administrative expenses	(3,863)	(415)	(1,338)	(1,621)	(7,237)
Other operating expenses	(646)	(78)	(29)	(45)	(798)
Statutory insurance fund	(118)	(1)	(55)	–	(174)
Segment benefits, claims and expenses	(72,542)	(3,531)	(8,963)	(1,666)	(86,702)
Segment results	10,670	(513)	1,280	73	11,510
Income tax expenses	–	–	–	(2,145)	(2,145)
Net profit/(loss)	10,670	(513)	1,280	(2,072)	9,365
Attributable to					
– shareholders of the Company	10,670	(513)	1,280	(2,131)	9,306
– minority interest	–	–	–	59	59
Unrealised gains included in shareholders' equity	3,997	487	58	–	4,542

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For the year ended 31 December 2006

5 SEGMENT INFORMATION (continued)

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

6 PROPERTY, PLANT AND EQUIPMENT

Group:

	2006					
	Buildings RMB million	Office equipment, furniture and fixtures RMB million	Motor vehicles RMB million	Assets under construction RMB million	Leasehold improvements RMB million	Total RMB million
Cost						
As at 1 January 2006	12,144	2,746	1,711	1,086	152	17,839
Additions	152	561	212	1,773	61	2,759
Disposals	(41)	(119)	(108)	–	(2)	(270)
Transfers upon completion	670	22	–	(699)	7	–
As at 31 December 2006	12,925	3,210	1,815	2,160	218	20,328
Accumulated depreciation and impairment						
As at 1 January 2006	(2,164)	(1,540)	(1,325)	–	(100)	(5,129)
Charges for the year	(345)	(373)	(112)	–	(18)	(848)
Impairment loss	(3)	–	–	–	–	(3)
Disposals	3	113	100	–	1	217
As at 31 December 2006	(2,509)	(1,800)	(1,337)	–	(117)	(5,763)
Net book value						
As at 1 January 2006	9,980	1,206	386	1,086	52	12,710
As at 31 December 2006	10,416	1,410	478	2,160	101	14,565

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For the year ended 31 December 2006

6 PROPERTY, PLANT AND EQUIPMENT (continued)

Group:

	2005					
	Buildings RMB million	Office equipment, furniture and fixtures RMB million	Motor vehicles RMB million	Assets under construction RMB million	Leasehold improvements RMB million	Total RMB million
Cost						
As at 1 January 2005	11,669	2,304	1,722	803	126	16,624
Additions	72	484	56	753	17	1,382
Disposals	(26)	(68)	(67)	(5)	(1)	(167)
Transfers upon completion	429	26	–	(465)	10	–
As at 31 December 2005	12,144	2,746	1,711	1,086	152	17,839
Accumulated depreciation and impairment						
As at 1 January 2005	(1,788)	(1,289)	(1,214)	–	(83)	(4,374)
Charges for the year	(380)	(313)	(174)	–	(17)	(884)
Disposals	4	62	63	–	–	129
As at 31 December 2005	(2,164)	(1,540)	(1,325)	–	(100)	(5,129)
Net book value						
As at 1 January 2005	9,881	1,015	508	803	43	12,250
As at 31 December 2005	9,980	1,206	386	1,086	52	12,710

6 PROPERTY, PLANT AND EQUIPMENT (continued)

Company:

	2006					
	Buildings RMB million	Office equipment, furniture and fixtures RMB million	Motor vehicles RMB million	Assets under construction RMB million	Leasehold improvements RMB million	Total RMB million
Cost						
As at 1 January 2006	12,144	2,733	1,708	834	152	17,571
Additions	152	543	211	1,717	61	2,684
Disposals	(41)	(119)	(108)	–	(2)	(270)
Transfers upon completion	670	22	–	(699)	7	–
As at 31 December 2006	12,925	3,179	1,811	1,852	218	19,985
Accumulated depreciation and impairment						
As at 1 January 2006	(2,164)	(1,537)	(1,324)	–	(100)	(5,125)
Charges for the year	(345)	(370)	(111)	–	(18)	(844)
Impairment loss	(3)	–	–	–	–	(3)
Disposals	3	118	100	–	1	222
As at 31 December 2006	(2,509)	(1,789)	(1,335)	–	(117)	(5,750)
Net book value						
As at 1 January 2006	9,980	1,196	384	834	52	12,446
As at 31 December 2006	10,416	1,390	476	1,852	101	14,235

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6 PROPERTY, PLANT AND EQUIPMENT (continued)

Company:

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

7 DEFERRED POLICY ACQUISITION COSTS

Group and Company

	2006 RMB million	2005 RMB million
Gross		
As at 1 January	37,841	32,981
Acquisition costs deferred	15,929	14,231
Amortisation charged through income	(10,359)	(7,960)
Amortisation charged through equity	(4,166)	(1,411)
As at 31 December	39,245	37,841
Ceded		
As at 1 January	(100)	(194)
Acquisition costs deferred	(15)	(100)
Amortisation charged through income	100	194
As at 31 December	(15)	(100)
Net		
As at 1 January	37,741	32,787
Acquisition costs deferred	15,914	14,131
Amortisation charged through income	(10,259)	(7,766)
Amortisation charged through equity	(4,166)	(1,411)
As at 31 December	39,230	37,741
DAC excluding unrealised gains	43,843	38,188
DAC recorded in unrealised gains	(4,613)	(447)
Total	39,230	37,741
Current	794	603
Non-current	38,436	37,138
Total	39,230	37,741

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8 INVESTMENTS IN ASSOCIATES

	RMB million
Acquisition of Guangdong Development Bank ("GDB") (a)	**5,671**
Investment in China Life Property & Casualty Insurance Company Limited ("CLP&C") (b)	**400**
Share of results	**–**
Other equity movements	**–**
As at 31 December 2006	**6,071**

(a) The Group acquired 20% of the share capital of GDB on 18 December 2006 for a cash consideration of RMB5,671 million.

(b) As approved by CIRC, the Company entered an agreement with CLIC to establish CLP&C with total paid-in capital of RMB1,000 million in 2006. The Company and CLIC own 40% and 60% of CLP&C, respectively. CLP&C obtained its business license and commenced operation on 30 December 2006.

The Group's share in investment in associates as at 31 December 2006 is as follows:

Name	**Country of incorporation**	**Assets**	**Liabilities**	**Revenues**	**Loss**	**Interest held**
			(RMB million)			
GDB	PRC	77,901	72,230	59	–	20%
CLP&C	PRC	400	–	–	–	40%
Total		78,301	72,230	59	–	

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9 FINANCIAL ASSETS

9.1 Held-to-maturity securities

	Amortised cost RMB million	Gross unrealised gains RMB million	Gross unrealised losses RMB million	Estimated fair value RMB million
Group and Company				
As at 31 December 2006				
Debt securities				
Government bonds	**94,999**	**7,791**	**(26)**	**102,764**
Government agency bonds	**53,935**	**2,642**	**(244)**	**56,333**
Corporate bonds	**3,257**	**296**	**–**	**3,553**
Subordinated bonds/debts	**24,368**	**1,282**	**(8)**	**25,642**
Total	**176,559**	**12,011**	**(278)**	**188,292**
Group and Company				
As at 31 December 2005				
Debt securities				
Government bonds	90,067	8,652	(13)	98,706
Government agency bonds	28,609	1,650	(12)	30,247
Corporate bonds	3,257	310	–	3,567
Subordinated bonds/debts	24,364	901	–	25,265
Total	146,297	11,513	(25)	157,785

	Group and Company			
Contractual maturity schedule	**Amortised cost**		**Estimated fair value**	
	As at 31 December 2006 RMB million	As at 31 December 2005 RMB million	**As at 31 December 2006 RMB million**	As at 31 December 2005 RMB million
Maturing:				
Within one year	**2,974**	687	**3,008**	694
After one year but within five years	**51,483**	35,481	**54,345**	37,256
After five years but within ten years	**37,295**	53,750	**40,279**	58,878
After ten years	**84,807**	56,379	**90,660**	60,957
Total	**176,559**	146,297	**188,292**	157,785

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

9 FINANCIAL ASSETS (continued)

9.2 Available-for-sale securities

	Amortised cost/Cost RMB million	Gross unrealised gains RMB million	Gross unrealised losses RMB million	Estimated fair value RMB million
Group				
As at 31 December 2006				
Debt securities				
Government bonds	60,058	863	(569)	60,352
Government agency bonds	78,300	664	(243)	78,721
Corporate bonds	31,001	238	(487)	30,752
Subordinated bonds/debts	7,068	12	(37)	7,043
Subtotal	176,427	1,777	(1,336)	176,868
Equity securities				
Funds	20,535	12,437	(103)	32,869
Common stocks	15,876	13,882	(33)	29,725
Warrants	–	1	–	1
Subtotal	36,411	26,320	(136)	62,595
Total	212,838	28,097	(1,472)	239,463
Company				
As at 31 December 2006				
Debt securities				
Government bonds	59,599	862	(568)	59,893
Government agency bonds	78,300	664	(243)	78,721
Corporate bonds	31,001	238	(487)	30,752
Subordinated bonds/debts	7,068	12	(37)	7,043
Subtotal	175,968	1,776	(1,335)	176,409
Equity securities				
Funds	20,394	12,352	(103)	32,643
Common stocks	15,876	13,882	(33)	29,725
Warrants	–	1	–	1
Subtotal	36,270	26,235	(136)	62,369
Total	212,238	28,011	(1,471)	238,778

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For the year ended 31 December 2006

9 FINANCIAL ASSETS (continued)

9.2 Available-for-sale securities (continued)

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

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9 FINANCIAL ASSETS (continued)

9.2 Available-for-sale securities (continued)

	Group			
Debt securities	**Amortised cost**		**Estimated fair value**	
– contractual maturity schedule	**As at 31 December 2006 RMB million**	As at 31 December 2005 RMB million	**As at 31 December 2006 RMB million**	As at 31 December 2005 RMB million
Maturing:				
Within one year	**4,544**	2,028	**4,561**	2,043
After one year but within five years	**26,664**	15,437	**27,016**	15,995
After five years but within ten years	**60,261**	37,892	**59,995**	38,371
After ten years	**84,958**	39,863	**85,296**	40,016
Total	**176,427**	95,220	**176,868**	96,425

	Company			
Debt securities	**Amortised cost**		**Estimated fair value**	
– contractual maturity schedule	**As at 31 December 2006 RMB million**	As at 31 December 2005 RMB million	**As at 31 December 2006 RMB million**	As at 31 December 2005 RMB million
Maturing:				
Within one year	**4,399**	1,862	**4,416**	1,877
After one year but within five years	**26,350**	15,126	**26,702**	15,682
After five years but within ten years	**60,261**	37,892	**59,995**	38,371
After ten years	**84,958**	39,863	**85,296**	40,016
Total	**175,968**	94,743	**176,409**	95,946

9 FINANCIAL ASSETS (continued)

9.3 Financial assets at fair value through income (held-for-trading)

	Group		Company	
	As at 31 December 2006 RMB million	As at 31 December 2005 RMB million	**As at 31 December 2006 RMB million**	As at 31 December 2005 RMB million
Debt securities				
Government bonds	**148**	3,229	**148**	3,229
Government agency bonds	**1,915**	7,116	**1,915**	7,116
Corporate bonds	**2,083**	1,759	**2,003**	1,695
Subordinated bonds/debts	**325**	728	**325**	728
Subtotal	**4,471**	12,832	**4,391**	12,768
Equity securities				
Funds	**12,382**	8,408	**12,382**	8,408
Common stocks	**20,460**	4,875	**20,460**	4,875
Warrants	**56**	4	**56**	4
Subtotal	**32,898**	13,287	**32,898**	13,287
Total	**37,369**	26,119	**37,289**	26,055

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9 FINANCIAL ASSETS (continued)

9.4 Listed and unlisted investments at carrying value

	As at 31 December 2006 RMB million	As at 31 December 2005 RMB million
Group		
Listed debt securities in PRC		
Government bonds	64,562	62,192
Corporate bonds	6,839	4,377
Subtotal	71,401	66,569
Unlisted debt securities in PRC		
Government bonds	90,937	81,026
Government agency bonds	134,571	66,387
Corporate bonds	29,253	11,954
Subordinated bonds/debts	31,736	29,618
Subtotal	286,497	188,985
Listed equity securities in PRC		
Common stocks		
– listed in HK, PRC	6,884	2,294
– listed in mainland, PRC	43,301	3,728
Funds – listed in mainland, PRC	12,861	5,057
Warrants – listed in mainland, PRC	57	4
Subtotal	63,103	11,083
Unlisted equity securities in PRC		
Funds	32,390	28,465
Total	453,391	295,102

As at 31 December 2006, the amount of unlisted debt securities, contracted in the over-the-counter market, is RMB260,289 million (31 December 2005: RMB184,913 million).

Notes to the Consolidated Financial Statements

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9 FINANCIAL ASSETS (continued)

9.4 Listed and unlisted investments at carrying value (continued)

	As at 31 December 2006 RMB million	As at 31 December 2005 RMB million
Company		
Listed debt securities in PRC		
Government bonds	64,103	61,713
Corporate bonds	6,759	4,333
Subtotal	70,862	66,046
Unlisted debt securities in PRC		
Government bonds	90,937	81,026
Government agency bonds	134,571	66,387
Corporate bonds	29,253	11,934
Subordinated bonds/debts	31,736	29,618
Subtotal	286,497	188,965
Listed equity securities in PRC		
Common stocks		
– listed in Hong Kong, PRC	6,882	2,294
– listed in mainland, PRC	43,303	3,728
Funds – listed in mainland, PRC	12,633	4,968
Warrants – listed in mainland, PRC	57	4
Subtotal	62,875	10,994
Unlisted equity securities in PRC		
Funds	32,392	28,413
Total	452,626	294,418

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9 FINANCIAL ASSETS (continued)

9.5 Term deposits

	Group and Company	
	As at 31 December 2006 RMB million	As at 31 December 2005 RMB million
Maturing:		
Within one year	**57,930**	10,563
After one year but within five years	**111,901**	147,504
After five years but within ten years	**3,421**	3,502
After ten years	**2,224**	3,300
Total	**175,476**	164,869

Included in term deposits are structured deposits of RMB4,646 million (31 December 2005: RMB4,802 million). The interest rate on these deposits fluctuates based on changes in interest rate indexes. The Group uses structured deposits primarily to enhance the returns on investments. Structured deposits are stated at amortised cost.

9.6 Statutory deposits – restricted

	Group and Company	
	As at 31 December 2006 RMB million	As at 31 December 2005 RMB million
Contractually maturing:		
After one year but within five years	**5,353**	5,353

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

As at 31 December 2006, the Company's statutory deposits are 20% of its registered capital of RMB26,765 million prior to the shares issued in the December's initial public offering of A shares. The A shares issued in that offering are in the process of registration with the statutory authorities.

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9 FINANCIAL ASSETS (continued)

9.7 Accrued investment income

	Group		Company	
	As at 31 December 2006 RMB million	As at 31 December 2005 RMB million	**As at 31 December 2006 RMB million**	As at 31 December 2005 RMB million
Term deposits	**3,259**	2,983	**3,259**	2,983
Debt securities	**5,008**	3,805	**5,001**	3,790
Others	**194**	25	**194**	24
Total	**8,461**	6,813	**8,454**	6,797

	Group		Company	
	As at 31 December 2006 RMB million	As at 31 December 2005 RMB million	**As at 31 December 2006 RMB million**	As at 31 December 2005 RMB million
Current	**8,439**	6,802	**8,432**	6,786
Non-current	**22**	11	**22**	11
Total	**8,461**	6,813	**8,454**	6,797

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10 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The estimates and judgments to determine the fair value of financial assets are described in Note 3.3.

The fair value of long-term investment type insurance contracts and investment contracts are determined by using valuation techniques, with consideration of the surrender value before surrender charges that the Group is required to pay if such payment is immediately demanded by the holders of investment contracts.

The table below presents the estimated fair value and carrying value of financial assets and liabilities.

	Estimated fair value	
	As at 31 December 2006 RMB million	As at 31 December 2005 RMB million
Debt securities	**369,631**	267,042
Equity securities	**95,493**	39,548
Term deposits (excluding structured deposits)	**170,830**	160,067
Structured deposits	**4,419**	4,538
Statutory deposits-restricted	**5,353**	5,353
Policy loans	**2,371**	981
Cash and cash equivalents	**50,213**	28,051
Long-term investment type insurance contracts	**(276,241)**	(219,973)
Investment contracts with DPF	**(39,575)**	(35,039)
Investment contracts without DPF	**(2,459)**	(1,673)
Securities sold under agreements to repurchase	**(8,227)**	(4,731)

	Carrying value	
	As at 31 December 2006 RMB million	As at 31 December 2005 RMB million
Debt securities	**357,898**	255,554
Equity securities	**95,493**	39,548
Term deposits (excluding structured deposits)	**170,830**	160,067
Structured deposits	**4,646**	4,802
Statutory deposits-restricted	**5,353**	5,353
Policy loans	**2,371**	981
Cash and cash equivalents	**50,213**	28,051
Long-term investment type insurance contracts	**(282,672)**	(237,001)
Investment contracts with DPF	**(45,998)**	(42,230)
Investment contracts without DPF	**(2,614)**	(1,872)
Securities sold under agreements to repurchase	**(8,227)**	(4,731)

11 PREMIUMS RECEIVABLES

The aging of premiums receivables is within 12 months.

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12 REINSURANCE ASSETS

	Group and Company	
	As at 31 December 2006 RMB million	As at 31 December 2005 RMB million
Claims recoverable from reinsurers (Note 14)	**15**	106
Ceded unearned premiums (Note 14)	**60**	291
Long-term traditional insurance contracts ceded (Note 14)	**704**	674
Due from reinsurance companies	**207**	111
Total	**986**	1,182

	Group and Company	
	As at 31 December 2006 RMB million	As at 31 December 2005 RMB million
Current	**282**	508
Non-current	**704**	674
Total	**986**	1,182

13 OTHER ASSETS

	Group		Company	
	As at 31 December 2006 RMB million	As at 31 December 2005 RMB million	**As at 31 December 2006 RMB million**	As at 31 December 2005 RMB million
Due from CLIC (Note 30(c))	**996**	851	**989**	843
Deposits on fund units pending issuance/ receivable on funds redeemed	**135**	176	**135**	176
Advances	**102**	83	**102**	83
Others	**979**	348	**847**	341
Total	**2,212**	1,458	**2,073**	1,443

	Group		Company	
	As at 31 December 2006 RMB million	As at 31 December 2005 RMB million	**As at 31 December 2006 RMB million**	As at 31 December 2005 RMB million
Current	**1,650**	1,333	**1,637**	1,063
Non-current	**562**	125	**436**	380
Total	**2,212**	1,458	**2,073**	1,443

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14 INSURANCE CONTRACTS

(a) Process used to decide on assumptions

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

Year of policy issue	Interest rate assumptions	Provision for adverse deviation
Prior to 2003	3.80% – 5.00%	0.25% – 0.50%
2003	3.65% – 5.00%	0.25% – 0.50%
2004	3.70% – 5.17%	0.25% – 0.50%
2005	4.00% – 5.20%	0.25% – 0.50%
2006	4.60% – 5.40%	0.25% – 0.60%

(ii) Estimates are made for mortality and morbidity rates in each of the years that the Group is exposed to risk. The assumed mortality rates and morbidity rates, varying by age of the insured and contract type, are based upon expected experience at the date of contract issue plus, where applicable, a margin for adverse deviation.

The Group bases its mortality assumptions on China Life Insurance Mortality Table (1990-1993) and China Life Insurance Mortality Table (2000-2003), adjusted where appropriate to reflect the Group's recent historical mortality experience. Appropriate but not excessively prudent allowance is made for future mortality improvement on contracts that insure the risk of longevity, such as annuities. The main source of uncertainty with life insurance contracts is that epidemics such as Avian Flu, AIDS, SARS and wide-ranging lifestyle changes could result in deterioration in future mortality experience, thus leading to an inadequate liability. Similarly, continuing advancements in medical care and social conditions could result in improvements in longevity that exceed those allowed for in the estimates used to determine the liability for contracts where the Group is exposed to longevity risk.

The Group bases its morbidity assumptions for critical illness products on Taiwanese experience in the critical illness market, as the best proxy for the China's market adjusted where appropriate to reflect the Group's recent historical and projected future experience. There are two main sources of uncertainty. First, wide-ranging lifestyle changes could result in future deterioration in morbidity experience. Second, future development of medical technologies and improved coverage of medical facilities available to policyholders may bring forward the timing of diagnosing critical illness, which demands earlier payment of the critical illness benefits. Both could ultimately result in an inadequate liability if current morbidity assumptions do not properly reflect such secular trends.

(iii) The assumption for policy administration expenses has been based on expected unit costs plus, where applicable, a margin for adverse deviation. Unit costs have been based on an analysis of actual experience. The unit cost factors are expressed on both a per-policy and a percent-of-premium basis, as follows:

	Individual Life		Group Life	
Year of policy issue	RMB Per Policy	% of Premium	RMB Per Policy	% of Premium
Prior to 2003	15.0	2.00%	15.0	2.00%
2003	12.5	1.75%	12.5	1.75%
2004	10.0 – 17.5	1.65% – 2.55%	17.5	1.65%
2005	14.5 – 19.5	1.50% – 1.80%	4.0	1.30%
2006	15.0 – 22.0	1.60% – 1.85%	6.5	1.50%

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

14 INSURANCE CONTRACTS (continued)

(b) Net liabilities of insurance contracts and investment contracts

Group and Company

	As at 31 December 2006 RMB million	As at 31 December 2005 RMB million
Gross		
Short-term insurance contracts		
– claims and claim adjustment expenses	2,498	1,784
– unearned premiums	5,346	5,147
Long-term traditional insurance contracts	172,875	124,656
Long-term investment type insurance contracts	282,672	237,001
Investment contracts		
– with DPF	45,998	42,230
– without DPF	2,614	1,872
Total, gross	512,003	412,690
Recoverable from reinsurers		
Short-term insurance contracts		
– claims and claim adjustment expenses (Note 12)	(15)	(106)
– unearned premiums (Note 12)	(60)	(291)
Long-term traditional insurance contracts (Note 12)	(704)	(674)
Total, ceded	(779)	(1,071)
Net		
Short-term insurance contracts		
– claims and claim adjustment expenses	2,483	1,678
– unearned premiums	5,286	4,856
Long-term traditional insurance contracts	172,171	123,982
Long-term investment type insurance contracts	282,672	237,001
Investment contracts		
– with DPF	45,998	42,230
– without DPF	2,614	1,872
Total, net	511,224	411,619

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14 INSURANCE CONTRACTS (continued)

(c) Claims incurred ratio

Group and Company

	2006 RMB million	2005 RMB million
Claims incurred-net	6,999	6,847
Claims incurred ratio	66%	68%

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

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

Group and Company

	2006 RMB million	2005 RMB million
Notified claims	638	651
Incurred but not reported	1,146	564
Total as at 1 January – Gross	1,784	1,215
Cash paid for claims settled in year		
– Cash paid for current year claims	(4,346)	(4,962)
– Cash paid for prior year claims	(2,149)	(1,975)
Claims incurred in year		
– Claims arising in current year	6,771	6,653
– Claims arising in prior year	438	853
Total as at 31 December – Gross	2,498	1,784
Notified claims	487	638
Incurred but not reported	2,011	1,146
Total as at 31 December – Gross	2,498	1,784

The table below presents movement of unearned premium reserves:

Group and Company

	2006 RMB million			2005 RMB million		
	Gross	Ceded	Net	Gross	Ceded	Net
As at 1 January	5,147	(291)	4,856	5,212	(571)	4,641
Changes in the year	199	231	430	(65)	280	215
As at 31 December	5,346	(60)	5,286	5,147	(291)	4,856

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14 INSURANCE CONTRACTS (continued)

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

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

Group and Company

	RMB million
As at 1 January 2006	**124,656**
Valuation premium	**54,764**
Liabilities released for death or other termination and related expenses	**(13,169)**
Accretion of interest	**5,634**
Other movements	**990**
As at 31 December 2006	**172,875**
As at 1 January 2005	89,698
Valuation premium	42,271
Liabilities released for death or other termination and related expenses	(11,486)
Accretion of interest	3,880
Other movements	293
As at 31 December 2005	124,656

(f) Movements in liabilities of long-term investment type insurance contracts

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

Group and Company

	RMB million
As at 1 January 2006	**237,001**
Deposits received	**70,472**
Deposits withdrawn	**(24,667)**
Fees deducted from account balances	**(6,520)**
Interest credited	**6,386**
As at 31 December 2006	**282,672**
As at 1 January 2005	191,885
Deposits received	62,945
Deposits withdrawn	(17,011)
Fees deducted from account balances	(5,712)
Interest credited	4,894
As at 31 December 2005	237,001

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

15 DEFERRED INCOME

The table below presents movement of deferred income:

Group and Company

	2006 RMB million	2005 RMB million
As at 1 January	34,631	27,603
Change in the year	6,740	7,028
As at 31 December	41,371	34,631
Deferred income excluding unrealised gains	46,730	35,116
Deferred income recognised in unrealised gains	(5,359)	(485)
Total deferred income	41,371	34,631

16 LIABILITIES OF INVESTMENT CONTRACTS

The table below presents movement of investment contracts:

Group and Company

	2006 RMB million	2005 RMB million
As at 1 January	44,102	34,111
Deposits received	20,969	23,001
Deposits withdrawn	(16,878)	(13,612)
Policy fees deducted from account balances	(577)	(371)
Interest credited	996	973
As at 31 December	48,612	44,102
Investment contracts		
– with DPF	45,998	42,230
– without DPF	2,614	1,872
Total	48,612	44,102

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

17 SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

	Group		Company	
	As at 31 December 2006 RMB million	As at 31 December 2005 RMB million	**As at 31 December 2006 RMB million**	As at 31 December 2005 RMB million
Maturing:				
Within thirty days	**8,202**	4,131	**8,002**	4,025
After thirty but within ninety days	**25**	–	**25**	–
After ninety days	**–**	600	**–**	600
Total	**8,227**	4,731	**8,027**	4,625

The carrying values of debt securities and term deposits pledged as collateral are as follows:

	Group		Company	
	As at 31 December 2006 RMB million	As at 31 December 2005 RMB million	**As at 31 December 2006 RMB million**	As at 31 December 2005 RMB million
Term deposits pledged	**–**	600	**–**	600
Debt securities pledged	**8,351**	4,131	**8,151**	4,025
Total	**8,351**	4,731	**8,151**	4,625

18 OTHER LIABILITIES

	Group		Company	
	As at 31 December 2006 RMB million	As at 31 December 2005 RMB million	**As at 31 December 2006 RMB million**	As at 31 December 2005 RMB million
Salary and staff welfare payable	**1,805**	1,533	**1,743**	1,500
Commission and brokerage payable	**1,025**	997	**1,025**	997
Agent deposits	**554**	498	**554**	498
Tax payable	**299**	183	**296**	180
Payable to constructors	**249**	115	**247**	114
Stock appreciation rights (Note 28)	**444**	–	**444**	-
Others	**957**	780	**978**	800
Total	**5,333**	4,106	**5,287**	4,089

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For the year ended 31 December 2006

18 OTHER LIABILITIES (continued)

	Group		Company	
	As at 31 December 2006 RMB million	As at 31 December 2005 RMB million	**As at 31 December 2006 RMB million**	As at 31 December 2005 RMB million
Current	**5,248**	4,106	**5,202**	4,089
Non-current	**85**	–	**85**	–
Total	**5,333**	4,106	**5,287**	4,089

19 STATUTORY INSURANCE FUND

The Group is subject to statutory insurance fund at 1%, 0.15% and 0.05% of net premium from accident and short-term health policies, long-term life and long-term health policies with guaranteed return and long-term life policies without guaranteed return, respectively. When the accumulated statutory insurance fund reaches 1% of the Group's total assets, no additional provision of statutory insurance fund is required.

20 NET INVESTMENT INCOME

	For the year ended 31 December	
	2006 RMB million	2005 RMB million
Debt securities	**12,384**	8,429
Term deposits and cash and cash equivalents	**8,207**	7,903
Equity securities	**4,662**	494
Policy loans	**80**	22
Securities purchased under agreements to resell	**23**	3
Subtotal	**25,356**	16,851
Securities sold under agreements to repurchase	**(270)**	(70)
Investment expenses	**(144)**	(96)
Total	**24,942**	16,685

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

21 NET REALISED GAINS/(LOSSES) ON FINANCIAL ASSETS

	For the year ended 31 December	
	2006	2005
	RMB million	RMB million
Debt securities		
Gross realised gains	**20**	158
Gross realised losses	**(26)**	(5)
Impairments	**–**	(92)
Subtotal	**(6)**	61
Equity securities		
Gross realised gains	**1,601**	143
Gross realised losses	**–**	(63)
Impairments	**–**	(651)
Subtotal	**1,601**	(571)
Total	**1,595**	(510)

The proceeds from sales of available-for-sale securities and the gross realised gains/(losses) for the years ended 31 December 2006 and 2005 were as follows:

	2006	2005
	RMB million	RMB million
Proceeds from sales of available-for-sale securities	**49,902**	59,806
Gross realised gains	**1,621**	301
Gross realised losses	**(26)**	(68)

22 NET FAIR VALUE GAINS ON ASSETS AT FAIR VALUE THROUGH INCOME (HELD-FOR-TRADING)

	For the year ended 31 December	
	2006	2005
	RMB million	RMB million
Debt securities	**305**	88
Equity securities	**19,739**	172
Total	**20,044**	260

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

23 INSURANCE BENEFITS AND CLAIMS

	Gross RMB million	Ceded RMB million	Net RMB million
For the year ended 31 December 2006			
Life insurance death and other benefits	10,814	(17)	10,797
Accident and health claims and claim adjustment expenses	7,209	(210)	6,999
Increase in long-term traditional insurance contracts	44,264	(26)	44,238
Interest credited to long-term investment type insurance contracts	6,386	–	6,386
Total insurance benefits and claims	68,673	(253)	68,420
For the year ended 31 December 2005			
Life insurance death and other benefits	8,320	(9)	8,311
Accident and health claims and claim adjustment expenses	7,506	(659)	6,847
Increase in long-term traditional insurance contracts	34,114	(137)	33,977
Interest credited to long-term investment type insurance contracts	4,894	–	4,894
Total insurance benefits and claims	54,834	(805)	54,029

24 NET PROFIT BEFORE INCOME TAX EXPENSES

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

	For the year ended 31 December	
	2006 RMB million	2005 RMB million
Salary and welfare	4,197	3,118
Housing benefits	256	251
Contribution to the defined contribution pension plan	358	342
Depreciation	848	884
Loss on disposal of property, plant and equipment	–	7
Exchange loss	639	639
Auditor's remuneration	76	46

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25 TAXATION

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax relate to the same fiscal authority.

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

	For the year ended 31 December	
	2006	2005
	RMB million	RMB million
Current taxation-Enterprises income tax	**858**	772
Deferred taxation	**4,696**	1,373
Taxation charges	**5,554**	2,145

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

	For the year ended 31 December	
	2006	2005
	RMB million	RMB million
Net profit before income tax expenses	**25,605**	11,510
Tax computed at the statutory tax rate of 33%	**8,450**	3,798
Non-taxable income	**(3,250)**	(1,763)
Additional tax liability from expenses not deductible for tax purposes	**354**	110
Income taxes at effective tax rate	**5,554**	2,145

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

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25 TAXATION (continued)

(c) As at 31 December 2006, deferred income taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 33%.

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

	Group	
	2006	2005
	RMB million	RMB million
As at 1 January	**7,982**	4,371
Deferred taxation charged to income statement	**4,696**	1,373
Deferred taxation charged to equity	**6,344**	2,238
As at 31 December	**19,022**	7,982

	Company	
	2006	2005
	RMB million	RMB million
As at 1 January	**7,982**	4,371
Deferred taxation charged to income statement	**4,694**	1,373
Deferred taxation charged to equity	**6,315**	2,238
As at 31 December	**18,991**	7,982

25 TAXATION (continued)

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

Deferred tax

Group	Long-term insurance contracts and investment contracts RMB million	Short-term insurance contracts RMB million	Investments RMB million	DAC RMB million	Others RMB million	Total RMB million
As at 1 January 2005	3,952	(9)	1,989	(10,819)	516	(4,371)
(Charged)/credited to income statement	(34)	167	801	(2,101)	(206)	(1,373)
(Charged)/credited to equity	(303)	–	(2,401)	466	–	(2,238)
As at 31 December 2005	3,615	158	389	(12,454)	310	(7,982)
As at 1 January 2006	**3,615**	**158**	**389**	**(12,454)**	**310**	**(7,982)**
(Charged)/credited to income statement	**1,900**	**500**	**(5,097)**	**(1,865)**	**(134)**	**(4,696)**
(Charged)/credited to equity	**536**	**–**	**(8,255)**	**1,375**	**–**	**(6,344)**
As at 31 December 2006	**6,051**	**658**	**(12,963)**	**(12,944)**	**176**	**(19,022)**

Group	As at 31 December **2006** RMB million	2005 RMB million
Deferred tax assets:		
– deferred tax asset to be recovered after more than 12 months	**8,094**	3,697
– deferred tax asset to be recovered within 12 months	**1,405**	775
Subtotal	**9,499**	4,472
Deferred tax liabilities:		
– deferred tax liability to be settled after more than 12 months	**(28,169)**	(12,255)
– deferred tax liability to be settled within 12 months	**(352)**	(199)
Subtotal	**(28,521)**	(12,454)
Total net deferred income tax liabilities	**(19,022)**	(7,982)

Notes to the Consolidated Financial Statements

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25 TAXATION (continued)

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

Deferred tax

Company	Long-term insurance contracts and investment contracts RMB million	Short-term insurance contracts RMB million	Investments RMB million	DAC RMB million	Others RMB million	Total RMB million
As at 1 January 2005	3,952	(9)	1,989	(10,819)	516	(4,371)
(Charged)/credited to income statement	(34)	167	801	(2,101)	(206)	(1,373)
(Charged)/credited to equity	(303)	–	(2,401)	466	–	(2,238)
As at 31 December 2005	3,615	158	389	(12,454)	310	(7,982)
As at 1 January 2006	**3,615**	**158**	**389**	**(12,454)**	**310**	**(7,982)**
(Charged)/credited to income statement	**1,900**	**500**	**(5,095)**	**(1,865)**	**(134)**	**(4,694)**
(Charged)/credited to equity	**536**	**–**	**(8,226)**	**1,375**	**–**	**(6,315)**
As at 31 December 2006	**6,051**	**658**	**(12,932)**	**(12,944)**	**176**	**(18,991)**

Company

	As at 31 December **2006** RMB million	2005 RMB million
Deferred tax assets:		
– deferred tax asset to be recovered after more than 12 months	**8,094**	3,697
– deferred tax asset to be recovered within 12 months	**1,405**	775
Subtotal	**9,499**	4,472
Deferred tax liabilities:		
– deferred tax liability to be settled after more than 12 months	**(28,138)**	(12,255)
– deferred tax liability to be settled within 12 months	**(352)**	(199)
Subtotal	**(28,490)**	(12,454)
Total net deferred income tax liabilities	**(18,991)**	(7,982)

26 NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The net profit attributable to shareholders of the Company is dealt with in the financial statements of the Company to the extent of RMB19,945 million (2005: RMB9,218 million).

27 EARNINGS PER SHARE

There is no difference between basic and diluted earnings per share. The basic and diluted earnings per share for the year ended 31 December 2006 are based on the weighted average number of 26,777,033,767 ordinary shares (for the year ended 31 December 2005: 26,764,705,000).

28 STOCK APPRECIATION RIGHTS

Stock appreciation rights have been awarded in units, with each unit representing the value of one H share. No shares of common stock will be issued under the stock appreciation rights plan. According to the Company's plan, all stock appreciation rights will have an exercise period of five years from date of award and will not be exercisable before the fourth anniversary of the date of award unless specified market or other conditions have been met. The exercise price of stock appreciation rights will be the average closing price of the shares in the five trading days prior to the date of the award. Upon the exercise of stock appreciation rights, exercising recipients will receive payments in RMB, subject to any withholding tax, equal to the number of stock appreciation rights exercised times the difference between the exercise price and market price of the H shares at the time of exercise.

The Board of Directors of the Company approved, on 5 January 2006, an award of stock appreciation rights of 4.05 million units and on 21 August 2006, another award of stock appreciation rights of 53.22 million units to eligible employees. The exercise prices of the two awards were HK$5.33 and HK$6.83, respectively, the average closing price of shares in the five trading days prior to 1 July 2005 and 1 January 2006, the dates for vesting and exercise price setting purposes of this award. The stock appreciation rights of 1.56 million units were exercised and no unit was forfeited or expired in 2006. As at 31 December 2006, there are 55.71 million units outstanding and 17.05 million units exercisable.

The fair value of the stock appreciation rights is estimated on the date of valuation using lattice-based option valuation models based on expected volatility from 37% to 47%, an expected dividend yield of no higher than 0.2% and risk-free interest rates from 3.5% to 3.6%.

The Company recognised compensation cost of RMB444 million in 2006, consisting of RMB431 million and RMB13 million included in other liabilities (Note 18) for the units not exercised and exercised but not paid as at 31 December 2006. The unrecognised compensation cost of outstanding units is approximately RMB761 million as at 31 December 2006, which is expected to be recognised within the next 2 years.

On 29 December 2006, another award of stock appreciation rights was approved in principle by the Board of Directors of the Company. The exercise price of the award is the average closing price of shares in the five trading days prior to 1 January 2007. As at 31 December 2006, the recipients and quantities of the award are still to be determined and are subject to further approval.

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29 DIVIDENDS

Pursuant to the shareholders' approval at the Annual General Meeting in June 2006, a final dividend of RMB0.05 per ordinary share totalling RMB1,338 million in respect of the year ended 31 December 2005 was declared and was paid in July 2006. These dividends have been recorded in the consolidated financial statements for the year ended 31 December 2006.

Pursuant to a resolution passed at the meeting of the Board of Directors on 17 April 2007, a final dividend of RMB0.14 per ordinary share totalling approximately RMB3,957 million for the year ended 31 December 2006 was proposed for shareholders' approval at the Annual General Meeting. The dividend has not been provided in the consolidated financial statements for the year ended 31 December 2006.

30 SIGNIFICANT RELATED PARTY TRANSACTIONS

(a) Related parties

Related parties are those parties which have the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. The table set forth below summarises the names of significant related parties and nature of relationship with the Company as at 31 December 2006:

Significant related party	Relationship with the Company
China Life Insurance (Group) Company ("CLIC")	The ultimate holding company
China Life Insurance Asset Management Company Limited ("AMC")	A subsidiary of the Company
Guangdong Development Bank	An associate of the Company
China Life Property & Casualty Insurance Company Limited	An associate of the Company
China Life Franklin Asset Management Co., Limited (formerly "China Life Asset Management (Hong Kong) Company Limited")	A subsidiary of a subsidiary of the Company
Beijing Zhongbaoxin Real Estate Development Co., Limited ("Zhongbaoxin")	A subsidiary of a subsidiary of the ultimate holding company

Notes to the Consolidated Financial Statements

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30 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with AMC, CLIC and its subsidiaries

The following table summarises significant recurring transactions carried out by the Group with AMC, CLIC and its subsidiaries for the year ended 31 December 2006.

		For the year ended 31 December	
	Note	**2006**	2005
		RMB million	RMB million
Transactions with CLIC and its subsidiaries			
Policy management fee income earned from CLIC	*(i)*	**1,555**	1,567
Asset management fee earned from CLIC	*(ii)*	**84**	84
Rewards from CLIC for non-transferred policies	*(iii)*	**177**	–
Non-performing assets management fee earned from CLIC		**–**	11
Property leasing expense charged by CLIC	*(iv)*	**168**	335
Dividends to CLIC		**966**	–
Rentals, deposits and project payments to Zhongbaoxin	*(v)*	**36**	–
Transaction with AMC			
Asset management fee expense charged by AMC	*(ii)*	**283**	239

Notes:

(i) As part of the restructuring, CLIC transferred its entire branch services network to the Company. CLIC and the Company have entered into a Policy Management Agreement on 30 September 2003 to engage the Company to provide policy administration services to CLIC relating to the non-transferred policies. The Company, as a service provider, does not acquire any rights or assume any obligations as an insurer under the non-transferred policies. In consideration of the services provided under the agreement, CLIC will pay the Company a service fee based on the estimated cost of providing the services, to which a profit margin is added. The service fee is equal to, for each semi-annual payment period, the sum of (1) the number of non-transferred policies in force that were within their policy term as at the last day of the period, multiplied by RMB8.00 per policy and (2) 2.50% of the actual premiums and deposits in respect of such policies collected during the period. The policy management fee income is included in other income in consolidated income statement. On 24 December 2005, the Company and CLIC have entered into the Renewed Policy Management Agreement. There is no significant change in respect of relevant terms and conditions.

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

The monthly service fee is calculated on a monthly basis, by multiplying the average of net asset value of the assets in each such category under management at the end of any given month and the end of the previous month by the applicable annual rate for that month set forth in the agreement. The rate was determined based on the analysis of the cost of providing the service, market practice and the size and composition of the asset pool to be managed.

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

Notes to the Consolidated Financial Statements

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30 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with AMC, CLIC and its subsidiaries (continued)

Notes: (continued)

On 27 December 2005, CLIC and the AMC entered into the renewed CLIC asset management agreement. Under the new agreement, CLIC agreed to pay the AMC a service fee at the rate of 0.05% per annum. The service fee is calculated and payable on a monthly basis, by multiplying the average of balance of book value of the assets under management (after deducting the funds obtained and interests accrued from repurchase transactions) at the beginning and at the end of any given month by the rate of 0.05%, divided by 12. Such rate was determined by the AMC and CLIC with reference to the applicable management fee rate pre-determined for each specified category of assets managed by the AMC under the renewed Company asset management agreement, which was a comprehensive service fee rate arrived at.

On 29 December 2005, the Company and the AMC entered into the renewed Company asset management agreement. Under the new agreement, the Company agreed to pay the AMC a fixed service fee and a variable service fee. The fixed service fee is payable monthly and is calculated with reference to the net asset value of the assets in each specified category managed by the AMC and the applicable management fee rates pre-determined by the parties on an arm's length basis. The variable service fee equals to 10% of the fixed service fee per annum payable annually. The service fees under the renewed Company asset management agreement were determined by the Company and the AMC based on an analysis of the cost of service, market practice and the size and composition of the asset pool to be managed.

Although the representation of the service fee rates under the renewed CLIC asset management agreement and the renewed Company asset management agreement is different, the ultimate comprehensive service fee rate calculated under each of these two agreements is basically the same.

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

(iii) The Company assisted CLIC to mitigate business risk arising from non-transferred policies, and received in 2006 a fee income of RMB177 million from CLIC as the reward for such non-transferrable policies.

(iv) The Company has entered into a property leasing agreement with CLIC on 30 September 2003, pursuant to which CLIC agreed to lease to the Company some of its owned and leased buildings. The annual rent payable by the Company to CLIC in relation to the CLIC owned properties is determined by reference to market rent or, the costs incurred by CLIC in holding and maintaining the properties, plus a margin of approximately 5%. The annual rent payable by the Company to CLIC in relation to the CLIC leased properties is determined by reference to the rent payable under the head lease plus the actual costs incurred by CLIC arising in connection with the subletting of the properties. The Company has directly paid the relevant rental expenses raised from CLIC leased properties to the third-party instead of CLIC. On 23 December 2005, the Company and CLIC have entered into the Renewed Property Leasing Agreement, which expired on 31 December 2006 and subject to renewal. On 4 January 2007, the Company and CLIC have entered into the Renewed Property Leasing Agreement, which will expire on 31 December 2009 and subject to renewal. There is no significant change in respect of relevant terms and conditions.

(v) The Group made certain project payments to third parties through Zhongbaoxin and paid other miscellaneous expenditures mainly comprised of rentals and deposits to Zhongbaoxin.

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30 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

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

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

	As at 31 December 2006 RMB million	As at 31 December 2005 RMB million
Amount due from CLIC (Note 13)	**996**	851
Amount due to CLIC	**(3)**	(20)
Amount due from Zhongbaoxin	**1**	1

(d) Key management compensation

	For the year ended 31 December	
	2006 RMB million	2005 RMB million
Salaries and other short-term employee benefits	**12**	7
Termination benefits	**–**	–
Post-employment benefits	**–**	–
Other long-term benefits	**–**	–
Share-based payments	**–**	–
Total	**12**	7

(e) Transactions with state-owned enterprises

Under HKAS 24, business transactions between state-owned enterprises controlled by the PRC government are within the scope of related party transactions. CLIC, the ultimate holding company of the Group, is a state-owned enterprise. The Group's key business and therefore the business transactions with other state-owned enterprises are primarily related to insurance and investment activities. The related party transactions with other state-owned enterprises were conducted in the ordinary course of business. Due to the complex ownership structure, the PRC government may hold indirect interests in many companies. Some of these interests may, in themselves or when combined with other indirect interests, be controlling interests which may not be known to the Group. Nevertheless, the Group believes that the following captures the material related parties.

As at 31 December 2006, more than 70% (as at 31 December 2005: more than 63%) of bank deposits were with state-owned banks; approximately 95% (as at 31 December 2005: approximately 94%) of the issuers of corporate bonds and subordinated bonds/debts held by the Group were state-owned enterprises. For the year ended 31 December 2006, more than 71% (for the year ended 31 December 2005: more than 82%) of the group insurance business of the Group were with state-owned enterprises; approximately 89% (for the year ended 31 December 2005: approximately 88%) of bank assurance brokerage charges of RMB1,989 million (for the year ended 31 December 2005: RMB3,144 million) were paid to state-owned banks and post office; almost all of the reinsurance agreements of the Group are entered into with a state-owned reinsurance company; more than 70% (for the year ended 31 December 2005: more than 63%) of bank deposit interest income were from state-owned banks.

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31 SHARE CAPITAL

	As at 31 December 2006		As at 31 December 2005	
	No. of shares	RMB million	No. of shares	RMB million
Registered, issued and fully paid				
Ordinary shares of RMB1 each	26,764,705,000	26,765	26,764,705,000	26,765
New shares issued	1,500,000,000	1,500	–	–
Total	28,264,705,000	28,265	26,764,705,000	26,765

As at 31 December 2006, the Company's share capital after the new share issuance is as follows:

	As at 31 December 2006	
	No. of shares	RMB million
Owned by CLIC	19,323,530,000	19,324
Owned by other shareholders	8,941,175,000	8,941
Including: domestic listed	1,500,000,000	1,500
overseas listed	7,441,175,000	7,441
Total	28,264,705,000	28,265

Overseas listed shares are only traded on the Stock Exchange of Hong Kong. 600,000,000, 300,000,000 and 600,000,000 shares of newly issued domestic listed shares may only be traded on the Shanghai Stock Exchange since 9 January 2007, 9 April 2007 and 9 January 2008, respectively. The shares owned by CLIC are not transferable until 11 January 2010.

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32 RESERVES

Group

	Additional paid in capital RMB million	Unrealised gains/(losses) RMB million	Reserve fund RMB million (a)	Total RMB million
As at 1 January 2005	34,776	(3,855)	652	31,573
Unrealised gains, net of tax				
– arising from available-for-sale securities during the period	–	4,977	–	4,977
– reclassification adjustment for gains included in income statement	–	(103)	–	(103)
– impact from available-for-sale securities on other assets and liabilities	–	(332)	–	(332)
Appropriation to reserve fund	–	–	1,110	1,110
Change in the year	–	4,542	1,110	5,652
As at 31 December 2005	34,776	687	1,762	37,225
Issue of shares	**26,820**	**–**	**–**	**26,820**
Share issue expenses	**(510)**	**–**	**–**	**(510)**
Unrealised gains, net of tax				
– arising from available-for-sale securities during the period	**–**	**16,812**	**–**	**16,812**
– reclassification adjustment for gains included in income statement	**–**	**(77)**	**–**	**(77)**
– impact from available-for-sale securities on other assets and liabilities	**–**	**(3,876)**	**–**	**(3,876)**
Appropriation to reserve fund	**–**	**–**	**974**	**974**
Change in the year	**26,310**	**12,859**	**974**	**40,143**
As at 31 December 2006	**61,086**	**13,546**	**2,736**	**77,368**

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32 RESERVES (continued)

Company

	Additional paid in capital RMB million	Unrealised gains/(losses) RMB million	Reserve fund RMB million (a)	Total RMB million
As at 1 January 2005	33,697	(3,855)	637	30,479
Unrealised gains, net of tax				
– arising from non-trading securities during the period	–	4,975	–	4,975
– reclassification adjustment for gains included in income statement	–	(103)	–	(103)
– impact from non-trading securities on other assets and liabilities	–	(331)	–	(331)
Appropriation to reserve fund	–	–	1,091	1,091
Change in the year	–	4,541	1,091	5,632
As at 31 December 2005	33,697	686	1,728	36,111
Issue of shares	**26,820**	**–**	**–**	**26,820**
Share issue expenses	**(510)**	**–**	**–**	**(510)**
Unrealised gains, net of tax				
– arising from available-for-sale securities during the period	**–**	**16,776**	**–**	**16,776**
– reclassification adjustment for gains included in income statement	**–**	**(74)**	**–**	**(74)**
– impact from available-for-sale securities on other assets and liabilities	**–**	**(3,876)**	**–**	**(3,876)**
Appropriation to reserve fund	**–**	**–**	**960**	**960**
Change in the year	**26,310**	**12,826**	**960**	**40,096**
As at 31 December 2006	**60,007**	**13,512**	**2,688**	**76,207**

(a) Under relevant PRC law, the Group is required to transfer 10% of its net profit to statutory reserve fund. The Group appropriated 10% of net profit to statutory reserve fund for the year ended 31 December 2006.

Under related PRC law, dividends may be paid only out of distributable profits. Distributable profits means the Group's after-tax profits as determined under accounting standards generally accepted in PRC or HKFRS, whichever is lower, less any recovery of accumulated losses and allocations to statutory funds that the Group is required to make. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years. The amount of distributable retained earnings based on the above is RMB14,167 million as at 31 December 2006 (as at 31 December 2005: RMB6,878 million).

Notes to the Consolidated Financial Statements

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33 CONTINGENCIES

The following is a summary of the significant contingent liabilities:

	Group		Company	
	As at 31 December 2006 RMB million	As at 31 December 2005 RMB million	**As at 31 December 2006 RMB million**	As at 31 December 2005 RMB million
Pending lawsuits (b)	**54**	31	**54**	31

(a) The Company and certain of its past directors (the "defendants") have been named in nine putative class action lawsuits filed in the United States District Court for the Southern District of New York between 16 March 2004 and 14 May 2004. The lawsuits have been ordered to be consolidated and restyled *In re China Life Insurance Company Limited Securities Litigation, NO.04 CV 2112 (TPG)*. Plaintiffs filed a consolidated amended complaint on 19 January 2005, which names the Company, Wang Xianzhang (past director), Miao Fuchun (past director) and Wu Yan (past director) as defendants. The consolidated amended compliant alleges that the defendants named therein violated Section 10(b) and 20(a) of the Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder. The Company has engaged U.S. counsel to contest vigorously on the lawsuits. The defendants jointly moved to dismiss the consolidated amended complaint on 21 March 2005. Plaintiffs then further amended their complaint. Defendants moved to dismiss the second amended compliant on 18 November 2005. That motion has been fully briefed and is pending before the Court. The likelihood of an unfavourable outcome is still uncertain. No provision has been made with respect to these lawsuits.

(b) The Group has been named in a number of lawsuits arising in the ordinary course of business. Provision has been made for the probable losses to the Group on those claims when management can reasonably estimate the outcome of the lawsuits taking into account the legal advice. No provision has been made for pending lawsuits when the outcome of the lawsuits cannot be reasonably estimated or management believes a loss is not probable.

34 COMMITMENTS

(a) Capital commitments

i) Capital commitments for property, plant and equipment

	Group		Company	
	As at 31 December 2006 RMB million	As at 31 December 2005 RMB million	**As at 31 December 2006 RMB million**	As at 31 December 2005 RMB million
Contracted but not provided for	**990**	121	**987**	121

ii) Capital commitments to acquire Bohai Venture Capital Fund

The Group committed to contribute RMB500 million to Bohai Venture Capital Fund and RMB5 million to Bohai Venture Capital Fund Management Company of which RMB50 million was paid to the fund on 25 December 2006. The remaining RMB455 million will be paid when called.

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34 COMMITMENTS (continued)

(b) Operating lease commitments

The future minimum lease payments under non-cancelable operating leases are as follows:

	Group		Company	
	As at 31 December 2006 RMB million	As at 31 December 2005 RMB million	**As at 31 December 2006 RMB million**	As at 31 December 2005 RMB million
Land and buildings				
Not later than one year	**242**	250	**242**	250
Later than one year but not later than five years	**386**	248	**386**	248
Later than five years	**50**	23	**50**	23
Total	**678**	521	**678**	521

The operating lease payments charged to the consolidated income statement for the year ended 31 December 2006 was RMB391 million (for the year ended 31 December 2005: RMB409 million).

35 INVESTMENTS IN SUBSIDIARIES

Company

	As at 31 December	
	2006 RMB million	2005 RMB million
Unlisted investment at cost:	**600**	480

Name	**Place of incorporation and operation**	**Principal activities**	**Percentage of equity interest held**
China Life Asset Management Company Limited	People's Republic of China	Asset management	60% directly
China Life Franklin Asset Management Co., Limited (formerly "China Life Asset Management (Hong Kong) Company Limited") (a)	Hong Kong	Asset management	60% indirectly

(a) As approved by CIRC, AMC entered an agreement with Franklin Templeton Investments and China Life Insurance (Overseas) Company Limited, a subsidiary of CLIC, in 2006, under which Franklin Templeton Investments and China Life Insurance (Overseas) Company Limited became strategic investors of China Life Asset Management (Hong Kong) Company Limited, which was renamed to China Life Franklin Asset Management Co., Limited subsequently. China Life Franklin Asset Management Co., Limited has not commenced operations for the year ended 31 December 2006.

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

(a) Directors' emoluments

The aggregate amounts of emoluments paid to directors of the Company for the year ended 31 December 2006 are as follows:

Name	Fee RMB	Salaries RMB	Discretionary bonuses RMB	Inducement fees RMB	Other benefits RMB	Employer's contribution to pension scheme RMB	Compensation for loss of as director RMB	Total RMB
Yang Chao	–	590,000	801,500	–	–	19,016	–	1,410,516
Wu Yan (a)	–	540,833	324,500	–	–	17,598	–	882,931
Wan Feng (b)	–	312,813	583,330	–	–	10,663	–	906,806
Shi Guoqing	–	–	–	–	–	–	–	–
Zhuang Zuojin	–	–	–	–	–	–	–	–
Long Yongtu	220,000	–	–	–	–	–	–	220,000
Sun Shuyi	220,000	–	–	–	–	–	–	220,000
Ma Yongwei (c)	183,333	–	–	–	–	–	–	183,333
Chau Tak Hay	220,000	–	–	–	–	–	–	220,000
Cai Rang	220,000	–	–	–	–	–	–	220,000
Ngai WaiFung (d)	–	–	–	–	–	–	–	–
Miao Fuchun (e)	–	–	–	–	–	–	–	–

Notes:

(a) Emoluments paid starting from 1 February 2006.

(b) Appointed on 16 June 2006.

(c) Appointed on 16 March 2006.

(d) Appointed on 29 December 2006.

(e) Resigned on 16 June 2006.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

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

(a) Directors' emoluments (continued)

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

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

Notes:

(a) Appointed on 29 July 2005.

(b) Resigned on 29 July 2005.

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

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

In addition to the directors' emoluments disclosed above, certain directors of the Company receive emoluments from CLIC, amount of which has not been apportioned between their services to the Company and their services to CLIC.

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

(b) Supervisors' emoluments

The aggregate amounts of emoluments paid to supervisors of the Company for the year ended 31 December 2006 are as follows:

Name	Salaries RMB	Discretionary bonuses RMB	Inducement fees RMB	Other benefits RMB	Employer's contribution to pension scheme RMB	Total RMB
Lui Yingqi (a)	–	–	–	–	–	–
Xia Zhihua (b)	**407,917**	**200,250**	**–**	**–**	**16,181**	**624,348**
Wu Weimin	**312,000**	**469,050**	**–**	**–**	**19,016**	**800,066**
Jia Yuzeng (c)	**143,000**	**202,263**	**–**	**–**	**8,353**	**353,616**
Qing Ge (d)	**169,000**	**266,328**	**–**	**–**	**10,663**	**445,991**
Yang Hong (e)	**67,979**	**91,415**	**–**	**–**	**4,101**	**163,495**
Ren Hongbin (f)	–	–	–	–	–	–
Tian Hui	**–**	**–**	**–**	**100,000**	**–**	**100,000**

Notes:

(a) Resigned on 5 January 2006.

(b) Appointed on 16 March 2006.

(c) Resigned on 15 June 2006

(d) Appointed on 15 June 2006

(e) Appointed on 16 October 2006

(f) Resigned on 16 June 2006

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

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

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

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

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Company include two (2005: one) directors whose emoluments are reflected in the analysis presented above.

Details of remuneration of the remaining three (2005: four) highest paid individuals are as follows:

	2006 **RMB**	2005 RMB
Fees	**–**	–
Basic salaries, housing allowances, and other allowances and benefits in kind	**4,888,148**	3,625,452
	4,888,148	3,625,452

The emoluments fell within the following bands:

	Number of individuals **2006**	2005
Nil – RMB1,000,000	**–**	4
RMB1,500,000 – RMB 2,000,000	**3**	–

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

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37 SUBSEQUENT EVENTS

(a) Related party transactions

On 4 January 2007, the Company signed an agreement with CLIC to purchase property, plant and equipment with a total capital expenditure of RMB488 million, based on appraisal value.

As approved by CIRC, the Company entered an agreement with CLIC and AMC to establish China Life Pension Company Limited with a total paid-in capital of RMB600 million. The Company, CLIC and AMC owns 55%, 25% and 20% of China Life Pension Company Limited, respectively. China Life Pension Company Limited was incorporated on 15 January 2007. The Group holds directly and indirectly 75% of the share capital.

(b) Change of PRC enterprise income tax rate

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the new "CIT Law"). The new CIT Law reduces the domestic corporate income tax rate from 33% to 25% with effect from 1 January 2008. Since determination of deferred tax assets and deferred tax liabilities is at the statutory tax rate effective for the periods over which deferred tax assets are recovered and deferred tax liabilities are discharged, the change on statutory tax rate will affect the carrying amount of the Group's deferred tax liabilities. As at the date that these consolidated financial statements are approved for issue, detailed measures of the new CIT Law have yet to be issued by the State Council, concerning uncertain items of statutory tax rate effective in the accounting periods beginning on or after in 1 January 2008, determination of taxable income, preferential tax rates as well as tax incentives and accompanying transitional means in force. Consequently, the Group is not in a position to reasonably assess the impact, if any, on the carrying amount of deferred tax liabilities as at 31 December 2006. The Group will continue to evaluate the impact on results of operations and financial position as more detailed regulations are announced.

38 ULTIMATE HOLDING COMPANY

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