Notes to the Financial Statements

For the year ended December 31, 2003

1 Organization and principal activities

China Life Insurance Company Limited (the "Company") was established in the People's Republic of China ("China" or "PRC") on June 30, 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, and prior to September 30, 2003, CLIC 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.

Pursuant to the Restructuring, CLIC transferred to the Company (1) all long-term insurance policies (policies having a term of more than one year from the date of issuance) issued on or after June 10, 1999, having policy terms approved by or filed with the China Insurance Regulatory Commission (the "CIRC") on or after June 10, 1999 and either (i) recorded as a long-term insurance policy as of June 30, 2003 in a database attached to the restructuring agreement as an annex or (ii) having policy terms for group supplemental medical insurance (fund type), (2) stand-alone short-term policies (policies having a term of one year or less from the date of issuance) issued on or after June 10, 1999 and (3) all riders supplemental to the policies described in clauses (1) and (2) above. These policies are referred to as the "transferred policies". All other insurance policies were retained by CLIC. These policies are referred to as the "non-transferred policies". The Company issued 20,000 million Domestic Shares in exchange for various liabilities related to the life insurance business of the transferred policies and certain assets (collectively the "Transferred Business"). CLIC retained (i) various liabilities related to the life insurance business of non-transferred policies and certain assets, (ii) equity interests in all subsidiaries and associated companies, (iii) all non-core businesses, and (iv) the ownership of certain assets and liabilities including certain office buildings, bank balances, investments in fixed maturity securities and equity securities, borrowings, claims, contingent and tax liabilities (collectively the "Non-transferred Business"). On September 30, 2003, CLIC and the Company signed a binding restructuring agreement that identified all specific assets and liabilities to be transferred to the Company from CLIC.

2 Principal accounting policies

The financial statements have been prepared in accordance with the accounting principles generally accepted in Hong Kong ("HK GAAP") and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, investment properties and non-trading and trading investments are stated at fair value. The principal accounting policies adopted are set out below:

Notes to the Financial Statements

For the year ended December 31, 2003

2 Principal accounting policies *(continued)*

(a) Basis of preparation

The consummation of the Restructuring occurred for accounting purposes on September 30, 2003, which is the date on which the Company and CLIC signed the legally binding restructuring agreement that identified all specific assets and liabilities to be transferred to the Company from CLIC.

Prior to the consummation of the Restructuring, the Transferred Business and Non-transferred Business have been historically under common management from a number of significant aspects, such as policy design, distribution, plan servicing, asset management, accounting and financing. Therefore, the Company's consolidated financial statements for the year up to the date of the consummation of the Restructuring reflect the consolidated financial results of the business of CLIC and its subsidiaries (including both the Transferred Business and Non-transferred Business). Accordingly, the Company's consolidated financial statements for the year ended December 31, 2003 included the results of the Transferred Business and Non-transferred Business up to September 30, 2003, the consummation date of the Restructuring and the results of the Transferred Business from October 1, 2003 to December 31, 2003. The consolidated financial statements for the year ended December 31, 2002 include the results of the Transferred Business and Non-transferred Business.

Upon the consummation date of the Restructuring, the Non-transferred business, consisting of an excess of liabilities over assets, retained by CLIC was derecognised and reflected in the Company's financial statements as a capital contribution on such date. This presentation is considered appropriate as CLIC wholly owns the Transferred Business transferred to the Company before and immediately after the Restructuring. The assets and liabilities retained by CLIC are as follows:

	RMB million
ASSETS	
Investments	123,774
Accrued investment income	1,507
Premiums receivables	1,249
Property, plant and equipment, net	6,966
Other	7,653
Total assets	141,149
Liabilities	
Future life policyholders' benefits	266,046
Policyholders' contract deposits and other funds	80,243
Annuity and other insurance balances payable	8,935
Other liabilities	2,003
Statutory insurance fund	1,124
Total liabilities	358,351
Minority interest	150
Net liabilities relating to Non-transferred business retained by CLIC	(217,352)

2 Principal accounting policies *(continued)*

(b) Group accounting

(i) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to December 31. Subsidiaries are those entities in which the Company, or, prior to September 30, 2003, CLIC directly or indirectly, 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 majority of votes at the meetings of the board of directors.

All significant inter-company transactions and balances within the Group are eliminated on consolidation. Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal, as appropriate. The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill and which was not previously charged or recognised in the consolidated profit and loss account and any related accumulated foreign currency translation reserve.

In the Company's balance sheet the investment in subsidiary is stated at cost less provision for impairment losses. The result of subsidiary is accounted for by the Company on the basis of dividends received and receivable.

(ii) Associated companies

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss accounts include the Group's share of the results of associated companies for the year, and the consolidated balance sheets include the Group's share of the net assets of the associated companies and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

Notes to the Financial Statements

For the year ended December 31, 2003

2 Principal accounting policies *(continued)*

(c) Revenue recognition

Premiums:

Premiums from traditional life insurance contracts, including participating contracts and annuity policies with life contingencies, are recognised as revenue when due from the policyholders. Benefits and expenses are provided against such revenue to recognise profits over the estimated life of the policies. Moreover, for single premium and limited pay contracts, premiums are recorded as income when due with any excess profit deferred and recognised in income in a constant relationship to the insurance in-force or, for annuities, the amount of expected benefit payments.

Premiums from the sale of 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. However, for those contracts for which the period of risk differs significantly from the contract period, premiums are recognised over the period of risk in proportion to the amount of insurance protection provided. The unearned premium reserve represents the portion of the premiums written relating to the unexpired terms of coverage.

Amounts collected as premiums from investment type contracts are reported as deposits. Revenue from these contracts consists of policy fees charged against the deposit amount for the cost of insurance, administration fees and gains on surrenders during the year. Policy benefits and claims that are charged to expenses include benefit claims incurred in the year in excess of related policyholder contract deposits and interest credited to policyholder deposits.

Turnover of the Group represents gross written premiums and policy fees.

Net investment income:

Net investment income is accrued for interest from term deposits, cash and cash equivalents, fixed maturity securities, securities purchased under agreements to resell, policy loans and other loans, dividends from equity securities, rental income from investment property and share of profits/losses from investment in associates less investment expenses. Net investment income is recorded on an accrual basis and recognised on a time proportion basis, taking into account the principal amount outstanding and the interest rate applicable.

(d) Deferred policy acquisition costs

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

Deferred policy acquisition costs for traditional life insurance and annuity policies are amortised over the expected life of the contracts as a constant percentage of expected premiums. Expected premiums are estimated at the date of policy issue and are consistently applied throughout the life of the contract unless premium deficiency occurs.

Deferred policy acquisition costs for investment type contracts are amortised over the expected life of the contracts based on a constant rate of the present value of estimated gross profits expected to be realised over the life of the contract. 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 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 profit and loss accounts.

2 Principal accounting policies *(continued)*

(e) Insurance losses and reserves

Reserves for claims and claim adjustment expenses:

These represent liabilities for claims arising under short duration accident and health insurance contracts. Claims and claim adjustment expenses are charged to the profit and loss accounts 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 judgments. 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 year in which estimates are changed.

Future life policyholder benefits, policyholder contract deposits and other funds:

These represent liabilities for estimated future policyholder benefit liability for traditional life insurance policies and non-investment-linked investment contracts.

Future life policyholder benefits for traditional life insurance policies are calculated using a net level premium valuation method based on actuarial assumptions as to mortality, persistency, expenses, withdrawals, and investment return including a margin for adverse deviation. The assumptions are established at policy issue and remain unchanged except where premium deficiency occurs.

Future life policyholder benefits include the value of accumulated declared bonuses or dividends that have been vested to policyholders.

Policyholders' contract deposits represent the accumulation of premium received less charges plus declared dividends.

The policyholders' share of unrealised gains or losses in respect of assets held by the Group, which may be paid to profit participating policyholders in the future under the policy terms in respect of assets, is included in liabilities for future life policyholder's benefits offsetting the policyholders' share of the change in unrealised gains and losses during the year.

(f) Reinsurance

The Group cedes 15% (20% before January 1, 2003) insurance premiums and risk from short duration accident and health contracts to China Reinsurance Company under relevant statutory reinsurance regulation of the PRC and cedes insurance and premiums risk from other contracts in the normal course of business in order to limit the potential for losses arising from longer exposures. Reinsurance does not relieve the originating insurer of its liability. The Group may assume reinsurance business incidental to their normal business. Such business is not significant to the Group's operations.

Reinsurance assets include the balances due under reinsurance contracts from both insurance and reinsurance companies for paid and unpaid claims and claim adjustment expenses, ceded unearned premiums, ceded future life policy benefits and funds held under reinsurance treaties. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy.

Notes to the Financial Statements

For the year ended December 31, 2003

2 Principal accounting policies *(continued)*

(f) Reinsurance *(continued)*

Reinsurance is recorded gross in the balance sheet unless a right of offset exists. The Group evaluates the financial strength of potential reinsurers and continually monitors the financial conditions of reinsurers.

Reinsurance contracts are contracts under which the Group has assessed to ensure that underwriting risk, defined as the reasonable possibility of significant loss, and timing risk, defined as the reasonable possibility of a significant variation in the timing of cash flows, are transferred by the ceding company to the reinsurers.

(g) Investments in securities

Held-to-maturity securities:

Fixed maturities classified as held-to-maturity are those which the Group has the ability and positive intent to hold to maturity.

Held-to-maturity securities are stated in the balance sheet at cost plus/less any discount/premium amortised to date. The discount or premium is amortised over the period to maturity and included as interest income/expense in the profit and loss account. Provision is made when there is a diminution in value that is other than temporary.

The carrying amounts of individual held-to-maturity securities or holdings of the same securities are reviewed at the balance sheet date in order to assess the credit risk and whether the carrying amounts are expected to be recovered. Provisions are made when carrying amounts are not expected to be recovered and are recognised in the profit and loss account as an expense immediately.

Non-trading securities:

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

Where there is objective evidence that individual investments are impaired, the cumulative loss recorded in the revaluation reserve is taken to the profit and loss account.

Trading securities:

Fixed maturities and liquidity securities which the Group buys with the intention to resell in the near term are classified as trading and are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities are recognised in the profit and loss account. Profits or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

2 Principal accounting policies *(continued)*

(h) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are valued at intervals of not more than three years by independent valuers; in each of the intervening years valuations are undertaken by professionally qualified executives of the Group. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings.

The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to the profit and loss accounts. Any subsequent increases are credited to the profit and loss accounts up to the amount previously debited.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the asset revaluation reserve to the profit and loss account.

(i) Policy loans

Policy loans originated by the Group are carried at amortised cost, net of provision for impairment in value. Impairment loss on policy loans is generally measured based on the present value of expected future cash flows discounted at the instrument's effective interest rate, except where the value of the asset is collateral dependent, in which case the fair value of the underlying collateral is used. Interest income on impaired assets is recognised based on the original effective rate of interest.

(j) 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 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 stock exchanges on which they are listed 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 stock exchanges which are the custodians.

(k) Term deposits

Term deposits are bank deposits with fixed maturity dates. They are stated at amortised cost.

(l) 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.

Notes to the Financial Statements

For the year ended December 31, 2003

2 Principal accounting policies *(continued)*

(m) 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; accordingly, such securities continue to be carried on the balance sheets.

(n) Property, plant and equipment

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

The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes, interest costs on borrowings to finance the acquisition, 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 represents buildings under construction and are stated at cost. Costs include construction and acquisition costs. No provision for depreciation is made on assets under construction until such time as the relevant assets are completed and ready for use.

Depreciation:

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

	Estimated useful lives
Buildings	30 to 35 years
Leasehold improvements	Over the remaining term of the lease
Office equipment, furniture and fixtures	3 to 11 years
Motor vehicles	4 to 6 years

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

Impairment and gain or loss on sale:

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 profit and loss account 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 profit and loss account.

2 Principal accounting policies *(continued)*

(o) 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 utilised.

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

(p) Employee benefits

Pension benefits:

The full-time employees of the Group are covered by various government-sponsored pension plans under which the employees are entitled to a monthly pension based on certain formulas. These government agencies are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these plans, the Group has no legal or constructive obligation for retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred. Voluntary payments made to certain former employees and which were not made pursuant to a formal or informal plan are expensed as paid.

Termination and early retirement benefits:

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value using incremental borrowing rates available to the Group.

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.

(q) Foreign currency transactions

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of transaction. Gains and losses resulting from the settlement of such transaction and from the translation of monetary assets and liabilities denominated in foreign currencies at the exchange rate prevailing at the balance sheet date are recognised in the profit and loss account.

(r) 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 profit and loss account on a straight-line basis over the lease periods.

Notes to the Financial Statements

For the year ended December 31, 2003

2 Principal accounting policies *(continued)*

(s) 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.

(t) 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 3.

(u) Business risks and uncertainties

The development of liabilities for future policy benefits for the Group's products requires management to make estimates and assumptions regarding mortality, morbidity, lapse, expense, and investment experience. Such estimates are primarily based on historical experience and future expectations of mortality, morbidity, expense, persistency, and investment assumptions. Actual results could differ materially from those estimates. Management monitors actual experience and, if circumstances warrant, revises its assumptions and the related future policy benefit estimates.

The Group's investments are primarily comprised of fixed maturity securities, equity securities, and securities purchased under agreements to resell. Significant changes in prevailing interest rates and economic conditions may adversely affect the timing and amount of cash flows on such investments and their related values. In addition, the value of these investments is often derived from an appraisal, an estimate or opinion of value. A significant decline in the fair value of these investments could have an adverse effect on the Group's financial condition.

The Group's activities are with policyholders located in the PRC. Note 4 discusses the types of securities that the Group invests in. Note 3 discusses the types of insurance products that the Group offers. The Group does not have any significant concentrations to any one industry or policyholder.

3 Segment information

(a) 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 life insurance contracts to individuals and comprises participation life insurance business and traditional life insurance business. Participation life insurance business relates primarily to the sale of participating products, which provides the policyholder with a participation in the profits arising from the invested assets relating to the policy. Traditional life insurance business relates primarily to the sale of non-participating products and annuities policies, 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 life insurance contracts to group entities and comprises participation life insurance business and traditional life insurance business described as above.

(iii) Accident and health insurance business

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

(iv) Corporate and other

Corporate and other business relates to equity interests in subsidiaries and associated companies engaged in non-insurance businesses.

(b) Basis of allocating net investment income and administrative and other operating expenses

Net investment income is allocated among segments in proportion to the respective segments' 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 expense loadings of products in the respective segments.

Notes to the Financial Statements

For the year ended December 31, 2003

3 Segment information *(continued)*

	For the year ended December 31, 2003				
	Individual life RMB million	Group life RMB million	Accident & Health RMB million	Corporate & other RMB million	Total RMB million
Revenues					
Gross written premiums and policy fees	58,541	588	10,205	–	69,334
Gross written premiums	52,773	260	–	–	
– Term	293	8	–	–	
– Whole	25,821	252	–	–	
– Endowment	17,819	–	–	–	
– Annuity	8,840	–	–	–	
Policy fees	5,768	328	–	–	
Net premiums earned and policy fees	58,541	588	8,087	–	67,216
Net investment income	8,472	1,190	163	–	9,825
Net realised gains on investments	748	108	12	–	868
Net unrealised gains on trading securities	207	36	4	–	247
Other income	–	–	–	727	727
Segment revenue	67,968	1,922	8,266	727	78,883
Benefits, claims and expenses					
Insurance benefits and claims					
Life insurance death and other benefits	(7,744)	(826)	–	–	(8,570)
Accident and health claims and claim adjustment expenses	–	–	(4,882)	–	(4,882)
Increase in future life policyholder benefits	(43,203)	119	–	–	(43,084)
Policyholder dividends and participation in profits	(1,152)	(55)	–	–	(1,207)
Amortisation of deferred policy acquisition costs	(4,873)	(47)	(103)	–	(5,023)
Underwriting and policy acquisition costs	(882)	(8)	(404)	–	(1,294)
Administrative expenses	(5,047)	(131)	(1,347)	(337)	(6,862)
Other operating expenses	(246)	(6)	(65)	(555)	(872)
Interest expense on bank borrowings	–	–	–	(7)	(7)
Interest credited to policyholder contract deposits	(5,029)	(2,231)	–	–	(7,260)
Statutory insurance levy	–	–	(85)	–	(85)
Segment benefits, claims and expenses	(68,176)	(3,185)	(6,886)	(899)	(79,146)
Segment results	(208)	(1,263)	1,380	(172)	(263)
Income tax expenses	–	–	–	(1,180)	(1,180)
Minority interests	–	–	–	15	15
Net profit/(loss)	(208)	(1,263)	1,380	(1,337)	(1,428)

3 Segment information *(continued)*

	As at December 31, 2003				
	Individual life RMB million	Group life RMB million	Accident & Health RMB million	Corporate & other RMB million	Total RMB million
Assets					
Investments	237,416	35,160	6,672	–	279,248
Deferred policy acquisition costs	24,131	559	178	–	24,868
Accrued investment income	2,444	362	69	–	2,875
Segment assets	263,991	36,081	6,919	–	306,991
Unallocated					
Property, plant and equipment, net					12,008
Other assets					9,721
Total					328,720
Liabilities					
Future life policyholder benefits	81,658	1,060	–	–	82,718
Policyholder contract deposits and other funds	135,090	19,641	–	–	154,731
Unearned premium reserves	–	–	5,382	–	5,382
Securities sold under agreements to repurchase	5,482	812	154	–	6,448
Reserves for claims and claim adjustment expenses	–	–	814	–	814
Segment liabilities	222,230	21,513	6,350	–	250,093
Unallocated					
Other liabilities					15,871
Total					265,964

Notes to the Financial Statements

For the year ended December 31, 2003

3 Segment information *(continued)*

	For the year ended December 31, 2002				
	Individual life RMB million	Group life RMB million	Accident & Health RMB million	Corporate & other RMB million	Total RMB million
Revenues					
Gross written premiums and policy fees	58,902	749	9,118	–	68,769
Gross written premiums	54,269	372	–	–	
– Term	160	1	–	–	
– Whole	24,942	344	–	–	
– Endowment	19,182	23	–	–	
– Annuity	9,985	4	–	–	
Policy fees	4,633	377	–	–	
Net premiums earned and policy fees	58,902	749	6,773	–	66,424
Net investment income	7,078	1,152	117	–	8,347
Net realised gains on investments	225	37	4	–	266
Net unrealised losses on trading securities	(905)	(147)	(15)	–	(1,067)
Other income	–	–	–	338	338
Segment revenue	65,300	1,791	6,879	338	74,308
Benefits, claims and expenses					
Insurance benefits and claims					
Life insurance death and other benefits	(5,252)	(1,735)	(23)	–	(7,010)
Accident and health claims and claim adjustment expenses	–	–	(4,053)	–	(4,053)
Increase in future life policyholder benefits	(45,487)	113	–	–	(45,374)
Policyholder dividends and participation in profits	(614)	(27)	–	–	(641)
Amortisation of deferred policy acquisition costs	(3,574)	(103)	(155)	–	(3,832)
Underwriting and policy acquisition costs	(1,258)	(2)	(401)	–	(1,661)
Administrative expenses	(5,216)	(9)	(937)	–	(6,162)
Other operating expenses	(370)	(7)	(47)	(210)	(634)
Interest expenses on bank borrowings	–	–	–	(7)	(7)
Interest credited to policyholder contract deposits	(4,599)	(2,496)	–	–	(7,095)
Statutory insurance levy	–	–	(73)	–	(73)
Segment benefits, claims and expenses	(66,370)	(4,266)	(5,689)	(217)	(76,542)
Segment results	(1,070)	(2,475)	1,190	121	(2,234)
Income tax expenses	–	–	–	(14)	(14)
Minority interests	–	–	–	(2)	(2)
Net profit/(loss)	(1,070)	(2,475)	1,190	105	(2,250)

3 Segment information *(continued)*

	As at December 31, 2002				
	Individual life RMB million	Group life RMB million	Accident & Health RMB million	Corporate & other RMB million	Total RMB million
Assets					
Investments	225,944	36,782	3,737	–	266,463
Deferred policy acquisition costs	17,638	343	103	–	18,084
Accrued investment income	3,560	579	59	–	4,198
Segment assets	247,142	37,704	3,899	–	288,745
Unallocated					
Property, plant and equipment, net					18,457
Other assets					6,568
Total					313,770
Liabilities					
Future life policyholder benefits	304,043	1,320	–	–	305,363
Policyholder contract deposits and other funds	117,951	38,322	–	–	156,273
Unearned premium reserves	–	–	5,036	–	5,036
Securities sold under agreements to repurchase	3,054	497	51	–	3,602
Reserves for claims and claim adjustment expenses	–	–	879	–	879
Segment liabilities	425,048	40,139	5,966	–	471,153
Unallocated					
Other liabilities					17,915
Total					489,068

Notes to the Financial Statements

For the year ended December 31, 2003

4 Investments

4.1 Investment Results

	2003 **RMB million**	2002 RMB million
Net investment income:		
Fixed maturity securities	**2,793**	2,723
Equity securities	**312**	240
Term deposits and cash and cash equivalents	**5,543**	4,310
Investment properties	**58**	67
Investment in associated companies	**16**	(6)
Policy loans	**4**	7
Securities purchased under agreements to resell	**1,121**	1,094
Other investments	**10**	9
Subtotal	**9,857**	8,444
Securities sold under agreements to repurchase	**(7)**	(71)
Investment expense	**(25)**	(26)
Total	**9,825**	8,347
Net realised gain/(loss):		
Fixed maturity securities		
Gross realised gains	**661**	602
Gross realised losses	**(104)**	(97)
Impairment	**(7)**	(59)
Subtotal	**550**	446
Equity securities		
Gross realised gains	**458**	239
Gross realised losses	**(140)**	(417)
Impairment	**–**	(2)
Subtotal	**318**	(180)
Total	**868**	266
Net unrealised gain/(loss):		
Equity securities	**247**	(1,067)
Total	**247**	(1,067)

4 Investments *(continued)*

4.2 Non-trading securities

	Cost or amortised cost RMB million	Gross unrealised gains RMB million	Gross unrealised losses RMB million	Estimated fair value RMB million
Group and Company				
As at December 31, 2003				
Fixed maturity securities				
Government bonds	**40,449**	**424**	**(1,396)**	**39,477**
Government agency bonds	**27,234**	**39**	**(456)**	**26,817**
Corporate bonds	**4,508**	**10**	**(208)**	**4,310**
Subtotal	**72,191**	**473**	**(2,060)**	**70,604**
Equity securities				
Funds	**5,422**	**135**	**(7)**	**5,550**
Total	**77,613**	**608**	**(2,067)**	**76,154**
Group				
As at December 31, 2002				
Fixed maturity securities				
Government bonds	49,661	1,634	(316)	50,979
Government agency bonds	20,615	351	(151)	20,815
Corporate bonds	3,212	126	(15)	3,323
Subtotal	73,488	2,111	(482)	75,117
Equity securities				
Common stocks, unlisted	957	–	–	957
Funds	7,523	3	(382)	7,144
Subtotal	8,480	3	(382)	8,101
Total	81,968	2,114	(864)	83,218

The proceeds from sales of non-trading securities and the gross realised gains and losses for the years ended December 31, 2003 and 2002 were as follows:

	Group	
	2003 **RMB million**	2002 RMB million
Proceeds from sales of non-trading securities	**40,339**	14,390
Gross realised gains	**919**	697
Gross realised losses	**(118)**	(389)

Notes to the Financial Statements

For the year ended December 31, 2003

4 Investments *(continued)*

4.3 Equity securities

	Group 2003 RMB million	Group 2002 RMB million	Company 2003 RMB million
Common stocks	**–**	957	**–**
Funds	**10,718**	11,214	**10,718**
Total	**10,718**	12,171	**10,718**

4.4 Fixed maturity securities – maturity schedule

	Group			
	Amortised cost		Estimated fair value	
Held-to-maturity	**2003 RMB million**	2002 RMB million	**2003 RMB million**	2002 RMB million
Maturing:				
Within one year	**–**	437	**–**	442
After one year but within five years	**–**	373	**–**	400
After five years but within ten years	**–**	406	**–**	427
After ten years	**–**	4	**–**	4
Total	**–**	1,220	**–**	1,273

All held-to-maturity investments were retained by CLIC as a result of the Restructuring *(see note 1)*.

	Group			
	Amortised cost		Estimated fair value	
Non-trading	**2003 RMB million**	2002 RMB million	**2003 RMB million**	2002 RMB million
Maturing:				
Within one year	**1,652**	3,146	**1,642**	3,179
After one year but within five years	**12,949**	18,174	**13,087**	19,026
After five years but within ten years	**36,873**	32,603	**36,460**	33,340
After ten years	**20,716**	19,565	**19,415**	19,572
Total	**72,190**	73,488	**70,604**	75,117

	Company	
Non-trading	**Amortised cost 2003 RMB million**	**Estimated fair value 2003 RMB million**
Maturing:		
Within one year	**1,652**	**1,642**
After one year but within five years	**12,949**	**13,087**
After five years but within ten years	**36,873**	**36,460**
After ten years	**20,716**	**19,415**
Total	**72,190**	**70,604**

4 Investments *(continued)*

4.5 Investments in associated companies

	Group		Company
	2003	2002	**2003**
	RMB million	RMB million	**RMB million**
Investment cost	**–**	266	**–**
Share of post acquisition loss	**–**	(159)	**–**
	–	107	**–**
Advances to associated companies*	**–**	1,928	**–**
Interest in associated companies	**–**	2,035	**–**

* The advances to associated companies are non-interest bearing, unsecured and have no fixed repayment terms. All investments in associated companies were retained by CLIC as a result of the Restructuring *(see note 1)*.

4.6 Term deposits

	Group		Company
	2003	2002	**2003**
	RMB million	RMB million	**RMB million**
Maturing:			
Within one year	**2,349**	6,621	**2,349**
After one year but within five years	**121,443**	108,953	**121,443**
After five years but within ten years	**12,400**	7,101	**12,400**
After ten years	**1,000**	1,000	**1,000**
Total	**137,192**	123,675	**137,192**

4.7 Statutory deposits – restricted

	Group		Company
	2003	2002	**2003**
	RMB million	RMB million	**RMB million**
Maturing:			
Within one year	**600**	41	**600**
After one year but within five years	**3,400**	950	**3,400**
Total	**4,000**	991	**4,000**

Insurance companies in China are required to deposit an amount equal to 20% of their registered capital with a bank designated by the CIRC. These funds may not be used for any purpose, other than to pay off debts during a liquidation proceeding. The restricted deposits at December 31, 2003 correspond to RMB20,000 million share capital at the time China Life was established (see note 1). The additional share capital raised from the initial public offering in December 2003 was still subject to statutory verification process at the year end. Additional statutory deposits will be made in 2004.

Notes to the Financial Statements

For the year ended December 31, 2003

4 Investments *(continued)*

4.8 Securities purchased under agreements to resell

	Group		**Company**
	2003	2002	**2003**
	RMB million	RMB million	**RMB million**
Maturing:			
Within 30 days	**3,672**	14,740	**3,672**
After 30 days but within 90 days	**5,229**	6,186	**5,229**
Over 90 days	**5,101**	15,462	**5,101**
Total	**14,002**	36,388	**14,002**

5 Fair value of financial instruments

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

– Cash and cash equivalents, term 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.

– Fixed maturity securities: fair values are generally based upon quoted market prices. Where quoted market prices are not readily available, fair values are estimated using either prices observed in recent transactions or values obtained from quoted market prices of comparable investments.

– Equity securities: fair values are based on quoted market prices except, certain common stocks, which are carried at cost as a reasonable estimate of their fair value.

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

– Policyholder contract deposits and other funds: fair values are calculated by discounted cash flow projections using current market interest rates.

– Other investment assets: as quoted market prices are generally not readily available for these assets, impairment is assessed on a regular basis, and as significant gains for the Group are not expected to arise, the carrying value of these assets in the balance sheet (generally cost less provision for impairment) is used as an estimate of the fair value.

– Bank borrowings: as the bank borrowings are at variable interest rates, their carrying values approximate their fair values at the reporting date.

5 Fair value of financial instruments *(continued)*

	Total fair value		**Total carrying value**	
	2003	2002	**2003**	2002
	RMB million	RMB million	**RMB million**	RMB million
Fixed maturity securities	**70,604**	76,390	**70,604**	76,337
Equity securities	**10,718**	12,171	**10,718**	12,171
Term deposits	**137,192**	123,675	**137,192**	123,675
Securities purchased under agreements to resell	**14,002**	36,388	**14,002**	36,388
Policy loans	**116**	106	**116**	106
Other investments	**–**	231	**–**	231
Cash and cash equivalents	**42,616**	14,529	**42,616**	14,529
Policyholder contract deposits and other funds	**(132,998)**	(165,727)	**(154,731)**	(156,273)
Bank borrowings	**–**	(313)	**–**	(313)
Securities sold under agreements to repurchase	**(6,448)**	(3,602)	**(6,448)**	(3,602)

The Group's activities expose it to a variety of financial risks, including the effects of changes in fixed maturities and equity market prices, and interest rates. 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 co-operation with the Group's operating units. The management provides written principles for overall risk management, as well as written policies covering specific areas, such as managing interest rate risk, credit risk, and liquidity risk.

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. Many of the Group's insurance policies offer guaranteed returns to policyholders. These guarantees expose the Group to interest rate risk. Interest rate risk is normally controlled through matching such liabilities with suitable assets. The limited availability of matching assets and the current regulatory constraints in the PRC mean that the Group can only mitigate interest rate risk to a certain extent. If the regulatory constraints are eased, the Group expects to be able to take action to further mitigate the risk.

Market risk

The Group's investments include mainly securities investment funds and bonds. Among these, the prices of listed securities investment funds and bonds are determined by market forces. The Group's policy is to hold an appropriately diversified investment portfolio as permitted by laws and regulations to reduce the risk of concentration in one specific industry or company. The Group also actively monitors the market prices of the securities.

Notes to the Financial Statements

For the year ended December 31, 2003

5 Fair value of financial instruments *(continued)*

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. Credit risk is controlled by the application of credit approvals, limits and monitoring procedures. Where appropriate, the Group obtains collateral in the form of rights to cash, securities, property and equipment.

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 invested assets to the maturity of insurance liabilities.

6 Deferred policy acquisition costs

	Group		**Company**
	2003	2002	**2003**
	RMB million	RMB million	**RMB million**
Gross			
At January 1 (Group)/July 1 (Company)	**18,411**	11,182	**21,599**
Acquisition costs deferred	**11,818**	11,240	**5,839**
Amortisation charged to income	**(5,350)**	(4,121)	**(2,534)**
Unrealised gains on investments	**285**	110	**260**
At December 31	**25,164**	18,411	**25,164**
Ceded			
At January 1 (Group)/July 1 (Company)	**(327)**	(289)	**(317)**
Acquisition costs deferred	**(296)**	(327)	**(138)**
Amortisation charged to income	**327**	289	**159**
At December 31	**(296)**	(327)	**(296)**
Net			
At January 1 (Group)/July 1 (Company)	**18,084**	10,893	**21,282**
Acquisition costs deferred	**11,522**	10,913	**5,701**
Amortisation charged to income	**(5,023)**	(3,832)	**(2,375)**
Unrealised gains on investments	**285**	110	**260**
At December 31	**24,868**	18,084	**24,868**

7 Reinsurance assets

	Group 2003 RMB million	Group 2002 RMB million	Company 2003 RMB million
Ceded unearned premiums	**807**	1,006	**807**
Claims recoverable from reinsurers	**122**	176	**122**
Due from reinsurance companies	**68**	42	**68**
Total	**997**	1,224	**997**

Approximately 100% of the reinsurance assets at balance sheet dates were reinsured with China Reinsurance Company.

8 Property, plant and equipment

Group

	2003 Investment properties RMB million	2003 Buildings RMB million	2003 Office equipment, furniture and fixtures RMB million	2003 Motor vehicles RMB million	2003 Assets under construction RMB million	2003 Leasehold improvements RMB million	2003 Total RMB million	2002 Total RMB million
Cost or deemed cost								
At January 1	3,011	14,492	2,224	1,954	1,411	245	23,337	22,476
Additions	–	992	367	189	615	122	2,285	1,814
Disposals	(11)	(271)	(168)	(184)	(25)	(56)	(715)	(953)
Revaluation	(181)	–	–	–	–	–	(181)	–
Derecognition *(see note 2(a))*	(2,819)	(4,580)	(559)	(270)	(511)	(158)	(8,897)	–
Transfer upon completion	–	385	4	–	(389)	–	–	–
At December 31	–	11,018	1,868	1,689	1,101	153	15,829	23,337
Accumulated depreciation								
At January 1	–	(2,424)	(1,115)	(1,159)	(55)	(127)	(4,880)	(4,129)
Charges for the year	–	(441)	(305)	(313)	–	(85)	(1,144)	(1,323)
Impairment loss	–	(83)	–	–	(10)	–	(93)	(7)
Disposals	–	110	84	171	–	–	365	579
Derecognition *(see note 2(a))*	–	1,164	344	201	65	157	1,931	–
At December 31	–	(1,674)	(992)	(1,100)	–	(55)	(3,821)	(4,880)
Net book value								
At December 31, 2003	–	9,344	876	589	1,101	98	12,008	
At December 31, 2002	3,011	12,068	1,109	795	1,356	118	18,457	

Notes to the Financial Statements

For the year ended December 31, 2003

8 Property, plant and equipment *(continued)*

As at December 31, 2003, the Company was in the process of effecting transfer of title from CLIC of certain properties with net book value at that date of RMB310 million. The Company is entitled to the full use of these assets under the restructuring agreement, even though the necessary governmental registrations or approvals have not been obtained. The Company is not aware of any known legal impediments to effect such transfer.

The analysis of the cost or valuation at December 31, 2003 and 2002 of the above assets is as follows:

	Investment properties RMB million	**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**
2003:							
At cost	**–**	**9,344**	**876**	**589**	**1,101**	**98**	**12,008**
At valuation	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	–	**9,344**	**876**	**589**	**1,101**	**98**	**12,008**

	Investment properties RMB million	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
2002:							
At cost	–	12,068	1,109	795	1,356	118	15,446
At valuation	3,011	–	–	–	–	–	3,011
	3,011	12,068	1,109	795	1,356	118	18,457

The Company engaged Sallmanns (Far East) Limited to value its property assets as at September 30, 2003. The valuation of the property assets amounted to RMB10,956 million. The additional depreciation that would be charged to the profit and loss account had those assets been stated at such valuation is RMB 8 million.

8 Property, plant and equipment *(continued)*

Company

	2003					
	Buildings RMB million	Office equipment, furniture and fixtures RMB million	Motor vehicles RMB million	Assets under construction RMB million	Leasehold improvements RMB million	Total RMB million
Cost or deemed cost						
At July 1,	10,855	1,615	1,631	934	126	15,161
Additions	124	268	122	279	27	820
Disposals	(54)	(23)	(64)	(15)	–	(156)
Transfer upon completion	93	4	–	(97)	–	–
At December 31,	11,018	1,864	1,689	1,101	153	15,825
Accumulated depreciation						
At July 1,	(1,500)	(924)	(1,066)	–	(32)	(3,522)
Charges for the year	(213)	(79)	(89)	–	(23)	(404)
Disposals	39	11	55	–	–	105
At December 31	(1,674)	(992)	(1,100)	–	(55)	(3,821)
Net book value						
At December 31	9,344	872	589	1,101	98	12,004

9 Accrued investment income

	Group		Company
	2003 RMB million	2002 RMB million	**2003 RMB million**
Accrued interest income			
– Term deposits	**1,940**	2,589	**1,940**
– Fixed maturities	**901**	1,591	**901**
– Others	**34**	18	**34**
Total	**2,875**	4,198	**2,875**

Notes to the Financial Statements

For the year ended December 31, 2003

10 Premiums receivables

The ageing of premiums receivable is within 2 months.

11 Other

	Group		Company
	2003	2002	**2003**
	RMB million	RMB million	**RMB million**
Receivable for fund units redeemed	**4,784**	–	**4,784**
Due from CLIC	**742**	–	**742**
Deposits	**150**	103	**150**
Long-term deferred expenses	**32**	57	**32**
Advances	**31**	1,420	**31**
Inventory held by real estate subsidiaries	**–**	240	**–**
Foreclosed assets	**–**	200	**–**
Entrusted funds receivable	**–**	1,513	**–**
Others	**184**	54	**177**
Total	**5,923**	3,587	**5,916**

12 Benefits, claims and expenses

	Gross	**Ceded**	**Net**
	RMB million	**RMB million**	**RMB million**
For the year ended December 31, 2003			
Accident and health claims and claim adjustment expenses	**5,744**	**(862)**	**4,882**
Life insurance death and other benefits	**8,570**	**–**	**8,570**
Increase in future life policyholder benefits	**43,084**	**–**	**43,084**
Total insurance benefits and claims	**57,398**	**(862)**	**56,536**

	Gross	Ceded	Net
	RMB million	RMB million	RMB million
For the year ended December 31, 2002			
Accident and health claims and claim adjustment expenses	5,066	(1,013)	4,053
Life insurance death and other benefits	7,010	–	7,010
Increase in future life policyholder benefits	45,374	–	45,374
Total insurance benefits and claims	57,450	(1,013)	56,437

13 Insurance reserves

Long duration contract liabilities arising from traditional life products include, depending on contract type, policyholder account balances or the present value of future benefits less present value of valuation premiums. Short duration contract liabilities relate to accident and health products of one year duration or less.

The liabilities for future life policyholder benefits have been established in accordance with the provisions of Statement of Financial Accounting Standards No. 60 "Accounting and Reporting by Insurance Enterprises". In accordance with the provisions of this standard, the present value of estimated future policy benefits less the present value of estimated future net premiums to be collected from policyholders are accrued when premium revenue is recognised. Currently, there is no specific standard under HK GAAP on the determination of future policyholder benefits. We have adopted the US standard as our accounting policy. These estimates are based on the following assumptions:

(i) Interest rates are based on estimates of future yields on the Company's investments. The discount rates used for policies issued prior to 2003 increase from 3.8% to 5.0%, with a provision for adverse deviation ranging from 0.25% to 0.50%, as applicable. In determining its interest rate assumptions, the Company considers past investment experience, the current and future mix of its investment portfolio and trends in yields. Based on a review of the Company's investment performance and the market conditions, the Company revised the discount rates for policies issued in 2003 such that they increase from 3.65% to 5%, with a provision for adverse deviation ranging from 0.25% to 0.5%, as applicable. Actual investment yields in the years ended December 31, 2001, 2002 and 2003 were 4.1%, 3.8% and 3.4% respectively. Assumed interest rates in future years reflect increased investment in higher yielding securities, including corporate bonds, longer duration securities and equity securities.

(ii) Mortality and morbidity rates, varying by age of the insured, and lapse rates, varying by contract type, are based upon expected experience at date of contract issue plus, where applicable, a margin for adverse deviation. The mortality, morbidity and lapse assumptions used for 1999 through 2002 are based upon the results of an analysis of the Company's actual mortality, morbidity and lapse experience incurred in those years. This mortality, morbidity and lapse experience was found to be comparable in those periods. Based on the findings of a subsequent study of the Company's experience and the Company's knowledge of the business, the mortality assumption and the morbidity assumption remain unchanged for policies issued in 2003, but the lapse assumption for certain types of policies issued in 2003 has been revised.

In setting the mortality assumption, mortality experience was compared to and expressed as a percentage of the "CL" series of life table. These tables were compiled by the People's Insurance Company of China in 1994 and 1995 and issued by the People's Bank of China, the principal regulatory authority at the time. The tables are based on policy samples drawn from 43 subsidiaries and mortality experience of these sample policies during the period January 1, 1990 to December 31, 1993 were studied. Currently all life insurance companies in China are required to use these tables for product pricing.

(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 per-policy costs used for 1999 through 2002 were estimated to be 2% of premiums plus a fixed per-policy expense. The per-policy costs used for 2003 were estimated to be 1.75% of premiums plus a fixed per-policy expense.

Notes to the Financial Statements

For the year ended December 31, 2003

13 Insurance reserves *(continued)*

Contracts in loss recognition use best-estimate assumptions of investment returns, mortality, lapse and policy administration expenses, without provision for adverse deviation. Mortality, morbidity, lapse and policy administration costs assumptions are the same as for policies issued since June 1999, except that there is no provision for adverse deviation. A level 3.8% interest rate comprised the best estimate of future investment returns on this business. All contracts in loss recognition were retained by CLIC pursuant to the Restructuring.

Policyholder account balances for investment-type contracts are equal to the policy account values. Account values consist of an accumulation of gross premium payments less loadings for expenses, mortality and profit plus credited interest less withdrawals and other exits, in accordance with the provisions of Statement of Financial Accounting Standards No. 97 "Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for the Realised Gains and Losses from the Sale of Investments".

The amount of policyholder dividends to be paid is determined annually. Policyholder dividends include life policyholder's share of net income and unrealised appreciation of investments that are required to be allocated by the insurance contract or by local insurance regulations. Experience adjustments relating to future policyholder benefits and policyholder contract deposits vary according to the type of contract. Investment, mortality and morbidity results may be passed through by experience credits or as an adjustment to the premium mechanism, subject to local regulatory provisions.

Reserves for claims and claim adjustment expenses were as follows:

	Group		**Company**
	2003	2002	**2003**
	RMB million	RMB million	**RMB million**
At January 1			
Gross reserves for claims and claim adjustment expenses	**879**	867	**879**
Reinsurance recoverable	**(176)**	(174)	**(176)**
Net reserves for claims and claim adjustment expenses	**703**	693	**703**
Claims and claim adjustment expenses incurred	**5,744**	5,066	**5,744**
Claims and claim adjustment expenses paid	**(5,809)**	(5,054)	**(5,809)**
At December 31			
Gross reserves for claims and claim adjustment expenses	**814**	879	**814**
Reinsurance recoverable	**(122)**	(176)	**(122)**
Net reserves for claims and claim adjustment expenses	**692**	703	**692**

Accident and health claims are generally settled within 2 months when the claims are reported. Accordingly, no material amount of the charge for claims incurred relates to prior years. The Group believes that the final claims and claim adjustment expenses incurred would not differ materially from the amounts provided at period ends.

13 Insurance reserves *(continued)*

Claims paid and incurred, and the ratios of claims incurred to net accident and health premiums were as follows:

	Group	
	2003	2002
	RMB million	RMB million
Claims incurred – net	**4,882**	4,053
Claims incurred ratio	**60%**	60%

14 Securities sold under agreements to repurchase

Liabilities are due within thirty days from the balance sheet date. The carrying values of fixed maturity securities pledged as collateral are as follows:

	Group		Company
	2003	2002	**2003**
	RMB million	RMB million	**RMB million**
Fixed maturities pledged	**6,448**	3,600	**6,448**

15 Bank borrowings

Bank borrowings and related investment properties and property, plant and equipment pledged were retained by CLIC as a result of the Restructuring.

	Group	
	2003	2002
Maturity Schedule	**RMB million**	RMB million
Short-term borrowings	**–**	311
Long-term borrowings – within 1 year	**–**	2
Total	**–**	313

	Group	
	2003	2002
	RMB million	RMB million
Carrying value of investment properties, net, pledged	**–**	365
Net book value of property, plant and equipment pledged	**–**	65
Total	**–**	430

Notes to the Financial Statements

For the year ended December 31, 2003

16 Provision

Provision for early retirement and termination relates to benefits payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits.

	Group	
	2003	2002
	RMB million	RMB million
As at January 1	**445**	330
Additional provision	**74**	224
Payment for the year	**(59)**	(109)
Derecognition *(see note 2(a))*	**(460)**	–
As at December 31	**–**	445

17 Other liabilities

		Group		**Company**
		2003	2002	**2003**
	Note	**RMB million**	RMB million	**RMB million**
Payable to State Social Security Fund	(a)	**2,472**	–	**2,472**
Reserve for commission and expenses		**1,071**	1,047	**1,071**
Salary payable		**726**	667	**726**
Agent deposits		**486**	451	**486**
Staff welfare payable		**672**	561	**672**
Tax payable		**375**	258	**375**
Payable to constructors		**124**	336	**124**
Reinsurance liabilities		**–**	200	**–**
Regulatory fee payable		**88**	108	**88**
Others		**877**	1,088	**865**
Total		**6,891**	4,716	**6,879**

Note:

(a) As part of the initial public offering of China Life's shares, CLIC also sold some of its holdings in China Life to public investors. The proceeds from CLIC's sale, net of listing expenses amounting to RMB 2,472 million, was remitted to China Life and is payable to the State Social Security Fund in accordance with rules issued by the State Council in June 2001.

18 Statutory insurance fund

According to the PRC "Financial Regulations for Insurance Companies", insurance companies are required to provide for the insurance guarantee fund at 1% of the net premiums of general insurance, accident insurance, short-term health insurance and reinsurance. No additional insurance guarantee fund will be provided once it reaches 6% of total assets.

19 Loss before taxation

Loss before taxation is stated after charging the following:

	2003 RMB million	2002 RMB million
Staff costs		
Wages and salary	**2,879**	2,493
Housing benefits	**139**	90
Contribution to the defined contribution pension plan	**122**	146
Depreciation – owned property, plant and equipment	**1,144**	1,323
Loss on disposal of property, plant and equipment	**124**	91
Deficit on revaluation of investment properties	**181**	–
Auditors' remuneration	**17**	–

20 Taxation

(a) The amount of taxation charged to the consolidated profit and loss account represents:

	2003 RMB million	2002 RMB million
Current taxation:		
– Enterprises income tax	**139**	14
Deferred taxation relating to the origination and reversal of temporary differences	**1,041**	–
Taxation charges	**1,180**	14

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

	2003 RMB million	2002 RMB million
Loss before income tax expenses and minority interests	**(263)**	(2,234)
Tax computed at the statutory tax rate of 33%	**(87)**	(737)
Non taxable income	**(183)**	(8)
Expenses not deductible for tax purposes	**628**	1,546
Unrecognised deferred tax assets	**822**	(787)
Income taxes at effective tax rate	**1,180**	14

Non-taxable income includes mainly interest income from government bonds. Expenses not deductible for tax purposes include mainly salary and wages expenses in excess to deductible amounts.

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For the year ended December 31, 2003

20 Taxation *(continued)*

(c) At December 31, 2003, 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 2003 RMB million
At January 1	**–**
Deferred taxation charged to profit and loss account	**1,041**
Taxation charged to equity	**2,645**
At December 31	**3,686**

The deferred taxation charged to equity during the year is as follows:

	Group 2003 RMB million
Change in unrealised gains/losses of non-trading securities	**(594)**
Arising from the Restructuring	**3,239**
	2,645

No deferred tax assets have been recognised by the Group in 2002. The unrecognised net deferred tax assets in 2002, are analysed as follows:

	2002 RMB million
Tax value of loss carried forward	10,082
Future life policyholder benefits and policyholder contract deposits and other fund	47,041
Provision for assets impairment	1,708
Deferred policy acquisition costs	(5,945)
Others	915
Unrecognised deferred tax assets	53,801

Pursuant to the Restructuring on September 30, 2003, all the unrecognised tax losses of the Group were retained by CLIC and the Group has no unrecognised tax losses as at December 31, 2003.

20 Taxation *(continued)*

(d) The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax liabilities	**Deferred policy acquisition costs** RMB million	**Others** RMB million	**Total** RMB million
At January 1, 2003	–	–	–
Charged to profit and loss account	**(1,097)**	**(248)**	**(1,345)**
Charged to equity	**(7,109)**	**136**	**(6,973)**
At December 31, 2003	**(8,206)**	**(112)**	**(8,318)**

Deferred tax assets	**Future life policyholder benefits and policyholder contract deposit and other funds** RMB million	**Revaluation surplus** RMB million	**Unearned premium reserve** RMB million	**Unrealised loss** RMB million	**Total** RMB million
At January 1, 2003	–	–	–	–	–
(Charged)/credited to profit and loss account	**168**	**(6)**	**142**	–	**304**
Charged to equity	**3,344**	**540**	**(25)**	**469**	**4,328**
At December 31, 2003	**3,512**	**534**	**117**	**469**	**4,632**

	2003 **RMB million**
Deferred tax assets	**4,632**
Deferred tax liabilities	**(8,318)**
	(3,686)

21 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of RMB 2,752 million.

22 Loss per share

There is no difference between basic and diluted loss per share. The basic and diluted loss per share for the year ended December 31, 2003 is based on the weighted average number of 20,249,798,526 (2002: 20,000 million) ordinary shares in issue during the year.

For the purpose of loss per share computations, the company's issuance of 20,000 million shares to CLIC is given retroactive treatment and considered outstanding for all years presented.

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For the year ended December 31, 2003

23 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 summarizes the names of significant related parties and nature of relationship with the company as of December 31, 2003:

Significant related party	**Relationship with the Company**
China Life Insurance Company ("CLIC")	The ultimate holding Company
China Life Assets Management Company Limited ("AMC")	A subsidiary of the Company
Zhongbaoxin Real Estate Development Co. Ltd	A subsidiary of the ultimate holding company

(b) Transactions with CLIC and AMC

The following table summarises significant recurring transactions carried out by the Group with CLIC and AMC for the year ended December 31, 2003.

	Note	**2003 RMB million**
Transaction with CLIC		
Policy management fee income receivable from CLIC	(i)	**953**
Asset management fee receivable from CLIC	(ii)	**26**
Property leasing expense payable to CLIC	(iii)	**169**
Transaction with AMC		
Asset Management fee expense paid to AMC by the Company	(ii)	**8**

Note:

(i) As part of the restructuring, CLIC transferred its entire branch services network to the Company. CLIC and the Company have entered into a Policy Management Agreement on September 30, 2003 to engage the Company to provide policy administration services to CLIC relating to the non-transferred policies. The Company, as a service provider, does not acquire any rights or assume any obligations as an insurer under the non-transferred policies. In consideration of the services provided under the agreement, CLIC will pay the Company a service fee based on the estimated cost of providing the services, to which a profit margin is added. The service fee is equal to, for each semi-annual payment period, the sum of (1) the number of non-transferred policies in force that were within their policy term as of the last day of the period, multiplied by RMB 8 and (2) 2.5% of the actual premiums and deposits in respect of such policies collected during the period.

(ii) On November 30, 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, the 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. It 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.

23 Significant related party transactions *(continued)*

(b) Transactions with CLIC and AMC *(continued)*

If the average investment rate of return for the assets managed for a particular year exceeds the investment rate of return, as previously agreed, by at least ten basis points, AMC will be entitled to an annual performance bonus, the amount of which shall not exceed 50% of the annual service fees for that year. If the average investment rate of return is less than the investment rate of return as agreed by at least ten basis points, AMC will be required to rebate a portion of its fee, the amount of which shall not exceed 25% of the annual service fees for that year.

Under a separate agreement signed by CLIC and the Company on September 30, 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 November 30, 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.

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

(c) Amounts due from/to CLIC

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

	2003 **RMB million**
Due from CLIC	**1,668**
Due to CLIC	**(926)**
Other liabilities due to Zhongbaoxin Real Estate Development Co. Ltd.	**(112)**

Notes to the Financial Statements

For the year ended December 31, 2003

24 Share Capital

		Registered, issued and fully paid Ordinary shares of RMB1 each	
	Note	No. of shares	RMB million
At June 30, 2003	(a)	**20,000,000,000**	**20,000**
Issue of shares	(b)	**6,764,705,000**	**6,765**
At December 31, 2003		**26,764,705,000**	**26,765**

(a) On June 30, 2003, 20,000,000,000 shares of RMB 1 each were allotted and issued to CLIC for the transfer of the Transferred Business from CLIC to the company (see note 1).

(b) Pursuant to the board resolution passed on September 10, 2003, the company completed its initial public offering as follows:

(i) Issued an aggregate of 5,882,353,000 shares of RMB 1 each including an offering of 4,731,937,000 shares at HK$3.59 per share on The Stock Exchange of Hong Kong Limited ("HKSE") (excluding the brokerage fee and HKSE transaction levy) and an offering of 28,760,400 American Depositary Shares ("ADSs", each representing 40 shares) at US$18.68 on the New York Stock Exchange Inc., on December 18, 2003; and

(ii) Issued 882,352,000 shares of RMB 1 each at HK$ 3.625 per share by way of a placing among professional and institutional investors on December 22, 2003, upon the full exercise of an over-allotment option.

The listing proceeds of the aforementioned initial public offering of shares, net of direct listing expenses amounted to approximately RMB 24,707 million. The resulting share premium amounted to approximately RMB 17,942 million.

25 Reserves

	Additional Paid In Capital RMB million	Unrealised gain/(loss) RMB million	Statutory Common Reserve Fund RMB million	Statutory Common Welfare Fund RMB million	Total RMB million
The Group					
At January 1, 2002	(137)	2,188	–	–	2,051
Profit capitalisation	244	–	–	–	244
Investments transferred from parties under common control	6	–	–	–	6
Unrealised loss, net of tax	–	(871)	–	–	(871)
At December 31, 2002	113	1,317	–	–	1,430
Issue of shares	19,328	–	–	–	19,328
Share issue expenses	(1,386)	–	–	–	(1,386)
Unrealised loss, net of tax	–	(2,732)	–	–	(2,732)
Appropriation to statutory reserves	–	–	27	26	53
Capital contribution by CLIC	16,721	637	–	–	17,358
At December 31, 2003	**34,776**	**(778)**	**27**	**26**	**34,051**
The Company					
At July 1, 2003	**15,755**	**1,778**	**–**	**–**	**17,533**
Issue of shares	**19,328**	**–**	**–**	**–**	**19,328**
Share issue expenses	**(1,386)**	**–**	**–**	**–**	**(1,386)**
Unrealised loss, net of tax	**–**	**(2,556)**	**–**	**–**	**(2,556)**
Appropriation to statutory reserves	**–**	**–**	**27**	**26**	**53**
At December 31, 2003	**33,697**	**(778)**	**27**	**26**	**32,972**

Under Chinese law, dividends may be paid only out of distributable profits. Distributable profits means our after-tax profits as determined under PRC GAAP or HK GAAP, whichever is lower, less any recovery of accumulated losses and allocations to statutory funds that we are required to make. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years. The amount of distributable retained earnings based on the above is RMB212 million.

Notes to the Financial Statements

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26 Contingencies

The following is a summary of the significant contingent liabilities:

	Group		Company
	2003	2002	**2003**
	RMB million	RMB million	**RMB million**
Outstanding loan guarantees	**–**	443	**–**
Pending lawsuits	**45**	189	**45**

(a) CLIC has retained the obligation as the guarantor for external borrowing by certain third party entities as a result of the Restructuring.

(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 legal advice. No provision has been made for pending lawsuits when the outcome of the lawsuits cannot be reasonably estimated or management believes the probability of loss is remote.

27 Commitments

(a) Capital commitments

	Group		Company
	2003	2002	**2003**
	RMB million	RMB million	**RMB million**
Acquisition of property, plant and equipment	**239**	752	**239**

(b) Operating lease commitments

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

	Group		Company
	2003	2002	**2003**
	RMB million	RMB million	**RMB million**
Land and buildings			
Not later than one year	**335**	63	**335**
Later than one year but not later than five years	**670**	169	**670**
Later than five years	**–**	22	**–**

The operating lease payments charged to the profit and loss account for the year ended December 31, 2003 was RMB 299 million (2002: RMB 287 million).

28 Investment in subsidiary

Company	2003 RMB million
Unlisted investment at cost	**480**

Name	Place of incorporation and operation	Principal activities	Percentage of equity interest held
China Life Insurance Assets Management Co., Ltd.	People's Republic of China, November 23, 2003	Asset management	60%

29 Directors', supervisors' and senior management's remuneration

(a) Directors' emoluments

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

	2003 RMB	2002 RMB
Fees	**163,224**	378,485
Other emoluments for executive directors		
– Basic salaries, housing allowances and other allowances and benefits in kind	**901,726**	525,786

Directors' fees disclosed above include RMB 163,224 (2002: nil) paid to independent non-executive directors.

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

No directors of the Company waived any remuneration during the year ended December 31, 2003.

The emoluments of the directors were within the following bands:

	Number of directors 2003	 2002
Nil – RMB1,000,000	**4**	2

Notes to the Financial Statements

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29 Directors', supervisors' and senior management's remuneration *(continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include two (2002: two) directors whose emoluments are reflected in the analysis presented above.

Details of remuneration of the remaining three (2002: three) highest paid individuals are as follows:

	2003 RMB	2002 RMB
Fees	**–**	168,249
Basic salaries, housing allowances, and other allowances and benefits in kind	**1,232,513**	1,025,453
	1,232,513	1,193,702

The emoluments fell within the following bands:

	Number of individuals For the year ended December 31 2003	2002
Nil – RMB1,000,000	**3**	3

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

30 Ultimate holding company

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

31 Subsequent events

On January 30, 2004, the Audit General of the National Audit Office of China (the "CNAO") announced that it had carried out an audit of the financial statements of CLIC, our predecessor. The CNAO audit decision, dated March 30, 2004, which covers activities up to 2002, found that (i) there had been irregular use of RMB2,368 million of insurance funds, and irregular operations involving RMB2,374 million in the use of agents that was not in compliance with regulations and overpayment of surrender value by some branches of CLIC; including the use of agents not legally qualified in the insurance business, changes in premium rates and the scope of coverage without proper approval, and overpayment of surrender value and annuity payments when due; (ii) certain branches of CLIC had overstated or understated expenses and income resulting in the underpayment of taxes in the amount of RMB1.26 million; (iii) certain branches of CLIC maintained "unauthorized reserves" which involved an accumulated amount of RMB32.31 million, among which RMB11.09 million had been accumulated after 2001; and (iv) CLIC had failed to pay taxes when due in an amount of RMB43.06 million.

CLIC was directed to pay a total of approximately RMB67.48 million (approximately US$8.15 million), including RMB9.16 million of business tax and surcharges, RMB9.97 million of income taxes, RMB37.26 million of other taxes and RMB11.09 million in fines. The decision requires CLIC to rectify the irregular use of reinsurance funds and irregular operations described in section (i) above, and to submit a report on such rectification by May 31, 2004. The audit decision also requires CLIC make such changes to its books and accounts described in section (ii) and (iii) above to correct accounting entries regarding overstatement and understatement of expenses and income addressed in the report, and to submit reports on such adjustments to the CNAO. An appeal to the CNAO may be taken within 60 days of the date of CLIC's receipt of the audit decision. We will review the changes and adjustments made by CLIC in response to the audit decision in order to evaluate their impact on our operations.

On or about March 16, 2004 a complaint was filed in the United States District Court for the Southern District of New York alleging violations of the U.S. Securities Exchange Act of 1934 by China Life and certain of its officers and directors in connection with failure to fully disclose the audit review by the CNAO of CLIC. Three additional similar complaints have subsequently been filed against these same defendants. The complaints seek to recover damages on behalf of a purported class of persons who purchased the company's publicly traded securities between December 22, 2003 and February 3, 2004. Each complaint seeks an award of damages in an unspecified amount, plus expert and attorneys' fees. As of the date hereof, none of the four complaints has yet been served and, accordingly, the Company's time to respond thereto has not yet begun to run. In connection with these complaints, the Company has engaged a U.S. counsel to contest the complaints vigorously on behalf of the Company. Therefore, the likelihood of an unfavourable outcome is still uncertain. No provision has been made with respect to these lawsuits.

32 Approval of financial information

The financial information was approved by the board of directors on April 23, 2004.