Supplementary Information for ADS Holders

Reconciliation of HK GAAP and United States generally accepted accounting principles ("US GAAP")

(a) The consolidated financial statements of the Group have been prepared in accordance with HK GAAP, which differs in certain significant respects from US GAAP. Differences between HK GAAP and US GAAP, which may have significant impacts on consolidated net profit/(loss) and consolidated shareholders' equity, are described below.

The effect on net loss of significant differences between HK GAAP and US GAAP for the year ended December 31, 2002 and 2003 are as follows:

	2003 **RMB million**	2002 RMB million
Net loss under HK GAAP	**(1,428)**	(2,250)
US GAAP adjustments		
Depreciation of investment properties	**(40)**	(67)
Deficit on revaluation of investment properties	**181**	–
Net loss under US GAAP	**(1,287)**	(2,317)

The effect on shareholder's equity of significant differences between HK GAAP and US GAAP as at December 31, 2002 and 2003:

	As at December 31,	
	2003 **RMB million**	2002 RMB million
Shareholders' equity under HK GAAP	**62,436**	(175,463)
US GAAP adjustments		
Accumulated depreciation of investment properties	**–**	(178)
Shareholders' equity under US GAAP	**62,436**	(175,641)

Investment Properties

Under HK GAAP, investment properties are valued on an open market value basis. Under US GAAP, investment properties are stated at historical cost less accumulated depreciation and accumulated impairment loss. Cost of investment properties, less residual value, is depreciated using a straight-line method over its estimated useful life.

During 2003, there was a deficit on revaluation of investment properties totalling Rmb 181 million charged to the consolidated profit and loss account under HK GAAP. As at September 30, 2003, all investment properties were retained by CLIC and derecognised from the Group's consolidated balance sheet as a result of the Restructuring. The accumulated depreciation and revaluation deficit related to the investment properties were also retained by CLIC and no longer constituted a GAAP difference to the Company's shareholder's equity.

Property, plant, and equipment

Certain property, plant and equipment on hand as of January 1, 2000 have been valued at fair values rather than at historical cost less depreciation, which is required by US GAAP. The Group has not been able to quantify the effect of the difference in accounting treatment because, prior to January 1, 1997, the predecessor company did not maintain sufficiently detailed historical cost records. The fair market values recorded in the opening balance of the Group at January 1, 2000 have been carried forward as the deemed cost.

Reconciliation of HK GAAP and United States generally accepted accounting principles ("US GAAP") *(continued)*

(b) Accumulated other comprehensive income/(loss) represents the cumulative gains and losses on items that are not reflected in earnings. The balances and activities for the years ended December 31, 2002 and 2003 are as follows:

	As at December 31,	
	2003	2002
	RMB million	RMB million
Changes in net unrealised gains/(losses) on investment securities:		
Net unrealised losses arising during the period	**(3,457)**	(234)
Reclassification adjustment for losses included in net earnings	**(154)**	(747)
Sub-total	**(3,611)**	(981)
Adjustments for:		
Deferred policy acquisition costs	**285**	110
Income tax effect there of	**594**	-
Total other comprehensive loss	**(2,732)**	(871)

(c) Statutory Information

	Year ended December 31,	
	2003	2002
	RMB million	RMB million
Statutory capital and surplus	**50,948**	(71,680)
Minimum statutory capital and surplus necessary to satisfy regulatory requirement	**12,906**	17,453

According to Article 2003. 1 issued by the CIRC, all insurance companies have to report their statutory capital and surplus (i.e. solvency margin) to the CIRC at the end of each fiscal year. The solvency adequacy ratio is computed by dividing the actual solvency margin by the minimum solvency margin. CIRC will closely monitor those insurance companies with solvency adequacy ratio less than 100% and may, depending on the individual circumstances, undertake certain regulatory measures, including but not limited to restricting the payment of dividends.

Supplementary Information for ADS Holders

Reconciliation of HK GAAP and United States generally accepted accounting principles ("US GAAP") *(continued)*

(d) Disclosures about investments in an unrealised loss position that are other than temporarily impaired

		Less than 6 months RMB million	More than 6 months but less than 12 months RMB million	More than 12 months RMB million	Total RMB million
Fixed maturity securities					
Government bonds	Fair value	24,353	2,061	–	26,414
	Unrealised losses	1,281	115	–	1,396
Government agency bonds	Fair value	20,371	77	–	20,448
	Unrealised losses	451	5	–	456
Corporate bonds	Fair value	3,392	159	–	3,551
	Unrealised losses	203	5	–	208
Equity securities	Fair value	895	421	–	1,316
	Unrealised losses	5	2	–	7
Total temporary impaired securities	Fair value	49,011	2,718	–	51,729
	Unrealised losses	1,940	127	–	2,067

Non-trading securities have generally been identified as temporarily impaired if their amortized cost as at December 31, 2003 was greater than their fair value, resulting in an unrealised loss. Unrealised gains and losses in respect of investments designated as trading have been included in net income and have been excluded from the above table. Unrealised losses are largely due to interest rate fluctuations. Based on a review of these investment holdings, it is believed that the contractual terms of these non-trading securities will be met. A total 97 fixed maturity securities positions (5 equity securities positions) were in an unrealised loss position at December 31, 2003 of which 92 (3 equity securities positions) were in a continuous loss position for less than 6 months and 5 positions for more than 6 months but less than 12 months (2 equity securities positions).

Reconciliation of HK GAAP and United States generally accepted accounting principles ("US GAAP") *(continued)*

(e) The movement on the deferred income tax balance is as follows:

	At January 1, 2003 RMB million	Deferred taxation charged/ (credited) to profit and loss account RMB million	Arising from restructuring RMB million	Change in unrealised gains/losses of non-trading securities RMB million	At December 31, 2003 RMB million
Tax value of loss carried forward	10,082	822	(10,904)	–	–
Future life policyholder benefits and policyholder contract deposits and other funds	47,041	1,736	(45,265)	–	3,512
Provision for assets impairment	1,708	331	(2,039)	–	–
Others	1,366	(58)	(657)	469	1,120
	60,197	2,831	(58,865)	469	4,632
Less: valuation allowance	(53,801)	(1,640)	55,441	–	–
Deferred income tax assets	6,396	1,191	(3,424)	469	4,632
Deferred policy acquisition costs	(5,945)	(2,166)	–	(95)	(8,206)
Others	(451)	(66)	185	220	(112)
Deferred income tax liabilities	(6,396)	(2,232)	185	125	(8,318)
Net deferred income tax liabilities	–	(1,041)	(3,239)	594	(3,686)

Net deferred income tax assets of RMB 3,239 million were retained by CLIC on September 30, 2003 and were charged to the shareholders' equity as part of Restructuring.

Supplementary Information for ADS Holders

Reconciliation of HK GAAP and United States generally accepted accounting principles ("US GAAP") *(continued)*

(f) Recently issued accounting standards

In January 2003, the FASB issued FASB Interpretation No.46 ("FIN 46"), "Consolidation of Variable Interest Entities", an interpretation of ARB No. 51. FIN 46 provides a new framework for identifying variable interest entities ("VIEs") and determining when a company should include the assets, liabilities, noncontrolling interests and results of activities of VIEs in its consolidated financial statements. FIN 46 requires VIEs to be consolidated by a company if that company is subject to a majority of the risk of loss from the VIEs' activities or entitled to receive a majority of the entity's residual returns, or both. FIN 46 is effective immediately for VIEs created after January 31, 2003 and is effective January 1, 2004 for VIEs created prior to February 1, 2003. The Group does not expect that the adoption of FIN 46 will have a material impact on the Group's financial position or its result of operations.

In July 2003, the Accounting Standards Executive Committee ("AcSEC") issued Statement of Position ("SOP") 03-1, "Accounting and Reporting by Insurance Enterprises for Certain Non-traditional Long-Duration Contracts and for Separate Accounts." The SOP provides guidance on accounting and reporting by insurance enterprises for certain non-traditional long-duration contracts and for separate accounts. The SOP is effective for financial statements for fiscal years beginning after December 15, 2003, with earlier adoption encouraged. The SOP may not be applied retroactively to prior years' financial statements, and initial application should be as of the beginning of an entity's fiscal year. Management does not expect that the adoption of SOP 03-1 will have a material impact on the Group's financial position or its results of operations.