Notes to the Financial Statements

For the year ended December 31, 2004

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 accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants. 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:

(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.

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(a) Basis of preparation *(continued)*

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, 2004 include the results of the Transferred Business only.

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 of accumulated depreciation	6,966
Other	7,653
Total assets	141,149
Liabilities	
Future life policyholder benefits	266,046
Policyholder 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 interests	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, 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.

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.

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(d) Deferred policy acquisition costs

The costs of acquiring new and renewal business including commissions, underwriting and policy issue expenses, which vary with and are directly related to the production of new and renewal 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.

(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 judgements. The Group does not discount its claims reserves, other than for settled claims with fixed payment terms. Any changes in estimates are reflected in results of operations in the period in which estimates are changed.

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(e) Insurance losses and reserves *(continued)*

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.

Policyholder contract deposits represent the accumulation of premium received less charges.

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.

(f) Reinsurance

The Group cedes 10% (2003: 15%) insurance premiums and risk from short duration accident and health contracts to China Reinsurance (Group) 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.

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.

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(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.

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.

Investment impairment

Held-to-maturity securities and non-trading securities are adjusted for impairments, where there are declines in value that are considered to be other than temporary. In evaluating whether a decline in value is other than temporary, the Group considers several factors including, but not limited to the following: (1) the extent and the duration of the decline; (2) the reasons for the decline in value; (3) the financial condition of and near-term prospects of the issuer; and (4) the Group's ability and intent to hold the investment for a period of time to allow for a recovery of value. When decline in value is considered other than temporary, held-to-maturity securities and non-trading securities are written down to their net realised value and the charge is recorded in "Net realised investment gain/(loss) on investments" in the period the impairment is recognized.

Trading securities

Fixed maturities and liquidity securities which the Group buy 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 consolidated profit and loss accounts. Any subsequent increases are credited to the consolidated 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 accounts.

(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 consolidated balance sheet. The Group does not take physical possession of securities purchased under agreements to resell. Sales or transfers of the securities are not permitted by the respective 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.

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(k) Transactions in foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. All exchange differences are dealt with in the profit and loss account.

(l) Term deposits

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

(m) 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.

(n) 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 consolidated balance sheets.

(o) 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 specialized 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.

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(o) Property, plant and equipment *(continued)*

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

Depreciation

Depreciation is computed on a straight-line basis to write down the cost of each asset to 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	5 to 10 years
Motor vehicles	4 to 8 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)*

(p) Deferred taxation

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

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

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

(q) 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 recognised 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.

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(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.

(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.

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(u) Business risks and uncertainties *(continued)*

The Group's investments are primarily comprised of fixed maturity securities, equity securities, and securities purchased under agreements to resell. The investment strategy developed by the Group requires management to make estimates and assumptions regarding prevailing interest rates, economic conditions. Such estimates are primarily based on historical experience and future expectations of interest rate and economic conditions. 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.

(v) Recently issued accounting standards

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after January 1, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended December 31, 2004. The Group is in the process of making an assessment of the impact of these new HKFRSs.

With respect to the adoption of HKFRS 4 "Insurance Contracts", substantially all of the Group's existing products are insurance contracts or financial instruments with a discretionary participation feature as defined in HKFRS4; and therefore, the Group will continue its accounting policies and does not expect a significant impact on the Group's results and financial position as a result of adopting HKFRS4.

The Group will be continuing with the assessment of the impact of the other new HKFRSs and other significant changes may be identified as a result.

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 primarily to income and expenses in respect of the provision of the services to CLIC described in note 21 and unallocated income taxes.

(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.

3 SEGMENT INFORMATION *(continued)*

	For the year ended December 31, 2004 Individual life	Group life	Accident & health	Corporate & other	Total
	(RMB million)				
Revenues					
Gross written premiums and policy fees	54,909	742	10,606	–	66,257
Gross written premiums	50,113	344	–	–	
– Term	183	28	–	–	
– Whole	19,629	316	–	–	
– Endowment	26,511	–	–	–	
– Annuity	3,790	–	–	–	
Policy fees	4,796	398	–	–	
Net premiums earned and policy fees	54,902	742	9,364	–	65,008
Net investment income	9,986	1,137	194	–	11,317
Net realised losses on investments	(209)	(24)	(4)	–	(237)
Net unrealised losses on trading securities	(936)	(107)	(18)	–	(1,061)
Other income	–	–	–	1,779	1,779
Segment revenues	63,743	1,748	9,536	1,779	76,806
Benefits, claims and expenses					
Insurance benefits and claims					
Life insurance death and other benefits	(6,422)	(394)	–	–	(6,816)
Accident and health claims and claim adjustment expenses	–	–	(6,418)	–	(6,418)
Increase in future life policyholder benefits	(33,013)	(141)	–	–	(33,154)
Interest credited to policyholder contract deposits	(3,678)	(642)	–	–	(4,320)
Policyholder dividends and participation in profits	(1,909)	(139)	–	–	(2,048)
Amortization of deferred policy acquisition costs	(5,888)	(197)	(178)	–	(6,263)
Underwriting and policy acquisition costs	(1,038)	(13)	(421)	–	(1,472)
Administrative expenses	(3,241)	(510)	(1,231)	(1,603)	(6,585)
Other operating expenses	(51)	(8)	(20)	(52)	(131)
Statutory insurance levy	–	–	(96)	–	(96)
Segment benefits, claims and expenses	(55,240)	(2,044)	(8,364)	(1,655)	(67,303)
Segment results	8,503	(296)	1,172	124	9,503
Income tax expenses	–	–	–	(2,280)	(2,280)
Minority interests	–	–	–	(52)	(52)
Net profit/(loss)	8,503	(296)	1,172	(2,208)	7,171
Unrealised loss charged to equity	(2,715)	(309)	(53)	–	(3,077)

3 SEGMENT INFORMATION *(continued)*

	As at December 31, 2004 (RMB million)				
	Individual life	Group life	Accident & health	Corporate & other	Total
Assets					
Investments	330,800	37,676	6,414	–	374,890
Deferred policy acquisition costs	31,466	1,054	267	–	32,787
Accrued investment income	4,486	511	87	–	5,084
Segment assets	366,752	39,241	6,768	–	412,761
Unallocated					
Property, plant and equipment, net					12,250
Other assets					8,660
Total					433,671
Liabilities					
Future life policyholder benefits	116,024	1,277	–	–	117,301
Policyholder contract deposits and other funds	190,791	35,205	–	–	225,996
Unearned premium reserves	–	–	5,212	–	5,212
Reserves for claims and claim adjustment expenses	–	–	1,215	–	1,215
Segment liabilities	306,815	36,482	6,427	–	349,724
Unallocated					
Other liabilities					17,045
Total					366,769

3 SEGMENT INFORMATION *(continued)*

	Individual life	Group life	Accident & health	Corporate & other	Total
	For the year ended December 31, 2003 (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 revenues	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)
Interest credited to policyholder contract deposits	(5,029)	(2,231)	–	–	(7,260)
Policyholder dividends and participation in profits	(1,152)	(55)	–	–	(1,207)
Amortization 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 expenses on bank borrowings	–	–	–	(7)	(7)
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)
Unrealised loss charged to equity	(2,356)	(331)	(45)	–	(2,732)

Notes to the Financial Statements

For the year ended December 31, 2004

3 SEGMENT INFORMATION *(continued)*

	As at December 31, 2003				
	Individual life	Group life	Accident & health	Corporate & other	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

4 INVESTMENTS

4.1 Investment results

	Note	**2004 RMB million**	2003 RMB million
Net investment income			
Fixed maturity securities		**3,720**	2,793
Equity securities		**646**	312
Term deposits and cash and cash equivalents		**6,744**	5,543
Investment properties		**–**	58
Investment in associated companies		**–**	16
Policy loans		**11**	4
Securities purchased under agreements to resell		**253**	1,121
Other investments		**–**	10
Subtotal		**11,374**	9,857
Securities sold under agreements to repurchase		**(10)**	(7)
Investment expense		**(47)**	(25)
Total		**11,317**	9,825
Net realised (loss)/gain:			
Fixed maturity securities			
Gross realised gains		**18**	661
Gross realised losses		**(15)**	(104)
Impairment	*(i)*	**(320)**	(7)
Subtotal		**(317)**	550
Equity securities			
Gross realised gains		**97**	458
Gross realised losses		**(17)**	(140)
Impairment		**–**	–
Subtotal		**80**	318
Total		**(237)**	868
Net unrealised (loss)/gain on trading securities			
Fixed maturity securities		**11**	–
Equity securities		**(1,072)**	247
Total		**(1,061)**	247

Notes to the Financial Statements

For the year ended December 31, 2004

4 INVESTMENTS *(continued)*

4.1 Investment results *(continued)*

Note:

(i) As of December 31, 2004, the carrying value of government bonds plus the related accrued interest entrusted with Min Fa Security Limited Company ("Min Fa Security") for custody by the Company totalled RMB412 million. The government bonds entrusted in Min Fa Security are for custodian purposes only and not a part of an asset management arrangement. In order to centralize the control over these bonds, the Company has asked Min Fa Security to transfer the custodian. Min Fa Security was unable to execute the transfer and it became known that Min Fa Security is in financial difficulty. Subsequently, the China Securities and Regulatory Commission announced on October 18, 2004 that from close of business on October 18, 2004, the assets of Min Fa Security have been put into the custody of and are being operated by China Oriental Asset Management Corporation ("China Oriental"). The Company has registered its claim against Min Fa Security in January 2005.

As a result, the Company has made a provision of RMB320 million. The Company continues to take all of the above necessary steps to safeguard the Company's rights over the bonds. As of the issue date of the financial statements, except for the bonds with Min Fa Security, all other fixed maturity and equity securities are entrusted with China Life Assets Management Company Limited ("AMC"), the subsidiary of the Company.

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				
As at December 31, 2004				
Fixed maturity securities				
Government bonds	**43,871**	**109**	**(4,368)**	**39,612**
Government agency bonds	**26,645**	**231**	**(438)**	**26,438**
Corporate bonds	**4,292**	**3**	**(554)**	**3,741**
Subtotal	**74,808**	**343**	**(5,360)**	**69,791**
Equity securities				
Funds	**13,243**	**22**	**(668)**	**12,597**
Total	**88,051**	**365**	**(6,028)**	**82,388**

4 INVESTMENTS *(continued)*

4.2 Non-trading securities *(continued)*

	Cost or amortised cost *RMB million*	Gross unrealised gains *RMB million*	Gross unrealised losses *RMB million*	Estimated fair value *RMB million*
Group				
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

Fixed maturity securities – maturity schedule	**Group** Amortised cost **2004** ***RMB million***	Amortised cost 2003 *RMB million*	Estimated fair value **2004** ***RMB million***	Estimated fair value 2003 *RMB million*
Maturing:				
Within one year	**1,145**	1,652	**1,147**	1,642
After one year but within five years	**20,477**	12,949	**20,235**	13,087
After five years but within ten years	**32,923**	36,874	**30,797**	36,460
After ten years	**20,263**	20,716	**17,612**	19,415
Total	**74,808**	72,191	**69,791**	70,604

Notes to the Financial Statements

For the year ended December 31, 2004

4 INVESTMENTS *(continued)*

4.2 Non-trading securities *(continued)*

	Cost or amortised cost *RMB million*	Gross unrealised gains *RMB million*	Gross unrealised losses *RMB million*	Estimated fair value *RMB million*
Company				
As at December 31, 2004				
Fixed maturity securities				
Government bonds	**43,587**	**109**	**(4,368)**	**39,328**
Government agency bonds	**26,645**	**231**	**(438)**	**26,438**
Corporate bonds	**4,292**	**3**	**(554)**	**3,741**
Subtotal	**74,524**	**343**	**(5,360)**	**69,507**
Equity securities				
Funds	**13,243**	**22**	**(668)**	**12,597**
Total	**87,767**	**365**	**(6,028)**	**82,104**

	Cost or amortised cost *RMB million*	Gross unrealised gains *RMB million*	Gross unrealised losses *RMB million*	Estimated fair value *RMB million*
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

4 INVESTMENTS *(continued)*

4.2 Non-trading securities *(continued)*

Fixed maturity securities – maturity schedule	Company			
	Amortised cost		Estimated fair value	
	2004	2003	**2004**	2003
	RMB million	*RMB million*	***RMB million***	*RMB million*
Maturing:				
Within one year	**1,145**	1,652	**1,147**	1,642
After one year but within five years	**20,477**	12,949	**20,235**	13,087
After five years but within ten years	**32,639**	36,874	**30,513**	36,460
After ten years	**20,263**	20,716	**17,612**	19,415
Total	**74,524**	72,191	**69,507**	70,604

The proceeds from sales of non-trading securities and the gross realised gains and losses for the years ended December 31, 2004 and 2003 were as follows:

	Group	
	2004	2003
	RMB million	*RMB million*
Proceeds from sales of non-trading securities	**26,160**	40,339
Gross realised gains	**127**	919
Gross realised losses	**(32)**	(118)

4.3 Equity securities

	Group		Company	
	2004	2003	**2004**	2003
	RMB million	*RMB million*	***RMB million***	*RMB million*
Funds	**17,271**	10,718	**17,271**	10,718
Total	**17,271**	10,718	**17,271**	10,718

Notes to the Financial Statements

For the year ended December 31, 2004

4 INVESTMENTS *(continued)*

4.4 Held-to-maturity 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, 2004				
Fixed maturity securities				
Government bonds	**52,512**	**68**	**(146)**	**52,434**
Government agency bonds	**24,377**	**214**	**(87)**	**24,504**
Corporate bonds	**2,714**	**86**	**(18)**	**2,782**
Total	**79,603**	**368**	**(251)**	**79,720**

Fixed maturity securities – maturity schedule	**Group and Company**			
	Amortised cost		**Estimated fair value**	
	2004 *RMB million*	2003 *RMB million*	**2004** *RMB million*	2003 *RMB million*
Maturing:				
After one year but within five years	**31,010**	–	**30,948**	–
After five years but within ten years	**42,832**	–	**43,071**	–
After ten years	**5,761**	–	**5,701**	–
Total	**79,603**	–	**79,720**	–

4 INVESTMENTS *(continued)*

4.5 Listed and unlisted investments at carrying value

	2004 **_RMB million_**	2003 *RMB million*
Group		
Listed fixed maturity securities in PRC		
Government bonds	**45,232**	30,378
Government agency bonds	**–**	–
Corporate bonds	**2,954**	3,510
Subtotal	**48,186**	33,888
Unlisted fixed maturity securities		
Government bonds	**47,732**	9,098
Government agency bonds	**31,380**	26,835
Corporate bonds	**3,501**	783
Subordinated debt	**19,435**	–
Subtotal	**102,048**	36,716
Listed equity securities in PRC		
Funds	**4,674**	5,168
Unlisted equity securities		
Funds	**12,597**	5,550
Total	**167,505**	81,322

As of December 31, 2004, the amount of unlisted fixed maturity securities, contracted in the over-the-counter market, is RMB84,025 million. (2003: RMB36,329 million).

Notes to the Financial Statements

For the year ended December 31, 2004

4 INVESTMENTS *(continued)*

4.5 Listed and unlisted investments at carrying value *(continued)*

	2004 **RMB million**	2003 RMB million
Company		
Listed fixed maturity securities in PRC		
Government bonds	**44,948**	30,378
Government agency bonds	**–**	–
Corporate bonds	**2,954**	3,510
Subtotal	**47,902**	33,888
Unlisted fixed maturity securities		
Government bonds	**47,732**	9,098
Government agency bonds	**31,380**	26,835
Corporate bonds	**3,501**	783
Subordinated debt	**19,435**	–
Subtotal	**102,048**	36,716
Listed equity securities in PRC		
Funds	**4,674**	5,168
Unlisted equity securities		
Funds	**12,597**	5,550
Total	**167,221**	81,322

4 INVESTMENTS *(continued)*

4.6 Term deposits

	Group		Company	
	2004	2003	**2004**	2003
	RMB million	*RMB million*	***RMB million***	*RMB million*
Maturing:				
Within one year	**7,805**	2,349	**7,805**	2,349
After one year but within five years	**146,293**	121,443	**146,293**	121,443
After five years but within ten years	**17,503**	12,400	**17,503**	12,400
After ten years	**3,897**	1,000	**3,897**	1,000
Total	**175,498**	137,192	**175,498**	137,192

Included in term deposits are structured deposits of RMB4,800 million (2003: Nil). The interest rate on these deposits fluctuates based on changes in interest rate indexes. The Group uses structured deposits primarily to enhance the returns on investments. Structured deposits are stated at amortized cost at the balance sheet date.

4.7 Statutory deposits – restricted

	Group		Company	
	2004	2003	**2004**	2003
	RMB million	*RMB million*	***RMB million***	*RMB million*
Maturing:				
Within one year	**–**	600	**–**	600
After one year but within five years	**4,000**	3,400	**4,000**	3,400
Total	**4,000**	4,000	**4,000**	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, 2004 and 2003 correspond to RMB20,000 million share capital at the time the Company was established (see note 1). The additional share capital raised from the initial public offering in December 2003 was subject to statutory verification, which was completed in March 2005. The additional statutory deposit of RMB1,353 million will be made in 2005.

4 INVESTMENTS *(continued)*

4.8 Securities purchased under agreements to resell

	Group		Company	
	2004	2003	**2004**	2003
	RMB million	*RMB million*	***RMB million***	*RMB million*
Maturing:				
Within 30 days	**79**	3,672	**79**	3,672
After 30 days but within 90 days	**200**	5,229	**200**	5,229
Over 90 days	**–**	5,101	**–**	5,101
Total	**279**	14,002	**279**	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 (excluding structured deposits), and securities purchased or sold under agreements to resell or repurchase: the carrying amounts of these assets in the balance sheet approximate fair values.

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

– 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.

– Policy 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.

5 FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

	Total fair value	
	2004	2003
	RMB million	*RMB million*
Fixed maturity securities	**150,351**	70,604
Equity securities	**17,271**	10,718
Term deposits (excluding structured deposits)	**170,698**	137,192
Structured deposits	**4,789**	–
Securities purchased under agreements to resell	**279**	14,002
Policy loans	**391**	116
Cash and cash equivalents	**27,217**	42,616
Policyholder contract deposits and other funds	**(204,205)**	(132,998)
Securities sold under agreements to repurchase	**–**	(6,448)

	Total carrying value	
	2004	2003
	RMB million	*RMB million*
Fixed maturity securities	**150,234**	70,604
Equity securities	**17,271**	10,718
Term deposits (excluding structured deposits)	**170,698**	137,192
Structured deposits	**4,800**	–
Securities purchased under agreements to resell	**279**	14,002
Policy loans	**391**	116
Cash and cash equivalents	**27,217**	42,616
Policyholder contract deposits and other funds	**(225,996)**	(154,731)
Securities sold under agreements to repurchase	**–**	(6,448)

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.

5 FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

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.

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 2004 RMB million	2003 RMB million
Gross		
At January 1	**25,164**	18,411
Acquisition costs deferred	**13,672**	11,818
Amortisation charged to income	**(6,559)**	(5,350)
Unrealised losses on investments	**704**	285
At December 31	**32,981**	25,164
Ceded		
At January 1	**(296)**	(327)
Acquisition costs deferred	**(194)**	(296)
Amortisation charged to income	**296**	327
At December 31	**(194)**	(296)
Net		
At January 1	**24,868**	18,084
Acquisition costs deferred	**13,478**	11,522
Amortisation charged to income	**(6,263)**	(5,023)
Unrealised losses on investments	**704**	285
At December 31	**32,787**	24,868

6 DEFERRED POLICY ACQUISITION COSTS *(continued)*

	Company	
	2004	2003
	RMB million	*RMB million*
Gross		
At January 1 (2004)/July 1 (2003)	**25,164**	21,599
Acquisition costs deferred	**13,672**	5,839
Amortisation charged to income	**(6,559)**	(2,534)
Unrealised losses on investments	**704**	260
At December 31	**32,981**	25,164
Ceded		
At January 1 (2004)/July 1 (2003)	**(296)**	(317)
Acquisition costs deferred	**(194)**	(138)
Amortisation charged to income	**296**	159
At December 31	**(194)**	(296)
Net		
At January 1 (2004)/July 1 (2003)	**24,868**	21,282
Acquisition costs deferred	**13,478**	5,701
Amortisation charged to income	**(6,263)**	(2,375)
Unrealised losses on investments	**704**	260
At December 31	**32,787**	24,868

7 REINSURANCE ASSETS

	Group		Company	
	2004	2003	**2004**	2003
	RMB million	*RMB million*	***RMB million***	*RMB million*
Ceded unearned premiums	**571**	807	**571**	807
Claims recoverable from reinsurers	**136**	122	**136**	122
Due from reinsurance companies	**590**	68	**590**	68
Total	**1,297**	997	**1,297**	997

8 PROPERTY, PLANT AND EQUIPMENT

Group

	2004						2003
	Buildings	Office equipment, furniture and fixtures	Motor vehicles	Assets under construction	Leasehold improvements	Total	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Cost or deemed cost							
At January 1	11,018	1,868	1,689	1,101	153	15,829	23,337
Additions	48	443	77	477	18	1,063	2,285
Disposals	(164)	(15)	(44)	–	(45)	(268)	(715)
Revaluation	–	–	–	–	–	–	(181)
Derecognition *(see note 2(a))*	–	–	–	–	–	–	(8,897)
Transfer upon completion	767	8	–	(775)	–	–	–
At December 31	11,669	2,304	1,722	803	126	16,624	15,829
Accumulated depreciation and impairment							
At January 1	(1,674)	(992)	(1,100)	–	(55)	(3,821)	(4,880)
Charges for the year	(208)	(311)	(155)	–	(72)	(746)	(1,144)
Impairment loss	(3)	–	–	–	–	(3)	(93)
Disposals	97	14	41	–	44	196	365
Derecognition *(note 2(a))*	–	–	–	–	–	–	1,931
At December 31	(1,788)	(1,289)	(1,214)	–	(83)	(4,374)	(3,821)
Net book value							
At December 31, 2004	9,881	1,015	508	803	43	12,250	
At December 31, 2003	9,344	876	589	1,101	98	12,008	

As at December 31, 2004, the Company was in the process of effecting transfer of title from CLIC of certain properties, with a total net book value at that date of RMB404 million. The Company is entitled to the full use of these assets under the agreements with CLIC, 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.

8 PROPERTY, PLANT AND EQUIPMENT *(continued)*

Company

	2004						2003
	Buildings	**Office equipment, furniture and fixtures**	**Motor vehicles**	**Assets under construction**	**Leasehold improvements**	**Total**	Total
	RMB million	***RMB million***	***RMB million***	***RMB million***	***RMB million***	***RMB million***	*RMB million*
Cost or deemed cost							
At January 1 (2004)/July 1 (2003)	**11,018**	**1,864**	**1,689**	**1,101**	**153**	**15,825**	15,161
Additions	**48**	**442**	**75**	**477**	**18**	**1,060**	820
Disposals	**(164)**	**(15)**	**(44)**	**–**	**(45)**	**(268)**	(156)
Transfer upon completion	**767**	**8**	**–**	**(775)**	**–**	**–**	–
At December 31	**11,669**	**2,299**	**1,720**	**803**	**126**	**16,617**	15,825
Accumulated depreciation and impairment							
At January 1 (2004)/July 1 (2003)	**(1,674)**	**(992)**	**(1,100)**	**–**	**(55)**	**(3,821)**	(3,522)
Charges for the year	**(208)**	**(309)**	**(155)**	**–**	**(72)**	**(744)**	(404)
Impairment loss	**(3)**	**–**	**–**	**–**	**–**	**(3)**	–
Disposals	**97**	**14**	**41**	**–**	**44**	**196**	105
At December 31	**(1,788)**	**(1,287)**	**(1,214)**	**–**	**(83)**	**(4,372)**	(3,821)
Net book value							
At December 31, 2004	**9,881**	**1,012**	**506**	**803**	**43**	**12,245**	
At December 31, 2003	9,344	872	589	1,101	98	12,004	

9 ACCRUED INVESTMENT INCOME

	Group		Company	
	2004	2003	**2004**	2003
	RMB million	*RMB million*	***RMB million***	*RMB million*
Accrued interest income				
– Term deposits	**2,843**	1,940	**2,843**	1,940
– Fixed maturities	**2,203**	901	**2,199**	901
– Others	**38**	34	**38**	34
Total	**5,084**	2,875	**5,080**	2,875

10 PREMIUMS RECEIVABLES

The aging of premiums receivable is within 2 months.

11 OTHER

	Group		Company	
	2004	2003	**2004**	2003
	RMB million	*RMB million*	***RMB million***	*RMB million*
Receivable for fund units redeemed	**1,500**	4,784	**1,500**	4,784
Due from CLIC	**1,387**	742	**1,379**	742
Deposits	**113**	150	**113**	150
Long-term deferred expenses	**65**	32	**65**	32
Advances	**34**	31	**34**	31
Others	**352**	184	**339**	177
Total	**3,451**	5,923	**3,430**	5,916

Notes to the Financial Statements

For the year ended December 31, 2004

12 BENEFITS, CLAIMS AND EXPENSES

	Gross *RMB million*	Ceded *RMB million*	Net *RMB million*
For the year ended December 31, 2004			
Accident and health claims and claim adjustment expenses	**7,469**	**(1,051)**	**6,418**
Life insurance death and other benefits	**6,816**	**–**	**6,816**
Increase in future life policyholder benefits	**33,154**	**–**	**33,154**
Total insurance benefits and claims	**47,439**	**(1,051)**	**46,388**
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

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 based on 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 based our accounting policy on the US standard. These estimates are based on the following assumptions:

(i) Interest rates are based on estimates of future yields on the Company’s investments. 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. Assumed interest rates in future years reflect increased investment in higher yielding securities, including corporate bonds, longer duration securities and equity securities. The discount rates and provision for adverse deviation used are as follows:

Policies issued	Discount rate	Provision for adverse deviation
Prior to 2003	3.8%-5.0%	0.25%-0.5%
2003	3.65%-5.0%	0.25%-0.5%
2004	3.7%-5.17%	0.25%-0.5%

(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.

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.

13 INSURANCE RESERVES *(continued)*

(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 include a fixed per-policy expense and a variable per-policy expense based on the estimated expense rates of premiums used as follows:

	Individual life	Group life
Prior to 2003	2%	2%
2003	1.75%	1.75%
2004	1.65%-2.55%	1.65%

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, based on 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.

Participating policies for the year ended December 31, 2004 represented approximately 47% and 47% of gross and net life insurance premiums and policy fees, respectively (2003: 44% and 44%). The net investment income and realised gains related to participating business for the year ended 2004 is RMB7,329 million (2003: RMB4,175 million).

13 INSURANCE RESERVES *(continued)*

Reserves for claims and claim adjustment expenses were as follows:

	Group	
	2004	2003
	RMB million	*RMB million*
At January 1		
Net reserves for claims and claim adjustment expenses	**692**	703
Add: Reinsurance recoverable	**122**	176
Gross reserves for claims and claim adjustment expenses	**814**	879
Gross claims and claim adjustment expenses incurred	**7,469**	5,744
Gross claims and claim adjustment expenses paid	**(7,068)**	(5,809)
At December 31		
Gross reserves for claims and claim adjustment expenses	**1,215**	814
Less: Reinsurance recoverable	**(136)**	(122)
Net reserves for claims and claim adjustment expenses	**1,079**	692

	Company	
	2004	2003
	RMB million	*RMB million*
At January 1 (2004)/July 1 (2003)		
Net reserves for claims and claim adjustment expenses	**692**	703
Add: Reinsurance recoverable	**122**	176
Gross reserves for claims and claim adjustment expenses	**814**	879
Gross claims and claim adjustment expenses incurred	**7,469**	5,744
Gross claims and claim adjustment expenses paid	**(7,068)**	(5,809)
At December 31		
Gross reserves for claims and claim adjustment expenses	**1,215**	814
Less: Reinsurance recoverable	**(136)**	(122)
Net reserves for claims and claim adjustment expenses	**1,079**	692

13 INSURANCE RESERVES *(continued)*

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

	2004 **RMB million**	2003 *RMB million*
Claims incurred – net	**6,418**	4,882
Claims incurred ratio	**69%**	60%

Claims and claim adjustment expenses

	2004 ***RMB million***
Notified claims	**467**
Incurred but not reported	**347**
Total at beginning of year-Gross	**814**
Cash paid for claims settled in year	
– Cash paid for current year claims	**(5,961)**
– Cash paid for prior year claims	**(1,107)**
Claims incurred in 2004	
– Claims arising in 2004	**7,132**
– Claims arising prior to 2004	**337**
Total at end of year – Gross	**1,215**
Notified claims	**651**
Incurred but not reported	**564**
Total at end of year – Gross	**1,215**

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	
	2004	2003	**2004**	2003
	RMB million	*RMB million*	***RMB million***	*RMB million*
Fixed maturities pledged	**–**	6,448	**–**	6,448

15 OTHER LIABILITIES

		Group		Company	
		2004	2003	**2004**	2003
		RMB million	*RMB million*	***RMB million***	*RMB million*
Reserve for commission and expenses		**958**	1,071	**958**	1,071
Staff welfare payable		**864**	672	**862**	672
Salary payable		**658**	726	**645**	726
Agent deposits		**478**	486	**478**	486
Payable for investment purchased		**291**	–	**291**	–
Payable to constructors		**217**	124	**217**	124
Advance from employees		**208**	57	**208**	57
Tax payable		**197**	375	**170**	375
Regulatory fee payable		**107**	88	**107**	88
Trade union outlays and education outlays payable		**86**	77	**86**	85
Insurance payable		**67**	15	**67**	15
Payable to State Social Security Fund	*(a)*	**–**	2,472	**–**	2,472
Others		**829**	728	**848**	708
Total		**4,960**	6,891	**4,937**	6,879

(a) As part of the initial public offering of the Company's shares, CLIC also sold some of its holdings in the Company to public investors. The proceeds from CLIC's sale, net of listing expenses amounting to RMB2,472 million was remitted to the Company and is payable to the State Social Security Fund in accordance with rules issued by the State Council in June 2001. The amount was settled in November 2004.

16 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.

17 PROFIT/(LOSS) BEFORE INCOME TAX EXPENSES AND MINORITY INTERESTS

Profit/(loss) before taxation is stated after charging the following:

	2004	2003
	RMB million	*RMB million*
Staff costs		
Wages and salary	**2,827**	2,879
Housing benefits	**199**	139
Contribution to the defined contribution pension plan	**295**	122
Depreciation – owned property, plant and equipment	**746**	1,144
Loss on disposal of property, plant and equipment	**5**	124
Deficit on revaluation of investment properties	**–**	181
Auditors' remuneration	**32**	17

18 TAXATION

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

	2004	2003
	RMB million	*RMB million*
Current taxation – Enterprises income tax	**79**	139
Deferred taxation	**2,201**	1,041
Taxation charges	**2,280**	1,180

18 TAXATION *(continued)*

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

	2004 RMB million	2003 RMB million
Profit/(loss) before income tax expenses and minority interests	**9,503**	(263)
Tax computed at the statutory tax rate of 33%	**3,136**	(87)
Non-taxable income	**(923)**	(183)
Expenses not deductible for tax purposes	**67**	628
Unrecognised deferred tax assets	**–**	822
Income taxes at effective tax rate	**2,280**	1,180

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

(c) At December 31, 2004, 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	
	2004 RMB million	2003 RMB million
At January 1	**3,686**	–
Deferred taxation charged to profit and loss account	**2,201**	1,041
Taxation charged to equity		
– change in unrealised losses of non-trading securities, deferred policy acquisition costs, and future life policyholder benefits	**(1,516)**	(594)
– arising from the Restructuring	**–**	3,239
At December 31	**4,371**	3,686

Notes to the Financial Statements

For the year ended December 31, 2004

18 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 assets	Future policyholder benefits and policyholder contract deposit and other funds	Revaluation surplus	Unearned premium reserve	Unrealised loss	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*	*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
At January 1, 2004	3,512	534	117	469	4,632
(Charged)/credited to profit and loss account	63	(18)	(174)	–	(129)
Charged to equity	348	–	–	1,400	1,748
At December 31, 2004	3,923	516	(57)	1,869	6,251

18 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: *(continued)*

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)
At January 1, 2004	(8,206)	(112)	(8,318)
Charged to profit and loss account	(2,381)	309	(2,072)
Charged to equity	(232)	–	(232)
At December 31, 2004	(10,819)	197	(10,622)

	2004 ***RMB million***	2003 *RMB million*
Deferred tax assets	**6,251**	4,632
Deferred tax liabilities	**(10,622)**	(8,318)
	(4,371)	(3,686)

19 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of RMB7,093 million (2003: RMB2,752 million).

20 EARNINGS/(LOSSES) PER SHARE

There is no difference between basic and diluted earnings/(losses) per share. The basic and diluted earnings per share for the year ended December 31, 2004 is based on the weighted average number of 26,764,705,000 (2003: 20,249,798,526) ordinary shares in issue during the year.

For the purpose of earnings/(losses) per share computations, the Company's issuance of 20,000 million shares to CLIC is given retroactive treatment and considered outstanding for 2003.

21 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, 2004:

Significant related party	**Relationship with the Company**
China Life Insurance (Group) 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, 2004.

	Note	**2004** **RMB million**	2003 *RMB million*
Transaction with CLIC			
Policy management fee income receivable from CLIC	*(i)*	**1,667**	953
Asset management fee receivable from CLIC	*(ii)*	**73**	26
Non-performing assets management fee receivable from CLIC	*(iii)*	**13**	–
Property leasing expense payable to CLIC	*(iv)*	**335**	169
Transaction with AMC			
Asset Management fee expense paid to AMC by the Company	*(ii)*	**139**	8

21 SIGNIFICANT RELATED PARTY TRANSACTIONS *(continued)*

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

Note:

(i) As part of the Restructuring, CLIC transferred its entire branch services network to the Company. CLIC and the Company have entered into a Policy Management Agreement on 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 RMB8 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, 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.

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

(iv) 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 the Group.

21 SIGNIFICANT RELATED PARTY TRANSACTIONS *(continued)*

(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 bearing, unsecured and has no fixed repayment terms.

	2004 **_RMB million_**	2003 *RMB million*
Due from CLIC	**1,387**	1,668
Due to CLIC	**(52)**	(926)
Other liabilities due to Zhongbaoxin Real Estate Development Co., Ltd.	**(35)**	(112)

22 SHARE CAPITAL

		Registered, issued and fully paid ordinary shares of RMB1 each	
		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
At December 31, 2004		26,764,705,000	26,765

(a) On June 30, 2003, 20,000,000,000 shares of RMB1 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 RMB1 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 RMB1 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 RMB24,707 million. The resulting share premium amounted to approximately RMB17,942 million.

23 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, 2003	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 reserve	–	–	27	26	53
Capital contribution by CLIC	16,721	637	–	–	17,358
At December 31, 2003	34,776	(778)	27	26	34,051
Unrealised loss, net of tax	–	(3,077)	–	–	(3,077)
Appropriation to statutory reserve	–	–	299	300	599
At December 31, 2004	34,776	(3,855)	326	326	31,573
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 reserve	–	–	27	26	53
At December 31, 2003	33,697	(778)	27	26	32,972
Unrealised loss, net of tax	–	(3,077)	–	–	(3,077)
Appropriation to statutory reserve	–	–	292	292	584
At December 31, 2004	33,697	(3,855)	319	318	30,479

Under Chinese law, dividends may be paid only out of distributable profits. Distributable profits means the Group's after-tax profits as determined under PRC GAAP or Hong Kong GAAP, whichever is lower, less any recovery of accumulated losses and allocations to statutory funds that 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 RMB2,547 million for the year ended December 31, 2004.

24 CONTINGENCIES

The following is a summary of the significant contingent liabilities:

	Group		Company	
	2004	2003	**2004**	2003
	RMB million	*RMB million*	***RMB million***	*RMB million*
Pending lawsuits	**22**	45	**22**	45

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

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

25 COMMITMENTS

(a) Capital commitments for property, plant and equipment

	Group		Company	
	2004	2003	**2004**	2003
	RMB million	*RMB million*	***RMB million***	*RMB million*
Contracted but not provided for	**290**	239	**290**	239

(b) Operating lease commitments

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

	Group		Company	
	2004	2003	**2004**	2003
	RMB million	*RMB million*	***RMB million***	*RMB million*
Land and buildings				
Not later than one year	**338**	335	**338**	335
Later than one year but not later than five years	**4**	670	**4**	670
Later than five years	**–**	–	**–**	–

The operating lease payments charged to the profit and loss account for the year ended December 31, 2004 was RMB400 million (2003: RMB299 million).

26 INVESTMENT IN SUBSIDIARY

Company

	2004	2003
	RMB million	*RMB million*
Unlisted investment at cost	**480**	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%

Notes to the Financial Statements

For the year ended December 31, 2004

27 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:

	2004	2003
	RMB	*RMB*
Fees	**440,000**	163,224
Other emoluments for executive directors		
– Basic salaries, housing allowances and other allowances and benefits in kind	**2,050,000**	901,726

Directors' fees disclosed above include RMB440,000 (2003: 163,224) 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, 2004.

The emoluments of the directors were within the following bands:

	Number of directors	
	2004	2003
Nil-RMB1,000,000	**8**	4
RMB1,000,000-RMB1,500,000	**1**	–

27 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 (2003: two) directors whose emoluments are reflected in the analysis presented above.

Details of remuneration of the remaining three (2003: three) highest paid individuals are as follows:

	2004	2003
	RMB	*RMB*
Fees	**–**	–
Basic salaries, housing allowances, and other allowances and benefits in kind	**2,670,000**	1,232,513
	2,670,000	1,232,513

The emoluments fell within the following bands:

	Number of individuals	
	2004	2003
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.

28 ULTIMATE HOLDING COMPANY

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

29 APPROVAL OF FINANCIAL INFORMATION

The financial information was approved by the board of directors on April 18, 2005.