

SUPPLEMENTARY INFORMATION FOR ADS HOLDERS

FOR THE YEAR ENDED 31 DECEMBER 2005

RECONCILIATION OF HKFRS AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (“US GAAP”)

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

There are no material differences between HKFRS and US GAAP that had an effect on shareholders’ equity as at December 31, 2005 and 2004 and net profit for the years then ended.

Property, plant, and equipment

Certain property, plant and equipment on hand as of 1 January 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 1 January 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 1 January 2000 have been carried forward as the deemed cost.

(b) Statutory Information

	As at 31 December	
	2005	2004
	RMB million	RMB million
Actual solvency	59,561	54,456
Minimum solvency	21,782	17,264
Solvency ratio	273%	315%

According to Article 2003.1 issued by the CIRC, all insurance companies have to report their actual solvency (i.e. admitted statutory capital and surplus) to the CIRC at the end of each fiscal year. The solvency ratio is computed by dividing the actual solvency by the minimum solvency (i.e. minimum statutory capital and surplus necessary to satisfy regulatory requirement). CIRC will closely monitor those insurance companies with solvency 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 (continued)

FOR THE YEAR ENDED 31 DECEMBER 2005

RECONCILIATION OF HKFRS AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("US GAAP") (continued)

(c) Disclosures about available-for-sale securities/non-trading securities in an unrealised loss position

		As at 31 December 2005			
			More than 6 months but		
		Less than 6 months	less than 12 months	More than 12 months	Total
		RMB million	RMB million	RMB million	RMB million
Debt securities					
Government Bonds	Fair value	12,861	–	6,874	19,735
	Unrealised losses	(236)	–	(179)	(415)
Government agency bonds	Fair value	16,008	–	1,871	17,879
	Unrealised losses	(385)	–	(73)	(458)
Corporate Bonds	Fair value	75	17	775	867
	Unrealised losses	(4)	(1)	(9)	(14)
Subordinated Bonds/debts	Fair value	291	–	–	291
	Unrealised losses	(22)	–	–	(22)
Equity securities					
	Fair value	3,267	1,696	–	4,963
	Unrealised losses	(58)	(95)	–	(153)
Total temporarily impaired securities					
	Fair value	32,502	1,713	9,520	43,735
	Unrealised losses	(705)	(96)	(261)	(1,062)

SUPPLEMENTARY INFORMATION FOR ADS HOLDERS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2005

RECONCILIATION OF HKFRS AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("US GAAP") (continued)

(c) Disclosures about available-for-sale securities/non-trading securities in an unrealised loss position (continued)

		As at 31 December 2004			
		Less than	More than	More than	Total
		6 months	6 months but	12 months	
		RMB million	less than	RMB million	RMB million
			12 months	RMB million	
Debt securities					
Government Bonds	Fair value	8,113	4,250	21,122	33,485
	Unrealised losses	(626)	(327)	(3,415)	(4,368)
Government agency bonds	Fair value	12,390	5,149	2,312	19,851
	Unrealised losses	(213)	(148)	(77)	(438)
Corporate Bonds	Fair value	514	384	2,739	3,637
	Unrealised losses	(19)	(67)	(468)	(554)
Equity securities					
	Fair value	7,802	2,726	-	10,528
	Unrealised losses	(291)	(377)	-	(668)
Total temporarily impaired securities					
	Fair value	28,819	12,509	26,173	67,501
	Unrealised losses	(1,149)	(919)	(3,960)	(6,028)

SUPPLEMENTARY INFORMATION FOR ADS HOLDERS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2005

RECONCILIATION OF HKFRS AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("US GAAP") (continued)

(c) **Disclosures about available-for-sale securities/non-trading securities in an unrealised loss position (continued)**

Available-for-sale securities/Non-trading securities have generally been identified as temporarily impaired if their amortised cost as at 31 December 2005 was greater than their fair value, resulting in an unrealised loss. Unrealised gains and losses in respect of investments designated as financial assets at fair value through income/trading securities have been included in net income and have been excluded from the above table. Unrealised losses from debt securities are largely due to interest rate fluctuations. Based on a review of these financial assets, it is believed that the contractual terms of these available-for-sale securities/Non-trading securities will be met. A total 39 debt securities positions and 33 equity securities positions were in an unrealised loss position at 31 December 2005 of which 32 debt securities and 18 equity securities positions were in a continuous loss position for less than 6 months, 1 debt securities position and 15 equity securities positions for more than 6 months but less than 12 months and 10 debt securities positions for more than 12 months.

(d) **Comprehensive incomes/(losses)**

	2005 RMB million	2004 RMB million
Net profit attributable to shareholders of the Company	9,306	7,171
Total other comprehensive incomes/(losses), unrealised gains/losses, net of tax (Note 30 to the consolidated financial statements)	4,542	(3,077)
Total comprehensive incomes	13,848	4,094

RECONCILIATION OF HKFRS AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (“US GAAP”) (continued)

(e) Recently issued accounting standards

In May 2005, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standard (“SFAS”) No.154 “Accounting Changes and Error Corrections”. SFAS No.154 replaces APB Opinion No.20, Accounting Changes, and FASB Statement No.3, Reporting Accounting Changes in Interim Financial Statements, and changes the requirements for the accounting for and reporting of a change in accounting principle. The statement establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. Effective for accounting changes and corrections of errors made in fiscal years beginning after 15 December 2005. The Group is required to adopt SFAS No.154 in the fiscal year beginning 1 January 2006. The Group considered the effects of adoption SFAS No.154 does not have material impact on its financial statements.

In September 2005, the Accounting Standards Executive Committee (“AcSEC”) of the American Institute of Certified Public Accountants (“AICPA”) issued Statement of Position (“SOP”) 05-1, “Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection With Modifications or Exchanges of Insurance Contracts.” SOP 05-1 provides guidance on accounting by insurance enterprises for deferred acquisition costs on internal replacements of insurance and investment contracts other than those specifically described in SFAS No. 97. The SOP defines an internal replacement as a modification in product benefits, features, rights, or coverages that occurs by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. This SOP is effective for internal replacements occurring in fiscal years beginning after 15 December 2006. The Group will adopt SOP 05-1 on 1 January 2007. The Group is currently assessing the impact of SOP 05-1 on the Group’s consolidated financial position and results of operations.

In November 2005, the FASB issued FASB Staff Position (“FSP”) SFAS No.115-1/124-1, “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments”. The FSP nullifies the accounting guidance relating to the recognition of investment portfolio other-than-temporary impairments of EITF 03-01, “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments”; carries forward the disclosure requirements included in the EITF 03-01 and references existing other-than-temporary impairment guidance including SFAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities. The FSP is effective 1 January 2006 and is not expected to have a material impact on the Group’s financial statement.