

Supplementary

information for ADS holders

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. There are no material differences between HKFRS and US GAAP that had an effect on net profit for the years ended 31 December 2006 and 2005 and shareholders' equity as at 31 December 2006 and 2005.

(b) Statutory Information

	As at 31 December	
	2006	2005
	RMB million	RMB million
Actual solvency margin	96,297	59,561
Minimum solvency margin	27,549	21,782
Solvency ratio	350%	273%

According to CIRC Order [2003] No.1, all insurance companies have to report their actual solvency margin (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 margin by the minimum solvency margin (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.

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

		As at 31 December 2006			
		Less than 6 months	More than 6 months but less than 12 months	More than 12 months	Total
		RMB million	RMB million	RMB million	RMB million
Debt securities					
Government bonds	Fair value	22,050	1,198	7,149	30,397
	Unrealised losses	(362)	(15)	(192)	(569)
Government agency bonds	Fair value	15,471	1,265	1,497	18,233
	Unrealised losses	(180)	(41)	(22)	(243)
Corporate bonds	Fair value	13,502	6,605	566	20,673
	Unrealised losses	(240)	(234)	(13)	(487)
Subordinate bonds/debts	Fair value	2,329	–	–	2,329
	Unrealised losses	(37)	–	–	(37)
Equity securities	Fair value	1,273	–	–	1,273
	Unrealised losses	(136)	–	–	(136)
Total temporarily impaired securities	Fair value	<u>54,625</u>	<u>9,068</u>	<u>9,212</u>	<u>72,905</u>
	Unrealised losses	<u>(955)</u>	<u>(290)</u>	<u>(227)</u>	<u>(1,472)</u>

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

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

		As at 31 December 2005			
		Less than 6 months	6 months but 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)
Subordinate 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	<u>32,502</u>	<u>1,713</u>	<u>9,520</u>	<u>43,735</u>
	Unrealised losses	<u>(705)</u>	<u>(96)</u>	<u>(261)</u>	<u>(1,062)</u>

Available-for-sale securities have generally been identified as temporarily impaired if their amortised cost as at 31 December 2006 was greater than their fair value, resulting in an unrealised loss. Unrealised losses in respect of financial assets at fair value through income 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 will be met. A total 163 debt securities positions and 23 equity securities positions were in an unrealised loss position at 31 December 2006 of which 130 debt securities and 23 equity securities positions were in a continuous loss position for less than 6 months, 74 debt securities position for more than 6 months but less than 12 months and 16 debt securities positions for more than 12 months.

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

(d) Comprehensive income

	2006 RMB million	2005 RMB million
Net profit attributable to shareholders of the Company	19,956	9,306
Total other comprehensive income, unrealised gains, net of tax (Note 32 to the consolidated financial statements)	12,859	4,542
Total comprehensive income	32,815	13,848

(e) Recently issued US accounting standards

On 19 September 2005, the AICPA issued Statement of Position 05-1, “Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts” (SOP 05-1). SOP 05-1 provides guidance on accounting for DAC on internal replacements of insurance and investment contracts other than those specifically described in FAS 97. SOP 05-1 defines an internal replacement as a modification in product benefits, features, rights, or coverage 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. SOP 05-1 is effective for the Group’s fiscal year ending 31 December 2007. The Group is currently assessing the impact of SOP05-1 on the Group’s consolidated financial position and results of operations.

On 16 February 2006, the FASB issued FAS 155, “Accounting for Certain Hybrid Financial Instruments” (FAS 155), an amendment of FAS 140 and FAS 133. FAS 155 allows the Group to include changes in fair value in earnings on an instrument-by-instrument basis for any hybrid financial instrument that contains an embedded derivative that would otherwise be required to be bifurcated and accounted for separately under FAS 133. FAS 155 is effective for the Group’s fiscal year ending 31 December 2007. The Group considered the effects of adopting FAS 155 and does not expect it to have a material impact on its consolidated financial statements.

On 13 July 2006, the FASB issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109” (FIN 48), which clarifies the accounting for uncertainty in income tax positions. FIN 48 prescribes a recognition threshold and measurement attributable for the financial statement recognition and measurement of an income tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, and additional disclosures. The cumulative effect of adopting FIN 48 is to be recorded as an adjustment to opening retained earnings in the period of adoption. FIN 48 is effective for the Group’s fiscal year ending December 31, 2007. The Group is currently assessing the impact of FIN 48 on the Group’s consolidated financial position and results of operations.

In September 2006, the FASB issued FAS 157. “Fair Value Measurements” (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 is effective for financial statements issued for accounting periods beginning on or after 15 November 2007. The Group is currently assessing the impact of FAS 157 on the Group’s consolidated financial position and results of operations.

In February 2007, the FASB issued FAS 159. “The Fair Value Option for Financial Assets and Financial Liabilities” (FAS 159). FAS 159 permits entities to choose to measure at fair value many financial instruments and certain other items that are not currently required to be measured at fair value. Subsequent changes in fair value for designated items will be required to be reported in earnings in the current period. FAS 159 also establishes presentation and disclosure requirements for similar types of assets and liabilities measured at fair value. FAS 159 is effective for financial statements issued for accounting periods beginning on or after 15 November 2007. The Group is currently assessing the impact of FAS 159 on the Group’s consolidated financial position and results of operations.