

Consolidated Financial Statement

Consolidated Profit and Loss Account

(All amounts expressed in millions of RMB unless otherwise stated.)

Group

	Note	For the year ended 31 December	
		2005	2004
Interest income		49,680	38,352
Interest expense		(18,089)	(13,160)
Net interest income	4	31,591	25,192
Fee and commission income		2,544	1,996
Fee and commission expense		(435)	(321)
Net fee and commission income		2,109	1,675
Dividend income	5	45	55
Gains less losses arising from trading activities	6	420	325
Gains less losses arising from de-recognition of investment securities	19	359	77
Other operating income	7	629	633
Impairment losses on loans and advances	8	(4,298)	(3,215)
Other operating expenses	9	(18,012)	(16,992)
Operating profit before tax		12,843	7,750
Income tax	12	(3,600)	(6,146)
Net profit for the year		9,243	1,604
Attributable to:			
Shareholders of the Bank		9,249	1,604
Minority interest	31	(6)	—
		9,243	1,604
Basic and diluted earnings per share (in RMB)	13	0.22	0.06

The accompanying notes presented on pages 89 to 191 form an integral part of these consolidated financial statements.

Consolidated Financial Statement (Continued)

Consolidated Balance Sheet

(All amounts expressed in millions of RMB unless otherwise stated.)

Group

	Note	As at 31 December	
		2005	2004 Restated
ASSETS			
Cash and balances with central banks	14	140,309	128,501
Due from other banks and financial institutions	15	170,101	88,923
Financial assets held for trading	16	3,228	2,495
Loans and advances to customers	18	758,773	631,612
Investment securities – loans and receivables	19	28,372	31,205
Investment securities – available-for-sale	19	285,971	215,523
Property and equipment	20	25,164	23,863
Deferred tax assets	26	955	5,739
Other assets	21	10,566	16,144
Total assets		1,423,439	1,144,005
LIABILITIES			
Due to other banks and financial institutions	22	84,094	31,711
Financial liabilities held for trading	23	9,555	5,086
Due to customers	24	1,220,839	1,029,941
Other liabilities	25	12,349	12,457
Current taxes		751	39
Deferred tax liabilities	26	413	393
Subordinated term debt	28	12,292	12,275
Total liabilities		1,340,293	1,091,902
EQUITY			
Capital and reserves attributable to the Bank's shareholders			
Share capital	29	45,804	39,070
Capital surplus	29	21,540	10,872
Other reserves		6,555	2,307
Retained earnings/(Accumulated losses)	30	9,183	(146)
Minority Interest	31	83,082 64	52,103 –
Total equity		83,146	52,103
Total equity and liabilities		1,423,439	1,144,005

These consolidated financial statements were approved for issue by the Board of Directors on 28 March 2006 and signed on its behalf by:

Chairman of Board: Jiang Chaoliang

Chief Financial Officer: Yu Yali

The accompanying notes presented on pages 89 to 191 form an integral part of these consolidated financial statements.

Balance Sheet*(All amounts expressed in millions of RMB unless otherwise stated.)***Bank**

		As at 31 December	
	<i>Note</i>	2005	2004 Restated
ASSETS			
Cash and balances with central banks	14	140,029	128,376
Due from other banks and financial institutions	15	170,101	88,923
Financial assets held for trading	16	3,228	2,495
Loans and advances to customers	18	758,773	631,612
Investment securities – loans and receivables	19	28,372	31,205
Investment securities – available-for-sale	19	285,658	215,432
Investments in and due from subsidiaries		786	1,276
Property and equipment	20	23,681	22,322
Deferred tax assets	26	955	5,739
Other assets	21	10,264	15,315
Total assets		1,421,847	1,142,695
LIABILITIES			
Due to other banks and financial institutions	22	84,094	31,711
Financial liabilities held for trading	23	9,555	5,086
Due to customers	24	1,220,839	1,029,941
Other liabilities	25	10,505	10,525
Current taxes		751	39
Deferred tax liabilities	26	289	286
Subordinated term debt	28	12,292	12,275
Total liabilities		1,338,325	1,089,863
EQUITY			
Capital and reserves attributable to the Bank's shareholders			
Share capital	29	45,804	39,070
Capital surplus	29	22,432	11,764
Other reserves		6,150	1,998
Retained earnings	30	9,136	–
Total equity		83,522	52,832
Total equity and liabilities		1,421,847	1,142,695

The accompanying notes presented on pages 89 to 191 form an integral part of these consolidated financial statements.

Consolidated Financial Statement (Continued)

Consolidated Statement of Changes in Shareholders' Equity

(All amounts expressed in millions of RMB unless otherwise stated.)

	Share capital <i>Note 29</i>	Capital surplus <i>Note 29</i>	Statutory reserve <i>Note 30</i>	Discretionary reserve <i>Note 30</i>	Other reserves			Translation reserve on foreign operations	Retained earnings/ Accumulated losses) <i>Note 30</i>	Minority interest	Total
					Statutory welfare reserve <i>Note 30</i>	Revaluation reserve for AFS securities	Revaluation reserve for properties				
Previously reported balance at 1 January 2004	17,108	11,035	4,598	5,403	972	242	481	-	(21,758)	-	18,081
Reclassification into AFS securities (<i>Note 2A</i>)	-	-	-	-	-	121	-	-	-	-	121
Adjusted balance at 1 January 2004, restated	17,108	11,035	4,598	5,403	972	363	481	-	(21,758)	-	18,202
Losses from changes in fair value of AFS securities, net of tax	-	-	-	-	-	(1,635)	-	-	-	-	(1,635)
Revaluation of property and equipment	-	-	-	-	-	-	3,098	-	-	-	3,098
Restructuring transactions with government	13,556	1,681	-	-	-	-	-	-	-	-	15,237
Restructuring transactions with third parties	8,406	7,191	-	-	-	-	-	-	-	-	15,597
Reserves offset against accumulated losses	-	(9,035)	(4,598)	(5,403)	(972)	-	-	-	20,008	-	-
Net profit	-	-	-	-	-	-	-	-	1,604	-	1,604
Balance at 31 December 2004, restated	39,070	10,872	-	-	-	(1,272)	3,579	-	(146)	-	52,103
Previously reported balance at 1 January 2005	39,070	10,872	-	-	-	178	3,579	-	(146)	-	53,553
Reclassification into AFS securities (<i>Note 2A</i>)	-	-	-	-	-	(1,450)	-	-	-	-	(1,450)
Adjusted balance at 1 January 2005, restated	39,070	10,872	-	-	-	(1,272)	3,579	-	(146)	-	52,103
Issue of shares	6,734	11,259	-	-	-	-	-	-	-	-	17,993
Issuance cost	-	(591)	-	-	-	-	-	-	-	-	(591)
Gains from changes in fair value of AFS securities, net of tax	-	-	-	-	-	3,875	-	-	-	-	3,875
Revaluation of property	-	-	-	-	-	-	541	-	-	-	541
Translation difference on foreign operations	-	-	-	-	-	-	-	(88)	-	-	(88)
Establishment of new subsidiary (<i>Note 31</i>)	-	-	-	-	-	-	-	-	-	70	70
Net profit	-	-	-	-	-	-	-	-	9,249	(6)	9,243
Revaluation reserve realization upon disposals	-	-	-	-	-	-	(80)	-	80	-	-
Balance at 31 December 2005	45,804	21,540	-	-	-	2,603	4,040	(88)	9,183	64	83,146

The accompanying notes presented on pages 89 to 191 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows*(All amounts expressed in millions of RMB unless otherwise stated.)*

	For the year ended	
	31 December	
	2005	2004
Cash flows from operating activities:		
Net profit before taxation:	12,843	7,750
Adjustments for:		
Impairment of loans and advances to customers (Write-back)/impairment of due from banks and financial institutions	4,549 (149)	3,041 324
Impairment of other receivables	327	394
Depreciation of property and equipment	2,364	2,471
Revaluation of property and equipment	9	389
Amortization of prepaid staff subsidies	38	84
Amortization of prepaid rental expenses	179	198
Amortization of land use rights	5	75
Amortization of computer software	105	77
Net gains on investment securities	(359)	(77)
Gains on disposal of fixed assets	(66)	(214)
(Increase)/Decrease in the fair value of investment property	(46)	32
Interest expense on subordinated term debt	557	275
Net increase in due from central banks	(11,639)	(11,424)
Net (increase)/decrease in due from other banks and financial institutions	(55,578)	5,440
Net (increase)/decrease in financial assets held for trading	(733)	1,573
Net increase in loans and advances to customers	(131,710)	(120,058)
Net decrease/(increase) in other assets	5,179	(2,870)
Net increase in due to other banks and financial institutions	52,383	10,561
Net increase in financial liabilities held for trading	4,469	1,623
Net increase in due to customers	190,898	155,782
Net (decrease)/ increase in other liabilities	(352)	3,641
Net increase in business tax payable	161	242
Income tax paid	(215)	(603)
Net cash from operating activities	73,219	58,726

Consolidated Financial Statement (Continued)

Consolidated Statement of Cash Flows (Continued)

(All amounts expressed in millions of RMB unless otherwise stated.)

	For the year ended	
	31 December	
	2005	2004
Cash flows from investing activities:		
Purchase of investment securities	(408,379)	(203,919)
Disposal or redemption of investment securities	346,965	101,105
Purchase of computer software	(145)	(114)
Prepaid rental expenses	(172)	(167)
Purchase of land use rights	(72)	(337)
Disposal of land use rights	108	–
Purchase of property and equipment	(3,513)	(2,828)
Disposal of property and equipment	610	414
Net cash used in investing activities	(64,598)	(105,846)
Cash flows from financing activities:		
Issue of shares	17,402	33,597
Issue of subordinated term debt	–	12,000
Interest paid on subordinated term debt	(540)	–
Minority interest	70	–
Dividends paid	(5)	(8)
Net cash from financing activities	16,927	45,589
Net increase/(decrease) in cash and cash equivalents	25,548	(1,531)
Cash and cash equivalents at the beginning of the period	75,757	77,288
Cash and cash equivalents at the end of the period (Note 36)	101,305	75,757
Major non-cash transactions		
Capitalization of translation difference on foreign operations	88	–
Transfer from other assets to fixed assets	–	261
Transfer from fixed assets to other assets	–	703
Supplementary Information		
Interest received	49,120	37,527
Interest paid	(16,122)	(12,227)

The accompanying notes presented on pages 89 to 191 form an integral part of these consolidated financial statements.