Reconciliation of Net Profit and Net Assets from PRC GAAP to IFRS

	Net Assets		Net Profit	
	31 December 2005	31 December 2004 Restated	**2005**	2004
	(in millions of RMB)			
PRC GAAP figures	**78,336**	**52,489**	**8,991**	**915**
Adjustments for accounting standard differences:				
1. Interest income from investment securities	809	643	166	525
2. Revaluation surplus from fixed assets and investment properties	3,711	3,543	(256)	(291)
3. Differences arising from the transfer of the non-performing loans to China Cinda Asset Management Corporation	(760)	(966)	206	1,243
4. Valuation of derivative products	20	(310)	330	(225)
5. Valuation reserves increasing/(decreasing)/from AFS securities	3,769	(1,898)	–	–
6. Consolidated adjustments	(801)	(1,018)	(19)	(308)
7. Deferred taxes	(1,773)	(249)	215	(60)
8. Translation difference on foreign currency net position	–	–	(371)	–
9. Others	(165)	(131)	(13)	(195)
IFRS figures	**83,146**	**52,103**	**9,249**	**1,604**

EXPLANATION OF THE ADJUSTMENTS FOR ACCOUNTING STANDARD DIFFERENCES:

1. Interest income from investment securities

In accordance with PRC GAAP, no interest income should be accrued on investment securities intended to be held for less than one year. Under IFRS, interest income is recognised on interest-bearing instruments on an accruals basis using the effective interest method. The impact on net profit of current period depends on the difference between the opening and ending accruals of interest income. If the accrual balance is bigger at opening than that of ending, the current profit will be reduced, and vice versa.

Reconciliation of Net Profit and Net Assets from PRC GAAP to IFRS (Continued)

2. Revaluation surplus/deficit from fixed assets and investment properties

In 2004, the Company carried out a further revaluation exercise on fixed assets and investment properties for the purpose of the preparation of its IFRS financial statements, which was not a statutory valuation nor was it approved by the Ministry of Finance of the PRC. The valuation surplus/deficit arising from the 2004 valuation have been reflected in IFRS accounts, while it is not recognised in PRC GAAP financial statements. The differences arising from fixed assets and investment property valuation exercise in 2004 has been reflected as an accounting standard difference accordingly. Such difference will be depreciated during the remaining beneficiary period.

3. Differences arising from the transfer of the non-performing loans to China Cinda Asset Management Corporation

On 27 June 2004, the Company disposed of non-performing loans (the "**Transferred Loans**") to China Cinda Asset Management Corporation in exchange for a bill issued by the PBC (the "**Bills**"). The amount of carrying value of the Transferred Loans in excess of the fair value of the Bills, net of tax, was offset against capital surplus in its IFRS financial statements. The discount will be amortized and recorded as interest income during the remaining beneficiary period of the Bills.

4. Recognition of derivative financial instruments at fair value

In accordance with International Accounting Standards (the "**IAS**") No.39, derivative financial instruments are initially recognized at cost and subsequently re-measured to fair value. Changes in fair value of derivatives held for trading are included in net trading income. However, such derivative financial instruments are still accounted for as off balance sheet items in the Company's PRC GAAP financial statements.

5. Valuation reserves increasing/(decreasing) from AFS securities

In accordance with IAS No.39, Available For Sale ("**AFS**") securities are accounted for at fair value, the fluctuation of fair value are recorded as revaluation reserves of shareholder's equity. As of 1 January 2005, the bank has adopted revised IAS 39 and reclassified part of Investment securities – originated loans into AFS and recognized relevant negative revaluation reserves. As of 31 December 2005, the revaluation reserves of AFS is a positive balance of RMB2,603 million. Such revaluation reserves arising from the fluctuation of fair value are not accounted for under PRC GAAP.

6. Consolidation adjustments

Subsidiaries, which are those companies and other entities (including Special Purpose Entities) in which the Group, directly or indirectly, has control, are consolidated in the Company's IFRS financial statements. However, under PRG GAAP, it is allowed not to consolidate subsidiaries which are intended to be disposed of in the near future.

7. Deferred taxes

In both PRC GAAP and IFRS financial statements prepared by the Company, deferred income tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Accordingly, all adjustments on accounting standard differences also gave rise to deferred taxation differences.

8. Translation difference on foreign currency net position

Translation difference on foreign currency net position under PRC GAAP is recognized in equity, while it is recognized as foreign exchange gain or loss in profit and loss under IFRS.

9. Others

All other differences are adjustments with minor amounts.