

APPENDIX II Supplementary Information-Financial Statements Prepared in Accordance with PRC GAAP

(Amount in millions of Renminbi, unless otherwise stated)

1. CONSOLIDATED INCOME STATEMENTS

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2006

	For the six month period ended 30 June	
	2006 (unaudited)	2005 (unaudited)
Interest income	99,777	77,466
Interest expense	(45,301)	(28,808)
Net interest income	54,476	48,658
Net fee and commission income	6,841	4,518
Net trading income	(193)	2,993
Investment income	1,681	149
Other operating income, net	1,797	361
	64,602	56,679
Operating and administrative expenses	(23,193)	(21,000)
Business tax and surcharges	(2,987)	(2,670)
Operating profit	38,422	33,009
Non-operating income, net	467	1,145
Profit before impairment losses	38,889	34,154
Impairment losses	(4,876)	(4,576)
Profit before tax	34,013	29,578
Income tax	(12,362)	(10,860)
Profit after tax	21,651	18,718
Minority interests	(2,627)	(2,284)
Net profit	19,024	16,434
Earnings per share for profit attributable to the equity holders of the Bank during the period (expressed in Renminbi per ordinary share)		
- Basic and diluted	0.09	0.09

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2. CONSOLIDATED BALANCE SHEETS

AS AT 30 JUNE 2006

ASSETS	30 June 2006	31 December 2005
	(unaudited)	(audited)
Cash	29,811	28,644
Precious metals	40,649	30,314
Due from central banks	340,651	316,941
Government certificates of indebtedness for bank notes issued	36,094	35,586
Trading and other debt securities at fair value through profit or loss	110,602	107,271
Derivative financial instruments	21,540	16,808
Due from and placements with banks and other financial institutions	300,114	344,537
Debt securities	1,877,669	1,562,320
Loans and advances to customers	2,405,536	2,235,046
Less: Provision for loan losses	(88,128)	(83,153)
Interest receivable	23,187	20,408
Equity investments	14,775	15,393
Fixed assets	71,208	72,978
Construction in progress	3,940	3,342
Deferred tax assets	17,410	17,561
Other assets	21,875	18,810
Total assets	5,226,933	4,742,806

AS AT 30 JUNE 2006 (Continued)

LIABILITIES	30 June 2006	31 December 2005
	(unaudited)	(audited)
Due to central banks	30,495	30,055
Bank notes in circulation	36,151	35,731
Derivative financial instruments and liabilities at fair value through profit or loss	101,172	91,174
Due to and placements from banks and other financial institutions	358,349	345,233
Deposits from customers	4,053,024	3,703,777
Interest payable	31,485	27,024
Special purpose borrowings	49,622	52,164
Bonds issued	60,177	60,179
Deferred tax liabilities	254	184
Other liabilities	119,751	134,665
Total liabilities	4,840,480	4,480,186
Minority interests	28,812	28,778
SHAREHOLDER'S EQUITY		
Share capital	253,839	209,427
Capital reserve	76,545	3,978
Surplus reserve	8,095	5,987
General reserve and statutory reserve of subsidiary	9,398	5,109
Undistributed profits	23,837	12,585
Reserve for fair value changes of available-for-sale securities	(11,954)	(1,380)
Currency translation differences	(2,119)	(1,864)
Total shareholder's equity	357,641	233,842
Total liabilities and shareholder's equity	5,226,933	4,742,806

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3. RECONCILIATION OF DIFFERENCES BETWEEN PRC GAAP AND IFRS FINANCIAL INFORMATION

	Net assets as at		Net profit for the six month period ended 30 June	
	30 June 2006	31 December 2005	2006	2005
PRC GAAP figures	357,641	233,842	19,024	16,434
Adjustments for accounting standard differences:				
-Reversal of asset revaluation surplus and corresponding depreciation (1)	(7,794)	(7,999)	205	133
-Fair value measurement on investment properties (2)	3,199	2,816	438	1,059
-Equity securities classified as available-for-sale financial assets and measured at fair value (3)	3,566	1,775	-	-
-Early retirement benefit obligation (4)	(4,911)	(5,097)	186	(1,749)
-Cost method applied on precious metals (5)	(757)	(637)	(120)	(83)
-Deferred tax impact (6)	4,222	992	(97)	(97)
-Minority interests effect and others	581	727	(159)	(516)
Sub-total	(1,894)	(7,423)	453	(1,253)
IFRS figures	355,747	226,419	19,477	15,181

(1) Reversal of revaluation surplus and corresponding depreciation

Under PRC GAAP, the Bank recorded an asset revaluation adjustment of RMB 10,432 million as of 31 December 2003, related principally to property and equipment, in connection with the Joint Stock Reform Plan. The revalued property and equipment will be amortised over their remaining useful lives. According to IAS 16 *Property, Plant and Equipment*, once an entity has chosen the cost model as its accounting policy, it shall apply the policy to an entire class of property, and shall not be permitted to measure these fixed assets at fair value. Hence, the asset revaluation surplus and corresponding depreciation recognized under PRC GAAP, should be reversed under IFRS.

(2) Fair value measurement on investment properties

Under PRC GAAP, investment properties as fixed assets are measured at cost after deducting accumulated depreciation and impairment losses. According to IAS 40 *Investment Property*, investment properties are measured at fair value at the balance sheet date by the Group.

(3) Equity securities classified as available-for-sale financial assets and measured at fair value

Under PRC GAAP, equity securities are accounted for at cost after deducting impairment losses. According to IAS 39 *Financial Instruments: Recognition and Measurement*, these securities have been classified as available-for-sale

and are stated at fair value.

(4) **Early retirement benefit obligation**

According to MOF requirement, the early retirement benefit expenditures during the early retirement period (from early retirement date to legal retirement date) to those employees who accepted an early retirement arrangement is recognized on a cash basis by the Group. According to IAS 19 *Employee Benefits*, the early retirement benefit at the balance sheet date should be recorded based on the present value of future payment obligation after adjusting for actuarial gain or loss and past servicing cost.

(5) **Cost method applied on precious metals**

According to accounting practice of PRC banking industry, all precious metals are initially recognized at cost and subsequently re-measured at fair value at the balance sheet date by the Bank. According to IAS 2 *Inventories*, precious metals that are not related to the Group's precious metals trading activities are carried at cost.

(6) **Deferred tax impact**

Under IFRS, deferred income tax is provided using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Under PRC GAAP, deferred income tax is provided using the liability method, on timing differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

The difference between PRC GAAP and IFRS in 2006 mainly represents the deferred income tax credited or charged directly to equity under IFRS relating to the fair value re-measurement of available-for-sale investments charged or credited directly to equity.