

Supplementary Information — Financial Statements Prepared in Accordance with PRC GAAP

(Amount in millions of Renminbi, unless otherwise stated)

1 CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

	Year ended 31 December	
	2006	2005
Interest income	214,670	167,345
Interest expense	(93,963)	(66,940)
Net interest income	120,707	100,405
Net fee and commission income	14,323	9,247
Net trading (losses)/gains	(3,779)	4,482
Investment gains/(losses)	3,831	(248)
Other operating income, net	2,546	2,142
	137,628	116,028
Operating and administrative expenses	(53,614)	(45,604)
Business tax and surcharges	(6,462)	(5,680)
Operating profit	77,552	64,744
Non-operating income, net	1,044	1,381
Profit before impairment losses	78,596	66,125
Impairment losses	(11,587)	(10,985)
Profit before tax	67,009	55,140
Income tax	(19,857)	(22,543)
Profit after tax	47,152	32,597
Minority interests	(5,260)	(5,105)
Net profit	41,892	27,492
Earnings per share for profit attributable to the equity holders of the Bank during the period (expressed in Renminbi per ordinary share)		
— Basic	0.18	0.15
— Diluted	0.18	0.15

2 CONSOLIDATED BALANCE SHEET

As at 31 December 2006

	As at 31 December	
	2006	2005
ASSETS		
Cash	31,110	28,644
Precious metals	42,873	30,314
Due from central banks	379,631	316,941
Government certificates of indebtedness for bank notes issued	36,626	35,586
Trading and other debt securities at fair value through profit or loss	110,634	107,271
Derivative financial instruments	24,837	16,808
Due from and placements with banks and other financial institutions	407,840	344,537
Debt securities	1,768,784	1,562,320
Loans and advances to customers	2,431,806	2,235,046
Less: Provision for loan losses	(94,293)	(83,153)
Interest receivable	24,306	20,408
Equity investments	18,280	15,393
Fixed assets	91,808	72,978
Construction in progress	6,585	3,342
Deferred tax assets	17,605	17,561
Other assets	26,841	18,810
Total assets	5,325,273	4,742,806

2 CONSOLIDATED BALANCE SHEET (Continued)

As at 31 December 2006 (Continued)

	As at 31 December	
	2006	2005
LIABILITIES		
Due to central banks	42,374	30,055
Bank notes in circulation	36,823	35,731
Derivative financial instruments and liabilities at fair value through profit or loss	113,048	91,174
Due to and placements from banks and other financial institutions	321,381	345,233
Deposits from customers	4,095,422	3,703,777
Interest payable	33,834	27,024
Other borrowings	63,398	52,164
Bonds issued	60,173	60,179
Deferred tax liabilities	1,104	184
Other liabilities	139,902	134,665
Total liabilities	4,907,459	4,480,186
Minority interests	29,560	28,778
SHAREHOLDER'S EQUITY		
Share capital	253,839	209,427
Capital reserve	76,549	3,978
Surplus reserve	10,380	5,987
General reserve and statutory reserve of subsidiary	13,934	5,109
Undistributed profits	39,884	12,585
Reserve for fair value changes of available-for-sale securities	(2,439)	(1,380)
Currency translation differences	(3,677)	(1,864)
Treasury shares	(216)	—
Total shareholder's equity	388,254	233,842
Total liabilities and shareholder's equity	5,325,273	4,742,806

3 RECONCILIATION OF DIFFERENCES BETWEEN PRC GAAP AND IFRS FINANCIAL INFORMATION

	Net assets as at 31 December		Net profit for the year ended 31 December	
	2006	2005	2006	2005
PRC GAAP figures	388,254	233,842	41,892	27,492
Adjustments for accounting standard differences:				
— Reversal of asset revaluation surplus and corresponding depreciation ⁽¹⁾	(7,693)	(7,999)	306	427
— Fair value measurement on investment properties ⁽²⁾	3,318	2,816	502	1,695
— Equity securities classified as available-for-sale financial assets and measured at fair value ⁽³⁾	2,742	1,775	—	—
— Early retirement benefit obligation ⁽⁴⁾	(5,316)	(5,097)	(219)	(2,627)
— Cost method applied on precious metals ⁽⁵⁾	(791)	(637)	(154)	(329)
— RMB500 million start-up fund for annuity plan ⁽⁶⁾	—	—	—	(500)
— Deferred tax impact ⁽⁷⁾	1,866	992	184	290
— Minority interests effect and others	537	727	319	(527)
Sub-total	(5,337)	(7,423)	938	(1,571)
IFRS figures	382,917	226,419	42,830	25,921

- (1) Reversal of revaluation surplus and corresponding depreciation

Under PRC GAAP, the Bank recorded an asset revaluation adjustment of RMB10,432 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 amortized 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 less 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.

3 RECONCILIATION OF DIFFERENCES BETWEEN PRC GAAP AND IFRS FINANCIAL INFORMATION (Continued)

(4) Early retirement benefit obligation

According to the 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 the future payment obligation after adjusting for actuarial gain or loss and past servicing cost.

(5) Cost method applied on precious metals

According to the accounting practice of the 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 Group. According to IAS 2 Inventories, precious metals that are not related to the Group's precious metals trading activities are carried at cost.

(6) RMB500 million start-up fund for annuity plan

BOC established an annuity plan to provide supplementary retirement benefits to its domestic current employees. Huijin, as the parent company, committed a start-up fund of RMB500 million for the annuity plan in 2005. IFRS requires this amount to be recorded in operating expenses and capital reserve.

(7) 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.