交通銀行
BANK OF COMMUNICATIONS

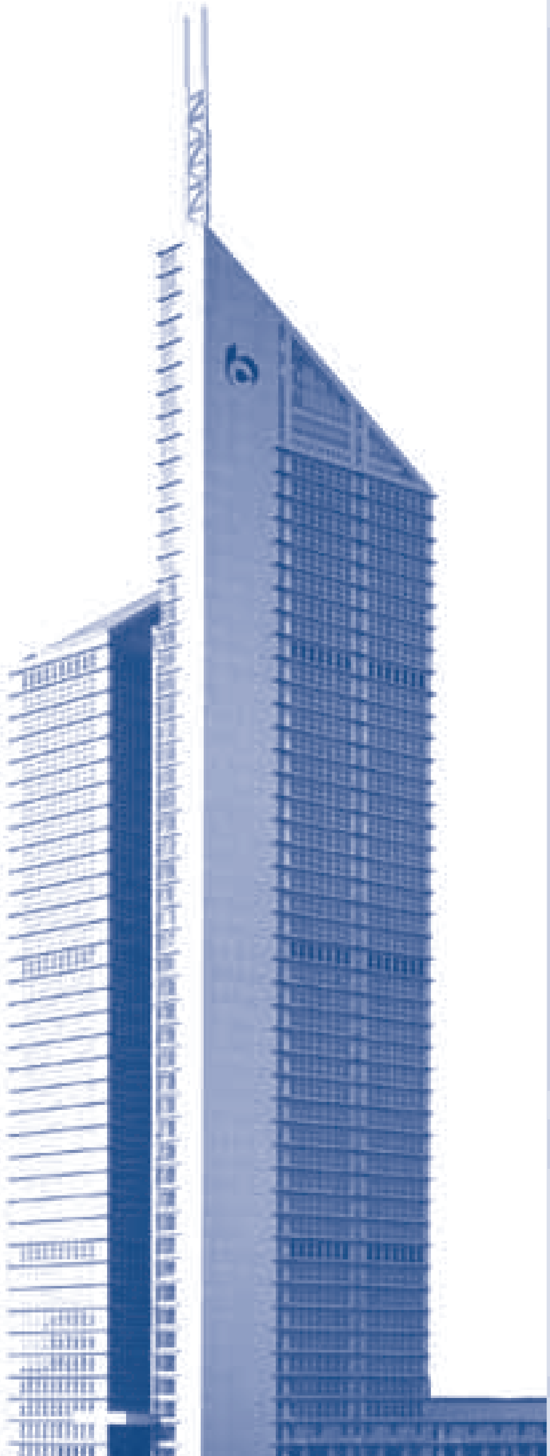
Bank of Communications Co., Ltd.

(A joint stock company incorporated in the People's Republic of China with limited liability)

Interim Report

2005

交通銀行
BANK OF COMMUNICATIONS



Contents

The Board of Directors are pleased to announce the unaudited consolidated results ("Interim Results") of Bank of Communications Co., Ltd. ("the Bank") and its subsidiaries ("the Group") for the six months ended 30 June 2005 (the "Period") prepared in accordance with the International Accounting Standards ("IAS") 34 – "Interim Financial Reporting" promulgated by the International Accounting Standards Board ("Interim Financial Report"). The audit committee of the Bank has reviewed and adopted the Interim Results.

I. FINANCIAL HIGHLIGHTS

in millions of RMB

Item	As of 30 June 2005	As of 30 June 2004
Profit before tax	**6,884**	2,517
Profit after tax	**4,605**	(1,905)
Provision for credit impairment expense	**(1,918)**	(2,630)
Basic and diluted earnings per share (RMB)	**0.12**	(0.11)
Return on total assets *(note 1)*	**0.36%**	(0.18%)
Cost to income ratio *(note 2)*	**48.06%**	58.77%

in millions of RMB

	As of 30 June 2005	As of 31 December 2004
Shareholders' equity	**74,693**	52,103
Total assets	**1,292,532**	1,144,005
Net asset value per share (RMB)	**1.66**	1.33

in millions of RMB

Financial ratios	As of 30 June 2005	As of 31 December 2004
Core capital adequacy ratio *(note 3)*	**8.68%**	6.77%
Capital adequacy ratio *(note 3)*	**11.29%**	9.72%
Liquidity ratio *(note 3)*		
RMB	**56.99%**	66.30%
Foreign currency	**53.70%**	57.05%

Note 1: This represents the total assets at the end of the Period.

Note 2: This represents other operating expenses as a percentage of the operating income (including net interest income, net fee and commission income, dividend income, gains less losses arising from trading activities, gains less losses arising from investment securities and other operating income).

Note 3: The above core capital adequacy ratio, capital adequacy ratio and liquidity ratios are calculated in accordance with the PBC and CBRC guidelines and based on PRC GAAP.

II. BASIC INFORMATION ON THE BANK

(1)	Legal Chinese name of the Bank	:交通銀行股份有限公司
	Legal English name of the Bank	:BANK OF COMMUNICATIONS CO., LTD.
(2)	Authorized Representatives	:ZHANG Jianguo and ZHANG Jixiang
(3)	Company Secretary	:ZHANG Jixiang
(4)	The Bank's registered address and business address:	
	Registered address	:18 Xian Xia Road, Shanghai 200336, PRC
	Business address	:188 Yin Cheng Zhong Road, Shanghai 200120, PRC
	International internet website	:http://www.bankcomm.com
(5)	Contact details of office of Board of Directors:	
	Contact address	:188 Yin Cheng Zhong Road, Shanghai 200120, PRC
	Tel	:86-21-58766688
	Fax	:86-21-58798398
	E-mail	:dongban@bankcomm.com
(6)	Other relevant information about the Bank	
	Date of incorporation	:30 March 1987
	Date of change of incorporation	:24 December 2004
	Enterprise legal person business license number	:1000001000595
	Tax registration number	:Guo Shui Hu Zi No. 31004410000595X Di Shui Hu Zi No. 31004410000595X
	Stock listing place	:The Stock Exchange of Hong Kong Limited
	Stock type	:H share
	Stock name	:BANKCOMM
	Stock code	:3328
	Engaged domestic accountants firm	:Deloitte Touche Tohmatsu CPA Ltd.
	Engaged international accountants firm	:PricewaterhouseCoopers
	Engaged Hong Kong Lawyers	:Herbert Smith
	Engaged PRC Lawyers	:King &Wood
	Engaged Compliance Advisors	:Goldman Sachs (Asia) L.L.C.
	H Share registrar	:Computershare Hong Kong Investor Services Limited, Rooms 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong
(7)	Information disclosure	
	The interim report of the Bank is published on our website	:http://www.bankcomm.com
	Address for maintaining interim report	:The Bank's Board Office and principal place of business

(8) This report is prepared in Chinese and English respectively. The Chinese version is for reference only. In case of any inconsistency, the English version shall prevail.

III. BOARD OF DIRECTORS AND BOARD OF SUPERVISORS

During the Period, the Board comprised of the following members:

(1) PROFILE OF MEMBERS OF THE BOARD OF DIRECTORS

Mr. JIANG Chaoliang, born in August 1957, is Chairman of our Board. Mr. JIANG has served successively as Deputy Governor of Hubei Province, Assistant Governor of the People's Bank of China ("PBC") and Director of the General Office of the PBC, President of the Guangzhou Branch of the PBC, and Director of the Guangdong Division of State Administration of Foreign Exchange in China ("SAFE").

Mr. ZHANG Jianguo, born in November 1954, is Vice Chairman of our Board and President of the Bank. Mr. ZHANG has served successively as Executive Vice President of the Bank, General Manager of the International Business Department and Deputy President of the Tianjin Branch of the Industrial and Commercial Bank of China.

*Mr. QIAO Wei, born in February 1945, is Vice Chairman of our Board and Vice President of the Bank. Mr. QIAO has served successively as General Manager of the Comprehensive Planning Department of our Bank, Director of the Pricing Bureau and Director of the Commission for Foreign Economic and Trade of Xuzhou City, Jiangsu Province.

Mr. LI Jun, born in April 1956, is an Executive Director of our Board and Executive Vice President of the Bank. Mr. LI has served successively as Controller General of the Bank and President of the Bank's Wuhan Branch.

Mr. ZHANG Jixiang, born in June 1953, is an Executive Director of our Board and Secretary of our Board. Mr. ZHANG has served successively as Inspector and Deputy Director of the General Department and Deputy Director of the Basic Construction Department of the Ministry of Finance of China.

Mr. HU Huating, born in November 1957, is a Non-executive Director of our Board. Mr. HU has served successively as Director of the Bureau for Retired Officials and Deputy Director General of the Economic Construction Department.

*Mr. Raymond OR Ching Fai, born in December 1949, is a Non-executive Director of our Board, Vice Chairman and Chief Executive Officer of Hang Seng Bank Limited and an Executive Director of The Hongkong and Shanghai Banking Corporation Limited. Mr. OR has served successively as Group General Manager of The Hongkong and Shanghai Banking Corporation Limited and Chairman of the Hong Kong Association of Banks.

Mr. William FUNG Kwok Lun, born in February 1949, is a Non-executive Director of our Board, Group Managing Director of Li & Fung Limited, a Non-executive director of The Hongkong and Shanghai Banking Corporation Limited and an independent Non-executive Director of HSBC Holdings plc.

Mr. LI Keping, born in April 1956, is a Non-executive Director of our Board and Director of the Investment Department of the National Council for Social Security Fund. Mr. LI has served successively as Deputy Chief and Inspector at the Department of Macro System of the State Office of System Restructuring of the State Council of China.

Mr. LI Zexing, born in May 1964, is a Non-executive Director of our Board and deputy general manager of the legal and research department of SAFE. Mr. LI has served as Assistant Inspector of the Division of Reserve Management of SAFE.

Mr. GAO Shiqing, born in December 1961, is a Non-executive Director of our Board and Assistant General Manager of Capital Airports Holding Company. Mr. GAO has served as Deputy Director of the Planning, Development and Finance Department of the Civil Aviation Administration of China.

Mr. SHEN Weiming, born in August 1947, is a Non-executive Director of our Board and Chief Economist of Shanghai Tobacco (Group) Corp. Mr. SHEN has served as Deputy Chief Accountant of Shanghai Tobacco (Group) Corp.

Mr. LI Guanglin, born in June 1964, is a Non-executive Director of our Board and Director and Chief Accountant of Yuxi Hongta Tobacco (Group) Co., Ltd. Mr. LI has served as Chief of the Accounting Office of Yunnan Provincial Tobacco Company.

*Mr. LI Ruge, born in August 1963, is a Non-executive Director of our Board and Deputy Chief Accountant of China Guodian Corporation. Mr. LI has served as Deputy General Manager and Chief Accountant of Shandong Power (Group) Company.

Mr. XIE Qingjian, born in January 1944, is an Independent Non-executive Director of our Board and Counselor of the PBC. Mr. XIE has served as Governor of the Nanjing Branch, Deputy President of the Shanghai Branch and Governor of the Zhejiang Branch of the PBC.

Mr. Ian R. WILSON, born in January 1941, is an Independent Non-executive Director of our Board. Mr. WILSON has served as General Manager for the regions of Hong Kong, China and Northeast Asia, General Manager for the regions of Middle East and South Asia of Standard Chartered Bank.

Mr. Thomas J. MANNING, born in July 1955, is an Independent Non-executive Director of our Board and Chairman of China Board Directors LLC. Mr. MANNING has served as Chairman and CEO of Ernst & Young Consulting Asian Pacific, Chairman and CEO of Cap Gemini Ernst & Young Asia Pacific and Managing Director of Bain & Company.

Mr. HUI Ho Ming Herbert, born in May 1958, is an Independent Non-executive Director of our Board, Deputy and Vice Chairman of Ocean Grand Holdings Ltd. and Ocean Grand Chemicals Holdings Ltd and Chairman of the Hong Kong Institute of Directors Ltd. Mr. HUI has served as Deputy Executive Director and head of the listing division of the Hong Kong Stock Exchange.

Mr. CHEN Qingtai, born in June 1937, is an Independent Non-executive Director of our Board, researcher of the Development Research Center of the State Council and Dean of the School of Public Affairs of Tsinghua University. Mr. CHEN has served as Deputy Director of the Development Research Center of the State Council.

**Note:* Mr. QIAO Wei resigned as the Vice Chairman of the Board and Vice President of the Bank on 1 August 2005 due to personal reasons. Mr. Raymond OR Ching Fai and Mr. LI Ruge resigned as Non-executive Directors, respectively of the Bank with effect from 1 August 2005 for personal reasons. Please refer to the announcement of the Bank dated 22 July 2005 published on the Website of the Stock Exchange, and in the South China Morning Post and the Hong Kong Economic Times.

In addition, to fill in the aforesaid casual vacancies of Directors, the Bank passed resolutions on 22 August 2005 to appoint Mr. PENG Chun as Executive Director, Mr. Peter WONG Tung-shun as Non-executive Director and Mr. QIAN Ping as Non-executive Director, with their appointment effective as of the same date.

(2) PROFILE OF MEMBERS OF THE BOARD OF SUPERVISORS

Mr. CUI Leiping, born in February 1947, is Chairman of our Board of Supervisors. Mr. CUI has been designated by the State Council to serve as Chairman of the board of supervisors for the Agricultural Bank of China and the Chairman of the board of supervisors for the Bank of China.

Mr. NING Jinbiao, born in July 1957, is a Shareholder Supervisor of the Bank and Deputy General Manager of Huaneng Capital Service Co., Ltd. Mr. NING has served as Deputy Director of the Local Tax Bureau of Hebei Province and Mayor of Qinghuangdao City, Hebei Province.

Mr. TENG Tieqi, born in December 1957, is a Shareholder Supervisor of the Bank and a Director and Deputy General Manager of China FAW Group Corporation. Mr. TENG has served as Director, Special Manager and Director of the Department of Planning and Finance of China FAW Group Corporation.

Mr. JI Keliang, born in April 1939, is a Shareholder Supervisor of the Bank, Chairman and Chief Engineer of China Kweichow Maotai Liquor Company Limited and a Director and Chief Engineer of Kweichow Maotai Co., Ltd. Mr. JI has served as Chairman and Chief Engineer of China Kweichow Maotai Liquor Company Limited and Chairman of Kweichow Maotai Co., Ltd.

Mr. LIU Qiang, born in October 1966, is an External Supervisor of the Bank and Chief Accountant of Daqing Petroleum Administration Bureau. Mr. LIU has served as Deputy Chief Accountant and Manager of the Financial Asset Department of Daqing Petroleum Administration Bureau.

Ms. CHEN Zheng, born in May 1968, is an External Supervisor of the Bank and Manager of the Investment Management Department of Nanjing State-owned Assets Investment Management Holding (Group) Co., Ltd. Ms CHEN has served as Department Manager of Nanjing International Trust and Investment Corporation.

Ms. YIN Baoyu, born in April 1945, is an Employee Supervisor of our Board of Supervisors and Director of the Labor Union. Ms. YIN has served as an Executive Director of the Bank and General Manager of the Department of Overseas Operations.

Ms. LIU Sha, born in May 1955, is an Employee Supervisor and the Secretary of our Board of Supervisors. Ms. LIU has served as a full-time Supervisor of the Bank designated directly by the State Council and a full-time Supervisor of China Galaxy Securities Company Limited designated directly by the State Council.

Ms. CHEN Qing, born in August 1960, is an Employee Supervisor and Director of the General Office of our Board of Supervisors. Ms. CHEN has been designated by the State Council as a full-time Supervisor of Agricultural Bank of China and a full-time Supervisor of Bank of China.

IV. MANAGEMENT DISCUSSION & ANALYSIS

(1) OVERVIEW OF GENERAL OPERATIONS

In the first half of the year, various principal businesses of the Group continued to maintain a momentum of satisfactory development and operated steadily towards the goal set at the beginning of the year. As of 30 June, total assets amounted to RMB 1,292.5 billion, an increase of RMB 148.5 billion or 12.98% from the beginning of the year. Balance of customer deposits amounted to RMB 1,147.5 billion, an increase of RMB 117.6 billion or 11.42% from the beginning of the year. Balance of loans and advances to customers amounted to RMB 739.6 billion (before provision for impairment), an increase of RMB 99.5 billion or 15.54% from the beginning of the year. Total balance of impaired loans amounted to RMB 20.944 billion, representing an increase of RMB 1.751 billion from the beginning of the year. The ratio of impaired loans to total loans was 2.83%, which is 17 bps lower than the beginning of the year. After-tax profits amounted to RMB 4.605 billion, an increase of RMB 6.510 billion or 341.73% from the corresponding period of last year.

(2) BUSINESS REVIEW

1. Various principal businesses continued to achieve satisfactory development

The Group implemented an integrated marketing strategy which fully capitalized on the interactions between head office and branches, between domestic and overseas banks, and among the businesses of corporate banking, retail banking, institutional banking, treasury operations and assets custody. In the first half of the year, the Group made progress in market promotion aimed at key customers and successfully entered into bank-to-business cooperation agreements with some of these key customers. The number of head office level, high quality, key customers increased to 86 as of 30 June, an increase of 56 from at the beginning of the year. Meanwhile, the Group made new progress into the central finance authorization payment operation under the central budget unit, and succeeded in acting as an agent in the central finance authorization payment operation for more than 40 budget units under 4 ministry departments.

The Group has proactively responded to changes to the retail banking market, with focus on the development of 3 key operations, namely Pacific Cards, consumer financing and private banking. Thereby maintaining rapid development while further enhancing profitability.

The Group has focused on the development of fee-generating business. Net fee and commission income showed an increase of 21.94%, indicating a promising growth prospect. Income from payment and settlement business and income from bank cards operation experienced faster growth and became the principal source of income for fee-generating business. Further, the Group is among the first to obtain an insurance assets custody qualification and has succeeded in securing the custody business from two prestigious insurance companies in the PRC. The Group is also among the first batch of pilot banks qualified for setting up fund companies, and has engaged in the promotion and setting up of Bank of Communications Schroder Fund Management Co., Ltd. Our international settlement business has also achieved rapid growth.

Through continuous efforts, our various principal businesses recorded faster and yet balanced growth, with some businesses obtaining greater market shares, thus providing more opportunities for future development.

2. Loan structure was further optimized

In the first half of the year, the industry structure of domestic branches was optimized, with loans related to supporting industries increased and loans related to less supporting industries decreased in percentage. Customer structure also continued to display improvement. Compared with the beginning of the year, in the 10-class credit rating system, outstanding loan balance proportion of class 1 to 5 high quality customers increased from 62.29% to 67.46% while those of class 6 to 7 customers decreased from 32.20% to 29.70% and those of class 8 to 10 customers decreased from 3.20% to 2.72%.

3. Product innovation achieved satisfactory progress

In the first half of the year, the Bank successfully launched the dual-currency international credit cards bearing logos of the Bank and HSBC. The Bank also successfully launched three types of RMB wealth management products over two terms. The Bank is the first to launch the "RMB Dual-Interest Accounts" in the industry, and has completed the development and promotion of a series of new products, such as non-recourse bill discounting and credit asset buyout. The functions of the customs direct and cash management system have also been upgraded. Meanwhile, the Bank also continued to enhance the marketability of branded products and improve their profitability. The Bank's service brands, such as the real-time credited "Quanguotong" (全國通), possess more obvious comparative advantages in the market.

4. Risk management was further strengthened

The risk management and internal control structure, which were established by the Group following an international advanced model, operated smoothly. The Risk Management Committee, under the Board of Directors, fully played its role in monitoring and assessing the overall risks of the Group and providing relevant strategic advice. Under the leadership of our Presidents, the Risk Management Committee is responsible for determining management polices on credit risks, market risks, liquidity risks and operation risks as well as significant events. The Risk Monitoring Department, Credit Management Department, Credit Approval Center, Assets Preservation Department and Legal Compliance Department performed their respective duties in their respective positions. The Audit Department is responsible for independent inspection and assessment of the Group's risk management and internal control status.

As an initiative to strengthen our credit risk management, the Group has newly formulated credit policies in respect of industries such as steel, telecomms, automotive, textile and real estate, etc., and issued guidance opinions aimed at 34 provincial level branches and 4 overseas branches. The policies serve as a good guide for the industry structure and customer structure of the Group's credit portfolio. The Group effectively monitored its credit risks to confine them to an acceptable level through various means introduced by HSBC, which include Risk Filter, Watch List, Risk Migration and Risk Tolerance. An independent and professional risk management system has been implemented in the area of credit business to continuously strengthen collection of credit risk information and risk warnings. The Group has also established a risk assets emergency response system which played a positive role in preserving large sum assets.

The Group has commenced the reform of its market risk management structure by combining the business units under the leadership of the Risk Management Committee and a dual-line reporting system. This is to reflect the policy guideline newly promulgated by The China Banking Regulatory Commission ("CBRC").

The Group has enhanced its management over key aspects such as system control, post control, process control and authorization control so as to improve its internal control management system for the strict precaution against operating risks. In the first half of the year, the Group carried out a risk probe on its internal control, covering front office, middle office and back office, with a focus on local branches and outlets throughout the Group. This effectively improved its internal control standards. Meanwhile, the Group also intensified investigation into illegal cases in accordance with CBRC's procedures for special case treatment.

5. *Profitability was remarkably enhanced*

Starting from this year, the Group applied the concept of economic capital management to conduct assessments principally on indicators such as rate of economic profit and economic capital return ratio. This greatly promoted the healthy development of the Group throughout and stimulated the enthusiasm to improve profitability. While striving to increase operating income, the Group managed to better control cost expenditures. In the first half of the year, our cost income ratio decreased significantly to 48.06%, a decrease of 10.71 percentage points over the corresponding period last year. In the first half of the year, our net interest margin was 2.70%, an increase of 9 basis points compared to the whole of last year.

6. *Information infrastructure continued to improve*

The reengineering of the information infrastructure of the Group has proceeded steadily. After development and testing for two and a half years, the first phase of the data centralization project was put into operation across all branches and sub-branches of the Group on 24 June 2005. The completion of the project has improved our operation and management standards, risk precaution standards and competitiveness. Meanwhile, the second phase of the data centralization project, management accounting system, consolidated financial reporting system and pricing management system has been under development as scheduled.

7. *Closer business cooperation with HSBC*

The Group and HSBC continued to work on closer cooperation in the areas of technical support and business assistance, with significant progress in six core areas of technical support and cooperation including risk management, financial management and human resources management. Some of the advanced management methods and tools of HSBC have already been used in the Group. Examples are HSBC's risk-oriented auditing concepts and methods to enhance the effect of auditing, and various methods to effectively monitor credit risks, etc. The credit cards business unit under the cooperation also operated well, while the dual-currency international credit cards bearing the logos of both parties enjoy a leading position domestically in terms of its function. With the appointment of Mr. Dicky Peter YIP as the Vice President of the Bank, both parties will continue to develop this cooperation in such areas as corporate banking and retail banking.

8. *Reforms of the organizational structure and business management process were steadily underway*

The reform of the head office's organizational structure has basically been completed, whilst functional integration of the financial and risk segments at branch level is underway. With "Integration, professionalism, independence, and authoritativeness" as objectives, reforms of credit and audit lines are moving forward in an orderly manner. The Credit Approval Center of the head office has commenced formal operation, and audit departments have been established in Eastern China, Central China and Northeastern China. The Bank plans to set up the remaining 3 regional audit departments by the end of the coming September and 5 regional credit approval centers by the end of the coming October.

(3) FINANCIAL PERFORMANCE

As of 30 June 2005, our profit before tax was RMB 6.884 billion, representing an increase of RMB 4.367 billion or 173.50% over the corresponding period of last year. Profit after tax was RMB 4.605 billion, representing an increase of RMB 6.510 billion or 341.73% as compared with the corresponding period of last year. Cost to income ratio was 48.06%, while return on total asset was 0.36% and fully diluted return on equity was 6.17%.

1. *Net interest income*

Net interest income amounted to RMB 14.942 billion, an increase of RMB 3.556 billion or 31.23% over the corresponding period for last year.

The table below sets forth the principal components of the Group's interest income and interest expense, and the associated net interest margin and net interest spread, for the periods indicated:

(in millions of RMB, except percentages)

	For the half year ended 30 June	
	2005	2004
Interest income		
Balances with central banks	**926**	866
Due from other banks and financial institutions	**1,470**	931
Financial assets held for trading	**84**	3
Loans and advances to customers	**16,879**	13,464
Investment securities	**3,810**	2,093
Others	**109**	31
Total interest income	**23,278**	17,388
Interest expense		
Due to other banks and financial institutions	**866**	413
Due to customers	**7,470**	5,589
Total interest expense	**8,336**	6,002
Net interest income	**14,942**	11,386
Net interest rate spread (1)	**2.70%**(3)	2.61%(4)
Net interest margin (2)	**2.70%**(3)	2.59%(4)

(1) This represents the difference between the average yield on the Bank's total average interest-earning assets and the average cost of total average interest-bearing liabilities.

(2) This represents the ratio of net interest income to the average interest-earning assets.

(3) Annualized indication rates are calculated by the interest rate for the first half year multiplied by 2.

(4) Annual indicator.

The Group's net interest income is affected by the difference between the yields on the Bank's interest-earning assets and the cost of the Bank's interest-bearing liabilities, as well as the average volumes of these assets and liabilities. The average interest-earning assets increased by RMB 134.4 billion as compared with last year while net interest spread increased by 9 basis points to 2.70%.

The table below sets forth the average daily balances and interest rates of the Group's interest-earning assets and interest-bearing liabilities for the periods indicated:

(in millions of RMB, except percentages)

	As of 30 June 2005			As of 31 December 2004		
	Average balance	Interest income/ expense	Average yield/ cost [(2)]	Average Balance [(1)]	Interest income/ expense	Average yield/ cost
Assets						
Cash and balances with central banks	114,694	926	1.62%	111,863	1,855	1.66%
Due from other banks and financial institutions	90,636	1,470	3.24%	98,115	2,231	2.27%
Loans to customers and discounted bills	662,943	16,879	5.09%	572,411	28,287	4.94%
Investment securities and others	237,352	4,003	3.37%	188,807	5,979	3.17%
Other interest earning assets						
Total interest earning assets and interest income	1,105,625	23,278	4.21%	971,195	38,352	3.95%
Non interest earning assets	70,239			58,759		
Total assets and interest income	1,175,864	23,278	3.96%	1,029,954	38,352	3.72%
Liabilities and Shareholders' Equity						
Due to customers	1,052,348	7,470	1.42%	936,230	12,031	1.29%
Due to central banks, other banks and financial institutions	41,420	589	2.85%	37,532	854	2.28%
Subordinated term debt	12,345	277	4.48%	6,117	275	4.50%
Total interest bearing liabilities and interest expense	1,106,113	8,336	1.51%	979,879	13,160	1.34%
Shareholders' equity and non interest bearing liabilities	69,751			50,075		
Total shareholders' equity and liabilities	1,175,864			1,029,954		

(1) Daily average balance calculated using the PRC GAAP which has been adjusted in accordance with IFRS.

(2) Annualized indicator.

The table below shows the changes in the Group's interest income and interest expense due to changes in volume and rates. Volume and rate variance have been calculated based on movements in average balances over these periods and changes in interest rates on interest-earning assets and interest-bearing liabilities.

(in millions of RMB)

	January-June of 2005 vs. January-December of 2004[1] Increase/(decrease) due to			2004 vs. 2003 Increase/(decrease) due to		
	Volume	Interest Rate	Net Increase/ (decrease)	Volume	Interest Rate	Net Increase/ (decrease)
Interest-Earning Assets						
Cash and balances with central banks	47	(50)	(3)	450	(96)	354
Due from other banks and financial institutions	(170)	879	709	86	130	215
Loans and advances to customers and bill discounting	4,474	998	5,472	5,465	647	6,113
Investment securities and other interest earning assets	1,537	490	2,027	1,797	(106)	1,691
Change in interest income	5,888	2,317	8,205	7,798	575	8,373
Interest-Bearing Liabilities						
Due to customers	1,492	1,417	2,909	2,365	(50)	2,315
Due to other banks and financial institutions	87	258	345	136	130	266
Subordinated term debt	279	(2)	277	275		275
Change in interest expense	1,858	1,673	3,531	2,776	80	2,855

(1) The formula for calculating the impact on the incomes and expenses of the movements of amounts and interest rates from January to June, 2005:

Impact of amount movements = (average balance in the first half of year 2005 – average balance in the year 2004) * average interest rate in the year 2004

Impact of interest rates movements = (annualized average interest rate in the first half of year 2005 – average interest rate in year 2004) * average balance in the first half of year 2005

2. Net fee and commission income

The Group's net fee and commission income increased by 21.94%, from RMB 720 million as of 30 June 2004 to RMB 878 million as of 30 June 2005, primarily due to the increase in fee and commission income from the Group's bank card services and settlement services.

3. *Dividend income*

The Group's dividend income is primarily derived from our available-for-sale securities investment or financial assets held for trading.

The Group's dividend income decreased from RMB 41 million as of 30 June 2004 to RMB 12 million as of 30 June 2005.

4. *Gains less losses arising from trading activities*

The Group's gains less losses arising from trading activities consist of income on foreign exchange and income on interest rate instruments. Net trading income on foreign exchange includes gains and losses from spot and forward contracts and from the translation of foreign currency monetary assets and liabilities into Renminbi assets and liabilities. Net income on interest rate instruments mainly includes the results of marking interest rate and currency swaps and other derivatives to market.

The Group's gains less losses arising from trading activities increased by 52.44%, from RMB 307 million as of 30 June 2004 to RMB 468 million as of 30 June 2005.

5. *Gains less losses arising from investment securities*

Gains less losses arising from investment securities mainly reflect the gains from the disposal of the Group's investment securities.

The Group earned a net gain on investment securities in the amount of RMB 426 million as of 30 June 2005, compared to a net loss of RMB 4 million as of 30 June 2004. The net gain was due to an active trading in securities in the first half of the year and the escalation of the price of investment securities as a result of the decrease in market interest rate which caused the increase in the gains of disposal.

6. *Other operating income*

The table below sets forth the principal components of the Group's other operating income for the periods indicated:

(in millions of RMB)

	For the half year ended 30 June	
	2005	2004
Profit on sales of land use rights and building	**15**	8
Penalty income	**8**	8
Other miscellaneous income[(1)]	**198**	19
Total	**221**	35

(1) Including income arising from various banking services provided to our customers.

Other operating income increased by 531.43%, from RMB 35 million as of 30 June 2004 to RMB 221 million as of 30 June 2005.

7. Other operating expenses

The table below sets forth the principal components of the Group's other operating expenses for the periods indicated:

(in millions of RMB)

	For the half year ended 30 June	
	2005	2004
Staff costs[(1)]	**2,309**	2,216
Depreciation[(2)]	**1,204**	1,169
Operating lease rentals	**393**	383
General and administrative expenses[(3)]	**1,403**	1,250
Write-down of foreclosed assets	**246**	179
Impairment of other receivables[(4)]	**148**	312
Business tax and surcharges[(5)]	**969**	760
Regulator's supervision fee	**129**	93
Provision for outstanding litigation	**181**	73
Professional fees[(6)]	**27**	5
Others[(7)]	**1,136**	898
Total	**8,145**	7,338

(1) Including salaries and bonuses, management performance bonuses, pension costs, housing subsidies, and other social security and benefit costs.

(2) Including depreciation on our buildings, equipment, motor vehicles and leasehold improvements.

(3) Including postage and telegraphic expenses, miscellaneous office expenses, business promotion expenses, water and electricity expenses, printing expenses, and other general and administrative expenses.

(4) Impairment of other receivables including provisions for those irrecoverable prepaid amounts and provision for off-balance sheet items losses.

(5) Including business tax, city maintenance and construction tax and education surcharges.

(6) Including legal, accounting and consulting fees.

(7) Including advertising expenses, stamp duty, urban real estate tax, amortization of intangible assets, litigation expenses, notary expenses, technology transfer fees, impairment losses for non-lending-related assets, donations, and other miscellaneous expenses.

Other operating expenses increased by 11%, from RMB 7.338 billion as of 30 June 2004 to RMB 8.145 billion as of 30 June 2005, primarily as a result of increases in regulator's supervision fee, staff costs, depreciation, business tax and surcharges, write-down of foreclosed assets, and provision for outstanding litigation, etc.

The Group's regulator's supervision fee as of 30 June 2005 was RMB 129 million, compared to 93 million as of 30 June 2004.

Staff costs increased by 4.20%, from RMB 2.216 billion as of 30 June 2004 to RMB 2.309 billion as of 30 June 2005, mainly due to increases in salaries and bonuses, pension costs, housing benefits and subsidies and other social security and benefit costs.

The Group's provision for outstanding litigation increased by 147.95%, from RMB 73 million as of 30 June 2004 to RMB 181 million as of 30 June 2005, based on the assessment of the status of pending litigation by the Bank's management.

Depreciation increased by 2.99% from RMB 1.169 billion as of 30 June 2004 to RMB 1.204 billion as of 30 June 2005.

Business tax and surcharges increased by 27.50%, from RMB 760 million as of 30 June 2004 to RMB 969 million as of 30 June 2005, primarily due to the increase in our taxable income.

8. Expenses from provision for loan impairment

The Group's expenses from provision for loan impairment consists of provision for impaired loans and advances to customers, less recovery of loans previously written off, and provision for amounts due from other banks and financial institutions and securities purchased under resale agreements.

Total impairment losses on loans decreased by 27.07%, from RMB 2.630 billion as of 30 June 2004 to RMB 1.918 billion as of 30 June 2005.

9. Profit before tax

As a result of the factors shown above, profit before tax increased by 173.50%, from RMB 2.517 billion as of 30 June 2004 to RMB 6.884 billion as of 30 June 2005.

10. Income tax

The table below sets forth a breakdown of the Group's current tax and deferred tax for the periods indicated:

(in millions of RMB)

	For the half year ended 30 June	
	2005	2004
Current tax	**144**	108
Deferred tax	**2,135**	4,314

For the Period ending 30 June 2005, the income of the Bank and each of our subsidiaries established in the PRC was subject to the PRC statutory tax rate of 33%. The income of the Bank's Hong Kong branch and our Hong Kong subsidiaries was subject to the Hong Kong tax at the rate of 17.5% for the Period ending 30 June 2005. The income of the Group's other overseas branches is subject to the income tax rate of the respective jurisdiction where they are located.

11. Capital Adequacy Ratio

The global offering raised a total of HK$ 14.261 billion as of 30 June 2005, which further enhanced the Bank's capital adequacy ratio. By the end of June, our capital adequacy ratio was 11.29% and our core capital adequacy ratio was 8.68%. The Bank's capital adequacy ratio takes the leading position compared to those of other domestic banks, which lays a solid foundation for the growth of its business.

SEGMENTAL OPERATING RESULTS

12. Results by geographical segments

Geographical segments represent specific economical environments generating potential risk and return that are different from those other economical environments in which the Group operates.

The table below sets forth the net profit and total revenue from each of the Group's geographical segments for the periods indicated:

(in millions of RMB)

	As of 30 June 2005		As of 30 June 2004	
	Net profit	**Total revenue[(1)]**	Net profit	Total revenue[(1)]
Northern China[(2)]	**970**	**4,144**	149	3,005
North Eastern China[(3)]	**(88)**	**2,049**	(684)	1,625
Eastern China[(4)]	**2,811**	**13,464**	(2,295)	9,275
Central and Southern China[(5)]	**499**	**4,768**	1,014	3,743
Western China[(6)]	**(166)**	**2,223**	(310)	1,830
Overseas[(7)]	**579**	**1,963**	225	1,120
Eliminations	**–**	**(3,158)**	(4)	(1,970)
Total	**4,605**	**25,453**	(1,905)	18,628

(1) Consisting of interest income, fee and commission income, dividend income, gains less losses arising from trading activities, gains less losses arising from investment securities and other operating income.

(2) Including Beijing Municipality, Tianjin Municipality, Hebei Province, Shanxi Province and Inner Mongolia Autonomous Region.

(3) Including Liaoning Province, Jilin Province and Heilongjiang Province.

(4) Including Shanghai Municipality, Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province, Shandong Province and our head office in Shanghai.

(5) Including Henan Province, Hunan Province, Hubei Province, Guangdong Province, Guangxi Autonomous Region and Hainan Province.

(6) Including Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province, Tibet Autonomous Region, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Autonomous Region.

(7) Including Hong Kong, New York, Singapore and Tokyo.

13. Results by business segments

The Group's business is mainly divided into four segments: corporate banking, retail and private banking, treasury operations and others. The table below sets forth the operating results of each of the Bank's business segments for the periods indicated:

(in millions of RMB)

	Total Revenue from External Customers[1]	
	As of 30 June 2005	As of 31 December 2004
Corporate banking	**16,606**	26,226
Retail and private banking	**2,574**	4,187
Treasury operations	**6,040**	10,324
Others	**233**	701
Total	**25,453**	41,438

(1) Consisting of interest income, fee and commission income, dividend income, gains less losses arising from trading activities, gains less losses arising from investment securities and other operating income from external customers.

(4) ANALYSIS OF ASSETS AND LIABILITIES

The Group's total assets as of 30 June 2005 were RMB1,292.50 billion, representing an increase of 12.98% from RMB1,144.00 billion as of 31 December 2004. The four principal components of our assets consist of loans and advances to customers, investment securities, cash and balances with central banks, and amounts due from other banks and financial institutions. As of 30 June 2005, the balance of our loans and advances to customers, investment securities, cash and balances with central banks, and amounts due from other banks and financial institutions constituted 56.42%, 19.17%, 10.30% and 10.76%, respectively, of the Group's total assets. The table below sets forth the balances of the significant components of the Group's total assets, as of the dates indicated:

(in millions of RMB)

	As of 30 June 2005	As of 31 December 2004
Loans and advances to customers		
Corporate loans[1]	**584,110**	509,011
Retail loans[1]	**97,809**	85,777
Discounted bills[1]	**56,318**	43,996
Interest receivables	**1,347**	1,274
Gross amount of loans and advances to customers before provision for impairment	**739,584**	640,058
Provision for impairment losses	**(10,309)**	(8,446)
Loans and advances to customers, net	**729,275**	631,612
Financial assets held for trading	**2,934**	2,495
Investment securities	**247,762**	246,728
Cash and balances with central banks	**133,193**	128,501
Due from other banks and financial institutions	**139,041**	88,923
Other assets	**40,327**	45,746
Total assets	**1,292,532**	1,144,005

(1) Amounts of corporate loans, retail loans and discounted bills are before provision for impairment.

1. Loans and advances to customers

As of 30 June 2005, the Group's corporate loans (including discounted bills) and retail loans represented approximately 86.75% and 13.25%, respectively, of the gross loans excluding interest receivables. While corporate banking business continues to be the Group's core banking business, the retail and private banking business, as part of the Group's development strategies, is also growing comparatively fast. Our retail loans increased 14.03% to RMB 97.809 billion as of 30 June 2005 from RMB 85.777 billion as of 31 December 2004. The Group's loan portfolio represents a significant portion of the Group's assets and accounted for 57.22% of our total assets as of 30 June 2005. The balance of the Group's loans and advances to customers increased 15.54% from RMB 640.058 billion as of 31 December 2004 to RMB 739.584 billion as of 30 June 2005.

2. *Loan concentration by industries*

The Group's corporate loan portfolio covers a broad range of industries, but is concentrated, in particular, in the manufacturing, trading, real estate, transportation and utilities sectors. The table below sets forth our corporate loan portfolio by industries and their percentage of the Group's corporate loan portfolio, as of the dates indicated:

(in millions of RMB, except percentages)

	As of 30 June 2005		As of 31 December 2004	
	Amount	**% of total**	Amount	% of total
Manufacturing:				
– Steel	**22,497**	**3.85**	19,267	3.78
– Machinery	**22,084**	**3.78**	18,711	3.67
– Electronics	**26,697**	**4.57**	24,001	4.72
– Petrochemicals	**33,125**	**5.67**	27,929	5.49
– Textile	**20,000**	**3.43**	18,850	3.70
– Other manufacturing(1)	**83,026**	**14.21**	71,263	14.00
Trading	**76,132**	**13.04**	67,846	13.33
Real estate	**64,744**	**11.08**	63,321	12.44
Transportation	**53,698**	**9.19**	43,436	8.53
Services	**45,083**	**7.72**	33,978	6.68
Post and telecommunications	**16,221**	**2.78**	15,114	2.97
Construction	**26,304**	**4.50**	20,916	4.11
Utilities	**45,411**	**7.78**	36,125	7.10
Education and scientific research	**24,759**	**4.24**	26,367	5.18
Agriculture	**1,824**	**0.31**	2,082	0.41
Non-banking financial institutions	**9,769**	**1.67**	8,063	1.58
Others	**12,736**	**2.18**	11,742	2.31
Total corporate loans	**584,110**	**100.00**	509,011	100.00

(1) Including light industry, food processing, pharmaceutical and non-ferrous metal industry.

The Group's retail loan portfolio consists primarily of mortgage loans, automotive loans and working capital loans. The table below sets forth our retail loan portfolio by products and as a percentage of the Group's retail loan portfolio, as of the dates indicated:

(in millions of RMB)

	As of 30 June 2005		As of 31 December 2004	
	Amount	**%**	Amount	%
Housing loans	**73,674**	**75.32%**	63,978	74.59%
Automotive loans	**4,409**	**4.51%**	5,113	5.96%
Short-term working capital loans	**4,413**	**4.51%**	3,718	4.33%
Medium-and long-term working capital loans	**12,573**	**12.86%**	10,821	12.62%
Credit card advances	**110**	**0.11%**	107	0.12%
Others	**2,630**	**2.69%**	2,040	2.38%
Total retail loans	**97,809**	**100.00%**	85,777	100.00%

3. *Borrower Concentration*

Under the current PRC banking regulations, the aggregate amount of a bank's loan exposure to any single borrower may not exceed 10% of the bank's net capital, and the aggregate amount of our loan exposure to the top ten borrowers may not exceed 50% of the bank's net capital. The Group is currently in compliance with these regulatory requirements. The tables below set forth the Group's ten largest loan exposures, as of the dates indicated:

As of 30 June 2005 *(in millions of RMB)*

	Industry category	**Company category**	**Outstanding amount**	**Internal credit rating**
Customer A	Petrochemical	Joint-stock	5,465	2
Customer B	Transportation and storage	State-owned	3,394	5
Customer C	Services	State-owned	2,856	5
Customer D	Transportation and storage	State-owned	2,800	5
Customer E	Wholesale	State-owned	2,503	4
Customer F	Petrochemical	Sino-foreign joint venture	2,253	4
Customer G	Post and telecommunications	State-owned	2,020	5
Customer H	Food	Limited liability company	1,820	5
Customer I	Transportation and storage	Sino-foreign joint venture	1,694	5
Customer J	Steel	State-owned	1,597	4
Total top ten			26,402	4

4. Loan Concentration by Geographical Locations

The table below sets forth the geographical distribution of the Group's gross loans excluding interest receivables, as of the dates indicated:

(in millions of RMB)

	As of 30 June 2005	As of 31 December 2004
Northern China[1]	**129,726**	105,139
North-east China[2]	**55,078**	50,423
Eastern China[3]	**300,920**	260,251
Central and Southern China[4]	**141,268**	126,306
Western China[5]	**67,604**	60,213
Overseas[6]	**43,639**	36,452
Gross loans excluding interest receivables	**738,235**	638,784

(1) Including Beijing Municipality, Tianjin Municipality, Hebei Province, Shanxi Province, and Inner Mongolia Autonomous Region.

(2) Including Liaoning Province, Jilin Province and Heilongjiang Province.

(3) Including Shanghai Municipality, Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province, Shandong Province and our head office in Shanghai.

(4) Including Henan Province, Hunan Province, Hubei Province, Guangdong Province, Guangxi Autonomous Region and Hainan Province.

(5) Including Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province, Xizang Autonomous Region, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Autonomous Region.

(6) Including Hong Kong, New York, Singapore and Tokyo.

The Group has been focusing on the areas which are more economically developed, in particular, the Yangtze River Delta, the Bohai Rim Economic Zone and the Pearl River Delta. The Group's loans to borrowers from the Yangtze River Delta, the Bohai Rim Economic Zone and the Pearl River Delta accounted for 63.45% and 64.11% of the Group's gross loans excluding interest receivables, as of 30 June 2004 and 2005, respectively. The increase of the Group's relative loan distributions to the Yangtze River Delta, the Bohai Rim Economic Zone and the Pearl River Delta was primarily due to the Group's focus on these areas.

5. *Loan Distribution by Currency*

The Group provides loans to our customers primarily in Renminbi and to a lesser extent in certain foreign currencies. The table below sets forth the Group's loan distribution in Renminbi and foreign currencies as of the dates indicated:

(in millions of RMB)

	As of 30 June 2005		As of 31 December 2004	
	Amount	**%**	Amount	%
RMB	**653,664**	**88.54%**	568,728	89.03%
US$	**14,730**	**2.00%**	37,279	5.84%
HK$	**30,994**	**4.20%**	26,420	4.13%
Others	**38,847**	**5.26%**	6,356	1.00%
Total	**738,235**	**100.00%**	638,784	100.00%

6. *Loan Quality*

The Group intends to improve our loan quality and to generate stable profits while maintaining our credit risk exposure to an acceptable degree through a diversified loan portfolio. We have established an integrated credit risk management system with comprehensive policies and procedures to identify, measure, monitor and control credit risk throughout our organization.

Impaired loans are a concept under IFRS. A loan is impaired if there is objective evidence that we will not be able to collect all amounts due according to the original contractual terms of such loan.

The table below sets forth certain information regarding the Group's individually identified impaired loans and loans overdue by more than 90 days or more as of the dates indicated:

(in millions of RMB)

	As of 30 June 2005	As of 31 December 2004
Individually identified loans with impairment	**20,944**	19,193
Loans overdue by 90 days or more	**15,108**	11,178
Impaired loans as a percentage of total loans	**2.83%**	3.00%

7. *Provision for Impairment Losses*

All loans and advances are recorded when cash is advanced to borrowers. If there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms of loans, the Bank will credit a provision for that loan impairment. The amount of such a provision is the difference between the carrying amount and the recoverable amount. The recoverable amount is the estimated present value of expected cash flows, taking into account the repayment condition of the borrower or the guarantor and amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the loans. The loan loss provision also covers losses where there is objective evidence that losses are present in components of the loan portfolio at the balance sheet date even though these have not been individually identified. These are assessed based upon historical patterns of losses in each component, the credit ratings allocated to the borrowers and the current economic climate in which the borrowers operate.

The table below sets forth the movements in provision for impairment losses on loans and advances for the periods indicated:

(in millions of RMB)

	As of 30 June 2005	As of 31 December 2004
Balance at beginning of the period	**8,446**	33,268
Provision for the period	**1,969**	3,041
Loans written off for the period	**(106)**	(928)
Write back for disposed impaired loans	**–**	(26,935)
Balance at end of the period	**10,309**	8,446

Note: As of 30 June, the Group credited the provision in the amount of RMB98.42 million for the outstanding loan balance of RMB444.58 million to Greencool Group, which was a matter of concern to the public. The Group also credited the provision in the amount of RMB55.90 million for the outstanding loan balance of RMB147.81 million to Pricemart-N Mart.

8. *Non-performing Loans*

The Group manages the quality of our loan portfolio in accordance with the five-category loan classification guidelines set by the PBC. According to the guidelines, commercial banks in the PRC are required to classify their loans into one of the following five asset quality categories: (1) "pass", (2) "special-mentioned", (3) "substandard", (4) "doubtful" and (5) "loss". A loan is a "non-performing loan" if it is classified as "substandard", "doubtful" or "loss".

The table below sets forth our five-category loan classification as of the dates indicated:

(in millions of RMB, except percentages)

	As of 30 June 2005		As of 31 December 2004	
	Amount	**% of total**	Amount	% of total
Pass	**614,477**	**83.69%**	521,203	81.67%
Special-mentioned	**101,777**	**13.86%**	98,395	15.42%
Substandard	**11,106**	**1.51%**	11,742	1.84%
Doubtful	**6,699**	**0.91%**	6,582	1.03%
Loss	**202**	**0.03%**	226	0.04%
Total loans(1)	**734,261**	**100.0%**	638,147	100.0%
Non-performing loan ratio		**2.45%**		2.91%

Note: (1) Calculated based on PRC GAAP.

9. *Investment securities*

The Group's investments and operations are denominated in Renminbi with a limited number of securities denominated in foreign currencies in order to (1) maintain the stability and diversification of its banking assets; (2) maintain sufficient standby liquidities to meet its capital demand; and (3) supplement the income from its core lending operations.

The Group's RMB denominated investment securities mainly include the PRC government's bonds, finance bonds issued by PRC policy banks, subordinated term bonds issued by PRC commercial banks and short term finance bonds issued by a few large-scale enterprises with good credit rating. 99.88% of the Group's RMB denominated investment securities are granted sovereign rating or AAA rating by PRC credit rating institutions, with the rest being financial debts and corporate debts with BBB rating or above issued among banks. As of 30 June 2005, the Group's single largest RMB investment was the PBC's notes in the amount of RMB 20.017 billion.

The Group's foreign currency investment securities mainly comprise foreign currency bonds issued by foreign financial institutions, foreign governments and corporations. When investigating in foreign currency bonds, the Group makes investments only in enterprises with S&P's BBB- or above ratings or Moody's Baa3 or above ratings.

According to its internal guidelines, the Group's total investment in one single foreign currency bond shall not exceed 10% of the total issuing amount of such bond, except the issuer is granted S&P's AA- or above ratings or Moody's Aa or above ratings. In addition, the total amount of the Group's foreign currency investment securities shall not be more than 30% of the Group's total foreign currency assets.

Due to the adoption of the new IAS No. 39 (2003 revision), the Group has changed the accounting policies for financial assets and particularly for investment securities - originated loans. As of 31 December 2004, debt securities that are purchased at the original issuance without the intent to sell immediately or in the short term may be classified as originated loans. However, in accordance with the relevant provisions of new IAS No.39 (2003 revision), apart from unquoted securities investment in the open market - originated loans which should be treated as "investment securities - loans and receivables", the Group has classified all other investment securities - originated loans as "investment securities - available-for-sale securities" or trading securities, and reclassified the corresponding contents dated on 31 December 2004.

Therefore, the Group has stated those securities as loans and receivables or available-for-sale securities in its balance sheets. Loans and receivables represent debts securities with fixed payment terms but without quotations in the open market, which should be stated as non-derivative securities. Available-for-sale securities are investment securities which are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. As of 30 June 2005, the carrying value of the Group's securities investment portfolio amounted to RMB 247.762 billion, accounting for 19.17% of its total assets.

The table below sets forth the carrying value of the Group's investment portfolio as of the dates indicated:

(in millions of RMB, except percentages)

	As of 30 June 2005		As of 31 December 2004	
	Amount	**% of total**	Amount	% of total
Loans and receivables				
Domestic fixed income instruments				
Financial institutions	**0**	**0.00%**	0	0.00%
PBC	**19,825**	**8.00%**	19,921	8.07%
PRC government	**8,070**	**3.26%**	8,990	3.64%
Subtotal	**27,895**	**11.26%**	28,911	11.71%
Foreign fixed income instruments	**2,621**	**1.06%**	2,294	0.93%
Total originated loans	**30,516**	**12.32%**	31,205	12.64%
Available-for-sale securities				
Domestic fixed income instruments				
Non-financial institutions	**305**	**0.12%**	0	0.00%
Financial institutions	**103,422**	**41.74%**	73,471	29.78%
PBC	**29,082**	**11.74%**	42,732	17.32%
PRC government	**46,320**	**18.70%**	60,388	24.48%
Subtotal	**179,129**	**72.30%**	176,591	71.58%
Foreign fixed income instruments	**37,603**	**15.18%**	38,435	15.58%
Others	**514**	**0.20%**	497	0.20%
Total available-for-sale securities	**217,246**	**87.68%**	215,523	87.36%
Held-to-maturity securities	**0**	**0.00%**	0	0.00%

Due to the change in the management's investment strategy, the Group re-designated all its investment securities originally classified as held-to-maturity securities to become available-for-sale securities during the year of 2004. Investment securities amounting to RMB 1.014 billion were disposed of immediately and investment securities amounting to RMB 4.378 billion were reclassified as available-for-sale securities in the financial statements. After such reclassification of investment securities in accordance with IAS, the Group may not recognize any held-to-maturity securities in the following two financial years.

(5) LIABILITIES AND SOURCES OF FUNDS

Total liabilities of the Group as of 30 June 2005 were RMB1,217.839 billion, representing an increase of 11.53% from RMB1,091.902 billion as of 31 December 2004. Customer deposits represented 94.23% of the Group's total liabilities. The Group obtained funding for its lending and investment activities from a variety of sources, both domestically and internationally. The principal sources of funding came from corporate and individual deposits. The funding operations were designed to ensure both a stable source of funds and effective liquidity management. The Group continuously adjusted its funding operations to minimize funding costs and also endeavored to match currencies and maturities with those of its loan portfolio.

The table below sets forth information on the outstanding balances of the Group's major sources of funds as of the dates indicated:

(in millions of RMB)

	As of 30 June 2005		As of 31 December 2004	
	Amount	**%**	Amount	%
Corporate deposits				
Corporate current deposits	**420,936**	**36.68%**	385,556	37.43%
Corporate savings deposits(1)	**6,406**	**0.56%**	5,011	0.49%
Corporate time deposits	**205,709**	**17.93%**	186,216	18.08%
Subtotal	**633,051**	**55.17%**	576,783	56.00%
Individual deposits				
Individual current deposits	**145,529**	**12.68%**	143,461	13.93%
Individual savings deposits(1)	**11,566**	**1.01%**	14,879	1.45%
Individual time deposits	**240,994**	**21.00%**	210,561	20.44%
Subtotal	**398,089**	**34.69%**	368,901	35.82%
Others(2)	**116,369**	**10.14%**	84,257	8.18%
Total customer deposits	**1,147,509**	**100%**	1,029,941	100%

(1) These deposits are exclusively from our Hong Kong branch.

(2) Including pledged deposits, promissory notes, customer margin deposits and interest payable.

1. *Distribution of Deposits by Geographical Locations*

(in millions of RMB)

	As of 30 June 2005
Northern China[(1)]	213,975
North eastern China[(2)]	107,411
Eastern China[(3)]	422,913
Central & Southern China[(4)]	231,693
Western China[(5)]	111,062
Overseas[(6)] and eliminations	60,455
Total	1,147,509

(1) Including Beijing Municipality, Tianjin Municipality, Hebei Province, Shanxi Province and Inner Mongolia Autonomous Region.

(2) Including Liaoning Province, Jilin Province and Heilongjiang Province.

(3) Including Shanghai Municipality, Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province, Shandong Province and our head office in Shanghai.

(4) Including Henan Province, Hunan Province, Hubei Province, Guangdong Province, Guangxi Autonomous Region and Hainan Province.

(5) Including Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Tibet Autonomous Region, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Autonomous Region.

(6) Including Hong Kong, New York, Singapore and Tokyo.

2. *Distribution of Deposits by Currencies*

(in millions of RMB)

	As of 30 June 2005					As of 31 December 2004				
	RMB	US$	HK$	Others	Total	RMB	US$	HK$	Others	Total
Customer deposits	1,012,109	72,367	48,834	14,199	1,147,509	900,469	78,131	39,970	11,371	1,029,941
Due to other banks and financial institutions	24,478	5,259	1,260	5,082	36,079	18,437	5,623	2,471	5,180	31,711
Total	1,036,587	77,626	50,094	19,281	1,183,588	918,906	83,754	42,441	16,551	1,061,652

(6) PROSPECTS FOR THE SECOND HALF OF THIS YEAR

Commencing from July 2005, the Group's operation and management have shown some new positive elements. As the first domestic commercial bank to be listed overseas, the Group has formed its own competitive edge in operation and management. On 2 August, with the permission of the State Ministry of Labor and Social Security, the Group obtained its status as account manager and custodian and commenced business of corporate annuities. On 11 August, the Group gained consent from SAFE to exchange the fund in Hong Kong dollars raised from the IPO. The Group was one of the three trial banks to set up fund companies. Bank of Communications Schroder Fund Management Co., Ltd., which was promoted and established by the Bank, was officially set up on 12 August and will issue its first fund product and its newly established Seoul branch officially commenced business on 18 August. As a result of these measures, the Group's influence in the market is enhanced. This creates opportunity for steady business development and continued adjustment and optimization of the business structure. In the second half of the year, the Group will focus on such key projects as management accounting and internal rating system, which are essential in strengthening fundamental management, thus improving sound development capability and managing risk.

However, the Group is also faced with many adverse impacts due to changes in the market environment. The reform towards market-oriented interest rates is proceeding steadily, thus imposing a higher demand on the Group's pricing management capability. The reform measures of the exchange rate-formulating mechanism of RMB have been promulgated and implemented, but due to the absence of market-oriented risk hedging instruments, the measures that can be taken to hedge RMB exchange risks are limited and the exchange risk impose certain negative impact on the profitability of the Group. The increasing pace of reform for the deposit insurance system may increase the costs of the Group. Increasing intensive competition within the banking industry has brought about much pressure on the business, human resources and profitability of the Group. In addition, the amount of impaired loans held by the Group has shown a slight increase, and thus greater efforts on risk management are required.

V. FURTHER INFORMATION

(1) DIRECTORS' INTERESTS

As of 30 June 2005, none of the 19 directors of the Bank has any interests and/or short positions in the shares of the Bank, which shall be notified to the Bank and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance ("SFO") (including those deemed to be owned by them in accordance with the provisions thereof) or which shall be recorded in the register required to be kept by the Bank pursuant to Section 352 of the SFO.

(2) SUBSTANTIAL SHAREHOLDERS

After the successful listing of the Bank on the main board of the Stock Exchange on 23 June 2005, the companies and institutions which had interests (within the meaning therein) in 5% or more of the Bank (as recorded in the register required to be kept pursuant to Section 336 of SFO) as at 30 June 2005 are as follows:

No.	Name of Shareholders	No. of shares held	Percentage of shareholding (%)
1	Ministry of Finance	9,974,982,648	22.20
2	Hong Kong and Shanghai Banking Corporation Limited	8,236,658,580	18.33
3	Council for National Social Security Fund	5,555,555,556	12.37
4	HKSCC Nominees Limited	5,164,039,000	11.49
5	China SAFE Investments Limited	3,000,000,000	6.68
	Total	31,469,519,784	71.07

Note: On 4 July, the Joint Global Coordinator of the Bank exercised the Over-allotment Option in respect of 878,344,000 H Shares, which represent 15% of the number of shares initially offered by the Bank in the Global Offering (relevant announcement was published on 4 July on the Hong Kong Stock Exchange). After exercise of the Over-allotment Option, (1) the Ministry of Finance held 9,974,982,648 shares of the Bank, representing 21.78% of its total share capital; (2) the Hong Kong and Shanghai Banking Corporation Limited held 9,115,002,580 shares of the Bank, representing 19.90% of its total share capital; (3) the Council for National Social Security Fund held 5,555,555,556 shares of the Bank, representing 12.13% of its total share capital; (4) HKSCC Nominees Limited held 5,184,016,000 shares of the Bank, representing 11.32% of its total share capital; and (5) China SAFE Investments Limited held 3,000,000,000 shares of the Bank, representing 6.55% of its total share capital.

(3) PURCHASE, SALE OR REDEMPTION OF SHARES OF THE BANK

During the Period, none of the Bank or any of its subsidiaries has purchased, sold or redeemed any shares of the Bank.

(4) CODE OF CORPORATE GOVERNANCE PRACTICES

The Bank endeavored to establish corporate governance of a high standard, believing that good corporate governance is crucial to maximise the value for our shareholders. In order to maintain a high standard of corporate governance, the Bank has established a responsible, professional and accountable Board of Directors with an experienced senior management team. The structure of our corporate governance comprised of the Board of Directors and the Board of Supervisors, the members of which (except employee supervisors who are elected by employees of the Bank as employee representatives in the Board of Supervisors) are elected by the Shareholders' General Meeting of the Bank. The Bank has also set up three special committees under the Board of Directors, including an Audit Committee, a Risk Management Committee, and a Personnel and Compensation Committee. None of the Directors is aware of any information that would reasonably indicate that the Bank is not, or was not for any part of the period commencing from 23 June 2005 (being the listing date) and ended 30 June 2005, in compliance with the Code of Corporate Governance Practices set out in Appendix XIV of the Rules Governing the Listing of Securities of the Stock Exchange (the "Listing Rules").

(5) DIRECTORS' COMPLIANCE WITH THE CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Bank has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix X of the Listing Rules. The Bank has made specific enquiries of all Directors and confirmed that they have complied with the required standards set out in the Model Code.

(6) AUDIT COMMITTEE

The Bank has set up an audit committee in accordance with Appendix XIV of the Listing Rules. The primary duties of the audit committee are to review the Bank's internal and external auditing work, to audit financial reports and to oversee implementation of internal control policy as well as the efficiency and compliance thereof. The audit committee consists of four members, including Herbert HUI Ho Ming (independent non-executive Director), LI Zexing (non-executive Director), XIE Qingjian (independent non-executive Director) and CHEN Qingtai (independent non-executive Director), with independent non-executive Director Herbert HUI Ho Ming as chairman. The audit committee has reviewed the accounting policies and practices adopted by the Bank and discussed affairs of internal control and financial reporting (including reviewing our unaudited condensed consolidated interim financial information) with the senior management.

(7) PUBLICATION OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

Information as required by Rule 46(1) to 46(6) of Appendix XVI of the Listing Rules will be sent to the Stock Exchange before the stipulated date and published on www.hkex.com.hk.

VI. INDEPENDENT REVIEW REPORT

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

TO THE BOARD OF DIRECTORS OF BANK OF COMMUNICATIONS CO., LTD.
(incorporated in the People's Republic of China with limited liability)

INTRODUCTION

We have been instructed by the Bank of Communications Co., Ltd. to review the condensed consolidated interim financial information set out on pages 34 to 110.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of a condensed consolidated interim financial information to be in compliance with International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standard Board and the relevant provisions thereof. The condensed consolidated interim financial information is the responsibility of, and has been approved by, the directors. It is our responsibility to form an independent conclusion, based on our review, on the condensed consolidated interim financial information and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statements of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the condensed consolidated interim financial information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the condensed consolidated interim financial information.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the condensed consolidated interim financial information for the six months ended 30 June 2005.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 22 August 2005

VII. UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

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

	Note	Half-year ended 30 June 2005	2004
Interest income		**23,278**	17,388
Interest expense		**(8,336)**	(6,002)
Net interest income	*4*	**14,942**	11,386
Fee and commission income		**1,048**	861
Fee and commission expense		**(170)**	(141)
Net fee and commission income		**878**	720
Dividend income	*5*	**12**	41
Gains less losses arising from trading activities	*6*	**468**	307
Gains less losses arising from investment securities	*19*	**426**	(4)
Other operating income	*7*	**221**	35
Impairment provision on loans and advances	*8*	**(1,918)**	(2,630)
Other operating expenses	*9*	**(8,145)**	(7,338)
Operating profit before tax		**6,884**	2,517
Income tax	*12*	**(2,279)**	(4,422)
Net profit/(loss) for the period		**4,605**	(1,905)
Basic and diluted earnings/(losses) per share (in RMB)	*13*	**0.12**	(0.11)

The accompanying notes presented on pages 39 to 110 form an integral part of this condensed consolidated interim financial information.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

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

	Note	**As at 30 June 2005**	As at 31 December 2004 Restated
ASSETS			
Cash and balances with central banks	*14*	**133,193**	128,501
Due from other banks and financial institutions	*15*	**139,041**	88,923
Financial assets held for trading	*16*	**2,934**	2,495
Loans and advances to customers	*18*	**729,275**	631,612
Investment securities – loans and receivables	*19*	**30,516**	31,205
Investment securities – available-for-sale	*19*	**217,246**	215,523
Property and equipment	*20*	**23,575**	23,863
Deferred tax assets	*26*	**2,109**	5,739
Other assets	*21*	**14,643**	16,144
Total assets		**1,292,532**	1,144,005
LIABILITIES			
Due to other banks and financial institutions	*22*	**36,079**	31,711
Financial liabilities held for trading	*23*	**6,644**	5,086
Due to customers	*24*	**1,147,509**	1,029,941
Other liabilities	*25*	**14,998**	12,457
Current taxes		**149**	39
Deferred tax liabilities	*26*	**377**	393
Subordinated term debt	*28*	**12,083**	12,275
Total liabilities		**1,217,839**	1,091,902
SHAREHOLDERS' EQUITY			
Share capital	*29*	**44,926**	39,070
Capital surplus	*29*	**20,073**	10,872
Revaluation reserves		**5,235**	2,307
Retained earnings/(Accumulated losses)	*30*	**4,459**	(146)
Total shareholders' equity		**74,693**	52,103
Total equity and liabilities		**1,292,532**	1,144,005

This condensed consolidated interim financial information were approved for issue by the Board of Directors on 22 August 2005 and signed on its behalf by:

Chairman of Board: JIANG Chaoliang

Chief Financial Officer: YU Yali

The accompanying notes presented on pages 39 to 110 form an integral part of this condensed consolidated interim financial information.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

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

	Share capital *Note 29*	Capital surplus *Note 29*	Statutory accumulation reserve *Note 30*	Discretionary reserve *Note 30*	Statutory welfare reserve *Note 30*	Revaluation reserve for AFS securities	Revaluation reserve for properties	Retained earnings/ (Accumulated losses) *Note 30*	Total
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 *(Note 2l)*	–	–	–	–	–	121	–	–	121
Adjusted balance at 1 January 2004, restated	17,108	11,035	4,598	5,403	972	363	481	(21,758)	18,202
Restructuring transactions with government	13,556	1,681	–	–	–	–	–	–	15,237
Losses from changes in fair value of AFS securities, net of tax	–	–	–	–	–	(1,945)	–	–	(1,945)
Net loss	–	–	–	–	–	–	–	(1,905)	(1,905)
Balance at 30 June 2004, restated	30,664	12,716	4,598	5,403	972	(1,582)	481	(23,663)	29,589
Previously reported balance at 1 January 2005	39,070	10,872	–	–	–	178	3,579	(146)	53,553
Reclassification into AFS securities *(Note 2l)*	–	–	–	–	–	(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	5,856	9,330	–	–	–	–	–	–	15,186
Issuance cost	–	(129)	–	–	–	–	–	–	(129)
Gains from changes in fair value of AFS securities, net of tax	–	–	–	–	–	2,928	–	–	2,928
Net profit	–	–	–	–	–	–	–	4,605	4,605
Balance at 30 June 2005	44,926	20,073	–	–	–	1,656	3,579	4,459	74,693

The accompanying notes presented on pages 39 to 110 form an integral part of this condensed consolidated interim financial information.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Half-year ended 30 June	
	2005	2004
Cash flows from operating activities		
Net profit before taxation	**6,884**	2,517
Adjustment for:		
Impairment of loans and advances to customers	**1,969**	2,416
(Write-back)/Impairment of due from banks and financial institutions	**(18)**	306
Impairment of other receivables	**148**	312
Write-down of foreclosed assets	**246**	179
Depreciation of property and equipment	**1,204**	1,169
Amortization of prepaid staff subsidies	**15**	46
Amortization of prepaid rental expenses	**88**	84
Amortization of land use rights	**3**	10
Amortization of computer software	**49**	33
Net (gains)/loss on investment securities	**(426)**	4
Gains on disposal of fixed assets	**(15)**	(8)
Interest expense for the issue of bonds	**277**	7
	10,424	7,075
Net increase in due from central banks	**(6,122)**	(9,024)
Net increase in due from other banks and financial institutions	**(22,272)**	(11,013)
Net (increase)/decrease in financial assets held for trading	**(439)**	1,213
Net increase in loans and advances to customers	**(99,632)**	(65,631)
Net decrease/(increase) in other assets	**1,452**	(3,163)
Net increase in due to other banks and financial institutions	**4,368**	14,200
Net increase in financial liabilities held for trading	**1,558**	1,393
Net increase in due to customers	**117,568**	88,715
Net increase in other liabilities	**2,242**	6,136
Net (decrease)/increase in business tax payable	**(4)**	227
Income tax paid	**(34)**	(647)
Net cash from operating activities	**9,109**	29,481

	For half-year ended 30 June	
	2005	2004
Cash flows from investing activities		
Purchase of investment securities	**(141,366)**	(85,132)
Disposal or redemption of investment securities	**145,028**	39,948
Purchase of computer software	**(33)**	(75)
Prepaid rental expenses	**(84)**	(109)
Purchase of land use rights	**–**	(10)
Disposal of land use rights	**–**	(240)
Purchase of property and equipment	**(1,150)**	(1,610)
Disposal of property and equipment	**308**	1,476
Net cash from/(used) in investing activities	**2,703**	(45,752)
Cash flows from financing activities		
Issue of shares	**15,057**	18,000
Interest paid on issued bonds	**(469)**	–
Issue of subordinated term debt	**–**	10,400
Dividends paid	**(2)**	(5)
Net cash from financing activities	**14,586**	28,395
Net increase in cash and cash equivalents	**26,398**	12,124
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 35)*	**102,155**	89,412
Major non-cash transactions		
Transfer from other assets to fixed assets	**57**	215
Supplementary information		
Interest received	**23,205**	17,393
Interest paid	**(6,856)**	(5,684)

The accompanying notes presented on pages 39 to 110 form an integral part of this condensed consolidated interim financial information.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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

1 GENERAL

Bank of Communications Co., Ltd. (the "Bank") is a commercial and retail bank providing banking services mainly in the People's Republic of China ("PRC"). The Bank was reorganised as a joint stock national commercial bank on 1 April 1987, in accordance with the approval notice (Guo Fa (1986) No. 81) issued by the State Council of the PRC and the approval notice (Yin Fa (1987) No. 40) issued by the People's Bank of China ("PBC"). Headquartered in Shanghai, the Bank operates 92 branches in the PRC. In addition, the Bank has branches in Hong Kong, New York, Tokyo and Singapore.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the condensed consolidated financial information are set out below. These policies have been consistently applied to all the periods presented unless otherwise stated.

I Basis of presentation

This condensed consolidated interim financial information is prepared in accordance with IAS 34 Interim Financial Reporting. This condensed consolidated interim financial information should be read in conjunction with the 2004 annual accounts. The condensed consolidated interim financial information has been prepared under the historical cost convention as modified by the revaluation of investment securities classified as available for sale, financial assets and financial liabilities held at fair value through profit or loss, property and equipment, investment properties and all derivative contracts.

The preparation of condensed consolidated interim financial information in conformity with the International Financial Reporting Standards ("IFRS") requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

The Group adopted the following IAS and IFRS, which are effective for accounting periods commencing on or after 1 January 2005:

IAS 1 (revised 2003)	Presentation of Financial information
IAS 8 (revised 2003)	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10 (revised 2003)	Events after the Balance Sheet Date
IAS 16 (revised 2003)	Property, Plant and Equipment
IAS 17 (revised 2003)	Leases
IAS 21 (revised 2003)	The Effects of Changes in Foreign Exchange Rates
IAS 24 (revised 2003)	Related Party Disclosures
IAS 27 (revised 2003)	Consolidated and Separate Financial information
IAS 28 (revised 2003)	Investments in Associates
IAS 32 (revised 2003)	Financial Instruments: Disclosure and Presentation
IAS 33 (revised 2003)	Earnings per Share
IAS 39 (revised 2003)	Financial Instruments: Recognition and Measurement
IAS 40 (revised 2003)	Investment Property
IFRS 2 (issued 2004)	Share-based Payment
IFRS 4 (issued 2004)	Insurance Contract
IFRS 5 (issued 2004)	Non-current Assets Held for Sale and Discontinued Operations

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

l ***Basis of presentation*** *(Continued)*

The adoption of IAS 1, 8, 10, 16, 17, 21, 24, 27, 28, 32, 33, 40 (all revised 2003) and IFRS 2, 4, 5 (all issued 2004) did not result in changes to the Group's accounting policies. In summary:

– IAS 1, 8, 10, 16, 17, 27, 28, 32, 33, 40 (all revised 2003) and IFRS 2, 4, 5 (all revised 2004) had no material effect on the Group's policies.

– IAS 21 (revised 2003) had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as their measurement currency.

– IAS 24 (revised 2003) has affected the identification of related parties and some other related-party disclosures.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

– IAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations;
– IAS 39 – the de-recognition of financial assets is applied prospectively; and
– IFRS 2 – retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 January 2004.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

I ***Basis of presentation*** *(Continued)*

The adoption of IAS 39 (revised 2003) has resulted in a change in the accounting policy for financial assets, especially the accounting policy for investment securities-originated loans. Until 31 December 2004, debt securities that were purchased at original issuance without the intent to sell immediately or in the short term were classified as originated loans. In accordance with the provisions of IAS 39 (revised 2003), except for certain originated loans that are not quoted in an active market would be classified as "investment securities – loans and receivables", the originated loans should be classified as available-for-sale securities or trading securities according to the management's intention. The impact of the reclassification and its impact on the financial position of the Group at 1 January 2004 and 2005 are set out below:

	1 January 2005	1 January 2004
Decrease in originated loans	**(159,826)**	(104,670)
Increase in available-for-sale securities	**125,495**	92,058
Increase in investment securities-loans and receivables	**31,205**	12,793
Increase in trading securities	**962**	–
(Decrease)/Increase in revaluation reserve, net of tax	**(1,450)**	121
Increase in deferred tax assets/(liabilities)	**714**	(60)

There was no significant impact on opening retained earnings at 1 January 2005 and 2004 from the adoption of any of the above-mentioned standards.

Except for the adoption of the above IAS and IFRS which are effective for accounting periods commencing on or after 1 January 2005, the accounting policies and basis of preparation of the condensed interim financial information of the Group are consistent with those adopted in the Group's 2004 annual accounts.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

II Derivative financial instruments

Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps, and other derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognises profits on day 1.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their risks and economic characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealized gains and losses reported in the profit and loss account. These embedded derivatives are measured at fair value with changes in fair value recognised in the profit and loss account.

Certain derivative transactions, while considered as hedges under the Group's risk management policies, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore treated as derivatives held for trading.

Changes in the fair value of derivatives held for trading are included in gains less losses arising from trading activities.

III Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short team or if so designated by management. Derivatives are also categorized as held for trading unless they are designated as hedges.

Trading securities are securities which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists. Trading securities are initially recognised at fair value and subsequently re-measured at fair value based on quoted bid prices. Trading securities are derecognised when the rights to receive cash flows from the trading securities have expired or when the Group has transferred substantially all risks and rewards of ownership. All related realized and unrealized gains and losses are included in gains less losses arising from trading activities. Interest earned whilst holding trading securities is reported as interest income. Dividends received are included in dividend income.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

III Financial assets at fair value through profit or loss *(Continued)*

All purchases and sales of trading securities that require delivery within the time frame established by regulation or market convention ('regular way' purchases and sales) are recognised at trade date, which is the date that the Group commits to purchase or sell the asset. Otherwise such transactions are treated as derivatives until settlement occurs.

IV Investment securities

The Group classifies its investment securities in the following categories: loans and receivables and available-for-sale securities. Management determines the classification of its investments at initial recognition. Due to the change in management's investment strategy, the Group re-designated all its investment securities originally classified as held-to-maturity to become available-for-sale during 2004. After such reclassification of investment securities, the Group may not recognise any held-to-maturity securities in the following two financial years. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. Investment securities are initially recognised at fair value plus transaction costs and subsequently they are measured as follows:

(1) Loans and receivables

Loans and receivables are non-derivative debt securities with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. After initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any provision for impairment.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

IV Investment securities (Continued)

(2) Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. After initial recognition, the available-for-sale securities are subsequently re-measured at fair value. The fair value is determined by the following hierarchy:

– the published quoted price is the best evidence of fair value when the financial instrument is quoted in an active market.

– the price used in recent transactions of similar financial instruments with adjustment when the market conditions have changed.

– valuation techniques, including: cash flow models etc.

– if fair value cannot be measured reliably, equity security investments are recognised at cost less impairment.

Gains and losses arising from changes in the fair value of available-for-sale securities are recognised as they arise in equity as revaluation reserve. When the securities are disposed of or impaired, the related accumulated fair value adjustments are included in the profit and loss account as gains and losses arising from investment securities.

The Group assesses at each balance sheet date whether there is objective evidence that an investment security or group of investment securities is impaired. An investment security or a group of investment securities is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the security (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the investment security or group of investment securities that can be reliably estimated. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate. If an available-for-sale security is impaired, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the profit and loss account.

Interest earned whilst holding investment securities is reported as interest income. Dividends receivable are included separately in dividend income when a dividend is declared.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

IV *Investment securities* (Continued)

(2) Available-for-sale *(Continued)*

All regular way purchases and sales of investment securities are recognised at settlement date, which is the date that an asset is delivered to or by the Group. Any change in the fair value of the asset during the period between the trade date and the settlement date is accounted for in the same way as the Group accounts for the acquired asset. In other words, the change in value is not recognised for assets carried at cost or amortised cost; it is recognised in equity for assets classified as available for sale.

V *Borrowings*

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

VI *Comparative*

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current period.

3 USE OF FINANCIAL INSTRUMENTS

I *Strategy in using financial instruments*

By its nature, the Group is engaged in the extensive use of financial instruments including derivatives. The Group accepts deposits from customers at both fixed and floating rates and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates whilst maintaining sufficient liquidity to meet all claims that might fall due. The Group predominantly operates its business in mainland China under interest rate scheme regulated by the PBC.

The Group also seeks to raise its interest margins by obtaining above average margins, net of provisions, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just on-balance-sheet loans and advances but also guarantees and other commitments such as letters of credit and performance, and other bonds.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

3 USE OF FINANCIAL INSTRUMENTS *(Continued)*

II Credit risk

The Group takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk is increased when counterparties are concentrated in the same industries or geographical regions. The majority of the Group's operation is located within China; however different areas in China have their own unique characteristics in economic development. Therefore, each area in China could present different credit risks.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower. Such risks are monitored on a regular basis and subject to an annual review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

The Group also maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, by both amount and term.

The Group further restricts its exposure to credit losses by entering into master netting arrangements for its interest rate swap transactions with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities as transactions are usually settled on a gross basis. However, the credit risk associated with favorable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period since it is affected by each transaction subject to the arrangement.

The Group has issued credit related commitments including guarantees and letters of credit. The primary purpose of these instruments is to ensure that funds are available to customers as required. These instruments represent irrevocable assurances that the Group will make payments in the events that a customer cannot meet its obligations to third parties. These instruments carry the same credit risk as loans.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

3 USE OF FINANCIAL INSTRUMENTS *(Continued)*

II ***Credit risk*** *(Continued)*

Geographical concentrations of assets, liabilities and off balance sheet items

	Total assets	Total liabilities	Off balance sheet and credit commitments
As at 30 June 2005			
Mainland China	**1,177,002**	**1,104,314**	**178,628**
Hong Kong	**101,957**	**99,859**	**15,492**
Others	**13,573**	**13,666**	**2,801**
Total	**1,292,532**	**1,217,839**	**196,921**
As at 31 December 2004			
Mainland China	1,038,043	988,055	152,330
Hong Kong	92,180	89,900	12,532
Others	13,782	13,947	2,773
Total	1,144,005	1,091,902	167,635

Total assets, total liabilities and off balance sheet and credit commitments are based on the country/region in which the branch or the group entity is located.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

3 USE OF FINANCIAL INSTRUMENTS *(Continued)*

II ***Credit risk*** *(Continued)*

Geographic sector risk concentration for loans and advances to customers (gross):

	30 June 2005	%	31 December 2004	%
Domestic regions				
– Jiangsu	**90,328**	**12**	80,331	13
– Shanghai	**78,858**	**11**	68,611	11
– Beijing	**90,490**	**12**	71,565	11
– Guangdong	**61,200**	**8**	53,294	8
– Zhejiang	**54,187**	**7**	45,964	7
– Liaoning	**27,407**	**4**	25,153	4
– Shandong	**41,688**	**6**	36,071	6
– Henan	**29,204**	**4**	28,579	4
– Others	**221,236**	**30**	192,764	30
Domestic regions total	**694,598**	**94**	602,332	94
Hong Kong and overseas countries	**43,639**	**6**	36,452	6
Interest receivables	**1,347**	**–**	1,274	–
Gross amount of loans and advances before allowance for impairment	**739,584**	**100**	640,058	100

A geographical region is reported where it contributes 4% and more of the relevant disclosure item.

The above tables show the geographic sector risk concentration relating to loans and advances to customers, the most significant type of on-balance-sheet assets. The Group's off-balance-sheet exposures mainly comprise acceptances and credit related commitments.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

3 USE OF FINANCIAL INSTRUMENTS *(Continued)*

II ***Credit risk*** *(Continued)*

The economic sector risk concentration analysis for loans and advances to customers (gross):

	30 June 2005	%	31 December 2004	%
Corporate loans				
Manufacturing				
– Steel	22,497	3	19,267	3
– Machinery	22,084	3	18,711	3
– Electronics	26,697	4	24,001	4
– Petroleum and chemical	33,125	4	27,929	5
– Textile	20,000	3	18,850	3
– Other manufacturing	83,026	12	71,263	11
Trading	76,132	10	67,846	11
Real estate	64,744	9	63,321	10
Transportation	53,698	7	43,436	7
Services	45,083	6	33,978	5
Post and telecommunications	16,221	2	15,114	2
Construction	26,304	4	20,916	3
Utilities	45,411	6	36,125	6
Educations and scientific research	24,759	3	26,367	4
Agriculture	1,824	–	2,082	–
Non-banking financial institutions	9,769	1	8,063	1
Others	12,736	2	11,742	2
Corporate loans total	584,110	79	509,011	80
Mortgage loans	73,674	10	63,978	10
Car loans	4,409	–	5,113	1
Short-term working capital loans	4,413	1	3,718	–
Medium-term and long-term working capital loans	12,573	2	10,821	2
Deposit mortgaged	1,197	–	–	–
Credit card advances	110	–	107	–
Others	1,433	–	2,040	–
Individual loans total	97,809	13	85,777	13
Discounted bills	56,318	8	43,996	7
Interest receivables	1,347	–	1,274	–
Gross amount of loans and advances before allowance for impairment	739,584	100	640,058	100

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

3 USE OF FINANCIAL INSTRUMENTS *(Continued)*

II ***Credit risk*** *(Continued)*

The economic sector risk concentration analysis for loans and advances to customers is based on the Group's internal classification system.

Loans and advances to customers analysed by customer type (gross):

	30 June 2005	31 December 2004
Domestic		
Corporate entities		
State owned entities	**194,721**	178,533
Collective owned entities	**11,290**	11,484
Private unlimited companies	**33,398**	26,429
Private limited companies	**155,096**	132,148
Joint stock companies	**65,016**	56,894
Foreign invested enterprises	**78,996**	66,677
Other domestic entities	**16,296**	13,252
	554,813	485,417
Individuals	**83,900**	73,406
	638,713	558,823
Hong Kong and Overseas		
Corporate entities	**29,297**	23,594
Individuals	**13,909**	12,371
	43,206	35,965
Discounted bills	**56,318**	43,996
Interest receivables	**1,347**	1,274
Gross amount of loans and advances before allowance for impairment	**739,584**	640,058

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

3 USE OF FINANCIAL INSTRUMENTS *(Continued)*

III Market risk

Market risks arise from open positions in interest rate and currency products, which are exposed to general and specific market movements. The Group principally operates in the PRC, in which the interest rate is set by the PBC, and hence the Group has little exposure to interest rate risk. Although starting from 21 July 2005, China has reformed by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies, the exchange rates between RMB and other major foreign currencies are relatively stable. The market risk to the Group is considered low.

IV Currency risk

The Group conducts the majority of its businesses in RMB, with certain foreign transactions in Hong Kong dollars and US dollars. The exchange rates between RMB and US dollars, RMB and Hong Kong dollars, are set by the PBC, which had minimum movements during the reporting period. The Directors set limits on the level of exposure by currency, which are monitored regularly. The tables below summarize the Group's exposure to foreign currency exchange rate risk at the end of each period. The tables show the Group's assets and liabilities at carrying amounts in RMB, categorized by the original currency.

	RMB	US Dollars	HK Dollars	Others	Total
As at 30 June 2005					
Assets					
Cash and balances with central banks	129,684	2,344	673	492	133,193
Due from other banks and financial institutions	77,249	24,802	28,622	8,368	139,041
Financial assets held for trading	17	1,150	1,403	364	2,934
Loans and advances to customers	646,167	14,028	30,152	38,928	729,275
Investment securities					
– loans and receivables	27,896	2,620	–	–	30,516
– available-for-sale	180,662	21,683	8,216	6,685	217,246
Other assets, including deferred tax assets	14,987	2,217	24,708	(1,585)	40,327
Total assets	1,076,662	68,844	93,774	53,252	1,292,532
Liabilities					
Due to other banks and financial institutions	(24,478)	(5,259)	(1,260)	(5,082)	(36,079)
Financial liabilities held for trading	(24)	(2,354)	(4,170)	(96)	(6,644)
Due to customers	(1,012,109)	(72,367)	(48,834)	(14,199)	(1,147,509)
Other liabilities, including deferred tax liabilities	(20,346)	(3,817)	(2,253)	(1,191)	(27,607)
Total liabilities	(1,056,957)	(83,797)	(56,517)	(20,568)	(1,217,839)
Net on balance sheet position	19,705	(14,953)	37,257	32,684	74,693
Off balance sheet and credit commitments	138,577	43,816	9,153	5,395	198,921

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

3 USE OF FINANCIAL INSTRUMENTS *(Continued)*

IV *Currency risk* *(Continued)*

	RMB	*US Dollars*	*HK Dollars*	*Others*	*Total*
As at 31 December 2004					
Assets					
Cash and balances with central banks	125,535	1,772	637	557	128,501
Due from other banks and financial institutions	37,472	38,145	5,943	7,363	88,923
Financial assets held for trading	–	904	1,351	240	2,495
Loans and advances to customers	563,158	36,544	25,619	6,291	631,612
Investment securities					
– loans and receivables	28,911	2,294	–	–	31,205
– available-for-sale	176,836	20,544	10,756	7,387	215,523
Other assets, including deferred tax assets	39,528	3,464	4,568	(1,814)	45,746
Total assets	971,440	103,667	48,874	20,024	1,144,005
Liabilities					
Due to other banks and financial institutions	(18,437)	(5,623)	(2,471)	(5,180)	(31,711)
Financial liabilities held for trading	–	(1,944)	(2,999)	(143)	(5,086)
Due to customers	(900,469)	(78,131)	(39,970)	(11,371)	(1,029,941)
Other liabilities, including deferred tax liabilities	(14,376)	(6,586)	(3,569)	(633)	(25,164)
Total liabilities	(933,282)	(92,284)	(49,009)	(17,327)	(1,091,902)
Net on balance sheet position	38,158	11,383	(135)	2,697	52,103
Off balance sheet and credit commitments	110,034	42,077	9,376	6,148	167,635

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

3 USE OF FINANCIAL INSTRUMENTS *(Continued)*

V Interest rate risk

Interest sensitivity of assets, liabilities and off balance sheet items

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Currently, interest rates for loans and deposits within mainland China are set by the PBC. The Group operates its business predominantly in mainland China under the interest rate scheme regulated by the PBC. It is normal practice for the interest rates of both interest-bearing assets and liabilities to move in the same direction. Consequently, the Group has little exposure in terms of interest rate risk. However, there is no guarantee that the PBC will continue this practice in future.

The Group conducts most of its domestic on-balance-sheet businesses including loans and deposits as well as the majority of off-balance-sheet businesses based upon basic interest rates. The basic interest rates for the loans and the deposits normally move in tandem. Under this regulated environment, the Group is not subject to significant interest rate risk exposure. The interest rate repricing risk for foreign currency denominated debt securities and the remaining part of off-balance-sheet businesses which are not based upon these basic interest rates is not expected to be significant.

According to the PBC regulations, the ceiling for loan interest rates has been adjusted from 30% to 70% above the stipulated interest rates on 1 January 2004 and finally has been removed from 29 October 2004 onwards, whilst the floor is 10% below the stipulated rates.

Interest rate for discounted bills is determined by reference to the PBC/market re-discount interest rate. However, it is generally lower than the interest rate for a loan with same term (including the above floating rate).

The tables below summarise the Group's exposure to interest rate risks. The tables show the Group's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

Expected repricing and maturity dates do not differ significantly from the contract dates, except for the maturity of "Due to customers" up to one month represent balances on current accounts considered by the Group as a relatively stable core source of funding of its operations.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

3 USE OF FINANCIAL INSTRUMENTS *(Continued)*

V *Interest rate risk* (Continued)

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
As at 30 June 2005							
Assets							
Cash and balances with central banks	125,010	–	–	–	–	8,183	133,193
Due from other banks and financial institutions	128,466	5,206	2,677	20	–	2,672	139,041
Financial assets held for trading	932	517	75	719	615	76	2,934
Loans and advances to customers	69,971	145,435	330,824	80,331	102,714	–	729,275
Investment securities							
– loans and receivables	815	1,266	2,310	25,458	667	–	30,516
– available-for-sale	12,078	31,054	54,178	84,939	34,973	24	217,246
Other assets, including deferred tax assets	48	–	–	–	–	40,279	40,327
Total assets	337,320	183,478	390,064	191,467	138,969	51,234	1,292,532
Liabilities							
Due to other banks and financial institutions	(25,265)	(5,279)	(2,876)	–	(2,653)	(6)	(36,079)
Financial liabilities held for trading	(1,973)	(2,294)	(717)	(1,557)	(80)	(23)	(6,644)
Due to customers	(783,048)	(74,075)	(202,452)	(65,705)	(2,396)	(19,833)	(1,147,509)
Other liabilities, including deferred tax liabilities	(297)	–	–	(12,000)	–	(15,310)	(27,607)
Total liabilities	(810,583)	(81,648)	(206,045)	(79,262)	(5,129)	(35,172)	(1,217,839)
Total interest sensitivity gap	(473,263)	101,830	184,019	112,205	133,840	16,062	74,693

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

3 USE OF FINANCIAL INSTRUMENTS *(Continued)*

V *Interest rate risk* *(Continued)*

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2004							
Assets							
Cash and balances with central banks	119,885	–	–	–	–	8,616	128,501
Due from other banks and financial institutions	76,629	11,126	530	300	–	338	88,923
Financial assets held for trading	972	267	148	268	840	–	2,495
Loans and advances to customers	53,203	126,571	288,067	77,151	86,620	–	631,612
Investment securities							
– loans and receivables	512	952	2,423	26,656	662	–	31,205
– available-for-sale	13,175	34,517	76,695	61,282	29,830	24	215,523
Other assets, including deferred tax assets	–	–	–	–	–	45,746	45,746
Total assets	264,376	173,433	367,863	165,657	117,952	54,724	1,144,005
Liabilities							
Due to other banks and financial institutions	(22,978)	(5,161)	(1,602)	–	(1,956)	(14)	(31,711)
Financial liabilities held for trading	(1,988)	(1,532)	(268)	(1,248)	(50)	–	(5,086)
Due to customers	(706,196)	(67,609)	(175,714)	(56,690)	(2,987)	(20,745)	(1,029,941)
Other liabilities, including deferred tax liabilities	–	–	(275)	(12,000)	–	(12,889)	(25,164)
Total liabilities	(731,162)	(74,302)	(177,859)	(69,938)	(4,993)	(33,648)	(1,091,902)
Total interest sensitivity gap	(466,786)	99,131	190,004	95,719	112,959	21,076	52,103

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

3 USE OF FINANCIAL INSTRUMENTS *(Continued)*

V ***Interest rate risk*** *(Continued)*

The tables below summarise the effective interest rate by major currencies for monetary financial instruments:

	RMB	US Dollars	HK Dollars	Others
As at 30 June 2005				
Assets				
Cash and balances with central banks	**1.01%**	**0.00%**	**0.00%**	**N/A**
Due from other banks and financial institutions	**1.18%**	**2.73%**	**3.39%**	**2.72%**
Loans and advances to customers	**5.53%**	**2.67%**	**3.35%**	**2.49%**
Investment securities				
– loans and receivables	**2.12%**	**4.65%**	**N/A**	**N/A**
– available-for-sale	**3.15%**	**3.79%**	**3.44%**	**3.77%**
Liabilities				
Due to other banks and financial institutions	**1.17%**	**2.66%**	**4.52%**	**1.04%**
Due to customers	**1.34%**	**1.58%**	**1.30%**	**2.24%**
As at 31 December 2004				
Assets				
Cash and balances with central banks	1.82%	0.06%	0.00%	N/A
Due from other banks and financial institutions	2.21%	2.16%	0.35%	2.37%
Loans and advances to customers	5.34%	2.94%	2.25%	2.36%
Investment securities				
– loans and receivables	2.14%	4.41%	N/A	N/A
– available-for-sale	3.62%	3.35%	2.01%	2.26%
Liabilities				
Due to other banks and financial institutions	1.64%	1.75%	0.24%	0.49%
Due to customers	1.36%	0.92%	0.36%	2.58%

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

3 USE OF FINANCIAL INSTRUMENTS *(Continued)*

VI Liquidity risk

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivatives. The Directors set limits on the minimum proportion of maturing funds to be made available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover different levels of unexpected withdrawals. In addition, the Group limits its loan to deposit ratio at below 75% as required by the PBC. 7.5% of the Group's total RMB denominated deposits and 2% of the total foreign currency denominated deposits must be deposited with central banks. The tables below analyze the assets and liabilities of the Group into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

Maturities of assets and liabilities

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Overdue	Total
As at 30 June 2005							
Assets							
Cash and balances with central banks	133,193	–	–	–	–	–	133,193
Due from other banks and financial institutions	130,280	4,624	4,109	20	–	8	139,041
Financial assets held for trading	873	348	147	942	624	–	2,934
Loans and advances to customers	56,224	118,694	329,422	105,092	103,670	16,173	729,275
Investment securities							
– loans and receivables	319	1,100	2,310	25,872	915	–	30,516
– available-for-sale	5,038	11,103	34,395	114,009	52,701	–	217,246
Other assets, including deferred tax assets	11,177	1,187	2,481	3,112	21,945	425	40,327
Total assets	337,104	137,056	372,864	249,047	179,855	16,606	1,292,532
Liabilities							
Due to other banks and financial institution	(24,560)	(5,904)	(2,962)	–	(2,653)	–	(36,079)
Financial liabilities held for trading	(691)	(571)	(687)	(4,592)	(103)	–	(6,644)
Due to customers	(800,107)	(71,626)	(201,660)	(69,055)	(4,730)	(331)	(1,147,509)
Other liabilities, including deferred tax liabilities	(7,366)	(7,205)	(106)	(12,338)	(379)	(213)	(27,607)
Total liabilities	(832,724)	(85,306)	(205,415)	(85,985)	(7,865)	(544)	(1,217,839)
Net liquidity gap	(495,620)	51,750	167,449	163,062	171,990	16,062	74,693

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

3 USE OF FINANCIAL INSTRUMENTS *(Continued)*

VI Liquidity risk (Continued)

Maturities of assets and liabilities *(Continued)*

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Overdue	Total
As at 31 December 2004							
Assets							
Cash and balances with central banks	128,501	–	–	–	–	–	128,501
Due from other banks and financial institutions	76,503	11,470	650	300	–	–	88,923
Financial assets held for trading	974	254	145	286	836	2,495	
Loans and advances to customers	43,804	104,553	285,017	97,181	87,421	13,636	631,612
Investment securities							
– loans and receivables	12	785	2,428	26,987	993	–	31,205
– available-for-sale	5,243	22,272	56,586	82,719	48,703	–	215,523
Other assets, including deferred tax assets	14,788	951	1,939	8,215	19,400	453	45,746
Total assets	269,825	140,285	346,765	215,688	157,353	14,089	1,144,005
Liabilities							
Due to other banks and financial institutions	(22,992)	(5,161)	(1,602)	–	(1,956)	–	(31,711)
Financial liabilities held for trading	(830)	(240)	(173)	(3,534)	(309)	–	(5,086)
Due to customers	(724,497)	(68,546)	(175,982)	(56,552)	(4,364)	–	(1,029,941)
Other liabilities, including deferred tax liabilities	(10,903)	(197)	(913)	(12,000)	(1,151)	–	(25,164)
Total liabilities	(759,222)	(74,144)	(178,670)	(72,086)	(7,780)	–	(1,091,902)
Net liquidity gap	(489,397)	66,141	168,095	143,602	149,573	14,089	52,103

The matching and controlled mismatching of the maturities of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in exchange rates.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

3 USE OF FINANCIAL INSTRUMENTS *(Continued)*

VI Liquidity risk (Continued)

Maturities of assets and liabilities *(Continued)*

The Group provides guarantees and issues letters of credit based on a third party's creditability and deposit amount. Liquidity requirements to support calls under guarantees and letters of credit are considerably less than the amounts under commitments because the Group does not generally expect the third party to draw funds under those agreements. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

VII Fair values of financial assets and liabilities

The following table summarizes the carrying amounts and the approximate fair values of those financial assets and liabilities not presented on the Group's balance sheet at their fair value. Bid prices are used to estimate fair values of assets, whereas offer prices are applied for liabilities.

	30 June 2005		31 December 2004	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial assets				
Due from other banks and financial institutions	**139,041**	**139,041**	88,923	88,923
Loans and advances to customers	**729,275**	**729,275**	631,612	631,612
Investment securities – loans and receivables	**30,516**	**30,470**	31,205	31,130
Financial liabilities				
Due to other banks and financial institutions	**36,079**	**36,079**	31,711	31,711
Due to customers	**1,147,509**	**1,146,161**	1,029,941	1,029,286

The fair values of those financial assets and liabilities such as amounts due from/to other banks, loans and advances to customers and customer deposits are approximately equal to their carrying values as the interest rates of most of these assets and liabilities are instantaneously adjusted to changes in interest rates set by the PBC and other regulatory bodies. The Group only has an insignificant amount of fixed rate deposits due to and from banks, deposits due to customers and loans and advances due from customers.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

3 USE OF FINANCIAL INSTRUMENTS *(Continued)*

VII Fair values of financial assets and liabilities *(Continued)*

Due from other banks and financial institutions

Due from other banks and financial institutions includes inter-bank placements and items in the course of collection. The fair values of floating rate placements and overnight deposits are their carrying amounts. The estimated fair value of fixed interest bearing deposits, which are normally less than one year, is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturities. Therefore, the fair value of due from other banks and financial institutions is approximately equal to its carrying value.

Loans and advances to customers

Loans and advances to customers are stated net of impairment allowance. All except a very insignificant portion of loans and advances to customers bear interest at a floating rate.

Therefore, the carrying value of loans and advances to customers is a reasonable estimate of fair value.

Investment securities

Investment securities include only interest-bearing originated loans, as available-for-sale securities are measured at fair value. The fair value is determined by following the hierarchy given below:

– the published quoted price is the best evidence of fair value when the financial instrument is quoted in an active market.

– the price used in recent transactions of similar financial instruments with adjustment when the market conditions have changed.

– valuation techniques, including: cash flow models etc.

– if fair value cannot be measured reliably, equity and security investments are recognised at cost less impairment.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

3 USE OF FINANCIAL INSTRUMENTS *(Continued)*

VII Fair values of financial assets and liabilities (Continued)

Due to other banks and financial institutions and customers

The estimated fair value of liabilities due to other banks and financial institutions and customers with no stated maturity, which includes non-interest-bearing liabilities due to other banks and financial institutions and customers, is the amount repayable on demand. The fair value of floating rate liabilities due to other banks and customers is their carrying amount. The estimated fair value of fixed interest bearing liabilities due to other banks and financial institutions and customers without quoted market price, which are normally less than one year, is based on discounted cash flows using interest rates for new debts with similar remaining maturities. Therefore, the fair value of due to other banks and financial institutions and customers is approximately equal to its carrying value.

VIII Fiduciary activities

The Group provides custody and trustee services to third parties. Those assets that are held in a fiduciary capacity are not included in the financial information.

	As at 30 June 2005	As at 31 December 2004
Investment custody accounts	**76,419**	71,662

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

4 NET INTEREST INCOME

	Half-year ended 30 June	
	2005	2004
Interest income		
Balances with central banks	**926**	866
Due from other banks and financial institutions	**1,470**	931
Trading securities	**84**	3
Loans and advances to customers	**16,879**	13,464
Investment securities	**3,810**	2,093
Others	**109**	31
	23,278	17,388
Interest expense		
Due to other banks and financial institutions	**(866)**	(413)
Due to customers	**(7,470)**	(5,589)
	(8,336)	(6,002)
Net interest income	**14,942**	11,386

	Half-year ended 30 June	
	2005	2004
Interest income accrued on individually identified loans and advances to customers with impairment	**876**	1,400
Interest income accrued on impaired amount of due from other banks and financial institutions	**–**	12

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

5 DIVIDEND INCOME

	Half-year ended 30 June	
	2005	2004
Dividend income	**12**	41

Dividend income was from equity investment classified as available-for-sale securities or as held for trading financial assets.

6 GAINS LESS LOSSES ARISING FROM TRADING ACTIVITIES

	Half-year ended 30 June	
	2005	2004
Foreign exchange	**223**	259
Interest rate instruments	**245**	48
	468	307

Net income on foreign exchange includes gains and losses from spot and forward contracts and from the translation of foreign currency monetary assets and liabilities into Renminbi.

Net income on interest rate instruments mainly include the results of marking interest rate and currency swaps and other derivatives to market.

7 OTHER OPERATING INCOME

	Half-year ended 30 June	
	2005	2004
Profit on sales of land use rights and building	**15**	8
Penalty income	**8**	8
Other miscellaneous income	**198**	19
	221	35

Other miscellaneous income includes income arising from miscellaneous banking services provided to the Group's customers.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

8 IMPAIRMENT LOSSES ON LOANS AND ADVANCES

	Half-year ended 30 June	
	2005	2004
Due from other banks and financial institutions and securities purchased under resale agreements, net *(Note 15(II))*	**(18)**	306
Loans and advances to customers *(Note 18(II))*	**1,969**	2,416
Less: recovery of loans previously written off	**(33)**	(92)
	1,918	2,630

9 OTHER OPERATING EXPENSES

	Half-year ended 30 June	
	2005	2004
Staff costs *(Note 10)*	**2,309**	2,216
Depreciation *(Note 20)*	**1,204**	1,169
Operating lease rentals	**393**	383
General and administrative expenses	**1,403**	1,250
Write-down of foreclosed assets	**246**	179
Impairment of other receivables	**148**	312
Business tax and surcharges	**969**	760
Regulator's supervision fee	**129**	93
Provision for outstanding litigation	**181**	73
Professional fees	**27**	5
Others	**1,136**	898
	8,145	7,338

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

10 STAFF COSTS

	Half-year ended 30 June	
	2005	2004
Salaries and bonus	**1,372**	1,356
Pension costs	**248**	162
Housing benefits and subsidies	**282**	260
Other social security and benefit costs	**407**	438
	2,309	2,216

11 DIRECTORS' EMOLUMENTS

Details of the directors' and the supervisors' emoluments are as follows:

	Half-year ended 30 June	
	2005	2004
Fees	**7**	4

The numbers of directors and supervisors whose annual emoluments fell within the following band are set out below:

	Half-year ended 30 June	
	2005	2004
Nil – RMB1,000,000	**19**	18

No directors or supervisors waived or agreed to waive any emolument during the period.

In 2005, RMB200,000 was accrued for independent non-executive directors' emolument (2004: RMB: nil).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

12 INCOME TAX EXPENSE

	Half-year ended 30 June	
	2005	2004
Current tax		
– Mainland China income tax	**66**	45
– Hong Kong profits tax	**76**	59
– Overseas taxation	**2**	4
	144	108
Deferred tax *(Note 26)*	**2,135**	4,314
	2,279	4,422

The provision for Mainland China income tax is calculated based on the statutory rate of 33% of the assessable income of the Bank and each of the subsidiaries established in Mainland China as determined in accordance with the relevant PRC income tax rules and regulations for the half year ended 30 June 2005.

Profits earned by the Hong Kong branch or subsidiaries in Hong Kong are subject to Hong Kong profits tax at the rate of 17.5%, on the estimated assessable profit for the half year ended 30 June 2005. Taxation on overseas profits has been calculated on the estimated assessable profit at the rates of taxation prevailing in the countries in which the Group operates during the half year ended 30 June 2005.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

12 INCOME TAX EXPENSE *(Continued)*

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Bank at 33%. The reconciliation is as follows:

	Half-year ended 30 June	
	2005	2004
Profit before tax	**6,884**	2,517
Tax calculated at a tax rate of 33%	**2,272**	831
Effect of different tax rates in other countries	**(19)**	–
Tax credit arising from income not subject to tax *(note 1)*	**(482)**	(1,211)
Tax effect of expenses that are not deductible for tax purposes	**508**	788
De-recognition of deferred tax assets in relation to loans disposed of *(note 2)*	**–**	9,671
Recognition of deferred tax assets in relation to tax loss *(note 1)*	**–**	(5,657)
Income tax expense	**2,279**	4,422

Note 1: The Group recognised deferred tax assets amounting to RMB5,700 million as of 30 June 2004. It is calculated based on the written approvals obtained from the MOF and the tax authority on 10 January 2005 and 25 March 2005 respectively. The written approvals confirm that the Group's accumulated losses as of 31 December 2004 is to be RMB11,002 million, and this accumulated losses can be used to offset against future taxable profit from 1 January 2005 onwards. Therefore, the Group recognised deferred tax assets amounting to RMB5,700 million and RMB3,631 million (Note 26) as of 30 June 2004 and 31 December 2004 respectively.

Included in the amount of RMB1,211 million of income not subject to tax for the half year ended 30 June 2004 is an amount of RMB887 million being income tax on profit of the Bank for the half year ended 30 June 2004. This amount of profit earned was the income tax exempted in consideration of the loss incurred by the Bank on its disposal of impaired loans in June 2004.

Note 2: The Group had recongnised deferred tax asset for all temporary differences arising from loan impairment amounting to RMB10,015 million before the majority of impaired loans were disposed of to an asset management company in June 2004. Following the disposal of the impaired loans, all deferred tax assets in relation thereto of RMB9,671 million (Note 26) had been derecognised accordingly.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

13 BASIC AND DILUTED EARNINGS/(LOSSES) PER SHARE

Basic and diluted earnings/(losses) per share is calculated by dividing the net profit/(losses) attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the period.

	Half-year ended 30 June	
	2005	2004
Profit/(loss) attributable to equity holders of the Group	**4,605**	(1,905)
Weighted average number of ordinary shares in issue	**39,326**	17,334
Basic and diluted earnings/(losses) per share (expressed in RMB per share)	**0.12**	(0.11)

14 CASH AND BALANCES WITH CENTRAL BANKS

	As at 30 June 2005	As at 31 December 2004
Cash	**7,976**	8,616
Balances with central banks other than mandatory reserve deposits	**57,425**	58,215
Included in cash and cash equivalents *(Note 35)*	**65,401**	66,831
Mandatory reserve deposits	**67,792**	61,670
	133,193	128,501

The Group is required to place mandatory deposits with central banks. The deposits are calculated based on the amount of deposits placed with the Group by its customers.

	As at 30 June 2005	As at 31 December 2004
Mandatory reserve rate for deposits denominated in RMB	**7.5%**	7.5%
Reserve rate for deposits denominated in foreign currency	**2%**	2%

Mandatory reserve deposits with central banks are not available for use by the Group in its day to day operations.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

15 DUE FROM OTHER BANKS AND FINANCIAL INSTITUTIONS

I Due from other banks and financial institutions

	As at 30 June 2005	As at 31 December 2004
Placement with other banks and included in cash equivalents *(Note 35)*	**36,754**	8,926
Securities purchased under resale agreement	**39,789**	27,109
Less: allowance for impairment losses on securities purchased under resale agreement	**(82)**	(82)
	39,707	27,027
Loans purchased under resale agreement	**2,320**	2,395
Loans and advances to other banks	**57,451**	49,197
Loans to other financial institutions	**3,713**	2,300
	61,164	51,497
Less: Individual impairment allowance on amounts due from other banks and financial institutions	**(904)**	(922)
	60,260	50,575
	139,041	88,923

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

15 DUE FROM OTHER BANKS AND FINANCIAL INSTITUTIONS *(Continued)*

II Movements in allowance for impairment losses on amounts due from other banks and financial institutions and securities purchased under resale agreement

	Half-year ended 30 June 2005	Year ended 31 December 2004
Balance at beginning of the period/year	**1,004**	968
Provision for impairment, net *(Note 8)*	**(18)**	324
Amounts written off/transferred out during the year as uncollectible	**–**	(288)
Balance at end of the period/year	**986**	1,004

III Impaired amount of due from other banks and financial institutions

	As at 30 June 2005	As at 31 December 2004
Impaired amount of due from other banks and financial institutions	**986**	1,004
Impaired amount of due from other banks and financial institutions percentage	**0.71%**	1.12%

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

16 FINANCIAL ASSETS HELD FOR TRADING

	As at 30 June 2005	As at 31 December 2004
Derivative financial instruments *(Note 17)*	**181**	219
Government bonds – listed in Hong Kong	**1,260**	1,191
Other debt securities		
– Listed in Hong Kong	**580**	310
– Unlisted – corporate bonds	**159**	166
– Unlisted – public sector	**72**	96
– Unlisted banking sector	**682**	513
	2,934	2,495

17 DERIVATIVE FINANCIAL INSTRUMENTS

The following derivative instruments are utilized by the Group for trading purpose:

Currency forwards represent commitments to purchase/sell foreign exchanges including undelivered spot transactions.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Foreign currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Group and a customer (OTC).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

17 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out in the following tables.

	Contract/notional Amount	Fair values Assets	Fair values Liabilities
As at 30 June 2005			
Foreign exchange derivatives			
Currency forwards	6,070	35	(47)
Currency swaps	49,855	59	(79)
OTC currency options bought and sold	26	–	–
		94	(126)
Interest rate derivatives			
Interest rate swaps	19,803	56	(179)
Cross currency interest rate swaps	3,232	28	(26)
OTC interest rate options	322	3	(2)
		87	(207)
Total recognised derivatives		181	(333)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

17 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

	Contract/notional	Fair values	
	Amount	Assets	Liabilities
As at 31 December 2004			
Foreign exchange derivatives			
Currency forwards	3,818	28	(13)
Currency swaps	45,234	94	(176)
OTC currency options bought and sold	360	7	–
		129	(189)
Interest rate derivatives			
Interest rate swaps	13,536	70	(230)
Cross currency interest rate swaps	3,759	17	(158)
OTC interest rate options	248	3	–
Total recognised derivatives		219	(577)

The tables above provide a detailed breakdown of the contractual or notional amounts and the fair values of the Group's derivative financial instruments outstanding at each period end. These instruments, comprising foreign exchange and interest rate derivatives allow the Group and its customers to transfer, modify or reduce their foreign exchange and interest rate risks.

The Group mostly undertakes its transactions in foreign exchange and interest rate contracts with other financial institutions. Management has established notional limits of these contracts by counterparties, industry sectors and countries. Actual credit exposures and limits are regularly monitored and controlled by management.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

17 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Credit risk weighted amounts

	As at 30 June 2005	As at 31 December 2004
Derivatives		
– Exchange rate contracts	**311**	171
– Interest rate contracts	**257**	30
– Other derivative contracts	**4**	4
	572	205

The credit risk-weighted amount refers to the amount as computed in accordance with the Hong Kong Banking Ordinance and depends on the status of the counterparty and the maturity characteristics.

Replacement costs

	As at 30 June 2005	As at 31 December 2004
Derivatives		
– Exchange rate contracts	**93**	134
– Interest rate contracts	**84**	49
– Other derivative contracts	**4**	11
	181	194

Replacement cost is the cost of replacing all contracts which have a positive value when marked to market (should the counterparty default on its obligations) and is obtained by marking to market contracts with a positive value. Replacement cost is a close approximation of the credit risk for these contracts at the balance sheet date.

The above credit risk weighted amounts and replacement costs are calculated in accordance with the formula promulgated by the Hong Kong Monetary Authority ("HKMA") because there are no relevant standards prescribed by IFRS. There was no relevant standard prescribed by the banking regulators for determining the credit risk weighted amounts of derivatives and the Group is not required to report any credit risk weighted amounts of derivatives to the banking regulators either.

The credit risk weighted amounts and replacement costs stated above have taken into account of the effects of bilateral netting arrangements.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

18 LOANS AND ADVANCES TO CUSTOMERS

I Loans and advances to customers

	As at 30 June 2005	As at 31 December 2004
Loans and advances to customers	**739,584**	640,058
Less: collective impairment allowances	**(4,092)**	(4,108)
Individual impairment allowances	**(6,217)**	(4,338)
	729,275	631,612

II Movements in allowance for losses on loans and advances

	As at 30 June 2005	As at 31 December 2004
Balance at beginning of period/year	**8,446**	33,268
Impairment allowances for loans	**1,969**	3,041
Loans written off during the period as uncollectible	**(106)**	(928)
Written back on disposal of impaired loans	**–**	(26,935)
Balance at end of the period/year	**10,309**	8,446

III Individually identified loans with impairment

	As at 30 June 2005	As at 31 December 2004
Individually identified loans with impairment	**20,944**	19,193
Individually identified loans with impairment to loans and advances to customers percentage	**2.83%**	3.00%

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

19 INVESTMENT SECURITIES

	As at 30 June 2005	As at 31 December 2004 restated
Securities – loans and receivables		
Debt securities – at amortised cost		
– Unlisted	30,516	31,205
	30,516	31,205
Securities – available-for-sale		
Debt securities – at fair value		
– Listed in Hong Kong	6,675	5,715
– Listed outside Hong Kong	21,916	33,274
– Unlisted	188,118	176,012
Equity securities – at fair value		
– Listed outside Hong Kong	2	2
– Unlisted	516	429
Equity securities at cost less impairment		
– Unlisted	19	91
	217,246	215,523

As certain unlisted equity securities held by the Group have no published quoted prices available or are not able to be benchmarked with similar financial instruments, or valuation techniques are not cost effective, the Group states such unlisted equity securities at cost less impairment.

Gains less losses arising from investment securities comprise:

	Half-year ended 30 June 2005	2004
Gains less losses arising from de-recognition of investment securities	426	(4)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

19 INVESTMENT SECURITIES *(Continued)*

The movement in investment securities may be summarized as follows:

	Originated loans	Available-for-sale	Total
Previously reported balance at 1 January 2005	159,826	90,028	249,854
Reclassification upon the adoption of revised IAS 39	(127,659)	127,659	–
Transferred to financial assets held for trading upon the adoption of revised IAS 39	(962)	–	(962)
Revaluation upon the adoption of revised IAS 39	–	(2,164)	(2,164)
Adjusted balance at 1 January 2005, restated	31,205	215,523	246,728
Additions	1,068	144,195	145,263
Disposals (sale or redemption)	(1,757)	(146,742)	(148,499)
Losses from changes in fair value	–	4,407	4,407
Exchange differences	–	(137)	(137)
At 30 June 2005	30,516	217,246	247,762

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

19 INVESTMENT SECURITIES *(Continued)*

The investment securities are analysed by issuer as follows:

	As at 30 June 2005	As at 31 December 2004
Securities – loans and receivables		
– Central governments and central banks	27,895	28,911
– Public sector entities	374	125
– Banks and other financial institutions	2,247	2,169
	30,516	31,205
Securities – available-for-sale		
– Central governments and central banks	77,096	108,582
– Public sector entities	2,807	2,398
– Banks and other financial institutions	132,255	99,640
– Corporate entities	5,088	4,903
	217,246	215,523

The certificates of deposit held included in investment securities are analysed as follows:

	As at 30 June 2005	As at 31 December 2004
Available-for-sale, at fair value		
– Unlisted	2,285	3,221

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

19 INVESTMENT SECURITIES *(Continued)*

The maturity profile of certificates of deposit held analysed by the remaining period as at period/year ends to the contractual maturity dates is as follows:

	As at 30 June 2005	As at 31 December 2004
Up to 3 months	**–**	309
3 to 12 months	**775**	846
1 to 5 years	**1,510**	2,066
	2,285	3,221

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

20 PROPERTY AND EQUIPMENT

	Land and Buildings	Construction in Progress	Equipment	Motor Vehicles	Leasehold Improvement	Total
Cost or valuation						
At 1 January 2005	**19,133**	**1,146**	**2,629**	**272**	**1,569**	**24,749**
Additions	**22**	**572**	**592**	**2**	**92**	**1,280**
Disposals	**(283)**	**(71)**	**(100)**	**(33)**	**(349)**	**(836)**
Transfers	**510**	**(432)**	**(78)**	**–**	**–**	**–**
At 30 June 2005	**19,382**	**1,215**	**3,043**	**241**	**1,312**	**25,193**
Accumulated depreciation						
At 1 January 2005	**–**	**–**	**–**	**–**	**(886)**	**(886)**
Charge for the period	**(445)**	**–**	**(605)**	**(39)**	**(115)**	**(1,204)**
Disposals	**43**	**–**	**85**	**24**	**320**	**472**
At 30 June 2005	**(402)**	**–**	**(520)**	**(15)**	**(681)**	**(1,618)**
Net book value						
At 30 June 2005	**18,980**	**1,215**	**2,523**	**226**	**631**	**23,575**
Carrying amount at 30 June 2005, if at cost	**11,759**	**785**	**2,442**	**215**	**631**	**15,832**
Cost at valuation						
At 1 January 2004	14,845	1,270	2,780	349	1,931	21,175
Additions	103	1,387	1,272	60	6	2,828
Disposals	(113)	–	(680)	(124)	(629)	(1,546)
Transfers	747	(1,450)	–	–	261	(442)
Revaluation	3,551	(61)	(743)	(13)	–	2,734
At 31 December 2004	19,133	1,146	2,629	272	1,569	24,749
Accumulated depreciation at valuation						
At 1 January 2004	–	–	–	–	(1,194)	(1,194)
Charge for the period	(740)	–	(1,356)	(121)	(254)	(2,471)
Disposals	63	–	613	108	562	1,346
Revaluation	677	–	743	13	–	1,433
At 31 December 2004	–	–	–	–	(886)	(886)
Net book value at valuation						
At 31 December 2004	19,133	1,146	2,629	272	683	23,863
Carrying amount at 31 December 2004, if at cost	11,508	948	2,409	256	683	15,804

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

20 PROPERTY AND EQUIPMENT *(Continued)*

The Group's land and buildings, construction in progress, equipment and motor vehicles were revalued by the Group's management with reference to a valuation made on an open market and existing use basis by external valuers. Sallmanns (Far East) Ltd.(西門(遠東)有限公司) is the external valuer appointed for the Group's latest valuation exercise as at 31 December 2004.

The revaluation reserve relating to revaluation of property and equipment is not distributable to shareholders.

All land and buildings of the Group are located outside Hong Kong, except for those of Hong Kong branch.

	As at 30 June 2005	As at 31 December 2004
Net book value of land and buildings of Hong Kong branch	**1,182**	1,211

21 OTHER ASSETS

	As at 30 June 2005	As at 31 December 2004
Settlement accounts	**3,725**	5,124
Other receivables	**4,833**	4,383
Less: impairment allowance	**(2,357)**	(2,209)
Foreclosed assets	**6,343**	6,832
Less: impairment allowance	**(2,031)**	(1,785)
Prepaid staff housing subsidies	**237**	252
Prepaid rental expenses	**350**	356
Land use rights	**583**	630
Computer software	**240**	256
Investment property	**708**	708
Others	**2,012**	1,597
	14,643	16,144

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

22 DUE TO OTHER BANKS AND FINANCIAL INSTITUTIONS

	As at 30 June 2005	As at 31 December 2004
Due to central banks	**–**	28
Deposits from other banks and financial institutions	**19,097**	16,224
Loans from other banks and financial institutions	**16,982**	15,459
	36,079	31,711

23 FINANCIAL LIABILITIES HELD FOR TRADING

	As at 30 June 2005	As at 31 December 2004
Derivative financial instruments *(Note 17)*	**333**	577
Short position of trading securities	**1,239**	1,158
Debt securities in issue	**5,072**	3,351
	6,644	5,086

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

23 FINANCIAL LIABILITIES HELD FOR TRADING *(Continued)*

Debt securities in issue are:

	As at 30 June 2005		As at 31 December 2004	
	Amount	Interest rate per annum *(%)*	Amount	Interest rate per annum *(%)*
HKD medium term Certificate of Deposit	1,556	3.09	760	3.23
USD medium term Certificate of Deposit	568	3.68	362	3.48
HKD floating rate Certificate of Deposit (maturing in September 2006)	425	HIBOR+0.20	426	HIBOR+0.20
HKD floating rate Certificate of Deposit (maturing in September 2008)	425	HIBOR+0.26	426	HIBOR+0.26
HKD floating rate Certificate of Deposit (maturing in May 2009)	134	6.9%-3m HIBOR	138	6.9%-3m HIBOR
HKD floating rate Certificate of Deposit (maturing in June 2006)	319	HIBOR+0.06	–	Not Applicable
HKD floating rate Certificate of Deposit (maturing in March 2007)	39	1.95% up to May 2006, thereafter, HIBOR+0.15% (capped at 4.75%)	–	Not Applicable
USD floating rate Certificate of Deposit (maturing in May 2007)	94	3.10% up to May 2006, thereafter, HIBOR+0.15% (capped at 5%)	–	Not Applicable
USD floating rate Certificate of Deposit (maturing in June 2007)	248	LIBOR+0.12	–	Not Applicable
USD floating rate Certificate of Deposit (maturing in January 2007)	1,264	LIBOR+0.20	1,239	LIBOR+0.20
	5,072		3,351	

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

24 DUE TO CUSTOMERS

	As at 30 June 2005	As at 31 December 2004
Corporate current deposits	**420,936**	385,556
Corporate savings deposits	**6,406**	5,011
Corporate time deposits	**205,709**	186,216
Individual current deposits	**145,529**	143,461
Individual savings deposits	**11,566**	14,879
Individual time deposits	**240,994**	210,561
Pledged deposits	**83,462**	53,705
Deposit certificates issued to retail customers	**1,293**	–
Promissory notes	**2,487**	3,055
Customer margin deposits	**1,696**	2,075
Other deposits	**19,621**	18,815
Interest payable	**7,810**	6,607
	1,147,509	1,029,941
Including:		
Pledged deposits held as collateral for letter of credit	**5,746**	4,965

25 OTHER LIABILITIES

	As at 30 June 2005	As at 31 December 2004
Settlement accounts	**6,897**	4,971
Dividends payable	**139**	141
Staff benefits payables	**1,104**	1,604
Tax payable	**651**	655
Provision for outstanding litigation	**1,170**	989
Others	**5,037**	4,097
	14,998	12,457

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

26 DEFERRED INCOME TAXES

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 33% for the relevant periods for transactions in Mainland China.

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 17.5% for the period ended 30 June 2005 (30 June 2004: 17.5%) for transactions in Hong Kong.

The movement in the deferred income tax account is as follows:

	Half-year ended 30 June	
	2005	2004 Restated
At beginning of the period	**4,632**	11,650
Reclassification into AFS securities	**714**	(60)
Adjusted balance at beginning of the period, restated	**5,346**	11,590
Charge to profit and loss account	**(2,135)**	(4,314)
Available-for-sale securities		
– fair value remeasurement	**(1,479)**	1,289
At end of the period	**1,732**	8,565

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

26 DEFERRED INCOME TAXES *(Continued)*

Deferred income tax assets and liabilities are attributable to the following items:

	As at 30 June 2005	As at 31 December 2004
Deferred income tax liabilities		
Available-for-sale securities	**(799)**	(53)
Accelerated tax depreciation	**(10)**	(13)
Property revaluation reserve	**(1,560)**	(1,560)
Other temporary differences	**(252)**	(261)
	(2,621)	(1,887)
Deferred income tax assets		
Provision for loan losses	**153**	427
Impairment allowances for investments	**571**	480
Decelerated tax depreciation	**125**	125
Impairment of other assets	**2,537**	1,825
Tax loss carried forward *(Note 12)*	**955**	3,631
Available-for-sale securities	**12**	745
	4,353	7,233
Net deferred income tax assets	**1,732**	5,346

The above net deferred income tax assets are disclosed separately on the balance sheet based on different responsible taxation authorities:

	As at 30 June 2005	As at 31 December 2004 Restated
Deferred tax assets	**2,109**	5,739
Deferred tax liabilities	**(377)**	(393)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

26 DEFERRED INCOME TAXES *(Continued)*

The deferred tax charge in the profit and loss account comprises the following temporary differences:

	As at 30 June	
	2005	2004
Provision for loan losses:		
Additional provisions for loan losses	**–**	373
Utilization	**(274)**	(23)
De-recognition of deferred tax assets in relation to loans disposed of *(Note 12)*	**–**	(9,671)
Sub-total	**(274)**	(9,321)
Impairment allowances for investments	**91**	280
Impairment of other assets	**712**	(617)
Tax loss carried forward *(Note 12)*	**(2,676)**	5,657
Accelerated tax depreciation	**3**	12
Decelerated tax depreciation	**–**	(22)
Other temporary differences	**9**	(303)
	(2,135)	(4,314)

27 RETIREMENT BENEFIT OBLIGATIONS

The Group participates in various defined contribution retirement benefit plans organised by municipal and provincial governments in Mainland China under which it is required to make monthly contributions to these plans at rates ranging from 10% to 27% of the employees' basic salary for the period. The Group currently has no additional significant cost for the payment of retirement and other post-retirement benefits of employees other than the monthly contributions described above. The Group's contributions to these pension plans are charged to the profit and loss account in the period to which they relate.

Retirement benefit obligations of the Group in locations other than Mainland China, which are immaterial to the Group, are made in accordance with the relevant local policies and regulations. They are accounted for in the profit and loss account in the period when the payment is made.

	Half-year ended 30 June	
	2005	2004
Expenses incurred for retirement benefit plans	**248**	162

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

28 SUBORDINATED TERM DEBT

	As at 30 June 2005	As at 31 December 2004
Floating rate subordinated debt – 2009	**12,000**	12,000
Interest payable	**83**	275
	12,083	12,275

The floating rate subordinated term debt bears interest at the rate of 1 year fixed deposit rate set by the PBC plus 2.52% and will mature in July 2009.

29 SHARE CAPITAL AND CAPITAL SURPLUS

	Number of shares *(in millions)*	**Ordinary shares of RMB1 each** *(RMB million)*	**Capital surplus** *(RMB million)*	**Total** *(RMB million)*
At 1 January 2005	**39,070**	**39,070**	**10,872**	**49,942**
Issue of shares *(note 1)*	**5,856**	**5,856**	**9,330**	**15,186**
Issuance cost	**–**	**–**	**(129)**	**(129)**
At 30 June 2005	**44,926**	**44,926**	**20,073**	**64,999**

Note 1: On 23 June 2005, a total of 5,856 million shares were subscribed by various third parties at a price of HKD2.55 per share with a total consideration of HKD14,261 million (equivalent to RMB15,186 million). The excess over par value of RMB9,330 million was included in capital surplus while the issuance cost of RMB129 million was netted off against capital surplus.

On 4 July 2005, a total of 878 million shares were subscribed by the Hongkong and Shanghai Banking Corporation Limited ("HSBC") at a price of HKD2.5 per share with a total consideration of HKD2,196 million (equivalent to RMB2,332 million) as a result of the exercise of the over-allotment option.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

29 SHARE CAPITAL AND CAPITAL SURPLUS *(Continued)*

Note 1: (Continued)

All the newly issued shares together with the shares held by the HSBC, the National Council For Social Security Fund and China SAFE Investments Limited, are listed on the Hong Kong Stock Exchange.

The shareholding structure of the Bank immediately before and after the issue by the Bank of the Over-allotment Shares are as follows:

	Immediately before the issue of the Over-allotment Shares		Immediately after the issue of the Over-allotment Shares	
	Number of shares *(in millions)*	Approximated percentage of the Bank's issued share capital	Number of shares *(in millions)*	Approximated percentage of the Bank's enlarged issued share capital
Domestic Shares in issue	22,740	50.62%	22,740	49.65%
H shares offered under the Global Offering and converted from Domestic Shares	22,186	49.38%	23,064	50.35%
Total number of Shares	44,926	100.0%	45,804	100.0%

Generally, transactions of the following nature are recorded in the capital surplus:

(i) share premium arising from the issue of shares at prices in excess of their par value;

(ii) donations received; and

(iii) any other items required by the PRC regulations to be so treated.

Capital surplus can be utilized to offset prior years' accumulated losses, for the issue of bonus shares or for increasing paid-up capital as approved by the Directors.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

30 RESERVES AND RETAINED EARNINGS/(ACCUMULATED LOSSES)

In accordance with the PRC legislation, 10% of the net profit of the Bank, as determined under the PRC accounting regulations, is required to be transferred to a non-distributable statutory reserve until such time when this reserve represents 50% of the share capital of the Bank.

Pursuant to the PRC regulations, the Bank is required to transfer 5% to 10% of its net income, as determined under the PRC accounting regulations, to the statutory welfare reserve. This fund can only be used to provide staff welfare facilities and other collective benefits to the Bank's employees. This fund is non-distributable other than in liquidation.

Pursuant to the PRC regulations, the appropriation of profits to the discretionary reserve and the distribution of dividends in each year are based on the recommendations of the Directors and are subject to the passing of resolutions to be considered at the Bank's Annual General Meeting to be held subsequent to each year end.

31 DIVIDENDS

	Half-year ended 30 June	
	2005	2004
Paid in the year	**2**	5

Under PRC Company Law and the Bank's Articles of Association, the net profit after tax as reported in the PRC statutory financial information can only be distributed as dividends after allowances for the following:

(i) Making up prior year's cumulative losses, if any;

(ii) Allocations to the non-distributable statutory accumulation reserve of 10% of the net profit of the Bank;

(iii) Allocation to the statutory welfare reserve of 5% to 10% of the net profit of the Bank;

(iv) Allocations to the discretionary revenue reserve fund if approved by the Bank's Annual General Meeting. These funds forms part of the shareholder's equity.

In accordance with the relevant regulations, after the Bank's initial public offering, the net profit after tax of the Group for the purpose of profit distribution is deemed to be the lesser of (i) the retained profits determined in accordance with PRC GAAP and (ii) the retained profit determined in accordance with IFRS.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

32 CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities

The following tables indicate the contractual amounts of the Group's off-balance sheet financial instruments which the Group commits to extend to customers:

	As at 30 June 2005	As at 31 December 2004
Guarantees	**35,092**	30,867
Issuance of letters of credit	**23,338**	25,654
Acceptances	**128,141**	103,348
Other commitments with an original maturity of		
– under 1 year or which are unconditionally cancellable	**2,951**	2,573
– 1 year and over	**7,399**	5,193
	196,921	167,635

Capital expenditure commitments

	As at 30 June 2005	As at 31 December 2004
Capital expenditure commitments for buildings	**342**	490

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

32 CONTINGENT LIABILITIES AND COMMITMENTS *(Continued)*

Operating lease commitments

Where the Group is the lessee, the future minimum lease payments under non-cancelable operating leases in respect of buildings are as follows:

	As at 30 June 2005	As at 31 December 2004
Not later than 1 year	**526**	499
Later than 1 year and not later than 5 years	**1,193**	1,141
Later than 5 years	**595**	532
	2,314	2,172

Legal proceedings

A number of legal proceedings are initiated by third parties against the Group as defendant. The total outstanding claims at end of the period are as follows:

	As at 30 June 2005	As at 31 December 2004
Outstanding claims	**2,311**	2,601
Provision for losses	**1,170**	989

The Group evaluates the losses, if any, arising from outstanding claims made by third parties on a regular basis. Provision for losses is made by the Group in the financial information when it is probable that an outflow of resources is required to settle the claims. The Group believes that the provision made is adequate to meet the settlement obligations.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

33 ASSETS PLEDGED

Assets are pledged as collateral under repurchase agreements with other banks and financial institutions and for security deposits relating to local futures, options and stock exchange memberships. Mandatory reserve deposits are also held with local central banks in accordance with statutory requirements. These deposits are not available to finance the Group's day to day operations.

	Pledged Assets		Related Liabilities	
	As at 30 June 2005	As at 31 December 2004	**As at 30 June 2005**	As at 31 December 2004
Balances with central banks	**67,792**	61,670	**–**	–
Investment securities	**–**	400	**–**	400
	67,792	62,070		400

34 CREDIT RISK WEIGHTED AMOUNT OF OFF BALANCE SHEET EXPOSURES

	As at 30 June 2005	As at 31 December 2004
Contingent liabilities and commitments	**146,221**	124,156

The credit risk weighted amount refers to the amount as computed in accordance with the Hong Kong Banking Ordinance and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and commitments.

The above credit risk weighted amounts are calculated in accordance with the formula promulgated by the HKMA because there are no relevant standards prescribed by IFRS.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

35 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

I Analysis of changes in financing during the year

	Dividends	Share capital	Capital surplus	Subordinated term debt
At 1 January 2005	**141**	**39,070**	**10,872**	**12,275**
Net cash inflow/(outflow) from financing	**(2)**	**5,856**	**9,201**	**(469)**
Interest expense recognized on issued bonds	**–**	**–**	**–**	**277**
At 30 June 2005	**139**	**44,926**	**20,073**	**12,083**
At 1 January 2004	149	17,108	11,035	–
Net cash inflow/(outflow) from financing	(5)	–	–	10,400
Impact of a Restructuring Transaction on capital surplus	–	13,556	1,681	–
At 30 June 2004	144	30,664	12,716	10,400

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

35 NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

II Analysis of the balance of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with original maturities of less than 90 days, used for the purpose of meeting short-term cash commitments:

	As at 30 June 2005	As at 31 December 2004
Cash and balances with central banks *(Note 14)*	**65,401**	66,831
Due from other banks and financial institutions *(Note 15)*	**36,754**	8,926
	102,155	75,757

36 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Group is subject to the control of the State Council of the PRC Government through the MOF.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

36 RELATED PARTY TRANSACTIONS *(Continued)*

I Financial Restructuring and Recapitalization with MOF

On 24 June 2004, the PBC, with the approval of the State Council, issued Yin Fu [2004] "Approval on the Packaged Capital Restructuring Program of Bank of Communications Co., Ltd. by the PBC" (the "Restructuring Package"), approving a series of financial restructuring transactions (each, individually, a "Restructuring Transaction") intended to increase the Bank's capital and resolve certain impaired loans. The aggregate effect achieved through the Restructuring Package was to increase outstanding shares and capital surplus by 21,962 million shares and RMB8,872 million, respectively.

The following Restructuring Transactions were conducted with entities wholly-owned or controlled by the PRC Government (the "Government Restructuring Transactions"). Together, these resulted in increases to outstanding shares and capital surplus of 13,556 million shares and RMB1,681 million, respectively.

- On 25 June 2004, the National Council For Social Security Fund subscribed 5,556 million shares at RMB1.8 per share with a total consideration of RMB10,000 million. The excess over par value of RMB4,444 million was included in capital surplus.

- On 27 June 2004, the Bank transferred impaired loans (the "Transferred Loans") with an aggregate original principal balance of RMB53,020 million to Cinda Asset Management Company in exchange for RMB20,700 million in a bill issued by the PBC (the "Bills"). The Bills bear a fixed annual rate of 1.89% and will mature on 29 June 2009 with an early redemption right attached to the issuer. RMB2,763 million of carrying value of the Transferred Loans in excess of the fair value of the Bills of RMB20,017 million, net of tax, was offset against capital surplus.

- On 30 June 2004, under the authority of Cai Jin [2004] No. 58 issued by the Ministry of Finance (the "MOF"), the MOF subscribed 5,000 million shares at par with a total consideration of RMB5,000 million.

- On 30 June 2004, China Central Huijin Investment Co., Ltd., subscribed 3,000 million shares at par with a total consideration of RMB3,000 million.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

36 RELATED PARTY TRANSACTIONS *(Continued)*

I Financial Restructuring and Recapitalization with MOF *(Continued)*

The Transferred Loans related to the Group are summarized below.

	Transferred Loans
Impaired loans:	
Doubtful loans	41,415
Loss loans	8,300
Loss loans written off previously but not yet approved by the tax authority	3,305
	53,020
Less: allowance for impairment losses on loans and advances *(Note18(II))*	(26,935)
allowance for impairment losses already written off	(3,305)
	22,780
Fair value of consideration received, net of tax	(20,017)
Carrying value in excess of fair value of consideration received	2,763

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

36 RELATED PARTY TRANSACTIONS *(Continued)*

II Transactions with the MOF

Apart from the above financial restructuring and recapitalization transaction with the MOF, the Group enters into banking transactions with the MOF in the normal course of business. These include the purchase and redemption of investment securities issued by the MOF. The volumes of related party transactions, outstanding balances at the period end, and related income for the period/year are as follows:

(i) Treasury bonds

	Half-year ended 30 June	
	2005	2004
Purchase during the period	**7,399**	5,361
Redemption during the period	**18,947**	3,450
Interest income	**1,207**	958

	Half-year ended 30 June 2005	Year ended 31 December 2004
Outstanding balance at beginning of the period/year	**59,281**	50,023
Outstanding at end of the period/year	**53,536**	59,281

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

36 RELATED PARTY TRANSACTIONS *(Continued)*

III Transactions with other state controlled entities

The state controlled entities are those over which the PRC government directly holds over 50% of the outstanding shares or voting rights, and has the ability to control or the power to govern their financial or operational policies. It should be noted, however, that substantially all of the Bank's business activity is conducted in the PRC and the influence of the PRC government in the Chinese economy is pervasive. In this regard, the PRC government indirectly holds interests in many companies. Some of these interests may, in themselves or when combined with other indirect interests, be controlling interests. Such interests, however, would not be known to the Bank and are not reflected below.

The Group enters into banking transactions with other state controlled entities in the normal course of business under commercial terms and at market rates. These include loans, deposits, investment securities, money market transactions and off-balance sheet exposures. The volumes of related party transactions, outstanding balances and related provisions at the period/year end, and the related expense and interest ranges for the period are as follows:

(i) Loans and advances to customers

	Half-year ended 30 June 2005	Year ended 31 December 2004
Outstanding balance at beginning of the period/year	**190,497**	191,081
Outstanding balance at end of the period/year	**207,005**	190,497
Less: allowance for impairment losses	**(2,138)**	(1,871)
	204,867	188,626
Including: Discounted bills	**6,704**	11,762
Interest rate range for discounted bills	**2.97%~5.74%**	2.97%~5.742%
Interest rate range of loans and advances other than discounted bills	**2%~9.396%**	4.698%~6.732%

The loan interest rate range stated above covers interest rates for loans granted in various currencies and periods.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

36 RELATED PARTY TRANSACTIONS *(Continued)*

III *Transactions with other state controlled entities* *(Continued)*

(i) Loans and advances to customers *(Continued)*

	Half-year ended 30 June	
	2005	2004
Maximum balance during the period	**215,789**	197,725
Provision for impairment recognised during the period	**(267)**	(1,058)

(ii) Investment securities

	Half-year ended 30 June	
	2005	2004
Purchase during the period	**104,311**	74,271
Redemption during the period	**35,488**	4,604
Sales during the period	**61,974**	25,467
Interest income	**1,915**	835

	Half-year ended 30 June 2005	Year ended 31 December 2004
Outstanding balance at beginning of the period/year	**148,390**	117,555
Outstanding balance at end of the period/year	**154,781**	148,390

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

36 RELATED PARTY TRANSACTIONS *(Continued)*

III Transactions with other state controlled entities *(Continued)*

(iii) Due from other banks and financial institutions

	Half-year ended 30 June 2005	Year ended 31 December 2004
Outstanding balance at beginning of the period/year	**39,140**	43,472
Outstanding balance at end of the period/year	**78,841**	39,140
Less: allowance for impairment losses	**(976)**	(994)
	77,865	38,146

	Half-year ended 30 June 2005	Half-year ended 30 June 2004
Maximum balance during the period	**78,841**	53,743
Provision for impairment recognised during the period	**18**	281

(iv) Due to other banks and financial institutions

	Half-year ended 30 June 2005	Year ended 31 December 2004
Outstanding balance at beginning of the period/year	**20,894**	10,125
Outstanding balance at end of the period/year	**26,923**	20,894

	Half-year ended 30 June 2005	Half-year ended 30 June 2004
Maximum balance during the period	**26,923**	30,325

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

36 RELATED PARTY TRANSACTIONS *(Continued)*

III Transactions with other state controlled entities (Continued)

(v) Due to customers

	Half-year ended 30 June 2005	Year ended 31 December 2004
Outstanding balance at beginning of the period/year	**112,197**	60,646
Outstanding balance at end of the period/year	**186,504**	112,197

	Half-year ended 30 June	
	2005	2004
Maximum balance during the period	**224,361**	105,215

(vi) Off-balance sheet exposures

	As at 30 June 2005	As at 31 December 2004
Guarantees	**12,478**	5,432
Issuance of letters of credit	**5,457**	14,492
Acceptances	**14,717**	9,703
Derivative transactions unsettled	**1,924**	3,899

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

36 RELATED PARTY TRANSACTIONS *(Continued)*

IV Transactions with directors and senior management

The Group enters into banking transactions with directors and senior management in the normal course of business. These include loans and deposits, which are carried out under commercial terms and at market rates except that loans and deposits have been made to and taken from senior management of the Hong Kong branch at preferential rates. The volumes of related party transactions during each of half years ended 30 June 2004 and 2005, outstanding balances at the balance sheet date are as follows:

(i) Loans

	As at 30 June 2005	As at 31 December 2004
Outstanding at beginning of the period/year	**9**	4
Granted during the period/year	**6**	9
Repaid during the period/year	**(3)**	(4)
Outstanding at end of the period/year	**12**	9

No interest income and allowance for impairment have been recognised in respect of loans granted to directors and senior management.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

36 RELATED PARTY TRANSACTIONS *(Continued)*

IV Transactions with directors and senior management *(Continued)*

(ii) Deposits

	As at 30 June 2005	As at 31 December 2004
Outstanding at beginning of the period/year	**29**	18
Deposited during the period/year	**13**	20
Repaid during the period/year	**(20)**	(17)
Outstanding at end of the period/year	**22**	21

V Transactions with HSBC

On 18 August 2004, according to the investment agreement between the Bank and HSBC, HSBC subscribed 7,775 million shares of the Bank at an issue price of RMB1.86 per share with a total consideration of RMB14,461 million. The excess over par value of RMB6,686 million was included in capital surplus. Transactions between the Group and HSBC are mainly banking activities under commercial terms and at market rates. Detail transaction volumes since the above share acquisition are set out below:

(i) Placement with HSBC

	Half-year ended 30 June 2005
Outstanding at beginning of the period	**100**
Granted during the period	**113,490**
Repaid during the period	**(111,914)**
Outstanding at end of the period	**1,676**
Interest income	**3**

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

36 RELATED PARTY TRANSACTIONS *(Continued)*

V *Transactions with HSBC* *(Continued)*

(ii) Deposits and loans from HSBC

	Half-year ended 30 June 2005
Outstanding at beginning of the period	**1,218**
Deposited during the period	**32,737**
Repaid during the period	**(32,012)**
Outstanding at end of the period	**1,943**
Interest expense on deposits	**7**

(iii) Investment securities

	Half-year ended 30 June 2005
Interest income	**16**

	As at 30 June 2005	As at 31 December 2004
Outstanding balance	**762**	414

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

36 RELATED PARTY TRANSACTIONS *(Continued)*

V ***Transactions with HSBC*** *(Continued)*

(iv) Off-balance sheet exposures

	As at 30 June 2005	As at 31 December 2004
Guarantees	8	8
Issuance of letters of credit	250	17
Derivative transactions unsettled	13,752	10,943

37 SEGMENTAL INFORMATION

The following table sets out the segmental information of the Group's operating results, assets and liabilities. The geographical segments are:

(i) Northern China – Including the following provinces (or Municipality or Autonomous Region): Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia;

(ii) North Eastern China – Including the following provinces: Liaoning, Jilin, Heilongjiang;

(iii) Eastern China – Including head office and the following provinces (or Municipality): Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi and Shandong;

(iv) Central & Southern China – Including the following provinces (or Autonomous Region): Henan, Hunan, Hubei, Guangdong, Guangxi, Hainan;

(v) Western China – Including the following provinces (or Municipality or Autonomous Region): Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shanxi, Gansu, Qinghai, Ningxia and Xinjiang;

(vi) Overseas – Including the following branches, representative offices and overseas subsidiaries: Hong Kong, New York, Singapore and Tokyo.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

37 SEGMENTAL INFORMATION *(Continued)*

Geographical segment information

	Northern China	North-eastern China	Eastern China	Central & Southern China	Western China	Overseas	Eliminations & Consolidated	Group Total
As at 30 June 2005								
Assets								
Cash and balances with central banks	8,862	4,250	104,633	9,941	5,102	405	–	133,193
Due from other banks and financial institutions	19,365	449	74,925	8,383	2,095	34,150	(326)	139,041
Financial assets held for trading	–	–	59	–	–	2,875	–	2,934
Loans and advances to customers	128,709	53,763	298,630	139,725	66,043	41,113	1,292	729,275
Investment securities								
– originated loans	100	1	30,020	240	155	–	–	30,516
– available-for-sale	14,833	11,442	140,062	16,557	7,959	26,393	–	217,246
Other assets	16,202	7,810	38,785	12,741	8,236	10,593	(54,040)	40,327
Total assets	188,071	77,715	687,114	187,587	89,590	115,529	(53,074)	1,292,532
Liabilities								
Due to other banks and financial institutions	(7,459)	(2,200)	(17,026)	(2,761)	(1,080)	(5,739)	186	(36,079)
Financial liabilities held for trading	–	–	(84)	–	–	(6,560)	–	(6,644)
Due to customers	(213,975)	(107,411)	(422,913)	(231,693)	(111,062)	(61,655)	1,200	(1,147,509)
Other liabilities	(5,130)	(3,185)	(21,315)	(7,012)	(3,082)	(39,571)	51,688	(27,607)
Total liabilities	(226,564)	(112,796)	(461,338)	(241,466)	(115,224)	(113,525)	53,074	(1,217,839)
Net on balance sheet position	(38,493)	(35,081)	225,776	(53,879)	(25,634)	2,004	–	74,693
Acquisition cost of property and equipment ("PPE") and intangible assets	159	194	600	204	146	10	–	1,313

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

37 SEGMENTAL INFORMATION *(Continued)*

Geographical segment information *(Continued)*

	Northern China	North-eastern China	Eastern China	Central & Southern China	Western China	Overseas	Eliminations & Consolidated	Group Total
Half year ended 30 June 2005								
Interest income	3,840	1,943	12,535	4,482	2,121	1,515	(3,158)	23,278
Interest expense	(1,502)	(819)	(5,978)	(1,459)	(725)	(1,011)	3,158	(8,336)
Net interest income	2,338	1,124	6,557	3,023	1,396	504	–	14,942
Fee and commission income	133	79	402	205	75	154	–	1,048
Fee and commission expense	(28)	(18)	(48)	(38)	(11)	(27)	–	(170)
Net fee and commission income	105	61	354	167	64	127	–	878
Dividend income	–	–	10	–	–	2	–	12
Gains less losses arising from trading activities	85	21	148	50	9	155	–	468
Gains less losses arising from investment securities	72	–	344	7	–	3	–	426
Other operating income	14	6	25	24	18	134	–	221
Impairment losses on loans and advances	(193)	(338)	(319)	(496)	(681)	109	–	(1,918)
Other operating expenses	(961)	(832)	(3,348)	(1,830)	(787)	(387)	–	(8,145)
Operating profit before tax	1,460	42	3,771	945	19	647	–	6,884
Income tax	(490)	(130)	(960)	(446)	(185)	(68)	–	(2,279)
Net profit for the period	970	(88)	2,811	499	(166)	579	–	4,605
Depreciation and amortization of PPE and intangible assets	123	147	601	209	121	56	–	1,257

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

37 SEGMENTAL INFORMATION *(Continued)*

Geographical segment information *(Continued)*

	Northern China	North-eastern China	Eastern China	Central & Southern China	Western China	Overseas	Eliminations & Consolidated	Group Total
As at 31 December 2004								
Assets								
Cash and balances with central banks	7,930	5,090	96,658	13,494	4,870	459	–	128,501
Due from other banks and financial institutions	10,518	425	44,472	2,730	1,841	30,604	(1,667)	88,923
Financial assets held for trading	–	–	47	–	–	2,448	–	2,495
Loans and advances to customers	104,316	49,447	258,112	125,272	59,325	33,976	1,164	631,612
Investment securities								
– loans and receivables	114	7	30,711	225	148	–	–	31,205
– available-for-sale	18,957	11,793	128,227	19,257	9,642	27,647	–	215,523
Other assets	10,377	8,061	25,059	13,319	7,419	10,827	(29,316)	45,746
Total assets	152,212	74,823	583,286	174,297	83,245	105,961	(29,819)	1,144,005
Liabilities								
Due to other banks and financial institutions	(3,950)	(2,694)	(12,699)	(4,342)	(940)	(7,921)	835	(31,711)
Financial liabilities held for trading	–	–	(95)	–	–	(4,991)	–	(5,086)
Due to customers	(173,255)	(99,297)	(378,278)	(204,813)	(101,139)	(74,897)	1,738	(1,029,941)
Other liabilities	(4,111)	(2,841)	(21,056)	(5,508)	(2,856)	(16,038)	27,246	(25,164)
Total liabilities	(181,316)	(104,832)	(412,128)	(214,663)	(104,935)	(103,847)	29,819	(1,091,902)
Net on balance sheet position	(29,104)	(30,009)	171,158	(40,366)	(21,690)	2,114	–	52,103
Acquisition cost of property and equipment and intangible assets	603	368	1,048	705	436	119	–	3,279

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

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

37 SEGMENTAL INFORMATION *(Continued)*

Geographical segment information *(Continued)*

	Northern China	North-eastern China	Eastern China	Central & Southern China	Western China	Overseas	Eliminations & Consolidated	Group Total
Half year ended 30 June 2004								
Interest income	2,831	1,534	8,793	3,535	1,747	918	(1,970)	17,388
Interest expense	(978)	(686)	(4,079)	(1,219)	(628)	(382)	1,970	(6,002)
Net interest income	1,853	848	4,714	2,316	1,119	536	–	11,386
Fee and commission income	101	65	314	155	58	168	–	861
Fee and commission expense	(22)	(11)	(47)	(29)	(8)	(24)	–	(141)
Net fee and commission income	79	54	267	126	50	144	–	720
Dividend income	–	–	37	–	–	4	–	41
Gains less losses arising from trading activities	61	17	88	40	8	93	–	307
Gains less losses arising from investment securities	–	–	–	–	–	(4)	–	(4)
Other operating income	12	9	43	13	17	(59)	–	35
Impairment losses on loans and advances	(661)	(838)	(743)	192	(592)	12	–	(2,630)
Other operating expenses	(795)	(684)	(3,412)	(1,311)	(769)	(363)	(4)	(7338)
Operating profit/(loss) before tax	549	(594)	994	1,376	(167)	363	(4)	2,517
Income tax	(400)	(90)	(3,289)	(362)	(143)	(138)	–	(4,422)
Net profit/(loss) for the period	149	(684)	(2,295)	1,014	(310)	225	(4)	(1,905)
Depreciation and amortization of property and equipment and intangible assets	127	161	526	216	135	–	–	1,165

VIII. UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

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

VIII. UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION *(Continued)*

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

1 CAPITAL ADEQUACY AND LIQUIDITY RATIOS

	As at 30 June 2005	As at 31 December 2004
Capital adequacy ratio	**11.29%**	9.72%
Liquidity ratios:		
RMB current assets to RMB current liabilities	**56.99%**	66.30%
Foreign currency current assets to foreign currency current liabilities	**53.70%**	57.05%

The above capital adequacy and liquidity ratios are calculated in accordance with the formula promulgated by the PBC and China Banking Regulatory Commission and based on PRC GAAP.

VIII. UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION *(Continued)*

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

2 COMPONENTS OF CAPITAL BASE AFTER DEDUCTIONS

The capital base after deductions used in the calculation of the above capital adequacy ratio as at end of each period is analysed as below. All the figures included in the calculation are extracted from PRC GAAP statements of the Bank.

	As at 30 June 2005	As at 31 December 2004
Core capital:		
Paid up ordinary share capital	**44,926**	39,070
Reserves	**16,821**	34,948
Profit and loss account	**6,634**	(26,558)
	68,381	47,460
Supplementary capital:		
Reserves on revaluation of land and interests in land	**–**	–
Impairment allowances for impaired assets and regulatory reserves	**9,471**	9,161
Term subordinated debt	**12,000**	12,000
Reserve – net profit of overseas branches retained	**–**	–
Gross value of supplementary capital	**21,471**	21,161
Eligible value of supplementary capital	**21,471**	21,161
Total capital base before deductions	**89,852**	68,621
Deductions:		
Equity investments of 20% or more in non-subsidiary companies	**N/A**	N/A
Collective impairment allowances for loans overdue over 2 years	**N/A**	N/A
Unconsolidated equity investments	**1,739**	1,894
Total capital base after deductions	**88,983**	66,727

Capital deduction items of the "Equity investment of 20% or more in non-subsidiary companies" and "Collective impairment allowances for loans overdue over 2 years" are calculated in accordance with the "Examination Measures and Supervision Indicators Relating to the Administration of Assets/Liabilities Ratio of Commercial Banks" issued by the PBC on 12 December 1996. These two deduction items were cancelled and replaced by the "Unconsolidated equity investments", which is in accordance with the "Administrative Measures on the Capital Adequacy Ratio of Commercial Banks" issued by the China Banking Regulatory Commission on 23 February 2004.

VIII. UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION *(Continued)*

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

3 CURRENCY CONCENTRATIONS

Equivalent in millions of RMB

As at 30 June 2005	**US Dollars**	**HK Dollars**	**Others**	**Total**
Spot assets	**67,360**	**90,149**	**52,733**	**210,242**
Spot liabilities	**(84,648)**	**(57,359)**	**(20,672)**	**(162,679)**
Forward purchases	**30,782**	**148**	**3,241**	**34,171**
Forward sales	**(25,777)**	**(2,065)**	**(5,489)**	**(33,331)**
Net options position	**2,939**	**–**	**257**	**3,196**
Net long/(short) position	**(9,344)**	**30,873**	**30,070**	**51,599**
Net structural position	**2,437**	**4,366**	**626**	**7,429**

Equivalent in millions of RMB

As at 31 December 2004	US Dollars	HK Dollars	Others	Total
Spot assets	102,341	45,239	19,992	167,572
Spot liabilities	(93,178)	(50,001)	(17,439)	(160,618)
Forward purchases	26,649	21,886	1,679	50,214
Forward sales	(23,238)	(20,938)	(6,124)	(50,300)
Net options position	250	20	338	608
Net long/(short) position	12,824	(3,794)	(1,554)	7,476
Net structural position	2,132	4,722	133	6,987

The net options position is calculated using the model user approach as set out in the banking return of the HKMA. The net structural position of the Group includes the structural positions of the Bank's overseas branches, banking subsidiaries and other subsidiaries substantially involved in foreign exchange. Structural assets and liabilities include:

- Investments in fixed assets and premises, net of depreciation charges;
- Capital and statutory reserves of overseas branches;
- Investments in overseas subsidiaries and related companies; and
- Loan capital.

VIII. UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION *(Continued)*

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

4 CROSS-BORDER CLAIMS

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China as cross-border claims.

Cross-border claims include loans and advances, balances and placements with banks and other financial institutions, holdings of trade bills and certificates of deposit and investment securities.

Cross-border claims have been disclosed by different country or geographical areas. A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of cross-border claims, after taking into account any risk transfers. Risk transfer is only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

	Bank and other financial institutions	Public sector entities	Others	Total
As at 30 June 2005				
Asia Pacific excluding Mainland China	**23,254**	**–**	**6,740**	**29,994**
– of which attributed to Hong Kong	**–**	**–**	**2,593**	**2,593**
North and South America	**16,181**	**2,185**	**4,415**	**22,781**
Europe	**39,038**	**202**	**194**	**39,434**
	78,473	**2,387**	**11,349**	**92,209**
As at 31 December 2004				
Asia Pacific excluding Mainland China	29,201	500	4,550	34,251
– of which attributed to Hong Kong	22,219	–	1,724	23,943
North and South America	10,185	1,459	4,210	15,854
Europe	24,414	231	947	25,592
Middle East and Africa	–	–	49	49
	63,800	2,190	9,756	75,746

VIII. UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION *(Continued)*

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

5 OVERDUE AND RESCHEDULED ASSETS

I *Advances*

(i) Gross amount of overdue loans

	As at 30 June 2005	As at 31 December 2004
Gross advances to customers which have been overdue for:		
– between 3 and 6 months	**3,124**	2,958
– between 6 and 12 months	**5,142**	3,278
– over 12 months	**6,842**	4,942
	15,108	11,178
Percentage:		
– between 3 and 6 months	**0.42%**	0.46%
– between 6 and 12 months	**0.70%**	0.51%
– over 12 months	**0.92%**	0.77%
	2.04%	1.74%
Gross advances to banks and other financial institutions which have been overdue for:		
– between 3 and 6 months	**–**	–
– between 6 and 12 months	**–**	–
– over 12 months	**986**	1,004
	986	1,004
Percentage:		
– between 3 and 6 months	**–**	–
– between 6 and 12 months	**–**	–
– over 12 months	**0.70%**	1.12%
	0.70%	1.12%

VIII. UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION *(Continued)*

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

5 OVERDUE AND RESCHEDULED ASSETS *(Continued)*

I ***Advances*** *(Continued)*

(ii) Overdue loans and advances to customers with impairment by geographical area

	As at 30 June 2005	As at 31 December 2004
Domestic regions		
– Northern China	**1,872**	2,872
– North-eastern China	**3,342**	3,865
– Eastern China	**3,215**	5,885
– Central & Southern China	**3,159**	3,744
– Western China	**2,172**	3,805
	13,760	20,171
Hong Kong and overseas countries	**647**	795
	14,407	20,966

(iii) Overdue and rescheduled loans

	As at 30 June 2005
Total rescheduled loans and advances to customers	**5,315**
Less: total overdue rescheduled loans and advances to customers	**(1,833)**
Total normal rescheduled loans and advances to customers	**3,482**
Percentage of normal part in total rescheduled loans	**66%**

VIII. UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION *(Continued)*

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

5 OVERDUE AND RESCHEDULED ASSETS *(Continued)*

II Investment securities – available-for-sale

	As at 30 June 2005	As at 31 December 2004
Overdue for:		
– three months or less	**–**	41
– between 3 and 6 months	**4**	–
– between 6 and 12 months	**33**	–
– over 12 months	**31**	31
	68	72

III Foreclosed assets

	As at 30 June 2005	As at 31 December 2004
Foreclosed assets	**6,343**	6,832

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

(Unit: RMB millions)

	Net Assets		Net Profit	
	30 June 2005	31 December 2004 Restated	**For the first half year of 2005**	For the year of 2004
PRC GAAP figures	**72,080**	52,489	**4,680**	915
Adjustments for accounting standard differences:				
1. Differences in recognition of interest income from investment securities	**495**	643	**(148)**	525
2. Differences in revaluation surplus of fixed assets and investment properties	**3,478**	3,543	**(91)**	(291)
3. Differences arising from the transfer of the non-performing loans to China Cinda Asset Management Corporation	**(875)**	(966)	**91**	1,243
4. Differences in valuation of derivative financial instruments	**(161)**	(310)	**149**	(225)
5. Revaluation surplus/(deficit) arising from AFS securities	**2,448**	(1,898)	**–**	–
6. Consolidated adjustments	**(1,152)**	(1,018)	**(108)**	(308)
7. Differences in recognition of deferred taxes	**(1,336)**	(249)	**88**	(60)
8. Others	**(284)**	(131)	**(56)**	(195)
IFRS figures	**74,693**	52,103	**4,605**	1,604

Explanation of the adjustments for accounting standard differences:

1. DIFFERENCES IN RECOGNITION OF INTEREST INCOME FROM INVESTMENT SECURITIES

In accordance with PRC GAAP, no interest income should be accrued on short-term investment securities. Under IFRS, interest income is recognised on interest-bearing instruments on an accruals basis using the effective interest method.

2. DIFFERENCES IN REVALUATION SURPLUS OF FIXED ASSETS AND INVESTMENT PROPERTIES

In 2004, the Group 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 has only been reflected in the IFRS accounts, and not in the PRC GAAP financial statements. The differences arising from fixed assets and the 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.

IX. RECONCILIATION OF DIFFERENCES BETWEEN IFRS AND PRC GAAP FINANCIAL INFORMATION *(Continued)*

(Unit: RMB millions)

3. DIFFERENCES ARISING FROM THE TRANSFER OF THE NON-PERFORMING LOANS TO CHINA CINDA ASSET MANAGEMENT CORPORATION

On 27 June 2004, the Group disposed of its non-performing loans (the "Transferred Loans") to China Cinda Asset Management Corporation in exchange for a bill issued by the People's Bank of China (the "Bills"). The amount of carrying value of the Transferred Loans, in excess of the fair value of the Bills, net of the deferred taxes, was credited to capital surplus. While the Bills secured from the Transferred Loans under the PRC GAAP were accounted for at its face value. The discount on recognized carrying value will be gradually amortized and recorded in the profit and loss accounts as interest income from securities during the remaining beneficiary period of the Bills.

4. DIFFERENCES IN VALUATION OF DERIVATIVE FINANCIAL INSTRUMENTS

In accordance with IAS39, 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 the net trading income. However, such derivative financial instruments are still accounted for as off balance sheet items under PRC GAAP.

5. REVALUATION SURPLUS/(DEFICIT) ARISING FROM AFS SECURITIES

In accordance IAS39, AFS securities are accounted for at fair value. The fluctuation of fair value is recorded as revaluation reserves of AFS securities in shareholder's equity. As of 1 January 2005, the Group has adopted the revised IAS 39 and reclassified part of its Investment securities – originated loans into AFS and recognized the relevant devaluation and relevant deferred tax assets. As of 30 June 2005, the revaluation reserves of AFS are a positive balance of RMB2.448 billion. 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 Group's IFRS financial statements. However, under PRC 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 Group, 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. OTHERS

All other differences are minor discrepancies arising from differences in the accounting standards.