

Notes:

(i) *Fair value adjustments for investments*

Under PRC GAAP, debt securities are categorised as short term and long term debt securities according to the intention in relation to the investments. Short term debt investments and equity investments are stated at the lower of the cost and market value. Long term debt investments are carried at amortised cost less provision for diminution in value.

Under IFRSs, debt securities and equity investments are classified as financial assets at fair value through profit or loss, available-for-sale, loans and receivables or held-to-maturity depending on the intention and the market activity in relation to the investments. Financial assets at fair value through profit or loss and available-for-sale investments are stated at their fair value subsequent to the initial recognition while loans and receivables and held-to-maturity investments are stated at amortised cost less impairment losses.

(ii) *Interest recognition for short term debt securities*

Under IFRSs, interest income from debt securities is recognised on an accruals basis while under PRC GAAP, interest income together with discount and premium for short term investment is recognised on disposal or maturity.

(iii) *Convertible bonds issued*

Under PRC GAAP, convertible bonds issued are recognised as liabilities at their actual issuance amounts. The difference between the amount of issuance and the face value is treated as the discount or premium of the debts, and is amortised/accreted on a straight-line basis over the terms of the debts. On conversion of convertible bonds issued, the amount of shares issued is recognised as share capital. The difference between the book value of the bonds converted and the par value of the shares is accounted for in the capital reserve.

Under IFRSs, the liability component of the convertible bonds issued is calculated as the present value of the future interest and principal payments at initial recognition, discounted at the market rate of interest applicable at the time of initial recognition to similar debt securities that do not have a conversion option. The liability component is subsequently carried at amortised cost until it is converted or redeemed. Any excess of proceeds over the amount initially recognised as the liability component is in substance an option and is recognised as the equity component in the capital reserve. If the bond is converted into shares, the carrying value of the liability component and any interest payable at the time of conversion, are transferred to "Share capital" based on the numbers of shares issued at par and the differences are recognised as share premium in capital reserve.

(iv) *Other debts issued*

Under PRC GAAP, the issuance cost of other debts are charged to the consolidated income statement when incurred.

According to IFRSs, the issuance cost of other debts issued are amortised over the terms of the debts issued.

(v) *Foreign exchange translation*

Under PRC GAAP, all on-balance sheet assets and liabilities denominated in foreign currencies are translated into RMB at the exchange rates ruling at the balance sheet date. Shareholders' equity denominated in foreign currencies is translated into RMB at the historical exchange rates. The resulting exchange differences are dealt with as a movement in capital reserve.

Under IFRSs, monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Renminbi at the foreign exchange rate ruling at that date. Non-monetary assets, liabilities and share capital which are measured at historical cost in a foreign currency are translated to Renminbi at the foreign exchange rate ruling at the date of the transaction, whilst those stated at fair value are translated to Renminbi at the foreign exchange rate ruling at the date of valuation. When the gain or loss on a non-monetary item is recognised directly in equity, any exchange component of that gain or loss is recognised directly in equity, all other foreign exchange differences arising on settlement and translation of monetary and non-monetary assets and liabilities are recognised in the consolidated income statement.

APPENDIX III UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(vi) Change in PRC accounting policies

During the financial years 2003, 2004 and 2005, there has been no major changes to the PRC GAAP.

Effective from January 1, 2006, the Bank has adopted the new Provisional Regulations On the Recognition And Measurement Of Financial Instruments No. 14 which are substantially consistent with IAS 39 on "Financial Instruments: Recognition and Measurement". Accordingly, the above adjustments (i), (ii), (iii) and (iv) are no longer applicable at March 31, 2006 and June 30, 2006.

(B) LIQUIDITY RATIOS

	<u>December 31,</u>			<u>March 31,</u>		<u>June 30,</u>	
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
<i>Liquidity ratios</i>							
RMB current assets to RMB current liabilities	<u>56.2%</u>	<u>52.6%</u>	<u>52.2%</u>	<u>48.6%</u>	<u>49.5%</u>	<u>48.3%</u>	<u>54.1%</u>
Foreign currency current assets to foreign currency current liabilities	<u>75.4%</u>	<u>71.7%</u>	<u>90.4%</u>	<u>64.4%</u>	<u>113.1%</u>	<u>77.1%</u>	<u>134.1%</u>

The above liquidity ratios are calculated in accordance with the formula promulgated by the People's Bank of China ("the PBOC") and the China Banking Regulatory Commission ("the CBRC") and based on PRC GAAP.

APPENDIX III UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(C) CAPITAL ADEQUACY RATIO

The capital adequacy ratio is prepared on a solo basis in accordance with the guideline “Regulation Governing Capital Adequacy of Commercial Banks” [Order (2004) No. 2] issued by the CBRC (the “CBRC guideline”) in March 2004, which may have significant differences with the relevant requirements in Hong Kong or other countries.

The capital adequacy ratios and related components of the Bank as at December 31, 2004, 2005 and as at March 31, 2006, and June 30, 2006 calculated based on PRC GAAP, were as follows:

	December 31,		March 31,	June 30,
	2004	2005	2006	2006
Core capital adequacy ratio	5.41%	5.57%	6.70%	6.44%
Capital adequacy ratio	9.47%	9.01%	8.81%	8.36%
<i>Components of capital base</i>				
Core capital:				
— Paid up ordinary share capital	6,848	10,374	12,279	12,280
— Reserves	13,280	13,466	18,646	19,655
— Total core capital	20,128	23,840	30,925	31,935
Supplementary capital:				
— General provisions for doubtful debts	5,180	6,135	6,830	7,267
— Term subordinated bonds	3,500	2,800	2,800	2,300
— Convertible bonds	6,500	5,864	42	39
— Investment revaluation reserve	—	—	246	75
— Total supplementary capital	15,180	14,799	9,918	9,681
Total capital base before deductions	35,308	38,639	40,843	41,616
Deductions:				
— Investments in unconsolidated subsidiary and other long-term investments	62	108	8	8
— Investment in commercial real estate	274	409	474	453
Total capital base after deductions	34,972	38,122	40,361	41,155
Risk weighted assets	369,131	423,312	457,938	492,546

The capital adequacy ratios as at December 31, 2003 reported to the PBOC and the CBRC respectively are not presented as the Group is of the opinion that they provide no real value to the shareholders given that they are based on the financial information of the Bank calculated in accordance with the guideline issued by the PBOC, which has been replaced by the CBRC guideline since March 2004.

APPENDIX III UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(D) CURRENCY CONCENTRATIONS OTHER THAN RMB

	December 31, 2003			
	US Dollars	HK Dollars	Others	Total
	(in millions of RMB)			
Non-structural position				
Spot assets	42,364	8,832	5,907	57,103
Spot liabilities	(42,458)	(9,071)	(5,907)	(57,436)
Forward purchases	2,989	1,949	1,123	6,061
Forward sales	(1,619)	(512)	(1,172)	(3,303)
Net option position	756	—	—	756
Net long/(short) position	<u>2,032</u>	<u>1,198</u>	<u>(49)</u>	<u>3,181</u>
Net structural position	<u>—</u>	<u>47</u>	<u>—</u>	<u>47</u>
	December 31, 2004			
	US Dollars	HK Dollars	Others	Total
	(in millions of RMB)			
Non-structural position				
Spot assets	50,755	13,209	5,575	69,539
Spot liabilities	(50,843)	(13,430)	(5,575)	(69,848)
Forward purchases	3,683	359	1,062	5,104
Forward sales	(1,450)	(553)	(2,346)	(4,349)
Net option position	248	—	—	248
Net long/(short) position	<u>2,393</u>	<u>(415)</u>	<u>(1,284)</u>	<u>694</u>
Net structural position	<u>—</u>	<u>47</u>	<u>—</u>	<u>47</u>
	December 31, 2005			
	US Dollars	HK Dollars	Others	Total
	(in millions of RMB)			
Non-structural position				
Spot assets	56,163	15,301	7,179	78,643
Spot liabilities	(56,243)	(15,547)	(7,179)	(78,969)
Forward purchases	5,684	407	1,270	7,361
Forward sales	(2,476)	(2,276)	(1,125)	(5,877)
Net long/(short) position	<u>3,128</u>	<u>(2,115)</u>	<u>145</u>	<u>1,158</u>
Net structural position	<u>—</u>	<u>50</u>	<u>—</u>	<u>50</u>
	March 31, 2006			
	US Dollars	HK Dollars	Others	Total
	(in millions of RMB)			
Non-structural position				
Spot assets	60,795	15,503	7,343	83,641
Spot liabilities	(60,873)	(15,743)	(7,343)	(83,959)
Forward purchases	4,754	213	1,392	6,359
Forward sales	(2,407)	(249)	(1,356)	(4,012)
Net long/(short) position	<u>2,269</u>	<u>(276)</u>	<u>36</u>	<u>2,029</u>
Net structural position	<u>—</u>	<u>50</u>	<u>—</u>	<u>50</u>

APPENDIX III UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(D) CURRENCY CONCENTRATIONS OTHER THAN RMB (continued)

	June 30, 2006			
	US Dollars	HK Dollars	Others	Total
	(in millions of RMB)			
<i>Non-structural/position</i>				
Spot assets	62,266	15,976	7,019	85,261
Spot liabilities	(62,342)	(16,211)	(7,019)	(85,572)
Forward purchases	4,892	387	1,146	6,425
Forward sales	(2,625)	(185)	(1,217)	(4,027)
Net option position	(17)	—	84	67
Net long/(short) position	<u>2,174</u>	<u>(33)</u>	<u>13</u>	<u>2,154</u>
Net structural position	<u>—</u>	<u>49</u>	<u>—</u>	<u>49</u>

The net option position is calculated using the delta equivalent approach required by the Hong Kong Monetary Authority (the “HKMA”). The net structural position of the Group includes the structural positions of the Bank’s branches 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 Hong Kong branch; and
- Investment in a subsidiary in Hong Kong.

(E) CROSS-BORDER CLAIMS

The Group is principally engaged in business operations within the Mainland China, and regards all claims on third parties outside the 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 areas is reported where it constitutes 10% or more of the aggregate amount of cross-border claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in 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.

	December 31, 2003			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding the PRC	6,469	316	3,925	10,710
— of which attributed to Hong Kong	1,204	316	3,804	5,324
Europe	7,975	620	—	8,595
North and South America	2,252	4,275	1,068	7,595
	<u>16,696</u>	<u>5,211</u>	<u>4,993</u>	<u>26,900</u>

APPENDIX III UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(E) CROSS-BORDER CLAIMS (continued)

	December 31, 2004			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding the PRC	6,743	319	4,189	11,251
— of which attributed to Hong Kong	1,004	319	3,865	5,188
Europe	12,198	957	—	13,155
North and South America	4,288	4,565	1,178	10,031
	<u>23,229</u>	<u>5,841</u>	<u>5,367</u>	<u>34,437</u>
	December 31, 2005			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding the PRC	6,858	247	4,067	11,172
— of which attributed to Hong Kong	208	247	3,900	4,355
Europe	15,513	475	10	15,998
North and South America	3,494	5,035	733	9,262
	<u>25,865</u>	<u>5,757</u>	<u>4,810</u>	<u>36,432</u>
	March 31, 2006			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding the PRC	5,811	155	3,896	9,862
— of which attributed to Hong Kong	498	155	3,832	4,485
Europe	16,852	—	167	17,019
North and South America	5,354	5,052	667	11,073
	<u>28,017</u>	<u>5,207</u>	<u>4,730</u>	<u>37,954</u>
	June 30, 2006			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding the PRC	10,680	343	5,534	16,557
— of which attributed to Hong Kong	1,577	343	5,179	7,099
Europe	15,740	120	224	16,084
North and South America	8,146	2,647	798	11,591
	<u>34,566</u>	<u>3,110</u>	<u>6,556</u>	<u>44,232</u>

APPENDIX III UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(F) OVERDUE LOANS AND ADVANCES TO CUSTOMERS BY GEOGRAPHICAL SEGMENTS

	December 31,			March 31,	June 30,
	2003	2004	2005	2006	2006
Eastern China	373	618	705	782	999
Southern and Central China	7,412	7,063	6,926	6,764	6,627
Western China	480	1,218	2,422	2,415	2,444
Northern China	723	677	682	702	784
Others	—	25	26	3	82
	<u>8,988</u>	<u>9,601</u>	<u>10,761</u>	<u>10,666</u>	<u>10,936</u>

Note: The above analysis includes loans and advances overdue for more than 90 days as required and defined by the HKMA.

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

For loans and advances repayable by regular instalments, if part of the instalments is overdue, the whole amount of these loans would be classified as overdue.

Loans and advances repayable on demand are classified as overdue when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instructions. If the loans and advances repayable on demand are outside the approved limit that was advised to the borrower, they are also considered as overdue.

APPENDIX III UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(G) GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES TO CUSTOMERS

	December 31,			March 31,	June 30,
	2003	2004	2005	2006	2006
Gross loans and advances to customers which have been overdue with respect to either principal or interest for periods of:					
— between 3 and 6 months	395	624	1,360	900	1,044
— between 6 and 12 months	375	1,135	1,886	1,982	1,385
— over 12 months	<u>8,218</u>	<u>7,842</u>	<u>7,515</u>	<u>7,784</u>	<u>8,507</u>
Total	<u>8,988</u>	<u>9,601</u>	<u>10,761</u>	<u>10,666</u>	<u>10,936</u>
As a percentage of total gross loans and advances:					
— between 3 and 6 months	0.13%	0.17%	0.29%	0.17%	0.20%
— between 6 and 12 months	0.12%	0.30%	0.40%	0.39%	0.26%
— over 12 months	2.67%	2.10%	1.59%	1.51%	1.60%
Total	<u>2.92%</u>	<u>2.57%</u>	<u>2.28%</u>	<u>2.07%</u>	<u>2.06%</u>

Notes: (i) *The above analysis includes loans and advances overdue for more than 90 days as required and defined by the HKMA.*

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

For loans and advances repayable by regular instalments, if part of the instalments is overdue, the whole amount of these loans would be classified as overdue.

Loans and advances repayable on demand are classified as overdue when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instructions. If the loans and advances repayable on demand are outside the approved limit that was advised to the borrower, they are also considered as overdue.

(ii) *There were no overdue loans and advances to financial institutions as at June 30, 2006, March 31, 2006, December 31, 2005, 2004 and 2003.*

(H) RESCHEDULED LOANS AND ADVANCES TO CUSTOMERS

	December 31,		March 31,		June 30,					
	2003	2004	2005	2006	2006	2006				
	% of total loans and advances									
Rescheduled loans and advances to customers	3,307	1.08%	3,580	0.96%	2,447	0.52%	2,507	0.49%	2,490	0.47%
Less:										
— rescheduled loans and advances but overdue more than 90 days	<u>2,754</u>	0.90%	<u>2,938</u>	0.79%	<u>1,822</u>	0.39%	<u>1,752</u>	0.34%	<u>1,727</u>	0.33%
Rescheduled loans and advances overdue less than 90 days	<u>553</u>	0.18%	<u>642</u>	0.17%	<u>625</u>	0.13%	<u>755</u>	0.15%	<u>763</u>	0.14%

There were no rescheduled loans and advances to financial institutions as at June 30, 2006, March 31, 2006, December 31, 2005, 2004 and 2003.