

APPENDIX II UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

The information set out below does not form part of the Accountants' Report prepared by the reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, as set out in Appendix I, and is included herein for information purposes only.

(a) Significant differences between the financial statements prepared under IFRS and those prepared in accordance with the PRC GAAP

Our bank prepared a set of financial statements for the years ended December 31, 2003, 2004 and 2005 and for the six months ended June 30, 2006 for the purpose of application to the CSRC for A Share Offering ("A Share financial statements"). The A Share financial statements have been prepared by the Directors in accordance with the PRC GAAP.

An analysis of the differences between the A Share financial statements and the financial statements prepared in accordance with IFRSs are set out below.

	Notes	Year ended December 31,			Six months ended June 30,
		2003	2004	2005	2006
(in millions of RMB)					
Net profit shown in the A Share financial statements		22,374	30,763	37,405	25,143
Reversal of amortisation of goodwill	(i)	98	100	150	103
Recognition of revaluation surplus on disposed assets	(iii)	—	—	—	153
Profit attributable to equity holders of the Bank under IFRS		<u>22,472</u>	<u>30,863</u>	<u>37,555</u>	<u>25,399</u>
December 31, June 30,					
	Notes	2003	2004	2005	2006
(in millions of RMB)					
Owner's equity attributable to equity holders of the Bank shown in the A Share financial statements		(537,099)	(508,163)	256,947	326,225
Reversal of amortisation of goodwill	(i)	21	121	271	374
Reversal of revaluation surplus	(ii)	(3,671)	(3,671)	(1,379)	(1,379)
Recognition of revaluation surplus on disposed assets	(iii)	—	—	—	153
Owner's equity attributable to equity holders of the Bank under IFRS		<u>(540,749)</u>	<u>(511,713)</u>	<u>255,839</u>	<u>325,373</u>

Notes:

(i) *Reversal of amortisation of goodwill*

In accordance with the PRC GAAP, goodwill is amortised.

In accordance with the relevant provisions under IFRS, goodwill is assessed for impairment annually and is not amortised. Accordingly, the amortisation of goodwill under the PRC GAAP is reversed in the financial statements prepared in accordance with IFRS.

(ii) *Reversal of revaluation surplus*

In the A Share financial statements, the Group performed revaluation on certain assets (including equity investments, repossessed assets and intangible assets, etc.) pursuant to the relevant requirements, with the revaluation surplus recognised in the capital reserve. Under IFRS, such assets are carried at cost and the revaluation surplus was reversed accordingly.

(iii) *Recognition of revaluation surplus on disposed assets*

In relation to the disposal of assets as mentioned in note (ii) above, adjustments on reversal of recognition of valuation surplus were made accordingly.

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(b) Liquidity ratios

	December 31,			June 30,
	2003	2004	2005	2006
RMB current assets to RMB current liabilities	<u>45.47%</u>	<u>45.17%</u>	<u>48.89%</u>	<u>50.80%</u>
Foreign currency current assets to foreign currency current liabilities	<u>81.81%</u>	<u>75.22%</u>	<u>83.42%</u>	<u>72.97%</u>

The above liquidity ratios are calculated in accordance with the formula promulgated by the PBOC and the CBRC and based on the financial information prepared in accordance with Accounting Standards for Business Enterprises, the Accounting System for Financial Institutions (2001 version) and other relevant regulations for the years ended December 31, 2003, 2004 and 2005. In addition, the ratios as at June 30, 2006 are calculated based on the financial information prepared in accordance with the PRC GAAP.

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(c) Capital adequacy ratio

The Group calculates and reports the capital adequacy ratios in accordance with the guideline “Regulation Governing Capital Adequacy of Commercial Banks” (Order (2004) No. 2) which were promulgated by the CBRC on February 23, 2004, and implemented on March 1, 2004, together with the “Notice from China Banking Regulatory Commission on Guidance for the Calculation of Capital Requirement of Market Risks for Commercial Banks”, issued by the CBRC on December 30, 2004. The requirements pursuant to these guidelines may have significant differences compared to those applicable in Hong Kong or other countries.

The capital adequacy ratios and the related components of the Group as at December 31, 2005 are arrived at using the financial data and information in the statutory financial statements of the Group and do not reflect the impact of Caikuai (2005) No. 14 “Provisional Guidelines on Recognition and Measurement of Financial Instruments” issued by the MOF. The capital adequacy ratios and the related components of the Group as of June 30, 2006 are computed in accordance with the PRC GAAP.

	<u>December 31,</u> <u>2005</u>	<u>June 30,</u> <u>2006</u>
	<u>(in millions of RMB, except percentages)</u>	
Core capital adequacy ratio	8.11%	8.97%
Capital adequacy ratio	9.89%	10.74%
<i>Components of capital base (in millions of RMB)</i>		
Core capital:		
Share capital	248,000	286,509
Reserves	5,444	19,916
Minority interests	4,037	4,092
Total core capital	<u>257,481</u>	<u>310,517</u>
Supplementary capital:		
General provisions for doubtful debts	21,846	26,111
Reserve for net change in the fair value of available-for-sale investments	—	604
Subordinated bonds	35,000	35,000
Total supplementary capital	<u>56,846</u>	<u>61,715</u>
Total capital base before deductions	314,327	372,232
Deductions:		
Unconsolidated equity investments ⁽¹⁾	(1,176)	(1,416)
Goodwill ⁽¹⁾	(1,307)	(1,265)
Net capital base	<u>311,844</u>	<u>369,551</u>
Core capital base after deductions ⁽¹⁾	<u>255,586</u>	<u>308,544</u>
Risk weighted assets and market risk capital adjustment	<u>3,152,206</u>	<u>3,439,547</u>

(1) Pursuant to the relevant regulations, the core capital base after deductions was derived by applying 50% and 100% of deductions in the unconsolidated equity investments and goodwill, respectively.

The capital adequacy ratios as of December 31, 2003 and 2004 reported by the Bank to the PBOC and the CBRC were calculated using the financial information prepared in accordance with the Accounting System for Financial Institutions (1993 version) and, therefore, are not comparable to the capital adequacy ratios presented above. Such ratios are not presented as the directors are of the opinion that the presentation of such ratios provides no real value to the shareholders.

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(d) Currency concentrations other than RMB

	<u>US\$</u>	<u>HK\$</u> (in millions of RMB)	<u>Others</u>	<u>Total</u>
As of December 31, 2003				
Spot assets	226,711	81,114	35,143	342,968
Spot liabilities	(193,764)	(83,520)	(38,634)	(315,918)
Forward purchases	57,182	14,916	7,359	79,457
Forward sales	(26,550)	(34,081)	(12,753)	(73,384)
Net option position	(183)	125	52	(6)
Net long/(short) position	<u>63,396</u>	<u>(21,446)</u>	<u>(8,833)</u>	<u>33,117</u>
Net structural position	<u>593</u>	<u>692</u>	<u>—</u>	<u>1,285</u>
As of December 31, 2004				
Spot assets	227,165	106,360	33,603	367,128
Spot liabilities	(212,497)	(90,157)	(20,297)	(322,951)
Forward purchases	70,406	6,496	13,594	90,496
Forward sales	(31,633)	(24,874)	(23,938)	(80,445)
Net option position	388	(32)	(340)	16
Net long/(short) position	<u>53,829</u>	<u>(2,207)</u>	<u>2,622</u>	<u>54,244</u>
Net structural position	<u>692</u>	<u>470</u>	<u>—</u>	<u>1,162</u>
As of December 31, 2005				
Spot assets	338,484	104,162	49,237	491,883
Spot liabilities	(187,573)	(86,517)	(39,423)	(313,513)
Forward purchases	55,263	6,205	13,015	74,483
Forward sales	(29,459)	(21,156)	(19,931)	(70,546)
Net option position	(96,925)	6	31	(96,888)
Net long position	<u>79,790</u>	<u>2,700</u>	<u>2,929</u>	<u>85,419</u>
Net structural position	<u>327</u>	<u>261</u>	<u>288</u>	<u>876</u>
As of June 30, 2006				
Spot assets	351,872	104,564	47,553	503,989
Spot liabilities	(216,207)	(98,539)	(37,564)	(352,310)
Forward purchases	76,201	8,763	20,160	105,124
Forward sales	(51,532)	(16,311)	(29,895)	(97,738)
Net option position	(96,591)	3	(225)	(96,813)
Net long/(short) position	<u>63,743</u>	<u>(1,520)</u>	<u>29</u>	<u>62,252</u>
Net structural position	<u>429</u>	<u>289</u>	<u>193</u>	<u>911</u>

The net option position is calculated using the delta equivalent approach required by the Hong Kong Monetary Authority. 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; and
- Investments in overseas subsidiaries and related companies.

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(e) 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 with central banks, balances and placements with banks and other financial institutions, and investment securities.

Cross-border claims have been disclosed by different countries 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 transfers are 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.

	<u>Banks and other financial institutions</u>	<u>Public sector entities</u>	<u>Others</u>	<u>Total</u>
	(in millions of RMB)			
As of December 31, 2003				
Asia Pacific excluding Mainland China	37,042	3,387	45,897	86,326
—of which attributed to Hong Kong	9,843	261	39,430	49,534
Europe	34,332	317	6,115	40,764
North and South America	13,064	—	7,093	20,157
	<u>84,438</u>	<u>3,704</u>	<u>59,105</u>	<u>147,247</u>
As of December 31, 2004				
Asia Pacific excluding Mainland China	42,900	2,192	50,721	95,813
—of which attributed to Hong Kong	16,911	272	43,768	60,951
Europe	42,577	275	8,051	50,903
North and South America	11,600	—	6,255	17,855
	<u>97,077</u>	<u>2,467</u>	<u>65,027</u>	<u>164,571</u>
As of December 31, 2005				
Asia Pacific excluding Mainland China	51,106	1,599	72,182	124,887
—of which attributed to Hong Kong	8,829	1,203	61,313	71,345
Europe	76,471	162	6,068	82,701
North and South America	32,766	119	7,207	40,092
	<u>160,343</u>	<u>1,880</u>	<u>85,457</u>	<u>247,680</u>
As of June 30, 2006				
Asia Pacific excluding Mainland China	74,785	2,965	81,860	159,610
—of which attributed to Hong Kong	35,246	1,896	72,780	109,922
Europe	59,799	378	5,571	65,748
North and South America	59,941	5	8,869	68,815
	<u>194,525</u>	<u>3,348</u>	<u>96,300</u>	<u>294,173</u>

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(f) **Overdue Assets**

(i) Overdue loans and advances to customers

	December 31,			June 30,
	2003	2004	2005	2006
	(in millions of RMB, except percentages)			
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	97,776	82,230	36,284	22,993
—between 6 and 12 months	35,137	81,385	36,478	27,391
—over 12 months	597,727	592,892	80,989	91,166
Total	<u>730,640</u>	<u>756,507</u>	<u>153,751</u>	<u>141,550</u>
As a percentage of total gross loans and advances to customers:				
—between 3 and 6 months	2.9%	2.2%	1.1%	0.7%
—between 6 and 12 months	1.0%	2.2%	1.1%	0.8%
—over 12 months	17.6%	16.0%	2.5%	2.6%
Total	<u>21.5%</u>	<u>20.4%</u>	<u>4.7%</u>	<u>4.1%</u>

Note: The above analysis includes loans and advances overdue for more than 90 days.

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.

(ii) Overdue placements with banks and other financial institutions

	December 31,			June 30,
	2003	2004	2005	2006
	(in millions of RMB, except percentages)			
Gross placements with banks and other financial institutions which have been overdue with respect to either principal or interest for periods of:				
—between 3 and 6 months	368	—	65	—
—between 6 and 12 months	—	26	—	—
—over 12 months	7,500	6,347	332	317
Total	<u>7,868</u>	<u>6,373</u>	<u>397</u>	<u>317</u>
As a percentage of total gross placements with banks and other financial institutions:				
—between 3 and 6 months	0.6%	—	0.1%	—
—between 6 and 12 months	—	—	—	—
—over 12 months	12.1%	10.1%	0.3%	0.3%
Total	<u>12.7%</u>	<u>10.1%</u>	<u>0.4%</u>	<u>0.3%</u>

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(g) Overdue loans and advances to customers by geographical segments

	December 31,			June 30,
	2003	2004	2005	2006
	<i>(in millions of RMB)</i>			
Yangtze River Delta	50,499	44,761	12,401	10,616
Pearl River Delta	99,388	102,068	23,601	23,270
Bohai Rim	117,250	113,747	28,882	28,593
Central	162,794	165,639	20,827	18,382
Western	125,836	128,339	28,847	25,627
Northeastern	164,358	191,225	37,353	33,735
Head Office	9,090	9,100	616	497
Overseas	1,425	1,628	1,224	830
Total	<u>730,640</u>	<u>756,507</u>	<u>153,751</u>	<u>141,550</u>

Note: The above analysis includes loans and advances overdue for more than 90 days.

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.

(h) Rescheduled loans and advances to customers

	December 31,						June 30,	
	2003		2004		2005		2006	
	<u>% of total loans and advances</u>		<u>% of total loans and advances</u>		<u>% of total loans and advances</u>		<u>% of total loans and advances</u>	
	<i>(in millions of RMB, except percentages)</i>							
Rescheduled loans and advances	334,212	9.8%	341,372	9.2%	70,988	2.2%	61,557	1.8%
Less:								
—rescheduled loans and advances overdue more than 3 months	<u>248,760</u>	<u>7.3%</u>	<u>309,223</u>	<u>8.3%</u>	<u>58,625</u>	<u>1.8%</u>	<u>55,517</u>	<u>1.6%</u>
Rescheduled loans and advances overdue less than 3 months	<u>85,452</u>	<u>2.5%</u>	<u>32,149</u>	<u>0.9%</u>	<u>12,363</u>	<u>0.4%</u>	<u>6,040</u>	<u>0.2%</u>