



Brief Introduction to the Company



1. Registered Company Name in English: SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD. (Abbreviation: SPDB)
2. Legal Representative: Mr. JIN Yun
3. Corporate Secretary: Mr. SHEN Si
Representatives for Securities Affairs of the Board: Mr. YANG Guoping, Ms. WU Rong
Address: General Office to the Board, Shanghai Pudong Development Bank Co., Ltd., No. 12, Zhongshan Dong Yi Road, Shanghai, China 200002
Tel: 021-63611226 021-63296188 -General Office to the Board
Fax: 021-63230807
E-mail address: shens2@spdb.com.cn
yanggp@spdb.com.cn
wur2@spdb.com.cn
4. Registered Address and Business Address
Registered Address: No. 500 Pudong Nan Road, Pudong New Area, Shanghai, China
Office Address: No 12, Zhongshan Dong Yi Road, Shanghai, China
Post Code: 200002
Website Address: <http://www.spdb.com.cn>
Email Address: bdo@spdb.com.cn
5. Designated newspaper for information disclosure: "China Securities Daily", "Shanghai Securities News", "Securities Times"
Internet website designated by China Securities Regulatory Commission for the publication of the Company's annual report: <http://www.sse.com.cn>
Copies of the Annual Report are available at: General Office to the Board, SPDB
6. Place of Stock Listing: Shanghai Stock Exchange
Stock Abbreviation: Pu Fa Bank
Stock Code: 600000
7. Other Relevant Information
Date of Initial Registration: October 19th, 1992
Registration Number of Business License of the Corporate Legal Entity: 3100001001236
Registered Number for Taxation: Guo Shui Hu Zi: 31004413221158X
Di Shui Hu Zi: 31004413221158X

Name of the custodian for the non-marketable Stock: China Securities Depository and Clearing Co., Ltd. Shanghai Branch

Name of the Domestic Accounting Firm appointed: Da Hua Certified Public Accountants Co., Ltd.
Office Address: No. 146, Kunshan Road, Shanghai, China
Name of the International Accounting Firm appointed: Ernst & Young Accounting Firm
Office Address: 18th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong
8. The report is prepared in both Chinese and English. Should there exist any inconsistency between the two versions, the Chinese version shall prevail.

Summary of Key Financial and Performance Indicators



1. Key Profit Indicators for the Year

Unit: RMB'000 yuan

	Domestic Audit (PRC GAAP)	Int'l Audit (IAS)
Total profit	4,230,890	4,339,228
Net profit	2,485,417	2,558,004
Net profit excl. extraordinary items	2,471,430	2,558,004
Principal operating profit	8,450,494	4,339,228
Other profit	-	-
Operating profit	8,472,476	4,339,228
Investment income	21,981	21,981
Subsidy income	-	-
Net income from non-operating activities	5,461	-
Net cash flow from operating activities	5,762,308	-10,470,306
Net increase in cash and cash equivalents	-3,320,175	-3,320,175

Note: According to "Q&A for Information Disclosure Regulation for Companies Issuing Securities Publicly No.1: Extraordinary Profit and Loss"(revised version 2004), the extraordinary profit and loss deducted is the net income of non-operating activities, which amounts to RMB 13,987,000 yuan.

2. Key Financial Indicators and Variances between the Financial Statements Audited by Domestic and International auditors for the reporting period

Unit: RMB'000 yuan

	Net profit 2005	Net assets 2005	Total assets	Total liabilities	Shareholders' equity
Based on PRC GAAP	2,485,417	15,525,921	573,066,623	557,540,702	15,525,921
Add: income from transactions of securities on market value basis	83,902	293,877	293,877	-	293,877
Add: net income from derivative transactions	31,319	-37,157	20,422	57,579	-37,157
Add: securities sellable	-	360,211	360,211	-	360,211
Other re-classification adjustments	-6,883	45,072	-1	-45,073	45,072
Add: deferred taxes resulted from above adjustments	-35,751	-218,461	-218,461	-	-218,461
Total variance	72,587	443,542	456,048	12,506	443,542
IAS supplemental financial statement	2,558,004	15,969,463	573,522,671	557,553,208	15,969,463

Summary of Key Financial and Performance Indicators

The variances are mainly due to the facts:

1. that PRC GAAP is based on the lower of the cost and market price, while IAS is on market price basis;
2. that PRC GAAP is on cash basis, while IAS is on fair value basis;
3. and that the above-mentioned accounting adjustments result in income tax adjustments.

3. 3-year Key Financial and Performance Indicator Comparison

Unit: RMB'000 yuan

Item	2005 Domestic Audit (PRC GAAP)	2005 Int'l Audit (IAS)	2004 Domestic Audit (PRC GAAP)		+/- (%)	2003 Domestic Audit (PRC GAAP)	
			After adjustment	Before adjustment		After adjustment	Before adjustment
Principal operating income	21,467,000	23,293,035	16,760,989	16,760,989	28.08	12,027,237	12,027,237
Total profit	4,230,890	4,339,228	3,048,818	3,048,818	38.77	2,343,774	2,343,774
Net profit	2,485,417	2,558,004	1,930,031	1,930,031	28.78	1,566,088	1,566,088
Net profit excl. extraordinary items	2,471,430	2,558,004	1,894,330	1,894,330	30.46	1,535,690	1,535,690

Item	2005 Domestic Audit (PRC GAAP)	2005 Int'l Audit (IAS)	2004 Domestic Audit (PRC GAAP)		+/- (%)	2003 Domestic Audit (PRC GAAP)	
			After adjustment	Before adjustment		After adjustment	Before adjustment
Total assets	573,066,623	573,522,671	455,532,286	455,532,286	25.82	371,056,698	371,056,698
Outstanding balance of deposits	505,575,629	505,575,628	395,971,068	395,381,770	27.68	322,114,094	322,114,094
Outstanding balance of loans	377,222,937	377,438,845	310,905,140	310,905,140	21.33	255,111,339	255,111,339
Shareholders' Equity	15,525,921	15,969,463	13,510,304	13,510,304	14.92	12,010,923	12,010,923
Net cash flow from operating activities	5,762,308	-10,470,306	4,914,930	4,914,930	17.24	4,000,780	4,000,780

Key financial indicators	2005 Domestic Audit (PRC GAAP)	2005 Int'l Audit (IAS)	2004 Domestic Audit (PRC GAAP)		+/- (%)	2003 Domestic Audit (PRC GAAP)	
			After adjustment	Before adjustment		After adjustment	Before adjustment
EPS (yuan) (fully diluted)	0.635	0.65	0.493	0.493	28.80	0.400	0.400
ROE (fully diluted)(%)	16.01	16.02	14.29	14.29	+1.72 point	13.04	13.04
ROE excl. extraordinary items(fully diluted)(%)	15.92	16.02	14.02	14.02	+1.9 point	12.79	12.79
Net cash flow per share from operating activities (yuan)	1.472	-2.67	1.255	1.255	17.29	1.022	1.022

Summary of Key Financial and Performance Indicators



Item	2005 Domestic Audit (PRC GAAP)	2005 Int'l Audit (IAS)	2004 Domestic Audit (PRC GAAP)		+/- (%)	2003 Domestic Audit (PRC GAAP)	
			After adjustment	Before adjustment		After adjustment	Before adjustment
Net assets per share	3.97	4.079	3.45	3.45	15.07	3.07	3.07
Net assets per share (adjusted)	3.96	4.079	3.45	3.45	15.07	3.07	3.07

4. ROE and EPS calculated according to the methods required by “Rules for Publicly Listed Companies Information Disclosure” No. 9 issued by China Securities Regulatory Commission

1. Based on the domestic audit

Item	Profits during the reporting period (RMB'000 yuan)	ROE (%)		EPS (yuan)	
		Fully diluted	Weighted average	Fully diluted	Weighted average
Principal operating profits	8,450,494	54.43	58.52	2.158	2.158
Operating profits	8,472,476	54.57	58.67	2.164	2.164
Net profits	2,485,417	16.01	17.21	0.635	0.635
Net profits excl. extraordinary items	2,471,430	15.92	17.12	0.631	0.631

2. Based on the international audit

Item	Profits during the reporting period (RMB'000 yuan)	ROE (%)		EPS (yuan)	
		Fully diluted	Weighted average	Fully diluted	Weighted average
Principal operating profits	4,339,228	27.17	29.71	1.11	1.11
Operating profits	4,339,228	27.17	29.71	1.11	1.11
Net profits	2,558,004	16.02	17.51	0.65	0.65
Net profits excl. extraordinary items	2,558,004	16.02	17.51	0.65	0.65

Summary of Key Financial and Performance Indicators

5. Loan Provisions in Financial Statements Audited by Domestic and International Auditors

	Domestic Audit (PRC GAAP)	Int'l Audit (IAS)
At 1 st January, 2005	8,919,499	8,973,743
Provisions brought forward	497,519	497,519
Provisions charged during the reporting period	3,083,295	3,180,187
Amounts recovered	48,562	48,562
Amounts written off	977,276	977,276
At 31 December, 2005	10,576,561	10,727,697

Note: the discrepancy between the loan provisions as audited by domestic and international auditors is mainly due to the different principles used by domestic and international auditors to classify loans. However, both domestic and international auditors agreed on the loan provisions, that is RMB 10.576 billion for loans classified with domestic principles and regulations.

6. 3-year Supplemental Financial Data

Unit: RMB'000 yuan

Item	2005 Domestic Audit (PRC GAAP)	2005 Int'l Audit (IAS)	2004 Domestic Audit (PRC GAAP)	2003 Domestic Audit (PRC GAAP)
Total liabilities	557,540,702	557,553,208	442,021,983	359,045,775
Total deposits	505,575,629	505,575,628	395,971,068	322,114,094
Incl. Long-term deposits	190,881,080	190,881,080	150,765,831	116,562,950
Inter-bank borrowing	420,924	420,924	2,006,516	3,055,379
Total loans	377,222,937	377,438,845	310,905,140	255,111,339
Incl. Short-term loan	214,809,285	214,809,285	189,429,551	164,873,841
Import & export advances and negotiation	2,336,878	2,336,878	1,769,992	1,887,661
Bills discounted	39,993,989	39,993,989	24,702,278	27,835,302
Mid and long-term loans	112,098,658	112,098,658	88,120,146	55,568,354
Overdue loans	2,450,908	2,450,908	2,648,919	713,451
Bad loans	5,496,891	5,496,891	4,164,697	4,216,955
Loan losses	36,328	36,328	69,557	15,775

Note: Calculation method for relevant financial indicators:

1. Total deposits include short-term deposits, short-term saving deposits, remittance payable as well as temporary deposits, long-term deposits, long-term saving deposits, long-term guarantee deposits and entrusted funds;
2. Long-term deposits and inter-bank borrowing include long-term deposits, long-term savings deposits, long-term guarantee deposits and inter-bank borrowing;
3. Total loans include short-term loans, import & export advances and negotiation, bills discounted, mid and long-term loans, overdue loans, bad loans and loan losses, overdrafts, advances and factoring.

Summary of Key Financial and Performance Indicators



7. 3-year Supplemental Financial Indicators

Item	Standard	2005		2004		2003		
		Year-end	Average	Year-end	Average	Year-end	Average	
Capital adequacy ratio %	≥ 8	8.04	8.09	8.03	8.33	8.64	8.90	
Liquidity ratio %	RMB	≥ 25	41.57	43.34	44.12	40.42	34.39	44.07
	FX	≥ 60	75.93	73.74	83.45	72.92	62.78	66.34
Loans to deposits %	RMB	≤ 75	67.04	70.52	72.60	73.51	71.42	65.24
	FX	≤ 85	66.66	70.93	71.72	64.54	59.65	64.07
Inter-bank lending and borrowing ratio %	Borrowing ratio	≤ 4	0	0.18	0.37	0.51	1.36	0.65
	Lending ratio	≤ 8	0.17	0.24	0.30	0.84	2.44	2.03
International commercial loans to total loans %	≤ 100	0.63	7.55	18.22	24.56	0	0.92	
Non-performing loan ratio %	-	1.97	2.29	2.45	2.43	1.92	2.70	
Interests collected to total interests accrued %	-	99.54	98.40	98.79	98.50	101.65	99.07	
Single largest customer lending to net capital %	≤ 10	4.25	4.28	3.77	4.50	5.26	6.00	
Top 10 customers' loans to net capital %	≤ 50	32.48	30.40	26.58	31.91	36.69	39.91	

Note: The NPL ratio for 2003 was based on domestic principles for loan classifications. According to the international 5-category loan classification principles, the company's NPL ratio for 2003 year-end shall be 2.53%.

8. Capital structure and change at the end of the reporting period

Unit: RMB'000,000 yuan

	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2003
Net capital	28,435	24,427	19,025
Net Tier I capital	14,596	12,806	12,302
Net risk-weighted assets	353,575	304,035	220,190
CAR (%)	8.04	8.03	8.64

Note: Since 2004, the above ratios have been calculated with the methods required by CBRC's Notice on CAR Calculation encoded as CBRC Notice [2004] No. 18.

Summary of Key Financial and Performance Indicators

9. Changes in Shareholders' Equity in the Reporting Period

(1) Domestic Audit (PRC GAAP)

Unit: RMB'000 yuan

Item	Share Capital	Contributed Surplus Capital	Retained Earnings	Statutory reserve welfare	General reserve	Undistributed profit	Total shareholders' equity
At 1 st January, 2004	3,915,000	4,869,396	2,171,610	666,601	2,000,000	554,298	13,510,304
Increase	-	-	745,626	248,542	1,300,000	2,485,417	4,531,043
Decrease	-	-	-	-	-	2,515,426	2,515,426
At 31 Dec.2005	3,915,000	4,869,396	2,917,236	915,143	3,300,000	524,289	15,525,921

Reasons for changes: The changes are mainly due to increase in profits and withdrawal of retained earnings and distribution of profits.

(2) Int'l Audit (IAS)

Unit: RMB'000 yuan

Item	Share Capital	Contributed Capital Surplus	Reserve	Including: Statutory welfare reserve	Unrealized gain on available-for-sale investment	Undistributed profit	Total shareholders' equity
At 1 st January, 2004	3,915,000	4,869,396	3,776,823	634,050	-	1,078,699	13,639,918
Increase	-	-	1,990,087	248,542	241,341	2,558,004	4,789,432
Decrease	-	-	-	-	-	2,459,887	2,459,887
At 31 Dec.2005	3,915,000	4,869,396	5,766,910	882,592	241,341	1,176,816	15,969,463

Reasons for changes: The changes are mainly due to increase in profits and Unrealized gain on available-for-sale investment .

Share Capital Changes and Shareholders' Status

1. Share Capital Changes

(1) Changes in share capital

Unit: '000 shares

	Before-Change		Changes in shares (+/-)					After the change	
	Amount	(%)	New issuance	Dividend Stock	Dividend Stock from Contributed Capital Surplus	Other	Sub-total	Amount	(%)
A. Non-marketable Shares									
(a) Founders' shares	1,061,200	27.11	-	-	-	-	-	1,061,200	27.11
Including:									
State-owned shares	-	-	-	-	-	-	-	-	-
Shares held by domestic legal entity	1,061,200	27.11	-	-	-	-	-	1,061,200	27.11
Shares held by foreign legal entity	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
(b) Shares placed by legal entity	1,953,800	49.90	-	-	-	-	-	1,953,800	49.90
(c) Employee shares	-	-	-	-	-	-	-	-	-
(d) Preferred stock and others	-	-	-	-	-	-	-	-	-
Non-marketable shares subtotal	3,015,000	77.01	-	-	-	-	-	3,015,000	77.01
B. Listed marketable shares									
(a) Common stock (RMB denominated)	900,000	22.99	-	-	-	-	-	900,000	22.99
(b) Domestically-listed shares held by foreign investors	-	-	-	-	-	-	-	-	-
(c) Overseas-listed shares held by foreign investors	-	-	-	-	-	-	-	-	-
(d) Others	-	-	-	-	-	-	-	-	-
Listed marketable shares subtotals	900,000	22.99	-	-	-	-	-	900,000	22.99
C. Total outstanding shares	3,915,000	100.00	-	-	-	-	-	3,915,000	100.00

Share Capital Changes and Shareholders' Status



(2) Stock Issuance and Public Listing

① Share issuance during the past 3 years

With the approval from the People's Bank of China and China Securities Regulatory Commission, the Company launched its Initial Public Offering of 400 million shares at an offer price of 10 yuan each on September 23rd, 1999. 320 million shares of the IPO were listed at the Shanghai Stock Exchange on November 10th, 1999. The remaining 80 million shares placed with mutual funds were approved for listing on January 12th, 2000.

Pursuant to the Notice for Approving Shanghai Pudong Development Bank Co., Ltd. To Issue New Shares given by the China Securities Regulatory Commission encoded as CSRC Zheng Jian Fa Xing Zi [2002] No. 135, the company is allowed to issue no more than 300 million new A-shares. On January 3, 2003, the subscription for the new issuance was completed and the issue price was set at RMB 8.45 yuan per share. On January 20, 2003, the new shares were listed in Shanghai Stock Exchange.

② Change in total shares and structure

During the reporting period, there is no change in total shares or share structure due to dividend shares or share allotment.

③ Existing employee shares

During the reporting period, there are no employee shares.

2. Shareholders' Information

(1) At the end of the reporting period, the total number of shareholders was 201,923, including 191 domestic legal-entity shareholders of non-marketable shares.

(2) Shareholding situation of major shareholders as at the end of the reporting period is illustrated as follows:

Share Capital Changes and Shareholders' Status

Full name	Shareholder nature	Shareholding position (% of the total)	Total shares held	Change in the reporting period	Share nature	Tradeable shares held	Shares pledged or frozen
Shanghai International Trust & Investment Co., Ltd.	State-owned	7.01	274500000	-	Non-marketable	-	-
Shanghai Industrial Investment (Holdings) Co., Ltd.	State-owned	4.87	190500000	-	Non-marketable	-	-
Shanghai State-owned Assets Operation Co.	State-owned	4.85	190050000	-	Non-marketable	-	-
Shanghai International Group	State-owned	4.73	185350000	-	Non-marketable	-	-
Citibank Overseas Investment Co.	Foreign-invested	4.62	180750000	-	Non-marketable	-	-
Shanghai Jiushi Corp.	State-owned	4.21	164700000	+7500000	Non-marketable	-	-
Oriental International Trade (Group) Co., Ltd.	State-owned	1.92	75000000	-	Non-marketable	-	-
Shenergy Co., Ltd.	Listed company	1.92	75000000	-	Non-marketable	-	-
Shanghai Guoxin Investment Development Co.	State-owned	1.62	63390000	+2890000	Non-marketable	-	-
SITIC Development Co., Ltd.	Listed company	1.57	61500000	-	Non-marketable	-	-

Note on the affiliation between the above shareholders: The affiliation among the top ten shareholders is that Shanghai International Group is the the above shareholders holding shareholder of Shanghai International Trust and Investment Co., Ltd; Shanghai Industrial Investment (Holdings) Co., Ltd. is the holding share holder of SITIC International Trade (Group) Co., Ltd and Shanghai Industry Development Co., Ltd; Shanghai State-owned Assets Operations Co., Ltd. is the holding shareholder of Shanghai Guixin Investment Development CO.

3. Information on the controlling shareholder and actual controller

Shanghai International Group, founded on April 20, 2000, has a registered capital of RMB 6.3 billion yuan (the paid-up capital being RMB 5.52 billion). Its registered address is No. 111, Jiujiang Road, Shanghai and legal representative is Mr. PAN Longqing. Its business operation scope is: state-owned assets and equity operation, investment, M&A, assets management and consultancy and international tendering and bidding.

At the end of the reporting period, Shanghai International Group held a total of 185,350,000 SPDB shares. In addition, SIG's subsidiary Shanghai International Trust and Investment Corp. held 274,500,000 SPDB shares. In total, SIG held 459,850,000 SPDB shares directly and indirectly, accounting for 11.74% of the total.

By the time when this financial report is released, SIG has signed share transfer agreements with Shanghai State-owned Assets Operations Corp., Shanghai Jiushi Corp, Shenergy Co, Oriental International Group Co., Shanghai Guixin Investment & Development Co., Ltd and SIIC Investment & Development Co. Consequently, SIG will acquire another total of 629,640,000

Share Capital Changes and Shareholders' Status



SPDB shares, accounting for 16.08% of the total. The above case of share transfer has been passed by the 6th Session of the 3rd Board of Directors on January 17, 2006 and approved by CBRC document entitled [2006] No. 18. The relevant formalities for the share ownership change are still in process. Once the case is completed, SIG will directly hold 814,990,000 SPDB shares, accounting for 20.82% of the total.

In addition, 16 non-marketable shareholders, Shanghai Sugar & Wine Group, Shanghai No. 1 Food Co., Ltd, Shanghai Tires & Rubber Co., Ltd, Shanghai Baoshan Treasury Investment Co, China Construction Bank Shanghai Branch, Shanghai Foreign Trade Investment & Development Co., Shanghai Songjiang District Treasury Bureau, Shanghai Nanhui District Treasury Bureau, Shanghai United Investment Co, Shanghai Cigarette Group, Jinjiang International Group and Shanghai Nong Gong Shang Group, Shanghai LongTai Copper Company, Shanghai Machinery Company, China Agricultural Bank Shanghai Branch and Shanghai Electric Asset Management Company, have respectively signed an agreement with Shanghai International Group so as to transfer the shares they held in our company to SIG. And 3 non-marketable shareholders, Shanghai Construction Material Group, Shanghai Automobile Company and ICBC Shanghai Branch, have respectively signed an agreement with Shanghai International Trust & Investment Co., Ltd. so as to transfer the shares they held in our company to SITIC. The above cases of share transfer are yet to be approved by the Board and CBRC.

4. The company's shareholder Shanghai International Group directly and indirectly holds 459,850,000 shares in the company, accounting for 11.74% of the total.

5. An overview of Top 10 holders of marketable shares

Shareholder's name	Marketable shares held at year-end	Unit: shares
		Type (A-share, B-share, H-share or else)
ICBC-ETF Securities Investment Fund	28146562	A-share
China Ping An Life Insurance-Traditional Insurance	26501211	A-share
China Ping An Life Insurance-Individual Insurance	18796281	A-share
Bank of Communications-Yi Fang Da ETF Fund	18479088	A-share
China Merchants Bank-CITIC Classical Securities Investment Fund	16392974	A-share
Han Sheng Securities Investment Fund	15148943	A-share
BOC-Harvest Service Value-added Investment Fund	12832054	A-share
China Agricultural Bank-Schroders Fund	11458340	A-share
Yu Long Securities Investment Fund	9000000	A-share
ICBC-GDB Ju Fu Open-end Fund	7947612	A-share

Overview of the Company's Directors, Supervisors, Senior Management and Staff



1. Information about the Company's Directors, Supervisors and Senior Management

(1) General Information

Title	Name	Sex	Date of birth	Tenure	Shares held	Compensation paid by the company for 2005 (Unit: RMB 10,000 yuan)
Chairman of the Board	JIN Yun	Male	1946	2005.09.28-2008.09.27	-	86.7
Vice chairman	ZHU Shiyin	Male	1950	2005.09.28-2008.09.27	-	
Director	NIU Rutao	Male	1960	2005.09.28-2008.09.27	-	
Director	CHEN Weishu	Male	1946	2005.09.28-2008.09.27	-	
Director	ZHANG Jianwei	Male	1954	2005.09.28-2008.09.27	-	
Director	Richard Daniel Stanley	Male	1960	2005.09.28-2008.09.27	-	
Director	XU Jianxin	Male	1955	2005.09.28-2008.09.27	-	
Director	WEI Pengcheng	Male	1953	2005.09.28-2008.09.27	-	
Director	PAN Longqing	Male	1949	2005.09.28-2008.09.27	-	
Director, EVP and CFO	HUANG Jianping	Male	1950	2005.09.28-2008.09.27	-	64.1
Director and EVP	SHANG Hongbo	Male	1959	2005.09.28-2008.09.27	-	63.8
Independent Director	QIAO Xianzhi	Male	1940	2005.09.28-2008.09.27	-	6
Independent Director	SUN Zheng	Male	1957	2005.09.28-2008.09.27	-	6
Independent Director	LI Yang	Male	1951	2005.09.28-2008.09.27	-	6
Independent Director	JIANG Boke	Male	1954	2005.09.28-2008.09.27	-	6
Independent Director	Fred HU	Male	1963	2005.09.28-2008.09.27	-	6
Independent Director	XIA Dawei	Male	1953	2005.09.28-2008.09.27	-	6
Chairman of the Supervisory Board	LIU Haibin	Male	1952	2005.09.28-2008.09.27	-	
Supervisor	LV Yong	Male	1957	2005.09.28-2008.09.27	-	
Supervisor	ZHANG Baohua	Male	1951	2005.09.28-2008.09.27	-	
Supervisor	WU Shunbao	Male	1947	2005.09.28-2008.09.27	-	
Supervisor	SONG Xuefeng	Male	1970	2005.09.28-2008.09.27	-	
Supervisor	WAN Xiaofeng	Male	1949	2005.09.28-2008.09.27	-	67.9
Supervisor	YANG Shaohong	Male	1950	2005.09.28-2008.09.27	-	62.1
Supervisor	LIN Fuchen	Male	1958	2005.09.28-2008.09.27	-	56.8
External Supervisor	CHEN Bulin	Male	1945	2005.09.28-2008.09.27	-	
EVP	ZHANG Yaolin	Male	1958	2005.09.28-2008.09.27	-	64.1
EVP	MA Li	Female	1958	2005.09.28-2008.09.27	-	63.3
EVP	LIU Xinyi	Male	1965	2005.09.28-2008.09.27	-	57.2
Corporate Secretary	SHEN Si	Male	1953	2005.09.28-2008.09.27	-	58.4

Overview of the Company's Directors, Supervisors, Senior Management and Staff

(2) Post held by the Company's Directors and Supervisors

Name	Shareholder Entity	Post
NIU Rutao	State Electricity Network Corp	Deputy Director, Financial Control
CHEN Weishu	Shanghai Industrial Investment (Holding) Group	Chairman of the Board
ZHANG Jianwei	Shanghai Jiu Shi Corp.	Deputy General Manager
ZHU Shiyin	Shanghai State-owned Assets Operations Corp.	General Manager
Richard Daniel Stanley	Citi Group	China CEO, Citigroup
XU Jianxin	Oriental International Trade (Group) Co., Ltd.	Financial Controller
WEI Pengcheng	Jiangsu Tobacco Bureau (Corp.)	Director and General Manager
PAN Longqing	Shanghai International Group Shanghai International Trust & Investment Corp.	Chairman, Party Secretary
LV Yong	Bai Lian Group	CFO
ZHANG Baohua	Jinjiang International Group	Assistant General Manager
WU Shunbao	Shanghai Sugar, Tobacco and Alcohol Group Co., Ltd.	Chairman of the Board, Secretary of Party Committee
SONG Xuefeng	Shenergy Corp.	Assistant GM

(3) Summary of the working experiences of active directors, supervisors and senior management:

A. Directors:

JIN Yun, male, born in 1946, EMBA. Once worked as Deputy President, ICBC Shanghai Branch, Acting Deputy President of SPDB, Vice Chairman and Deputy Party Committee Secretary. At present, he is the Chairman and Party Committee Secretary of SPDB.

ZHU Shiyin, male, born in 1950, university graduate with an economist's title. Once worked as the Deputy Governor of Shanghai Jing'an District, Party Committee Member of Shanghai Zhabei District Government and deputy Governor of Shanghai Zhabei District Government. At present, he is the Director and Party Committee Secretary of Shanghai State-owned Assets Operations Co., Ltd. He is also the Chairman of the Yangtze River United Economic Development Corp.

NIU Rutao, male, born in 1960, university graduate with a senior economist's title. Once worked as the Deputy Director of Xuzhou Electricity Bureau, Deputy Section Director of Financial Control and Deputy Chief Accountant in Jiangsu Electricity Corp., Chief Accountant of Zhejiang Electricity Corp etc. At present, he is the Deputy Director of the Financial Control Department, State Electricity Network Corp.

Overview of the Company's Directors, Supervisors, Senior Management and Staff



CHEN Weishu, male, born in 1946, master's degree, professor. Posts once held include Dean of Department of International Finance and World Economy in Fudan University and deputy president of the Company. He's currently holding the positions of vice chairman of the board in Shanghai Industrial Group, chairman of the board in Shanghai Industrial Investment (Holdings) Co., Ltd. and in Shanghai Industrial Financial (holdings) Co., Ltd., as well as the Company's director.

ZHANG Jianwei, male, born in 1954, master's degree with a title of senior economist. Once worked as the Deputy Director of Shanghai Xinhua Glassware Plant, Deputy General Manager of Shanghai Telecommunications Equipment Company, the General Manager, Industry Management Department, Shanghai Jiushi Co., the General Manager of Asset Management No. 1 Department, Development and Planning Department, Assets Operations Department, Assistant to General Manager and so on. At present, he is the Deputy General Manager of Shanghai Jiushi Co.

Richard Daniel Stanley, male, born in 1960, master's degree. Once worked as the Head of Financial Institutions, Citibank Singapore Branch, Head of Financial Institutions, Bangkok Branch, Citibank, China Country Officer, Citibank, ASEAN Country Officer of Citibank etc. At present, he is the China CEO of Citigroup.

XU Jianxin, male, born in 1955, doctor's degree with an associate professor's title. Post once held is vice general manager of Shanghai New Century Investment Consulting Company. He is currently the Chief Financial Officer of Oriental International Trade (Group) Co., Ltd.

WEI Pengcheng, male, born in 1953, a postgraduate with a senior economist's title. Once worked as the General Manager of Xuzhou Cigarette Plant, Director of Xuzhou Cigarette Bureau, Deputy General Manager of Jiangsu Cigarette Bureau, Deputy Director of Jiangsu Cigarette Bureau. At present, he is the Director of Jiangsu Cigarette Bureau, General Manager and Party Secretary.

PAN Longqing, male, born in 1949, a master with a senior economist's degree. Once worked as the Deputy Governor of Shanghai Nanhui District, Governor and Party Secretary of Jinshan County, Deputy Party Secretary, Governor and Party Secretary of Songjiang District, Shanghai, Party Secretary of Shanghai Foreign Economics & Trade Commission etc. At present, he is the Party Secretary and General Manager of Shanghai International Group.

HUANG Jianping, male, born in 1950, master's degree, senior economist. Posts once held are as follows: office manager of Industrial and Commercial Bank of China Shanghai Branch Hongkou Sub branch, general manager of planning and finance department in SPDB, general manager of Dazhong Insurance Company, assistant president in SPDB. Currently, he's the Director, Executive Vice President and CFO of SPDB.

SHANG Hongbo, male, born in 1959, master's degree, economist. Once worked as Deputy Director of Administrative Office, Executive Deputy Director of Treasury Department and Deputy President in People's Bank of China Ningbo Branch, General Manager of Shanghai Pudong Development Bank Ningbo Branch. He's currently Director and Executive Vice President of SPDB.

QIAO Xianzhi, male, born in 1940, college's degree, supreme senior judge. Posts once held are deputy director of Shanghai Middle People's Court, director of Shanghai Xuhui District Court, deputy director of Shanghai High People's Court, director of Shanghai Middle People's Court and executive deputy director of Shanghai High People's Court. Currently he's the Chairman of Shanghai Arbitration Committee.

Overview of the Company's Directors, Supervisors, Senior Management and Staff

SUN Zheng, male, born in 1957, Professor in Accounting, Doctor's degree in economics, tutor for Doctoral degree. Once worked as Vice Dean, Dean and Assistant President of Shanghai Finance and Economics University. He is currently Vice President and Administrative Commissioner of Shanghai Finance and Economics University, Chairman of China Accounting Academy, committeeman of China Accounting Rule Committee under Ministry of Finance, Experts of China Post-doctor Management Committee, Vice President of Shanghai Accounting Academy, Deputy Director of Shanghai General Accountant Association, member of Committee of Experts for listing company in Shanghai Stock Exchange, subject pioneer nominated by Ministry of Finance, excellent teacher acknowledged by Ministry of Education, CPA Australia, (FCPA) etc.

LI Yang, male, born in 1951, doctor's degree, professor, tutor for doctoral degree candidates. He is currently the Director of Finance Research Institute, China Social Science Institute, as well as Deputy Chairman of China Finance Institute, a member of Chinese Financial Market Development Committee under PECC, committee member of China Urban Finance Association, China International Finance Association. Once worked as part-time professor for Tsinghua University, Peking University, China People's University, Fudan University, Nanjing University and China Science & Technology University.

JIANG Boke, male, born in 1954, professor, tutor for doctoral degree candidates. Once worked as Post-Doctoral researcher in Department of International Finance, Fudan University; School of Economics, Deputy Director of Department of International Finance and Deputy Dean of School of Economics in Fudan University. He is currently the Head of International Finance Research in Fudan University, Executive Director of China Finance Institute, commissary of economics in Ministry of Education, executive subdecanal of Finance Institute in Fudan University, commissary of Fudan University Degree Committee and chairman of Degree Committee in School of Economics, master of post-doctoral floating station for applied economics in Fudan University, model teacher nation widely, representative of Shanghai Political Negotiation Committee.

Fred Hu, male, born in 1963, doctor's degree. Once worked as an advisor for World Bank, an official in IMF, Chief Economist and Managing Director of Research Department in Geneva-Davos World Economy Forum. He's currently the Managing Director and Chief Economist in Goldman Sachs (Asia) Co., Ltd., Head of Chinese Economy Research Center in Tsinghua University, the Company's independent director.

XIA Dawei, male, born in 1953, professor, tutor for doctoral degree. Once worked as Section Chief, Assistant President and Executive Vice President in Shanghai Finance and Economics University. He is currently President of Shanghai National Accounting Institute, commissary of expert committee for listing company in Shanghai Stock Exchange, Chairman of Chinese Industry Research and Development Promotion Committee, director of industrial expert committee in Shanghai Economics Institute.

B. Supervisors

LIU Haibin, male, born in 1952, a college graduate with a professional title as a deputy editor in chief. Once worked as the special commissioner of the State Audit Bureau to Nanjing, the special commissioner to Shanghai from the State Audit Bureau etc.

LV Yong, male, born in 1957, MBA with a senior accountant's title. Once worked as the Financial Controller for Shanghai No. 1 Department Store Co., Ltd, he is currently the CFO of Bai Lian Group.

ZHANG Baohua, male, born in 1951, MBA. Once worked as the Director of the Administrative Office of New Asia Group, General Manager of New Asia Rotterdam Corp., Deputy General Manager of Shanghai New Asia Co., Ltd, then, Deputy Chairman. At present, he is the Assistant General Manager of Jinjiang International Group and the Chairman for the company's Financial Business Division.

Overview of the Company's Directors, Supervisors, Senior Management and Staff



WU Shunbao, male, born in 1947, MBA, senior economist. Once worked as Deputy Director of Shanghai No.2 Commerce Bureau and General Manager of Shanghai Sugar-Tabacco & Alcohol (Group) Co., Ltd. He is currently Chairman of the Board and Secretary of Party Committee in Shanghai Sugar-Tabacco & Alcohol (Group) Co., Ltd.

SONG Xuefeng, male, born in 1970, a master's degree and CFA. Once worked as the Manager of Planning & Financial Control Department, Shenergy Corp, he is currently the Assistant General Manager of Shenergy Corp., Ltd and the Head of the Planning & Financial Control Department.

CHEN Bulin, male, born in 1945, a college graduate with a senior statistics' title. Once worked as the Director of Shanghai Treasury Bureau No. 2 and No. 3 Branch, Deputy Governor of Shanghai Treasury Bureau, Governor of Shanghai Statistics Bureau, Director of the Administrative Office, Shanghai State-owned Assets Management Office, Chairman of the Shanghai State-owned Assets Supervision & Management Committee. At present, he is the Vice Chairman of Guotai Junan Securities Co., Ltd, Chairman and Party Secretary of Guotai Junan Investment Management Corp.

WAN Xiaofeng, male, born in 1949, master's degree. Once worked as Section Vice-Chief, Section Chief of Chinese Communist Party Shanghai Committee Agency, Deputy Director of Shanghai Municipal Agency. He is currently the Deputy Party Secretary of SPDB and Head of the Workers' Union.

YANG Shaohong, male, born in 1950, master's graduate, senior economist. Once worked as Section Chief of People's Bank of China Zhejiang Branch, Team Leader of Department of Discipline Inspection in Zhejiang Financial Community, Supervisor of Supervisory Agency, vice-president of People's Bank of China Zhejiang Branch. He's currently General Manager and Secretary of Party Committee of SPDB Hangzhou Branch.

LIN Fuchen, male, born in 1958, a college graduate with a senior economist's title. Once worked as Deputy Section Chief in People's Bank of China, Audit Bureau, Section Chief in Banking Supervision No. 1 Bureau of People's Bank of China, General Manager of the Internal Audit Department of SPDB. At present, he is the Chief Auditor in the company and a member of the disciplinary committee.

C. Other senior management

ZHANG Yaolin, male, born in 1958, doctor's degree, senior economist. Once worked as Deputy General Manager of International Department in China Construction Bank Hubei Branch, Vice-General Manager, General Manager of International Department and section chief of Credit Management Department in China Construction Bank Shenzhen Branch, general manager of SPDB Guangzhou Branch. He's currently the Executive Vice President of SPDB.

MA Li, female, born in 1958, MBA and senior economist. Once worked as Assistant General Manager, International Business Department, ICBC Shanghai Branch, Deputy General Manager, Shanghai BNP Paribas International Bank, General Manager of International Business Department, SPDB, General Manager of Financial Institutions, SPDB, Assitant President. Currently, she is the Executive Vice President of SPDB.

LIU Xinyi, male, born in 1965, a master's degree with a senior economist's title. Once worked as the Deputy General Manager of SPDB Airport Sub-branch, Deputy General Manager of SPDB Shanghai Branch. In June 2002, he worked in Shanghai Financial Service Commission as Section Director and then promoted to be the Assistant Director of the Financial Service Commission. At present, he is the Executive Vice President of SPDB, General Manager of SPDB Shanghai Branch.

Overview of the Company's Directors, Supervisors, Senior Management and Staff

SHEN Si, male, born in 1953, master's degree, senior economist. Once worked as deputy director general and section chief of Investigation and Statistics Bureau in People's Bank of China Zhejiang Branch, deputy manager of Investigation and Statistics Bureau in People's Bank of China Head Office, deputy president and commissary of Party Committee in the Company. He's currently the Corporate Secretary of SPDB, director of the Board Office.

3. Changes in the Company's Directors, Supervisors and Senior Management during the Reporting Period:

(1) On April 21, 2005, the 19th Session of the 2nd Board was held in Shanghai. At the nomination of the President of the bank and passed by the 6th Session of the Nomination Committee under the board, Mr. LIU Xinyi was appointed as the Executive Vice President of the company.

(2) On September 28, 2005, the 2nd Provisionary General Shareholders' Meeting elected the new board of directors and the supervisory board. The former Chairman Mr. ZHANG Guangshen, former directors Mr. Stephen Long, Mr. WANG Yiyi, Mr. YANG Xianghai, Mr. ZHOU Youdao, Mr. MA Jinming, Mr. PAN Hongxuan, former supervisors LI Guanliang, SHI Xianjun, ZHU Guozhen, LV Yong, DU Qifa and WANG Anhai no longer worked as the company's directors or supervisors.

4. An Overview of the Staff: Total Number, Classification by Professional Occupation and Academic Background:

By December 31, 2005, the Company had 10,151 registered staff, 60 retirees, including 1,005 managerial staff, accounting for 9.90% of the total; 8,414 bank clerks, or, 82.89% of the total; 304 technical staff, or, 2.99% of the total. 7.08% of staff members held a doctor's or master's degree. 50.42% of the staff were college graduates with a bachelor's degree. Technical secondary school graduates and below accounted for 39.13% of the total.

Corporate Governance Structure

1. Corporate Governance

During the reporting period, pursuant to the stipulations of *the Company Law, the Securities Law, the Code of Corporate Governance for Listed Companies as well as the Guidelines for Corporate Governance of Joint-stock Commercial Banks*, SPDB made great efforts to further improve corporate governance structure, learn from the advanced experiences from international leading banks, paid great attention to give a full play to the role of all interested parties, particularly, directors and supervisors so as to build up a board of directors with international standards and ensure the sound, sustained and fast growth the company, maximize the interests of all related parties, safeguard the interest of depositors and pay off the investors.

The board of directors modified the Articles of Associations, thus setting a solid foundation with the various internal rules and regulations in place, including the Articles of Associations, The General Shareholders' Working Procedures, the Board Working Procedures, the Working Procedures for the Supervisory Board.

(1) Shareholders and General Meeting of Shareholders: The company was able to strictly follow the stipulations of Norms for General Meetings of Shareholders and convene shareholders' meetings accordingly so as to ensure all shareholders, especially medium and small shareholders, were given equal and fair treatment and that all shareholders may fully exert their rights. In 2005, the company convened three general shareholders' meetings.

(2) Directors and Board of Directors: SPDB elected directors by strictly complying with the stipulations on procedures of director election in Articles of Association. In 2005, the second board's term matured and the third board was elected. At present, the board of directors is made up of 17 members, among whom 3 are senior executives from the company, 8 are representatives from shareholders, 6 are independent directors, each being an expert or professional in finance, legal service or strategy management. Among the 17 board members, 2 are from overseas. All board members are able to fulfill their duties earnestly and safeguard the interests of the company and shareholders. Under the new board, there are five committees, namely, Strategy Committee, Nomination Committee, Risk Management and Related Transaction Control Committee, the Compensation & Performance Appraisal Committee and the Audit Committee.

(3) Supervisors and the Supervisory Board: in 2005, the second supervisory board matured and the third supervisory board was elected, which was made up of 9 supervisors, among whom 3 are staff representatives and 2 are from outside the company. The make-up of the members conforms to the relevant stipulations and laws. Under the supervisory board, there is a Nomination Committee. Being responsible for shareholders, the supervisors fulfilled their duties staidly and supervised on the compliance and performance of the company's financial accounting practice and the directors, the president and other senior management.

(4) Senior management: among the senior management of the bank, there shall be one President (currently vacant and the Chairman is overseeing the work of the Presidents' Office), 5 Executive Vice Presidents, 1 Corporate Secretary. According to the Articles of Associations, the President shall be responsible for the daily business management of the company, for the board and has 10 duties. In addition, the company developed the Detailed Rules on President Implementing His/her Duties, Procedures on the Presidents' Work Meeting and so on to standardize the business management, improve efficiency and ensure the scientificness of the decision-making.

Corporate Governance Structure



(5) Information Disclosure and Transparency: The company has established complete information disclosure rules, and authorized the General Office to the Board to disclose information, receiving visits and providing consultation. The company has been able to strictly comply with the relevant stipulations of laws, regulations, Articles of Association, and the information disclosure regulations and the company has disclosed the relevant information truthfully, accurately, completely and in a timely manner, and has ensured equal access to information for all shareholders.

2. Independent Directors and their Performance

The board of directors established rules of independent director and relevant bylaws as required by *Guidelines for Introducing Independent Directors into Listed Companies* issued by China Securities Regulatory Commission and *Guidelines for Independent Director and External Supervisor in Joint-stock Commercial Banks* issued by the People's Bank of China, etc. Up to now, there are 6 independent directors in the board (accounting for one third of the total), each having a different professional background, such as accounting, finance, legal science and so on. Consequently, the structure of the board has been further rationalized, thus setting a solid foundation for the board to make decisions in a scientific and rational way. During the reporting period, independent directors have fulfilled their duties earnestly, have attended meetings of board of directors diligently and have played a positive role in safeguarding the overall interests of the company and the legal interests and rights of medium and small shareholders as well as in ensuring the board making decisions in a scientific and objective way

(1) Attendance of board meetings by independent directors

Name of independent directors	Total number of board meetings during the reporting period	Attendance in person (times)	Attendance by authorized deputy (times)	Absence (times)
LI Yang	4	2	2	-
QIAO Xianzhi	9	9	-	-
SUN Zheng	9	7	2	-
Fred HU	9	2	7	-
JIANG Boke	9	8	1	-
XIA Dawei	9	8	1	-

Corporate Governance Structure

(2) Independent director's objection to motions submitted by the company

During the reporting period, the independent directors haven't submitted any objection to any motion submitted by the board meeting or non-board meeting.

3. Five-separations from the Holding Shareholder

As shares of SPDB are dispersed so widely that there are no controlling shareholders, and the top 5 shareholders haven't bypassed the General Meeting of Shareholders and intervened in the company's decision-making and business activities directly or indirectly. The corporation was listed as a whole and is completely independent of the top 5 shareholders in terms of personnel, assets, finance, organization and business operation. The board of directors, the supervisory board and the various internal institutions have operated independently.

4. The Performance Appraisal and Incentive & Disciplinary System for Senior Management

In accordance with Articles of Association, the board of directors established a *Long-term Incentive System for Managers and Key Staff* as well standards for appraising senior managers' performance. Based on a scientific performance indicator system and precise evaluation methods, all appraisals put emphases on performance appraisal, in combination with evaluations on comprehensive abilities so as to connect the compensations of directors and senior managers closely with their managerial abilities and business performances.

General Meeting of Shareholders

1. Annual General Shareholders Meeting

On April 27th, 2005, the company held the 2004 Annual General Shareholders Meeting and on April 28th, 2005, the company published the resolutions in *China Securities Journal*, *Shanghai Securities News* and *Securities Times* as well as the website of Shanghai Stock Exchange.

2. Provisionary General Shareholders' Meetings

(1) On June 28th, 2005, the company held the 1st Provisionary General Shareholders Meeting 2005 and on June 29th, 2005, the company published the resolutions in *China Securities Journal*, *Shanghai Securities News* and *Securities Times* as well as the website of Shanghai Stock Exchange.

(2) On September 28th, 2005, the company held the 2nd Provisionary General Shareholders Meeting 2005 and on September 29th, 2005, the company published the resolutions in *China Securities Journal*, *Shanghai Securities News* and *Securities Times* as well as the website of Shanghai Stock Exchange.

Report by the Board of Directors

1. Discussion and analyses of overall business operation during the reporting period

(1) Increase in principal operating income, principal operating profit, net profit, cash and cash equivalent:

Unit: RMB '000 yuan

Item	As at Dec. 31, 2005	As at Dec. 31, 2004	Up or down (%)
Principal operating income	21,467,000	16,760,989	28.08%
Principal operating profit	8,450,494	6,964,721	21.33%
Net profit	2,485,417	1,930,031	28.78%
Increase in cash and cash equivalent	-3,320,175	26,271,408	-112.64%

Main causes for the change:

- (1) The increase in principal operating income is mainly due to the increase in overall lending volume.
- (2) The increase in principal operating profits is mainly due to the huge growth in principal operating income.
- (3) The increase in net profit is mainly due to the growth in principal operating profit.
- (4) The decrease in cash and cash equivalent is mainly due to the increase in lending volume.

(2) Comparison of total assets and shareholders' equity as at Jan 1, 2005 and as at Dec. 31, 2005:

Unit: RMB '000 yuan

Item	As at Dec.31, 2005	As at Jan 1, 2005	+/- %
Total assets	573,066,623	455,532,286	25.80
Shareholders' equity	15,525,921	13,510,303	14.92

Causes for the change:

- (1) The increase in total assets is mainly due to the increase of total lending and deposit.
- (2) The increase in shareholders' equity is mainly due to the increase in net profits.

2. An overview of the company's business operation

(1) Scope of principal operating activities and general situation of operation

The Company's principal operating activities, as approved by the People's Bank of China, include: absorbing deposits from the public in RMB and foreign exchange; extending short, mid and long-term loans in RMB and foreign exchange; handling domestic and international settlements; discounting bills and notes in RMB and foreign exchange; issuing financial bonds; acting as agent for the issuing, encashment, underwriting and trading of state bonds; conducting interbank lending and borrowing in RMB and foreign exchange; providing L/C services and guarantee services; providing collection and agent payment services; working as an agent for insurance products; providing safe box services; proprietary trading in foreign exchange, and acting as an agent for deals in foreign exchange; proprietary trading and acting as an agent for deals in foreign exchange securities except stocks; credit standing investigation and verification services, offshore banking businesses and other businesses approved by the People's Bank of China.

Report by the Board of Directors



(2) An overview of the company's business operation

By Dec. 31, 2005, the company's business operation may be summarized as following:

Key performance indicators: the Company's total assets rose to RMB 573.067 billion, up RMB 117.534 billion or 25.80% on a year-on-year basis. By the year-end, the bank's total outstanding balance of RMB and foreign currency loans stood at RMB 377.222 billion, an increase of RMB 66.318 billion or 21.33% on a year-on-year basis. The total outstanding deposits at year-end was RMB 505.576 billion, a net increase of RMB 109.605 billion or 27.68% from the beginning of the year. Operating income totaled RMB 21.467 billion, and before-tax profits stood at RMB 4.231 billion, an increase of RMB 1.182 billion or 38.77% on the adjusted before-tax net profits for 2004. The company's after-tax profits reached RMB 2.485 billion, up RMB 555 million, or 28.78% from the adjusted after-tax profit of the year 2004. Shareholders' equity reached RMB 15.526 billion. Earnings per share (EPS) was RMB 0.63 yuan, The company's net assets per share was RMB 3.97 yuan and ROE stood at 16.01%.

Risk management and mitigation: the Company made active efforts to establish an effective risk management mechanism. By taking effective precautions, enhancing supervision and taking measures to adjust stock assets, the proportion of non-performing loans (according to the 5-category classification of loans) decreased significantly from 2.45% at the beginning of the year to 1.97% by the end of the year. Through the establishment of such systems as "authorization and credit management", "risk pre-warning", "credit assessment by professionals" and "post-loan review", a complete system of whole-process risk control and management has taken shape. The company has adopted multiple measures to mitigate interest rate risks and liquidity risks, such as aggregate control, supervision according to proportions, matching of tenors, readjustment in interest rates and window guidance etc. By the end of 2005, the company has charged a total amount of RMB 10.577 billion as provisions for loan losses, making the loan loss reserve coverage ratio up to 142.16%.

Network expansion: during the reporting period, SPDB opened 2 another new branches. So far, the company has set up 24 braches (including Shanghai Branch) and 2 sub-branches directly under the head-office in 41 cities, with the overall branches/sub-branches/banking-offices totaling 350.

Bank card and fee-based services: during the reporting period, the company co-launched a credit card business with Citigroup and issued over 200,000 cards in the year. The accumulated volume of Orient Card amounted to 10.33 million, among which 3 million are new accounts, 40.93% up. The company worked as the sales agent for 36 open-end funds and sold a total amount of RMB 303 million yuan funds. The funds assets under the company's management totaled RMB 1.813 billion yuan. All the year round, the company realized a total income of RMB 520 million yuan from fee-based services, up 35.06% on the year-on-year basis.

Further enhancement of the Company's status: the Company was cited as the "Top 100 Listed Chinese Companies" (No. 12) of 2005 by the magazine "Economic Times". The company was cited by the British Banker Magazine as No. 270th among the Top 1,000 World Banks.

Report by the Board of Directors

(3) Principal operating revenues by line of product and by region during the reporting period

Unit: RMB '000 yuan

Line of product	Principal operating revenues	Change on a year-on-year basis (%)	Gross profit ratio (%)	Principal operating expenses
Loans	18,184,826	4,012,607	7,084,363	1,798,299
Interbank lending and borrowing	2,404,578	498,811	1,656,651	240,615
Other businesses	877,596	194,593	201,477	98,206
Total	21,467,000	4,706,011	8,942,491	2,137,120

Unit: RMB '000 yuan

Region	Revenues from principal operations	% in the company's total	Profits from principal operations	% in the company's total
Shanghai Region	5,138,040	23.93	575,079	6.81
Beijing Region	1,426,104	6.64	484,529	5.73
Jiangsu Region	2,146,599	10.00	1,076,936	12.74
Zhejiang Region	3,593,808	16.74	2,002,880	23.70
Guangdong Region	1,522,702	7.09	574,540	6.80
Other Domestic Regions	7,573,464	35.29	3,705,595	43.85
Offshore	66,283	0.31	30,935	0.37
Total	21,467,000	100.00	8,450,494	100.00

(4) Five industries the company supported most with lending and their percentages

Unit: RMB '000 yuan

Industry	Outstanding balance of loans	Percentage(%)
Manufacturing	111,031,419	29.50
Personal loans	56,407,860	14.99
Wholesale & retailing	51,822,960	13.77
Property development	37,516,348	9.97
Transportation, warehouse and postal services	21,695,432	5.76

Report by the Board of Directors



(5) Outstanding balance of major off-balance sheet items and risk management

Unit: RMB '000 yuan

Item	Outstanding balance as at Dec.31, 2005	Outstanding balance as at Dec.31, 2004
Interests receivable	1,656,581	1,578,456
Letter of Guarantee issued	16,321,112	12,417,571
Letter of Credit items	12,137,193	13,453,255
Bank Acceptance Notes	129,315,112	95,134,461

(6) Major shareholding activities and equity investment

Unit: RMB '000 yuan

Following is an overview of the companies in which SPDB has made an equity investment as at December 31, 2004.

Company name	Investment tenor	Percentage of stake held by held by SPDB (%)	Investment as at Dec. 31st, 2004 (RMB '000 yuan)
First Sino Bank	30 years	10	82,252
Shen Lian International Investment Company	None	16.5	288,303
China UnionPay Company	None	4.85	80,000
Total			450,555

3. A summary of the financial data

(1) An overview of the network and staff

The Company operates as a one-layer legal person entity, with the structure of a head-office and branches. According to the principles of economic returns and economic region demarcation, and based on the development strategy of "being based in Shanghai and serving the whole nation", the Company set up branches in the coastal areas and in some key cities. By the end of the reporting period, the Company had established 26 directly-subordinate branches (including Shanghai Branch) and sub-branches, bringing the total number of branches and sub-branches to 350. Details are listed below:

Report by the Board of Directors

No.	Unit	Address	Staff Number	Assets (RMB '000 yuan)	Subordinate units
1	Head-office	No. 12, Zhongshan Dong Yi Road, Shanghai	770	153,981,786	349
2	Shanghai Branch	No. 588, Pudong Nan Road, Shanghai	2070	130,216,820	110
3	Hangzhou Branch	No. 129, Yanan Road, Hangzhou	564	38,273,540	21
4	Ningbo Branch	No. 21, Jiangxia Street, Ningbo	521	30,869,603	18
5	Nanjing Branch	No. 90, Zhongshan Dong Road, Nanjing	705	43,547,731	29
6	Beijing Branch	No.68, Dong Si Shi Tiao, Dong Cheng District, Beijing	828	57,545,290	22
7	Wenzhou Sub-branch	Pufa Building, Renmin Dong Road, Wenzhou	298	9,552,995	10
8	Suzhou Branch	No. 1478, Renmin Road, Suzhou	196	11,533,347	7
9	Chongqing Branch	No.199, Zourong Road, Yuzhong District, Chongqing	298	14,417,294	12
10	Guangzhou Branch	No. 424, Huanshi Dong Road, Guangzhou	554	23,647,539	15
11	Shenzhen Branch	International Commerce, Fuhua Road No.3, Shenzhen	483	19,410,133	11
12	Kunming Branch	No. 145-1, Dongfeng Xi Road, Kunming	187	6,155,369	7
13	Wuhu Sub-branch	No. 203, Renmin Road, Wuhu	54	1,544,993	2
14	Tianjin Branch	Suite D, 9 Binshui Avenue, Hexi District, Tianjin	290	23,463,827	8
15	Zhengzhou Branch	No. 30, Jing San Road, Zhengzhou	395	25,500,166	10
16	Dalian Branch	No. 3 Zhongshan Square, Zhongshan District, Dalian	261	17,804,367	6
17	Ji'nan Branch	No. 165, Jiefang Road, Jinan	237	15,855,554	7
18	Chengdu Branch	No.98-1, Shuanglin Road, Chengdu	156	13,882,685	4
19	Xi'an Branch	No. 29, Bei Da Jie, Xi'an	176	11,244,941	4
20	Shenyang Branch	No.158 Qingnian Road, Shenhu district, Shenyang	255	14,218,186	6
21	Wuhan Branch	No.1, Hongshan Road, Wuchang, Wuhan	238	8,679,407	6
22	Qingdao Branch	No. 53, Hong Kong Xi Road, Qingdao	129	5,036,012	3
23	Taiyuan Branch	No. 333, Yingze Street, Taiyuan	135	9,267,970	2
24	?Changsha Branch	No. 559, Wuyi Street, Changsha	103	6,201,188	2
25	Haerbin Branch	No. 200, Hanshui Road, Haerbin	105	4,720,373	2
26	Nanchang Branch	No. 15, Yong Shu Road, Nanchang	74	3,472,892	0
27	Nanning Branch	No. 58, Min Zu Street, Nanning	69	1,211,816	0
	Adjustment			-128,189,201	324
	Total		10151	573,066,623	350

Report by the Board of Directors



(2) An overview of SPDB's loans in terms of 5-category classification and provisions for NPLs

Unit: RMB'000 yuan

5-category classification	Amount	Percentage %	Provisions %
Normal	35,255,414	93.46	1
Especially Mentioned	1,722,413	4.57	5
Sub-standard	399,869	1.06	35
Doubtful	216,510	0.57	70
Loss	128,088	0.34	100
Total	37,722,294	100.00	

Note: According to the actual amount of all kinds of loans, with the collateral articles and valid collateral amount deducted, SPDB's provisions for various kinds of NPLs (according to the above standards) stood at RMB 10.577 billion at the end of the reporting period.

(3) Loans by Top 10 borrowers

Unit: RMB'000 yuan/USD '000

Top 10 borrowers	RMB	EX loans	RMB & EX loans	%
Shanghai Wan Du Center Mansion Co., Ltd.	1,204,97		120,497	0.32
Grace Semi-conductor Manufacturing Co., Ltd	295,70	11,036	118,633	0.31
China Petro & Natural Gas Co., Ltd.	100,459		100,459	0.27
Shanghai Tong Sheng Investment Group Co., Ltd.	98,000		98,000	0.26
Shanghai Tong Sheng Bridge Construction Co., Ltd.	92,000		92,000	0.24
Shanghai Urban Construction & Investment Corporation	90,000		90,000	0.24
Fushan Publicity Bureau	80,000		80,000	0.21
Shanghai Pufa Mansion Property Development Co., Ltd.	79,000		79,000	0.21
Shanghai State-owned Assets Operations Corp.	75,000		75,000	0.20
Shanghai Zhong Huan Investment & Development (Group) Co.	70,000		70,000	0.19
Total	834,526	11,036	923,589	2.45

Report by the Board of Directors

(4) Subsidized loans that account for more than (and including) 20% of total loans at year-end: such situation never occurred during the reporting period

(5) Balance of restructured loans at year-end and overdue status

Outstanding restructured loans at year-end	In particular, outstanding overdue loans at year-end
RMB 771,144,000 yuan	RMB 120,262,000 yuan

(6) Annual average outstanding balance of major loans by product category calculated on a monthly basis and average interest rates per annum for loans

Category	Monthly average balance (RMB '000 yuan)	Average interest rate per annum %
Short-term loans	197,503,008	5.64
Mid & long- term loans	98,617,334	5.49

(7) Major treasury bonds held at the end of the reporting period

Unit: RMB '000 yuan

Type of bond	Annualized interest rate	Par value	Date of maturity
Booked treasury bonds 1999	2.58-4.88	2,030,000	Feb. 2006-Apr. 2009
Booked treasury bonds 2000	2.45-3.50	2,430,000	Feb. 2007-Sep. 2010
Booked treasury bonds 2001	2.50-4.69	6,165,000	Jul. 2006-Oct. 2021
Booked treasury bonds 2002	2.00-2.93	2,580,000	Apr. 2007-Jul. 2012
Booked treasury bonds 2003	2.32-2.80	3,595,000	Jun. 2006-Apr. 2013
Booked treasury bonds 2004	2.98-4.86	3,833,000	Jun. 2006-Nov. 2011
Booked treasury bonds 2005	1.58-4.44	3,344,980	Mar. 2006-May 2025
Overseas Bonds issued by the Ministry of Finance	5.25-9.00	395,462	May 2006-Jan. 2096
Total		24,373,442	

(8) Loss reserves for interests receivable and other receivables

Unit: RMB '000 yuan

Item	Amount	Loss reserves	Method to charge the reserves
Interests receivable	822,439	-	
Other receivables	2,306,737	108,573	Case by case verification

Report by the Board of Directors



(9) Annual average balance and deposit interest rates for major types of deposits calculated on a monthly basis during the reporting period

Unit: RMB '000 yuan

Categories	Monthly average outstanding balance (RMB '000 yuan)	Annualized average deposit interest rate %
Corporate Current Deposits	159,171,856	0.80
Corporate Fixed Deposits	141,066,846	2.16
Current Savings Deposits	10,585,643	0.96
Fixed Savings Deposits	46,106,917	1.76

(10) NPL profile at year-end and the relevant measures taken

According to the principle of 5-class classification of loans, by the end of the reporting period, the company's NPL ratio stood at 1.97%, down by 0.48% from the end of 2004. The company has adopted the following measures to control and mitigate NPLs: (1) strengthening guidance to marketing people and promoting the optimization of portfolio; (2) actively implementing the after-loan inspection; (3) dispatching special assets work-out teams to a few branches with serious problems so as to guide the branches in recovering non-performing loans; (4) further enhancing the cross-region and cross-branch coordination and guidance; (5) further enhancing the management of NPLs and trying best to recover as much as possible; (6) re-aligning the risk management structure by adopting the flat-management structure and the best practice from the international banking industry; (7) actively promoting the IT infrastructure construction, successfully implemented the risk management information system, thus setting a solid foundation for further improving the management of NPLs.

(11) Debts overdue. This situation did not occur during the reporting period.

(12) Major off-balance sheet items

From the Company's overall business situation, major factors that may exert a serious impact on the bank's financial situation or business performance came from off-balance sheet liabilities. The Company's off-balance sheet liabilities as at the end of the reporting period were as follows:

Unit: RMB '000 yuan

Item	Dec. 31, 2005	Dec. 31, 2004
Banker's acceptance bills	129,315,112	95,134,461
Accepted bills payable	3,489,894	4,345,235
Letter of Guarantee for financing	2,879,955	2,072,132
Letter of Guarantee not for financing	13,441,157	10,345,439
Letters of Credit issued	8,647,299	9,108,020

Report by the Board of Directors

(13) Various risks faced by the Company and countermeasures

a. Risks faced by the Company: As a special company dealing with money, SPDB mainly faced the following risks: credit risk, market risks, operation risks, liquidity risk, compliance risk etc.

b. In 2005, the fluctuation in the domestic economic environment, the reform in the RMB exchange rate as well as the gradual liberalization of interest rates have raised new challenges for risk management.

Based on the best practice of international leading banks, the company makes active efforts to set up a full-round risk management mechanism and matrix management structure. As a result, the Risk Management Head-office was set up. The company has recruited international talents to be senior risk executives and introduce the internationally advanced risk management expertise and technology.

In terms of credit risk management, the company strengthened guidance on credit policy and adopted the strategy of adding more lending to certain industries while cutting down on lending to some other industries so as to stabilize the overall lending businesses. Consequently, the company improved the portfolio. The company also implemented many measures to strengthen after the loan inspections, set up risk pre-warning system and fast-response mechanism. In terms of working out special loans, the company made some progress in recovering some old NPLs, mitigated the risks and cut down on the losses.

In 2005, the company strengthened internal control and staged an "Internal Control Storm" so as to establish a systematic, transparent and documented internal control system. The purpose is to conduct systematic, continuous and effective control of all types of risks. To be compliant is the pre-condition for banking business operation and is the key to a sustainable growth. Compliance is closely related with the daily risk management of a bank. In 2005, the company set up the Compliance Department and is going to build up a fully-fledged Compliance function with international standards so as to fill up the gaps in compliance risk control.

c. Writing off policy and procedures for bad loans and loan losses

In May 2005, The State Ministry of Finance released the Stipulations on Financial Enterprises Writing-off Bad Loans, which raised new requirements for financial institutions to formulate detailed implementation policies and procedures. Accordingly, the company modified the former SPDB's Rules on Writing-off Bad Loans and released the SPDB's Rules on Writing-off Loan Losses, which has been passed by the board meeting and put into effect in Nov. 2005.

(14) The Company's internal control

In order to strengthen internal control and internal audit, the company set up a centralized and independent audit structure, thus abolishing the former two layer audit system (namely, the head-office audit and the audit functions at various branches). To ensure the quality of the audit, a full set of new audit rules, policies, procedures and processes has been developed and modified according to relevant state laws, rules and regulatory requirements.

Report by the Board of Directors



In order to build SPDB into a leading bank with international standards, the company is reforming its risk management mechanism and system. The post Chief Risk Office has been set up to further consolidate and enhance the overall risk management system. In line with the market and policy change, the company focused on the following: (1) strengthening the head-office level policy development and guidance to lower level risk management; (2) improving the standardization of risk management by resorting to credit system reform and risk inspection mechanism; (3) further improving the assets work-out system and effectively mitigating risks; (4) strictly controlling the business operation processes and preventing against operational risks; (5) closely watching the market trends so as to effectively mitigate interest rate risk and liquidity risk.

In 2005, the company launched a bank-wide inspection on internal control. All major business lines and support functions as well as various branches and sub-branches staged comprehensive self-tests. In addition, the company developed Provisionary Policy for the Medium-level and Senior Executives to Answer for Their Responsibilities, Provisionary Rules on Preventing Against Criminal Behavior and Non-compliance, Rules on Strengthening the Recruitment, Management and Firing of Bank Staff, Experimental Rules on Comprehensive Appraisal of the Internal Control Status of A Branch/ Sub-branch and so on. The purpose is to call on all staff to face up their responsibilities, be self-disciplined and continuously improve the internal control.

4. Investments made by the Company

(1) Investment made with the capital raised

The Company issued 400 million common shares to the public on September 23rd, 1999 at an offered price of RMB 10 per share. With the issuance expenditures deducted, a total of RMB 3.955 billion yuan was raised from the IPO. On January 8, 2003, the company launched a secondary offering of 300 million new shares at an offer price of RMB 8.45 yuan per share. With the issuance expenditure deducted, a total of RMB 2.494 billion was raised. The above-mentioned proceeds were all used (with official ratification from PBOC) to enrich the capital, and had substantially boosted the Company's capital adequacy ratio. Consequently, shareholders equity had been remarkable increased and the Company's capacity to tide over risks had been enhanced. This laid a solid foundation for the speedy growth of the Company. The Company used the funds raised strictly in compliance with the commitments it made in the prospectuses and gained good returns.

(2) The outstanding balance of the Company's equity investment stood at RMB 445.996 million as at the end of the reporting period

Report by the Board of Directors

5. Financial statements

(1) Change in major financial indicators and the causes for the change

Unit: RMB '000 yuan

Item	As at Dec. 31, 2005	As at Dec. 31, 2004	Increase or decrease %	Major causes
Total assets	573,066,623	455,532,286	25.80	Increases in business volume
Long-term equity investment	445,996	448,061	-0.46	Slight impact from foreign exchange rate change
Long-term bond investment	29,691,531	30,151,078	-1.52	Long-term bond investment matures
Fixed assets	5,588,335	4,633,914	20.60	Increase in fixed assets investment
Total liabilities	557,540,702	442,021,983	26.13	Increase in deposit businesses
Long-term liabilities	206,042,480	156,931,361	31.29	Increase in long-term deposits
Shareholder's equity	15,525,921	13,510,304	14.92	Contribution from net profits

Unit: RMB '000 yuan

Item	As at Dec. 31, 2005	As at Dec. 31, 2004	Increase or decrease %	Major causes
Principal operating profit	8,450,494	6,964,721	21.33	Business growth
Investment returns	1,706,436	1,455,927	17.21	Increase in bond investment
Net profit	2,485,417	1,930,031	28.78	Contribution from increase in profits from principal operation activities

Report by the Board of Directors



(2) Items with a variance over 30% on a year-on-year basis in the financial statement and causes:

Unit: RMB '000 yuan

Item	As at Dec. 31, 2005	As at Dec. 31, 2004	Increase or decrease %	Major causes
Bills discounted	39,993,989	24,702,278	62	Growth in bills discounted
Buy-in redempt assets	20,331,876	10,760,444	89	Growth in more buy-in reredempt businesses
Short-term investment	48,929,031	8,170,908	499	Increase in short-term investment
Import and export bill negotiation	2,336,878	1,769,992	32	Increase in import and export bills negotiated
Medium-term loans	50,778,740	37,665,918	35	Growth in loans
Long-term expenses to be amortized	16,202	6,514	149	Increase in intangible assets
Net value of collaterals to be disposed of	399,588	222,320	80	Enhanced efforts to recover bad loans
Credit item of deferred taxes	2,890,963	2,223,171	30	Enhanced efforts to recover bad loans
Short-term savings	23,359,431	16,099,176	45	Growth in deposits
Interests payable	2,245,994	1,610,273	39	Growth in deposits
Short-term guarantee deposits	87,324,919	60,734,589	44	Growth in guarantee deposit businesses
Staff welfare payable	208,053	143,399	45	Increase in salary payable
Long-term savings	47,154,344	30,819,601	53	Increase in deposits
Retained earnings	2,917,236	2,171,610	34	Contribution from profits
General reserve	3,300,000	2,000,000	65	General risk reserve charged according to the accounting principle for financial institutions
Fee-based income	520,692	385,835	35	Increase in fee-based services
Income from other activities	118,742	78,910	50	Growth in business volume
Interest expenditures	7,084,363	5,286,063	34	Increase in deposits
Commission expenditures	197,706	100,589	97	Increase in fee-based services
Losses in exchange	3,772	2,682	41	Exchange rate fluctuation
Overhead	5,203,705	3,922,083	33	Increase in business volume
Taxes payable	1,745,473	1,118,787	56	Increase in revenues taxable
General reserve charged	1,300,000	850,000	53	General risk reserve charged according to the accounting principle of financial institutions

Report by the Board of Directors

6. The company has incurred no case of serious assets loss due to joint responsibilities that the company has to shoulder as a result of a guarantee it provided for any third party

7. Business development plans for the new financial year

(1) Basic guiding principle for the business development in the new financial year

To guide the overall business operation and development with the idea of scientific development, adopt the international best practice, further deepen the various system and mechanism reform and business operation innovation, build up a complete corporate governance structure and build up a correct value, speed up the transformation of business portfolio and profit-making mode, improve the returns on capital and investment, continue to maintain a good asset quality, build up a strong corporate brand and remarkably enhance the company's core competence so as to compete in the market.

(2) Various business goals

From a long term view, the company must pursue higher market value as its new financial management concept, and to establish a performance appraisal system based on the shareholders' value, however, current market condition is not mature enough for the company to set directly market value as its operation goal. Thus the company thinks it is appropriate to refer to core indicators such as net asset return and capital adequacy ratio as the main base for performance appraisal, in an aim to further maximize the market capitalization of the company.

— Total assets shall reach RMB 676 billion, up 18%;

— The outstanding balance of various deposits shall reach RMB 587 billion, up 16%;

— The outstanding balance of various loans shall reach RMB 445.1 billion, up 18%;

— The after-tax profits shall go up by 25%;

— The NPL ratio at the year-end (according to the 5-category loan classification) shall be below 1.85%.

(3) Major measures for the new financial year

— In terms of corporate banking: the company shall focus on system reform, the development of fee-based services and the tapping of medium and small enterprise clients so as to make some major breakthrough in terms of product innovation, marketing model innovation and management innovation.

— In terms of consumer banking: the company intends to make enhanced efforts to promote the organizational structure reform and focus on the construction of channels, such as teller, self-service channels, VIP service centers, Internet-banking, phone banking etc.

— In terms of risk management: the company aims at deepening the organizational structure reform of risk management, further strengthen the vertical business line management and improving the efficiency and work quality under the new system. The company intends to enhance the internal control, further improve the risk management for consumer banking and strengthen the risk management for treasury businesses.

Report by the Board of Directors



— In terms of operations & IT construction: the company will continue to promote the reform in the field of operations & IT, implement the science & technology strategy, actively promote the construction of an advanced payment and operations surveillance system, further improve the infrastructure of the overall operations and continuously enhance the management of operations.

8. Day-to-day work of the Board of Directors

(1) On Feb. 24th, 2005, the company held the 17th session of the 2nd board and published the relevant resolutions in China Securities Journal, Shanghai Securities News and Securities Times and the website of Shanghai Stock Exchange on Feb. 25th, 2005.

(2) On Mar. 24th, 2005, the company held the 18th session of the 2nd board and published the relevant resolutions in China Securities Journal, Shanghai Securities Journal and Securities Times and the website of Shanghai Stock Exchange on Mar. 26th, 2005.

(3) On Apr. 21st, 2005, the company held the 19th session of the 2nd board and published the relevant resolutions in China Securities Journal, Shanghai Securities Journal and Securities Times and the website of Shanghai Stock Exchange on Apr. 23rd, 2005.

(4) On May. 25th, 2005, the company held the 20th session of the 2nd board and published the relevant resolutions in China Securities Journal, Shanghai Securities Journal and Securities Times and the website of Shanghai Stock Exchange on May 27rd, 2005.

(5) On Aug. 24th, 2005, the company held the 21st session of the 2nd board and published the relevant resolutions in China Securities Journal, Shanghai Securities Journal and Securities Times and the website of Shanghai Stock Exchange on Aug. 26th, 2005.

(6) On Sep. 28th, 2005, the company held the 1st session of the 3rd board and published the relevant resolutions in China Securities Journal, Shanghai Securities Journal and Securities Times and the website of Shanghai Stock Exchange on Sep. 30th, 2005.

(7) On Oct. 27th, 2005, the company held the 2nd session of the 3rd board and published the relevant resolutions in China Securities Journal, Shanghai Securities Journal and Securities Times and the website of Shanghai Stock Exchange on Oct. 28th, 2005.

(8) On Dec. 15th, 2005, the company held the 3rd session of the 3rd board and published the relevant resolutions in China Securities Journal, Shanghai Securities Journal and Securities Times and the website of Shanghai Stock Exchange on Oct. 16th, 2005.

(9) On Dec. 22nd, 2005, the company held the 4th session of the 3rd board and published the relevant resolutions in China Securities Journal, Shanghai Securities Journal and Securities Times and the website of Shanghai Stock Exchange on Dec. 24th, 2005.

9. The board implementing the resolutions of the board meetings

(1) On Jun. 28, 2005, the 1st Provisionary General Shareholders' Meeting passed the Resolution on Issuing Financial Bonds in

Report by the Board of Directors

the Inter-banking Market. The board carried out the resolution earnestly and applied to the regulators and got the permission accordingly. Pursuant to People's Bank of China's Approval for SPDB to Issue Financial Bonds encoded as PBOC [2005] No. 55 and CBRC's Approval for SPDB to Issue Financial Bonds encoded as CBRC [2005] No. 205 Reply, the company issued RMB 7 billion financial bonds in the inter-banking bonds market on August 12, 2005 with a tenor of 3 years and a fixed interest rate of 2.59% per annum. The interests shall be paid once a year. By Aug. 26, 2005, all the proceeds raised from the issuance have been paid up and the issuance was completed. Pursuant to the relevant stipulations of PBOC, the bond started trading in the inter-bank bond market since Sep. 28, 2005. The issuance of the bond provides a stable funding source for the company and the company shall use the funds to support low-risk high-quality assets products with a focus on the matching of tenor.

(2) On Sep. 28, 2005, the 2nd Provisionary General Shareholders' Meeting passed the resolution on Issuing Subordinate Debts in the Inter-bank Bond Market. The board carried out the resolution earnestly, applied to the regulators and got the approval accordingly. Pursuant to the PBOC's Approval for SPDB to Issue Subordinate Debts encoded as PBOC Reply [2005] No. 118 and CBRC's Approval for SPDB to Issue Subordinate Debts encoded as CBRC Reply [2005] No. 326, the company issued RMB 2 billion subordinate bonds in the inter-bank bond market on Dec. 26, 2005 through private placement. The debts issued have a tenor of 10 years and the company has an option to redeem them at the end of the first fifth year. The interest rate is set at 3.60% per annum. By Dec. 29, 2005, all the RMB 2 billion funds raised had been paid up and the issuance was completed. Pursuant to the relevant stipulations, the RMB 2 billion shall all be counted as Tier 2 capital.

(3) According the resolution of the 2004 General Shareholders' Meeting on dividend distribution, the board of the company distributed before-tax cash dividend of RMB 1.20 yuan per 10 shares (with the base being 3.915 billion total share capital), involving a total of RMB 469.8 million cash dividends. The resolution was published in China Securities Journal, Shanghai Securities Journal, Securities Times and the website of Shanghai Stock Exchange on Apr. 30, 2005. The dividend distribution was implemented on May 16, 2005.

10. Company's profit distribution proposal or the plan for converting capital reserve to bonus shares

According to the standard auditor's report without any restrained opinions issued by Da Hua Certified Public Accountants Firm, the company realized a total profit of RMB 2.485 billion for 2005 and the undistributed profits totaled RMB 84.48 million at the year-end of 2005. Therefore, the company proposes the following plan for the 2005 profit distribution:

Consequently, the company draws up the following proposal for 2005 profit distribution:

1. To withdraw a statutory surplus reserve at 10% of the after-tax profits, involving a total value of RMB 248.5 million yuan;
2. To withdraw a statutory welfare fund at 10% of the after-tax profits, involving a total value of RMB 248.5 million yuan;
3. To withdraw a general surplus reserve at 10% of the after-tax profits, involving a total value to RMB 248.5 million yuan;
4. To withdraw a general reserve involving RMB 1.3 billion yuan;
5. To distribute dividends for common shares at the rate of RMB 1.3 yuan per 10 shares (taxes included) and the dividends payable shall amount to RMB 508.95 million yuan;
6. For the 2005 financial year, no dividend share shall be distributed nor shall any bonus share be converted from contributed capital surplus.

After the distribution, the undistributed profit will stand at RMB 15 million yuan.

Report by the Supervisory Board

1. Meetings of the Supervisory Board

Throughout the 2004 financial year, the Supervisory Board convened 7 meetings. Details are as follows:

(1) On Feb. 24th, 2005, the company convened the 13th session of the 2nd supervisory board. The meeting reviewed and passed the Report by the Supervisory Board 2004, the SPDB Annual Report 2004 and Summary, the Proposal on Profit Distribution for 2004, the 2004 Final Accounting and the 2005 Budget and the Report on Directors & Senior Executives Implementing Their Duties According to Law.

(2) On Apr. 21st, 2005, the company convened the 14th session of the 2nd Supervisory Board in Shanghai. The meeting reviewed and passed the 1st Quarterly Report 2005 and the Motion on Writing-off Bad Loans.

(3) On May. 25th, 2005, the company convened the 15th session of the 2nd supervisory board in Shanghai. The meeting reviewed and passed the Motion on Modifying Articles of Association and the Motion on Extending the Term of the 2nd Supervisory Board.

(4) On Aug. 24th, 2005, the company convened the 16th session of the 2nd Supervisory Board in Shanghai. The meeting reviewed and passed the Semi-annual Report 2005 and the Motion on Electing New Supervisory Board and the Motion on Writing-off Bad Loans.

(5) On Sep. 28th, 2005, the company convened the 1st session of the 3rd Supervisory Board in Shanghai. The meeting reviewed and passed the Motion on Electing the New Chairman of the Supervisory Board and the Motion on Electing Members of the Nomination Committee under the 3rd Supervisory Board.

(6) On Oct. 27th, 2005, the company convened the 2nd session of the 3rd Supervisory Board in Shanghai. The meeting reviewed and passed the 3rd Quarterly Report 2005, the Motion on Writing-off Bad Loans, and the Motion on Modifying Rules on Writing-off Bad Loans.

(7) On Dec. 15th, 2005, the company convened the 3rd session of the 3rd Supervisory Board in Shanghai. The meeting reviewed and passed the Motion on Setting up the General Office to the Supervisory Board.

2. Independent opinions from the Supervisory Board

(1) An overview of the company's operation according to law

During the reporting period, the Company operated according to law, standardized its management and reported its performance objectively and true to the fact. It has developed and upgraded its internal control intensively and extensively. The decision-making procedures were all legal. The Directors and Senior Management were prudent, conscientious and diligent, and did not breach any law or regulation in the process of business operations and management, nor any of them was discovered to conduct any behavior that caused any damage to shareholders' interests.

Report by the Supervisory Board



(2) Authenticity of the financial statement

After careful review of the Company's financial reports and the audited financial reports issued by accounting firms for 2005, the Supervisory Board believes that the Company's financial report accurately reflects the Company's financial status and performance during the reporting period. The auditors, Da Hua Certified Public Accountant Co., Ltd. and Ernst & Young Accounting Firm both issued an auditor's report without any reserved opinions. Neither did they refuse to express an opinion. The audited reports reflect the company's financial status authentically, objectively and accurately.

(3) The Company's utilization of the funds raised from IPO and Secondary Offering

When the Company launched its IPO in 1999, it raised a total of RMB3.955 billion yuan. Through its second offering of 300 million new shares, it raised another RMB 2.495 billion yuan. As approved by the People's Bank of China, all these funds have been used to reinforce the Company's capital and enlarge the company (the bank)'s asset scale. The actual projects invested with these funds and the uses of the funds are consistent with the promises made in the share prospectus. The Company strictly implemented the plan for using the funds as stated in the stock-recruiting prospectus and utilized the capital raise in a reasonable manner.

(4) Acquisition and sales of assets

During the reporting period, the company neither sold any assets nor acquired or merged any assets.

(5) Transactions with related parties

Within the reporting period, the Company's associated transactions were fair and reasonable, and such related transactions haven't been discovered to cause any damage to shareholders' interests or the Company's interests.

(6) Internal control

The Company had established a comprehensive, rational and effective internal control system.

(7) Auditing report

Both Da Hua Certified Public Accounting Co., Ltd. (the domestic auditor of the company) and Ernst & Young Accounting Firm (the international auditor of the company) issued an auditor's report without any reserved opinions.

(8) Execution of resolutions made at the General Meeting of Shareholders

The members of the Company's Supervisory Board attended the Company's Board of Directors meetings and Shareholders Meetings as non-voting delegates, and the Supervisory Board had no objections to the contents of the reports and proposals submitted by the Company's Board of Directors to the General Meeting of Shareholders for examination and approval. The Company's Supervisory Board supervised on the execution of resolutions made at the Shareholders Meetings and believes the Board of Directors is able to earnestly implement the relevant resolutions made at the Shareholders Meeting.

Important Issues



1. Major lawsuit and arbitration issues

By the end of the reporting period, the Company as the plaintiff had brought 338 lawsuits to court that had not been verdict, involving a total amount of RMB 1.88 billion yuan. There were 40 major lawsuits (in which the Company was the defendant) that had not been verdict involving a total amount of RMB 89.92 million yuan.

2. Within the reporting period, the company has not conducted any major acquisition, sale or disposal of assets.

3. Important transactions with related parties

The company has no related party that holds a controlling stake of the company.

During the reporting period, the transactions conducted by the company with related parties are mainly loans to shareholders and related parties. All such loans are granted according to the relevant regulatory requirements and terms and conditions of loans. The principal and interest on all loans and call loans to the related parties were returned or paid normally and exerted no negative impact on the company's businesses or profit. Pursuant to the stipulations of CBRC on Commercial Banks and Insiders Transactions and Related Transactions with Shareholders, the company formulated the new Regulations on Related Transactions. According to the new regulations, the company doesn't have any related party who has a controlling relationship with the company.

The company's related parties mainly refer to legal entity shareholders who directly, indirectly, or jointly hold or control 5% stake/voting rights or over in the company. To be more specific, they are Shanghai International Group, Shanghai International Trust and Investment Corp., Shanghai Industry Group, SIC Development Co., Ltd, SIC International Trade Group Co., Ltd, Shanghai State-owned Assets Operation Corp., and Shanghai Guoxin Investment Development Co.

The following is an overview of the company's related parties and transactions with related parties:

Unit: RMB '000 yuan

Name	Outstanding balance of loans/call loans by the end of December, 2005	Interest income by the end of Dec. 2005
Shanghai Industrial Investment (Holdings) Co., Ltd.	100,000	9,506
Shanghai International Group	300,000	13,491
SIIC Development Co., Ltd	50,000	1,395
SIIC International Trade Co., Ltd.	-	217
Shanghai State-owned Assets Operations Co.	750,000	30,481
Shanghai Guixin Investment Co.	-	-

Important Issues

4. Major contracts and implementation

(1) Major trusteeship, contract and lease issues: there were no major trusteeship, contract or lease issues during the reporting period.

(2) Major guarantees: apart from the financial guarantee business which falls within the Company's business scope as approved by the People's Bank of China within the reporting period, the Company had no other major guarantee issues requiring disclosure.

(3) Assets management entrusted to other parties: during the reporting period, the Company had not entrusted any party to manage any of its assets.

(4) Other major contracts (including guarantees) and their implementation: the Company's various business contracts were implemented normally during the reporting period, and no disputes over any major contracts occurred.

5. Appointment of accounting firms

During the reporting period, the Company appointed Da Hua Certified Public Accounting Co., Ltd. and Ernst & Young Certified Public Accounting Co., Ltd. as the Company's auditors for its statutory financial statements and supplemental financial reports.

During the reporting period, the company paid to Da Hua RMB 1.145 million yuan as auditing fees (the Company did not cover travel expenses). Da Hua has been the company's auditor for 8 consecutive years.

Fees paid to Ernst & Young by the Company during the reporting period amounted to RMB 1.225 million yuan (the Company did not cover travel expenses). Ernst & Young had been an auditor for the Company for 6 consecutive years.

6. None of the Company's directors, supervisors or senior management was penalized by the supervisory authorities during the reporting period

7. Other major events taken place during the reporting period

According to the "Provisions on Bad Loan Reserves and Writing-off for Financial Institutions" issued by the Ministry of Finance in May 2001 (encoded as Cai Jin [2001] No. 127), the Company's board meetings approved to write off bad loans totaling RMB 977 million yuan.

8. The Company has not changed its name or its abbreviation in the stock market.

9. The Company or any shareholder with more than 5% stake made no disclosure of commitment in the designated newspapers or websites

Important Issues



10. Special explanation on independent directors' opinions on the accumulated guarantee provided by the company and guarantee provided during the reporting period, illegal guarantee and the execution of the CSRC Document encoded [2003] No. 56

Pursuant to the stipulations of CSRC Document encoded [2003] No. 56 and in the principle of fairness, equality and objectiveness, a review has been conducted regarding the guarantee provided by the company to other entities. We believe that by December 31, 2005, all the guarantee services provided by the company have been approved by the People's Bank of China and China Banking Regulatory Commission. As a matter of fact, guarantee services are normal businesses provided by the company. In the Articles of Association, the company has made clear limitations on authorization and it has formulated detailed management rules for guarantee services in line with its risk features, as well as detailed operation procedures and check and approval processes, thus effectively controlling the risks of guarantee services. During the reporting period, the company has been able to earnestly carry out the relevant stipulations of CSRC Document encoded [2003] No. 56 and there is no illegal guarantee provided by the company.

11. Information on the state share reform

The company has publicized the state share reform scheme on Feb. 27, 2006, according to which, the non-marketable shareholders will make compensations to marketable shareholders. As such, each SPDB marketable shareholders can get another 3 shares for the 10 shares he/she holds allotted from non-marketable shareholders. Meanwhile, the non-marketable shareholders of SPDB promise that they will hold the shares for a lock-up period of 12 months. For non-marketable shareholders holding over 5% stake in SPDB, they may sell no more than 5% of the original shares within the first 12 months upon the expiration of the lock-up period and no more than 10% of the original shares within the first 24 months upon the expiration of the lock-up period.

Referential Documents

1. Financial statements endorsed with the signatures and seals of the Company's legal representative and finance controller.
2. The original auditor's report endorsed with the stamp of the accounting firm and the signatures and stamps of the certified accountants.
3. The original Annual Report endorsed with the signature of the Company's Chairman of the Board.
4. The texts and original copies of all documents and announcements released in "China Securities Journal", "Shanghai Securities News" and "Securities Times" by the Company within the reporting period.
5. "Articles of Association of the Shanghai Pudong Development Bank Co., Ltd."

Appendix 1: 2005 Annual Report Audited by Domestic Auditor

Appendix 2: 2005 Annual Report Audited by International Auditor

Singatures of the directors and senior management

金 运 金运 (签名)

JIN Yun

陈伟恕 陈伟恕 (签名)

CHEN Weishu

施瑞德 Richard Daniel Stanley (签名)

Richard Daniel Stanley

徐建新 徐建新 (签名)

XU Jianxin

尉彭城 尉彭城 (签名)

WEI Pengcheng

孙 铮 孙铮 (签名)

SUN Zheng

姜波克 姜波克 (签名)

JIANG Boke

夏大慰 夏大慰 (签名)

XIA Dawei

商洪波 商洪波 (签名)

SHANG Hongbo

马 力 马力 (签名)

Ma Li

沈 思 沈思 (签名)

Shen Si

潘龙清 潘龙清 (签名)

PAN Longqing

祝世寅 祝世寅 (签名)

ZHU Shiyin

张建伟 张建伟 (签名)

ZHANG Jianwei

牛汝涛 牛汝涛 (签名)

NIU Rutao

乔宪志 乔宪志 (签名)

QIAO Xianzhi

李 扬 李扬 (签名)

LI Yang

胡祖六 胡祖六 (签名)

Fred HU

黄建平 黄建平 (签名)

Huang Jianping

张耀麟 张耀麟 (签名)

Zhang Yaolin

刘信义 刘信义 (签名)

Lui Xinyi

Board of Directors

Shanghai Pudong Development Bank Co., Ltd.

Feb. 28, 2006

Auditor's Report

EYDH(2006) No.0228

To the Shareholders of Shanghai Pudong Development Bank Co., Ltd

We, Ernst & Young Da Hua Certified Public Accountants, have audited the accompanying balance sheet of Shanghai Pudong Development Bank Co., Ltd. ("the Company") as of December 31, 2005, and the related statements of income and profit appropriation and distribution and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with *Independent Auditing Standards of the Peoples' Republic of China*. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the aforesaid financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2005 and the results of its operations and the cash flows for the year then ended in accordance with the *Accounting Standard for Chinese Enterprises* and the *Accounting Regulation for Financial Institutions*. The adoption of accounting policy conforms to the convention of consistency.

Ernst & Young Da Hua Certified Public Accountants

C.P.A.

Shanghai China

February 28, 2006

The Financial Statements (Domestic)

For the Year ended December 31, 2005

Balance Sheet

Name of Enterprise: Shanghai Pudong Development Bank Co., Ltd.

Currency unit: RMB Yuan

Assets	Notes	Line No.	December 31, 2005	December 31, 2004
Current Assets				
Cash on hand and in bank	1	1	1,885,092,895.68	1,466,556,104.81
Scarce metals		2		-
Due from the central bank	2	3	70,577,006,876.35	70,125,105,916.88
Due from banks	3	4	5,103,236,645.02	4,640,353,970.93
Inter-bank placements	4	5	9,197,099,398.45	8,648,585,067.52
Discounted bills	5	6	39,993,989,021.23	24,702,278,277.92
Interests receivable	6	7	822,439,073.19	783,727,052.82
Dividends receivable		8		
Other receivables	7	9	2,198,164,073.64	2,635,736,962.43
Reverse repurchase agreements	8	10	20,331,876,451.42	10,760,444,300.00
Short-term investments	9	11	48,929,031,281.97	8,170,907,800.00
Short-term loans	10	12	214,809,285,145.21	189,429,550,449.52
Import & Export advance and negotiation	11	13	2,336,878,356.73	1,769,991,939.58
Interest to be amortized	12	14	7,744,141.27	235,717,961.15
Long-term investments in bonds maturing within one year	13	15	8,053,020,733.47	7,876,245,578.04
Other long-term investments maturing within one year		16		
Other current assets		17	7,808.17	533.91
Total Current Assets		18	424,244,871,901.80	331,245,201,915.51
Long-term Assets				
Medium-term loans	14	19	50,778,739,886.72	37,665,918,473.29
Long-term loans	15	20	61,319,917,926.85	50,454,227,358.50
Overdue loan	16	21	2,450,907,901.35	1,924,286,751.49
Non-performing loans	17	22	5,533,218,601.48	4,958,886,921.96
Less: Provision for credit losses	18	23	10,576,561,180.11	8,919,498,968.98
Long-term investments in bonds	19	24	29,691,531,124.37	30,151,078,223.51
Long-term equity investments	20	25	445,995,972.67	448,060,972.67
Fixed assets-cost	21	26	7,962,555,729.40	6,653,375,471.05
Less: accumulated depreciation	21	27	2,374,220,981.58	2,019,461,735.45
Fixed assets-written down value	21	28	5,588,334,747.82	4,633,913,735.60

The Financial Statements (Domestic)

For the Year ended December 31, 2005



Assets	Notes	Line No.	December 31, 2005	December 31, 2004
Long-term Assets				
Less: provision for impairment of fixed assets		29		
Fixed assets-net book value		30	5,588,334,747.82	4,633,913,735.60
Constructions in progress	22	31	52,201,177.14	307,175,574.90
Disposal of fixed assets		32	4,061.94	6,799.50
Total Long-term Assets		33	145,284,290,220.23	121,624,055,842.44
Intangible, Deferred and Other Assets				
Intangible assets	23	34	230,707,891.29	210,966,512.40
Long-term deferred debits	24	35	16,202,313.12	6,514,167.57
Assets received from insolvent debtors to be disposed of	25	36	1,143,428,539.35	458,293,359.72
Less: Provision for impairment of assets received from insolvent debtors to be disposed of	25	37	743,840,864.69	235,973,346.87
Written-down value	25	38	399,587,674.66	222,320,012.85
Other long-term assets	26	39		56,640.01
Total Intangible, Deferred and Other Assets		40	646,497,879.07	439,857,332.83
Deferred tax				
Deferred tax debits	27	41	2,890,963,033.12	2,223,171,264.04
Total Assets		50	573,066,623,034.22	455,532,286,354.82
Current liabilities				
Short-term deposit		51	202,916,580,328.75	167,135,728,057.69
Short-term savings deposit		52	23,359,430,756.86	16,099,176,115.86
Due to the central bank		53		
Bill financing		54		
Due to banks	28	55	20,577,880,546.40	17,456,979,109.13
Inter-bank borrowings	29	56	420,924,300.00	2,006,516,440.00
Interests payable		57	2,245,994,119.85	1,610,272,819.77
Short-term guarantee deposit	30	58	87,324,919,459.27	60,734,588,937.24
Repurchase agreements	31	59	1,640,120,000.00	8,297,847,964.95
Outward remittances		60	1,862,249,360.05	1,687,144,395.13
Inward remittances & Temporary deposit		61	1,070,049,579.96	1,212,355,357.82
Designated deposit	32	62	23,569,129.73	23,388,954.23
Payroll payable		63	5,451,830.08	87,419,758.52
Staff welfare payable		64	208,053,399.49	143,398,798.26

The Financial Statements (Domestic)

For the Year ended December 31, 2005

Assets	Notes	Line No.	December 31, 2005	December 31, 2004
Current liabilities				
Taxes payable	33	65	2,115,133,457.79	1,740,113,355.48
Dividends payable	34	66	10,762,029.53	14,833,536.84
Other payables	35	67	7,330,628,822.32	6,306,904,063.05
Accrued expenses	68		-	
Deferred income	36	69	330,531,323.44	479,944,132.84
Short-term bills and bonds issued		70		
Long-term liabilities due within one year		71		
Other current liabilities	37	72	55,943,608.07	54,010,353.56
Total Current Liabilities		73	351,498,222,051.59	285,090,622,150.37
Long-term liabilities				
Long-term deposit		74	142,043,657,183.25	117,745,368,790.97
Long-term savings deposit		75	47,154,344,415.55	30,819,600,862.38
Long-term guarantee deposit	38	76	1,683,078,524.00	2,200,860,896.95
Funds covering indirect lendings		77		
Long-term bonds issued	39	78	9,000,000,000.00	
Long-term payables	40	79	6,000,000,000.00	6,000,000,000.00
Other long-term liabilities	41	80	161,400,000.00	165,530,000.00
Total Long-term Liabilities		81	206,042,480,122.80	156,931,360,550.30
Deferred tax				
Deferred tax credits		82		
Total Liabilities		83	557,540,702,174.39	442,021,982,700.67
Shareholder' Equity				
Paid-in capital	42	90	3,915,000,000.00	3,915,000,000.00
Capital surplus	43	91	4,869,395,544.72	4,869,395,544.72
Revenue Reserves	44	92	2,917,235,642.18	2,171,610,480.47
Including: Reserve for welfare of employees	44	92-1	915,143,173.54	666,601,452.97
General provision	45	93	3,300,000,000.00	2,000,000,000.00
Undistributed profit	46	94	524,289,672.93	554,297,628.96
Total Shareholder' Equity		95	15,525,920,859.83	13,510,303,654.15
Total Liabilities and Shareholders' Equity		100	573,066,623,034.22	455,532,286,354.82

Note: The accounting policies and explanatory notes attached hereto form an integral part of the financial statements.

The Financial Statements (Domestic)

For the Year ended December 31, 2005



Income Statement & Statement of Profit Appropriation and Distribution

Name of Enterprise: Shanghai Pudong Development Bank Co., Ltd.

Currency unit: RMB Yuan

Items	Notes	Line No.	2005	2004
Operating Revenue	47	1	21,467,000,262.83	16,760,989,099.21
Interest income		2	18,184,826,456.71	14,172,219,593.98
Interest income from financial institutions		3	2,404,577,715.01	1,905,766,902.81
Commissions income		4	520,692,405.95	385,835,341.90
Exchange gains		5	238,161,520.38	218,256,888.93
Other operating income		6	118,742,164.78	78,910,371.59
Operating Expenses		7	8,942,491,787.61	6,805,370,941.23
Interest expenses		8	7,084,362,696.53	5,286,063,443.27
Interest expenses with financial institutions		9	1,656,651,206.85	1,416,036,321.31
Service charge		10	197,705,565.37	100,589,123.20
Exchange losses		11	3,772,318.86	2,682,053.45
General & administrative expenses		12	5,758,469,043.42	4,431,476,225.10
Business and administrative expenses		13	5,203,705,248.22	3,922,083,493.19
Depreciation expenses		14	554,763,795.20	509,392,731.91
Other operating expenses		15		
Income from investment	48	16	1,706,436,183.70	1,455,926,842.87
Operating profit		17	8,472,475,615.50	6,980,068,775.75
Less: Business tax and surcharges	49	18	1,051,301,402.27	818,053,604.32
Add: Non-operating income	50	19	19,917,617.39	46,547,573.85
Less: Non-operating expenses		20	14,457,002.81	22,023,575.86
Profit before assets depreciation provision		21	7,426,634,827.81	6,186,539,169.42
Less: assets depreciation provision	51	22	3,195,744,834.78	3,137,720,990.12
Profit after assets depreciation provision		23	4,230,889,993.03	3,048,818,179.30
Less: Income tax		24	1,745,472,787.35	1,118,787,428.41
Profit after tax		25	2,485,417,205.68	1,930,030,750.89
Add: Undistributed profit brought forward	46	26	554,297,628.96	483,926,103.34
Transferred-in from reserves		27		
Profit available for distribution		28	3,039,714,834.64	2,413,956,854.23
Less: Appropriations to statutory revenue reserves	46	29	248,541,720.57	193,003,075.09

The Financial Statements (Domestic)

For the Year ended December 31, 2005

Items	Notes	Line No.	2005	2004
Appropriations to statutory revenue reserve for welfare of staff	46	30	248,541,720.57	193,003,075.09
Appropriations to general provision	46	31	1,300,000,000.00	850,000,000.00
Profit available for distribution to shareholders		32	1,242,631,393.50	1,177,950,704.05
Less: Dividends declared on preferred stock		33		
Appropriations to discretionary reserves	46	34	248,541,720.57	193,003,075.09
Dividends declared on common stock	46	35	469,800,000.00	430,650,000.00
Capitalization of undistributed profit		36		
Undistributed profit carried forward	46	37	524,289,672.93	554,297,628.96

Note: The accounting policies and explanatory notes attached hereto form an integral part of the financial statements.

The Financial Statements (Domestic)

For the Year ended December 31, 2005



Cash Flow Statement

Name of Enterprise: Shanghai Pudong Development Bank Co., Ltd.

Currency unit: RMB Yuan

Items	Notes	Line No.	2005	2004
Cash flow from operating activities				
Cash flows from operating activities reflected in P/L		1		
Cash received from interest on loans		2	18,155,226,447.67	14,075,883,856.17
Cash received from interest income from financial institutions		3	2,253,465,783.42	2,017,731,718.87
Cash received from commissions income		4	661,346,924.33	462,203,479.73
Cash received from income on investments in bonds of operating nature		5	411,727,068.31	242,436,760.28
Cash received from exchange gains, net		6	231,750,251.21	215,574,835.48
Cash received from non-operating income, net		7	2,857,890.93	13,735,863.10
Sub-total of cash inflows		8	21,716,374,365.87	17,027,566,513.63
Cash paid for interest on deposit		9	6,160,905,360.48	4,785,813,536.91
Cash paid for interests to financial institutions		10	1,428,677,386.97	1,494,042,578.38
Cash paid for service charges		11	197,705,565.37	100,589,123.20
Cash paid to and for staff		12	1,334,256,702.95	1,268,208,281.55
Cash paid for other general and administrative expenses		13	3,690,945,837.30	2,374,217,880.08
Cash paid for business tax and surcharges		14	1,024,608,368.32	854,877,368.98
Income tax paid		15	2,116,967,185.60	1,234,888,013.13
Sub-total of cash outflows		16	15,954,066,406.99	12,112,636,782.23
Net cash flows from operating activities reflected in P/L		17	5,762,307,958.88	4,914,929,731.40
Decrease (increase) of assets of operating nature				
Reserve made with Central Bank		19	-6,075,139,928.92	-5,541,043,933.00
Due from banks and non-bank financial institutions		20	145,113,850.00	-280,573,350.00
Inter-bank and financial institution placements		21	631,124,529.36	139,331,841.77
Loans		22	-53,084,863,795.12	-59,483,381,289.19
Discounted bills		23	-15,291,710,743.31	3,133,024,153.45
Recovery of overdue loans and interest receivables written off		24	48,562,140.67	69,598,402.33
Investments in bonds of operating nature		25	-38,409,192,559.79	9,890,006.62
Reverse repurchase agreements		26	-9,571,432,151.42	3,300,699,499.13

The Financial Statements (Domestic)

For the Year ended December 31, 2005

Items	Notes	Line No.	2005	2004
Cash flow from operating activities				
Long-term deferred charges		27	-16,835,848.18	-10,600,530.17
Other assets		28	413,944,727.85	93,243,257.95
Other receivables and temporary payments		29	417,865,457.38	-279,093,078.41
Sub-total of decrease (increase) of assets of operating nature		30	-120,792,564,321.48	-58,848,905,019.52
Increase (decrease) of liabilities of operating nature				
Due to Central Bank		32	-	
Due to banks and non-bank financial institutions		33	3,120,901,437.27	1,176,724,545.96
Inter-bank borrowings and borrowings from non-bank financial institutions		34	-1,585,592,140.00	-1,048,862,560.00
Repurchase agreements		35	-6,657,727,964.95	-973,273,653.26
Deposits		36	82,998,818,714.49	67,063,171,290.59
Guarantee deposit		37	26,072,548,149.08	6,163,997,185.49
Designated deposit		38	180,175.50	-90,417,622.79
Other liabilities		39	710,052,584.59	1,160,515,946.04
Other payables and temporary receipts		40	933,386,130.01	2,769,866,275.70
Sub-total of increase(decrease) of liabilities of operating nature		41	105,592,567,085.99	76,221,721,407.73
Net cash flows from working capital movements		42	-15,199,997,235.49	17,372,816,388.21
Net cash flows from operating activities		43	-9,437,689,276.61	22,287,746,119.61
Cash flows from investing activities				
Cash received from return of investments		44	-	
Cash received from income on investments in bonds of investing nature		45	1,335,991,089.75	1,150,818,838.51
Cash received from decrease of investments in bonds of investing nature		46	8,112,751,982.15	6,569,464,594.70
Cash received from distribution of dividends or profits		47	21,981,203.67	15,348,270.32
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		48	11,681,553.37	36,007,604.96
Sub-total of cash inflows		49	9,482,405,828.94	7,771,639,308.49
Cash paid for increase of investments in bonds of investing nature		50	10,271,499,381.39	8,251,102,957.18
Cash paid to acquire fixed assets, intangible assets and other long-term assets		51	1,331,784,892.59	1,106,074,356.78

The Financial Statements (Domestic)

For the Year ended December 31, 2005



Items	Notes	Line No.	2005	2004
Cash flows from investing activities				
Cash paid to acquire equity investments		52		
Sub-total of cash outflows		53	11,603,284,273.98	9,357,177,313.96
Net cash flows from investing activities		54	-2,120,878,445.04	-1,585,538,005.47
Cash flows from financing activities				
Cash flows from shares issued				
Cash flows from shares issued		55		
Cash flows from bonds issued				
Cash flows from bonds issued		56	9,000,000,000.00	6,000,000,000.00
Sub-total of cash inflows		57	9,000,000,000.00	6,000,000,000.00
Cash paid for repayment of bonds issued				
Cash paid for repayment of bonds issued		58		
Cash payments of interest expenses for issued bonds				
Cash payments of interest expenses for issued bonds		59	287,736,035.97	-
Cash payments for distribution of dividends or profits				
Cash payments for distribution of dividends or profits		60	473,871,507.31	430,801,492.12
Sub-total of cash outflows		61	761,607,543.28	430,801,492.12
Net cash flows from financing activities		62	8,238,392,456.72	5,569,198,507.88
Effect of foreign exchange rate changes on cash		63		1,466.09
Net increase in cash and cash equivalents		64	-3,320,175,264.93	26,271,408,088.11
Supplemental Information				
	Notes	Line No.	2005	2004
1. Investing and financing activities that do not involve cash receipts and payments				
Repayment of debts by transfer of fixed assets		65		
Repayment of debts by transfer of investments		66		
Investments made with fixed assets		67		
Investing and financing activities that do not involve cash receipts and payments		68		
2. Reconciliation of profit before tax to cash flows from operating activities				
Profit after tax		69	2,485,417,205.68	1,930,030,750.89
Add: Provision made for bad debts		70	102,101,215.22	50,629,052.80
Provision made for credit losses		71	3,083,294,953.60	3,084,525,372.08
Provision for impairment of long-term investments		72	-	
Provision for impairment of assets from insolvent debtors		73	10,348,666.20	2,566,564.24
Depreciation of fixed assets		74	554,763,795.20	509,392,731.91
Amortization of intangible assets and other assets		75	53,447,708.15	57,385,442.13
Losses on disposal of fixed assets, intangible assets and other long-term assets(or deduct: gains)		76	-2,602,723.65	-10,788,134.89

The Financial Statements (Domestic)

For the Year ended December 31, 2005

Supplemental Information	Notes	Line No.	2005	2004
2. Reconciliation of profit before tax to cash flows from operating activities				
Losses arising from investments(or deduct: gains)		77	-1,272,796,761.79	-1,216,032,316.35
Exchange gains or losses on investing and financing activities		78	2,065,000.00	-
Deferred tax credit (or deduct:debit)		79	-667,791,769.08	-478,977,027.02
Increase in payables of operating nature (or deduct: decrease)		80	1,595,339,286.03	1,201,950,628.30
Decrease in receivables of operating nature(or deduct: increase)		81	-181,278,616.68	-215,753,332.69
Others		82		
Net cash flows from operating activities		83	5,762,307,958.88	4,914,929,731.40
3.Net Increase in cash and cash equivalents				
Balance of cash and cash equivalents as at December 31, 2005	54	84	56,670,262,359.62	59,990,437,624.55
Less: Balance of cash and cash equivalents as at January 1, 2005	54	84	59,990,437,624.55	33,719,029,536.44
Net increase in cash and cash equivalents		86	-3,320,175,264.93	26,271,408,088.11

Note: The accounting policies and explanatory notes attached hereto form an integral part of the financial statements.

The Financial Statements (Domestic)

For the Year ended December 31, 2005



I. Brief Introduction

1. Background

Shanghai Pudong Development Bank Co., Ltd. (“the Company”) is a joint-stock commercial bank approved by the People’s Bank of China, who issued document YF [1992] No.350 on August 28, 1992, and its business license was issued on October 19, 1992 by the Shanghai Municipal Administration of Industry and Commerce (“SMAIC”). The Company started business on January 9, 1993. On September 23, 1999, the Company issued 400,000,000 ordinary shares (Share A) to general public in China with issue price RMB ¥ 10.00 for each. And on November 10, 1999, these shares issued by the Company started trading on Shanghai Securities Exchange. In the year 2002, as authorized by the shareholders’ annual meeting for the year 2001, the Company capitalized part of its capital surplus, the capitalization amount being 50% of the balance of its share capital before such change. On December 23, 2002, upon the approval of China Securities Regulatory Commission (“CSRC”), who issued document ZJGSZ (2002) 135, the Company issued additional A share 300 million shares with issue price RMB ¥ 8.45 for each. The additional share issue was completed on January 13, 2003, which has been verified by Ernst & Yong Da Hua Certified Public Accountants, who issued verification report EYDH (2003) No.016.

The current amount of registered capital of the Company is RMB ¥ 3.915 billion, The registration number of the Company is 3100001001236, and its license for conducting financial transactions, which was numbered YJGZB1151290001, was re-issued on June 19, 2002 by the People Bank of China (“PBOC”). The legal representative of the Company is Jin Yun.

2. The industry in which the Company operates and the scope of its business

The industry in which the Company operates: financing.

Scope of business: performing commercial banking services as approved by the PBOC.

3. Principal activities and services performed

Accepting public deposits; granting loans of short-term, mid-term and long-term nature; performing settlements; discounting bills and notes; issuing financial debentures; issuing, underwriting and cashing securities on behalf of governmental authorities; trading of governmental bonds and debentures; inter-bank loans and deposits; services relating to letters of credit and letters of guarantee; factoring and assignment of receivables and payables; safe deposit services; accepting deposit in foreign currencies; granting loans in foreign currencies; remittance of foreign currencies; exchange of foreign currencies; international settlements; inter-bank placements and deposits in foreign currencies; accepting and discounting of bills and notes expressed in foreign currencies; lending in foreign currencies; guarantees in foreign currencies; purchase and sale of foreign currencies; purchase and sale of marketable securities expressed in foreign currencies(excluding stocks), either for itself or on behalf of clients; purchase and sale of foreign currencies, either for itself or on behalf of clients; credit investigation, consultancy and testimonial services; offshore banking; trustee of securities investing funds; trustee of National Social Contribution Fund; trustee of country endowment insurance fund; trustee of cisborder securities investment of Qualified Foreign Institutional Investors (QFII) and other services as approved by PBOC.

The Financial Statements (Domestic)

For the Year ended December 31, 2005

II. Significant accounting policies and accounting estimates adopted by the Company

1. The accounting standards and the accounting regulations applicable to the Company

Applicable accounting standards: *the Accounting Standards for Chinese Enterprises* and other related specific standards

Applicable accounting regulations: *the Accounting Regulations for Financial Institutions (Revised 2002)*.

2. The financial year of the Company runs from January 1 to December 31 of each calendar year

3. Renminbi is adopted by the Company as reporting currency. Separate books and accounting records are kept for foreign currency transactions. Foreign currency transactions are entered into these books and accounting records at their original foreign currency amount.

4. The Company's books and ledgers are kept on accrual basis. The Company's assets and liabilities are valued at their historical cost.

5. Accounting for foreign currency transactions

Since separate books and accounting records are prepared for foreign currency transactions, and foreign currency transactions are entered into these books and accounting records at their original foreign currency amount, no problems in the area of foreign currency translation were encountered.

6. Translation of financial statements in foreign currencies

Daily translation of financial statements in foreign currencies (including balance sheet and profit and loss account) is made using exchange rates ruling at the end of last year. At the end of each year, balance sheet and profit and loss account expressed in foreign currencies are translated into RMB amount using exchange rates ruling at that date. Effects of changes in exchange rates are treated separately in each financial statement items, and the net exchange difference is charged/credited to profit and loss account as exchange gains or losses.

7. Recognition of cash equivalents when preparing the cash flow statement

Cash equivalents of the Company include cash, due from the central bank (excluding statutory deposit reserve), inter-bank balances and inter-bank placements maturing within 3 months.

8. Types and scope of loans

(1) Distinguishing between short-term loans and mid-and long-term loans

Distinguishing between short-term loans and mid- and long-term loans is made by the duration of the loans. Loans with duration of one year or less are classified as short-term loans; loans with duration of more than one year but less than five years are classified as mid-term loans; loans with duration of more than five years are classified as long-term loans.

The Financial Statements (Domestic)

For the Year ended December 31, 2005



(2) Recognition of overdue loans

Those loans, overdraft and advances of which the principal repayments are in arrears for less than 90 days are classified as overdue loans.

(3) Recognition of non-performing loans

Those loans, overdraft and advances of which the principal repayments are in arrears for 90 days or more, or interest payments are in arrears for more than 90 days are classified as non-performing loans. No accrual of interest income is made for non-performing loans.

(4) Distinguishing between self-supporting loans and designated loans

Self-supporting loans are those loans granted by the Company on its own. The risk of these loans rests with the Company, and the Company is entitled to recover the principal of such loans and collect interests accrued thereon. Designated loans are those loans granted on behalf of the clients. The terms and conditions of such loans, such as borrower(s), use of funds, amount, term of borrowing, interest rates etc., are specified by the clients, rather than by the Company. The use of designated loans by the borrower(s) should be overseen by the Company, and the Company should assist the clients in the recovery and collection of such loans. For designated loans granted, the Company is only entitled to commissions from clients, and shall not make any advances therefor. Self - supporting loans, as part of the credit assets of the Company, are presented on the face of the balance sheet. Designated loans are presented off balance sheet.

9. Accounting for credit losses

(1) Criteria of recognition for bad loans

When one of the following situations come into existence, after all possible measures have been resorted to and all necessary procedures have been performed, the loans and investments that yet cannot be recovered as scheduled by the Company are identified as bad loans:

- A. Both the borrower and guarantor have declared by law bankruptcy, closure, dissolution or revocation, and they have ceased to exist as legal persons, and the loan cannot be recovered after the legal liquidation proceedings have been performed against the borrower and guarantor;
- B. The borrower has died or has been declared dead or disappeared by the court in accordance with *the General Principles of Civil Laws of the PRC*, and the loan cannot be recovered after repayment of his debt out of his properties or heritage and exercise of recourse against the guarantor;
- C. The borrower has suffered huge loss from material natural calamity or accident that is not covered by insurance, which made it fail to repay all or part of its debt to the Company, or it cannot repay the loans out of the insurance indemnity, and the loan cannot be recovered in full after the exercise of recourse against the guarantor;
- D. The borrower and/or guarantor, though not formally declared bankruptcy, closure, dissolution or revocation,, has terminated its business activities and has been de-registered by the administration authorities of industry and commerce at county level or above. And, the loan still cannot be recovered after claiming repayment out of the properties of the borrower and exercise of recourse against the guarantor;

The Financial Statements (Domestic)

For the Year ended December 31, 2005

- E. The borrower and/or guarantor, though not formally declared bankruptcy, closure, dissolution or revocation, has completely terminated its business activities or the whereabouts remains unknown, and has not handled its business registration or has not taken part in the annual check-up for the business license for two years or above. And, the loan still cannot be recovered after claiming repayment out of the properties of the borrower and exercise of recourse against the guarantor;
- F. The borrower has committed a crime and has been subject to criminal sanction, and the loan cannot be recovered in full by the Company out of its properties, and there is nobody else to assume this liability, thus the loan cannot be recovered after exercise of recourse;
- G. The Company has sued the borrower and/or the guarantor for their inability to repay the borrowings when falling due, and the court, at the request of the Company, made a forcible execution on the borrower and/or guarantor, but it was determined that no property is available for the settlement of the debt. And after the court has decided upon the termination of the forcible execution, the loan, entirely or partially, cannot be recovered by the Company;
- H. The Company has sued the borrower and/or the guarantor for their inability to repay the borrowings when falling due, while the prosecution is rejected or the debtors' responsibility is, entirely or partially, exempted due to the inconsistency of the main eligibility or death of the borrower and/or the guarantor; or the prosecution is not accepted or supported by the court due to the loss of the rights instruments, such as loan contract or security contract, or the overdue proceeding limitations. Thus the loan cannot be recovered after exercise of recourse;
- I. The borrower and/or the guarantor cannot repay the borrowings due to reason(s) stated in A to H above, and the Company acquires the bonded assets which are valued less than the loan principal and interest amount. The difference amount still cannot be recovered after exercise of recourse;
- J. For advances made by the Company in the case of establishment of L/C and L/G, acceptance of bank drafts etc., the applicant and the guarantor failed to reimburse that advance due to reason(s) stated in A to I above, and after exercise of recourse by the Company, the advance still cannot be recovered;
- K. The credit card applicants and the guarantors cannot reimburse the overdraft amount due to reason(s) stated in A to I above. The overdraft amount is below RMB5,000 after two years of recourse; or the overdraft is suspected as credit card fraud (excluding commercial fraud) after the official public security organs places on file for formal surveillance for more than one year, while the overdraft amount still cannot be recovered after exercise of recourse;
- L. In case of equity investments that the Company is entitled to legitimately make in accordance with relevant laws and regulations, the Company, after liquidation and exercise of recourse, still cannot recover its equity interests in investee enterprises that have declared bankruptcy, closure, dissolution or revocation, and ceased to exist as legal persons, or have terminated the business activities and have been de-registered by the administration authorities of industry and commerce at county level or above;
- M. The Company disposes its claims or equity through market means, such as packaging sales, auction, transfer, etc., and the margin between the transfer price and the book value;
- N. Loans written off as approved specifically by the State Council.

The Financial Statements (Domestic)

For the Year ended December 31, 2005



If the fact that the bad loans can not be recovered is proved to be true by strong evidence, the bad loans can be written off after approved by the board of the directors/shareholders' meeting.

(2) Accounting policy adopted for credit losses: Allowance method.

Provision for credit losses is made on the following credit assets: loans, whose risks and losses are undertaken by the Company, including pledged loans, collateral loans, secured loans and credit loans; credit card overdrafts; discounted bills; credit advances (such as advances under acceptance of bank drafts, advances under guarantees, advances under letters of credit); import & export advances and negotiations and factoring of accounts receivable etc.

Provision for credit losses consists of two types: the special provision and the specific provision.

The policy adopted in making provisions for credit losses: The loans granted by the Company are grouped into five categories by their risk levels and the actual situation such as the ability to repay, financial position, sufficiency of the assets pledged as a security and guarantee etc., based on which a serious study is made of the amount of probable losses that may arise therefrom. Meanwhile, the risk level and the recoverability of specific countries, regions or industries who grants loans are taken into account, and then the balances of credit losses provision for each category are determined.

The credit losses provision is also made for the loans which have been financed by foreign borrowings and the responsibility of repayment of such borrowings still rests with the Company.

The credit losses provision should not be made for the designated loans, as the risks of such loans are not retained by the Company.

Credit losses provision made in current year is reflected in the related income statement accounts. It will be written off when the loss of bad loans is actually incurred. And if the bad loans written off are recovered later, the related credit losses provision written off will be restored accordingly.

10. Accounting for bad debts

(1) Criteria for identification of bad debts

When one of the following situations comes into existence, the related interest receivable, other receivables or other current assets that cannot be recovered as scheduled by the Company are identified as bad debts:

- A. The borrower has gone bankrupt or has died, and the receivables cannot be recovered after repayment of his debt out of his bankrupt properties or heritage;
- B. The borrower does not repay the debt in time and there is strong evidence as to the inability on the part of the borrower to repay such debt;
- C. Other receivables that have been on account for more than 3 years.

If the fact that the receivables mentioned above can not be recovered is proved to be true by strong evidence, the bad debts can be written off after approved by the board of the directors/shareholders' meeting.

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For the Year ended December 31, 2005

(2) Accounting for bad debts

Allowance method is adopted for accounting for bad debts.

A. Interests receivable

Interests receivable outstanding for 90 days or more is transferred to off-balance sheet items, so the aging of interests receivable is all less than 90 days, thus no bad debt provision is made for interests receivable; the accrual of interest income for loan, placement and investment was made according to the agreement. Interests receivable outstanding for 90 days or more is transferred to off-balance sheet items, so the aging of interests receivable is all less than 90 days, thus no bad debt provision is made for interests receivable.

B. Other receivables

The bad debts provision for other receivables is made using specific identification method.

C. Other current assets (including placements)

The bad debts provision for other current assets is made using specific identification method.

In determining the rate(s) of provision for bad debts, the following factors are taken into account by the Company in order to ensure reasonableness of the estimates: the past experience; the financial position and cash flow status of the debtors; the other related information.

Bad debts provision made in current year is reflected in the related income statement accounts. It will be written off when the loss of bad debts is actually incurred. And if the bad debts written off are recovered later, the related bad debts provision written off will be restored accordingly.

11. Accounting for reverse repurchase agreement and repurchase

The purchase of reverse repurchase loans and securities /resell of repurchase loans and securities are initially stated at the actual costs and the interest income or expenditures are recognized evenly over the corresponding useful lives. The purchase of reverse repurchase notes /resell of repurchase notes are initially stated at their par value. The difference between the actual amounts paid / received and the par value of bonds should be amortized over the useful lives in which the relevant interest is recognized.

12. Accounting for current investments

Current investments are entered into the Company's books at their actual cost. Investment income is recognized only when they are sold or cashed on maturity. At the end of reporting period, current investments are valued at their cost or market value, whichever is lower.

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13. Accounting for long-term investments

(1) Accounting for long-term debt investments

Long-term debt investments are entered into the Company's books at their actual cost, namely actual purchase price paid on acquisition, excluding incidental expenses (such as taxes and commissions), less interest accrued over the period from the date of their issue to the purchase date included therein. Interest income is recognized on accrual basis, and after the adjustment of premium and discount on investment in bonds/debentures, it should be reflected in the related income statement accounts.

(2) Amortization of the premium and discount on investment in bonds

Premium or discount on investment in bonds is amortized over the period between the acquisition date and the maturity date in which the relevant bond interest is recognized. The amortization method used is the straight-line method.

(3) Accounting for long-term equity investments

The valuation of long-term equity investments and recognition of income thereon

Long-term investment in shares and other long-term investment are collectively called long-term equity investment. The long-term equity investments are recorded at its initial cost on acquisition, i.e., the total price paid on acquisition.

Cost method is used to account for long-term equity investments when the Company does not have control, joint control or significant influence over the investee enterprise. The equity method is used to account for long-term equity investments when the Company can control, jointly control or has significant influence over the investee enterprise.

(4) Provision for impairment of long-term investments-criteria for recognition and determination of amount to be provided for

Provision for impairment of long-term investments is made on an individual item basis. If the recoverable amount of any investment is lower than the carrying amount of that investment as a result of a continuing decline in market value or changes in operating conditions of the investee enterprise, and it is considered impossible for the impaired value to recover, the difference by which the recoverable amount is lower than the carrying amount of the investment should be provided for, and reflected in the profit and loss account for the reporting period.

14. Accounting for fixed assets

(1) Recognition criteria of fixed assets

Fixed assets are defined as tangible assets that (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; (b) have useful life of more than one year; and (c) have relatively high unit price. Specifically, the following items are recognized as fixed assets: (a) buildings and constructions, machinery, transportation facilities and other equipment and appliances used in the operation of the Company, of which the useful lives are over 1 year; and (b) those items whose useful lives are over 2 years and the unit price exceed RMB ¥2,000, which do not fall within the scope of key operation facilities.

(2) Fixed assets of the Company are classified into the following categories: buildings and constructions, transportation facilities, mainframe computers, minicomputers and microcomputers, electronic equipment, office equipment and improvements of fixed assets.

The Financial Statements (Domestic)

For the Year ended December 31, 2005

(3) Accounting for fixed assets and provisions for impairment thereof

The initial measurement of fixed assets upon acquisition is made at their actual cost or amount determined otherwise. At the end of each year and interim reporting period, recoverable amount of fixed assets is examined on an individual item basis. The difference by which the recoverable amount is lower than the carrying amount of the fixed assets should be provided for. The impairment loss should be recognized in the income statement for the current period. The provision for impairment of fixed assets is made on an individual item basis.

(4) Accounting for accumulated depreciation

The fixed assets are depreciated on straight-line basis over their estimated useful lives based on the original cost and estimated useful lives. Except for the fixed assets improvement disbursement, the depreciable amount of a fixed asset equals its original cost less estimated residual value. The residual value is estimated at 3% to 5% of the original cost. The depreciation rates for each category of fixed assets are as follows:

Category of fixed assets	Useful lives	Depreciation rates
Buildings and constructions	30 years	3.17-3.23%
Transportation facilities	5 years	19.00-19.40%
Mainframe computers	5 years	19.00-19.40%
Minicomputers and microcomputers	3-5 years	19.00-32.33%
Electronic equipment	5 years	19.00-19.40%
Office equipment	5 years	19.00-19.40%
Fixed assets improvement disbursement	Useful lives	10.00-33.33%

When a provision for impairment has been made for a fixed asset, the depreciation rate and depreciation charge for the fixed asset should be recalculated based on the asset's carrying amount and its remaining useful life. If the value of a fixed asset for which impairment provision has previously been made is recovered, the depreciation rate and depreciation charge for the fixed asset should be recalculated based on the asset's revised carrying amount and its remaining useful life.

15. Accounting for constructions in progress

The actual construction expenditures incurred are charged to the construction in progress account. When the fixed asset being acquired or constructed has reached its expected usable condition, the total construction cost in that account is capitalized as fixed assets. At the end of each fiscal year, the recoverable amount of all the constructions in progress is reviewed for impairment purposes and, if there is such evidence on occurrence of impairment losses of construction in progress, provision should be made and recognized in the income statement for the current period. The provision for impairment of construction in progress is made on an individual item basis.

16. Valuation, amortization and provision for impairment in value of intangible assets

(1) Initial measurement of intangible assets

Intangible assets should be recorded at the actual purchase price paid.

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For the Year ended December 31, 2005



(2) Amortization of intangible assets

The cost of an intangible asset should be amortized on straight-line basis. The details are as follows:

- A. Use rights of buildings and constructions are amortized over their actual useful lives starting in the month in which they were acquired. But their amortization period should not exceed 30 years.
- B. Land use rights are amortized over their legal lives starting in the month in which they were acquired.
- C. Franchises are amortized over 5 years starting in the month in which acquisition is complete.
- D. Computer software is amortized over 3 years starting in the month in which they were acquired.

(3) Provision for impairment of intangible assets-criteria for recognition and determination of amount to be provided for

The Company reviews the carrying amount of its intangible assets at the end of each year and interim reporting period for the future economic benefits associated therewith that will flow to the enterprise. The difference by which the recoverable amount is lower than the carrying amount of the intangible assets should be provided for and recognized in the income statement for the current period. The provision for impairment of intangible assets is made on an individual item basis.

17. Amortization of long-term deferred charges

- (1) Organization expenses of branches and sub-branches are entered into the Company's books at their actual cost incurred and written off immediately when the branch or sub-branch starts operation.
- (2) Rental is amortized on straight-line basis over actual duration of lease.

18. Accounting for assets received from insolvent debtors to be disposed of

(1) Measurement of assets received from insolvent debtors to be disposed of

Assets received from insolvent debtors to be disposed of should be recorded at an amount equal to the aggregate of principal and interest of restructured loans as presented on the face of balance sheet, plus any related tax payments and boot paid (or less boot received and plus gains recognized). Meanwhile the provision for bad loans related thereto is transferred to provision for impairment of assets received from insolvent debtors.

(2) Provision for impairment of assets received from insolvent debtors to be disposed of-criteria for recognition and determination of amount to be provided for

The Company reviews the carrying amount of the assets received from insolvent debtors to be disposed of at the end of each year and interim reporting period on an individual item basis. The difference by which the recoverable amount is lower than the carrying amount of the assets should be provided for and recognized in the income statement for the current period.

19. Accounting for Long-term payables

Subordinated debts are the debts issued by the Company with a fixed tenor of more than 5 years. It can't be used to make up the daily operating loss of the Company (this would not be the case when the Company went bankrupt or went into liquidation), and the claim for deposit and other liabilities is prior to the claim for the debt. Subordinated debts can be recorded as the supplementary capital of the Company provided the amount of which do not exceed 50% of the core capital. Subordinated debts should be credited to Long-term Payables at the actual amount received, and be written off when it was repaid upon maturity.

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For the Year ended December 31, 2005

20. Accounting for long-term bonds issued

The long-term bonds issued by the Company should be recognized in accordance with the actual total price as liabilities. The difference between the actual total price and the total face value should be treated as the premium or discounted of the bonds, which is amortized on straight-line basis over the bond deposit period.

The interest payable for the long-term bonds should be accrued periodically. Interest expenses, amortization of bonds premium or discounted, and the issue costs should be recognized as expenses for the current period.

21. Measurement of the non-cash assets received in debt restructuring transactions

When a receivable is satisfied by a transfer of non-cash assets, the Company (as the creditor) records the non-cash assets received at an amount equal to the carrying amount of the receivable to be restructured. If several non-cash assets are involved in the above restructuring, each non-cash asset received should be recorded at an amount determined by applying the proportion of the fair value of each non-cash asset received to the total fair value of the non-cash assets received to the carrying amount of the receivable to be restructured

22. Measurement of the assets received in non-monetary transactions

In a non-monetary transaction, the Company records the asset received at an amount equal to the aggregate of the carrying amount of the asset surrendered and the boot paid (or less the boot received and add the amount of gain recognized), plus any related tax payments. If several assets are received at the same time in a non-monetary transaction, each asset received should be recorded at an amount determined by applying the proportion of the fair value of each asset received to the total fair value of the assets received to the aggregate of the carrying amounts of the assets surrendered and any related tax payments.

23. The principle of revenue recognition

(1) Interest revenue

Interest revenue on loans granted or arising from transactions with other financial institutions should be measured based on the length of time for which the Company's cash is used by others and the applicable interest rate(s). In addition, as prescribed in the *Accounting Regulation for Financial Institutions* issued by the Ministry of Finance that became effective on January 1, 2002, interest receivable on loans shall be computed periodically, and recognized as an item of profit and loss. When principals of such loans are overdue for more than 90 days (not inclusive), the recognition of interest on such loans should be terminated, and interests already accrued thereon should be written off and transferred to off balance sheet account. But when interest receivables accrued are overdue for more than 90 days (not inclusive), the recognition of interest on such loans, regardless of the maturity status of the principal thereof, should be terminated, and the recorded interests receivable thereon should be written off against the profit and loss for the current period and transferred to off-balance sheet account. In addition, the related loans should be transferred to non-performing loans account. And from then on, the interests should be recognized in the related off-balance account and not reflected in the profit and loss account. The interest revenue thereon is recognized when it is actually received.

(2) Revenue from commissions income

Revenue from commissions income comprises of revenue from handling and providing guarantee, which are recognized when the transactions have been completed and the amounts have been received in cash.

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For the Year ended December 31, 2005



(3) Exchange gains

Exchange gains are recognized when the related transactions are completed and the amount is actually received.

(4) Other operating revenue

Other operating revenue (including income on purchase and sale of debentures, and revenue from other non-commissions income) is recognized when it is actually received by the Company.

24. Recognition of interest expenses

Accrual basis is adopted. For current deposits and inter-bank balances, the interests are settled quarterly; for current savings, the interests are accrued quarterly; for time deposits the interests are accrued quarterly at the interest rate prevailing on the deposit day; for time savings and negotiation deposits, the interests are accrued quarterly at the interest rates set on the deposit receipt and the deposit contracts respectively; the interests on interest-bearing-liabilities such as the amounts received for sell of repurchase assets are accrued quarterly at the contract interest rates.

25. Accounting for income taxes: The liability method (under the tax effect accounting method) was adopted for accounting for income taxes

26. Accounting for derivative financial instruments and recognition of gains/losses resulting therefrom

(1) Measurement of derivative financial instruments

The Company uses derivatives primarily for hedging purposes (with the exception of those purchased/sold on behalf of clients). In order to lessen the market risks resulting from transactions with the clients, the Company has entered into back-to-back agreements with third parties, which effectively passed the risks to which the Company is exposed. Derivatives are carried in the books of the Company at their actual value for receipt/payment, and their nominal value and market value is disclosed off-balance-sheet.

(2) Gains and losses resulting therefrom are recognized on the settlement date.

(3) Criteria for recognition of hedge: The Company uses hedging as part of its asset/liability management activities when there is a mismatch in terms of exchange rate, interest rate, time etc.

27. Notes for changes in principal accounting policies and estimations, and significant accounting errors correction

(1) Provision for credit losses

The Company has started from the Current Period in stages to implement the CJ [2005] No. 49 'Circular on Impairment Loss on Loans' issued by the Ministry of Finance. In accordance with the regulation, financial banks should, in principle, set aside a general reserve of at least 1% of its total risk-weighted assets at year end from net profit to compensate for the possible loss; after the classification of the loans based on the risk levels, special provision should be made according to the extent of credit losses to compensate for the special loss; besides, specific provision should be made also for the loans granted by specific countries, regions or industries based on different risk levels or recoverability. The changes in the above stated accounting estimation exerts impact on the financial statements of the current period with the implementation of prospective application method, and will not have significant influence on the Company's net profit of the current period.

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(2) Residual value and useful lives of fixed assets

Since January 1st 2005, in accordance with the regulation, GSF [2003] No. 70, issued by the National Tax Bureau in June 2003, the Company adjusted the residual value from 3% to 5% for those additional fixed assets since 2004, and the useful lives have also been changed from 3 years to 5 years for those additional ATM machines since 2004. The change in the above stated accounting estimation will not have significant influence on the Company's net profit of the current period.

28. Consolidation of financial statements

As stipulated in *the Law on Commercial Banks of the People's Republic of China* ("the Law"), which has been in force from May 10, 1995, the Company cannot invest in non-bank financial institutions and enterprises in PRC. Thus in the reporting year, the Company has no subsidiaries over which it can exercise control, and there is no need to prepare consolidated financial statements.

III. Taxation

The taxes and surcharges applicable to the Company and the respective rates are as follows:

Taxes/Surcharges	Basis of Tax and Surcharge	Tax and Surcharge rate
Business Tax	Operating revenue (excluding interest income from financial institutions)	5%
City Maintenance and Construction Tax	Municipal business tax (5%)	7%
Educational Surcharge	Municipal business tax (5%)	3%
Corporate income tax	Taxable Income	33%

IV. Notes to the financial statements (Unit of currency: RMB ¥ '000)

1. Cash

Currency	December 31, 2005	December 31, 2004
RMB	1,495,720	1,104,727
FX equivalent of RMB	389,373	361,829
Total	1,885,093	1,466,556

2. Due from the central bank

Item	December 31, 2005	December 31, 2004
Statutory deposits ⁽¹⁾	29,169,197	23,103,478
General deposits	41,352,446	46,975,685
Financial deposit	55,364	45,943
Total	70,577,007	70,125,106

Notes 1: Statutory deposits: As stipulated by PBOC, the balance of statutory deposits expressed in Renminbi should not be less than 7.5% on customers' deposits denominated in RMB. 3% of the balance of previous month was adopted on customers' deposits denominated in foreign currencies placed with the central bank (in accordance with the Regulation on Statutory Deposits for Foreign Currencies for Financial Institutions issued by PBOC in November 2004, and the applicable rate in 2004 was 2%).

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3. Due from banks

Item	December 31, 2005	December 31, 2004
Domestic banks	3,827,311	3,232,945
Foreign banks ⁽¹⁾	1,275,926	1,407,409
Total	5,103,237	4,640,354

Notes 1: Of the balance as of December 31, 2005, RMB ¥ 689,985 thousand represents structured deposit. Structured deposit is defined as structured deposit due from banks combined with derivative financial instruments which have close links with the host contracts on economic characteristics, and thus have not been separated from the host contracts on accounting treatments. These structured deposits due from banks were purchased to provide effective hedge for the structured deposits included in the customers' general deposits.

4. Inter-bank placements

Item	December 31, 2005	December 31, 2004
Domestic banks	1,969,140	2,068,975
Foreign banks	7,118,687	6,372,378
Domestic non-bank financial institution ⁽¹⁾	304,908	305,976
Total	9,392,735	8,747,329
Less: Provision for bad debts	195,636	98,744
Written-down value	9,197,099	8,648,585

Notes 1: Within the aforesaid balance of placements to non-bank financial institutions (as at December 31, 2005) there is RMB ¥ 304,908 thousand which has been overdue and the provision for it has been made.

5. Discounted bills

Currency	December 31, 2005	December 31, 2004
Banker's acceptance draft	34,221,078	20,616,102
Trade acceptance	4,766,792	3,586,438
Notes expressed in foreign currencies	602,776	164,282
Accounts receivables factoring	403,343	335,456
Total	39,993,989	24,702,278

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6. Interests receivable

(1) On balance sheet

Item	December 31,2005	December 31,2004
Interests receivable on loans	288,219	260,728
Interests receivable on placements	5,409	4,838
Interests receivable on reverse repurchase agreements	5,342	2,398
Interests receivable on bond investment	523,469	515,763
Total	822,439	783,727

Notes: Of the balance, the interests on loans RMB ¥ 16,449 thousand has been overdue, the aging of which is all within 90 days. The remaining balance represents the interests accrued on such assets as loans and placements etc., no provision for bad loans has been made.

(2) Off balance sheet

	December 31,2005	December 31,2004
Amount	1,656,581	1,578,456

7. Other receivables

Item	December 31,2005				Total	Percent	Bad debt	Net
	1 year or less	1-2 years	2-3years	3 years and more				
Working fund	789	4	-	1	794	0%	-	794
Fund pending settlement	230,858	2	-	-	230,860	10%	-	230,860
Housing fund for Staff	133,478	407,988	1,070,312	91,090	1,702,868	74%	16,924	1,685,944
Refund for cooperative construction of Pufa Mansion	-	-	-	1,228	1,228	0%	-	1,228
Prepayment for Purchasing House	125,097	8,000	-	-	133,097	6%	-	133,097
Amounts paid on behalf of others besides mentioned above	116,602	27,294	56,793	37,201	237,890	10%	91,649	146,241
Total	606,824	443,288	1,127,105	129,520	2,306,737	100%	108,573	2,198,164
Working fund	875	-	33	-	908	0%	-	908
Fund pending settlement	420,361	295	45	-	420,701	15%	-	420,701
Housing fund for Staff	407,988	1,070,312	84,837	6,253	1,569,390	57%	15,647	1,553,743
Refund for cooperative construction of Pufa Mansion	-	-	181,228	-	181,228	7%	-	181,228
Prepayment for Purchasing House	278,822	-	-	-	278,822	10%	-	278,822
Amounts paid on behalf of others besides mentioned above	196,370	52,557	22,806	16,885	288,618	11%	88,283	200,335
Total	1,304,416	1,123,164	288,949	23,138	2,739,667	100%	103,930	2,635,737

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8. Reverse repurchase agreements

Trading counterpart	December 31, 2005	December 31, 2004
Commercial banks other than the Company	3,061,736	459,960
Credit unions	402,640	384
Financial companies	54,000	169,000
Sub-total	3,518,376	629,344
Securities		
PBOC	5,700,000	2,000,000
Commercial banks other than the Company	7,604,000	6,332,600
Sub-total	13,304,000	8,332,600
Trading counterpart		
Commercial banks other than the Company	500,000	600,000
Financial companies	2,466,000	1,000,000
Trust investment companies	243,500	198,500
Financial limited companies	300,000	-
Sub-total	3,509,500	1,798,500
Total	20,331,876	10,760,444

9. Current investments

Item	December 31, 2005 Cost	December 31, 2004 Cost
Treasury bills (expressed in RMB)	2,462,910	1,588,571
Other bonds in RMB	4,043,014	189,718
Short-term central bank bills	42,342,427	6,392,619
Structured bonds expressed in foreign currency ⁽¹⁾	80,680	-
Total	48,929,031	8,170,908

Notes 1: Structured bonds expressed in foreign currency are defined as foreign currency structured bonds combined with derivative financial instruments which have close links with the host contracts on economic characteristics.

Notes 2: The treasury bills and other bonds in RMB can only be traded among banks in organized financial market (inter-bank bond and bill market). Since trading in such a market is not active, there are no quotations for market price that can be used as a reference. We take into account such factor as the interest accrued to arrive at the market value for reference. There is no impairment of these investments.

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10. Short-term loans

Item	December 31,2005	December 31,2004
Credit loan	40,639,874	34,432,122
Guarantee loan	100,359,184	98,317,692
Collateral loan	54,131,157	37,349,920
Pledged loan	19,679,070	19,329,816
Total	214,809,285	189,429,550

11. Import & export advances and negotiations

Item	December 31,2005	December 31,2004
Import deposit exchange	1,207,863	772,951
Export deposit exchange	1,129,015	997,041
Total	2,336,878	1,769,992

12. Interest to be amortized

Item	December 31,2005	December 31,2004
Interest on amounts received for resell of repurchase notes	4,074	40,353
Interests on Re-discounted bills to the central bank/other banks	3,670	195,365
Total	7,744	235,718

13. Long-term investment of bond to be expired within 1 year

Item	Due Date	Book Value	Cost	Interest Rate P.A.	Interest Accrued in Current Year	Accumulated Interest Accrued	Total
Treasury Notes (in documentary form)	2006/02-2006/09	234,817	234,922	2.32-3.14	11,682	15,791	250,713
Treasury Notes (in account form)	2006/02-2006/12	5,670,000	5,622,150	2.32-11.8	102,828	-	5,622,150
Bonds issued by the National Development Bank	2006/06-2006/12	1,680,000	1,681,733	2.41-3.81	50,990	-	1,681,733
Bonds issued by Import and Export Bank	2006/06	50,000	50,000	3.82	1,910	-	50,000
Treasury Notes expressed in foreign currency	2006/05-2006/07	145,857	145,811	5.25-7.75	8,919	-	145,811
Other bonds expressed in foreign currency	2006/01-2006/10	302,614	302,614	Floating rate	16,771	-	302,614
Total		8,083,288	8,037,230		193,100	15,791	8,053,021

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14. Medium-term loans

Item	December 31, 2005	December 31, 2004
Credit loan	13,334,490	8,919,373
Guarantee loan	14,598,169	11,922,128
Collateral loan	21,487,931	15,064,577
Pledged loan	1,358,150	1,759,840
Total	50,778,740	37,665,918

15. Long-term loans

Item	December 31, 2005	December 31, 2004
Credit loan	3,599,114	2,030,756
Guarantee loan	7,503,908	8,390,720
Collateral loan	48,111,459	38,294,943
Pledged loan	2,105,437	1,737,808
Total	61,319,918	50,454,227

16. Overdue Loans

Item	December 31, 2005	December 31, 2004
Credit loan	156,732	234,375
Guarantee loan	995,200	630,480
Collateral loan	618,564	391,582
Pledged loan	680,412	667,850
Total	2,450,908	1,924,287

Notes: The loans, overdraft and advance included in the aforesaid balances are all overdue for less than 90 days.

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17. Non-performing loans

Item	December 31, 2005					
	Total	90-180 days	0.5-1 year	1-2 years	2-3 years	More than 3 years
Credit loan	460,415	241,301	48,262	154,744	47	16,061
Guarantee loan	3,294,964	1,066,912	401,125	1,137,446	77,948	611,533
Collateral loan	1,601,236	304,840	370,087	389,615	114,598	422,096
Pledged loan	176,604	47,393	82,700	39,924	6,033	554
Total	5,533,219	1,660,446	902,174	1,721,729	198,626	1,050,244
Proportion to total amount	100.00%	30.01%	16.30%	31.12%	3.59%	18.98%

December 31, 2004						
Credit loan	270,862	48,382	4,457	38,419	22,733	156,871
Guarantee loan	2,659,455	629,608	466,280	253,288	183,575	1,126,704
Collateral loan	1,890,979	84,070	256,135	185,565	57,771	1,307,438
Pledged loan	137,591	88,152	1,160	47,242	237	800
Total	4,958,887	850,212	728,032	524,514	264,316	2,591,813
Proportion to total amount	100.00%	17.14%	14.68%	10.58%	5.33%	52.27%

18. Provision for credit losses

Item	December 31, 2005	December 31, 2004
Opening balance	8,919,499	6,268,205
Transfer in in the reporting year	-	6,237
Provision made in the reporting year	3,083,295	3,084,525
Transfer out in the reporting year	497,519	-
Recovery in the reporting year	48,562	69,599
Writing-offs in the reporting year	977,276	509,067
Closing balance	10,576,561	8,919,499

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19. Long-term investments in bonds

Item	Due Date	Book Value	Cost	Interest Rate P.A.	Interest Accrued in Current Year	Accumulated Interest Accrued	Total
Treasury Note '2002 (in documentary form)	2007/03-2007/11	178,259	178,267	2.29-2.72	4,167	12,993	191,260
Treasury Note '2003 (in documentary form)	2008/02-2008/09	213,376	213,388	2.63	5,433	12,093	225,481
Treasury Note '2004 (in documentary form)	2007/03-2009/11	514,841	514,838	2.52-3.81	12,547	18,222	533,060
Treasury Note '2005 (in documentary form)	2008/03-2010/11	83,357	83,357	3.24-3.81	1,797	2,018	85,375
Treasury Note '99 (in account form)	2007/02-2009/04	670,000	672,428	3.28-4.72	26,957	-	672,428
Treasury Note '2000 (in account form)	2007/02-2010/09	2,427,000	2,427,647	2.45-3.50	68,268	-	2,427,647
Treasury Note '2001 (in account form)	2008/06-2021/10	5,505,000	5,494,140	2.50-4.69	160,034	-	5,494,140
Treasury Note '2002 (in account form)	2009/04-2012/07	2,580,000	2,576,291	2.00-2.93	56,658	-	2,576,291
Treasury Note '2003 (in account form)	2008/04-2013/04	3,345,000	3,342,962	2.45-2.80	83,059	-	3,342,962
Treasury Note '2004 (in account form)	2007/04-2011/11	1,020,000	1,021,415	3.20-4.86	44,220	-	1,021,415
Treasury Note '2005 (in account form)	2007/07-2025/05	1,050,000	1,049,771	1.58-4.44	7,972	-	1,049,771
Bonds issued by the National Development Bank	2007/05-2035/10	6,170,000	6,173,762	2.18-4.36	177,775	-	6,173,762
Bonds issued by the Import & Export Bank	2007/09-2012/11	860,000	859,793	2.73-4.22	26,957	-	859,793
Bonds issued by Agricultural Development Bank of China	2007/11	50,000	50,000	2.05	146	-	50,000
Bonds issued by Bank of China	2014/07-2015/03	30,000	30,000	3.37-4.94	1,239	-	30,000
Bonds issued by Mingsheng Bank	2014/11-2017/12	70,000	70,000	3.68-4.65	492	-	70,000
Long-term notes issued by Central Bank of China	2008/02-2008/05	2,630,000	2,633,193	3.06-3.80	68,090	-	2,633,193

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19. Long-term investments in bonds (Continued)

Item	Due Date	Book Value	Cost	Interest Rate P.A.	Interest Accrued in Current Year	Accumulated Interest Accrued	Total
Treasury notes expressed in foreign currency	2011/05-2096/01	249,605	283,878	6.80-9.00	21,402	-	283,878
Other bonds expressed in foreign currency	2007/03-2015/10	625,425	625,069	1.72-9.00	46,198	-	625,069
Structured bonds expressed in foreign currency	2007/05-2052/12	1,346,374	1,346,006	Floating rate	20,531	-	1,346,006
Total		29,618,237	29,646,205		833,942	45,326	29,691,531

Notes 1: Within the aforesaid balance as at December 31, 2005, there is treasury bill amounting to RMB ¥ 1,000,000 thousand has been put in pledge for repurchase agreements.

Notes 2: Structured bonds expressed in foreign currency are defined as foreign currency structured bonds combined with derivative financial instruments. RMB ¥ 66,370 thousand of the structured bonds with derivative financial instruments are found not tied up with the host contracts on economic characteristics, while rest of the structured bonds are combined with derivative financial instruments which have close links with the host contracts on economic characteristics.

20. Long-term equity investment

(1) Details are as follows:

Item	December 31, 2005			December 31, 2004		
	Cost	Provision for Impairment	Net book Value	Cost	Provision for Impairment	Net book Value
No significant Influence Over investee	450,555	4,559	445,996	452,620	4,559	448,061

(2) Equity investments meeting one of the following criteria can be detailed as follows: (A) The Company holds less than 20% of the voting shares or equity capital of the investee; or (B) although the Company holds 20% or more, but can not exert significant influence over the investee

Name of Investee	Term of Investment (in years)	Proportions of shares hold by the Company to total shares outstanding	December 31, 2005	December 31, 2004
First Sino Bank	30	10%	82,252	84,317
Shenlian Investment Co., Ltd.	None	16.5%	288,303	288,303
China Joint-bank Co., Ltd.	None	4.85%	80,000	80,000
Total			450,555	452,620

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(3) Provision for impairment of long-term investments

The ending balance of provision for impairment of long-term investments is adjusted to 1% of the original investment cost of long-term equity investments.

	December 31, 2005	December 31, 2004
Balance	4,559	4,559

21. Fixed assets - cost and accumulated depreciation

Item	Fixed Assets - cost			
	December 31, 2004	Increase	Decrease	December 31, 2005
Buildings and constructions	4,119,070	962,571	2,220	5,079,421
Transportation facilities	205,369	24,855	35,008	195,216
Computers	1,191,984	362,358	159,631	1,394,711
Electronic equipment	101,292	41,422	5,003	137,711
Office equipment	120,708	41,534	8,190	154,052
Improvement of fixed assets	914,952	87,978	1,485	1,001,445
Total	6,653,375	1,520,718	211,537	7,962,556
Fixed Assets accumulated depreciation				
Buildings and constructions	518,965	134,953	791	653,127
Transportation facilities	143,965	23,076	32,170	134,871
Computers	726,357	219,193	154,053	791,497
Electronic equipment	60,467	14,925	4,793	70,599
Office equipment	58,317	20,664	7,822	71,159
Improvement of fixed assets	511,391	141,953	376	652,968
Total	2,019,462	554,764	200,005	2,374,221

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21. Fixed assets - cost and accumulated depreciation (Continued)

Item	Fixed Assets - net book value	
	December 31, 2004	December 31, 2005
Buildings and constructions	3,600,105	4,426,294
Transportation facilities	61,404	60,345
Computers	465,627	603,214
Electronic equipment	40,825	67,112
Office equipment	62,391	82,893
Improvement of fixed assets	403,561	348,477
Total	4,633,913	5,588,335

Notes 1: In current period, the value of constructions in progress transferred to fixed assets is RMB ¥ 331,715 thousand.

Notes 2: As at December 31, 2005, fixed assets were not impaired, thus no provision is made for such impairment.

Notes 3: As at December 31, 2005, buildings and constructions with original cost of RMB ¥ 1,013,242 thousand and net book value of RMB ¥ 962,394 thousand (as at December 31, 2004, original cost: RMB ¥ 391,376 thousand; net book value: RMB ¥ 359,047 thousand) are already put into use while relevant property registration are still in progress or not yet processed.

Notes 4: Reconciliation of the carrying amount of fixed assets at the beginning and end of the fiscal year 2005.

i. Original cost of fixed assets

Balance as at January 1, 2005	6,653,375
Add:	
Purchases	1,189,003
Transfer from construction in progress account	331,715
Subtotal of increase	1,520,718
Less: Retirement and disposal	211,537
Balance as at December 31, 2005	7,962,556

ii. Accumulated depreciation

Balance as at January 1, 2005	2,019,462
Add: Depreciation provided	554,764
Less: Retirement and disposal	200,005
Balance as at December 31, 2005	2,374,221

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22. Constructions in progress

Project name	Budgeted cost	Percentage of completion	Source of funds	December 31, 2004	Increase	Decrease	December 31, 2005
Caohejing information center	170,000	100%	Self-raised Fund	281,652	39,289	320,941	-
Project 628	134,120	66.9%	Self-raised Fund	19,940	1,144	5,275	15,809
Building of Jiaxing sub-branch, Hangzhou branch	27,000	8.8%	Self-raised Fund	2,377	-	2,377	-
Office building of Zhengzhou branch	90,870	33%	Self-raised Fund	-	30,245	-	30,245
Others	10,165	-	Self-raised Fund	3,207	6,062	3,122	6,147
Total	432,155			307,176	76,740	331,715	52,201

Notes1: No interest was capitalized on construction projects.

Notes2: As at December 31, 2005, constructions in progress were not impaired, thus no provision is made for such impairments.

Notes3: The assets transferred to fixed assets in the reporting year amounted to RMB ¥ 331,715 thousand.

23. Intangible assets

Item	Method of Acquisition	Original Cost	December 31, 2004	Increase	Amortization Accumulated	Amortization 31, 2005	December 31, 2005	Remaining amortization period (in years)
Occupancy right of office buildings	Purchase	165,339	123,948	-	7,859	49,250	116,089	19-24.5
Franchise	Purchase	38,411	15,734	-	7,680	30,357	8,054	1.5
Land use right	Purchase	36,100	31,920	-	850	5,030	31,070	42-43
Computer software	Purchase	140,945	38,061	66,041	29,690	66,533	74,412	1-3
Others	Purchase	1,763	1,304	-	221	680	1,083	2-3
Total		382,558	210,967	66,041	46,300	151,8501	230,708	

Notes: At the end of the year 2005, intangible assets were not impaired, thus no provision is made for such impairments.

24. Long-term deferred charges

Item	Original cost	December 31, 2004	Increase	Amortization	Accumulated Amortization	December 31, 2005	Remaining amortization period (in years)
Leasing fee	38,088	5,597	12,896	5,224	24,819	13,269	0.5-8.5
Others	17,741	917	3,939	1,923	14,808	2,933	0.5-4.5
Total	55,829	6,514	16,835	7,147	39,627	16,202	

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25. Assets received from insolvent debtors to be disposed of

Item	December 31, 2005			December 31, 2004		
	Original Cost	Provision for impairment	Net book value	Original Cost	Provision for impairment	Net book value
Real estate	1,127,699	731,907	395,792	450,508	231,922	218,586
Shares owned by domestic legal person	3,078	3,078	-	876	482	394
Others	12,652	8,856	3,796	6,909	3,569	3,340
Total	1,143,429	743,841	399,588	458,293	235,973	222,320

26. Other long-term assets

Item	December 31, 2005	December 31, 2004
Others	-	57

27. Deferred tax-debit

Item	December 31, 2004	Increase	Write-offs	December 31, 2005
Provision for credit losses	2,062,675	611,697	142,564	2,531,808
Bad debts provision	72,131	32,377	6,044	98,464
Assets received from insolvent debtors provision	77,871	165,142	-	243,013
Start-up expenses amortization	5,594	7,026	4,326	8,294
Depreciation of fixed assets	825	4,200	650	4,375
Long-term assets amortization	4,075	1,200	266	5,009
Total	2,223,171	821,642	153,850	2,890,963

Notes: Deferred tax is resulted from the timing difference between income tax expense as determined based on accounting profit and actual income tax payable as determined in accordance with tax laws and regulations. In determining accounting profit, provision for credit losses is based on grouping of loans into five categories by risk levels, bad debts provision and provisions for impairment of assets received from insolvent debtors are determined using specific identification method, provision for impairment of assets received from insolvent debtors and organization expenses of branches and sub-branches are written off immediately when the branch or sub-branch starts operation, whereas such provisions and write-offs cannot be deducted in full from taxable income while determining taxable income.

28. Due to banks

Item	December 31, 2005	December 31, 2004
Banks	6,223,206	4,051,707
Security companies	6,632,211	7,621,023
Non-bank financial institutions	7,722,464	5,784,249
Total	20,577,881	17,456,979

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29. Inter-bank borrowings

Item	December 31, 2005	December 31, 2004
Domestic banks	17,424	1,592,691
Foreign banks	403,500	413,825
Total	420,924	2,006,516

30. Short-term guarantee deposit

Item	December 31, 2005	December 31, 2004
Deposits for accepted drafts	79,132,193	52,529,308
Deposits made by applicants of letters of credit (L/Cs)	2,399,193	2,680,317
Deposits made by applicants of letters of guarantee (L/Gs)	1,916,783	1,676,378
Deposits in foreign currencies for pledged loans in Renminbi	1,270,779	1,662,889
Others	2,605,971	2,185,697
Total	87,324,919	60,734,589

31. Repurchase agreements

Trading counterpart	December 31, 2005	December 31, 2004
Commercial banks other than the Company	498,330	6,070,298
Financial companies	28,400	60,000
Sub-total	526,730	6,130,298
Trading counterpart		
Other commercial banks	1,000,000	2,135,200
Sub-total	1,000,000	2,135,200
Trading counterpart		
Trust investment companies	64,970	32,350
Other commercial banks	48,420	-
Sub-total	113,390	32,350
Total	1,640,120	8,297,848

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32. Designated deposit/loan

(1) Designated deposit

	December 31,2005	December 31,2004
Designated deposit	22,973,514	17,453,897
Less: designated loan	22,949,945	17,430,508
Net value of designated deposit	23,569	23,389

(2) Security investment funds under the Company's custody

As of December 31, 2005, the security investment funds under the Company's custody are Guo Tai Jin Long series security investment funds managed by Guo Tai Fund Management Co., Ltd, Tian Zhi Fortune Increase Security Investment Fund managed by Tian Zhi Fund Management Co. Ltd, Jia Shi Pu An Cost-kept Security Investment Fund managed by Jia Shi Fund Management Co. Ltd and Guang Fa motivation fund managed by Guang Fa Fund Management Co., Ltd..

33. Taxes payable

Item	December 31,2005	December 31,2004
Business tax	301,535	231,505
City maintenance and construction tax	19,662	15,155
Corporate income tax (1)	1,780,156	1,483,858
Educational Surcharge	10,925	8,196
Others	2,855	1,399
Total	2,115,133	1,740,113

Notes 1: The branches outside Shanghai are all independent local taxpayers. They make tax prepayments at 60% of total taxes payable separately to local taxation authorities. At the end of each year, the headquarters of the Company will calculate and settle the taxes payable as a whole. The statutory rate of corporate income tax applicable to the Company is 33%. Besides, the income tax rate applicable to Shenzhen Branch is 15%, the Company will pay the rest 18% at the settlement.

34. Dividends payable

Item	December 31,2005	December 31,2004
Dividend declared out of net profits for previous years not yet paid	10,762	14,834

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35. Other payables

Item	December 31, 2005	December 31, 2004
Promissory notes	3,544,554	2,607,859
Settlement funds	658,319	1,616,086
Temporary credits received	267,716	202,751
Others	2,860,040	1,880,208
Total	7,330,629	6,306,904

Notes: Within the aforesaid balance, there is no amount due to shareholders which hold 5% or more of the Company's shares.

36. Deferred income

Item	December 31, 2005	December 31, 2004
Discounting/Re-discounted bills to the other banks interest	304,897	461,982
Reverse repo	14,340	4,068
Factoring interest income	3,302	13,007
Others	7,992	887
Total	330,531	479,944

37. Other current liabilities

Item	December 31, 2005	December 31, 2004
Amounts arising from acting as an agent for transactions related to investment funds	10,183	2,027
Amounts arising from acting as an agent for transactions related to scarce metal	688	28
Others	45,073	51,955
Total	55,944	54,010

38. Long-term guarantee deposit

Item	December 31, 2005	December 31, 2004
Deposits made by applicants of letters of credit (L/Cs)	581,314	971,511
Deposits made by applicants of letters of guarantee (L/Gs)	834,486	392,915
Others	267,279	836,435
Total	1,683,079	2,200,861

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39. Long-term bonds issued

Item	December 31, 2005			
	Period (in years)	Interest rate P.A.	Book value	Total
Financial bonds (1)	3	2.59%	7,000,000	7,000,000
2005 SPDB subordinated bonds (2)	10	3.60%	2,000,000	2,000,000
Total			9,000,000	9,000,000

Notes 1: On June 28, 2005, as approved by the first ad hoc shareholders' meeting held in 2005, the Company is to issue financial bonds of no more than RMB ¥ 12 billion in inter-bank bonds market. On August 12, 2005, as approved by YF [2005] No. 55 the "PBOC's Reply to Issuance of Financial Bonds of SPDB" and YJF [2005] No. 205 the "China Banking Regulatory Committee ("CBRC")'s Reply to Issuance of Financial Bonds of SPDB", the Company issued RMB7 billion commercial bank financial bonds via public tendering through the bonds issuing system of the PBOC. The bonds issuance was completed on August 26, 2005. The commercial bank financial bonds have a tenor of three years, bearing a fixed coupon of 2.59% per annum. Interest is payable on a yearly basis, calculated from 26 August 2005 onwards. The bonds are unsecured and irredeemable. The principal and interest payment rank pari passu with the Company's other liabilities which are paid in priority to the Company's subordinated debts and shareholders' funds.

Notes 2: On September 28, 2005, as approved by the second ad hoc shareholders' meeting held in 2005, the Company is to issue subordinated bonds of no more than RMB ¥ 4 billion in inter-bank bonds market. On December 26, 2005, as approved by YF [2005] No. 118 the "PBOC's Reply to Issuance of Subordinated Bonds of SPDB" and YJF [2005] No. 326 the "CBRC's Reply to Issuance of Subordinated Bonds of SPDB", the Company issued RMB2 billion subordinated bonds via private placement in the inter-bank bonds market. The bonds issuance was completed on December 29, 2005. The tenor of the debt is 10 years and the Company has an option to early redeem the entire debt at the end of the fifth year at par. The debt bears a fixed interest at 3.60% per annum from years 1 to 5 calculated from 29 December 2005. If the Company will not exercise the early redemption option at the end of year 5, the coupon rate will be adjusted to 6.60% per annum from years 6 to 10. Interest is calculated and payable on a yearly basis with simple interest rather than compound interest adopted. In accordance with the related regulations, the capital of these subordinated bonds shall form part of the Company's supplementary capital for regulatory purpose.

40. long-term payables

Item	December 31,2005	December 31,2004
Fixed term subordinated debt	6,000,000	6,000,000

Notes: As approved by the China Banking Regulatory Commission ("CBRC"), the Company entered into agreements with eight investors for the issuance of RMB ¥ 6 billion fixed term subordinated debt with floating rate. The tenor of the debts is five years and one month and the interest is payable on a yearly basis. On 9 June 2004, the issuance was completed and the Company received a total consideration of RMB ¥ 6 billion. In accordance with the related regulations, the subordinated debt shall form part of the Company's supplementary capital for regulatory purpose. The interest rate of the fixed term subordinated debt for the current year is set at 4.87%. The principal and interest repayment of this fixed term subordinated debt rank after the Company's customer deposits and other liabilities, but in priority to the Company's shareholders' funds.

41. Other long-term liabilities

Item	December 31,2005	December 31,2004
Collective financing	161,400	165,530

Notes: The balance represent structured products combined with derivative financial instruments purchased by the investors.

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42. Share capital

	December 31, 2004	Percentage	Increase (decrease) in current year	December 31, 2005	Percentage
I. Non-marketable portion					
1. Shares owned by sponsors	1,061,200	27.11%	-	1,061,200	27.11%
Including:					
(1) Shares owned by the State	-	-	-	-	-
(2) Shares owned by domestic legal person	1,061,200	27.11%	-	1,061,200	27.11%
(3) Shares owned by foreign legal person	-	-	-	-	-
(4) Others	-	-	-	-	-
2. Shares owned by legal person other than sponsors	1,953,800	49.90%	-	1,953,800	49.90%
(1) Shares owned by the State	377,160	9.63%	-	377,160	9.63%
(2) Shares owned by domestic legal person	1,395,890	35.65%	-	1,395,890	35.65%
(3) Shares owned by foreign legal person	180,750	4.62%	-	180,750	4.62%
3. Shares owned by staff	-	-	-	-	-
4. Preferred shares and other non-marketable shares	-	-	-	-	-
Total non-marketable portion	3,015,000	77.01%	-	3,015,000	77.01%
II. Marketable portion					
1. Common shares quoted in Renminbi in PRC stock markets (Share A)	900,000	22.99%	-	900,000	22.99%
2. Common shares quoted in foreign currencies in PRC stock markets (Share B)	-	-	-	-	-
3. Common shares quoted in foreign currency and listed in stock markets outside PRC	-	-	-	-	-
4. others	-	-	-	-	-
Total marketable portion	900,000	22.99%	-	900,000	22.99%
III. Total	3,915,000	100.00%	-	3,915,000	100.00%

Notes: Transfers made by shareholders holding more than 5% of the Company in the reporting period: Shanghai Guoxin Investment Development Co., Ltd. and SIIC Shanghai International (Group) Co., Ltd. entered into agreements of share transfer with related parties for transferring 32 million and 22.5 million shares of the Company, respectively. Shanghai Guoxin Investment Development Co., Ltd. also received 34.89 million shares of the Company according to the share transfer agreements. After these share transfers, the shares owned by Shanghai Guoxin Investment Development Co., Ltd. increased by 2.89 million, while the shares owned by SIIC Shanghai International (Group) Co., Ltd. decreased by 22.5 million, which resulted in a net decrease of 19.61 million shares or 0.50% of the total shares. After the share transfers, the 22.5 million shares owned by SIIC Shanghai International (Group) Co., Ltd. have changed from state legal person shares to social legal person shares. Others remained unchanged.

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43. Capital surplus

Item	Excess of contributed capital over par value	Transferred in from other capital reserve items	Translation difference of capital of investees in foreign currencies	Total
Balance as at Jan.1, 2005	4,847,825	21,726	-155	4,869,396
Increase (Decrease) in current reporting period	-	-	-	-
Balance as at December 31,2005	4,847,825	21,726	-155	4,869,396

44. Revenue reserves

Item	Statutory revenue reserve	Reserve for welfare of employees	Discretionary revenue reserve	Total
Balance as at January 1, 2005	784,569	666,601	720,440	2,171,610
Appropriations out of net profit for current year	248,542	248,542	248,542	745,626
Balance as at December 31, 2005	1,033,111	915,143	968,982	2,917,236

45. General provisions

Item	December 31,2004	Increase	December 31,2005
General provision	2,000,000	1,300,000	3,300,000

Note: In accordance with CJ [2005] No. 49 "Circular on Impairment Loss on Loans" issued by the Ministry of Finance which come into effect from 1 July 2005, the Company is required to set aside a general provision of at least 1% of its total risk-weighted assets at year end from net profit and the general provision shall form part of the Shareholders' equity. According to CJ [2005] No. 90 "Answers to the Questions on Impairment Loss on Loans" issued by the Ministry of Finance, financial institutions are required to complete the 1% general provision in 3 years, but should not exceed 5 years. In this regard, the Company has planned to provide its general reserve on a year-on-year basis.

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46. Undistributed profits

Item	Amount
Balance of undistributed profits as at December 31, 2004 (as disclosed in the 2004 annual report)	554,298
Add: Net profit for the year 2005	2,485,417
Less: Appropriations to statutory revenue reserve	248,542
Appropriations to reserve for public welfare of employees	248,542
Appropriations to general provisions	1,300,000
Appropriations to discretionary revenue reserve	248,542
Dividends declared on ordinary shares for the year 2004	469,800
Balance of undistributed profits as at December 31, 2005	524,289

Notes: The appropriation and distribution of profits in the year 2005 are detailed as follows:

In accordance with the Companies Law of PRC, as passed at the seventh meeting of the third session of the board of directors an informal scheme for appropriation and distribution of profits for the year 2005 by adopting a resolution, which is detailed as follows:

- (1) to appropriate 10% of profits after tax for the year 2005 to statutory revenue reserve, 10% to reserves for welfare of employees, 10% to discretionary revenue reserve;
- (2) to appropriate RMB ¥ 1.3 billion out of the year 2005 profit to general provision;
- (3) to declare a cash dividend of RMB ¥ 0.13 per share on the share capital, the total number of shares after issuing additional shares being 3.915 billion. This informal scheme for appropriation and distribution is pending approval by shareholders' meeting for the year 2005, therefore the amount is still accounted for in the undistributed profits account.

47. Operating revenue grouped by geographic areas

Geographic area	For the year ended December 31, 2005							
	Revenue	Percentage (%)	Interest income	Percentage (%)	Interest expense	Percentage (%)	Capital expenditure	Percentage (%)
Shanghai	5,138,040	23.93	4,792,492	23.28	2,991,056	34.22	800,816	60.13
Beijing	1,426,104	6.64	1,376,675	6.69	449,559	5.14	26,779	2.01
Zhejiang province	3,593,808	16.74	3,448,865	16.75	1,101,726	12.60	56,724	4.26
Jiangsu province	2,146,599	10.00	2,075,622	10.08	694,988	7.95	31,192	2.34
Guangdong province	1,522,702	7.09	1,475,855	7.17	616,515	7.05	179,914	13.51
Other districts of PRC	7,573,464	35.29	7,361,290	35.75	2,853,970	32.66	236,360	17.75
Off-shore banking	66,283	0.31	58,605	0.28	33,200	0.38	-	-
Total	21,467,000	100.00	20,589,404	100.00	8,741,014	100.00	1,331,785	100.00

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47. Operating revenue grouped by geographic areas (continued)

Geographic area	For the year ended December 31, 2004							
	Revenue	Percentage (%)	Interest income	Percentage (%)	Interest expense	Percentage (%)	Capital expenditure	Percentage (%)
Shanghai	4,641,837	27.70	4,385,855	27.28	1,908,908	28.48	703,467	63.60
Beijing	1,248,698	7.45	1,198,589	7.45	530,787	7.92	34,938	3.16
Zhejiang province	2,754,070	16.43	2,629,784	16.36	962,529	14.36	81,053	7.33
Jiangsu province	1,668,499	9.95	1,604,467	9.98	679,507	10.14	74,730	6.76
Guangdong province	1,550,392	9.25	1,518,105	9.44	706,067	10.54	32,444	2.93
Other districts of PRC	4,864,529	29.02	4,712,738	29.31	1,888,109	28.17	179,444	16.22
Off-shore banking	32,964	0.20	28,448	0.18	26,193	0.39	-	-
Total	16,760,989	100.00	16,077,986	100.00	6,702,100	100.00	1,106,076	100.00

48. Income on investments

Item	Income from investments in bonds	Income from investments in shares	Total
Income from current investments	433,639	-	433,639
Income from long-term investments	1,250,816	21,981	1,272,797
Total for the year ended December 31, 2005	1,684,455	21,981	1,706,436
Income from current investments	235,408	-	235,408
Income from long-term investments	1,205,171	15,348	1,220,519
Total for the year ended December 31, 2004	1,440,579	15,348	1,455,927

49. Business taxes and surcharges

Item	For the year ended December 31, 2005	For the year ended December 31, 2004
Business tax	951,779	741,367
City maintenance and construction tax	64,227	49,686
Educational surcharge	35,295	27,001
Total	1,051,301	818,054

Note: The taxes and surcharges applicable to the Company and rates thereof have been disclosed in Note III.

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50. Non-operating income

Item	For the year ended December 31,2005	For the year ended December 31,2004
Income from disposal of assets received from insolvent debtors	3,438	-
Surplus of fixed assets, and net income from disposal	4,884	15,569
Income from settlement penalty	729	1,207
Others	10,867	29,772
Total	19,918	46,548

51. Provisions for impairment of assets made

Item	For the year ended December 31,2005	For the year ended December 31,2004
Provision for credit losses	3,083,295	3,084,525
Bad Debts Provision	102,101	50,629
Provisions for impairment of assets received from insolvent debtors	10,349	2,567
Total	3,195,745	3,137,721

52. Off balance sheet items

Item	December 31,2005	December 31,2004
Banker's acceptance draft	129,315,112	95,134,461
Acceptance drafts payable	3,489,894	4,345,235
Letters of guarantee for financing purposes	2,879,955	2,072,132
Letters of guarantee for non-financing purposes	13,441,157	10,345,439
Letters of credit issued	8,647,299	9,108,020
Re-discounted bills to the central bank	-	10,398
Re-discounted bills to other banks	55,067,249	28,351,671

Notes: As of December 31, 2005, the Company is the fund trustee and guarantor of Harvest Pu An Capital Guaranteed Hybrid Fund, an open ended fund.

53. Derivative financial instruments

Item	December 31,2005	December 31,2004
Nominal value	2,951,530	2,349,745
Market value	37,157	68,476
Including: Financial assets	20,422	72,412
Financial liabilities	57,579	140,888

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54. Risk position of the financial instruments

(1) Credit risk

Credit risk is the risk of loss from the default by an obligor or counterparty. Credit risk is greater when counterparties are concentrated in a single industry or geographic location, because a group of otherwise unrelated counterparties could be adversely affected in their ability to repay their obligations due to economic developments affecting their common industry or location.

Concentration of credit risk exists if a number of clients are engaged in similar activities, or are located in the same geographic location or have comparable economic characteristics such that their ability to meet contractual obligations would be similarly affected by changes in economic or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographic location.

The Company solely operates in the PRC, however, due to the geographic diversification and the unique economic development of each location, this results in a different risk profile to the Company.

A. On balance sheet assets

a. Loans grouped by industry in which the borrowers operate

Industry	December 31, 2005	%	December 31, 2004	%
Agriculture, forestry, stockbreeding, fishery	1,581,820	0.42	2,717,711	0.87
Mining Industry	5,951,790	1.58	2,617,220	0.84
Manufacturing	111,050,462	29.44	94,041,934	30.25
Electric power, gas and water	19,355,762	5.13	12,958,882	4.17
Constructions	12,773,500	3.39	11,127,127	3.58
Geological prospecting, irrigation	14,584,710	3.87	9,621,220	3.10
Transportation, warehousing and communications	21,695,432	5.75	17,757,438	5.71
Wholesales, retails and entertainment	53,306,006	14.13	37,614,256	12.10
Financial institutions and insurance	-	-	2,780,000	0.89
Real properties	37,516,348	9.95	37,148,210	11.95
Social services	22,892,869	6.07	17,702,776	5.69
Healthcare, physical culture and social welfare	639,100	0.17	503,840	0.16
Education, culture and broadcasting	6,388,330	1.69	5,344,811	1.72
Scientific research and technologies	1,013,870	0.27	1,188,950	0.38
Others, including entities engaged in various business activities and government-related organs	68,472,938	18.14	57,780,765	18.59
Total	377,222,937	100.00	310,905,140	100.00
Less: Provision for credit losses	10,576,561		8,919,499	
Net	366,646,376		301,985,641	

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b. Loans grouped by geographical area in which borrowers are located

Area	December 31, 2005		December 31, 2004	
	Amount	Percentage (%)	Amount	Percentage (%)
Shanghai	69,343,290	18.38	74,252,302	23.88
Beijing	25,068,367	6.65	23,683,573	7.62
Zhejiang province	63,346,463	16.79	50,644,301	16.29
Jiangsu province	38,474,960	10.20	31,882,930	10.26
Guangdong province	31,745,347	8.42	28,578,005	9.19
Other districts of PRC	148,374,234	39.33	100,859,021	32.44
Off-shore banking	870,276	0.23	1,005,008	0.32
Total	377,222,937	100.00	310,905,140	100.00
Less: Provision for credit losses	10,576,561		8,919,499	
Net	366,646,376		301,985,641	

B. Derivative financial instrument

All the derivative contracts were transacted by the Company's head office in Shanghai. Credit risk represents the inability of the counterparty to deliver payment in accordance with the terms of the derivative contracts. The fair value is the amount for which an asset could be exchanged, or a liability to settle.

To mitigate the credit risk associated with derivative instruments, the Company enters into master netting agreements with certain counterparties. The Company subjects its derivative-related credit risks to the same credit approval and monitoring standards that it uses for managing other transactions that exposure to credit risk.

(2) Currency risk

The Company is incorporated and operates in the PRC, with RMB as its reporting currency. The other major foreign currency in which the Company transacts is USD. The Company's loans and advances were mainly denominated in RMB with the remainder mainly in USD. However, some of the Company's deposits and investments are in currencies other than the reporting currency and USD. In order to manage such currency risks, the Company entered into foreign currency hedging transactions between such currencies and USD.

On July 21, 2005, the PBOC issued the bulletin that, from the day onwards, China reforms the exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. Floating USD/RMB exchange rate was implemented, which forms a more flexible exchange rate regime. Meanwhile, the exchange rate of the US dollar against the RMB was adjusted to RMB8.11 per US dollar from 19pm of July 21, 2005. Applied as the middle exchange rate of inter-bank trades in the inter-bank market on the next day, the banks are authorized to adjust their own listing exchange rates from then on. Thereafter, the Company will by all means manage the currency risks resulted from the exchange rate adjustments in the RMB market.

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Currently, the USD/RMB exchange rate in the inter-bank market maintains at a spread of 0.3 basis points from the middle price of USD/RMB exchange rate announced by the PBOC. Foreign currencies other than USD are traded within certain ranges from the middle exchange rates announced by the PBOC. The above change in exchange rates does not have material impact on the Company's financial position as a whole.

Below is a breakdown of relevant assets and liabilities by currencies:

Item	RMB	USD Into RMB	HKD Into RMB	Others into RMB	Total
Assets:					
Cash on hand and in bank	1,495,720	160,548	79,264	149,561	1,885,093
Due from the central bank and other banks	72,981,090	2,303,963	143,086	252,105	75,680,244
Loans	355,939,204	9,764,603	124,386	818,182	366,646,375
Placements and reverse repurchases	20,973,829	6,782,028	1,228,352	544,767	29,528,976
Investments	84,254,821	2,420,330	348,652	95,777	87,119,580
Other assets	12,108,113	92,172	1,864	4,206	12,206,355
Total assets	547,752,777	21,523,644	1,925,604	1,864,598	573,066,623
Liabilities:					
Deposits	488,450,929	13,887,162	1,474,593	1,762,945	505,575,629
Inter-bank Borrowings and reverse repurchase	1,591,700	462,410	-	6,934	2,061,044
Due to banks	18,572,267	1,933,999	71,056	559	20,577,881
Long-term payables and long-term bonds issued	15,000,000	-	-	-	15,000,000
Other liabilities	13,783,905	460,411	20,271	61,561	14,326,148
Total liabilities	537,398,801	16,743,982	1,565,920	1,831,999	557,540,702
Net exposure	10,353,976	4,779,662	359,684	32,599	15,525,921

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(3) Interest rate risk

Most of the financial assets and liabilities of the Company are expressed in RMB. As of December 31, 2005, the details are as follows:

	December 31, 2005			December 31, 2004		
	RMB ('000)	Total equivalent of RMB ('000)	Proportion of RMB to total %	RMB ('000)	Total equivalent of RMB ('000)	Proportion of RMB to total %
Assets:						
Cash on hand and in bank	1,495,720	1,885,093	79.34	1,104,727	1,466,556	75.33
Due from the central bank and other banks	72,981,090	75,680,244	96.43	72,097,859	74,765,460	96.43
Loans	355,939,204	366,646,376	97.08	287,940,129	301,985,641	95.35
Placements and reverse repurchase agreement	20,973,829	29,528,976	71.03	11,795,177	19,409,029	60.77
Total assets	451,389,843	473,740,689	95.28	372,937,892	397,626,686	93.79
Liabilities:						
Deposits	488,450,929	505,575,629	96.61	376,930,647	395,971,068	95.19
Inter-bank Borrowings and reverse repurchase	1,591,700	2,061,044	77.23	9,697,848	10,304,364	94.11
Due to banks	18,572,267	20,577,881	90.25	15,341,753	17,456,979	87.88
Long-term payables and long-term bonds issued	15,000,000	15,000,000	100.00	6,000,000	6,000,000	100.00
Total Liabilities	523,614,896	543,214,554	96.39	407,970,248	429,732,411	94.94

The Company is required to apply the interest rates set by the PBOC for its loans and advances and deposit activities. The PBOC last adjusted the market rates on 29 October 2004. The benchmark rates for the relevant periods for the following types of loans, advances and deposits were as follows:

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	Adopted from October 29, 2004 on%	Adopted from February 21, 2002 on%
Short-term loans and advances	5.22 to 5.58	5.04 to 5.31
Mid-term and long-term loans	5.76 to 6.12	5.49 to 5.76
Non-performing loans	Original interest rates plus premium of 30% to 50%	0.021 per day
current deposits and current savings	0.72	0.72
Time savings(1 to 5 years)	1.71 to 3.60	1.71 to 2.79
Corporate call deposits (1 to 7 days)	1.08 to 1.62	1.08 to 1.62
Corporate time deposits	1.44 to 2.25	1.44 to 1.98
Balances with central bank:		
Statutory deposit	1.89	1.89
Excess deposit	0.99	1.89
Re-discounted bills to the central bank	3.24	2.97

Effective from 29 October 2004, PBOC raised the central bank benchmark rates for deposit and lending, broaden the floating range of lending rate and allow financial institutions to lower RMB deposit rates. The benchmark rate for one-year deposit is raised by 0.27 percentage points from 1.98 percent to 2.25 percent. The one-year benchmark lending rate is also raised by 0.27 percentage points from 5.31 percent to 5.58 percent. Rates of deposit and lending at other different tranches, other than the corporate call deposits and certain short term deposits, are adjusted accordingly with the rates of medium and long term maturities gaining a larger increase over the short-term ones.

Meanwhile, further leeway is given to the floating range of the lending rates charged by financial institutions (excluding rural and urban credit units). In principle, no upper limits will be set for lending while the lower limit remain unchanged, being at 90 percent of the benchmark rate. A spread above the interest rate charged by the PBOC on re-discounted bills is allowed to be charged to the Company's customer discounted bills. However, the spread is subject to a ceiling of the applicable interest rates charged on corporate loans with the same tenor (including the floating rates).

The rates of inter-bank placements and borrowings can be derived through negotiation between the borrowers and lenders, and generally the rates are adjusted downward by 18% to 20% based on the corporate loan and deposit rates. There is generally no interest spread between the money market placements and borrowings.

Allowing the financial institutions to move deposit rate below the benchmark means that all deposit-taking institutions have the discretion to adjust their local currency deposit rates below (but not above) the announced benchmark rates.

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Effective from March 17, 2005, PBOC adjusted the policies of housing loans commercial banks issued to individuals. The interest rate of individual housing loans was raised to the level of commercial loans, which had been set with a lower being at 90 percent of the benchmark lending rate with relevant maturity period. The penalty rate of overdue individual housing loan was also raised to the level of that of the commercial loans, namely, charging excessive 30 to 50 percent of the interest rate stated on the contract. The individual housing fund loan rate was also raised by 0.18 percentage points, among which the rate of loan with maturity period less than 5 years was raised from 3.78 percent to 3.96 percent, while the rate of those loans with maturity period longer than 5 years was raised from 4.23 percent to 4.41 percent.

In the meantime, the PBOC reduced the interest rate of the excess reserves of financial institutions by 0.63 percentage points from the 1.62 percent to 0.99 percent, while the interest rate of the statutory reserves remained unchanged, being at 1.89 percent. Besides, commercial banks were allowed to set interest rate and inter-bank pricing rules based on their own situation.

(4) Liquidity risk (continued)

	Overdue	Repaid on time	Within 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Assets							
Cash on hand and in bank	-	1,885,093	-	-	-	-	1,885,093
Due from the central bank and other banks	-	73,667,018	1,315,607	7,276	585,433	104,910	75,680,244
Loans	7,786,749	-	56,057,371	221,195,813	59,171,048	22,435,394	366,646,375
Placements and reverse repurchase agreement	109,272	-	27,982,118	1,437,586	-	-	29,528,976
Investment	-	50,025,308	659,135	6,950,763	19,870,605	9,613,768	87,119,579
Others	84	4,077,123	788,725	656,008	732,383	5,952,033	12,206,356
Total assets	7,896,105	129,654,542	86,802,956	230,247,446	80,359,469	38,106,105	573,066,623
Liabilities							
Deposits	-	304,771,377	28,657,397	146,591,128	24,991,700	564,027	505,575,629
Inter-bank Borrowings and reverse repurchase	-	-	1,804,574	256,470	-	-	2,061,044
Due to banks	-	12,701,855	6,055,601	1,171,819	648,606	-	20,577,881
Long-term payables and long-term bonds issued	-	-	-	-	13,000,000	2,000,000	15,000,000
Others	-	8,345,895	1,740,274	3,189,238	359,445	691,296	14,326,148
Total liabilities	-	325,819,127	38,257,846	151,208,655	38,999,751	3,255,323	557,540,702
Net	7,896,105	-196,164,585	48,545,110	79,038,791	41,359,718	34,850,782	15,525,921

The Financial Statements (Domestic)

For the Year ended December 31, 2005

55. Segment reporting

The Company's principal business activities are that of commercial lending and public deposits taking. The Company's main source of funding for its consumer and corporate lending business is from customer deposits. As the Company is principally engaged in commercial banking activities within one business segment, no business segment report is presented.

Since the commencement of the Company's business in January 1993, it has opened branches and sub-branches in various locations in the PRC to expand its operations and customer base. The Company has established a strong presence in certain key locations in the PRC. To enable a more meaningful analysis, the geographical segment report is presented based on the segments adopted in the management reporting.

Area	For the year ended December 31, 2005							
	Total assets	Percentage (%)	Total liabilities	Percentage (%)	Loans and advances	Percentage (%)	Due to customers	Percentage (%)
Shanghai	227,299,123	39.66	147,718,755	26.49	69,568,796	18.44	120,654,732	23.86
Beijing	33,793,669	5.90	56,911,870	10.21	25,068,367	6.65	52,388,297	10.36
Zhejiang province	67,970,350	11.86	76,383,837	13.70	63,346,463	16.79	73,699,620	14.58
Jiangsu province	43,883,909	7.66	53,637,369	9.62	38,474,960	10.20	50,213,977	9.94
Guangdong province	34,894,139	6.09	43,377,468	7.78	31,745,347	8.42	38,842,828	7.68
Other districts of PRC	162,832,548	28.41	176,998,683	31.75	148,374,234	39.33	167,560,647	33.14
Off-shore banking	2,392,885	0.42	2,512,720	0.45	644,770	0.17	2,215,528	0.44
Total	573,066,623	100.00	557,540,702	100.00	377,222,937	100.00	505,575,629	100.00

The Financial Statements (Domestic)

For the Year ended December 31, 2005



Area	For the year ended December 31, 2005							
	Total assets	Percentage (%)	Total liabilities	Percentage (%)	Loans and advances	Percentage (%)	Due to customers	Percentage (%)
Shanghai	185,940,399	40.82	126,811,168	28.69	74,252,302	23.88	111,666,416	28.20
Beijing	28,874,075	6.34	41,118,814	9.30	23,683,573	7.62	37,015,943	9.35
Zhejiang province	57,826,263	12.69	63,081,557	14.27	50,644,301	16.29	57,535,998	14.53
Jiangsu province	38,395,604	8.43	44,946,722	10.17	31,882,930	10.26	39,429,683	9.96
Guangdong province	32,044,764	7.03	36,340,545	8.22	28,578,005	9.19	33,049,266	8.35
Other districts of PRC	109,995,550	24.15	127,166,084	28.77	100,859,021	32.44	115,171,962	29.08
Off-shore banking	2,455,631	0.54	2,557,093	0.58	1,005,008	0.32	2,101,800	0.53
Total	455,532,286	100.00	442,021,983	100.00	310,905,140	100.00	395,971,068	100.00

56. Opening and closing balances of cash and cash equivalents

Item	As at December 31, 2005	As at December 31, 2004
Cash on hand and in bank	1,885,093	1,466,556
Due from central bank	41,352,446	46,975,685
Due from banks	4,413,251	3,805,255
Bank placements maturing within 3 months	9,019,472	7,742,942
Total	56,670,262	59,990,438

V. Related parties

Related parties without effective control

(1) Related parties without effective control

Name	Relationship with the Company
Shanghai International Trust Investment Company	Shareholder of the Company
Shanghai SIIC (Group) Co., Ltd.	Shareholder of the Company
Shanghai International Group Co., Ltd.	Shareholder of the Company
Shanghai Industry Development Co., Ltd.	Shareholder of the Company
SIIC Shanghai International (Group) Co., Ltd.	Shareholder of the Company
Shanghai State-owned Assets Management Co., Ltd.	Shareholder of the Company
Shanghai Guoxin Investment Development Co., Ltd.	Shareholder of the Company

The Financial Statements (Domestic)

For the Year ended December 31, 2005

(2) Transactions with related parties without effective control

Name	For the year ended December 31,2005 Interest income	For the year ended December 31,2004 Interest income
Shanghai SIIC (Group) Co., Ltd.	9,506	480
Shanghai International Group Co., Ltd.	13,491	6,932
Shanghai Industry Development Co., Ltd.	1,395	157
SIIC Shanghai International (Group) Co., Ltd.	217	626
Shanghai State-owned Assets Management Co., Ltd.	30,481	23,869
Shanghai Guoxin Investment Development Co., Ltd.	-	290

Notes: The loans and placements mentioned above were made at the interest rates as specified by PBOC and the general business terms.

(3) Balance of loans and placements with to related parties without effective control

Name	December 31,2005 Amount	December 31,2004 Amount
Shanghai SIIC (Group) Co., Ltd.	100,000	100,000
Shanghai International Group Co., Ltd.	300,000	300,000
Shanghai Industry Development Co., Ltd.	50,000	-
Shanghai State-owned Assets Management Co., Ltd.	750,000	600,000

VI. Fees and remuneration paid to directors, supervisors and key management personnel

Fees and remuneration paid by the Company to the directors, supervisors and key management personnel during the current financial year are as follows:

	For the year ended December 31,2005	For the year ended December 31,2004
Total remuneration	6,370	5,326
Total remuneration paid to the 3 highest pay directors	3,294	2,062
Total remuneration paid to the 3 highest pay senior management	2,020	1,476
Allowance paid to independent directors	60	60
Other remuneration paid to independent directors	Nil	Nil

Number of directors of the Company whose remuneration falls into the following bands:

The Financial Statements (Domestic)

For the Year ended December 31, 2005



	For the year ended December 31,2005	For the year ended December 31,2004
RMB200,000 to RMB400,000	Nil	1
RMB400,001 to RMB600,000	Nil	7
Above RMB600,001	8	2

14 directors and supervisors did not receive fees or any other form of remuneration from the Company during the current financial year (2004: 14).

VII. Contingencies

As of the date on which the financial statements were approved, there is no material pending litigation in which the Company acts as a defendant.

VIII. Commitments

1. As at December 31, 2005, operating lease commitments for premises and equipment are detailed as follows:

Maturity date for rentals	December 31,2005	December 31,2004
Within 1 year	293,034	196,520
2 - 5 years	790,994	519,925
Over 5 years	352,454	240,974
Total	1,436,482	957,419

2. As of December 31, 2005, the major capital commitment of the Company which had been approved yet not honored is RMB ¥ 118,948 thousand.

IX. Non-adjusting post balance sheet date events

As at the date of the balance sheet, there exists no significant non-adjusting post balance sheet date event that needs disclosure.

X. Debt restructuring

As at the date of the balance sheet, there exists no significant debt restructuring that needs disclosure.

XI. Non-monetary transactions

As at the date of the balance sheet, there exists no significant non-monetary transaction that needs disclosure.

The Financial Statements (Domestic)

For the Year ended December 31, 2005

XII. Other matters and events that need disclosure

1. A share

Pursuant to a resolution passed at the year 2004 first extraordinary shareholders' meeting held on May 31, 2004, the Company is to issue additional A share instead of convertible bonds valuing not exceeding RMB ¥ 700 million. The Company's application to issue no more than RMB ¥ 700 million type A ordinary shares was approved by the China Securities Regulatory Commission's Department of Public Offering Supervision on April 19, 2005. Pursuant to a resolution passed at the year 2005 first extraordinary shareholders' meeting held on June 28, 2005, the Company extended the timeframe to issue no more than RMB700 million ordinary shares until May 31, 2006.

2. Second supplemental agreement on strategic cooperation with Citibank and its related parties

Pursuant to the resolution of the 4th Meeting of the Third Board of Directors held on December 22, 2005, the Board approved the Company to enter into the second supplemental agreement on strategic cooperation with Citibank and its related parties. In conjunction with this, three agreements namely share purchase option termination agreement, share put option termination agreement and notice on the termination of share purchase option were signed among the Company, Citibank Investment (Overseas) Company, Shanghai National Assets Management Co., Ltd. and Shanghai Jiushi Co., Ltd. This resolution is to be rectified by the coming Shareholders' meeting.

3. Share transfer

Pursuant to the resolution of the receiving side's shareholder qualification in the share transfer of SPDB issued by the 6th Meeting of the Third Board of Directors held on January 17, 2006, the Board approved Shanghai International Group Co., Ltd. acquiring a combined 629,640,000 shares or 16.08% stake in the Company from six existing shareholders of the Company, namely Shanghai National Assets Management Co., Ltd., Shanghai Jiushi Co.,Ltd., etc. The Board also approved Shanghai International Trust and Investment Co., Ltd acquiring 42,500,000 shares or 1.09% stake in the Company from Shanghai Zhenghuan Industrial (Group) Co., Ltd. Should the stake sell be successful, Shanghai International Group Co., Ltd. and Shanghai International Trust and Investment Co., Ltd. would become the Company's largest and second largest shareholder, holding 814,990,000 shares or 20.81% and 317,000,000 shares or 8.1% stake in the Company respectively. The share transfer is subject to regulatory approval.

4. Impact of non-recurring profits and losses on the net profits

Item	For the year ended December 31,2005	For the year ended December 31,2004
Recovery of amounts not yet approved by the relevant authority	10,328	19,269
Non-operating income	13,345	31,187
Less: non-operating expenditure	9,686	14,756
Total	13,987	35,700

XIII. Approval of Financial Statements

The financial statements and notes related thereto were approved for issue by the Board of Directors on February 28, 2006.

REPORT OF THE INTERNATIONAL AUDITORS

To the members

Shanghai Pudong Development Bank Co., Ltd.

We have audited the accompanying balance sheet of Shanghai Pudong Development Bank Co., Ltd. (the "Company") as of 31 December 2005, together with the related statements of income, cash flows and changes in equity for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. This report is made 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.

We conducted our audit in accordance with International Standards on Auditing. These standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of financial statements. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the Company's financial position as of 31 December 2005 and of its results and cash flows for the year then ended in accordance with International Financial Reporting Standards.



Certified Public Accountants
Hong Kong

28 February 2006

FINANCIAL STATEMENTS

For the year ended 31 December 2005



INCOME STATEMENT

	Notes	Audited 2005 RMB'000	Audited 2004 RMB'000
OPERATING REVENUE			
Interest income	4	21,840,218	17,227,562
Interest expense	4	(8,741,015)	(6,702,100)
Net interest income	4	13,099,203	10,525,462
Business tax and surcharges		(1,051,301)	(818,054)
Impairment provisions on loans and advances and other assets	5	(3,195,745)	(3,137,721)
Net interest income after business tax and surcharges, impairment provision on loans and advances and other assets		8,852,157	6,569,687
Net fee and commission income	6	322,987	284,022
Net trading income	7	542,749	366,761
Other net income	8	389,375	320,269
TOTAL OPERATING INCOME		10,107,268	7,540,739
OPERATING EXPENSES			
Personnel	9	(2,792,337)	(2,091,575)
General and administrative	9	(2,374,638)	(1,793,214)
Depreciation and amortization	9	(601,065)	(553,142)
		(5,768,040)	(4,437,931)
PROFIT BEFORE TAX		4,339,228	3,102,808
Income tax expense	10	(1,781,224)	(1,136,605)
NET PROFIT		2,558,004	1,966,203
EARNINGS PER SHARE			
Basic earnings per share (RMB)	11	0.65	0.50
Diluted earnings per share (RMB)	11	0.65	0.50

FINANCIAL STATEMENTS

For the year ended 31 December 2005

BALANCE SHEET

	Notes	Audited 2005-12-31 RMB'000	Audited 2004-12-31 RMB'000
ASSETS			
Cash on hand		1,885,093	1,466,556
Due from the central bank	12	70,577,007	70,125,106
Due from banks	13	5,147,737	4,684,854
Inter-bank placements	14	9,087,827	8,441,353
Reverse repurchase agreements	15	20,331,876	10,760,444
Trading securities	16	49,172,133	8,293,884
Loans and advances	17	366,711,148	302,148,374
Financial investments	18	38,540,417	38,508,486
Construction in progress	19	52,201	307,176
Property, plant and equipment	20	5,662,746	4,671,976
Intangible assets	21	156,295	172,905
Deferred tax asset	10	2,672,502	2,159,331
Other assets	22	3,525,689	4,010,389
TOTAL ASSETS		573,522,671	455,750,834
LIABILITIES			
Due to banks	23	20,577,881	17,456,979
Inter-bank borrowings	14	420,924	2,006,516
Repurchase agreements	15	1,640,120	8,297,848
Customer deposits	24	504,505,579	394,758,713
Inward and outward remittances		2,932,299	2,899,500
Dividends payable	25	10,762	14,834
Income tax payable		1,780,156	1,483,858
Debts issued	26	15,000,000	6,000,000
Other liabilities	27	10,685,487	9,192,668
TOTAL LIABILITIES		557,553,208	442,110,916
SHAREHOLDERS' EQUITY			
Share capital	28	3,915,000	3,915,000
Capital reserve	29	4,869,396	4,869,396
Reserves	30	5,766,910	3,776,823
Unrealized gain on available-for-sale investments		241,341	-
Retained earnings	31	1,176,816	1,078,699
TOTAL SHAREHOLDERS' EQUITY		15,969,463	13,639,918
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		573,522,671	455,750,834

FINANCIAL STATEMENTS

For the year ended 31 December 2005



STATEMENT OF CHANGES IN EQUITY

	Share Capital (Note 28) RMB'000	Capital Reserve (Note 29) RMB'000	Reserves (Note 30) RMB'000	Unrealized Gain on Available- for-sale Investments RMB'000	Retained Earnings (Note 31) RMB'000	Total RMB'000
2004-1-1	3,915,000	4,869,396	2,384,208	-	935,761	12,104,365
Net profit for the year	-	-	-	-	1,966,203	1,966,203
Transfer to reserves (Note 30)	-	-	1,392,615	-	(1,392,615)	-
Dividends (Note 31a)	-	-	-	-	(430,650)	(430,650)
2004-12-31 and 2005-1-1	3,915,000	4,869,396	3,776,823	-	1,078,699	13,639,918
Net changes in fair value of available-for-sale investments	-	-	-	360,211	-	360,211
Deferred tax effect on net changes in fair value of available-for-sale investments	-	-	-	(118,870)	-	(118,870)
Net income recognized directly in equity	-	-	-	241,341	-	241,341
Net profit for the year	-	-	-	-	2,558,004	2,558,004
Total income recognized for the year	-	-	-	241,341	2,558,004	2,799,345
Transfer to reserves (Note 30)	-	-	1,990,087	-	(1,990,087)	-
Dividends (Note 31a)	-	-	-	-	(469,800)	(469,800)
2005-12-31	3,915,000	4,869,396	5,766,910	241,341	1,176,816	15,969,463

FINANCIAL STATEMENTS

For the year ended 31 December 2005

STATEMENT OF CASH FLOWS

	Note	Audited 2005 RMB'000	Audited 2004 RMB'000
NET CASH FLOWS (USED IN)/GENERATED FROM OPERATING ACTIVITIES	32	(10,470,306)	22,125,103
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(1,255,043)	(887,955)
Purchase of intangible assets		-	(715)
Purchase of financial investments		(10,267,350)	(8,247,926)
Proceeds from redemption/disposal of financial investments		10,477,209	7,879,746
Dividend income received		21,981	15,348
Proceeds from disposal of property, plant and equipment		11,682	36,014
Payments for construction in progress		(76,740)	(217,406)
Net cash flows used in investing activities		(1,088,261)	(1,422,894)
CASH FLOWS FROM FINANCING ACTIVITIES			
Debts issued		9,000,000	6,000,000
Interest paid on debts		(287,736)	-
Dividends paid		(473,872)	(430,801)
Net cash flows generated from financing activities		8,238,392	5,569,199
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(3,320,175)	26,271,408
Cash and cash equivalents, beginning of year		59,990,438	33,719,030
Cash and cash equivalents, end of year		56,670,263	59,990,438
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Cash on hand		1,885,093	1,466,556
General deposits with the central bank		41,352,446	46,975,685
Due from banks with original maturity of less than three months		4,413,252	3,805,254
Bank placements with original maturity of less than three months		9,019,472	7,742,943
		56,670,263	59,990,438

NOTES TO THE FINANCIAL STATEMENTS

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1. CORPORATE INFORMATION

Shanghai Pudong Development Bank Co., Ltd. (the "Company" is a joint-stock commercial bank approved by the People's Bank of China ("PBOC") via an approval document designated as "Yin Fu [1992] No. 350" on 28 August 1992. The Company's business license was issued on 19 October 1992 by the Shanghai Municipal Administration of Industry and Commerce. The Company commenced its business on 9 January 1993 and was listed on the Shanghai Stock Exchange on 10 November 1999.

The Company is principally engaged in commercial banking activities approved by the China Banking Regulatory Committee ("CBRC").

The Company's principal place of business is located at No. 12, Zhong Shan Dong Yi Road, Shanghai, the People's Republic of China (the "PRC"). The Company operates in the PRC and employed 9,473 employees as at 31 December 2005 (31 December 2004: 8,824).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared based on the accounting policies set out in Note 2 which are in accordance with the International Financial Reporting Standards ("IFRS"). IFRS comprises standards and interpretations approved by the International Accounting Standards Board ("IASB") and International Accounting Standards and Standing Interpretations Committee's interpretations approved by the IASB that remain in effect. Disclosures and presentation of these financial statements have been made, in all material respects, in accordance with the IFRS and in a format appropriate to the business environment of the Company and the PRC.

The financial statements have been prepared on a historical cost basis except for the remeasurement at fair value of derivatives, trading securities, financial assets and liabilities at fair value through profit or loss and available-for-sale investments.

The Company maintains its books and prepares its statutory financial statements in accordance with the relevant financial regulations and accounting principles applicable to financial institutions and joint-stock limited companies established by the Ministry of Finance of the PRC. The accounting policies and bases adopted in the preparation of the statutory financial statements differ in certain material respects from IFRS. The material adjustments arising from restating the results and net assets of the Company to comply with IFRS have been made in the preparation of these financial statements, but will not be taken up in the accounting records of the Company. These adjustments include primarily fair value adjustments of derivative instruments, financial assets and liabilities at fair value through profit or loss and available-for-sale investments and the associated deferred tax effects thereon. Further details with respect to the net impact of these IFRS adjustments are included in Note 41 to the financial statements.

These financial statements have been prepared on a basis consistent with the accounting policies adopted in the financial statements for the year ended 31 December 2004 except for changes in accounting policies following the adoption of the new and revised International Accounting Standards mandatory for financial years beginning on or after 1 January 2005.

The principal effects of the changes in accounting policies result from adoption of the new or revised standards are discussed in the respective accounting policies note.

NOTES TO THE FINANCIAL STATEMENTS

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Impact of new standard or interpretation that has been issued but not yet come into effect

As at date of these financial statements, the IASB approved certain IFRS that will be effective for periods commencing on 1 January 2006 or 1 January 2007. The Company has not early adopted any of these IFRS standards for the preparation of its supplemental financial statements as at 31 December 2005. However, it will adopt these new standards as and when these standards come into effect.

Amongst others, IFRS 7 "Financial Instruments: Disclosures", which is estimated to have an impact to the Company's financial statements, requires a more detailed disclosure of qualitative and quantitative information about financial instruments particularly in respect of the disclosure of fair value and risk management practices. Management is of the view that the adoption of these new standards will have an impact to the disclosure in the financial statements but will not result in a change of accounting policies.

Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably, on the following basis:

- (a) interest income is recognized on a time proportion basis that takes into account the principal outstanding and effective interest rate applicable;
- (b) fee and commission income is recognized on an accrual basis after the services are rendered and the proceeds can be reasonably estimated; and
- (c) dividend income is recognized when the shareholders' right to receive payment has been established.

Tax

PRC tax is provided at rates applicable to enterprises in the PRC on the income for statutory financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes based on the existing PRC income tax legislation, practices and interpretations thereof.

Deferred tax liabilities are recognized for temporary differences between the carrying amounts of assets and liabilities for tax purposes, which will result in taxable amounts in future periods. Deferred tax assets are recognized for temporary differences which will result in deductible amounts in future periods, but only to the extent it is probable that sufficient taxable profits will be available against which these differences can be utilized. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

Financial assets

The Company classifies its financial assets into four categories: financial assets at fair value through profit or loss; held-to-maturity investments; loans and receivables; and available-for-sale financial assets. Management determines the classification of a financial asset at its initial recognition and evaluates this designation at every reporting date. When a financial asset

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005



is recognized initially, the Company shall measure it at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

(a) Financial assets at fair value through profit or loss

There are two sub-categories of financial assets at fair value through profit or loss:

(i) Financial assets held for trading

A financial asset is classified in held for trading if it is:

- acquired principally for the purpose of selling it in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- a derivative (except for a derivative that is a designated and effective hedging instrument).

(ii) Financial assets designated as at fair value through profit or loss by management upon initial recognition

After initial recognition, these financial assets are measured at their fair values, without any deduction for transaction costs that the Company may incur on sale or other disposal. All related realized and unrealized gains or losses are included in the income statement for the period.

(b) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Company's management has the positive intention and ability to hold to maturity. These investments are carried at amortized cost using the effective interest method, less provision for impairment in value. The Company shall reclassify any remaining held-to-maturity investments as available-for-sale investments and carried at fair value if it has, during the current year or during the two preceding financial years, sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity.

(c) Loan and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Company has no intention of trading the assets immediately or in the near term.

Loans and receivables are measured at amortized cost using the effective interest method, less provision for impairment in value.

(d) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, or held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale financial assets are not intended to be held for a definite period of time, and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. After initial recognition, financial assets which are classified as "available-for-sale" are stated at fair value, but without any deduction for transaction costs the Company

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may incur on sale or other disposal. Discounts and premiums on available-for-sale financial assets are amortized using the effective interest rate method and taken to the interest income.

Fair value changes of available-for-sale financial assets are reported as a separate component of equity until the financial asset is derecognized or the financial asset is determined to be impaired. On derecognition or impairment, the cumulative gain or loss that had been recognized directly in equity shall be removed from equity and recognized in the income statement.

Investments in equity investments that do not have a quoted market price in an active market and whose fair value can not be reliably measured shall be measured at cost less provision for impairment loss.

Derecognition of financial asset

A financial asset is derecognized when:

- the contractual rights to the cash flows from the financial asset expire; or
- the Company transfers substantially all the risks and rewards of ownership of the financial asset; or
- the Company has not retained control when it neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset.

Settlement date accounting

All regular way purchases and sales of financial assets are recognized on the settlement date, i.e. the date that the assets are being delivered to or by the Company.

Fair value measurement

For investments and derivatives quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities.

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount payable on demand. The fair value of forward exchange contracts is calculated by reference to forward exchange rates with similar maturities.

For unquoted financial instruments, fair value is normally based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. The fair value of unquoted derivatives is determined either by discounted cash flows or internal pricing models.

Impairment of financial assets

The Company assesses at each balance sheet date whether there is any objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event or events have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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The amount of impairment loss is determined as follows:

(a) For financial assets carried at amortized cost, impairment is based on estimated cash flows discounted at the original effective interest rate.

The Company first assesses whether objective evidence of impairment exists for financial assets that are individually significant. For those financial assets that are not individually significant, the Company will assess these assets either individually or collectively to determine whether objective evidence of impairment exists or not. For collective assessment, the Company will group the financial assets according to their credit risk characteristics and collectively assess them for impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an impairment provision account and the amount of the loss is recognized in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective assessment of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics chosen are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

For a group of financial assets that are collectively evaluated for impairment, such impairment loss is estimated based on the Company's historical loss experience for assets with credit risk characteristics similar to those in the group.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company.

When a loan is uncollectible after all the necessary procedures have been completed, it is written off against the related provision for loan impairment and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the loan impairment loss recognized in the income statement. If, in a subsequent period, the impairment loss amount of a loan decreases and the reasons of such decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the provision account. The amount of the reversal is recognized in the income statement for the period.

(b) For available-for-sale financial assets, impairment is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value.

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline

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in the fair value of the security below its cost is considered in determining whether the asset is impaired. If any such evidence exists, the cumulative loss less any impairment loss on that available-for-sale financial asset previously recognized directly in equity is removed from equity and recognized in the income statement for the period.

Impairment loss recognized in the income statement for an investment in equity instruments classified as available-for-sale is not reversed through the income statement. Conversely in the case of a debt instrument classified as available-for-sale, if, in a subsequent period, the fair value of that debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement., the impairment loss is reversed through the income statement.

(c) For financial assets carried at cost, impairment is the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for similar financial assets.

In addition, interest income on impaired loans and other financial assets is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Derivative instruments

Derivative instruments including currency forward contracts, cross-currency interest rate swaps, interest rate swaps and currency options are carried at fair value. The fair values of derivative instruments are obtained from quoted market prices or discounted cash flow models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Realized and unrealized gains and losses are recognized in net trading income.

For the purposes of hedge accounting, hedging relationships are of three types:

- fair value hedges which hedge the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment that is attributable to a particular risk and could affect profit or loss;
- cash flow hedges which hedge exposure to variability in cash flows that could affect profit or loss, and
- hedge of a net investment in a foreign operation.

In respect of effective fair value hedges, the gain or loss from remeasuring the hedging instrument at fair value, as well as related changes in fair value of the item being hedged, are recognized in the income statement for the period.

In respect of effective cash flow hedges, the gain or loss on the hedging instrument is recognized initially in equity. If the hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognized directly in equity are reclassified in the income statement in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. The gain or loss on the hedging instrument relating to the effective portion of the hedge that has been recognized directly in equity shall be recognized in the income statement on disposal of the foreign operation.

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Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the hedge is revoked by the Company. For effective fair value hedges of financial instruments with fixed maturities any adjustment arising from hedge accounting is amortized over the remaining term to maturity. For effective cash flow hedges, any cumulative gain or loss on the hedging instrument recognized in equity remains in equity until the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to the income statement for the period.

Certain derivatives embedded in other financial instruments are not treated as separate derivative from the host contract when their economic characteristics and risks are closely related to those of the host contract. These embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the hybrid instrument is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with the changes in fair value recognized in the income statement for the period.

Certain derivative transactions, while providing effective economic hedges under the Company's risk management positions, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore treated as derivatives held for trading with fair value gains or losses reported in net trading income.

Offsetting

Assets and liabilities are offset only when the Company has a legal right to offset amounts with the same counterparty and transactions are expected to be settled on a net basis.

Reverse repurchase and repurchase transactions

The Company enters into purchases of financial assets including investment securities, discounted bills and credit assets under agreements to resell and sales of the respective financial products under agreements to repurchase. Financial products purchased subject to commitments to resell at a future date are treated as financing transactions collateralized by the financial products and are included in reverse repurchase agreements. Financial products which have been sold subject to repurchase agreements continue to be recognized in the balance sheet and the financial products are measured in accordance with their respective accounting policies.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are recognized as interest income and interest expense, respectively, over the tenor of each agreement.

Financial liabilities

The Company classifies its financial liabilities into two categories: financial liabilities at fair value through profit or loss and financial liabilities carried at amortized cost. Management determines the classification of a financial liability at its initial recognition. All financial liabilities are recognized initially at fair value plus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the issue of the financial liability are included in the carrying amount of the financial liability.

(a) Financial liabilities at fair value through profit or loss

There are two sub-categories of financial liabilities at fair value through profit or loss:

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(i) Financial liabilities held for trading

A financial liability is classified as held for trading category if it is:

- incurred principally for the purpose of repurchasing it in the near term;
- part of a portfolio financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking, or
- a derivative (except for a derivative that is a designated and effective hedging instrument).

(ii) Financial liabilities designated as at fair value through profit or loss by management upon initial recognition

After initial recognition, these financial liabilities are measured at their fair values, without any deduction for transaction costs it may incur on sale or other disposal. All related realized and unrealized gains or losses are included in the income statement for the period.

(b) Financial liabilities carried at amortized cost

After initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Derecognition of financial liability

A financial liability is derecognized from the balance sheet when the obligation specified in the contract is discharged or cancelled or expires.

Debts issued

Debt issued is initially measured at cost, which is the fair value of the consideration received. Subsequent measurement is at amortized cost, using the effective interest rate method to amortize cost at inception to the redemption value over the tenor of the debt.

Application of estimation

In the preparation of its supplemental financial statements in accordance with IFRS, the management may need to make certain estimations and assumptions in the amounts affecting the financial statements and disclosure notes. To a certain extent, the actual results may vary when compared to such estimations.

Earnings per share

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share are computed using the same method as for basic earnings per share, but the profit or loss attributable to ordinary shareholders and the weighted average number of shares outstanding are adjusted to reflect the potential dilution that could occur if options, warrants, convertible debt securities or other contracts to issue ordinary shares were converted or exercised into ordinary shares.

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Operating leases

Leases where substantially all the risks and rewards associated with the ownership of assets remain with the lessor are accounted for as operating leases. Lease payments under an operating lease are charged to the income statement on a straight-line basis over the lease terms.

Construction in progress

Construction in progress represents costs incurred in the construction of office premises including furniture and fixtures. Cost comprises direct costs incurred during the period of construction. Interest charged on related borrowings for the construction is capitalized and such interest capitalization ceases when the assets under construction are completed and are ready for their intended use. No capitalization of interest is made if the cost incurred during the construction period is from the Company's own fund.

Construction in progress is transferred to property, plant and equipment when the asset is ready for its intended use and to be depreciated in accordance with their respective depreciation policies. Construction in progress is not depreciated until such time as the relevant assets are completed and put into use.

Intangible assets

Intangible assets mainly comprise premise occupancy rights and land use rights. They are stated at cost less accumulated amortization. Intangible assets are amortized, using the straight-line basis, over the effective useful lives of the rights, which are estimated at longer than 20 years. The carrying amounts of intangible assets are reviewed at each balance sheet by the Company's management to assess whether they are recorded in excess of their recoverable amount and if carrying values exceed their recoverable amounts, assets are written down. Reductions in recoverable amounts are charged to the income statement.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment loss. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repair and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalized as an additional cost of the asset.

The carrying amounts of property, plant and equipment are reviewed at each balance sheet date by the Company's management or an independent valuer to assess whether they are recorded in excess of their recoverable amount. If carrying values exceed their recoverable amounts, assets are written down.

Depreciation is provided to write off the costs of property, plant and equipment less residual value at 3% to 5% of costs (2004: 3% of costs) on a straight-line basis over their estimated useful lives at the following rates per annum:

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Land and buildings	3.23%
Motor vehicles	19.4%
Computers and software	19.4% and 32.33%
Electronic appliances & office equipment	19.0% - 19.4%
Leasehold improvements	over the lease terms

Foreign currency translation

The Company maintains separate financial records for assets and liabilities and transactions denominated in foreign currencies. The financial statements are presented in RMB which is the Company's functional and presentation currency. At the balance sheet date, the balance sheet and income statement denominated in foreign currencies are translated into RMB at the closing rate and average exchange rate of the period, respectively. Exchange differences are dealt with in the income statement.

Acceptances

Acceptances comprise undertakings by the Company to pay bills of exchange and domestic trade drafts drawn on customers. The Company expects most acceptances to be settled simultaneously with the reimbursements from the customers. Acceptances are accounted for as off-balance sheet transactions and are disclosed as commitment and contingent liabilities.

Fiduciary activities

Assets arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements where the Company acts in a fiduciary capacity such as nominee, trustee or agent.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Staff benefits

a) Short term employee benefits

Staff salaries, social security welfare and other short term employee benefits are recognized as expense for periods of which services are rendered by the employees of the Company.

b) Statutory retirement benefit

According to the statutory retirements in the PRC, the Company is required to provide certain staff retirement benefits and pensions. The Company is obliged to contribute a fixed percentage of staff salaries to the employee benefits, retirement welfare scheme, as governed by the Labor Department of the Municipal People's government. All contributions are recognized as expense when incurred.

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c) Supplemental retirement benefit

The Company participates in a corporate pension fund scheme managed by an insurance company. The Company pays fixed contribution to the corporate pension fund under the arrangement of the scheme. The Company does not have a legal or constructive obligation to pay further amount in respect of the employee benefits relating to the services in the current and prior periods. All contributions are recognized as expense when incurred.

Cash and cash equivalents

Cash and cash equivalents represent cash, general deposits with the central bank, due from banks with original maturity of less than three months, inter-bank placements with original maturity of less than three months and short term and highly liquid investments which are readily convertible to known amounts of cash, subject to an insignificant risk of conversion in value and with original maturity of less than three months.

Provisions

The Company recognises a provision if all the following criteria have been met:

- the Company has a present legal or constructive obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations; and
- the amount of the obligation can be reliably estimated.

Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. It can also be a present obligation arising from past events but is not recognized because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized as provision in the financial statement, but is disclosed in the notes to the financial statements (unless the possibility of an outflow of economic resources from the Company is remote).

Change in accounting estimate

The effect of a change in an accounting estimate is recognized prospectively.

With effective from the current year, the Company revised the residual value of newly acquired property, plant and equipment from 3% of the cost to 5% of the cost to be in line with the PRC income tax regulations and changed the estimated useful life for Automatic Teller Machines from 3 years to 5 years so as to better reflect their estimated useful lives. The change in accounting estimate caused a decrease in depreciation charge for the year by RMB16,857,000, an increase in profit before tax by RMB16,857,000 and an increase in profit after tax by RMB11,294,000.

3. SEGMENT REPORTING

The Company's principal business activities are that of commercial lending and public deposits taking. The Company's main source of funding for its consumer and corporate lending business is from customer deposits. As at 31 December 2005, the

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percentage of consumer lending against the total lending amounted to 15.00% (31 December 2004: 15.78%). As the Company is principally engaged in commercial banking activities within one business segment, no business segment report is presented.

Since the commencement of the Company's business in January 1993, it has opened branches and sub-branches in various locations in the PRC to expand its operations and customer base. The Company has established a strong presence in certain key locations in the PRC. To enable a more meaningful analysis, the geographical segment report is presented based on the segments adopted in the management reporting.

	Year ended 31 December 2005									
	Interest income - External		Interest income - Internal		Total interest income		Interest expense		Revenue	
	RMB,000	%	RMB,000	%	RMB'000	%	RMB'000	%	RMB'000	%
Shanghai	5,835,062	27	4,115,872	54	9,950,934	46	7,140,129	82	10,845,066	47
Beijing	1,415,122	6	951,414	13	2,366,536	11	1,400,973	16	2,420,879	10
Zhejiang Province	3,517,760	16	718,987	10	4,236,747	19	1,820,713	21	4,396,894	19
Jiangsu Province	2,151,281	10	640,137	8	2,791,418	13	1,335,125	15	2,880,578	12
Guangdong Province	1,493,214	7	530,219	7	2,023,433	9	1,146,734	13	2,068,219	9
Others	7,427,779	34	613,633	8	8,041,412	37	3,467,603	40	8,251,661	35
Elimination	-	-	(7,570,262)	(100)	(7,570,262)	(35)	(7,570,262)	(87)	(7,570,262)	(32)
	21,840,218	100	-	-	21,840,218	100	8,741,015	100	23,293,035	100

	Year ended 31 December 2004									
	Interest income - External		Interest income - Internal		Total interest income		Interest expense		Revenue	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Shanghai	5,337,846	31	2,419,700	44	7,757,546	44	5,088,938	76	8,345,452	46
Beijing	1,219,517	7	735,893	14	1,955,410	11	1,064,418	16	2,014,368	11
Zhejiang Province	2,700,734	16	693,452	13	3,394,186	20	1,532,630	23	3,535,824	19
Jiangsu Province	1,682,776	10	527,856	10	2,210,632	13	1,088,156	16	2,305,190	12
Guangdong Province	1,534,716	9	458,666	9	1,993,382	12	1,091,788	16	2,027,664	11
Others	4,751,973	27	519,485	10	5,271,458	31	2,191,222	33	5,425,757	30
Elimination	-	-	(5,355,052)	(100)	(5,355,052)	(31)	(5,355,052)	(80)	(5,355,052)	(29)
	17,227,562	100	-	-	17,227,562	100	6,702,100	100	18,299,203	100

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	2005-12-31								Year ended 31 December 2005	
	Total assets		Total liabilities		Loans and advances		Due to customers		Capital expenditure	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Shanghai	229,463,183	40	150,246,227	27	69,559,198	18	122,658,745	24	800,816	60
Beijing	33,879,656	6	56,911,852	10	25,068,367	7	52,333,471	10	26,779	2
Zhejiang Province	68,032,665	12	76,381,817	13	63,346,463	17	73,454,016	15	56,724	4
Jiangsu Province	43,971,156	8	53,637,163	10	38,474,960	10	50,123,820	10	31,192	2
Guangdong Province	34,932,803	6	43,377,468	8	31,745,348	8	38,700,973	8	179,914	14
Others	163,243,208	28	176,998,681	32	149,244,509	40	167,234,553	33	236,358	18
	573,522,671	100	557,553,208	100	377,438,845	100	504,505,578	100	1,331,783	100

	2004-12-31								Year ended 31 December 2004	
	Total assets		Total liabilities		Loans and advances		Due to customers		Capital expenditure	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Shanghai	188,601,344	42	129,457,193	30	75,474,287	24	113,597,728	29	703,467	64
Beijing	28,876,412	6	41,118,814	9	23,683,573	8	36,959,626	9	34,938	3
Zhejiang Province	57,828,144	13	63,081,557	14	50,644,301	16	57,340,731	15	81,053	7
Jiangsu Province	38,399,948	8	44,946,722	10	31,882,930	10	39,290,190	10	74,730	7
Guangdong Province	32,044,771	7	36,340,545	8	28,578,005	9	32,561,997	8	32,444	3
Others	110,000,215	24	127,166,085	29	100,859,021	33	115,008,441	29	179,444	16
	455,750,834	100	442,110,916	100	311,122,117	100	394,758,713	100	1,106,076	100

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4. NET INTEREST INCOME

	2005 RMB'000	2004 RMB'000
Interest income:		
Interest earned on loans and advances	18,184,824	14,172,220
Interest earned on placements from banks and other financial institutions	2,404,578	1,905,767
Interest income from financial investments (Amortization of premium)/accretion of discount on financial investments	1,369,237	1,122,938
	(118,421)	26,637
	21,840,218	17,227,562
Interest expense:		
Interest on customer deposits	6,728,252	5,126,239
Interest on amounts due to banks and borrowings from other financial institutions	1,656,651	1,416,036
Interest on debts issued	356,112	159,825
	8,741,015	6,702,100
Net interest income	13,099,203	10,525,462

5. IMPAIRMENT PROVISIONS ON LOANS AND ADVANCES AND OTHER ASSETS

	2005 RMB'000	2004 RMB'000
Impairment provisions on loans and advances (Note 17 (c)):	3,180,187	3,131,894
Impairment provisions on other assets:		
Other receivables	5,209	3,260
Repossessed assets	10,349	2,567
	3,195,745	3,137,721

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6. NET FEE AND COMMISSION INCOME

	2005 RMB'000	2004 RMB'000
Service fee and commission income	520,693	384,611
Service fee and commission expense	(197,706)	(100,589)
	322,987	284,022

7. NET TRADING INCOME

	2005 RMB'000	2004 RMB'000
Net gain on trading securities	577,795	369,674
Net loss on derivative instruments	(35,046)	(2,913)
	542,749	366,761

8. OTHER INCOME

	2005 RMB'000	2004 RMB'000
Net foreign exchange gains	223,335	196,350
Dividend income from financial investments	21,981	15,348
Surcharges	729	1,207
Loss on disposal of investment securities	(11,629)	-
Other income	154,959	107,364
	389,375	320,269

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9. OPERATING EXPENSES

	2005 RMB'000	2004 RMB'000
Personnel expenses:		
Salaries and bonuses	954,957	737,849
Insurance and social contributions	283,815	242,210
Other personnel expenses	1,553,565	1,111,516
	2,792,337	2,091,575
General and administrative expenses:		
Lease rental	345,131	300,439
Properties and equipment maintenance	59,678	56,979
Computer system maintenance	112,450	95,338
Telecommunication and postage	129,732	98,330
Administration	790,415	647,170
Entertainment	336,028	235,663
Traveling	164,342	139,828
Professional fees	150,557	52,153
Net loss/ (gain) on disposal of property, plant and equipment	50	(13,483)
Donations	3,480	4,127
CBRC supervision fee	94,238	-
Other expenses	188,537	176,670
	2,374,638	1,793,214
Depreciation and amortization:		
Depreciation of property, plant and equipment (Note 20)	584,455	536,258
Amortization of intangible assets (Note 21)	16,610	16,884
	601,065	553,142
Total operating expenses	5,768,040	4,437,931
Including:		
Auditors' remuneration - audit fee	2,800	2,600

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10. INCOME TAX EXPENSE

	2005 RMB'000	2004 RMB'000
Income tax expense:		
Charge for the year	2,354,531	1,595,407
Under-provision in respect of prior years	58,734	2,358
Deferred tax	(632,041)	(461,160)
	1,781,224	1,136,605

The differences between income tax expense reflected in the financial statements and the amounts calculated at the statutory tax rate of 33% were as follows:

Profit before tax	4,339,228	3,102,808
Income tax at statutory tax rate of 33%	1,431,945	1,023,927
Increase/ (decrease) resulting from:		
Applicable tax rates of certain investments differing from the statutory tax rate	2,909	2,532
Under-provision in respect of prior years	58,734	2,358
Non-deductible expenses	596,348	442,272
Non-assessable income	(308,712)	(334,484)
	1,781,224	1,136,605

Significant components of the Company's deferred income tax assets/(liabilities) were as follows:

	2005 RMB'000	2004 RMB'000
Impairment loss on loans	2,531,808	2,080,575
Impairment loss on other assets	341,476	132,102
Unrealized gain on trading securities and derivative instruments	(84,718)	(46,695)
Unrealized gain on available-for-sale investments	(118,870)	-
Others	2,806	(6,651)
	2,672,502	2,159,331

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11. EARNINGS PER SHARE

	2005 RMB'000	2004 RMB'000
Earnings per share calculation:		
Net profit for the year (RMB'000)	2,558,004	1,966,203
Weighted average number of common		
shares outstanding (Unit '000)	3,915,000	3,915,000
Basic earnings per share (RMB)	0.65	0.50
Diluted earnings per share (RMB)	0.65	0.50

12. DUE FROM THE CENTRAL BANK

	2005-12-31 RMB'000	2004-12-31 RMB'000
Due from the central bank:		
General deposits	41,352,446	46,975,685
Statutory deposits	29,169,197	23,103,478
Fiscal deposits	55,364	45,943
	70,577,007	70,125,106

The statutory deposits represent statutory reserve of 7.5% (31 December 2004: 7.5%) on customer deposits denominated in RMB and 3% (31 December 2004: 2%) of customer deposits denominated in foreign currencies placed with the central bank.

Fiscal deposits represent amounts received from the Ministry of Finance that are required to be deposited with the central bank.

13. DUE FROM BANKS

	2005-12-31 RMB'000	2004-12-31 RMB'000
Due from banks:		
Domestic banks	3,871,811	3,277,445
Foreign banks	1,275,926	1,407,409
	5,147,737	4,684,854

Included in amount due from banks are structured deposits with embedded derivatives placed with other financial institutions amounted to RMB689,985,000 (31 December 2004: RMB835,099,000). These embedded derivatives were not separated from the host contracts as the economic characteristics and risks of the embedded derivatives are closely related to the economic characteristics and risks of the host contracts. The purpose of these structured deposits was to hedge the risks of the structured deposits accepted from customers.

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14. INTER-BANK PLACEMENTS

	2005-12-31 RMB'000	2004-12-31 RMB'000
Inter-bank placements:		
Domestic banks	1,969,140	2,068,975
Foreign banks	7,118,687	6,372,378
	9,087,827	8,441,353
Inter-bank borrowings:		
Domestic banks	17,424	1,592,691
Foreign banks	403,500	413,825
	420,924	2,006,516

15. REPURCHASE AND REVERSE REPURCHASE AGREEMENTS

	2005-12-31 RMB'000	2004-12-31 RMB'000
Reverse repurchase agreements by collateral type:		
Discounted bills under reverse repurchase agreements	3,518,376	629,344
Securities under reverse repurchase agreements	13,304,000	8,332,600
Credit assets under reverse repurchase agreements	3,509,500	1,798,500
	20,331,876	10,760,444
Reverse repurchase agreements by counter-party:		
The PBOC	5,700,000	2,000,000
Banks	11,165,736	7,392,560
Other financial institutions	3,466,140	1,367,884
	20,331,876	10,760,444
Repurchase agreements by collateral type:		
Discounted bills under repurchase agreements	526,730	6,130,298
Securities under repurchase agreements	1,000,000	2,135,200
Credit assets under repurchase agreements	113,390	32,350
	1,640,120	8,297,848
Repurchase agreements by counter-party:		
Banks	1,546,750	8,205,498
Other financial institutions	93,370	92,350
	1,640,120	8,297,848

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16. TRADING SECURITIES

	2005-12-31 RMB'000	2004-12-31 RMB'000
Trading securities, at fair value:		
Government bonds in RMB	2,551,592	1,622,354
The PBOC bills	42,473,874	6,479,490
Other bonds in RMB	4,065,988	192,040
Foreign currency bonds	80,679	-
	49,172,133	8,293,884

No government bond in trading securities was pledged under repurchase agreements as at 31 December 2005 (31 December 2004: RMB150,000,000).

Included in trading securities is a foreign currency structured bond with face value of RMB80,700,000 which the economic characteristics and risks of the embedded derivative in the structured bond is closely related to the economic characteristics and risks of the host contract.

17. LOANS AND ADVANCES

(a) The composition of the loan portfolio and impairment provision by type of exposure at the balance sheet date was as follows:

	2005-12-31 RMB'000	2004-12-31 RMB'000
Loans and advances:		
Corporate	320,609,862	261,803,882
Consumer	56,613,075	49,101,258
Securities companies	215,908	216,977
	377,438,845	311,122,117
Impairment provision (Note 17 (c))	(10,727,697)	(8,973,743)
	366,711,148	302,148,374

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(b) The composition of loans and advances by type of collateral at the balance sheet date was as follows:

	2005-12-31 RMB'000	2004-12-31 RMB'000
Loans and advances:		
Guaranteed	126,751,425	121,920,476
Secured by mortgages and other collateral	150,165,928	116,841,882
Unsecured	58,190,625	45,887,489
Trade finance:		
Import and export advances and negotiation	2,336,878	1,769,992
Factoring	403,343	335,457
Discounted bills	39,590,646	24,366,821
	377,438,845	311,122,117

The company sold certain credit assets and discounted bills under repurchase agreements. As at 31 December 2005, the credit assets and discounted bills pledged under repurchase agreements amounted to RMB113,390,000 (31 December 2004: RMB32,350,000) and RMB526,730,000 (31 December 2004: RMB6,130,298,000), respectively. RMB591,700,000 of the repurchase agreements mature within twelve months and RMB48,420,000 mature within one to five years.

(c) Impairment provision

	2005-12-31 RMB'000	2004-12-31 RMB'000
Balance at beginning of year	8,973,743	6,279,482
Charge during the year (Note 5)	3,180,187	3,131,894
Write-off	(977,276)	(513,469)
Transfer (out)/in	(497,519)	6,237
Recovery of loans previously written off	48,562	69,599
Balance at end of year	10,727,697	8,973,743

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18. FINANCIAL INVESTMENTS

	2005-12-31 RMB'000	2004-12-31 RMB'000
Available-for-sale equity investments, at cost:		
Equity instruments, unlisted (Note 18a)	450,555	452,622
Impairment provision	(4,559)	(4,559)
	445,996	448,063
Available-for-sale investments, at fair value:		
Government bonds	24,079,486	-
Other bonds in RMB	11,709,085	-
Foreign currency bonds	2,305,850	-
	38,094,421	-
Held-to-maturity financial investments, at amortized cost:		
Government bonds	-	26,915,925
Other bonds in RMB	-	8,464,755
Foreign currency bonds	-	2,679,743
	-	38,060,423
Total investments	38,540,417	38,508,486

Included in available-for-sale investments are structured bonds with embedded derivatives amounted to RMB1,346,374,000. Of which, the economic characteristics and risks of the embedded derivatives in the structured bonds with face value of RMB66,370,000 are not closely related to the economic characteristics and risks of the host contracts. The economic characteristics and risks of the remaining embedded derivatives are closely related to the economic characteristics and risks of the host contracts.

Included in financial investments are government bonds pledged under repurchase agreements amounted to RMB1,000,000,000 as at 31 December 2005 (31 December 2004: RMB2,097,000,000). All repurchase agreements mature within twelve months.

NOTES TO THE FINANCIAL STATEMENTS

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18a. Unlisted equities at the balance sheet date were as follow:

Company	Shareholding %	2005-12-31 RMB'000	2004-12-31 RMB'000
First Sino Bank	10%	82,252	84,319
Shanghai United International Investment Ltd.	16.5%	288,303	288,303
China Yinlian Co., Ltd.	4.85%	80,000	80,000
Total		450,555	452,622

19. CONSTRUCTION IN PROGRESS

	2005-12-31 RMB'000	2004-12-31 RMB'000
At beginning of year	307,176	265,997
Additions	76,740	217,406
Transferred to property, plant and equipment (Note 20)	(331,715)	(176,227)
At end of year	52,201	307,176

20. PROPERTY, PLANT AND EQUIPMENT

	Land & buildings RMB'000	Motor vehicles RMB'000	Computers & software RMB'000	Electronic appliances & office equipment		Leasehold improvements RMB'000	Total RMB'000
				RMB'000	RMB'000		
Cost							
At beginning of year	4,119,071	205,368	1,270,249	222,000	995,403		6,812,091
Additions	689,268	24,856	381,736	75,233	83,950		1,255,043
Transfer from construction in progress (Note 19)	273,301	-	46,665	7,722	4,027		331,715
Disposal/ write-off	(2,219)	(35,008)	(162,993)	(13,193)	(81,935)		(295,348)
At end of year	5,079,421	195,216	1,535,657	291,762	1,001,445		8,103,501

NOTES TO THE FINANCIAL STATEMENTS

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	Land & buildings RMB'000	Motor vehicles RMB'000	Computers & software RMB'000	Electronic appliances & office equipment RMB'000	Leasehold improvements RMB'000	Total RMB'000
Accumulated depreciation:						
At beginning of year	518,965	143,966	766,561	118,782	591,841	2,140,115
Depreciation (Note 9)	134,953	23,076	248,885	35,588	141,953	584,455
Disposal/ write-off	(791)	(32,170)	(157,413)	(12,615)	(80,826)	(283,815)
At end of year	653,127	134,872	858,033	141,755	652,968	2,440,755
Net book value:						
2005-12-31	4,426,294	60,344	677,624	150,007	348,477	5,662,746
2004-12-31	3,600,106	61,402	503,688	103,218	403,562	4,671,976

Land and buildings were stated at cost as at 31 December 2005. In the opinion of the Company's management, there was no impairment to the value of land and buildings as at 31 December 2005. As at 31 December 2005, properties and buildings at original cost of RMB1,013,242,000 (31 December 2004: RMB391,376,000) and net book value of RMB962,394,000 (31 December 2004: RMB359,047,000) were in use but the related legal ownership registration was still in progress.

21. INTANGIBLE ASSETS

	Premise occupancy rights RMB'000	Land use rights RMB'000	Franchise RMB'000	Others RMB'000	Total RMB'000
Cost net of accumulated amortization:					
At beginning of year	123,947	31,920	15,734	1,304	172,905
Amortization (Note 9)	(7,859)	(850)	(7,679)	(222)	(16,610)
At end of year	116,088	31,070	8,055	1,082	156,295
At 31 December 2005					
Cost	165,339	36,100	38,411	1,763	241,613
Accumulated amortization	(49,251)	(5,030)	(30,356)	(681)	(85,318)
Net carrying amount	116,088	31,070	8,055	1,082	156,295
At 31 December 2004					
Cost	165,339	36,100	38,411	1,763	241,613
Accumulated amortization	(41,392)	(4,180)	(22,677)	(459)	(68,708)
Net carrying amount	123,947	31,920	15,734	1,304	172,905

NOTES TO THE FINANCIAL STATEMENTS

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22. OTHER ASSETS

	2005-12-31 RMB'000	2004-12-31 RMB'000
Interest receivable from financial investments	523,469	569,661
Interest receivable from loans and advances	288,219	260,728
Interest receivable from inter-bank placements	5,409	4,838
Interest receivable from reverse repurchase agreements	5,342	2,398
Working capital	794	908
Settlement and clearing	230,860	241,337
Advance payments for office renovation	133,097	278,822
Staff housing loans	1,702,868	1,569,390
Repossessed assets	1,143,429	458,293
Receivables from derivative instruments (Note 33)	20,422	72,412
Amount refundable from the construction of Pudong Tower	1,228	181,228
Receivables from interest over-paid on negotiated deposits	-	179,364
Other receivables	322,966	530,913
	4,378,103	4,350,292
Impairment loss on repossessed assets	(743,841)	(235,973)
Impairment loss on other receivables	(108,573)	(103,930)
	3,525,689	4,010,389

NOTES TO THE FINANCIAL STATEMENTS

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23. DUE TO BANKS

	2005-12-31 RMB'000	2004-12-31 RMB'000
Domestic banks	20,577,881	17,456,979

24. CUSTOMER DEPOSITS

	2005-12-31 RMB'000	2004-12-31 RMB'000
Savings and current deposits	226,039,209	183,206,423
Fixed deposits	189,332,501	148,564,970
Guaranteed deposits	89,007,998	62,935,450
Entrusted deposits (Note 35)	23,569	23,389
Deposits from the Ministry of Finance	102,302	28,481
	504,505,579	394,758,713

Guaranteed deposits represent margin deposits from customers for banking facilities granted by the Company.

Included in customer deposits are structured deposits amounted to RMB806,353,000 (31 December 2004: RMB589,298,000). The embedded derivatives in the structured deposits mainly include interest rate swaps, call options, options to extend the contracts, currency linked deposits and currency options. Most of the embedded derivatives in the structured deposits are closely related to the economic characteristics and risks of the host contracts, hence are not bifurcated from the host contracts. A small portion of the structured deposits of RMB209,149,000 (31 December 2004: RMB Nil) are not closely related to the economic characteristics and risks of the host contracts. After considering the market factors as at the balance sheet date, the Company's management estimated their fair values were immaterial.

25. DIVIDENDS PAYABLE

	2005-12-31 RMB'000	2004-12-31 RMB'000
Unpaid prior years dividend	10,762	14,834

26. DEBTS ISSUED

	2005-12-31 RMB'000	2004-12-31 RMB'000
Fixed term subordinated debt (Note 26a)	6,000,000	6,000,000
Inter-bank financial bonds (Note 26b)	7,000,000	-
2005 SPDB subordinated debt (Note 26c)	2,000,000	-
	15,000,000	6,000,000

NOTES TO THE FINANCIAL STATEMENTS

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26a. FIXED TERM SUBORDINATED DEBT

As approved by the China Banking Regulatory Commission (“CBRC”), the Company entered into agreements with eight investors for the issuance of RMB6 billion subordinated debt with an annual coupon of one year fixed deposit rate set forth by the PBOC plus a spread of 2.62%, payable on a yearly basis. The tenor of the debt is five years and one month. On 9 June 2004, the issuance was completed and the Company received a total consideration of RMB6 billion. In accordance with the related regulations, the subordinated debt shall form part of the Company’s supplementary capital for regulatory purpose. The subordinated debt bore interest at 4.87% per annum (2004: 4.60% - 4.87%) during the current financial year.

The principal and interest repayment of the subordinated debt rank after the Company’s customer deposits and other liabilities, but in priority to the Company’s shareholders’ funds.

26b. INTER-BANK FINANCIAL BONDS

As approved by the CBRC, the Company issued RMB7 billion commercial bank financial bonds at RMB100 par value via public tendering through the bonds issuing system of the PBOC. The commercial bank financial bonds have a tenor of three years, bearing a fixed coupon of 2.59% per annum. Interest is payable on a yearly basis, calculated from 26 August 2005 onwards. The bonds issuance was completed on 26 August 2005.

The bonds are unsecured and irredeemable. The principal and interest payment rank pari passu with the Company’s other liabilities which are paid in priority to the Company’s subordinated debts and shareholders’ funds.

26c. 2005 SPDB SUBORDINATED DEBT

As approved by the CBRC, the Company issued RMB2 billion subordinated debt at par via private placement in the inter-bank bonds market on 29 December 2005. The tenor of the debt is 10 years and the Company has an option to early redeem the entire debt at the end of the fifth year at par. If the Company exercises this option, the tenor of the debt is 5 years.

The subordinated debt bears step-up coupon rates and coupon is payable annually. The debt bears a fixed interest at 3.60% per annum from years 1 to 5 calculated from 29 December 2005. If the Company will not exercise the early redemption option at the end of year 5, the coupon rate will be adjusted to 6.60% per annum from years 6 to 10.

The principal and interest repayment of this subordinated debt rank after the Company’s customer deposits and other liabilities, but in priority to the Company’s shareholders’ funds.

NOTES TO THE FINANCIAL STATEMENTS

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27. OTHER LIABILITIES

	2005-12-31 RMB'000	2004-12-31 RMB'000
Interest payable	2,245,994	1,610,273
Bank drafts payable	3,544,554	2,607,859
Personnel expenses and bonus payable	2,201,347	987,420
Staff welfare payable	208,053	143,399
Payables on derivative contracts (Note 33)	57,579	140,888
Settlement and clearing	658,319	1,616,086
Deferred interest income on discounted bills	304,897	461,982
Settlement and clearing	267,716	202,751
Taxes payable - business tax and surcharges	334,977	256,255
Others	862,051	1,165,755
	10,685,487	9,192,668

28. SHARE CAPITAL

	2005-12-31 RMB'000	2004-12-31 RMB'000
Authorized capital:		
Ordinary shares of RMB1 each	3,915,000	3,915,000

NOTES TO THE FINANCIAL STATEMENTS

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Issued and fully paid up capital:

	Non-marketable shares					Total non-marketable portion	Marketable	Total
	Sponsors	Non-marketable shares owned by legal persons other than sponsors					Shares	
	Portion						Ordinary	
	Shares	Shares	Shares	Shares	Shares		quoted in	
owned by	owned by	owned by	owned by	owned by	portion	RMB		
domestic	the State	domestic	oversea			(A Shares)		
legal persons	government	legal persons	legal persons	Sub-total				
2004-1-1								
Number of shares								
Unit'000	1,111,200	279,660	1,443,390	180,750	1,903,800	3,015,000	900,000	3,915,000
RMB'000	1,111,200	279,660	1,443,390	180,750	1,903,800	3,015,000	900,000	3,915,000
Addition/ (Decrease)								
Number of shares								
Unit'000 (Note 28a)	(50,000)	97,500	(47,500)	-	50,000	-	-	-
RMB'000 (Note 28a)	(50,000)	97,500	(47,500)	-	50,000	-	-	-
2004-12-31								
Number of shares								
Unit'000	1,061,200	377,160	1,395,890	180,750	1,953,800	3,015,000	900,000	3,915,000
RMB'000	1,061,200	377,160	1,395,890	180,750	1,953,800	3,015,000	900,000	3,915,000
Addition/ (Decrease)								
Number of shares								
Unit'000 (Note 28b)	-	-	-	-	-	-	-	-
RMB'000 (Note 28b)	-	-	-	-	-	-	-	-
2005-12-31								
Number of shares								
Unit'000	1,061,200	377,160	1,395,890	180,750	1,953,800	3,015,000	900,000	3,915,000
RMB'000	1,061,200	377,160	1,395,890	180,750	1,953,800	3,015,000	900,000	3,915,000

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28a. In 2004, the share transfers made by the shareholders holding more than 5% of the Company's shares are as follows:

Shanghai International Group Co., Ltd., Shanghai International Trust Investment Co., Ltd. and Shanghai Guoxin Investment and Development Co., Ltd. entered into share transfer agreements with respective counter parties for receiving 144 million, 22.5 million and 48.5 million shares of the Company, respectively. After these share transfers, 215 million shares or 5.49% of the Company's total shares had changed hand. After the share transfers, the 105 million shares owned by Shanghai International Group Co., Ltd. changed from state legal person shares to state-held shares, while 7.5 million shares owned by Shanghai International Group Co., Ltd. changed from state-held shares to state legal person shares. Others remained unchanged.

28b. In the current financial year, the share transfers made by the shareholders holding more than 5% of the Company's shares are as follows:

Shanghai Guoxin Investment and Development Co., Ltd., and SIIC Shanghai International Trade (Group) Co., Ltd. entered into share transfer agreements with respective counter parties, where Shanghai Guoxin Investment and Development Co., Ltd. received 34.89 million shares of the Company and transferred out 32 million shares of the Company. SIIC Shanghai International Trade (Group) Co., Ltd. transferred out 22.5 million shares of the Company. After these share transfers, Shanghai Guoxin Investment and Development Co., Ltd. increased shareholding in the Company by 2.89 million shares, SIIC Shanghai International Trade (Group) Co., Ltd. reduced shareholding in the Company by 22.5 million; an aggregate of 19.61 million shares or 0.50% of the Company's total shares had changed hand. After the share transfers, the 22.5 million shares transferred from SIIC Shanghai International Trade (Group) Co., Ltd. have changed from state legal person shares to legal person shares. Others remained unchanged.

29. CAPITAL RESERVES

	2005-12-31 RMB'000	2004-12-31 RMB'000
Share premium	4,847,825	4,847,825
Other capital reserves	21,571	21,571
	4,869,396	4,869,396

30. RESERVES

	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Discretionary surplus reserve RMB'000	General reserve RMB'000	Total RMB'000
Balance as at 2004-1-1	591,566	441,047	201,595	1,150,000	2,384,208
Appropriations from net profit for the year (Note 30a)	193,003	193,003	156,609	850,000	1,392,615
Balance as at 2004-12-31 and at 2005-1-1	784,569	634,050	358,204	2,000,000	3,776,823
Appropriations from net profit for the year (Note 30b)	248,542	248,542	193,003	1,300,000	1,990,087
Balance as at 2005-12-31	1,033,111	882,592	551,207	3,300,000	5,766,910

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Statutory surplus reserve

In accordance with the PRC Companies Law, the Company is required to allocate 10% of its profit after tax, as determined in accordance with the PRC accounting standards and regulations applicable to the Company, to the statutory surplus reserve until such reserve reaches 50% of the registered capital of the Company. Subject to certain restrictions set out in the PRC Companies Law and the Company's articles of association, statutory surplus reserve may be distributed to shareholders in the form of bonus issues, but the minimum retained statutory surplus reserve must not fall below 25% of the registered share capital.

Statutory public welfare fund

In accordance with the PRC Companies Law, the Company is required to transfer 5% to 10% of its profit after tax, as determined in accordance with the PRC accounting standards and regulations applicable to the Company, to a statutory public welfare fund ("PWF") which is a non-distributable reserve other than in the event of liquidation of the Company. PWF must be used for capital expenditure on staff welfare facilities and these facilities will remain the property of the Company. When the PWF is utilized, an amount equal to the lower of cost of the assets and the balance of the PWF will be transferred from the PWF to the discretionary surplus reserve. On disposal of the relevant assets, the original transfers from the PWF are reversed.

General reserve

In accordance with the Accounting Regulations for Financial Institutions issued by the Ministry of Finance ("MoF") on 17 November 2001, effective from 1 January 2002, general reserve made by financial institutions engaged in deposit and loan activities shall form part of the shareholders' equity.

In accordance with Cai Jin [2005] No. 49 "Circular on Impairment Loss on Loans" issued by the Ministry of Finance which come into effect from 1 July 2005, the Company is required to set aside a general reserve of at least 1% of its total risk-weighted assets at year end from net profit and the general reserve shall form part of the Shareholders' equity. According to Cai Jin [2005] No. 90 "Answers to the Questions on Impairment Loss on Loans" issued by the Ministry of Finance, financial institutions are required to complete the 1% general reserve in 3 years, but should not exceed 5 years. In this regard, the Company has planned to provide its general reserve on a year-on-year basis.

30a. As the amount to be appropriated to the discretionary surplus reserve could only be authorized at the Shareholder's Annual General Meeting, the financial statements had not incorporated the proposed 10% appropriation to the discretionary surplus reserve as at 31 December 2003 pursuant to a board resolution held on 25 February 2004. Subsequently on 28 March 2004, the appropriation of discretionary surplus reserve at 10% of net profit was approved at the Annual General Meeting of Shareholders. Accordingly, the financial statements for year 2004 had incorporated the proposed 10% appropriation to the discretionary surplus reserve of RMB156,609,000 for the financial year 2003.

Pursuant to a board resolution passed on 24 February 2005, appropriations based on 10% of net profit for financial year 2004 were proposed and made to the statutory surplus reserve and statutory public welfare fund. In addition, an appropriation of RMB850 million was made to the general reserve for the financial year 2004.

30b. As the amount to be appropriated to the discretionary surplus reserve could only be authorized at the Shareholders' Annual General Meeting, the financial statements had not incorporated the proposed 10% appropriation to the discretionary surplus reserve as at 31 December 2004 pursuant to a board resolution held on 24 February 2005. Subsequently on 27 April 2005, the appropriation of discretionary surplus reserve at 10% of net profit was approved at the Annual General

NOTES TO THE FINANCIAL STATEMENTS

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Meeting of Shareholders. Accordingly, the financial statements for the current financial period had incorporated the proposed 10% appropriation to the discretionary surplus reserve of RMB193,003,000 for the financial year 2004.

Pursuant to a board resolution passed on 28 February 2006, appropriations based on 10% of net profit for financial year 2005 were proposed and made to the statutory surplus reserve, statutory public welfare fund and discretionary surplus funds, respectively. In addition, an appropriation of RMB1.3 billion was made to the general reserve for the financial year 2005.

31. RETAINED EARNINGS

These financial statements are prepared in accordance with the basis of preparation set out in Note 2. These financial statements are not the statutory financial statements of the Company and are prepared for readers' reference only.

Commencing from 2001, in accordance with the regulations of the *Questions and Answers on Standard Disclosures by Companies with Publicly Issued Shares, No. 4* issued by the Committee of the China Securities Regulatory Commission, listed financial companies should make appropriations to the statutory surplus reserve and statutory public welfare fund based on the net profit for the year as stated in the Company's statutory financial statements. However, appropriation to the discretionary surplus reserve and payment of dividends should be made based on the lower of net profit for the year as stated in the Company's statutory financial statements and these financial statements.

31a. DIVIDENDS

Pursuant to a resolution passed by the Annual General Meeting on 28 March 2004, dividend of RMB0.11 per ordinary share was approved for financial year 2003. These dividends (totaling RMB430,650,000), which had not been recognized as at 31 December 2003, were recognized in the financial statements for year 2004.

Pursuant to a resolution passed by the Annual General Meeting on 27 April 2005, dividend of RMB0.12 per ordinary share was approved for financial year 2004. These dividends (totaling RMB469,800,000) were recognized as appropriation in the current year financial statements.

Pursuant to the resolution of the 7th Meeting of the Third Board of Directors held on 28 February 2006, a dividend of RMB0.13 per share was proposed and approved for the financial year 2005 on the basis of 3,915,000,000 shares. As at 31 December 2005, these dividends (totaling RMB508,950,000) were not recognized as liabilities in the current year financial statements.

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32. NOTE TO THE STATEMENT OF CASH FLOWS

	2005-12-31 RMB'000	2004-12-31 RMB'000
Profit before tax	4,339,228	3,102,808
Non-cash items included in profit before tax and other adjustments:		
Depreciation and amortization	601,065	553,142
Credit loss expense	3,180,187	3,131,894
Impairment provision on other assets	15,558	5,827
Interest expense	8,741,015	6,702,100
Interest income	(21,958,639)	(17,200,925)
Loss/(gain) on disposal of property, plant and equipment	50	(13,483)
Dividends income	(21,981)	(15,348)
Amortization of premium/(accretion of discount) on financial investments	118,421	(26,637)
Unrealized net loss on trading securities	30,894	-
Unrealized net gain on derivatives	(31,319)	(41,098)
Net decrease/(increase) in operating assets:		
Due from the central bank	(6,075,140)	(5,541,044)
Inter-bank placements	630,055	(360,912)
Due from banks	145,115	(280,560)
Reverse repurchase agreements	(9,571,432)	3,300,699
Trading securities	(40,909,143)	(1,364,739)
Loans to customers	(67,245,442)	(55,718,028)
Other assets	(95,752)	(358,540)
Net increase/(decrease) in operating liabilities:		
Inter-bank borrowings	(1,585,592)	(1,048,863)
Due to banks	3,120,902	1,176,725
Repurchase agreements	(6,657,728)	(973,274)
Customer deposits	109,746,866	73,103,952
Inward and outward remittances	32,799	728,197
Other liabilities	940,999	3,555,114
Cash flows (used in)/generated from operations	(22,509,014)	12,417,007
Interest received	21,973,825	17,106,915
Interest paid	(7,818,150)	(6,163,930)
Income taxes paid	(2,116,967)	(1,234,889)
Net cash flows (used in)/generated from operating activities	(10,470,306)	22,125,103

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33. DERIVATIVE INSTRUMENTS

The Company entered into derivative transactions for sales activities and asset/liability management activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to transfer, modify or reduce current or expected risks.

To mitigate the market risk for transactions entered with the customers, the Company entered into back-to-back contracts with third parties which effectively transferred the Company's market risk exposure arising from the contracts.

The Company uses derivatives as part of its asset/liability management activities. When there is a mismatch of interest rates between the Company's assets and liabilities, i.e. when the Company purchases assets at fixed rates funded from deposits at floating rates, it subjects itself to fair value fluctuations as market interest rates change. These fluctuations in fair value are managed by entering into interest rate contracts which change the fixed rate instrument into a variable rate instrument.

The Company uses the following derivative financial instruments for trading or hedging purposes:

Swaps: Swaps are commitments to exchange one set of cash flow for another for a predetermined period.

Interest rate swap contracts generally represent the contractual exchange of fixed and floating rate payments of a single currency, based on a notional amount and a reference interest rate.

Cross currency interest rate swap contracts generally involve the exchange of payments which are based on the interest reference rates available at the inception of the contract on the principal balances of the two different currencies that are being exchanged. The principal balances are re-exchanged at an agreed upon rate at a specified future date.

Forwards: Forwards are contractual obligations to buy or sell a financial instrument on a future date at a specified price.

Options: Options are contracts that allow the holder to buy or sell a specific amount of currency, security or interest rate index at a specified foreign exchange rate or interest rate during a specified period of time. The holder has the right but not obligation to exercise the contract, while the seller is responsible for fulfilling the terms of the contract if the option is exercised.

Foreign currency option contracts give the owner the right but not obligation to buy or sell foreign currency on a future date at a specific price.

The following table provides the notional amount and the fair value of the Company's derivative instruments.

Notional amount of a derivative represents the amount of underlying asset or reference index upon which changes in the value of derivatives are measured. It provides an indication of the volume of business transacted by the Company but does not provide any measure of risk.

The fair value is the amount for which an asset could be exchanged, or a liability could be settled, between knowledgeable, willing parties in an arm's length transaction.

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	2005		
	Notional amount RMB'000	Fair value	
		Assets RMB'000 (Note 22)	Liabilities RMB'000 (Note 27)
Derivatives held for trading:			
Interest rate swaps	890,407	2,298	11,269
Cross-currency interest rate swaps	529,751	2,947	33,082
Currency forwards	1,531,372	15,177	13,228
Total derivative assets/liabilities		20,422	57,579
	2004		
	Notional amount RMB'000	Fair value	
		Assets RMB'000 (Note 22)	Liabilities RMB'000 (Note 27)
Derivatives held for trading:			
Interest rate swaps	256,265	-	1,941
Cross-currency interest rate swaps	472,943	68,745	68,745
Currency forwards	875,561	3,341	3,511
Currency options	58,557	326	326
Total derivative assets/liabilities held for trading		72,412	74,523
Derivatives held for hedging:			
Interest rate swaps	455,621	-	13,660
Cross-currency interest rate swaps	230,798	-	52,705
Total derivative assets/liabilities held for hedging		-	66,365
Total derivative assets/liabilities		72,412	140,888

34. COMMITMENTS AND CONTINGENT LIABILITIES

	2005-12-31 RMB'000	2004-12-31 RMB'000
Bank acceptances	129,315,112	95,134,461
Confirmed letters of credit	3,489,894	4,345,235
Guarantees issued	16,321,112	12,417,571
Irrevocable letters of credit issued	8,647,299	9,108,020
Re-discounted bills to the central bank	-	10,398

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The Company granted credit facilities to certain customers. However, in the opinion of the management, the Company is not committed to the unutilized credit facilities and they are all revocable at the discretion of the Company.

As at 31 December 2005, the Company has material capital commitments that has been approved and contracted for amounting to RMB118,948,000 (31 December 2004: RMB91,175,000).

On 28 September 2004, the China Securities Regulatory Commission (“CSRC”) approved the appointment of the Company as the fund trustee and guarantor of Harvest Pu An Capital Guaranteed Hybrid Fund, an open ended fund managed by Harvest Fund Management Co., Ltd..

35. FIDUCIARY TRANSACTIONS

a) Entrusted transaction

	2005-12-31 RMB'000	2004-12-31 RMB'000
Entrusted deposits:		
PBOC	1,232,500	1,307,500
Others	21,741,014	16,146,397
Total entrusted deposits	22,973,514	17,453,897
Entrusted loans:		
PBOC	1,232,500	1,307,500
Others	21,717,445	16,123,008
Total entrusted loans	22,949,945	17,430,508
Net funds from entrusted deposits (Note 24)	23,569	23,389

Fiduciary transactions include entrusted deposits and entrusted loans. Entrusted deposits represent funds which depositors have instructed the Company to grant loans to third parties designated by them. The credit risk remains with the depositors.

The difference between the balances of entrusted deposits and entrusted loans represents the amount which the depositors have not yet designated the Company to grant loans with. This amount has been included in customer deposits.

b) Fund trustee

As at 31 December 2005, the Company was the trustee for Guotai Jinlong series of investment securities funds, China Nature Wealth Growth Fund, Harvest Pu An Capital Guarantee Hybrid Fund and Guangfa LOF managed by Guotai Asset Management Co., Ltd., China Nature Assets Management Co., Ltd. Harvest Fund Management Co., Ltd. and Guangfa Fund Management Co., Ltd., respectively.

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36. OPERATING LEASE COMMITMENTS

Future minimum rentals payable under non-cancelable operating lease commitments:

	2005-12-31 RMB'000	2004-12-31 RMB'000
Within one year	293,034	196,520
Two to five years	790,994	519,925
After five years	352,454	240,974
	1,436,482	957,419

37. FINANCIAL INSTRUMENTS RISK POSITION

a) Credit risk

Credit risk is the risk of loss from the default by an obligor or counterparty. Credit risk is greater when counterparties are concentrated in a single industry or geographic location, because a group of otherwise unrelated counterparties could be adversely affected in their ability to repay their obligations due to economic developments affecting their common industry or location.

Concentration of credit risk exists if a number of clients are engaged in similar activities, or are located in the same geographic location or have comparable economic characteristics such that their ability to meet contractual obligations would be similarly affected by changes in economic or other conditions. Concentration of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographic location.

The Company solely operates in the PRC, however, the geographic diversification and the unique economic development of each location, result in a different risk profile to the Company. Please refer to Note 3 for details of the geographical concentration of the loan portfolio.

On-balance sheet assets

As at 31 December 2005, outstanding loan balances made to corporate and non-bank financial institutions grouped by industries were as follows:

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Industry	2005-12-31			%
	RMB	Foreign	Total	
	RMB' 000	Currency RMB' 000	RMB' 000	
Agriculture	1,581,820	-	1,581,820	-
Manufacturing	104,696,063	6,354,398	111,050,461	34
Public utilities	19,181,450	174,312	19,355,762	6
Constructions	12,749,290	24,210	12,773,500	4
Transportation and Communications	20,933,220	762,212	21,695,432	7
Wholesales, retails and entertainment	51,252,030	2,053,976	53,306,006	17
Financial institutions and insurance	215,908	-	215,908	-
Real estate	37,276,750	239,598	37,516,348	12
Social service	22,256,630	636,239	22,892,869	7
Others, primarily conglomerate and government related parties	39,792,790	644,874	40,437,664	13
	309,935,951	10,889,819	320,825,770	100
Industry	2004-12-31			%
	RMB	Foreign	Total	
	RMB' 000	Currency RMB' 000	RMB' 000	
Agriculture	2,714,980	2,731	2,717,711	1
Manufacturing	86,479,034	7,562,900	94,041,934	36
Public utilities	12,915,430	43,452	12,958,882	5
Constructions	11,106,270	20,857	11,127,127	4
Transportation and Communications	16,526,060	1,231,378	17,757,438	7
Wholesales, retails and entertainment	35,786,060	1,828,196	37,614,256	14
Financial institutions and insurance	2,996,976	-	2,996,976	1
Real estate	36,655,510	492,700	37,148,210	14
Social service	16,740,550	962,226	17,702,776	7
Others, primarily conglomerate and government related parties	26,894,171	1,061,378	27,955,549	11
	248,815,041	13,205,818	262,020,859	100

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Off-balance sheet assets

As at 31 December 2005, the Company had credit commitments amounting to RMB157.8 billion, of which 3.44%, 19.10%, 11.22%, 4.89% and 4.96% are related to customers domiciled in Shanghai, Zhejiang Province, Jiangsu Province, Beijing and Guangzhou respectively. The remainder related to customers located elsewhere throughout the PRC.

Derivatives

All derivative contracts were transacted by the Company's head office in Shanghai. Credit risk represents the inability of the counterparty to deliver payment in accordance with the terms of the derivative contracts. The fair value is the amount for which an asset could be exchanged, or a liability to settle.

To mitigate the credit risk associated with derivative instruments, the Company enters into master netting agreements with certain counterparties. The Company subjects its derivative-related credit risk to the same credit approval and monitoring standards that it uses for managing other transactions that have exposure to credit risk.

b) Currency risk

The Company is incorporated and operates in the PRC, with RMB as its reporting currency. The other major foreign currency in which the Company transacts is USD. The exchange rate between USD and RMB is subject to the PBOC management and hence fluctuates within a narrow range, as it has throughout the period. The Company's loans and advances are mainly denominated in RMB with the remainder mainly in USD. However, some of the Company's deposits and investments are in currencies other than the reporting currency and USD. In order to manage such currency risks, the Company entered into foreign currency hedging transactions between such currencies and USD.

From 21 July 2005 onwards, the PBOC reforms the exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. The exchange rate of the US dollar against the RMB was then adjusted to RMB8.11 per US dollar. Currently, the USD/RMB exchange rate in the inter-bank market maintains at a spread of 0.3 basis points from the middle price of USD/RMB exchange rate announced by the PBOC. Foreign currencies other than USD are traded within certain ranges from the middle exchange rates announced by the PBOC. Management considers the above change in exchange rates does not have material impact on the Company's financial position as a whole.

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Below is a breakdown of relevant assets and liabilities by currencies:

RMB Million	2005-12-31				2004-12-31			
	RMB	USD	Others	Total	RMB	USD	Others	Total
Assets:								
Cash on hand	1,495	161	229	1,885	1,105	153	209	1,467
Due from the central bank	69,855	668	54	70,577	69,585	488	52	70,125
Inter-bank placements	533	6,782	1,773	9,088	827	5,199	2,415	8,441
Due from banks	3,171	1,636	341	5,148	2,557	1,430	698	4,685
Reverse repurchase agreements	20,332	-	-	20,332	10,760	-	-	10,760
Trading securities	49,091	81	-	49,172	8,271	23	-	8,294
Loans	356,003	9,765	943	366,711	288,103	11,605	2,440	302,148
Financial investments	35,730	2,377	433	38,540	35,769	2,373	366	38,508
Other assets	6,093	92	14	6,199	5,091	867	212	6,170
Total assets	542,303	21,562	3,787	567,652	422,068	22,138	6,392	450,598
Liabilities:								
Inter-bank borrowings	-	414	7	421	1,400	414	193	2,007
Due to banks	18,572	1,934	72	20,578	15,342	1,876	239	17,457
Repurchase agreements	1,592	48	-	1,640	8,298	-	-	8,298
Customer deposits	487,740	13,663	3,103	504,506	376,155	15,213	3,390	394,758
Inward and outward remittances	2,506	285	141	2,932	2,457	159	284	2,900
Dividend payable	11	-	-	11	15	-	-	15
Debts issued	15,000	-	-	15,000	6,000	-	-	6,000
Other liabilities	9,299	2,903	263	12,465	5,204	3,983	1,489	10,676
Total liabilities	534,720	19,247	3,586	557,553	414,871	21,645	5,595	442,111
Net long position	7,583	2,315	201	10,099	7,197	493	797	8,487

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c) Interest rate risk

The majority of the Company's financial assets and liabilities are denominated in RMB. The nature of the Company's financial assets and liabilities in RMB at the balance sheet date was as follows:

	2005-12-31			2004-12-31		
	RMB RMB'000	Total RMB'000	RMB in total positions %	RMB RMB'000	Total RMB'000	RMB in total positions %
Financial assets:						
Cash	1,495,720	1,885,093	79	1,104,727	1,466,556	75
Personal loans and advances	56,613,075	56,613,075	100	49,101,258	49,101,258	100
Corporate loans and advances	309,935,951	320,825,770	97	248,815,041	262,020,859	95
Deposits with the PBOC	69,855,142	70,577,007	99	69,585,414	70,125,106	99
Inter-bank placements	532,680	9,087,827	6	827,500	8,441,353	10
Due from banks	3,170,448	5,147,737	62	2,556,946	4,684,854	55
Reverse repurchase agreements	20,331,876	20,331,876	100	10,760,444	10,760,444	100
	461,934,892	484,468,385		382,751,330	406,600,430	
Financial liabilities:						
Personal savings accounts	21,551,727	23,359,431	92	14,878,791	16,099,175	92
Personal fixed deposits	44,519,986	47,152,398	94	27,861,893	30,819,601	90
Corporate savings and current accounts	195,985,362	202,679,778	97	160,664,613	167,107,248	96
Corporate fixed deposits	139,114,672	142,180,103	98	113,070,364	117,745,369	96
Inter-bank borrowings	-	420,924	-	1,400,000	2,006,516	70
Due to banks	18,572,267	20,577,881	90	15,341,753	17,456,979	88
Repurchase agreements	1,591,700	1,640,120	97	8,297,848	8,297,848	100
Subordinated debt	15,000,000	15,000,000	100	6,000,000	6,000,000	100
	436,335,714	453,010,635		347,515,262	365,532,736	

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The Company is required to apply the interest rates set by the PBOC for its loans and advances and deposits activities. The PBOC last adjusted the market rates on 29 October 2004. The benchmark rates for the relevant periods for the following types of loans, advances and deposits are as follows:

	Since 29 October 2004 %	Since 21 February 2002 %
Short-term loans and advances	5.22 to 5.58	5.04 to 5.31
Medium to long-term loans	5.76 to 6.12	5.49 to 5.76
Non-performing loans	contract interest rates plus premium of 30% to 50%	0.021 per day
Personal and corporate savings	0.72	0.72
Personal fixed deposits (1 to 5 years)	1.71 to 3.60	1.71 to 2.79
Corporate call deposits (1 to 7 days)	1.08 to 1.62	1.08 to 1.62
Corporate fixed deposits	1.44 to 2.25	1.44 to 1.98
Balances with the central bank:		
Statutory deposit	1.89	1.89
Excess deposit	0.99	1.62
	(Since 2005-3-17)	(Since 2003-12-20)
Rediscounted bills	3.24	2.97
	(Since 2004-3-25)	(Since 2001-9-11)

Effective from 29 October 2004, the PBOC raised the central bank benchmark rates for deposit and lending, broadened the floating range of lending rate and allowed financial institutions to lower RMB deposit rates. For the RMB deposit rates, the lower limits are set at zero and the upper limits are the benchmark rates for different tranches of the deposits. The benchmark rate for one-year deposit is raised by 27 basis points from 1.98% to 2.25%. The one-year benchmark lending rate is also raised by 27 basis points from 5.31% to 5.58%. Rates of deposit and lending at other different tranches, other than the corporate call deposits and certain short term deposits, are adjusted accordingly with the rates of medium and long term maturities gaining a larger increase over the short-term ones.

Meanwhile, further leeway is given to the floating range of the lending rates charged by financial institutions (excluding rural and urban credit units). In principle, no upper limits will be set for lending while the lower limit remain unchanged, being at 0.9 times of the benchmark rate.

A spread above the interest rate charged by the PBOC on re-discounted bills is allowed to be charged to the Company's customer discounted bills. However, the spread is subject to a ceiling of the applicable interest rates charged on corporate loans with the same tenor (including the floating rates).

The rates of inter-bank placements and borrowings can be derived through negotiation between the borrowers and lenders, and generally the rates are adjusted downward by 18% to 20% based on the corporate loan and deposit rates. There is generally no interest spread between the money market placements and borrowings.

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Allowing the financial institutions to move deposit rate below the benchmark rate which means all deposit-taking institutions have the discretion to adjust their RMB deposit rates below (but not above) the announced benchmark rates.

d) Liquidity risk

The maturity analysis of assets and liabilities of the Company as at 31 December 2005 is as follows:

	Overdue RMB'000	Repayable on demand RMB'000	Due within 3 months RMB'000	Due between 3 and 12 months RMB'000	Due between 1 and 5 years RMB'000	Due after 5 years RMB'000	Total RMB'000
Assets:							
Cash on hand	-	1,885,093	-	-	-	-	1,885,093
Due from the central bank	-	34,516,738	6,217,385	26,267,806	3,496,174	78,904	70,577,007
Inter-bank placements	-	-	9,037,827	50,000	-	-	9,087,827
Due from banks	44,500	3,090,010	1,315,607	7,276	585,433	104,911	5,147,737
Trading securities and							
financial investments	-	87,712,550	-	-	-	-	87,712,550
Reverse repurchase agreements	-	-	18,944,290	1,387,586	-	-	20,331,876
Loans	3,884,587	-	56,673,367	223,643,660	59,825,860	22,683,674	366,711,148
Other assets	84	4,033,144	790,507	669,404	737,628	5,838,666	12,069,433
Total assets	3,929,171	131,237,535	92,978,983	252,025,732	64,645,095	28,706,155	573,522,671
Liabilities:							
Inter-bank borrowings	-	-	420,924	-	-	-	420,924
Due to banks	-	12,701,856	6,055,601	1,171,819	648,605	-	20,577,881
Repurchase agreements	-	-	1,383,650	208,050	48,420	-	1,640,120
Customer deposits	-	246,735,977	44,443,733	187,770,142	24,991,700	564,027	504,505,579
Inward and outward remittances	-	2,932,299	-	-	-	-	2,932,299
Dividend payable	-	10,762	-	-	-	-	10,762
Debts issued	-	-	-	-	13,000,000	2,000,000	15,000,000
Other liabilities	-	6,367,786	1,352,331	3,584,905	364,227	796,394	12,465,643
Total liabilities	-	268,748,680	53,656,239	192,734,916	39,052,952	3,360,421	557,553,208
Liquidity gap	3,929,171	(137,511,145)	39,322,744	59,290,816	25,592,143	25,345,734	15,969,463

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The maturity analysis of assets and liabilities of the Company as at 31 December 2004 is as follows:

	Overdue RMB'000	Repayable on demand RMB'000	Due within 3 months RMB'000	Due between 3 and 12 months RMB'000	Due between 1 and 5 years RMB'000	Due after 5 years RMB'000	Total RMB'000
Assets:							
Cash on hand	-	1,466,556	-	-	-	-	1,466,556
Due from the central bank	-	36,049,619	5,418,323	23,490,427	4,569,549	597,188	70,125,106
Inter-bank placements	-	-	8,022,619	418,734	-	-	8,441,353
Due from banks	44,500	3,970,785	24,830	82,765	454,380	107,594	4,684,854
Trading securities and financial investments	-	8,741,947	241,230	7,718,755	18,648,714	11,451,724	46,802,370
Reverse repurchase agreements	-	-	10,607,944	152,500	-	-	10,760,444
Loans	4,618,648	-	56,775,900	169,623,414	41,178,056	29,952,356	302,148,374
Other assets	233,530	1,715,219	1,580,389	810,279	238,506	6,743,854	11,321,777
Total assets	4,896,678	51,944,126	82,671,235	202,296,874	65,089,205	48,852,716	455,750,834
Liabilities:							
Inter-bank borrowings	-	-	2,006,516	-	-	-	2,006,516
Due to banks	-	12,611,709	2,314,651	2,510,028	20,591	-	17,456,979
Repurchase agreements	-	-	6,997,823	1,300,025	-	-	8,297,848
Customer deposits	-	202,632,950	30,456,099	132,374,711	25,938,190	3,356,763	394,758,713
Inward and outward remittances	-	2,899,500	-	-	-	-	2,899,500
Dividend payable	-	14,834	-	-	-	-	14,834
Debts issued	-	-	-	-	6,000,000	-	6,000,000
Other liabilities	-	6,456,424	2,035,495	1,899,455	263,307	21,845	10,676,526
Total liabilities	-	224,615,417	43,810,584	138,084,219	32,222,088	3,378,608	442,110,916
Liquidity gap	4,896,678	(172,671,291)	38,860,651	64,212,655	32,867,117	45,474,108	13,639,918

Maturities are tabulated based on balance sheet date to due date.

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e) Fair values

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties at an arm's length transaction. Subject to the existence of an active market (e.g. authorised securities exchange), the market value is the best reflection of the fair values of financial instruments. As there is no available market value for part of the financial assets and liabilities held and issued by the Company, the present value or other valuation methods described below are adopted to determine the fair value of these assets and liabilities. However, the value determined by such method is subject to the impact of future cash flows, time assumption and discount rates used.

The following methods and assumptions have been used in estimating fair value:

- (i) Financial assets at fair value through profit or loss including trading assets, derivatives and other transactions performed for trading purposes are measured at fair value by reference to the quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or discounted cash flows. Fair value is the carrying amount of these items.
- (ii) The fair value of held-to-maturity securities investments is determined with reference to the available market value. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or discounted cash flows.
- (iii) The fair value of liquid assets and other assets maturing within 12 months is assumed to be approximately equal to their carrying amount. This assumption is applicable to liquid assets and the short term elements of all other financial assets and financial liabilities.
- (iv) The fair value of fixed rate loans is estimated by comparing the market interest rates when the loans were granted with the current market rates offered on similar loans. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values as the impact of credit risk is recognised separately by deducting the amount of the impairment provision from both carrying amount and fair values.
- (v) The interest rate of customer deposits might either be floating or fixed depending on the types of products. The fair values of savings accounts and deposits without maturity date are the amounts payable on demand to customers. The fair values of deposits with fixed terms are determined by the discounted cash flow method. The discount rate adopted is the current interest rate of deposit with the same maturity as the remaining maturity of those deposits.

All the above mentioned assumptions and methods provide a consistent base for the calculation of the fair value of the Company's assets and liabilities. However, other institutions may use different assumptions and methods, and therefore the fair values disclosed by different financial institutions may not be entirely comparable.

The majority of the Company's RMB loans and advances were made at fixed rates and most of the USD loans and advances were made at floating rates. Deposits are made at fixed rates or floating rates depending on their nature. The Company's management estimates that the difference between the fair values and carrying amounts of loans and advances and deposits was not material as at 31 December 2005 because the RMB interest rates have been relatively stable. The fair value is estimated by comparing market interest rates when the loans and advances were granted with current market rates offered on similar loans and advances. The fair value of deposits is estimated based on the same concept.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

Up till 31 December 2005, the financial assets and liabilities with differences between the fair and book values are listed as follows:

	2005-12-31		2004-12-31	
	Book Value RMB'000	Fair Value RMB'000	Book Value RMB'000	Fair Value RMB'000
Financial Assets:				
Held-to-maturity investments	-	-	38,060,423	37,446,358
Financial liabilities:				
Debts issued	15,000,000	15,639,350	6,000,000	6,000,000

38. RELATED PARTIES

Material transactions between the Company and related parties during the year are as follows:

	2005-12-31 RMB'000	2004-12-31 RMB'000
Interest income from:		
Shanghai SIIC (Group) Co., Ltd.	9,506	480
Shanghai International Group Co., Ltd.	13,491	6,932
Shanghai Industrial Development Co., Ltd.	1,395	157
SIIC Shanghai International Trade (Group) Co., Ltd.	217	626
Shanghai National Assets Management Co., Ltd.	30,481	23,869
Shanghai Guoxin Investment and Development Co., Ltd.	-	290

Balances of loans receivable from related parties at the balance sheet date are as follows:

	2005-12-31 RMB'000	2004-12-31 RMB'000
Shanghai SIIC (Group) Co., Ltd.	100,000	100,000
Shanghai International Group Co., Ltd.	300,000	300,000
Shanghai National Assets Management Co., Ltd.	750,000	600,000
Shanghai Industrial Development Co., Ltd.	50,000	-

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005



The relationship of the above related parties to the Company is as follows:

Company	Relationship with the Company
Shanghai International Trust and Investment Co., Ltd.	Shareholder of the Company
Shanghai SIIC (Group) Co., Ltd.	Shareholder of the Company
Shanghai International Group Co., Ltd.	Shareholder of the Company
Shanghai Industrial Development Co., Ltd.	Shareholder of the Company
SIIC Shanghai International Trade (Group) Co., Ltd.	Shareholder of the Company
Shanghai National Assets Management Co., Ltd.	Shareholder of the Company
Shanghai Guoxin Investment and Development Co., Ltd.	Shareholder of the Company

In the opinion of the directors, loans made to the above-mentioned shareholders and affiliated companies as well as to other related companies and shareholders who held less than 5% of the share capital of the Company were transacted at normal commercial terms and the interest rates charged on loans to these related parties were based on the market rates set by the PBOC.

39. FEES AND REMUNERATION PAID TO DIRECTORS, SUPERVISORS AND KEY MANAGEMENT PERSONNEL

39a. Fees and remuneration paid by the Company to the directors, supervisors and key management personnel during the current financial year are as follows:

	2005-12-31 RMB'000	2004-12-31 RMB'000
Total remuneration	6,370	5,326
Total remuneration paid to the 3 highest pay directors	3,294	2,062
Total remuneration paid to the 3 highest pay senior management	2,020	1,476
Allowance paid to independent directors	60	60
Other remuneration paid to independent directors	Nil	Nil

NOTES TO THE FINANCIAL STATEMENTS

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Number of directors of the Company whose remuneration falls into the following bands:

	2005	2004
RMB200,000 to RMB400,000	Nil	1
RMB400,001 to RMB600,000	Nil	7
Above RMB600,001	8	2

39b. 14 directors and supervisors did not receive fees or any other form of remuneration from the Company during the current financial year (2004: 14).

40. RETIREMENT BENEFITS

In accordance with the regulations of the related PRC Municipal Government where the Company operates, the Company is required to contribute employee retirement benefits to the Labour Department of the Municipal People's Government. The contributions are calculated based on a percentage of the employees' salaries, ranging from 8% to 23% (2004: 8% - 23%), as prescribed by local government policies at the respective localities where branches and sub-branches are based.

In addition, the Company participates in a corporate pension fund scheme managed by an insurance company. The Company pays fixed contribution to the corporate pension fund under the arrangement of the scheme. The Company does not have a legal or constructive obligation to pay further amount in respect of the employee benefits relating to services in the current and prior periods. All contributions are recognized as expense when incurred.

41. IMPACT OF IFRS ADJUSTMENTS ON NET PROFIT AND NET ASSETS

	Net profit in 2005 RMB'000	Net assets as at 2005-12-31 RMB'000	Net profits in 2004 RMB'000	Net assets as at 2004-12-31 RMB'000
As reported in the audited statutory financial statements	2,485,417	15,525,921	1,930,031	13,510,304
Add/ (less): Restatement of trading securities at fair value	83,902	293,877	32,116	209,975
Restatement of available- for-sale investments at fair value	-	360,211	-	-
Restatement of derivative instruments at fair value	31,319	(37,157)	41,098	(68,476)
Others	(6,883)	45,072	(19,225)	51,955
Deferred tax effect	(35,751)	(218,461)	(17,817)	(63,840)
As reported in these financial statements	2,558,004	15,969,463	1,966,203	13,639,918

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005



42. SIGNIFICANT EVENTS

42a. Issuance of no more than RMB700 million ordinary shares

Pursuant to a resolution passed at the year 2004 first extraordinary shareholders' meeting held on 31 May 2004, the Company changed its decision to raise additional capital by issuing no more than RMB700 million ordinary shares instead of issuing convertible bonds as proposed earlier. The Company's application to issue no more than RMB700 million type A ordinary shares was approved by the China Securities Regulatory Commission's Department of Public Offering Supervision on 19 April 2005. Pursuant to a resolution passed at the year 2005 first extraordinary shareholders' meeting held on 28 June 2005, the Company extended the timeframe to issue no more than RMB700 million ordinary shares until 31 May 2006.

42b. Second supplemental agreement on strategic cooperation with Citibank and its related parties

Pursuant to the resolution of the 4th Meeting of the Third Board of Directors held on 22 December 2005, the Board approved the Company to enter into the second supplemental agreement on strategic cooperation with Citibank and its related parties. In conjunction with this, three agreements namely share purchase option termination agreement, share put option termination agreement and notice on the termination of share purchase option were signed among the Company, Citibank Investment (Overseas) Company, Shanghai National Assets Management Co., Ltd. and Shanghai Jiushi Co., Ltd. This resolution is to be rectified by the coming Shareholders' meeting.

43. POST BALANCE SHEET EVENT

Pursuant to the resolution of the 6th Meeting of the Third Board of Directors held on 17 January 2006, the Board approved Shanghai International Group Co., Ltd. acquiring a combined 629,640,000 shares or 16.08% stake in the Company from six existing shareholders of the Company, namely Shanghai National Assets Management Co., Ltd. (190,050,000 shares or 4.85%), Shanghai Jiushi Co., Ltd. (164,700,000 shares or 4.20%), Shenneng Co., Ltd. (75,000,000 shares or 1.92%), Dongfang International (Group) Co., Ltd. (75,000,000 shares or 1.92%), Shanghai Guoxin Investment and Development Co., Ltd. (63,390,000 shares or 1.62%) and Shanghai Industrial Development Co., Ltd. (61,500,000 shares or 1.57%). The Board also approved Shanghai International Trust and Investment Co., Ltd. acquiring 42,500,000 shares or 1.09% stake in the Company from Shanghai Zhenghuan Industrial (Group) Co., Ltd. Should the stake sell be successful, Shanghai International Group Co., Ltd. and Shanghai International Trust and Investment Co., Ltd. would become the Company's largest and second largest shareholder, holding 814,990,000 shares or 20.81% and 317,000,000 shares or 8.1% stake in the Company respectively. The share transfer is subject to regulatory approval.

44. COMPARATIVE AMOUNTS

Certain comparative figures have been reclassified to conform with the current year's presentation.

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements of the Company for the year ended 31 December 2005 were approved in accordance with a resolution of the directors on 28 February 2006.



Shanghai Pudong Development Bank
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