Poised for growth

Annual Report 2005

深圳发展银行
SHENZHEN DEVELOPMENT BANK CO.,LTD.

Challenges and opportunities

The year 2005 marked the start of a new era for Shenzhen Development Bank ("SDB"). This annual report illustrates the key accomplishments of SDB in 2005, a year of challenge, change, opportunity and building for the future.

Cover: Shanghai at dawn

The image of the beginning of a new day in Shanghai is apt. After a year of change, SDB has embarked on a new phase, a new beginning. SDB's people and processes are now poised to achieve sustained growth.

	Region			
	South	East	North	Mid-West
Number of banking outlets	128	61	37	12
Assets under management (RMB billion)	87	81	52	9
2005 growth rate				
– Corporate deposits	▲ 11%	▲ 20%	▲ 37%	▲ 20%
– Corporate loans	▲ 17%	▲ 19%	▲ 29%	▲ 69%
– Retail deposits	▲ 14%	▲ 35%	▲ 42%	▲ 63%
– Retail loans	▲ 27%	▲ 22%	▲ 92%	▲ 107%

Shenzhen Development Bank (SZSE 000001), the first bank to be publicly listed on the Stock Exchange in Shenzhen, China, is a national bank headquartered in Shenzhen with over RMB 229 billion in assets. Established on 28 December 1987, SDB provides a broad range of financial services to commercial, retail, and government customers, through over 238 branches and sub-branches, with over 7,000 employees in 18 major cities across China. The bank is approximately 72% owned by tradable shares held by the public; 17.9% is owned by Newbridge Asia AIV III, L.P.

Contents

Corporate Information

Registered name in Chinese

深圳发展银行股份有限公司
(Abbreviated as: 深圳发展银行, hereafter referred to as "the Bank")
Registered name in English: Shenzhen Development Bank Co., Ltd.

Legal Entity Representative

Frank N. Newman

Secretary of the Board of Directors

Xu Jin

Secretariat of the Board of Directors,
Shenzhen Development Bank Tower,
5047 Shennan Road East,
Shenzhen, Guangdong Province,
People's Republic of China
Tel: +86 (755) 8208 0387
Fax: +86 (755) 8208 0386
E-mail: dsh@sdb.com.cn

Securities Affairs Representative

Lu Xuguang

Address of Incorporation

Shenzhen Development Bank Tower,
5047 Shennan Road East,
Shenzhen, Guangdong Province,
People's Republic of China
Post code: 518001
Website: www.sdb.com.cn
E-mail: dsh@sdb.com.cn

Designated Information Disclosure Newspapers

China Securities Times, Securities Times
CSRC-designated website for annual report release:
www.cninfo.com.cn
Annual Report available on request:
Please contact Secretariat of the Board of Directors

Listing Exchange for the Bank's Common Stocks

Shenzhen Stock Exchange

Stock abbreviation: 深发展A (SDB A)
Stock code: 000001

Other relevant information of the Bank

Date of initial registration: 22 December 1987
Date of registration modification: 27 October 2005

Registered address:
5047 Shennan Road East, Luohu District,
Shenzhen, Guangdong Province,
People's Republic of China

License registration number for enterprise legal person:
4403011010334

Bloomberg: 000001 CH

Tax registration number:
National Tax (440301192185379)
Local Tax (440303192185379)

Domestic Certified Public Accountants engaged by the Bank:
Shenzhen Pengcheng CPA
5/F Baofeng Building, 2006 Dongmen Road South,
Shenzhen, Guangdong Province,
People's Republic of China

Overseas Certified Public Accountants engaged by the Bank:
Ernst & Young
18th Floor, Two International Finance Centre,
8 Finance Street, Central,
Hong Kong

Important

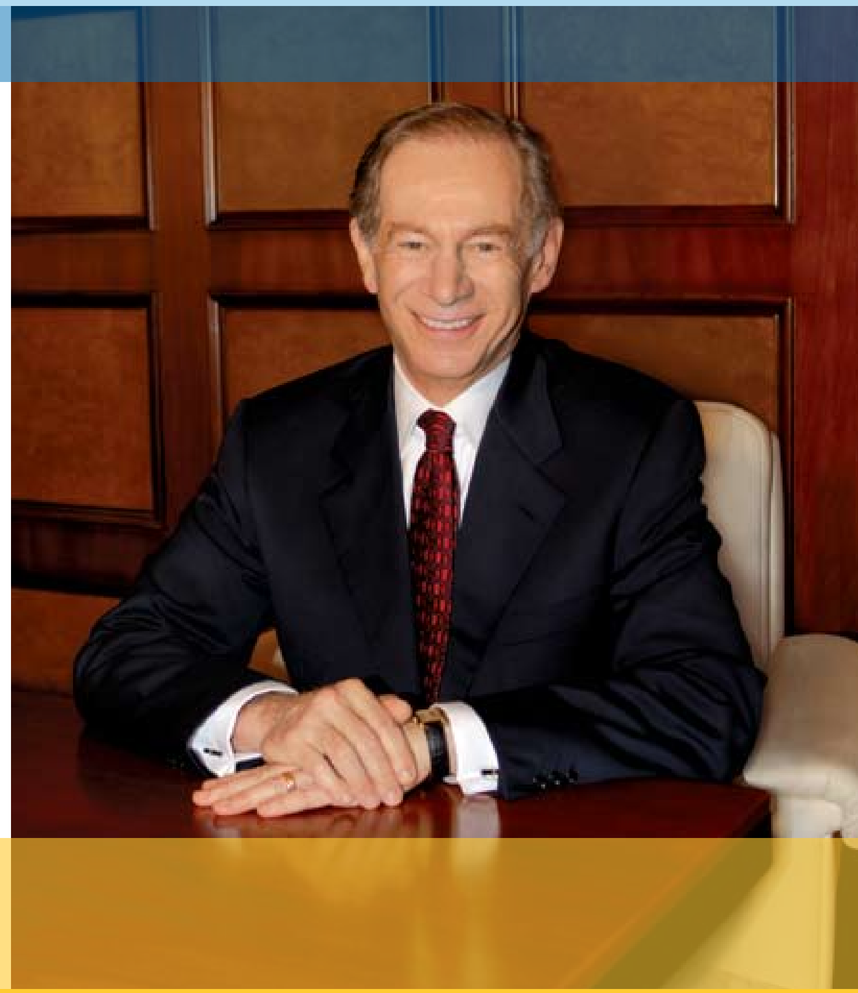
The board of Shenzhen Development Bank ("SDB") and its directors warrant that there are no material omissions from, or misrepresentations or misleading statements contained in this annual report, and jointly and severally accept full responsibility for the authenticity, accuracy and completeness of the information contained in this report. Mr Timothy D. Dattels could not attend the 12th meeting of the 6th session of the board for reason of official duties and authorized Daniel A. Carroll to vote on his behalf. The actual attendance of directors was 13, and the board approved the full annual report and extracts unanimously. Shenzhen Pengchang CPA and Ernst & Young audited the financial statements prepared under PRC GAAP and IFRS respectively and have issued unqualified opinion to the reports. Chairman and CEO Frank N. Newman, CFO Wang, Bomin and Financial Controller David Choy hereby warrant the authenticity and completeness of the financial statements contained in this report.

This report is prepared in Chinese and English respectively. In case of interpretational differences, the Chinese version shall prevail.

Financial Highlights

	2004	2005	Change in %
For the year ended 31 December *RMB million*			
Net interest income	4,176	**4,107**	▼ 2%
Fee & commissison income	323	**380**	▲ 18%
Profit before tax	498	**639**	▲ 28%
Net profit	294	**352**	▲ 20%
Earnings per share	0.15	**0.18**	▲ 20%
At the year end *RMB million*			
Total shareholder equity	4,734	**5,043**	▲ 7%
Total assets	204,443	**229,216**	▲ 12%
Net assets per share	2.43	**2.59**	▲ 7%
Key ratios			Improvements
Non-performing loans (NPL) ratio	11.4%	**9.3%**	210bp
Return on average equity	6.42%	**7.16%**	74bp
Capital adequacy ratio			
Core capital	2.32%	**3.71%**	139bp
Total capital	2.30%	**3.70%**	140bp

Message from the Chairman and CEO



“During 2005, the Bank performed well in terms of business growth and earnings, and began some major business initiatives to turn opportunities into successes.”

“We expect that in 2006 and the years that follow, the Bank will share more successes with stakeholders.”

To our Shareholders

Shenzhen Development Bank ("SDB") achieved a great deal of progress in 2005, a year full of challenges and opportunities. On behalf of the Board of Directors, the senior management, and all of our staff, I am very pleased to report to investors and the public some of the key accomplishments.

During 2005 the Bank saw great improvement in the key challenges of capital, non-performing loans ("NPLs"), people, and processes. It performed well in terms of business growth and earnings, and began some major business initiatives to turn opportunities into successes.

After a very slow start at the beginning of 2005, business started to grow actively in the second quarter, and by year-end deposits grew 21% and total loans grew 24% compared with the year-end balance of 2004. Compared with 2004, profit before tax increased by 28%, and profit after tax increased 19%. After-tax Return on Average Equity rose from 6.42% in 2004 to 7.16% in 2005.

The capital ratio and NPL ratio, two major challenges for the Bank in 2005, improved very dramatically during the course of the year. The Core Capital Adequacy Ratio improved significantly, from 2.32% at 2004/12/31 to 3.71% at 2005/12/31, as a result of internal capital generation and careful balance sheet management. Moreover, preparations have been made for substantial addition of new capital by GE. Because of successful collection on legacy problem loans and growth in good quality new credit, the NPL ratio declined from 11.4% at the end of 2004 to 9.3% at year end 2005.

Commercial banking grew well with innovative initiatives in trade finance and other programs for medium size enterprises. The Bank's retail business grew at an especially rapid rate and will play an increasingly important role in the future. Our cooperative agreement with GE will help propel SDB's retail programs even more strongly.

SDB is also moving forward in the two key areas of people and processes. The Bank took important steps in forming a strong team and filling in key positions. The rich experience and knowledge of our talented people are a key driving force for our sustainable growth. Management processes were substantially upgraded in core business functions such as asset liability management, credit policy, human resources policy, and IT management. In credit management, financial management, and internal controls, the Bank set out to benchmark international best practice and has become more centralized, coordinated and professional in these key areas of bank management.

The 6th session of the Board of Directors has endeavored to fulfill responsibilities in accordance with the highest international standards of good corporate governance. With its blend of international banking expertise and understanding of local business and customs, the Board has contributed to many effective decisions that are supporting the Bank in this major transition period.

All these achievements would not have been possible without the trust of our customers, guidance from the regulators, the efforts of our staff, and advice and support from knowledgeable government officials. The Bank has stepped forward from a very challenging time and is on its way towards becoming a great bank with modern corporate governance, advanced business operations, and first-class customer services, fulfilling its responsibilities in the economy.

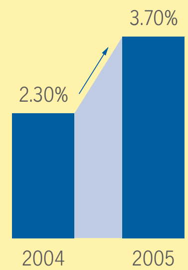
We are pleased with SDB's achievements in 2005 and believe they represent a very good start in a program for the next years. The Bank will continue to develop and maintain the highest possible standards in terms of professionalism, integrity, customer service, and efficiency, and we are determined to contribute even greater value to shareholders and the economy. We expect that in 2006 and the years that follow, the Bank will share more successes with stakeholders.

Frank N Newman

Frank N. Newman
Chairman of the Board of Directors
and Chief Executive Officer

Review of Our Businesses

Tai chi – This ancient form of exercise from China builds "inner health" through balanced and coherent arm, leg and body movements. Unlike running and swimming, Tai Chi does not emphasise pace. Instead, it teaches practitioners to develop the beneficial habit of matching body movements to inhalation and exhalation.



RMB million	2004	**2005**	Change
Net capital	3,310	**4,880**	47% ▲
Risk-weighted assets	143,681	**131,713**	8% ▼
Capital Adequacy Ratio	2.30%	**3.70%**	140bp ▲
Core Capital Adequacy Ratio	2.32%	**3.71%**	139bp ▲

A 20% increase in both net profits and earnings per share in 2005 was generated by careful risk-weighted assets allocation and control. Therefore we managed to grow our net capital faster than our risk-weighted assets and significantly improved the Capital Adequacy Ratio.

Capital Adequacy Ratio

up 140 basis points

Improved Capital Base

The year under review was one of substantial transition and SDB continues to make marked progress in its operational areas and in its financial results. A critical achievement in 2005 was the significant strengthening of our capital base and capital adequacy ratio, with the Core Capital Adequacy Ratio ("CCAR") improving from 2.32% at year end 2004 to 3.71%.

This increase was achieved not by raising capital externally but as a result of earnings and strong execution of balance sheet management throughout 2005 to generate capital internally.

This rigorous balance sheet management is now an integral part of our corporate culture and is seen as a key routine discipline. This will contribute significantly to the long-term improvement of the inner health of the Bank.

The Bank significantly strengthened key management processes and controls during the year in a drive towards increased efficiency.

Enhanced Controls and Coordination

A series of steps were taken in 2005 to strengthen the Bank. SDB's management team now benefits from a combination of strong talent from within the Bank, expertise from other banks in China, and experienced international banking executives.

We are placing particular emphasis on professionalism, integrity, efficient use of capital and operational efficiency. We have set high expectations of our management in terms of quality.

A number of management processes and controls were improved or enhanced. From vertical control of branches to reorganization of credit, finance and internal control functions, we aim for consistent execution of strategy, operations and closer links between branches and head office. This enabled us to operate on the same platform and with a unified sense of direction. In short, we are now working together as ONE BANK.

Kites – Kites originated in China 3,000 years ago and are a metaphor for management of direction and control. The kites in the picture are identical, linked together and flying high. It is a symbolic representation of standardization, coordination, control and growth.

Striding Forward with a Dynamic Management Team and New Focus

We have reinvigorated the business and created a new sense of dynamism through the many measures we have taken, and the changes we have implemented.

We have laid a firm foundation during the year through our stronger financial health, improved management of assets and liabilities, stronger governance, broader management team, and closer internal links. We have already seen improved business and financial results for 2005 and we expect further enhancements going forward.

We have a clear sense of direction and are implementing a broad programme of positive change with speed and determination. GE Consumer Finance, the global consumer lending unit of General Electric Company, is assisting the Bank in developing its business and operations. SDB looks forward to substantial development of its consumer finance business, as well as continued growth of its other retail services, and continued expansion of its corporate business.

We are confident that the Bank will continue striding forward with a new sense of direction and reinvigorated management. We believe a bright future lies ahead.

The major changes we implemented during 2005 will ensure all our businesses benefit fully from the major opportunities in thriving Chinese cities such as Shanghai.

Dragon dancing – The dragon is a Chinese symbol of leadership. Dragon dancing is a traditional Chinese art form, an image of movement, dynamism and clear direction.

2005 Milestones

January
Launch of the first **"China Youth Credit Card"** – a critical step in developing the youth community customer base.

February
Annual meeting of the entire bank held in Shenzhen.

March
Strategic co-operative agreement with Small & Medium Enterprise Co-operation Center of Shandong province.

Set up two Board Committees: the Risk Management Committee plus the Strategy and Development Committee.

April
Strategic co-operative agreement with **China National Foreign Trade Transportation Corporation**.

Agreement signing ceremony with **Nanjing Metro**, confirming SDB as the sole banking service provider in Nanjing Metro, providing banking service in 16 Metro stations.

May
Mr Frank N. Newman appointed as Chairman of the Board.

SDB obtains **license for offshore guarantee business**. SDB is currently one of only four banks in China with an offshore banking license.

Shanghai branch launch **"Payment Easy"** banking service.

SDB is the first bank in China to issue a letter of credit to **Emirates National Oil Company Ltd.** (the 3rd largest oil company in the Middle East). The LC issued amounted to USD 20m, involving 8 tonnes of fuel and oil.

June
Strategic co-operative agreement with **Air China** and **China Southern Airlines** on electronic ticketing payment & settlement service.

SDB is the first listed commercial bank in China to obtain a **gold dealing and trading license** from the **Shanghai National Gold Exchange**.

SDB launch Internet and phone banking service for open-end fund trading.

July
SDB 95501 Customer Service Call Centre obtains a **Top 10 Customer Satisfaction Award**.

August
Restructuring of Corporate Banking Group.

Product Development Department and Trade Finance Department set up.

September
Agreement signing ceremony with **Tianjin Metro** for provision of banking services in Tianjin Metro Station.

October
Strategic co-operation with **GE Consumer Finance**.

November
Strategic co-operative agreement with **FAW-Volkswagen** Shanghai.

SDB corporate website rated as **"Outstanding Banking Website in China"** and **"Most personalised website."**

December
Awarded **VISA**'s **"2005 Outstanding Youth Card"** product award.



Corporate Banking Group

We completed a range of key initiatives during the year.

We repositioned our strategy by introducing a supply chain financing concept that is focusing on trade finance business, and medium sized enterprises as our target customers.

We focused on promoting our brand “a supply chain financing specialized bank”, providing one-stop integrated financial services to our customers, and extending our trade finance business to each area in the supply chain process. From areas such as prepayments and accounts receivables to inventory management, our services aim to provide effective solutions to the funding imbalance issue in a supply chain.

To support our new strategy focus, we have finished four key tasks namely: restructuring our organization structure and management procedures, established logistics flow control and computerized infrastructure. We have signed a number of co-operation agreements this year. Our strategic co-operation agreement with the largest transportation and logistics companies of China: China National Material Storage and Transportation Corporation (“CMST”), COSCO Logistics and China National Foreign Trade Transportation (Group) Corp (“SINOTRANS”) have enable us advantages to provide integrated financial services to the suppliers, manufacturers, wholesalers, retailers and end users of our financial services.

Besides, we also strengthened our co-operation relationship with Sinopec, one of the largest petroleum companies in China. This relationship has consolidated our leading position in the energy financing areas.

In future, we will also enrich our supply-chain financial services content and widen our scope of products in the trade finance businesses with an aim to add value to each individual corporate in the whole supply chain.

Agreement signing ceremony with a Sinopec company

“We took a number of important actions in 2005 that centered on re-positioning SDB’s corporate banking offering to increase the focus on trade finance and small & medium sized companies. We have established our strategy and have made good progress already in terms of both the width and depth of the transition.”

Mr Hu Yuefei, Vice President
Head of Corporate Banking Group

Retail Banking Group

Our strategy in retail banking is to strengthen and consolidate the platform on which we do business and to invest for the long-term future of our operations. During the year, in support of this strategy, we maintained stable business relationships with over 16 mutual fund management companies in China that together constitute one-third of all mutual fund houses in China. We acted as sales agent for over 60 different mutual funds, with sales for the year amounting to RMB 188 million, an increase of more than 80% over 2004. In this connection, our customer service call center processed over 250,000 transactions and 1,000,000 enquiries in total. It won the "2005 Top Ten Best Quality Call Center Award" and the "2005 Top Ten Competitive Brand Award" from the China People's Daily and China News Center respectively.

We saw strong performance of our wealth management products. For example, we launched our Jucaibao Personal Wealth Management Products – Series B to F in June 2005. By year end, total sales had exceeded RMB 6.7 billion.

Internally, we have set up operational platforms and standardization processes for a range of retail product types, ranging from clearing and settlement procedures to mobile-banking and personal loan services.

In terms of overall customer promotion, we launched a nationwide campaign in the second quarter, attracting good publicity and media exposure. As a result, our retail deposits grew by 23% while personal loans grew by 33% in 2005.

We proved our ability to compete against other commercial banks in China when we were awarded the sole rights to provide banking operations in the 17 stations of the Nanjing Metro network.

Finally, GE Consumer Finance ("GECF") is assisting SDB in developing our retail businesses. Key areas in which GECF executives are supporting us include credit card and mortgage operations, IT and general retail operations re-structuring. We intend to deepen and broaden our co-operation with GECF in future years.

A password-controlled credit card, a return-enhanced retail product "Jucaibao" and an interest-saving mortgage plan are three of SDB's latest unique retail products.

"We have gained public recognition of our service quality. And our retail products, which offer our customers enhanced returns, have been well received. With expanded co-operation with GE Consumer Finance, we are confident we will turn additional opportunities into successes."

Mr Liu Baorui, Vice President
Head of Retail Banking Group

Special Assets Group

A special effort is placed in management of non-performing assets, and asset recovery and management of the recovered assets. We had a highly satisfactory year, recovering over RMB 2 billion worth of non-performing loans in the form of cash or property, a far higher level than RMB 1.4 billion in 2004, and RMB 1.2 billion in 2003.

We restructured the way in which we manage non-performing assets by setting up a Special Assets Center in Shenzhen that has centralized our asset recovery operations and is standardizing our performance measurement and bonus systems.

We augmented the structural enhancements with investment in people development. A key initiative involved the organization of formal training using real-life case studies of the deteriorating credit quality of borrowers, defaults and subsequent recovery actions.

Financial Insitutions Group

Our core institutional businesses are inter-bank borrowing and lending transactions, bonds or other fixed-income securities investments and derivative products. In 2005, we completed the internal re-organization of this Group. An important move during the year was to enhance communication and networking with regulators and other financial institutions.

Through partnership with our Retail Banking Group, we developed a foreign-currency based retail product as part of the Juhuibao Personal Wealth Management Products series. This was well-received in the market.

Finally, we were successful in obtaining a trading, settlement and clearing license from the Shanghai National Gold Exchange. We are one of just five banks in China that is licensed to develop retail products based on the value of gold. The license supports the range of products we can develop for customers. In 2006, we will continue to launch gold and foreign exchange products and services to our retail customers.

"Our recovery of RMB 2 billion worth of non-performing assets in 2005 is a record result for SDB. More importantly, 81% of the recoveries were in the form of cash."

Mr Wang Ji, Special Advisor
Head of Special Assets Group

"We have brought attractive products to our customers and are one of only five banks in China to obtain a trading license at the Shanghai National Gold Exchange."

Mr Hao Jianping, Vice President
Head of Financial Institutions Group

Board of Directors

Frank N. Newman *Chairman & CEO*

1963-1969	Consulting Manager, KPMG
1969-1973	Vice President, Citigroup
1973-1986	Vice President, Senior Vice President, Executive Vice President and CFO, Wells Fargo Bank
1986-1993	Vice President, CFO, Vice Chairman, Bank of America
1993-1995	Chief Secretary for U.S. Finance, Deputy Secretary, U.S. Treasury Department
1995-1999	Senior Vice President, President & CEO, Chairman, Bankers Trust
2000-2005	Director, Korea First Bank
2004	CEO, Vice-chairman (non-executive), The Broad Center for Management of School Systems
2004.12-2005.6	Independent Director, Shenzhen Development Bank
2005.5-2005.6	Representative Chairman & CEO, Shenzhen Development Bank
2005.6-Now	Chairman & CEO, Shenzhen Development Bank

Au Ngai *Director*

1993-1994	Associate Manager, Kearney Management Consulting (Hong Kong) Co. Ltd.
1994-1995	Investment Manager, Bankers Trust
1995-Now	Senior Advisor, Newbridge Capital
2004.12-Now	Director, Shenzhen Development Bank

Cai Zhengxiang *Director*

2000-Now	Director, Scientific Research Center; Director, Assets and Equipment Department, Shenzhen University
1995-Now	Chairman, Shenzhen Nanshan Ph.Ds Association
1999-2002	Chairman, BOD of Wangguo Software (Shenzhen) Co., Ltd
2000-Now	Member, Shenzhen Political Consultative Committee
1998-Now	Director of the 4th, 5th and 6th Session of the Board of Directors of Shenzhen Development Bank

Daniel A. Carroll *Director*

1986-1995	Executive Partner, Hambrecht Quist/H&Q Asia Pacific Ltd (Direct Investment)
1995-Now	Co-Managing Partner, Newbridge Capital
2000-2005	Director, Korea First Bank
2004.12-Now	Director, Shenzhen Development Bank

Timothy D. Dattels *Director*

1987-1990	Vice President, First Boston
1990-2003	Managing Director, Goldman Sachs
2004-Now	Managing Director, Newbridge Capital
2004.12-Now	Director, Shenzhen Development Bank

1980-2005	Managing Director, Lehman Brothers Japan
2000-2002	Director, Aozora Bank
2000-2005	Director, Korea First Bank
2004.12-Now	Independent Director, Shenzhen Development Bank

Michael O'Hanlon *Independent Director*

1997-2001	Director, Shenzhen Legislative Affairs Bureau
2001	Early Retirement after working 30 years
2001-2005	Independent Director, China Dragon Fund Management Co., Ltd
2001-Now	Independent Director, Penghua Fund Management Co., Ltd
2002-Now	Lawyer, Beijing D.P. X Law Firm, Shenzhen branch
2004.12-Now	Independent Director, Shenzhen Development Bank

Hao Zhujiang *Independent Director*

1985-Now	Principal, Shenzhen Experimental School
2003-Now	President, Management Committee of Shenzhen Experimental Education Group
1992-Now	Director of the 2nd, 3rd, 4th, 5th and 6th Session of the Board of Directors of Shenzhen Development Bank

Jin Shiru *Director*

1982-1999	Executive Partner, JP Morgan
1999-2001	Visiting Professor, Department of East Asian Studies, Princeton University
2002-2005.7	Chairman, Morgan Stanley Properties, China
2000-2005	Director, Bank of Shanghai
2003-2004	Director, Nanjing City Commercial Bank
2005.8-Now	Advisor Director, Morgan Stanley Securities Company Real Estate Investment Department
2004.12-2005.5	Chairman, Shenzhen Development Bank
2005.5-Now	Director, Shenzhen Development Bank

John D. Langlois *Director*

1981-Now	Business Agent, Associate Director, General Manager of US subsidiaries, Manager of President Office, Vice President, Acting President, President, China National Electronic Import and Export Corporation; Chairman of Shenzhen China Electronic Investment Co.
2004.12-Now	Director, Shenzhen Development Bank

Qian Benyuan *Director*

Shan Weijian *Director*

1998-Now	Co-Managing Partner, Newbridge Capital
2000-2005	Director, Korea First Bank
2005.6-Now	Director, Shenzhen Development Bank

Yuan Chengdi *Independent Director*

1996-2002	Vice Chairman, Shenzhen Arbitration Commission
2002	Retired
1996-Now	Chief, Expert Consultancy Committee of Shenzhen Arbitration Commission
2001-Now	Independent Director of the 5th and 6th Session of the Board of Directors of Shenzhen Development Bank

Zheng Xueding *Independent Director*

1984-1988	Lecturer, Accounting Dept., Jiangxi University of Finance
1988-1991	Graduate Student, Jiangxi University of Finance
1991-Now	Secretary General of Shenzhen Association of CPA
2001-Now	Independent Director of the 5th and 6th Session of the Board of Directors of Shenzhen Development Bank

Zhou Jun *Director*

1987-1991	Zhejiang Branch of China Construction Bank
1991-1995	Shenzhen Branch of Bank of Communications
1995-2005.5	Haitong Securities Co., Ltd
2005.5-Now	Pingan Securities Co. Ltd.
2004.12-2006.3	Director, Shenzhen Development Bank

Board of Supervisors

Kang Dian *Chairman of Board of Supervisors (External Supervisor)*

1984-1987	Deputy Head/Head, CITIC
1987-1990	Deputy General Manager, China Agricultural Investment Trust Co., Ltd
1990-1994	General Manager, China Packaging Company
1994-2000	Deputy Managing Director, Guangdong Enterprise Co., Ltd
2001-2005	Chairman & CEO, Shirui Investment Management Co. Ltd.
2005.6-Now	Chairman of the 5th Session of the Board of Supervisors of Shenzhen Development Bank

Guan Weili *External Supervisor*

1996.3-2004.5	President, China Enterprise Consulting
2004.11-Now	Chairman, Beijing Baihuiqing Investment Management Co. Ltd.
2005.1-Now	External Supervisor, Shenzhen Development Bank The 5th Session of the Board of Supervisors

Huang Shouyan *Employee Supervisor*

2001-Now	Futian Sub-branch Manager, General Manager, Corporate Banking Department, Assistant President and Labour Union Vice President, Shenzhen Development Bank
2005.1-Now	Employee Supervisor, Shenzhen Development Bank The 5th Session of the Board of Supervisors

Luo Long *Supervisor*

2001-2003	Chief China Representative, Manulife Financial
2003-Now	Managing Director, Asia Equity
2005.6-Now	Supervisor, Shenzhen Development Bank The 5th Session of the Board of Supervisors

Qiu Weiping *Employee Supervisor*

2001-Now	General Manager, Shenzhen Development Bank Wholesale Banking Department General Manager, Corporate Banking Group Manager President of Nanjing Branch and Shanghai Branch
2005.6	Employee Supervisor, Shenzhen Development Bank The 5th Session of the Board of Supervisors

Wang Kuzhi *Supervisor*

1992-2005.1	Vice Chairman of 4th Session Boards of Supervisors, Shenzhen Development Bank
2005.1-Now	Supervisor, Shenzhen Development Bank The 5th Session of the Board of Supervisors

Wu Zhengzhang *Supervisor*

2000.8-Now	Chief Representative, Shenzhen Development Bank Beijing Representative Office
2003.5-Now	Deputy Branch Manager, Shenzhen Development Bank Beijing Branch
2005.1-Now	Employee Supervisor, Shenzhen Development Bank The 5th Session of the Board of Supervisors

Our Officials

Frank N. Newman *Chairman & CEO**
(*Biography please see page 16*)

Kang Dian *Chairman of BOS**
(*Biography please see page 19*)

Management Executives

Liu Baorui *Vice President, Head of Retail Banking Group**

1998-Now	Assistant President, Vice President, Shenzhen Development Bank

Hao Jianping *Vice President, Head of Financial Institutions Group**

1993.8-2001.5	Executive Vice President, Macao Branch, Guangdong Development Bank
2001.6-2002.7	President, Zhuhai Branch Guangdong Development Bank
2002.8-2003.10	Vice President Level, Shenzhen Development Bank
2003.10-Now	Vice President, Shenzhen Development Bank

Wang Bomin *Assistant President, Chief Financial Officer**

1995.6-2002.8	Head of Financial Engineering and Market Risk, Vice President, Treasury Group, Citibank Taiwan
2002.8-2003.1	Head of Financial Division, Senior Vice President, Taishin Financial Holdings
2003.1-2005.5	Head of Risk Division, Senior Vice President, Taishin Financial Holdings
2005.5-Now	Chief Financial Officer, Shenzhen Development Bank

Xu Jin *Board Secretary/GM of Legal Affairs Dept.**

1999.4-2003.6	Asset Security Dept. Deputy GM, Shenzhen Development Bank
2001.5-2003.5	SZ Special Assets Management Center Director, Shenzhen Development Bank
2003.6-Now	Legal Affairs Dept. GM, Shenzhen Development Bank
2005.1-2005.5	Employee Supervisor, Shenzhen Development Bank
2005.5-Now	Board Secretary, Shenzhen Development Bank

Wang Ji *Special Advisor, Head of Special Assets Group*

Hu Yuefei *Vice President, Head of Corporate Banking Group#*

Simon Lee *Chief Credit Officer*

Zhou Li *Head of the Shenzhen Branch##*

Zhao Na *Chief Human Resources Officer*

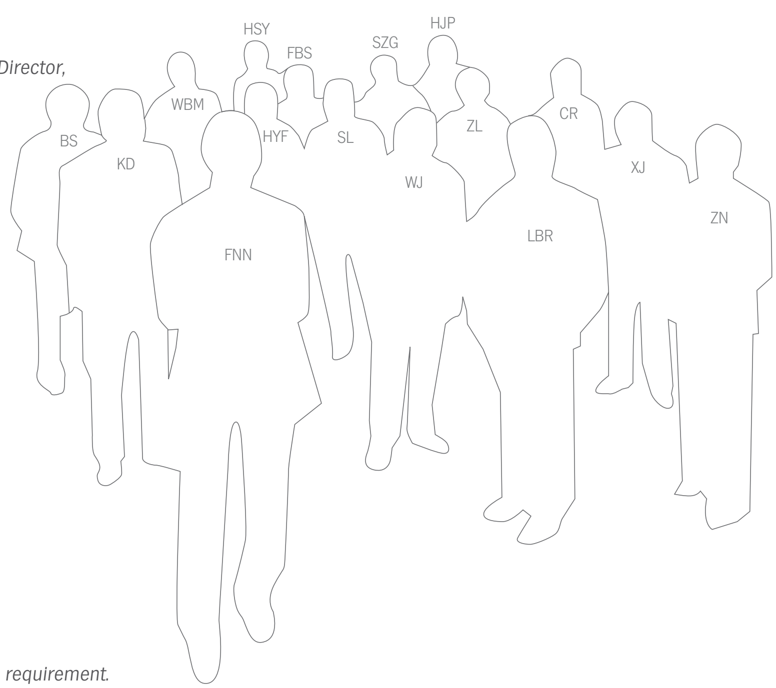
Bruce Sun *Chief Information Officer*

Huang Shouyan *Head of the Head Office Branch*

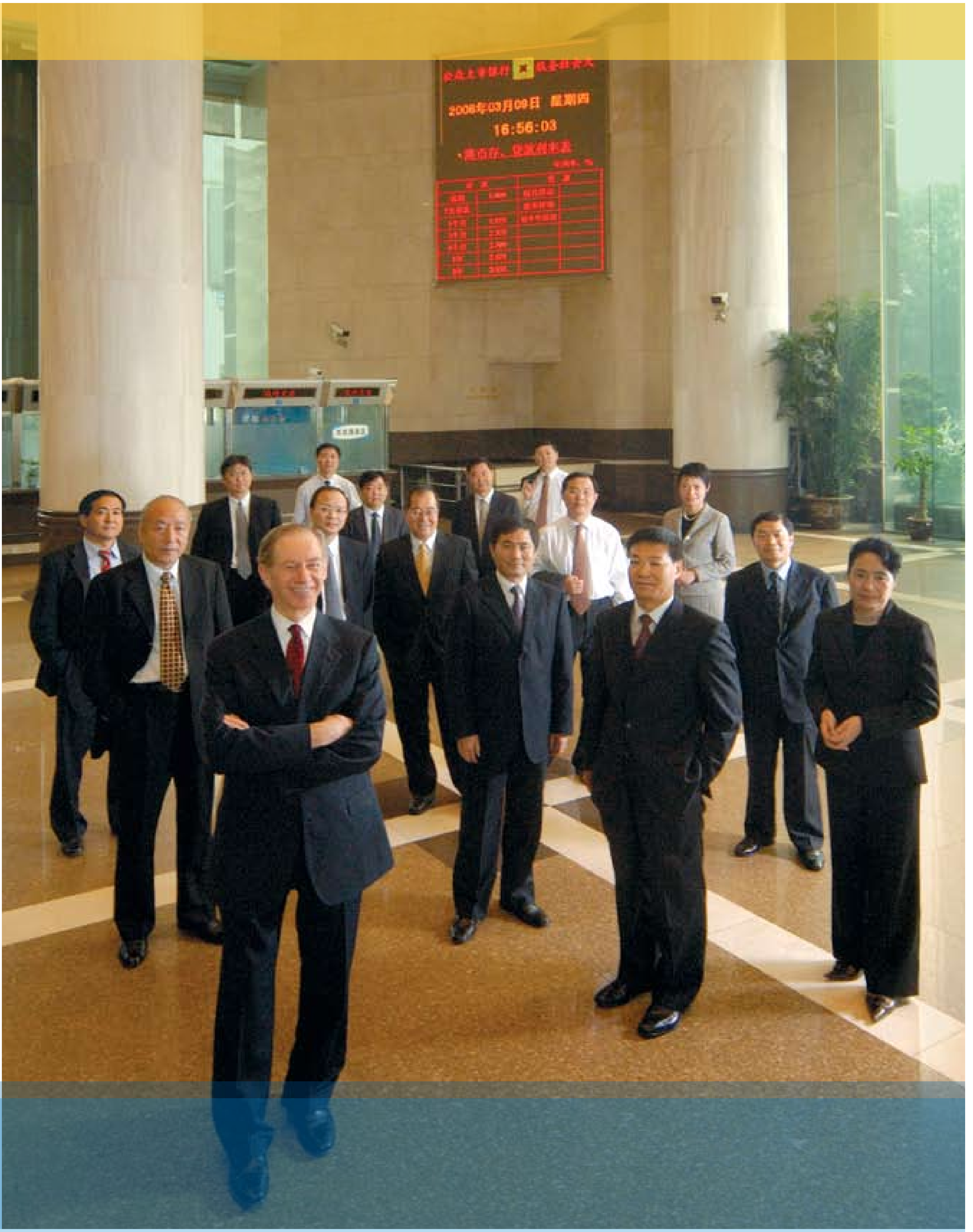
Chen Rong *Chief Internal Control Officer*

Feng Baosen *Head of Logistics Department*

Song Zhenguang *Chairman of Labor Union*



* Biography provided in accordance with regulatory disclosure requirement.
# Mr Hu Yuefei has been promoted as Vice President in 2006.
Shenzhen Management Office has been approved as Shenzhen Branch in 2006.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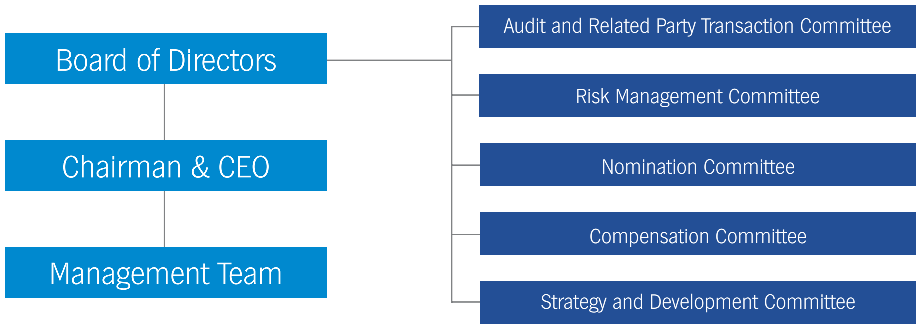
Our Governance

Contents

The Board of Directors



SDB is committed to ensuring high standards of corporate governance in the interest of shareholders. The Board of Directors meets regularly and directors receive information between meetings about the activities and developments in SDB's business. As an integral part of good corporate governance, the Board has established the following Board Committees to oversee particular aspects of the Bank.

Audit and Related Party Transaction Committee

Chaired by independent Director Mr Michael O' Hanlon, the Audit and Related Party Transaction Committee meets regularly with SDB's senior officers in finance and credit, SDB's Chief Internal Control Officer and external auditors. The meetings consider SDB's financial reporting and related party transactions as well as disclosures and the overall effectiveness of the Bank's system of internal control and compliance. Other members of the Audit and Related Party Transaction Committees throughout 2005 were Director Zheng Xueding and Hao Zhujiang.

Risk Management Committee

Chaired by independent Director Mr Yuan Chengdi, the Risk Management Committee meets regularly with SDB's senior officers in finance and credit, as well as SDB's Head of Special Assets Group to assess and monitor the risk level of the Bank in terms of credit risk, liquidity risk and operational risk, and to guide management with regards to diversifying, transferring and minimizing existing risks. Other members of the Risk Management Committee throughout 2005 were Chairman & CEO Frank N Newman, Director Shan Weijian, Au Ngai, Zheng Xueding and Zhou Jun.

Nomination Committee

Chaired by independent Director Mr Michael O' Hanlon, the Nomination Committee is responsible for leading the process for Board appointments and for identifying and nominating, for approval of the Board, candidates for appointment to the Board. Other members of the Nomination Committee throughout 2005 were director Qian Benyuan, Yuan Chengdi and John Langlois.

Compensation Committee

Chaired by Director Hao Zhujiang, the Compensation Committee meets regularly to consider human resources issues, particularly terms and conditions of employment, remuneration and performance assessments of key executives. Members of the Compensation Committee throughout 2005 were Director Daniel Carroll, Jin Shiru and Mike O' Hanlon.

Strategy and Development Committee

Chaired by Chairman & CEO Frank N. Newman*, the Strategy and Development committee meets regularly to formulate, assess and monitor the strategic and medium- to long-term development plan and associated business issues. Members of the Strategy and Development Committee throughout 2005 were Director Cai Zhenxiang, Daniel Carroll, John Langlois, Qian Benyuan and Shan Weijian.

The Board of Supervisors

The PRC company law requires a joint stock company to establish a Board of Supervisors to be responsible for monitoring the actions of the Board of Directors and management as well as overseeing the financial condition of the Bank. Our Board of Supervisors consists of seven supervisors, who regularly attend meetings of the Board of Directors.

* *During 2005, the Strategy and Development Committee was chaired by Director Shan Weijian. Chairman & CEO Frank N. Newman is currently the chairman of the committee.*

Enhanced Governance

In 2005, the Bank emerged from a very challenging time and is on its way towards becoming a world-class bank with modern corporate governance.

Closer and more frequent monitoring at board level

In the 2005 financial year, 10 meetings of the Board of Directors and 19 board Committees meetings were held.

In 2005, we established the terms of reference of each of the above Committees and nominated respective members of the Committees. These terms of reference for the Board's various committees are available for inspection at the Bank's Board Secretary Office.

Members from the Board of Supervisiors and bank regulators are invited to sit in the board meetings. We have created an open and transparent corporate governance culture.

10 board meetings

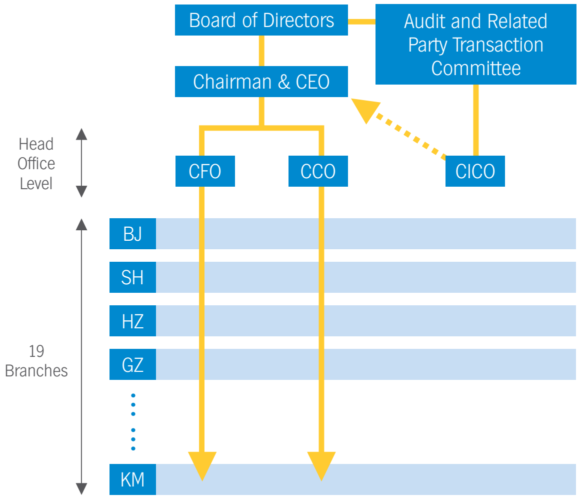
19 board committee meetings

Vertical control framework established

We have strengthened the vertical control structure of the Bank. The reporting and management framework of credit and finance has also been restructured.

Head Office has appointed qualified executives to take ownership of credit risk management and financial control at branch level. This is to ensure that any branch's strategy execution is consistent with the Bank's overall strategy.

The Internal Audit Department no longer reports to a Branch President or the Head Office President. Internal Audit Staff have been divided into regional teams and relocated to Head Office where they report to the Head Office Chief Internal Control Officer, who in turn reports directly to the Audit Committee of the Board.



Functional responsibility clarified at executive level

The Bank has clarified the accountability of each functional responsibility and built up a good foundation for business unit segmentation.

The Bank has restructured key departmental functions. For example, in the Bank's Financial Institutions Group it has separated sales and distribution from treasury management. Further, Mr Hu Yue Fei (Head of Corporate Banking Group) was appointed to manage 17 branch operations, Ms Zhao Na was appointed as Chief Human Resources Officer; and Ms Chen Rong was appointed as Chief Internal Control Officer.

SDB and its Shareholders

A Changes in Share Capital

1 Table of changes in shares

	Before the change		Changes (+, -)					After the change	
Unit: share	Quanity	%	New issue	Bonus shares	Shares converted from statutory surplus reserve	Others	Subtotal	Quanity	%
Non-tradable shares									
Shares held by the state	1,717,146	0.09%	–	–	–	–	–	1,717,146	0.09%
Shares held by									
domestic legal persons	186,639,733	9.59%	–	–	–	–	–	186,639,733	9.59%
Shares held by									
overseas legal persons	348,103,305	17.89%	–	–	–	–	–	348,103,305	17.89%
Shares held internally by staff	–	–	–	–	–	–	–		
Preference shares and others	–	–	–	–	–	–	–		
Total non-tradable shares	536,460,184	27.57%	–	–	–	–	–	536,460,184	27.57%
Tradable shares									
i. Ordinary shares in RMB	1,409,361,965	72.43%	–	–	–	–	–	1,409,361,965	72.43%
ii. Foreign shares listed domestically	–	–	–	–	–	–	–	–	–
iii. Foreign shares listed overseas	–	–	–	–	–	–	–	–	–
iv. Others	–	–	–	–	–	–	–	–	–
Total tradable shares	1,409,361,965	72.43%	–	–	–	–	–	1,409,361,965	72.43%
Total shares	1,945,822,149	100%	–	–	–	–	–	1,945,822,149	100%

2 New issue and listing

i. The bank had not issued any new shares in the three years up to the end of the period under review.

ii. Total shares and equity structure of the bank did not change in the period under review

iii. The bank does not have any share held by staff.

B Particulars of Shareholders

1 The bank had 621,312 shareholders at the end of the period under review, including 52 holders of non-tradable shares and 621,275 holders of tradable shares.

2 Shareholding position:

NAME OF SHAREHOLDER	Nature of shareholder	%	Shares held	Non-tradable shares held	Shares pledged or frozen
Newbridge Asia AIV III, L. P.	Foreign funded	17.89%	348,103,305	348,103,305	–
China National Electronics Import &					
Export Shenzhen Company	Others	3.20%	62,246,616	62,246,616	–
Haitong Securities Co., Ltd	Others	1.74%	33,924,466	33,924,466	33,924,466
Shenzhen Hongye Technologies Co., Ltd.	Others	1.29%	25,137,627	25,137,627	25,000,000
Trade Union of Agricultural Bank of					
China Shenzhen Branch	Others	0.80%	15,567,528	15,567,288	–
National Social Security Fund 001 Portfolio	Others	0.77%	14,995,864	–	–
Galaxy – Standard Chartered –					
CITIGROUP GLOBAL MARKETS LIMITED	Others	0.44%	8,538,293	–	–
ICBC – Pufeng Securities Investment Fund	Others	0.40%	7,859,210	–	–
Treasury Bond Office	Others	0.38%	7,340,670	–	–
Trade Union of CCB Shenzhen Branch	Others	0.37%	7,145,052	7,120,866	–

Particulars of top 10 holders of tradable shares

NAME OF SHAREHOLDER	Tradable shares held	Type of share
National Social Security Fund 001 Portfolio	14,995,864	Ordinary shares in RMB
Galaxy-Standard Chartered – CITIGROUP GLOBAL MARKETS LIMITED	8,538,293	Ordinary shares in RMB
ICBC – Pufeng Securities Investment Fund	7,859,210	Ordinary shares in RMB
Treasury Bond Office	7,340,670	Ordinary shares in RMB
CCB – Boshi Yufu Securities Investment Fund	6,877,990	Ordinary shares in RMB
Shenzhen Investment Management Co.	6,132,473	Ordinary shares in RMB
Zhang Shaohong	5,506,064	Ordinary shares in RMB
ICBC – Rongtong SZ Securities 100 Fund	4,714,918	Ordinary shares in RMB
Meng Changchun	4,201,660	Ordinary shares in RMB
CMB – Great Wall Jiutai Citic S & P 300 Index Fund	3,662,106	Ordinary shares in RMB
Affiliated relation between aforesaid shareholders and explanation of any concerted action	The bank is not aware of any affiliated relation or any concerted action between them	

Note: 1. Among the top ten shareholders, shares held by Newbridge Asia AIV III, L. P. are foreign-funded legal person shares while shares held by other shareholders are either domestic legal person shares or tradable shares;

2. Among the top ten shareholders of the bank at the end of the period under review, the following shares are pledged or frozen:

33,924,466 shares held by Haitong Securities Co., Ltd. are frozen by the court;

25,000,000 shares held by Shenzhen Hongye Technologies Co., Ltd. are pledged;

3. The bank is not aware of any affiliated relation between the top ten shareholders.

3 Basic information about the bank's single largest shareholder Newbridge Asia AIV III, L. P.

Newbridge Asia AIV III, L. P. was incorporated on 22 June 2000 in Delaware, USA with subscribed capital of US$724 million, focusing on strategic investment. All resolutions of the company on investments and business operations are made by its unlimited-liability partner Newbridge Asia GenPar AIV III, L. P., while the resolutions of Newbridge Asia GenPar AIV III, L. P. on investments and business operations are made by its unlimited-liability partners. Tarrant Advisors, Inc. and Blum G. A., LLC (Blum G. A., LLC is managed by Blum Investment Partners, Inc.). Tarrant Advisors, Inc. and Blum G. A., LLC are controlled by Mr David Bonderman, Mr James G. Coulter, Mr William S. Price III and Mr Richard C. Blum (all US citizens), namely, the four natural persons are the ultimate controllers of the company.

David Bonderman

Mr David Bonderman is a partner and founder of Texas Pacific Group. Before Texas Pacific Group was incorporated, Mr David Bonderman had served as CEO of RMBG Group (now Keystone) in Fort Worth, Texas. Before joining RMBG in 1983, Mr David Bonderman was a partner with Arnold & Porter, a law firm in Washington D. C.

Mr David Bonderman has served and is serving as director of multiple listed or unlisted companies and non-profit institutions in the world.

James G. Coulter

Mr James G. Coulter is a partner and founder of Texas Pacific Group. Before Texas Pacific Group was incorporated, Mr James G. Coulter had served as vice president of Keystone in 1986 to 1992. In 1986 to 1988, Mr James G. Coulter worked closely with SPO Partners, an investment company specializing in stock market investment and private equity financing. He once worked as financial analyst for Lehman Brothers Kuhn Loeb. He graduated with honors from Dartmouth College and acquired MBA degree from Stanford Graduate School of Business.

Mr James G. Coulter has served and is serving as director of multiple listed or unlisted companies all over the world.

William S. Price III

Mr William S. Price III is a partner and promoter of Texas Pacific Group. Mr William S. Price III served as vice president for Strategic Planning and Business Development for GE Capital, reporting directly to the chairman of the company. In that capacity, he oversaw the acquisition of new businesses, their operations and merger of existing businesses. In 1985 to 1991, he worked as financial services manager for Bain & Company. Before that, he had also worked for Gibson, Dunn & Crutcher, dealing in corporate securities.

Mr William S. Price III is a member of State Bar of California. He graduated from Boalt Hall School of Law of UC Berkeley and acquired a degree with honor from Stanford University.

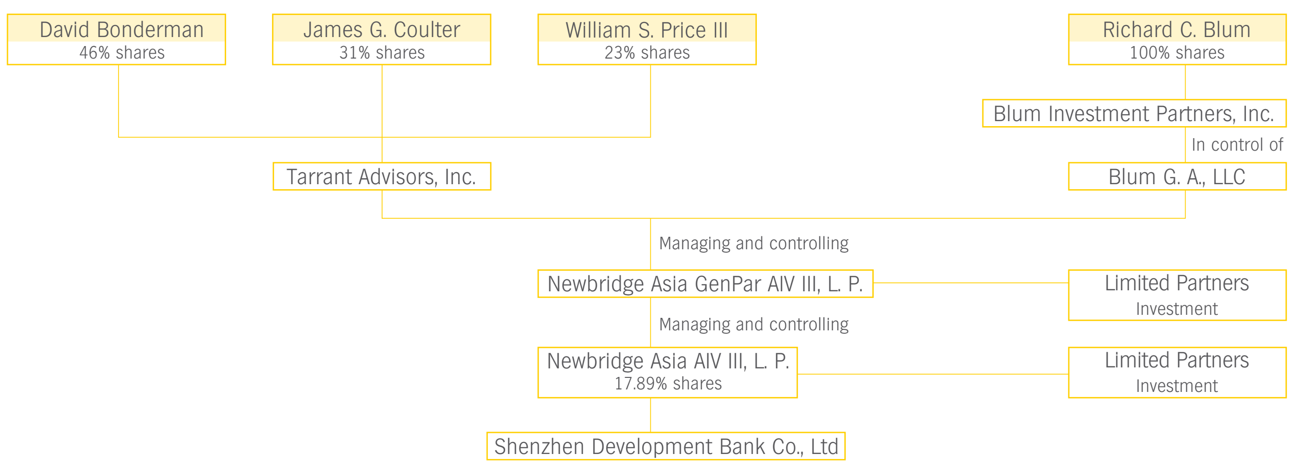
Mr William S. Price III has served and is serving as director of multiple listed or unlisted companies all over the world.

Richard C. Blum

Mr Richard C. Blum is chairman of Blum Capital Partners, which he founded in 1975. He started his career in Sutro in 1958 and was later to become the youngest partner of the company in its 130 years of development. He left Sutro in 1975 as director, major shareholder and senior executive, and founded Blum Capital Partners. Mr Richard C. Blum has served and is serving as director of multiple listed or unlisted companies in the world.

Mr Richard C. Blum is a Bachelor's degree holder and MBA holder of UC Berkeley. He has also studied at University of Vienna.

The relations between the bank and ultimate controllers of Newbridge Asia AIV III, L. P. are as follows:



Corporate Governance at SDB

A Status of Corporate Governance

Pursuant to Company Law, Securities Law, Law on Commercial Banking and the relevant laws and regulations stipulated by China Securities Regulatory Commission (CSRC) and China Banking Regulatory Commission (CBRC), the bank had during the period under review revised its articles of association, rules of procedure for the general meeting, rules of procedure for the board of directors, rules of procedure for the board of supervisors and terms of reference for respective committees under the board of directors. The Bank has dedicated to improve governance mechanism and the decision-making mechanism.

The status of corporate governance of the bank during the period under review is as follows:

1 Shareholders and General Meeting

In the period under review, the bank and its single largest shareholder are independent in staff, assets and financial matters. All shareholders of the bank are equal and fully entitled to their rights and interests.

In the period under review, the bank held two general meetings, which were convened and conducted pursuant to the Company Law, the Guidelines on Convening General Meetings of Listed Companies, other relevant laws and regulations and the articles of association of the bank. The law firm also provided its legal opinions.

2 Directors and the Board of Directors

In the period under review, all the directors of the bank honored their public promises and performed their duties with loyalty, fidelity and diligence.

The board of directors of the bank was accountable to the general meeting, convened meetings following the legal procedure and exercised its functions and powers in accordance with laws, regulations and the articles of association of the bank. The select committees under the board of directors looked into relevant important issues and played significant roles in the decision making processes of the board.

3 Supervisors and the Board of Supervisors

The board of supervisors of the bank performed its duties pursuant to laws, regulations and articles of association of the bank, overseeing the financial condition of the bank and compliance of the bank's senior management with law to protect the due equity of the bank and its shareholders.

4 Information disclosure

The bank disclosed information in a truthful, accurate, complete and responsive manner in strict accordance with laws, regulations and the articles of association. The bank dutifully handled shareholders' letters, calls, visits and inquiries and ensured equal chance for all shareholders to access information.

B Performance of Duties by Independent Directors

The sixth session of the board of directors of the bank had five independent directors, of whom Mr Frank N. Newman was elected non-independent director of the sixth session of the board on 17 June 2005 on the bank's general meeting 2004, reducing the number of independent directors to four. In the period under review, all the independent directors of the bank followed the relevant laws and regulations in performing their duties, participating in making important decisions,and expressing independent opinions on major issues to protect the overall interests of the bank, especially the lawful rights of minority shareholders.

Records of attendance of independent directors of the bank at the board meeting

Name of Independent Director	Number of Required Attendances	Attendances in Person	Attendances by proxy	Absences	Objections Raised
Yuan Chengdi	10	10	0	0	0
Zheng Xueding	10	10	0	0	0
Hao Zhujiang	10	9	1	0	0
Frank N. Newman	4	3	1	0	0
Michael O'Hanlon	10	10	0	0	0

C Separation of the Bank from its Single Largest Shareholder in Business, Staff, Assets, Organization and Finance

In the period under review, the bank was totally separate from its single largest shareholder in business, staff, assets, organization and finance. The bank was able to operate its own businesses independently, and the board of directors, the board of supervisors and other internal organizations of the bank functioned independently. The bank had a sound independent accounting system.

D Performance Evaluation and Incentive of Senior Executives

The board of directors and the compensation committee under it evaluated the performance of senior executives based on the execution of annual targets and plans and decided on bonuses allotted to the senior executives according to the evaluation results. The bank was gradually improving the transparent mechanism for evaluating and motivating senior executives.

Directors, Supervisors, Senior Executives and Employees

A Basic Facts

Name	Position	Sex	Age	Tenure of office	Shares held at year end	Shares held at year start	Changes in shares in the year and reasons
Frank N. Newman	Chairman & CEO	M	63	May 2005–2007	0	0	0
Daniel A. Carroll	Director	M	45	December 2004–2007	0	0	0
Shan Weijian	Director	M	52	June 2005–2007	0	0	0
Au Ngai	Director	M	37	December 2004–2007	0	0	0
Timothy D. Dattel	Director	M	48	December 2004–2007	0	0	0
John D. Langlois	Director	M	63	December 2004–2007	0	0	0
Qian Benyuan	Director	M	61	December 2004–2007	0	0	0
Zhou Jun	Director	M	45	December 2004–2007	0	0	0
Jin Shiru	Director	M	62	December 2004–2007	210	210	0
Cai Zhenxiang	Director	M	48	December 2004–2007	78,350	78,350	0
Yuan Chengdi	Independent director	M	60	December 2004–2007	0	0	0
Zheng Xueding	Independent director	M	42	December 2004–2007	0	0	0
Hao Zhujiang	Independent director	M	52	December 2004–2007	0	0	0
Michael O'Hanlon	Independent director	M	50	December 2004–2007	0	0	0
Kang Dian	Chairman of the board of supervisors (External supervisor)	M	58	December 2005–2008	0	0	0
Wang Kuizhi	Supervisor	F	68	January 2005–2008	2,437	2,437	0
Guan Weili	External supervisor	M	63	January 2005–2008	0	0	0
Luo Long	Supervisor	M	50	June 2005–2008	0	0	0
Huang Shouyan	Employee supervisor	M	56	January 2005–2008	0	0	0
Wu Zhengzhang	Employee supervisor	M	42	January 2005–2008	0	0	0
Qiu Weiping	Employee supervisor	M	45	June 2005–2008	0	0	0
Jeffrey R. Williams	President	M	52	December 2004– 11 February 2006	0	0	0
Liu Baorui	Vice president	M	48	March 2000–	0	0	0
Hao Jianping	Vice president	M	52	September 2003–	0	0	0
Wang Bomin	CFO	M	42	May 2005–	0	0	0
Xu Jin	Board secretary GM of Legal Affairs Dept.	M	40	May 2005–	0	0	0

Note: On 11 February 2006, Mr Jeffrey R. Williams submitted his resignation as President of Shenzhen Development Bank to the board, which resignation took effect on the same date.

B Positions held by Directors and Supervisors in Shareholders' Companies

Name	Name of Shareholder's Company	Position	Tenure of Office
Daniel A. Carroll	Newbridge Asia AIV III, L. P.	Co-managing partner	1995–now
Shan Weijian	Newbridge Asia AIV III, L. P.	Co-managing partner	1998–now
Au Ngai	Newbridge Asia AIV III, L. P.	Senior advisor	1995–now
Timothy D. Dattels	Newbridge Asia AIV III, L. P.	Managing director	2004–now
Qian Benyuan	China National Electronics Import & Export Shenzhen Company	Chairman	2003–now

C Positions held concurrently by Directors, Supervisors and Senior Executives in Other Companies

Name	Name of Other Company	Position
Frank N. Newman	Dow Jones & Company	Independent director
	GUS PLC	Independent director
Daniel A. Carroll	Advanced Interconnect Technologies,Inc.	Director
	Parkway Holdings (Singapore)	Director
	Lenovo Group (Hong Kong)	Alternate director
	Raffles Holdings (Singapore)	Director
Shan Weijian	Bank of China (Hong Kong) Limited	Independent director
	Baoshan Iron & Steel Co., Ltd.	Independent director
	Bank of China Hong Kong (Holdings) Co., Ltd.	Independent director
	CHINA CIVILINK (CAYMAN)	Director
	China United Communications Co., Ltd.	Independent director
	EDENVALE HOLDINGS LIMITED	Director
	NEWBRIDGE CAPITAL LIMITED	Co-managing partner
	ZOOM TECHNOLOGIES LTD	Director
	TCC International Holdings Limited	Independent director
	Lenovo Group Co., Ltd.	Non-executive director
Au Ngai	Newbridge Capital Limited	Senior advisor
	Newbridge IP Technologies	Director
	Zoom Technologies Ltd. (Formerly known as Suntop Technologies Ltd.)	Director
	Zoom Networks (Hong Kong) Ltd.	Director
	Zoom Telecom Systems Limited (Formerly known as Dalewebe Technology Ltd.)	Director
	Zoom Financial Systems (Hong Kong) Ltd. (Formerly known as Gallant Pacific Company Ltd.)	Director
	Zoom Networks, Inc.	Director
	Newbridge Web Solutions Limited	Director
	China Civilink (Cayman)	Director
	HiChina Web Solutions (Hong Kong) Ltd.	Director
	HiChina Web Solutions (Beijing) Ltd.	Director
	Edenvale Holdings Limited	Director
	Beilong Holdings Company Limited	Director
	Metropolitan Life Insurance Company of Hong Kong Limited	Director
Timothy D. Dattels	Sing Tao News Corp.	Director
	Primedia	Director
	Parkway Holdings	Director
John D. Langlois	Morgan Stanley Securities Company Real Estate Investment Banking Dept.	Advisory director

Name	Name of Other Company	Position
Qian Benyuan	China Council for the Promotion of International Trade	Member
	China State-Owned Assets Administration Institute	Executive director
	China Licensing Executives Society	Director
	Huadian Hong Kong Co., Ltd.	Chairman
	Kaichuang Electronics, USA Ltd.	Chairman
	The Affiliate of International Chamber of Commerce in China	Director
	Hewlett Packard (China) Co., Ltd.	Chairman
	Agilent Technologies Co., Ltd.	Vice chairman
	Menlo Worldwide Forwarding Co., Ltd.	Chairman
	Fortune Oil Limited	Chairman
Zhou Jun	Ping An Securities Co., Ltd.	Vice president
Jin Shiru	Shenzhen Experimental School	Principal
	Management Committee of Shenzhen Experimental Education Group	Director
	People's Political Consultative Committee of Shenzhen City	Member of standing committee
	Shenzhen Children Welfare Association	Vice chairman
Cai Zhenxiang	Assets and Equipment Dept. of Shenzhen University	Director
	Association of Ph.Ds in Nanshan, Shenzhen	Chairman
	People's Political Consultative Committee of Shenzhen City	Member
	People's Political Consultative Committee of Changde City	Member
	Shenzhen Association of Science and Technology	Member of standing committee
	Chinese Association of University-Run Industries	Director
	Shenzhen Corruption Prevention Consulting Committee	Member
Yuan Chengdi	Advisory Committee of Shenzhen Arbitration Commission	Director
	Beijing DPX law Firm	Lawyer
Zheng Xueding	Shenzhen Association of CPAs	Secretary general
	Shenzhen Baoheng (Group) Co., Ltd.	Independent director
	Jiangxi Gannan Fruit Co., Ltd.	Independent director
	Shenzhen Fanda Group Co., Ltd.	Independent director
Hao Zhujiang	Beijing DPX law Firm Shenzhen Office	Lawyer
	Penghua Fund Management Co., Ltd.	Independent director
Kang Dian	Shirui Investment Management Co., Ltd.	Director
	China Leasing Corporation	Director
Kang Dian	Shirui Investment Management Co., Ltd.	Director
	China Leasing Corporation	Director
	Silver Grant International Industries Limited	Independent non-executive director
	BYD Co., Ltd.	Independent non-executive director
Guan Weili	Panwin Investment Consultant Co., Ltd.	Chairman
	DongFeng Automobile Co., Ltd.	Independent director
	North China Pharmaceutical Co., Ltd.	Independent director
	China National Software & Service Co., Ltd.	Independent director
	Jilin Power Share Co., Ltd.	Independent director
	Shanghai Worldbest Pharmaceutical Co., Ltd.	Independent director
	China Textile Machinery Group Co., Ltd.	Director
	China Chemical Fiber Group Co., Ltd.	Director
	Tianjin Eteda Technology Co., Ltd.	Director
	China Cinda Asset Management Corporation	Member of Advisory Committee
Luo Long	Asia Equity Co., Ltd.	Managing director
Jeffrey R. Williams	Business and Management Center, Kennedy School of Public Administration, Harvard University	Advanced fellow
Liu Baorui	China UnionPay Co., Ltd.	Supervisor
Xu Jin	China International Economic and Trade Arbitration Committee	Arbitrator
	Shenzhen Arbitration Committee	Arbitrator

D 2005 Compensation

Compensation of directors, supervisors and senior executives of the bank were determined by following the procedure:
The compensation plan for directors of the sixth session of the board of directors and supervisors of the fifth session of the board of supervisors was examined and being approved by the 2004 Annual general meeting which was held in 2005. The remuneration plan for senior executives of the bank was examined and approved by the seventh meeting of the sixth session of the board of directors.

Annual compensation (after tax) paid to directors, supervisors and senior executives of the bank are given in the following table:

Name	Position	Total amount entitled to pay to or has paid to the following individuals by the bank in the period under review (RMB ten thousands)
Frank N. Newman	Chairman & CEO	602.57
Daniel A. Carroll	Director	40.30
Shan Weijian	Director	20.94
Au Ngai	Director	35.44
Timothy D. Dattels	Director	19.25
John D. Langlois	Director	68.17
Qian Benyuan	Director	50.88
Zhou Jun	Director	44.32
Jin Shiru	Director	36.20
Cai Zhenxiang	Director	36.14
Yuan Chengdi	Independent director	39.82
Zheng Xueding	Independent director	41.89
Hao Zhujiang	Independent director	39.03
Michael O'Hanlon	Independent director	72.76
Kang Dian	Chairman of the board of supervisors (External supervisor)	25.68
Wang Kuizhi	Supervisor	22.15
Guan Weili	External supervisor	24.33
Luo Long	Supervisor	19.41
Huang Shouyan	Employee supervisor	125.69
Wu Zhengzhang	Employee supervisor	84.93
Qiu Weiping	Employee supervisor	93.41
Jeffrey R. Williams	President	130.00
Liu Baorui	Vice president	114.38
Hao Jianping	Vice president	109.82
Wang Bomin	CFO	236.04
Xu Jin	Board secretary GM of Legal Affairs Dept.	50.79

Note: Daniel A. Carroll, Shan Weijian, Au Ngai, and Timothy D. Dattels have not taken their remunerations yet.

E Changes of Directors, Supervisors and Senior Executives

1 Changes of directors

On 23 April 2005, John Olds resigned as director.

On 17 June 2005, at the 2004 annual general meeting, Mr Shan Weijian and Mr Frank N. Newman were elected non-independent directors of the sixth board of directors, and Mr Frank N. Newman has stopped serving as independent director since then.

2 Changes of supervisors

At the first interim general meeting 2005 on 11 January 2005, Ms Wang Kuizhi and Mr Guan Weili were elected supervisors of the fifth session of the board of supervisors. Of them, Mr Guan Weili is an external supervisor.

On 10 January 2005, Mr Huang Shouyan, Mr Xu Jin and Mr Wu Zhengzhang were elected by employees across the bank as staff supervisors of the fifth session of the board of supervisors of Shenzhen Development Bank.

On 16 May 2005, Mr Xu Jin resigned as employee supervisor.

On 3 June 2005, Mr Qiu Weiping was elected by employees across the bank as employee supervisor of Shenzhen Development Bank.

On 17 June 2005, at the 2004 annual general meeting, Mr Luo Long was elected shareholder supervisor and Mr Kang Dian as an external supervisor of the fifth session of the board of supervisors of Shenzhen Development Bank.

3 Changes of senior executives

On 16 March 2005, Mr Hao Jianping's tenure as the acting board secretary expired, and Chairman John D. Langlois took over as acting board secretary.

On 16 May 2005, Mr Xu Jin was appointed as the board secretary on the fourth session of the sixth board of directors.

On 16 May 2005, Mr John D. Langlois resigned as chairman, and Mr Frank N. Newman was elected as acting chairman of the sixth session of the board of directors.

On 17 June 2005, on the sixth meeting of the sixth session of the board of directors, Mr Frank N. Newman was elected chairman of the sixth session of the board of directors, pending examination and approval by CBRC, before which he was still serving as acting chairman.

On 17 June 2005, on the sixth meeting of the sixth session of the board of directors, Mr Wang Bomin was elected CFO of Shenzhen Development Bank, pending examination and approval by CBRC.

On 17 June 2005, the sixth meeting of the sixth session of the board of directors decided that Mr Feng Baosen would no longer serve as chief accountant of Shenzhen Development Bank, but would continue to manage the logistics aspect of the Bank.

On 17 June 2005, on the third meeting of the fifth session of the board of supervisors, Mr Kang Dian was elected chairman of the fifth session of the board of supervisors, pending examination and approval by CBRC.

On 30 September 2005, the bank made an announcement on China Securities Journal and Securities Times that CBRC had approved Mr Frank N. Newman being the chairman of the board of directors of Shenzhen Development Bank and Kang Dian as the chairman of the board of supervisors of the Bank pursuant to Law of the People's Republic of China on Banking Regulation and Supervision and Regulations on Qualifications of Senior Executives of Financial Institutions.

F Employees of the Bank

By the end of 2005, the Bank had 7,142 staff, including (divided by profession) 1,588 for management, 2,713 for marketing and business development, 539 for accounting, settlement and finance and 228 for information technology, or (by education background) 502 with master's degree or above, 3,253 with a bachelor's degree, 2,409 with 3 years' college education, and 978 with polytechnic education or below. The Bank's number of retirees is 149.

Report of the Board of Directors

A Discussion and Analysis of Business Operations in the Period under Review

1 Scope of main businesses

The Bank mainly engaged in the following businesses approved by CBRC: renminbi deposits, loans, settlement and remittance, renminbi bills acceptance and discounting, trust businesses, the issuing or trading of renminbi securities as approved by CBRC, deposits and remittance in foreign currencies, money borrowing in and outside China., the issuing or underwriting of foreign-currency securities in and outside China, trade and non-trade settlements, foreign-currency bills acceptance and discount, foreign-currency money lending; trading or agent trading of foreign exchanges and foreign-currency securities, credit investigation, consultation and certification, and other businesses approved by CBRC.

2 Business operations in the period under review

In 2005, the Bank achieved encouraging business growth by setting up an international management team, upgrading its management philosophy, and remodeling its management and business structures.

By the end of the period under review, total assets of the Bank had reached RMB 229.2 billion, up RMB 24.8 billion or 12.12% year on year; total deposits reached RMB 202 billion, up RMB 34.8 billion or 20.79%; total loans (including discounted bills) reached RMB 156.1 billion, up RMB 29.9 billion or 23.70%. Net profit reached RMB 352 million, increased by RMB 57 million or 19.40%. At the end of the period under review, NPL ratio of the Bank was 9.3%, down by 2.1 percentage points year on year, indicating a gradual improvement of asset quality.

In the period under review, the Bank adjusted its business structure to develop quality businesses, and clearly defined its business policy of serving small and medium enterprises and developed trade finance. The Bank also established its brand in personal loans, credit card business, wealth management and electronic banking.

The savings deposit balance of the Bank reached RMB 29.2 billion at the end of the period under review, up by 23.02% over last year. According to PBOC statistics, the savings deposit growth rate of the Bank was 6.91 percentage points higher than the average of 16 commercial banks, ranking No. 10 in growth rate. Its market share accounted for 0.28% of the total of the 16 banks, up 0.01% and ranking No. 14.

The Bank recorded RMB 16.268 billion consumer loans at the end of the period under review, ranking No. 8 in growth rate among the 16 banks. Its consumer loan market share accounted for 0.80% of the total of the 16 banks, increase by 0.05% as compare with last year and rank No. 14 in the market.

By the end of 2005, the Bank had accumulately issued 5.57 million debit cards, including 980,000 new issues in the year, and had issued 770,000 co-brand cards with 42 companies. In the period under review, the Bank issued 240,000 new credit cards, accumulated to 550,000 credit cards issued by the end of the period under review, and credit card loans reached RMB 340 million at the end of the period under review, with the average loan per card leading the industry. Consumption through credit cards totaled 3.33 million transactions, amounting to RMB 1.596 billion, up 52.3%.

In the period under review, international settlement of the Bank reached US$22.2 billion, up by 28% year on year.

In the period under review, the Bank recorded RMB 558 million net revenue from intermediate businesses, up RMB 181 million or 47.79% year on year.

PBOC statistics of credit loans from commercial banks at the end of 2005 showed that the Bank ranked No. 14 among the 16 peer group commercial banks in total deposits and No. 8 in growth rate of deposits. The Bank ranked 14 in total loans and No. 6 in growth rate of loans.

3 Operating revenues as divided by business type and geographical region

BUSINESS TYPE *In RMB*	Operating revenue
Loan	7,056,679,599
Inter-bank loans, deposits, etc.	823,307,975
Investment in bonds	824,537,457
Other businesses	635,632,460

REGION *In RMB*	Revenue	Expenses	Operating expenses	Net income on investment	Operating profit
Shenzhen	3,722,689,439	3,171,576,074	996,465,119	776,234,064	330,882,310
South China	1,733,760,277	840,872,106	359,862,773	976,470	534,001,868
East China	4,403,170,719	2,466,260,652	706,434,993	12,034,582	1,242,509,656
North and Northeast China	2,955,704,893	1,905,494,419	434,124,057	15,290,192	631,376,609
Other regions	341,074,681	148,133,439	99,924,665	229,481	93,246,058
Offshore businesses	76,200,153	33,530,349	–	19,772,668	62,442,472
Subtotal	13,232,600,162	8,565,867,039	2,596,811,607	824,537,457	2,894,458,973
Elimination adjustments	4,716,980,128	4,716,980,128	–	–	–
Total	8,515,620,034	3,848,886,911	2,596,811,607	824,537,457	2,894,458,973

4 Business operations accounting for over 10% revenues from main businesses in the period under review

In the period under review, business operations accounting for over 10% revenues from main businesses of the Bank are loans and discounts. In 2005, loan interest revenue of the bank was RMB 5.5 billion and discounted bills interest income was RMB 1.557 billion, accounting for 64.59% and 18.2% of the revenue respectively.

5 Business operations and results of major holding companies and joint-stock companies of the Bank

In the period under review, the Bank did not invest in any new holding company or any other joint-stock company. As required by CBRC, the Bank was now detaching itself from its holding subsidiary Yuansheng Company and other joint-stock companies. For more information, refer to Note XI to the financial statement prepared under PRC GAAP.

6 Challenges and difficulties in the Bank's operations and their solutions

In the period under review, the Bank had the following challenges and difficulties in its business operations: slow growth of effective demand for corporate loans in early 2005 because of continued macro-economic control by the government to further check the unfavorable factors in economic operations, escalating competition resulting from further opening of the banking industry to foreign investment and expanding market presence of foreign-funded banks on the market, unresponsive replenishment of capital which somewhat affected the business development of the Bank, as well as excessive non-performing assets.

In view of the aforesaid problems and difficulties, the Bank took the following actions:

i. Further improved the sales & distribution system of the Bank, made the corporate, retail and financial institution businesses more professional, flatter in organization and more market-oriented, and stepped up the launching of new business products to mould a well-recognised brand and build up strengths in some fields;

ii. Reformed the bank management framework, implemented vertical management of credit and finance to enhance the work efficiency of the Bank and improved management of credit risk, liquidity risk and assets-liabilities portfolio risk;

iii. Sought capital injection while enhancing profitability and stepping up capital accumulation, optimized business structure, and developed less capital required businesses so that business development of the Bank will be less affected by capital limitations;

iv. Planned to enter into strategic cooperation with GE while promoting the business growth of the company, increased investment in retail banking, and sped up development of financial management, personal loans, credit cards and electronic banking;

v. Stepped up disposal of non-performing assets, improved non-performing assets management structure to implement the classified management of non-performing assets, and stepped up writing off the non-performing assets.

B Financial Position and Operating Results of the Bank in the Period under Review

1 Changes in major financial indices and causes for them

MAJOR FINANCIAL INDEX *In RMB thousand*	End of Period under review	% of Change	Cause for Change
Total Assets	229,216,416	12.12%	Increase in loans
Total liabilities	224,173,374	12.25%	Increase in deposits
Of which, long-term liabilities	16,688,309	14.66%	Increase in long-term deposits
Shareholders' equity	5,043,042	6.52%	Increase in profit
Profit from main businesses	2,894,459	3.42%	Increase in net revenue from transactions between banking enterprises
Net revenue	351,727	19.40%	Increase in profit from main businesses, provision for asset depreciation, etc.
Net increase in cash and cash equivalents	3,818,791	24.43%	Repayments of short-term investments

2 Items with over 30% growth in comparative financial statements

ITEM IN FINANCIAL STATEMENT *In RMB thousand*	Balance at End of period under review	% of Change	Cause for Change
Prepaid expenses	18,157	101%	Increase in rent
Short-term investments	7,308,345	-34%	Adjustment of assets structure
Import & export negotiation	1,886,573	63%	Adjustment of assets structure
Discounted bills	38,414,273	130%	Adjustment of assets structure
Overdue loans	496,725	-61%	Migrate to non-accruing loans
Non-accruing loans	15,983,067	40%	Less non-accruing loan can be roll-over due to more stringent credit control
Constructions in progress	4,593	-61%	Transferred to other receivables
Intangible assets	41,580	-37%	Amortization for the current year
Settled assets	1,024,062	42%	Intensified collection
Deferred tax assets	1,000,889	33%	Increase in time differences
Inter-bank borrowing	0	-100%	Adjustment of fund structure
Amounts payable to intermediaries for securities dealings	24,488	49%	Increase in business
Repos	1,169,554	-92%	Decrease in business
Accrued expenses	22,562	48%	Increase in accrued consultancy expenses
Deferred income	254,916	53%	Increase in discounted bills businesses
Long-term guarantee deposit	183,155	-82%	Decrease in business volume
Currency translation difference	-43,003	1474110%	RMB revaluation
Revenue from securities sales	112,417	375%	Increase in business
Exchange gains	143,199	45%	Increase in business
Current interest payments between banking enterprises	859,573	-35%	Decrease in rediscount interest payments
Non-operating revenue	31,098	48%	Gains in disposal of fixed assets
Non-operating expenses	67,236	138%	Increase in litigations provisions
Income tax	286,889	41%	Pursuant to tax laws, the pre-tax deductible amount of provision for asset depreciation etc was less than the actual payment stated in the income statement, therefore the taxable income was higher than the pre-tax profits stated in the income statement. Owing to high valid tax rate resulting from different profitability structures of the Bank in different tax areas, and increased total profit in 2005, the income tax was relatively high.

C Influence of Changes in Business Environment, Macro-economic Policies and Laws on the Financial Position and Operating Results of the Bank

On 16 March 2005, PBOC issued the Notice on Adjusting the Policy on Housing Loans of Commercial Banks and the Interest Rate for Excess Reserve (Yin Fa [2005] 61). It decided to adjust the policy on housing loans of commercial banks with effect from 17 March 2005 and implemented the interest rate of commercial banks as from 1 January 2006 for personal housing loans (excluding housing common reserve fund) released before 17 March 2005 in place of the original preferential interest rate specified by PBOC and at the same time lowered the interest rate for surplus reserve deposited by financial institutions at PBOC. It also issued control measures of interest rates for inter-bank placements.

On 24 May 2005, PBOC issued Measures for Administration of Short-term Financing Bonds of Enterprises, allowing qualified enterprises to issue short-term financing bonds to qualified institutional investors on the inter-bank bond market. In 2005, short-term financing bonds issued by enterprises totaled RMB 142.4 billion, diversifying the financing source for enterprises, which could affect the loan business of commercial banks.

On 26 May 2005, the National Inter-Bank Funding Center promulgated Procedures for Trading Short-Term Financing Bonds, pursuant to which institutional investors on the national inter-bank bond market will be financing bond traders, allowing commercial banks to invest in short-term corporate financing bonds, thus further widening the use of funds of the Bank.

The administrative Measures on the Issuance of Financial Bonds in the National Inter-Bank Bond Market issued by PBOC took effect as from 1 June 2005, allowing commercial banks to issue or participate in issuing financial bonds, thus diversifying the financing source for commercial banks.

The Ministry of Finance promulgated "Adminstration of impairment provision for financial institutions" Cai Jin [2005] No. 49 and "Notices from Ministry of Finance relating to impairment provisions" Cai Jin [2005] No. 90 requiring commercial banks to make adequate general provision reserve within three years, to five years. The Bank began to execute the aforesaid requirements from 1 July 2005. The requirements do not have material impact to the 2005 profitability of the Bank.

On 21 July 2005, the PBOC issued Announcement on Improving RMB Exchange Rate Formation Mechanism ([2005] 16), proclaiming that China would adopt a controlled floating exchange rate mechanism based on market supply and demand and with reference to a basket of currencies. The adjustment of exchange rate had no significant impact on the financial position of the Bank.

D The Bank's Prospect and Operating Plan in the New Year

The sustained stable macroeconomic growth provides for adequate momentum for the banking industry in China. However, with the gradual lifting of market access restrictions on foreign-funded banks and the intensifying reform of state-owned commercial banks, competition across the banking industry may become even more intensive. In addition, the market-linked interest rate and optimized RMB exchange rate formation mechanism have posed new requirements for the risk identification and management capabilities of commercial banks. After introducing strategic investors, the Bank improved its governance. It set up an international board of directors and management team, and restructured the existing management system by drawing upon the experience of world banking leaders. In 2006, in the spirit of bringing more returns to shareholders, creating added values for customers and implementing career development for staff, the board and the management team will further control risks, develop new products, strengthen financial management, and upgrade the information technology to ensure sustained business growth of the Bank.

To that end, the Bank will do the following in next year:

1 Enhance capital adequacy ratio and keep business development from being limited by capital. First, the Bank will make efforts to increase profits and reduce non-performing assets. Second, the Bank will bring the capital adequacy ratio up to the requirements of CBRC the soonest possible through private placement and the introduction of strategic investors;

2 Optimize business structure and improve profitability. First, the Bank will develop retail and intermediary business. Second, the Bank will continue developing robust corporate banking and establish a quality brand in this sector. Third, the Bank will work closer with GE to introduce advanced experience and technology and boost product innovation and competitiveness.

3 Improve service quality to lead to greater customer satisfaction. First, the Bank will set up and implement world-level service standards. Second, the Bank will build a customer relations management system and provide diversified and customized quality services;

4 Step up management and resolution of non-performing assets, improve non-performing asset alert and disposal mechanism and optimize and integrate various resources to increase asset value.

5 Further control credit risk and operating risk, strengthen liquidity gap management and forex management, introduce special talents, and take active part in domestic and overseas capital operations and monetary market operations.

6 Intensify IT buildup across the Bank to provide technical support for decision making and business development.

E Investments of the Bank in the Period under Review

1 The Bank did not make any investment in external equity in the period under review

2 Use of capital raised

The Bank did not raise any capital funds in the period under review. The fund raised last time had been used up as planned before the period under review.

F Explanation made by the Board on Adjustments of Accounting Policy

The interest accrual date for loans and deposits at the Bank in the previous years was the 20th day of every month in line with the banking industry practice in China. By a resolution passed on the 12th meeting of the sixth session of the board of directors on 30 March 2006, the Bank amended the aforesaid accounting policy and put the interest accrual date at the end of every month. The board believes that changing the interest accrual date to the end of every month is in line with international practice and makes the financial statements better reflect the financial position and operating results of the Bank. The Bank will use the new interest accrual date in the future.

The Bank retrospectively adjusted the figures for the start of the current period and the comparison figures of the last period to address the changes in the accounting policy.

G Daily Work of the Board of Directors

1 Meetings and resolutions of the board of directors in the period under review

On 2 March 2005, the sixth session of the board of directors held its second meeting and discussed and approved to split the strategic development and risk management committee under the sixth session of the board of directors; adopted the Rules of Procedure for the Board of Directors (revised), approved to continue engaging Shenzhen Pengcheng CPAs and Ernst & Young as auditors for the Bank in 2004, and approved Financial Budget Report 2005 of Shenzhen Development Bank. The relevant resolutions were published on China Securities Journal and Securities Times on 4 March 2005.

On 23 April 2005, the sixth session of the board of directors held its third meeting and discussed and approved "Proposal of Nominating Mr Shan Weijian as Candidate Director of the Company", "Proposal of Changing Income Tax Accounting Policies", "Proposal of Converting Fazhan Xingyuan and Huamao Xinyuan into Fixed Assets", "Proposal of Bonus Plan 2004", "Proposal of Making Provision for Loss of the RMB 1.5 billion Loans for Zhongcai and Shouchuang", "Proposal of Making General Provisions for Loans", "Proposal Concerning Relevant Departments' Demand to Return Funds to Deheng Securities and Nanfang Securities", "Proposal of Income Tax Calculation in 2004", "Proposal of Profit Distribution Plan", "Proposal of Purchasing Insurance for Directors and Executives", "Financial Statements and Reports of Shenzhen Development Bank for the Year Ended 31 December 2004", "Annual Report 2004 of Shenzhen Development Bank", "Abstract of Annual Report 2004 of Shenzhen Development Bank", and "First Quarter Report 2005 of Shenzhen Development Bank." The relevant resolutions were published on China Securities Journal and Securities Times on 26 April 2005.

On 16 May 2005, the sixth session of the board of directors held its fourth meeting and discussed and approved "Work Report 2004 of Board of Directors of Shenzhen Development Bank", "Final Settlement Report 2004 of Shenzhen Development Bank", "Proposal of Remunerations for Directors and Supervisors of Shenzhen Development Bank", "Proposal of Amending 'Articles of Association of Shenzhen Development Bank'"; "Proposal of Remuneration for President Mr Jeffrey R. Williams of Shenzhen Development Bank", "Proposal of the sixth Board of Director on Appointing Mr Xu Jin as Board Secretary", "Work Arrangement for Chairman of the Board" and "Proposal of Convening General Meeting 2004 of Shenzhen Development Bank." The relevant resolutions were published on China Securities Journal and Securities Times on 18 May 2005.

On 3 June 2005, the sixth session of the board of directors held its fifth meeting by teleconferencing, and discussed and approved "Proposal of Engaging Certified Public Accountants in 2005" submitted by the Bank's No. 1 shareholder, Newbridge Asia AIV III, L. P., to the general meeting 2004 of Shenzhen Development Bank. The relevant resolutions were published on China Securities Journal and Securities Times on 7 June 2005.

On 17 June 2005, the sixth session of the board of directors held its sixth meeting and discussed and approved "Proposal of Electing Frank N. Newman as Chairman of the sixth session Board of Directors", also appointed Mr Newman as CEO. "Proposal on Membership Composition of Select Committees Under the sixth Board of Directors", "Proposal of Appointing Mr Wang Bomin as Chief Financial Officer of Shenzhen Development Bank Co. Ltd.", and "Proposal of Dismissing Mr Feng Baosen as Chief Accountant." The relevant resolutions were published on China Securities Journal and Securities Times on 21 June 2005.

On 17 August 2005, the sixth board of directors held its seventh meeting and discussed and approved "Proposal on Membership of Select Committees Under the sixth session of the Board of Directors", "Half Year Audit Report 2005 of Shenzhen Development Bank", "Half Year Audit Report 2005 of Shenzhen Development Bank and Abstract of Half Year Audit Report 2005 of Shenzhen Development Bank", "Work Rules for Audit and Related Party Transaction Control Committee", "Work Rules for Remuneration and Performance Evaluation Committee of the sixth Board of Directors", "Proposal of Remuneration for Vice Chairman of Audit and Related Party Transaction Control Committee", "Proposal of General Remuneration Plan for Senior Executives for the First Half of 2005", "Proposal of Authorizing the Chief Credit Officer to Examine and Approve Credit Loans", "Proposal of Authorizing Chairman, Governor and Special Assets Management Executive to Examine and Approve Bank Security for Assets Protection" and "Work Rules for Risk Management Committee of sixth Board of Directors." The relevant resolutions were published on China Securities Journal and Securities Times on 19 August 2005.

On 12 September 2005, the sixth session of the board of directors held its eighth meeting and discussed and approved "Proposal of Authorizing Chief Credit Officer to Examine and Approve Loans for Reorganizing Dongmen Big World and New Century Plaza."

On 27 September 2005, the sixth session of the board of directors held its ninth meeting and authorized the chairman to sign a "Strategic Cooperation Agreement" and "Share Subscription Agreement" with the subsidiary of General Electric, and discussed and approved "Proposal of Writing off Non-Performing Debts in the third Quarter of 2005." The relevant resolutions were published on China Securities Journal and Securities Times on 21 October 2005.

On 28 October 2005, the sixth session of the board of directors held its tenth meeting and discussed and approved "Third Quarter Report 2005 of Shenzhen Development Bank", "Proposal of Authorizing the Audit and Related Party Transaction Control Committee to Approve Work System and Work Procedure for Internal Audit, etc.", "Proposal of Remunerations for Senior Executives of Shenzhen Development Bank." The relevant resolutions were published on China Securities Journal and Securities Times on 29 October 2005.

On 8 December 2005, the sixth session of the board of directors held its eleventh meeting and discussed and approved "Proposal of Writing off Non-Performing Debts (Second Batch) in 2005", "Proposal of Further Specifying the Credit Examination and Approval Authority of the Chief Credit Officer", "Proposal on Authority for Examining and Approving Capital Expenditure and Financial Expenses", "Work Rules for Nomination Committee", "Proposal of Appointing Ms Zhao Na as Chief Human Resources Officer of Shenzhen Development Bank", "Work Rules for Strategic Development Committee", "Related Party Transaction Management Methods of Shenzhen Development Bank" and "Business Practices and Code of Conduct for Directors and Non-Employee Supervisors of Shenzhen Development Bank." The relevant resolutions were published on China Securities Journal and Securities Times on 10 December 2005.

2 Execution by the board of directors of resolutions passed on general meetings

In the period under review, the board of directors of the Bank dutifully executed the resolutions passed on the first interim general meeting held on 11 January 2005, and the resolutions passed on general meeting 2004 held on 17 June 2005.

The annual general meeting in 2004 of the Bank discussed and approved "Profit Distribution Plan 2004 of Shenzhen Development Bank." According to the auditor's report made by Shenzhen Pengcheng CPAs, the Bank's net profit for 2004 is RMB 289,774,276, and the distributable profit is RMB 736,076,238. According to the auditor's report made by Ernst & Young, the Bank's net profit for 2004 is RMB 325,727,953, and the distributable profit is RMB 756,395,476.Based on the aforesaid profits and pursuant to relevant state regulations, the Bank distributed the profits of 2004 as follows: (1) set aside as statutory surplus reserve 10% (RMB 28,977,428) of the after-tax profit (RMB 289,774,276) audited by domestic CPAs, (2) Set aside as statutory public welfare fund 5% (RMB 14,488,714) of the after-tax profit (RMB 289,774,276) audited by domestic CPAs; (3) Set aside as general provisions 20% (RMB 57,954,855) of the after-tax profit (RMB 289,774,276) audited by domestic CPAs. (4) For long-term development, the Bank did not distribute its cash dividends or convert common reserve fund into capital. (5) RMB 634,655,241 remained undistributed, and will be distributed in coming years. The aforesaid profit distribution plan was undertaken.

H Profit Distribution Plan and the Plan for Converting Common Reserve Fund into Share Capital in 2005

In the statutory financial statements 2005 (audited by Shenzhen Pengcheng CPAs) of the Bank, the net profit was RMB 351,727,460, and distributable profit was RMB 1,018,656,495. Based on the aforesaid profits and pursuant to relevant state regulations, the Bank distributed the profits of 2005 as follows:

1 Set aside as statutory surplus reserve 10% (RMB 35,172,746) of the after-tax profit audited by domestic CPAs;

2 Set aside as statutory public welfare fund 5% (RMB 17,586,373) of the after-tax profit audited by domestic CPAs.

3 Set aside RMB 200,000,000 as general provision reserve.

4 For long-term development, the Bank did not distribute its cash dividends or convert common reserve fund into capital.

5 After the aforesaid profit distribution, at the end of 2005, the balance of surplus reserve was RMB 322,891,443, including public welfare fund of RMB 107,630,481. The balance of general provisions reserve was RMB 479,704,345, and RMB 765,897,376 remained undistributed and will be distributed in coming years.

The aforesaid plans shall need to be discussed and approved at the 2005 annual general meeting of the Bank.

Report of the Board of Supervisors

The fifth session of the board of supervisors was set up in 2005. Undertaking to be dutiful to Shenzhen Development Bank and with the support of shareholders and staff, the board of supervisors exercised its functions of supervision and inspection. And in case of any issue, the board responsively made suggestions to the board of directors and the president's office. It had played a significant role in protecting the interests of shareholders, customers and staff.

A Meetings of the Board of Supervisors

In the period under review, the board of supervisors held 8 meetings and passed resolutions on relevant matters, as set out below:

1 On 23 April 2005, the board of supervisors held its first meeting and decided that Supervisor Huang Shouyan be the temporary convener of the fifth board of supervisors, and discussed and approved "Work Report 2004 of the Board of Supervisors", "Final Settlement Report 2004" and "Proposal of Changing Income Tax Accounting Policies." It approved the explications made by the board of directors on the unqualified auditors' report with some explanatory paragraphs provided by domestic and overseas CPAs.

2 On 16 May 2005, the board of supervisors held its second meeting, and discussed and revised the rules of procedure for the board of supervisors, nominated Kang Dian and Luo Long as candidate external supervisor and candidate shareholder supervisor respectively, and reported that to the general meeting for deliberation and accepted the written resignation of supervisor Xu Jin.

3 On 17 June 2005, the board of supervisors held its third meeting, and elected supervisor Kang Dian as chairman of the fifth board of supervisors.

4 on 29 July 2005, the board of supervisors held its fourth meeting to approve the setting up of the risk audit committee and nomination committee, and elected supervisors Guan Weili and Kang Dian as chairmen of the two committees respectively. The board also reported the major work Mr Kang Dian had done in his term as acting chairman and discussed the work plan and budget of the board of supervisors for the second half of 2005, as well as the proposal for increasing the number of employees.

5 On 16 August 2005, the board of supervisors held its fifth meeting, and discussed and approved in principle the work plan and budget of the board of supervisors for the second half of 2005, as well as the proposal for expanding the secretariat of the board of supervisors. The board also reported the "Regulatory Report 2004 of Shenzhen Development Bank" made by CBRC, discussed the relevant topics for the seventh session of the board of supervisors and the proposal for revising "Mechanism of Board of Supervisors for Supervision and Inspection of Senior Executives."

6 On 26 September 2005, the board of supervisors held its sixth meeting and discussed matters relating to cooperation with GE.

7 On 27 October 2005, the board of supervisors held its seventh meeting, and reported meetings held between chairman Kang Dian and CBRC leaders and between Mr Kang Dian and Chairman Newman of Shenzhen Development Bank, and discussed the equity separation reform issue of the Bank, the introduction of GE as strategic investor and the Bank's cooperation with GE in retail business. It also discussed and arranged annual inspection tours of branches and sub-branches of the Bank for the current year; discussed the engagement of financial and legal advisors for the board of supervisors, discussed and approved appointments for the secretariat of the board of directors, and studied the relevant documents of CBRC.

8 On 7 December 2005, the board of supervisors held its eighth meeting to discuss and approve "Inspection Report 2005 of Board of Supervisors of Shenzhen Development Bank", "Letter on Improving Communications and Coordination Between Board of Directors and Board of Directors & Senior Executives",, reported inspections made by regulatory authorities on the Bank, roughly discussed topics for the eleventh session of the board of directors, studied the new Company Law and other relevant laws, regulations and policies as well as discussed the several operational accidents in Shenzhen.

B The Board of Supervisors Expresses its Independent Opinions on the Following Issues:

1 Operations of the Company according to the law

The board of supervisors oversaw the financial condition of the Bank, and the supervisors attended all the sessions of the board of directors and organized tour inspections on six branches of the Bank. The board of supervisors noticed that the Bank operated independently through the respective select committees of the board of directors. The audit and related party transaction committee directly led the audit and management system of the Bank, and the Bank exercised vertical management of credit loans and financial affairs, thus strengthening internal control. The board of supervisors thought that all the decision-making procedures of the Bank were lawful and it did not find any director or senior executive go against any laws, regulations or articles of association or damage the interests of the Bank, and the Bank supported efforts to further improve its internal control.

2 Inspection of financial position of the Bank

The board of supervisors dutifully inspected the financial accounts of the Bank, attended the meetings of the board of directors and listened to the reports of the chief financial officer of the Bank, and domestic and overseas CPAs responsible for audit, discussed the relevant matters, and engaged independent financial advisors for their expert opinions. Shenzhen Pengcheng CPAs and Ernst & Young audited and produced unqualified opinions on the financial reports of the Bank. The board of supervisors believed that the financial reports truly reflected the financial position and operating results of the Bank.

3 Placements, acquisitions and asset disposals

In the period under review, there was no placement or significant acquisition or asset disposal.

4 Related party transactions

All related party transactions of the Bank in the period under review were conducted by following the regular commercial procedures and rules, and no act damaging the interests of the shareholders or the Bank were committed.

Contingencies, Related Party Transactions and other Significant Events

A Major Lawsuits and Arbitrations

In the period under review, the Bank was not involved in any lawsuit or arbitration that had significant impact on the operations of the Bank.

By 31 December 2005, the Bank was involved as a plaintiff in 563 unsettled lawsuits involving RMB 3.62 billion in principal and RMB 340 million in interest. The Bank was involved as a defendant in 29 unsettled lawsuits, involving RMB 182.47 million. Cases involving RMB 20 million in amount or above are:

1 Lawsuit concerning loan contract dispute filed by Asia Holdings Co., Ltd. (Asia Company) against Changcheng Sub-branch of the Bank

In May 2004, in the lawsuit concerning loan dispute filed by the Bank's Changcheng Sub-branch against Asia Company, Asia Company lodged a countercharge to Guangdong Province Higher People's Court, requiring the Bank to return RMB 36 million and related interests. Asia Company claimed that the repayment act of the company was unlawful and invalid. The Bank argued that the said repayment act was lawful and valid and organized defense claims. In April 2005, the court of first instance ruled that the Bank return RMB 36 million with due interest. The Sub-branch has made an appeal, which is now pending trial.

2 Lawsuit concerning equity pledge filed by Shaanxi Modern Agriculture Center against Yongan Property Insurance Co., Ltd., in which Bao'an Sub-branch of the Bank was listed as a third party

In August 2005, Shaanxi Modern Agriculture Center sued Yongan Property Insurance Co. Ltd. at Xi'an Intermediate People's Court on the grounds of equity dispute, asking the court to confirm that the Stock Certificate produced in July 2002 and held by plaintiff Yongan Property Insurance Co. Ltd. The share register pledged to the Bank as pledge evidence were invalid. The Bank and Yanlian Industrial Corporation were listed as third parties. This case involved the loan issued by Bao'an Sub-branch to Fujian Start Computer Group Co., Ltd. secured with the 31 million shares held by the plaintiff in Yongan Property Insurance Co. Ltd. The Bank deemed the pledged loan legal and valid. The case is now under trial at the court of first instance.

3 Lawsuit concerning RMB 30 million remittance of Hongbao Sub-branch of the Bank filed by Anhui Securities Registration Company

The Bank won the suit in the first trial, but the plaintiff did not accept the ruling and appealed to Guangdong Higher People's Court, which had ruled to return the case to the court of first instance for a retrial. In September 2001, Shenzhen Intermediate People's Court started trial and added Guangyuan Sub-branch of Bank of Communications as a defendant. In December 2004, the court overruled the appeal of the plaintiff, who was unsatisfied and lodged an appeal. The court of second instance ruled that the Bank repay RMB 30 million with due interest to the plaintiff. The Bank has pleaded for retrial and for suspension of execution of the aforesaid ruling.

B There was No Merger, Acquisition or Asset Disposal in the Period under Review

C Major Related Party Transactions

In the period under review, the Bank kept a policy of honesty and fairness, and released all related party loans pursuant to relevant state laws and regulations, the loan terms and conditions and examination and approval procedure of the Bank. The existing related party transactions will not have significant impacts on the normal operations of the Bank. The following were the related party transactions and their balances in the period under review:

1 On 31 December 2005, the Bank should have received RMB 40,000 (31 December 2004: none) from Newbridge Asia AIV III, L. P., which money was the advance payment for equity purchase announcement advertisement (received in March 2006).

2 On 31 December 2005, the Bank should have received RMB 515,704,656 (31 December 2004: RMB 523,477,275) from Shenzhen Yuansheng Industrial Co. Ltd., which money was allocated to the Company in the previous year and was still outstanding.

3 Related party transactions conducted by directors, supervisors and senior executives of the Bank in the current year are as follows:

ITEM *In RMB*	Loan	Deposit
31 December 2004	600,000	5,248,882
Increase in the current year	3,130,000	27,980,471
Decrease in the current year	1,017,333	23,737,505
31 December 2005	2,712,667	9,491,848
Interest income (expenses)	121,454	(44,219)

4 Others

i. Mr Richard C. Blum, one of the ultimate controllers of the controlling shareholders of the Bank, had significant influence on CB Richard Ellis (Ellis). According to the agreement between the Bank and Ellis, Ellis provided the Bank with real estate brokerage in the current year, and the Bank paid Ellis a total of HK$2,675,153 as service charges.

ii. On 28 September 2005, the Bank signed a Share Subscription Agreement with GE Capital International Finance Co., Ltd. The two parties agreed that after approval by the relevant authorities and the general meeting of the Bank, the Bank would issue new shares to the company at RMB 5.247 per share. The company bought RMB shares equivalent to US$100 million.

On 28 September 2005, the Bank signed a Strategic Cooperation Agreement with GE Capital Finance (China) Co., Ltd. The two parties agreed that the company or its related party would provide the Bank with advice on retail banking services in risk, operation, marketing, system, strategy and financing; and would provide the Bank also with professional knowledge about consumer financing in product development, system and marketing, financing skill, risk management, operation and staff training. The Agreement would be valid for five years.

The Strategic Cooperation Agreement stipulates that the Bank should pay the Company for the consulting service and pay relevant expenses on travel and hotel accommodations. The consulting fee shall be calculated based on cost recovery plus 40%, which cost shall be at the same rate for similar services provided by international consulting companies. According to the Agreement and pursuant to relevant laws, the Bank would pay the company 85% of the accumulated consulting fee by means of new issue, or in cash five years after signing of the Agreement. The annual budget for consulting fee was US$2 million to US$4 million.

In the current year, the Bank reserved US$1.25 million consulting fee according to the consulting service bill issued by GE Capital Finance (China) Co., Ltd., which fee was stated as "prepaid expenses."

GE Capital International Finance Co., Ltd. is registered in New York State, USA, as a financial holdings company. GE Capital Finance (China) Co., Ltd. is a foreign-funded enterprise incorporated in China. Both companies are subsidiaries of GE.

The Bank thinks that share reform is of top concern at present. The agreement between the Bank and GE will not prevent the Bank from continuing to work with related shareholders to promote equity separation reform. After the related shareholders meet and discuss equity separation reform, the board of directors of the Bank will propose the convening of a temporary general meeting concerning the aforesaid two agreements.

Except for the related party matters stated above, the Bank does not have other significant related party transactions that should be disclosed.

D Important Contracts and their Performance

1 Significant custody, contracting and leasing business: There was no significant custody, contracting or leasing business in the period under review.

2 Significant guarantee: The Bank did not offer any significant guranteed items other than those approved by CBRC.

3 Consigned financial management: The Bank did not entrust others to manage cash assets in the period under review.

4 Other major events relating to performance of contract: The Bank was not involved in any major contract dispute in the period under review.

E The Bank or Any Shareholder Holding 5% Shares or above Did Not Make Any Significant Commitment

F Engaging CPAs

In the period under review, the Bank engaged Shenzhen Pengcheng Certified Public Accountants to audit the Bank. Pursuant to CSRC regulations, the Bank employed Ernst & Young to audit the supplementary financial statement prepared by the Bank in compliance with International Financial Reporting Standards.

In 2005, the Bank paid RMB 2.25 million to Shenzhen Pengcheng CPAs, and RMB 6.4 million to Ernst & Young. The Bank did not pay for the travel expenses of the aforesaid two accounting firms.

Shenzhen Pengcheng CPAs and Ernst & Young have provided services for the Bank for six years.

G In the Period under Review, the Bank, the Board of Directors and its Members were not Examined, Penalized or Criticized by CSRC, nor Publicly Denounced by the Stock Exchange

H Funds used by Controlling Shareholders and their Subsidiaries

At the end of the period under review, the funds used by controlling shareholders of the Bank and other related parties were as follows:

TYPE OF FUND USER *In RMB*	Name of Fund User	Relationship Between Fund User and Listed Company	Accounting Entry of Listed Company	Balance of Fund at Beginning of 2005	Total Fund Used in 2005	Total Fund Repaid in 2005	Balance of Fund at End of 2005	Cause for Fund Use	Nature of Fund Use
Controlling shareholder, effective controller and their subsidiaries	Newbridge Asia AIV III, L. P.	Controlling shareholder	Other receivables	–	4.00	–	4.00	Advance payment for equity purchase announcement	For non-operating purposes
Subtotal	–	–	–	–	4.00	–	4.00	–	–
Related natural person and his controlled legal person	–	–	–	–	–	–	–	–	–
Subtotal	–	–	–	–	–	–	–	–	–
Other related parties and their subsidiaries	–	–	–	–	–	–	–	–	–
Subtotal	–	–	–	–	–	–	–	–	–
Subsidiary of listed company and its subsidiary	Shenzhen Yuansheng Industrial Co., Ltd.	Controlling subsidiary	Other receivables	52,347.73	–	777.26	51,570.47	Fund allocated in previous years	For non-operating purposes
Subtotal	–	–	–	52,347.73	–	777.26	51,570.47	–	–
Total	–	–	–	52,347.73	4.00	777.26	51,574.47	–	–

Note: The receivable RMB 40,000 from Newbridge Asia AIV III, L. P. was the advance payment for equity purchase announcement and was recovered in March 2006.

Shenzhen Pengcheng CPAs produced Special Audit Remarks on Funds Used by Controlling Shareholders of Shenzhen Development Bank and Related Parties (Shen Peng Suo Zhuan Shen Zi [2006] 085)

I Explanations and Independent Opinions of Independent Directors Concerning Security offered by the Bank

We, as independent directors of Shenzhen Development Bank, checked the security offered by the Bank in an impartial, fair and objective manner pursuant to Document [2003] 56 of CSRC. We think that the security business conducted by Shenzhen Development Bank is a regular banking business approved by PBOC and CBRC. Shenzhen Development Bank attaches importance to the risk management of the guarantee business, and strictly follows the relevant operation flow, and examination and approval procedure, thus ensuring effective control of the risk of the guarantee business.

J Share Reform of the Bank

The Bank has engaged sponsors for the share reform and is actively working on the said reform. The Bank will work with shareholders of non-tradable shares in an effort to complete the reform by 30 June 2006.

K Other Significant Events

1 On 1 April 2005, the board announced that the bank received "Reply of China Banking Regulatory Commission Concerning Qualifications of John D. Langlois (Yin Jian Fu [2005] 74)" and "Reply of China Banking Regulatory Commission Concerning Qualifications of Jeffrey R. Williams (Yin Jian Fu [2005] 75). For details, please refer to China Securities Journal and Securities Times of the related day, and visit www.cninfo.com.cn.

2 On 20 April 2005, the Bank announced a series of loans totaling RMB 1.5 billion. For details, please refer to China Securities Journal and Securities Times of the related day, and visit www.cninfo.com.cn.

3 On 22 April 2005, the Bank announced again the loans totaling RMB 1.5 billion. For details, please refer to China Securities Journal and Securities Times of the related day, and visit www.cninfo.com.cn.

4 On 30 September 2005, the board of directors announced that the bank received "Reply of China Banking Regulatory Commission Concerning Qualifications of Frank N. Newman (Yin Jian Fu [2005] 247)" and "Reply of China Banking Regulatory Commission Concerning Qualifications of Kang Dian (Yin Jian Fu [2005] 242). For details, please refer to China Securities Journal and Securities Times of the related day, and visit www.cninfo.com.cn.

5 On 21 October 2005, the board of directors announced the signing of relevant agreements with General Electric. For details, please refer to China Securities Journal and Securities Times of the related day, and visit www.cninfo.com.cn.

6 On 29 October 2005, the Bank announced related party transactions: On 28 September 2005, Shenzhen Development Bank ("the Company") signed a "Strategic Cooperation Agreement" with GE Capital Finance (China) Co. Ltd. The Company also signed on the same day "Share Subscription Agreement" with GE Capital International Finance Co., Ltd. According to that agreement and subject to approval by the competent authorities and shareholders of the Company, GE Capital International Finance Co., Ltd. may become a shareholder of the Company by purchasing the Company's shares. Both GE Capital International Finance Co., Ltd. and GE Capital Finance (China) Ltd. are fully-owned subsidiaries of GE. The aforesaid transactions are related party transactions. For details, please refer to China Securities Journal and Securities Times of the related day, and visit www.cninfo.com.cn.

Notice of the General Meetings

In the period under review, the Bank held two general meetings: the annual general meeting and interim general meeting, as presented in the following:

A The Bank held the first interim general meeting 2005 on 11 January 2005. Announcement of Resolutions of the First Interim General Meeting 2005 of Shenzhen Development Bank was published in China Securities Journal and Securities Times on 12 January 2005.

B The Bank held the general meeting 2004 on 17 June 2005, and Announcement of Resolutions of General Meeting 2004 of Shenzhen Development Bank was published on China Securities Journal and Securities Times on 18 June 2005.

Our Financial Results

Key Financials

PRC GAAP Financial Statements

IFRS Financial Statements

Contents

Financial Results Briefs

SDB's financial results for the year showed good progress in all major indicators

PROFIT BEFORE TAX
up 28%
to RMB 639 million

TOTAL ASSETS
up 12%
to RMB 229.2 billion

NET PROFIT
up 19%
to RMB 352 million

TOTAL LIABILITIES
up 12%
to RMB 224.2 billion

EARNINGS PER SHARE
up 19%
to RMB 0.18

TOTAL LOANS
up 24%
to RMB 156.1 billion

RETURN ON WEIGHTED AVERAGE EQUITY
up 12%
to 7.16%

TOTAL DEPOSITS
up 21%
to RMB 202 billion

SDB's financial results for the year showed good progress. Compared with 2004, profit before tax increased by 28%; and profit after tax increased 19%. After-tax Return on Equity rose from 6.42% in 2004 to 7.16% in 2005.

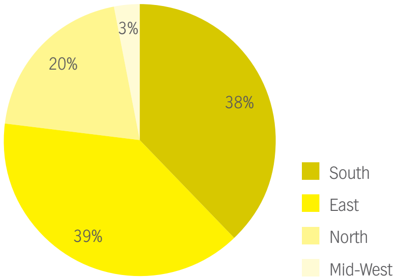
During 2005, significant progress was also made in dealing with historical problem loans:

i. The NPL ratio to total lending improved from 11.4% at year end 2004 to 9.3% at 31 December 2005. Total NPLs at 31 December 2005 were RMB 14,571 million.

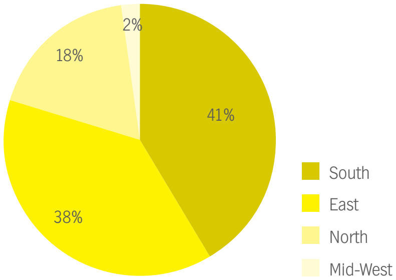
ii. Collection and resolution programs were substantially increased during 2005, resulting in collection or other appropriate resolution of more than RMB 2 billion of NPLs during the year.

The capital position of the Bank also improved substantially during 2005. The Core Capital Adequacy Ratio (CCAR), while still below regulatory guidelines, improved significantly, from 2.32% at year end 2004 to 3.71% at 31 December 2005. This increase was achieved as a result of internal capital generation and balance sheet management. The bank intends to further increase its ratios by raising new capital.

The regional contribution of profit before provisions and tax is relatively well balanced across China. While the South and the East have historically recorded remarkable growth, the North and the Mid-West are expected to grow faster than other regions going forward.



2005 Regional contribution of profit before provisions and tax



2004 Regional contribution of profit before provisions and tax

In terms of regional distribution of profit before provision and tax contribution, areas in East China (including Shanghai, Hangzhou, Nanjing, Ningbo) and areas in South China (including Shenzhen, Guangzhou, Foshan, Zhuhai and Haikou) contributed 39% and 36% to the Bank respectively.

Glossary

IFRS financial statements	Financial statements prepared under International Financial Reporting Standards. These are the Bank's supplementary financial statements and are used for reference purposes.
PRC GAAP financial statements	A general term for financial statements prepared under PRC Accounting Standards for business enterprises and PRC Accounting Systems for financial institutions. PRC GAAP financial statements represent the statutory financial statements of the Bank
Total lending	Unless otherwise stated, total lending represents total loans plus discounted bills and trade finance exposures.
CSRC	The China Securities Regulatory Commission
CBRC	The China Banking Regulatory Commission
Domestic CPA	Refers to Shenzhen Pengchang CPA, the CPA firm responsible for auditing our statutory financial statements.
Overseas CPA	Refers to Ernst & Young, the CPA firm responsible for auditing our IFRS financial statements.
NPL	Non-performing loan. A non-performing loans is any loan classified as substandard grade, doubtful grade or loss grade.
Capital Adequacy Ratio	Net capital / Total risk-weighted assets
Core Capital Adequacy Ratio	Core capital / Total risk-weighted assets. Core capital is defined as total capital less supplementary capital arising from sub-ordinated debt and any provision surplus.
Repossessed assets	Repossessed assets are assets such as properties, vehicles and equipment which are recovered from borrowers whose loans are deemed to be non-performing loans, and who have failed to settle an obligation in cash upon the maturity of the loan, thereby prompting the Bank to foreclose.
MOF	The Ministry of Finance, PRC

Key Financial Data Highlights

A Key Financial Data in 2005

ITEM *In RMB*	PRC GAAP Figure Audited by Domestic CPA
Profit before tax	638,616,561
Net profit	351,727,460
Net profit minus non-recurring gains/losses*	334,702,080
Profit from core businesses	2,894,458,973
Operating profit	2,894,458,973
Investment income	824,537,457
Subsidy revenue	–
Net non-operating income and expenses	-36,137,965
Net cash flows from operating activities*	-4,285,584,486
Net increase in cash and cash equivalents	3,818,790,688

Notes: 1. Non-recurring gains/losses are determined and calculated according to Q & A No. 1 on Regulation Governing Information Disclosure of Publicly Listed Companies – non-recurring Gains/Losses;

2. Amount deducted for non-recurring gains/losses: RMB 17,025,380.

3. The bonds and PBOC notes that our bank holds as interest earning assets are classified as investment activities in the cash flow statement. If such accounts are stated in operating activities, the net cash flow from operating activities will be RMB 4,088,496,157.

ITEM *In RMB*	IFRS Figure Audited by Overseas CPA
Profit before tax	571,123,311
Net profit	286,493,301
Net profit minus non-recurring gains/losses	283,806,267
Profit from core businesses	2,847,866,241
Operating profit	2,847,866,241
Investment income	784,024,998
Subsidy revenue	–
Net non-operating income and expenses	-57,288,482
Net cash flows from operating activities*	-4,603,635,811
Net increase in cash and cash equivalents	3,818,790,688

Note: The bonds and PBOC notes that our bank holds as interest earning assets are classified as investment activities in the cash flow statement. If such accounts are stated in operating activities, the net cash flow from operating activities will be RMB 4,088,872,397.

B Key financial data and performance indicators of the Bank for the last three years up to the end of the period under review:

ITEM *In RMB*	2005 PRC GAAP Figure Audited by Domestic CPA	2005 IFRS Figure Audited by Overseas CPA	2004 PRC GAAP Figure Audited by Domestic CPA After adjustment*	2004 PRC GAAP Figure Audited by Domestic CPA Before adjustment*	2003 PRC GAAP Figure Audited by Domestic CPA After adjustment*	2003 PRC GAAP Figure Audited by Domestic CPA Before adjustment*
Revenue from core businesses	**8,546,321,849**	**9,092,580,635**	8,351,953,211	8,323,009,942	5,958,483,949	5,992,810,422
Net profit	**351,727,460**	**286,493,301**	294,569,669	289,774,275	395,782,481	425,072,719
Total Assets	**229,216,415,808**	**222,368,557,861**	204,442,759,083	204,286,424,020	193,587,154,606	193,453,415,330
Shareholders' equity (excluding						
minority shareholders' equity)	**5,043,041,955**	**5,078,166,533**	4,734,314,280	4,684,662,288	4,439,745,584	4,394,888,985
Fully diluted EPS	**0.18**	**0.15**	0.15	0.15	0.20	0.22
Weighted average EPS	**0.18**	**0.15**	0.15	0.15	0.20	0.22
Net asset value per share	**2.59**	**2.61**	2.43	2.41	2.28	2.26
Net asset value per share after adjustment*	**2.52**	**2.53**	2.36	2.34	2.21	2.19
Net operating cash flow per share	**-2.20**	**-2.37**	3.62	3.62	-0.86	-0.86
Return on equity (fully diluted)	**6.97%**	**5.64%**	6.22%	6.19%	8.91%	9.67%
Return on equity (weighted average)	**7.16%**	**6.39%**	6.42%	6.38%	9.83%	9.66%

Notes: 1. The figure audited by domestic CPA after adjustment stands for the amount adjusted retrospectively after a change in the accounting policy.

2. Net asset value per share after adjustment is calculated based on the formula specified in Standard No. 2: Contents and Format of Annual Reports (Revised 2005) on the Contents and Format of Information Disclosure Regarding Companies Issuing Securities to the Public. That is:

Adjusted net asset value per share = (year-end shareholders' equity – net receivables aged at least 3 years – prepaid expenses – long-term prepaid expenses)/year-end total number of ordinary shares

C Key GAAP Differences

1 Key GAAP differences

ITEM *In RMB*	31 December 2005 Net Assets	2005 Net profit	31 December 2004 Net Assets	2004 Net profit
Statutory financial statements (under PRC GAAP)	**5,043,041,955**	**351,727,460**	4,734,314,280	294,569,669
GAAP ADJUSTMENT				
Financial assets & liabilities at fair value				
through profit & loss	**-9,985,844**	**544,603**	-10,530,447	-1,126,482
Available-for-sale investments adjusted at fair value	**2,643,889**	**250,000**	-486,991,940	22,549,506
Write-off set-up costs on new sub-branches	**-18,669,168**	**4,175,000**	-22,844,167	-5,325,000
Accrual of short-term investment interest income	**18,710,626**	**-41,264,424**	59,975,050	59,975,050
Investment properties revalued	**52,733,087**	**11,804,274**	–	–
Exchange losses	**–**	**-43,002,702**	–	–
Impact of aforesaid GAAP differences on deferred tax	**-10,308,012**	**2,259,090**	66,980,094	-40,119,396
Supplementory financial statements (under IFRS)	**5,078,166,533**	**286,493,301**	4,340,902,870	330,523,347

Note: Major adjustments made on the statutory financial statements of the Bank to comply with IFRS:

A. Derivative instruments and structured deposits stated at fair value.

B. Available-for-sale investments stated at fair value.

C. write-off the set-up costs for new sub-branches.

D. Accrued interest for short-term investments.

E. Investment properties stated at fair value.

F. Foreign currency translation losses due to RMB appreciation.

G. Deferred tax arising from aforesaid differences.

2 Loan impairment provision under PRC GAAP and IFRS

In RMB	Figures under PRC GAAP	Figures under IFRS
Opening balance as at 1 January 2005	5,111,559,816	5,111,559,815
Add: Charge for the year	1,705,862,159	2,135,196,728
Less: Unwinding of discounting effect on interest	–	(429,334,567)
Net provisions charge for the year	1,705,862,159	1,705,862,161
Add: Recoveries of loans previously written off	3,664,616	3,664,616
Add: Exchange difference	10,186,103	10,186,101
Less: Write-off	598,721,201	598,721,200
Year-end balance as at 31 December 2005	6,232,551,493	6,232,551,493

D Appendixes to Income Statement 2005 of the Bank

Pursuant to Rule No. 9 – Calculation and Disclosure of Return on Equity and Earnings Per Share of Editing and Reporting Rules Regarding Information Disclosure for Companies Publicly Issuing Securities issued by CSRC, the return on equity and earnings per share in 2005 calculated based on figures audited by domestic and overseas CPAs under PRC GAAP and IFRS respectively are as follows:

1 PRC GAAP figures audited by domestic CPA

	Return on equity (%)		Earnings per share (RMB)	
ITEM	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from core businesses	57.40	58.95	1.49	1.49
Operating profit	57.40	58.95	1.49	1.49
Net profit	6.97	7.16	0.18	0.18
Profit minus non-recurring gains/losses	6.64	6.82	0.17	0.17

2 IFRS figures audited by overseas CPA

	Return on equity (%)		Earnings per share (RMB)	
ITEM	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from core businesses	56.08	63.51	1.46	1.46
Operating profit	56.08	63.51	1.46	1.46
Net profit	5.64	6.39	0.15	0.15
Net profit minus non-recurring gains/losses	5.59	6.33	0.15	0.15

E Changes in Shareholders' Equity in the Period under Review

1 PRC GAAP figures audited by domestic CPAs

ITEM *In RMB*	31 December 2004	Increase in the current year	Decrease in the current year	**31 December 2005**
Share capital	1,945,822,149	–	–	**1,945,822,149**
Capital reserve	1,571,729,344	–	–	**1,571,729,344**
Surplus reserve	270,132,324	52,759,119	–	**322,891,443**
Of which: statutory public welfare fund	90,044,108	17,586,373	–	**107,630,481**
General provision reserve	279,704,345	200,000,000	–	**479,704,345**
Undistributed profits	666,929,035	98,968,341	–	**765,897,376**
Of which: dividend recommended for distribution	–	–	–	**–**
Foreign exchange translation difference	-2,917	–	42,999,785	**-43,002,702**
Total shareholders' equity	4,734,314,280	351,727,460	42,999,785	**5,043,041,955**

Note: The changes are due to the net profit and profit distribution in the period under review.

2 IFRS figures audited by overseas CPAs

ITEM *In RMB*	Opening balance	Increase in the current period	Decrease in the current period	Exchange difference	Ending balance
Share capital	1,945,822,149	–	–	–	1,945,822,149
Capital reserve	1,571,729,344	–	–	–	1,571,729,344
Reserves	549,833,753	252,759,119	–	2,916	802,595,788
Cumulative change in fair value – available-for-sale investments	-413,730,650	472,377,725	56,399,771	–	2,247,304
Investment properties revaluation reserve	–	297,989	–	–	297,989
Undistributed profits	687,248,274	327,071,539	258,845,854	–	755,473,959
Total	4,340,902,870	1,052,506,372	315,245,625	2,916	5,078,166,533

Key Business Data Highlights

Pursuant to Rule No. 7 – Special Regulations on Contents and Format of Annual Reports of Commercial Banks – of Editing and Reporting Rules Regarding Information Disclosure for Companies Publicly Issuing Securities issued by CSRC, the financial indicators, business data and relevant information of the Bank are as follows:

A Key Financial Data of the Bank for the Three Years up to the End of the Period under Review

ITEM *In RMB*	2005	2004	2003
Total liabilities	**224,173,373,853**	199,708,444,803	189,147,409,022
Total deposits	**202,043,045,690**	167,266,248,457	141,747,646,731
Long-term deposits and inter-bank borrowings	**16,687,555,090**	14,875,731,585	42,227,441,033
Total loans	**156,103,023,972**	126,195,463,240	131,369,832,820
Loan balance by type:			
Of which, short-term loans	**66,838,782,553**	64,404,003,227	59,515,903,393
Import & export negotiation	**1,886,572,642**	1,154,051,709	1,422,407,336
Discounted bills	**38,414,272,735**	16,701,407,260	33,248,442,698
Medium to long-term loans	**32,483,604,299**	31,238,496,393	26,746,144,223
Overdue loans	**496,724,787**	1,264,560,541	593,848,754
Non-accruing loans	**15,983,066,956**	11,432,944,110	9,843,086,416

B Year-end and Monthly Average Financial Indicators for the Three Years up to the End of the Period under Review

		2005		2004		2003	
ITEM *In %*	Benchmark ratio	**Year-end**	**Monthly average**	Year-end	Monthly average	Year-end	Monthly average
Core capital adequacy ratio	≥ 4*	**3.71**	**3.28**	2.32	1.65	3.24	3.82
Capital adequacy ratio*	≥ 8*	**3.70**	**3.17**	2.30	2.13	6.96	7.87
NPL ratio	≤ 15	**9.33**	**10.21**	11.41	10.07	8.49	10
Loan-to-deposit ratio							
In Renminbi	≤ 75	**58.11**	**61.35**	65.96	71.46	69.67	65.66
In foreign currency	≤ 85	**60.04**	**61.64**	47.93	53.45	55.84	55.88
Overall	≤ 75	**58.23**	**56.40**	65.46	70.32	68.76	64.82
Liquidity ratio							
In Renminbi	≥ 25	**35.89**	**33.34**	25.39	26.79	30.59	30.85
In foreign currency	≥ 60	**87.86**	**84.45**	79.30	85.49	76.03	68.86
Inter-bank lending ratio							
Inter-bank borrowings	≤ 4	**0.00**	**0.07**	0.15	0.4	1.23	1.65
Inter-bank lending	≤ 8	**1.09**	**0.80**	0.92	0.99	0.71	1.27
Ratio of medium to long-term loans							
In Renminbi	≤ 120	**237.81**	**219.74**	253.62	249.46	117.75	124.93
In foreign currency	≤ 60	**1.92**	**2.14**	2.9	3.53	3.91	4.71
Ratio of international commercial borrowings	≤ 100	**0.00**	**0.00**	5.26	6.5	2.99	1.62
Ratio of loans to single largest customers	≤ 10	**20.67**	**15.11**	16.92	23.23	4.59	6.31
Ratio of loans to top 10 customers	≤ 50	**122.22**	**109.80**	128.70	152.58	45.15	48.22
Interest recovery ratio	–	**89.59**	**89.42**	95.53	91.08	92.23	87.27

Notes: 1. Pursuant to Regulation Governing Capital Adequacy of Commercial Banks issued by CBRC, commercial banks should reach the minimum capital adequacy ratio by 1 January 2007.

2. Up to the end of the period under review, the loans to single largest customers of the Bank were all discounted bills balance, and the counterparty bank is one of the top five state-owned commercial banks in China.

3. Up to the end of the period under review, of the loans to the top ten customers of the Bank, discounted bills accounted for 44.68% of the balance of the said loans.

4. Most of the benchmark ratios and definitions of the indicators listed in the table have already been modified and the modifications will be effective as from 1 January 2006.

C Capital Structure and Changes

ITEM *In RMB million*	**31 December 2005**	31 December 2004	31 December 2003
Net capital	**4,880**	3,310	8,931
Of which, net core capital	**4,885**	3,340	4,153
Net risk-weighted assets	**131,713**	143,681	128,261
Capital adequacy ratio	**3.70%**	2.30%	6.96%
Core capital adequacy ratio	**3.71%**	2.32%	3.24%

Note: 1. From 2004 onwards, the capital adequacy ratio and core capital adequacy ratio will be calculated as per the new standards specified in Regulation Governing Capital Adequacy of Commercial Banks issued by CBRC; the capital adequacy ratio and core capital adequacy ratio of 2003 were calculated according to "Notice on Issuing Instructions for Filling out Off-Site Regulatory Index Forms of Commercial Banks and Off-Site Regulatory Reports of Commercial Banks" issued by the People's Bank of China, therefore the calculations decreased sharply compared with 2003.

2. The capital position of the Bank also improved substantially during 2005. The Core Capital Adequacy Ratio ("CCAR"), while still below regulatory guidelines, improved significantly, from 2.32% at year-end 2004 to 3.71% at year-end 2005. This increase was achieved as a result of internal capital generation and balance sheet management. The Bank intends to further increase its ratios by raising new capital.

D Organizations of the Bank

Excluding the Headquarters, the Bank had the following organizations at the end of the period under review:

Name of organization	Address	Number of outlets	Assets* (In RMB million)	No of Staff
Head office Branch	1/F, SDB Tower, 5047 Shennan Road E., Luohu District, Shenzhen	1	8,038	61
Shenzhen Management Office	9/F & 15/F, Yinzuo International Building, 1056 Shennan Road, Shenzhen	89	37,949	1,584
Shenzhen Renminqiao Sub-branch (Special Assets Mgmt Center)	1/F, Hubei Baofeng Tower, 4117 Shennan Road E., Luohu District, Shenzhen	1	11,237	69
Guangzhou Branch	66 Huacheng Avenue, New Pearl River City, Tianhe District, Guangzhou	17	21,756	558
Haikou Branch	22 Jinlong Road, Haikou	4	2,989	140
Zhuhai Sub-Branch	SDB Tower, 18 Zijing Road, Xiangzhou District, Zhuhai	6	1,803	144
Foshan Branch	148 Lianhua Road, Foshan	10	8,981	283
Shanghai Branch	1351 Pudong Road S., Pudong, Shanghai	23	29,558	618
Hangzhou Branch	36 Qingchun Road, Hangzhou	16	22,505	443
Ningbo Branch	138 Jiangdong Road N., Ningbo	7	8,702	270
Wenzhou Branch	Guoxin Building, Renmin Road E., Wenzhou	5	5,234	155
Beijing Branch	Yuanyang Building, 158 Fuxingmen Nei Dajie, Beijing	13	28,654	459
Dalian Branch	130 Youhao Road, Zhongshan District, Dalian	7	5,663	216
Chongqing Branch	1 Xuetianwan Main Street, Yuzhong District, Chongqing	7	2,890	195
Nanjing Branch	Jiangsu Commercial Building, 28 Zhongshan Road N., Nanjing	10	15,010	299
Tianjin Branch	Yiqing Tower, 10 Youyi Road, Hexi District, Tianjin	8	8,674	229
Jinan Branch	138 Lishan Road, Jinan	5	5,515	183
Qingdao Branch	Tower A, International Commercial Center, Hong Kong Road C., Qingdao	4	3,295	156
Chengdu Branch	206 Shuncheng Street, Chengdu	3	3,722	120
Kunming Branch	1–6/F, Huaerdun Building, 448 Qingnian Road, Panlong District, Kunming	2	1,943	92
Total		238	234,115	6,274

Note: Assets are the gross balance before impairment provision at the end of 2005.

E 5-tier Loan Classification at the End of the Period under Review

FIVE-TIER CLASSIFICATION *In RMB million*	Loan balance	Loan provision ratio (%) Impairment provision charged from the income statement (reference ratio)	General provision reserve appropriated from distributable profit
Normal	132,171	–	1
Special mention	9,360	2	–
Substandard	7,307	20–30	–
Doubtful	5,787	40–60	–
Loss	1,478	100	–
Total	156,103		

Notes: 1. According to Guidelines issued by CBRC in 2001, banks should set aside 1% of the loan balance as general provision.

On 23 May 2005, the Ministry of Finance issued "Regulation Governing Impairment Provisions of Financial Institutions" (Cai Jin [2005] 49), which stated that the general provision should be made by financial institutions at a certain percentage of risky asset balance (not lower than 1% of the risky asset balance at year end) to cover unidentified potential losses. For specific loans incurred loss, impairment provision should be made from the income statement according to the risk level and recoverability. The Regulation took effect as from 1 July 2005. Where previous relevant regulations disagree with this Regulation, this Regulation shall prevail.

In addition, according to "Notice from Ministry of Finance relating to impairment provisions" (Cai Jin [2005] 90), financial institutions shall make sufficient general provision reserve in three to five years. The Bank plans to set side adequate general provision reserve in three to five years.

2. The Bank will make reasonable provisions for loan impairment based on a number of factors including borrower's repayment capacity, principal and interest repayment status, the values of collaterals, the guarantor's capacity, and the loan management status of the Bank, together with the five-tier classification, the risk level and recoverability, as well as the estimated present value of future cash flow. At the end of the period under review, the balance of loan impairment provision was RMB 6,232,551,493.

3. The RMB 1.5 billion loan of Zhongcai series is the major NPL of the Bank, and the Bank has reported that to the regulatory authorities. Legal proceedings concerning the NPL are underway, and the Bank has engaged legal advisors to support the legal proceedings. The management thinks that future recoverability is uncertain, and has accordingly set aside RMB 400 million as impairment provision.

4. Impairment provision coverage for NPL improved from 35% in 2004 to 43% in 2005.

F Ratio of Top Ten Borrowers to Total Loan at the End of the Period under Review

By the end of the period under review, loan balance of the top ten borrowers of the Bank totaled RMB 5.964 billion or 3.82% of period-end loan balance. The top ten borrowers are: Shenzhen Public and Private Finance Service Center, Shenzhen Citic Plaza Investment Co. Ltd., Beijing Hyundai Motors Co. Ltd, MinMetals Steel Co. Ltd, Beijing Land Resources Center, China Petroleum and Chemical Corporation., FAW Hainan Mazda Motors Co. Ltd, Zhejiang Shunfeng Transportation Group Company, Jiangsu Sha Steel Group Co. Ltd and Sinochem International Petroleum Company.

G The Bank did not have any soft loan equal to or more than 20% of total loan at the end of the period under review.

H The year-end balance of restructured loans of the Bank was RMB 4,208,340,000, of which RMB 914,410,000 was overdue.

I Annual Average Balances and Interest Rates of Key Types of Loans in the Period under Review

CATEGORY *In RMB million*	Average balance	Average interest rate
Short-term loans (Renminbi & foreign currency)	59,559.82	5.77%
Medium and long-term loans (Renminbi & foreign currency)	31,294.41	5.72%

J Material Treasury Bonds held at the End of the Period under Review

Material treasury bonds held by the bank at the end of 2005 are as follows:

BOND TYPE	Par value (RMB '0000)	Coupon interest rate (%)	Maturity date
02 T-bond 01	63,000	2.70	18 March 2012
03 T-bond 06	60,000	2.53	25 July 2008
01 T-bond 01	50,000	2.82F0.57	23 March 2011
01 T-bond 09	50,000	2.77F0.52	31 August 2011
02 T-bond 09	50,000	2.70	19 July 2012
00 T-bond 02	40,000	2.80F0.55	18 April 2010
2004 (term-2) 3-year T-bond	37,143	2.52	31 May 2007
00 T-bond 01	30,000	2.9F0.65	24 February 2007
03 T-bond 04	30,000	2.45	24 April 2008
01 T-bond 05	25,000	3.71	22 June 2008
05 T-bond 07	25,000	1.58	15 July 2007
00 T-bond 12	20,000	2.85F0.60	20 December 2007
01 T-bond 14	20,000	2.90	10 December 2008
2002 (term-2) 5-year T-bond	20,748	2.29	15 December 2007
2004 (term-2) 5-year T-bond	17,080	2.83	23 August 2009
05 T-bond 14	17,000	1.75	15 December 2007
02 T-bond 11	15,000	2.64	23 August 2009
2004 (term-4) 3-year T-bond	11,830	2.65	31 August 2007
02 T-bond 15	9,000	2.93	6 December 2009
2002 (term-3) 5-year T-bond	8,677	2.36	1 September 2007
00 T-bond 06	8,000	3.50	17 August 2007
96 T-bond 06	8,000	11.83	14 June 2006
03 T-bond 07	5,000	2.6	20 August 2010
04 T-bond 08	5,000	4.3	20 October 2009
05 T-bond 05	5,000	3.3733	25 May 2012
98 T-bond 3	5,000	5.50	4 September 2008
99 term-1 T-bond	5,000	4.88	26 February 2006

K Accruals of Interests Receivable and Other Receivables in the Period under Review

CATEGORY *In RMB*	Amount	Provision for bad debts
Receivables (interest receivable)	229,337,261	0
Other receivables	791,933,713	544,029,170

Note: Interests receivable from interest-earning assets, such as loans will offset interest income for the current period if interests receivable have been overdue for 90 days. The Bank analyzed the recoverability of other receivables one by one and made provision for bad debts accordingly.

L Annual Average Balances and Interest Rates of Key Types of Deposits in the Period under Review

CATEGORY *In RMB million*	Average annual balance	Average interest rate
Corporate deposits (Renminbi & foreign currency)	154,223.30	1.70%
Retail deposits (Renminbi & foreign currency)	26,022.99	1.34%

M NPL Balance at the End of the Period under Review and Measures that have been taken or will be taken Concerning Non-performing Loans

NPL balance was RMB 14.572 billion at the end of the period under review, including loans of substandard, doubtful and loss categories based on the five-tier classification system. Measures that have been taken or will be taken by the Bank concerning NPL in the period under review are as follows:

1 Restructuring NPL management system and improving the performance of asset recovery department

The Bank set up the special assets management committee as the highest decision-making body on NPL management and reinforced the functions of the asset protection department of the head office, adding in the management functions of loan restructuring and NPL write-off. The head office established the special assets management center to exercise the centralized management of NPLs in Shenzhen. Asset security departments were also set up at the branch level to centralize NPL management, which should give full play to the initiatives of the branches.

2 Formulating and implementing collection policies and relevant supporting measures

In the light of the needs for business development and changes in relevant laws and policies, the Bank formulated "Regulation Governing Restructuring of Non-Performing Loans (Provisional)", revised "Regulation Governing Debt Repayment in Kind and Disposal of Dept Repayment Assets" and "Regulation Governing Engagement of Attorneys for Asset Protection", thus further defining the business requirements and simplifying some business examination and approval procedures to improve efficiency. It also formulated "Methods for Rewarding Collection of Single Non-Performing Loan" to specify different rewards according to how difficult the NPL is collected and provided legal advice to guidance and assistance on puzzling issues and organized experience exchanges and special trainings and provide coordination for major cases.

3 Managing NPLs by type, and defining work targets and collection responsibility

The Bank classified its NPLs and managed them by type, worked out different plans to treat NPLs of different debtors, specified the annual collection targets of the Bank as a whole, its respective branches and sub-branches, with the asset protection department of the head office checking the collection progress of the branches and sub-branches on a monthly basis and helping the branches and sub-branches solve important and difficult problems arising in the collection process.

4 Stepping up write-off of non-performing assets and strengthening management of the loans already turns bad

The Bank stepped up writing off NPLs based on the operating results and the strategic development targets of the bank. The Bank formulated the new Interim Regulation Governing Write-off of Non-Performing Loans", and the asset recovery department should organize and lead write-off of NPLs. The Bank exercised centralized management on NPLs already written off, set NPL register and assigned respective person to take charge of NPL collection and management.

N The Bank did not have any Overdue Debts in the Period under Review

O Year-end Balance of Off-balance Sheet Items that may have Significant Impact on the Bank's Financial Position and Operating Results

ITEM *In RMB*	Year-end balance
Banker's acceptance	83,953,929,355
Issuance of L/C	2,082,434,994
Issuance of letter of guarantee	2,678,281,381
Off-balance sheet interest receivable	3,237,140,390
Forward contracts receivable balance	416,975,876
Forward contracts payable balance	411,312,603

P Losses caused in the Current Year to the Bank by Risks were Disclosed at the End of the Preceding Period under Review, and Risks Existing in the Current Year and Likely to have Significant Impact and Relevant Countermeasures were adopted by the Bank

The bank was fully aware of the risks (market risk, credit risk, operational risk and liquidity risk) disclosed at the end of the previous period under review and took preventive measures so that the aforesaid risks would not seriously affect the operations of the Bank or cause serious losses.

The major risks faced by the Bank at the end of the period under review and countermeasures taken:

Market risk, credit risk, operational risk and liquidity risk are still the main risks the Bank faced in the period under review and will face in the future. The Bank will introduce advanced international risk management concepts, methods and techniques, improve the risk management system and organizational structure to effect full-scale dynamic risk management on the operations of the Bank.

1 Credit risk

The Bank established vertical risk control system to implement bank-wide management of corporate, retail and financial institution credit risks, restructured risk management department into credit management department and credit examination and approval center. It also established an independent credit risk management and evaluation system, assigned credit officers at branches to make credit of branches more independent and executable, implemented “Credit Risk Monitoring and Alert System”, established risk alert mechanism, tried the credit assets risk classification and identification procedure and strengthened credit rating and provision management. It gave different authorities to branches based on their specific risk control capabilities and credit risk level and optimized the credit examination and approval procedure and improved credit management information system to enhance credit risk management capability.

2 Market risk

Market risk to the Bank is mainly reflected in the management of exchange rate and interest rate risks. By regularly monitoring indicators such as interest rate sensitivity gap, continuity gap, and market sensitivity ratio, the Bank actively adjusted the maturity structure and interest rate structure of bank-wide assets/liabilities. The bank increased the proportion of variable rate loans and bonds in an effort to rematch assets and liabilities that can be repriced, thus avoiding interest rate risk. The Bank also intensified research on international and domestic financial situations to build an exchange rate forecast model to better identify exchange rate risk, adjusted its assets/liabilities structure by studying exchange rate fluctuations and employed different financial instruments to reduce exchange risk.

3 Operational risk

Pursuant to Notice on Intensifying Operational Risk Prevention issued by CBRC, the Bank tried to prevent financial crimes by strengthening internal control and supervision in such aspects as rules and regulations, examination and supervision, supervision of standard compliance of branches, accountability system, and bank management transparency.

4 Liquidity risks

Liquidity risks refer to the risk to a commercial bank due to its failure to satisfy reasonable deposit withdrawal and loan release. The Bank has taken a series of measures to improve its liquidity risk management, including maintaining steady liquidity management policy to maintain high liquidity in assets and adequate solvency of the bank, implementing liquidity gap management, measuring and analyzing liquidity gap and determining a proper financing quota and gap limit based on a quantitative analysis of the liquidity gap, so as to constantly enhance the bank’s ability to manage liquidity risks. A liquidity alert mechanisms was established to conduct more dynamic analysis of liquidity to prevent liquidity risk by monitoring liquidity index, deposit changes, assets/liabilities changes, external environmental changes, etc.

Q Integrity, Rationality and Effectiveness of Internal Control System

The internal control system of a commercial bank consists of a series of risk prevention policies, procedures and measures aimed to attain the operation targets. In accordance with Law of the People’s Republic of China on Commercial Banks, Guideline on Internal Control of Commercial Banks, and Guideline on Corporate Governance of Joint-Stock Commercial Banks, the Bank has worked out regulations and procedures for various business operations, established a well-defined accountability system and set up an effective internal control system covering almost all business processes and operations of all departments and posts of the Bank.

In the period under review, the Bank effected vertical management of credit loans and planned accounting and audit, intensified multi-level supervision, inspection and audit of all the businesses of the Bank, and included the internal control evaluation of branches into the integrated evaluation system of the Bank, thus guaranteeing the implementation of respective business regulations and operation procedures of the Bank. The current internal control system of the Bank is generally complete, rational and effective.

Upon inspection, Shenzhen Pengcheng CPAs did not find any serious defect in the internal control system of the Bank.

Auditors' Report

1 SPSGSZ [2006] No. 025

To the shareholders of Shenzhen Development Bank Co., Ltd.:

We have audited the accompanying balance sheet of Shenzhen Development Bank Co., Ltd. ("the Bank") as of 31 December 2005 and the related income and cash flow statements for 2005. These financial statements are the responsibility of the management of the Bank. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with China's Independent Auditing Standards. 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 the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant accounting 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 financial statements referred to above conform with PRC government authorized Accounting Standards for Business Enterprises and the "Accounting System for Financial Institutions" and present fairly, in all material respects, the financial position Shenzhen Development Bank Co., Ltd. as of 31 December 2005 and the results of its operations and its cash flows for the year then ended.

SHENZHEN PENGCHENG
CERTIFIED PUBLIC ACCOUNTANTS CO., LTD.

Certified Public Accountant

ShenZhen, PRC
March 30, 2006

Long Ying

Certified Public Accountant

Yang Kejing

2 PRC GAAP Financial Statements (Please refer from the page 62 to 92)

Balance Sheet

as of 31 December 2005

ASSETS *In RMB*	Note	31 December 2005	31 December 2004 (Restated)
CURRENT ASSETS			
Cash and bank balances	1	**787,992,420**	703,081,594
Due from the Central bank	2	**20,971,705,025**	18,404,206,126
Due from banks	3	**6,656,256,510**	5,236,463,983
Inter-bank placements	4	**3,386,966,650**	2,752,091,600
Advances to non-bank financial institutions	5	**238,325,138**	271,021,624
Reverse repurchase agreements	6	**7,948,891,474**	11,148,189,646
Accounts receivable	7	**229,337,261**	231,343,697
Other receivables	8	**791,933,713**	809,366,899
Less: bad debt provision	8, 19	**992,941,286**	949,254,376
Prepaid deposits and others	9	**45,818,953**	52,785,247
Deferred expenses	10	**18,156,677**	9,045,181
Short-term investments	11	**7,308,344,753**	11,046,867,007
Less: provision for diminution in value of short-term investments	11, 19	**–**	–
Entrusted loans and investments		**6,642,519,490**	6,145,411,762
Trust securities		**–**	–
Short-term loans	12	**66,838,782,553**	64,404,003,227
Trust receipt loans	12	**1,886,572,642**	1,154,051,709
Discounted bills	12	**38,414,272,735**	16,701,407,260
Total current assets		**161,172,934,708**	138,120,082,186
NON-CURRENT ASSETS			
Medium and long-term loans	12	**32,483,604,299**	31,238,496,393
Overdue loans	12	**496,724,787**	1,264,560,541
Non-accrual loans	12	**15,983,066,956**	11,432,944,110
Less: loan impairment provision	13, 19	**6,232,551,493**	5,111,559,816
Finance lease receivable		**4,194,739**	4,293,888
Finance lease assets		**8,521,057**	8,718,359
Less: Finance lease assets to be transferred out		**8,521,057**	8,718,359
Long-term equity investments	14	**159,049,264**	156,491,335
Long-term debt investments	14	**20,764,060,992**	22,601,847,375
Total long-term investments		**20,923,110,256**	22,758,338,710
Less: Provision for diminution in value of long-term investments	14, 19	**53,169,687**	48,159,919
Long-term investments, net		**20,869,940,569**	22,710,178,791
Fixed assets, cost	15	**4,022,065,037**	4,598,460,554
Less: Accumulated depreciation	15	**1,604,342,464**	1,354,891,225
Fixed assets, net		**2,417,722,573**	3,243,569,329
Construction-in-progress	16	**4,592,695**	11,792,846
Less: Impairment provision	19	**–**	–
Construction-in-progress, net		**4,592,695**	11,792,846
Total non-current assets		**66,027,295,125**	64,794,276,082
INTANGIBLE AND OTHER ASSETS			
Intangible assets	17	**41,580,457**	65,857,066
Long-term deferred expenses	18	**121,482,186**	131,406,613
Repossessed assets		**1,024,061,511**	722,981,888
Less: Impairment provision	19	**171,827,006**	144,142,099
Total intangible and other assets		**1,015,297,148**	776,103,468
DEFERRED TAXES			
Deferred tax assets	20	**1,000,888,827**	752,297,347
Total assets		**229,216,415,808**	204,442,759,083

Balance Sheet continued

as of 31 December 2005

LIABILITIES AND SHAREHOLDERS' EQUITY *In RMB*	Note	31 December 2005	31 December 2004 (Restated)
CURRENT LIABILITIES			
Short-term corporate deposits	21	**97,381,560,790**	86,482,462,951
Short-term retail deposits		**26,253,274,318**	21,429,291,424
Short-term guarantee deposits	22	**56,476,296,426**	39,539,679,306
Deposits from government-related bodies		**4,714,343,476**	4,710,677,076
Due to the Central bank		**–**	–
Due to banks		**10,469,234,116**	8,325,483,278
Inter-bank borrowings	23	**–**	322,764,999
Inward remittance		**435,240,779**	599,477,063
Outward remittance		**568,300,743**	594,653,672
Entrusted deposits		**6,642,519,490**	6,145,411,762
Trust securities payable		**24,488,254**	16,471,412
Repurchase agreements	24	**1,169,553,502**	13,898,079,991
Accounts payable		**821,091,626**	712,190,961
Salaries payable		**283,280,430**	257,289,040
Welfare payable		**126,647,848**	107,831,830
Taxes payable	25	**521,756,284**	427,611,640
Dividends payable	26	**23,441,268**	23,571,856
Other payables	27	**1,002,789,975**	1,150,119,977
Accrued expenses		**22,561,812**	15,207,131
Deferred revenue		**254,916,387**	167,083,227
Accrued liabilities		**58,718,373**	30,389,574
Total current liabilities		**207,250,015,897**	184,955,748,170
LONG-TERM LIABILITIES			
Long-term corporate deposits		**13,531,929,443**	11,219,230,753
Long-term retail deposits		**2,972,470,274**	2,326,813,987
Long-term guarantee deposits	28	**183,155,373**	1,006,921,846
Long-term payables		**754,293**	1,508,587
Total long-term liabilities		**16,688,309,383**	14,554,475,173
DEFERRED TAXES			
Deferred tax liabilities	20	**235,048,573**	198,221,460
Total liabilities		**224,173,373,853**	199,708,444,803
SHAREHOLDERS' EQUITY			
Share capital	29	**1,945,822,149**	1,945,822,149
Capital reserve	30	**1,571,729,344**	1,571,729,344
Revenue reserve	31	**322,891,443**	270,132,324
Including: welfare fund	31	**107,630,481**	90,044,108
General provision reserve		**479,704,345**	279,704,345
Undistributed profits	32	**765,897,376**	666,929,035
Including: cash dividends proposed to be distributed		**–**	–
Exchange difference		**-43,002,702**	-2,917
Shareholders' equity, net		**5,043,041,955**	4,734,314,280
Total liabilities and shareholders' equity		**229,216,415,808**	204,442,759,083

(*The accompanying notes form an integral part of these financial statements*)

Legal representative:
Frank N. Newman

Chief Financial Officer:
Wang Bomin

Financial Controller:
David Choy

Income Statement

for the year ended 31 December 2005

ITEMS *In RMB*	Note	2005	2004 (Restated)
REVENUE	33	**8,515,620,034**	8,345,605,729
Including:			
Loan interest income		**5,499,882,719**	5,515,165,416
Interest income from interbank transactions		**752,368,830**	640,336,691
Fees income		**307,086,758**	247,478,433
Discounted bills interest income		**1,556,796,880**	1,682,174,447
Reverse repos income		**70,939,145**	62,619,477
Gain on disposal of securities		**112,416,794**	23,643,664
Exchange gain		**143,199,447**	98,598,286
Other operating income		**72,929,461**	75,589,315
EXPENSES	33	**3,848,886,911**	3,791,504,733
Including:			
Interest expenses		**2,887,093,761**	2,371,734,718
Interest expenses from interbank transactions		**859,573,049**	1,326,461,780
Fees expenses		**67,990,465**	59,639,923
Repos interest expenses		**24,871,903**	25,753,347
Exchange loss		**9,357,733**	7,914,965
OPERATING EXPENSES	33	**2,596,811,607**	2,457,296,430
INVESTMENT INCOME, NET	33, 34	**824,537,457**	702,055,158
OPERATING PROFIT		**2,894,458,973**	2,798,859,724
Less: Business tax and surcharges		**416,921,653**	412,572,720
Add: Non-operating income	35	**31,097,656**	20,959,998
Less: Non-operating expense	35	**67,235,621**	28,283,687
PROFIT BEFORE TAXATION AND PROVISION		**2,441,399,355**	2,378,963,315
PROVISION	19	**1,802,782,794**	1,880,634,828
PROFIT BEFORE TAXATION		**638,616,561**	498,328,487
Less: Income taxes	37	**286,889,101**	203,758,818
NET PROFIT		**351,727,460**	294,569,669

(*The accompanying notes form an integral part of these financial statements*)

Legal representative:
Frank N. Newman

Chief Financial Officer:
Wang Bomin

Financial Controller:
David Choy

Statement of Profit Appropriation

for the year ended 31 December 2005

ITEMS *In RMB*	**2005**	2004 (Restated)
NET PROFIT	**351,727,460**	294,569,669
Add: Undistributed profits at beginning of year	**666,929,035**	475,458,751
DISTRIBUTABLE PROFITS	**1,018,656,495**	770,028,420
Less: Appropriation to statutory revenue reserve	**35,172,746**	29,456,967
Appropriation to statutory welfare fund	**17,586,373**	14,728,484
Appropriation to general provision reserve	**200,000,000**	58,913,934
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	**765,897,376**	666,929,035
Dividends payable	**–**	–
UNDISTRIBUTED PROFITS AT END OF YEAR	**765,897,376**	666,929,035

(*The accompanying notes form an integral part of these financial statements*)

Legal representative:
Frank N. Newman

Chief Financial Officer:
Wang Bomin

Financial Controller:
David Choy

Cash Flows Statement

for the year ended 31 December 2005

ITEMS *In RMB*	Note	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from medium and long-term loans		1,335,136,062
Cash received from acceptance of short-term deposits		15,726,747,133
Cash received from acceptance of other deposits		19,071,205,623
Increase in deposits from banks, net		1,953,161,626
Increase in borrowings from other financial institutions, net		-13,051,291,488
Cash received from loan interest income		7,969,827,169
Cash received from fees income		307,086,758
Cash recovery of loans written-off in previous years		3,664,616
Cash received from settlement of entrusted businesses		497,107,728
Cash received from other operating activities	38	891,960,804
Cash inflows from operating activities		34,704,606,031
Increase in medium and long-term loans		2,580,243,968
Increase in short-term loans		28,963,433,299
Entrusted loans granted , net		497,107,728
Increase in placements with other banks, net		2,295,155,563
Increase in placements with other financial institutions, net		-2,665,629,058
Cash paid for deposit interest expenses		3,662,638,046
Cash paid for fees expenses		67,990,465
Cash paid to and on behalf of employees		1,041,394,078
Tax paid		848,520,132
Cash paid for other operating activities	39	1,699,336,296
Cash outflows from operating activities		38,990,190,517
Net cash flows from operating activities		-4,285,584,486
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash received from maturity or disposal of investments		8,140,440,997
Cash received from bonds interest		853,575,232
Cash received from other investment activities		–
Cash inflows from investing activities		8,994,016,229
Purchase of fixed assets, intangible assets and other long-term assets		872,695,516
Cash paid for equity investments		3,000,000
Cash paid for debt investments		619,935,586
Cash outflows from investing activities		1,495,631,102
Net cash flows from investing activities		7,498,385,127
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash paid for dividends		130,588
Cash outflows from financing activities		130,588
Net cash flows from financing activities		-130,588
NET CASH FLOWS FROM NON-OPERATING ACTIVITIES	40	648,678,348
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH POSITIONS		-42,557,713
NET INCREASE OF CASH AND CASH EQUIVALENTS		3,818,790,688

Cash Flows Statement continued

for the year ended 31 December 2005

SUPPLEMENTARY INFORMATION

In RMB	Note	2005
INVESTING AND FINANCING ACTIVITIES THAT DO NOT INVOLVE CASH RECEIPTS AND PAYMENTS		–
Repayment of debts by transfer of fixed assets		–
Repayment of debts by transfer of investments		–
Repayment of debts by transfer of non-cash assets		–
Long-term investments in form of injection of fixed assets		–
Fixed assets purchased in form of finance lease		–
Donation received in form of non-cash assets		–
RECONCILIATION OF NET PROFIT TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit		351,727,460
Add: Provision charge for asset impairment		1,807,192,346
Depreciation of fixed assets		330,349,604
Amortization of intangible assets		31,581,081
Long-term deferred expenses		19,617,202
Increase in prepaid expense		-9,111,496
Increase in accrued expense		7,354,680
Investment income		-824,537,457
Deferred tax assets increase		-211,764,367
Increase in receivables		-30,919,416,883
Increase in payables		25,091,620,763
Recovery of loans written off in previous years		3,664,616
Non-operating income		36,137,965
Net cash flows from operating activities		-4,285,584,486
NET INCREASE IN CASH AND CASH EQUIVALENTS		
Cash, at end of year		787,992,420
Less: cash, at beginning of year		703,081,594
Add: cash equivalents, at end of year	41	18,659,907,691
Less: cash equivalents, at beginning of year	41	14,926,027,829
Net increase in cash and cash equivalents		3,818,790,688

(*The accompanying notes form an integral part of these financial statements*)

Legal representative:
Frank N. Newman

Chief Financial Officer:
Wang Bomin

Financial Controller:
David Choy

Notes to the Financial Statements

(Amounts expressed in Renminbi Yuan "RMB" unless otherwise stated)

I Organization and Operations

Shenzhen Development Bank Co., Ltd. ("the Bank") is a joint stock commercial bank with limited liability and was established as a result of the restructuring of six agricultural credit co-operatives in the Shenzhen Special Economic Zone. Following the initial public offering of RMB denominated ordinary shares on 10 May 1987, the Bank was formally incorporated on 22 December 1987. The ordinary shares of the Bank were listed on the Shenzhen Special Economic Zone Stock Exchange on 7 April 1988.

As at 31 December 2005, the Bank had opened branches in Beijing, Shanghai, Tianjin, Guangzhou, Shenzhen, Chongqing, Dalian, Hangzhou, Nanjing, Haikou, Jinan, Qingdao, Zhuhai, Foshan, Ningbo, Wenzhou, Chengdu and Kunming. The total numbers of operating units of the Bank were 238 and total numbers of employees were 7,142.

The Bank obtained the Certificate of Financial Institution No. 0000008 and Institution Code No. B11415840H0001 issued by China Banking Regulatory Commission (CBRC) , and Certificate of Business Enterprise No. N46884 issued by the Industrial and Commercial Administration Bureau of ShenZhen Municipality. The Bank is authorized to conduct the following business activities:

Deposit-taking, lending, settlement and exchange of RMB; bills discounting and acceptance of RMB; trust business; issuance or dealing of RMB securities subject to the CBRC's approval; deposit-taking and remittance of foreign currency; domestic and overseas borrowing; issuance or underwriting of foreign currency securities in domestic or overseas market; trading or non-trading settlement; bills discounting and acceptance of foreign currencies; lending of foreign currency loans; trust or self dealing of foreign exchange; credit evaluation, consultation and notarization; and other activities approved by the CBRC.

II Principal Accounting Policies, Accounting Estimates and Basis of Perparation of Consolidated Financial Statements

Accounting principles

The financial Statements have been prepared in accordance with the "Accounting Standards for Business Enterprises" and the "Accounting System For Financial Institutions".

Accounting year

The Bank's accounting year starts on January 1 and ends on December 31.

Functional currency and foreign currency translation

The functional currency of the Bank is RMB. The Bank maintains multi-currency ledgers for foreign currency businesses. Transactions are recorded in the original currency of occurrence. Upon preparation of the financial statements, the foreign currency balances are translated into RMB at the applicable exchange rates prevailing at balance sheet date, and the equity items translated at historical exchange rate, the differences are showed in the "Translation adjustments" as a equity item. Exchange differences arising from changes in exchange are included in the income statement.

Basis of accounting and measurement bases

The Bank follows accrual basis of accounting. Assets are recorded at historical cost unless otherwise stated.

Cash equivalents

Cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, general provision with the central bank and deposits with other banks and placements with other banks maturing in less than three months.

Bad debt provision

The Bank adopted the allowance method for doubtful receivables, provision is charged to bad debt provision.

Interest-bearing assets except loans include accounts receivable (excluding interest receivables), deposits with other banks and placements with other banks, placements with other financial institutions, reverse repos and finance lease receivable. The Bank makes provision for doubtful receivables based on an assessment of the recoverability at each balance sheet date.

Interest receivable of interest-bearing assets which is overdue over 90 days is reversed against interest income and recorded as off-balance-sheet items with no provision made for (please refer to the Note on Revenue recognition).

Specific provisions or write-off are applied for specific other receivable, a general provision for the remaining other receivables are made based on the ageing of receivables at the following percentages:

AGEING	Bad debt provision as a percentage of receivables
Within 1 year	1%
Between 1 and 2 years	10%
Between 2 and 3 years	20%
Over 3 year	100%

Short-term investments

Short-term investments are initially recorded at cost and are carried at the lower of cost and market value as at the balance sheet date. An impairment provision against diminution in short-term investment value is made when market value is lower than cost. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement at the disposal dates.

Discounted bills

Discounted bills are stated at maturity value, the difference between maturity value and payment for the discounted bills are recorded in the credit side of deferred revenue and are credited to interest income on a straight-line basis over the discounted period.

The methods of rediscounting include rediscounting without any repurchase agreement and rediscounting under a repurchase agreement. Bills that have been subsequently rediscounted with the central bank or other banks without any repurchase agreement are written off; Bills that have been subsequently rediscounted under a repurchase agreement with the central bank or other banks are recorded in due to central banks or due to banks. The difference between maturity value and payment for the discounted bills are recorded in the debit side of deferred revenue and are debited to interest expenses on a straight-line basis over the discounted period.

Loan categories

Loans of the Bank include collateralized loans, guaranteed loans, pledged loans and unsecured loans, payments for acceptance draft, letter of guarantee, letter of credit, discounted bills and trust receipt loans.

i. Short-term loan, medium-term and long-term loan

Short-term loans represent loans within one year, including collateralized loans, guaranteed loans, unsecured loans and trust receipt loans. Medium-term and long-term loans represent loans over one year.
Short-term loan, medium-term and long-term loan are stated at cost. Interest income is calculated based on loan principal and effective interest rate.

ii. Overdue loans

Overdue loans represent unsettled loans after maturity (including maturing after extension), including the payments for discounted bills, accepted drafts, issued letter of credit and letter of guarantee due to inadequacy of pledged deposits.

iii. Accrual loans and non-accrual loans

Loans are recognized as accrual loans when both of the principals and interest receivables have not been overdue over 90 days. Loans are recognized as non-accrual loans when the principals or interest receivables have been overdue over 90 days. Loans are transferred to non-accrual loans when the principals or interest receivables are overdue over 90 days. For interest income recognition principle of accrual loans and non-accrual loans (please refer to the Note on Revenue recognition).

Loan impairment provision

The Bank adopts the allowance method for loan impairment.

Provision is made for estimated loan impairment based on the assessment on the recoverability of loans at each balance sheet date. Provision is made according to the different level of risks and recoverability after taking into consideration of the ability of repayment of the borrowers, the repayment history, the reasonable value of collaterals and mortgages, the guarantee ability of the guarantors and loan management level of the Bank.

Impairment provision is charged to the income statement. Impairment provision is utilized when actual loan losses occur. The utilized Impairment provision is reversed when loans written off have been recovered.

No provision is made for specific loans as no objective evidence of impairment exist.

The Guideline to Bank Loan Loss Provision issued by PBOC stipulated that commercial banks are required to make the general reserve for unidentified potential losses, and the balance should be 1% of the year end loans balance. At the same time, the PBOC stipulates that the commercial banks should progressively make adequate provisions in various types, no later than 2005. Upon the approval by the 3rd meeting of the sixth board of directors dated on 23 April 2005, the Bank would reach the general reserve requirement in 3 years time starting from 2005.

According to the CaiJin [2005] No. 49 "The Regulation Of Governing Impairment Provision For Financial Institutions" which issued by Ministry of Finance, P. R. China ("MOF")., as a component of equity, the Bank's general provision reserve is appropriated from distributable profit not lower than 1% of total risky assets balances at year end.

Bad debt & write-offs

The bad debt is recognized in accordance with the CaiJin[2005] No. 50 "The Regulation For Bad Debt Write-off For Financial Institutions " which issued by MOF. Bad debt are written off upon the approval of the board of directors and the finish of legal procedures.

Reverse repurchase agreements and repurchase agreements

Reverse repurchase agreements and repurchase agreements are stated at cost, profits or losses are accounted for the difference between purchase price and selling price and are amortized on a straight-line basis over the life of each agreement and charged to interest income of reverse repos and interest expense of repos.

Long-term investment

When the Bank holds less than 20% of the voting rights of the invest and cannot exercise significant influence, long-term investment is stated at cost. The Bank holds over 20% of the voting rights of Shenzhen Yuansheng Industrial Co., Ltd. (hereafter referred as Yuansheng), as Yuansheng is to be disposed, investment in Yuansheng has been adjusted to zero under equity method.

Long-term debt investments are stated at cost. Investment income comprises the interest received and receivable as of the balance sheet date and the amortization of investment discount or premium during the year. Investment discount or premium is amortized on a straight-line basis over the period from the date of acquisition to the date of maturity.

Provision for diminution in value of long-term investments is made when there is a significant decline in the value of long-term investments. Provision for diminution is provided based on the differences between the estimated recoverable amount and carrying amount of investments and is charged to the income statement

Fixed assets

Fixed assets represent tangible assets used in production or rendering of services, held for rental to others, or held for management purposes, which have useful lives of more than one year and are with higher unit costs.

Fixed assets are recorded at cost. Subsequent expenditures are capitalized when it is probable that future economic benefits in excess of the original assessment of performance will flow to the Bank, i.e. longer useful lives, higher product quality or lower production cost. Capitalized expenditures should not exceed the recoverable amounts of the fixed assets.

Fixed assets are depreciated using the straight-line method to write off the cost of the assets to their estimated residual values over their estimated useful lives. The estimated useful lives, estimated residual values expressed as a percentage of cost (0%–2.8%) and annual depreciation rates are as follows:

ITEMS	Estimated useful lives	Annual depreciation rates
Buildings	30 years	3.30%
Motor vehicles	6 years	16.20%
Computers (medium and mainframe)	5 years	19.80%
Computers (mini and micro)	3 years	33.00%
Mechanical appliances	5 years, 10 years	19.80%, 9.90%
Fixed assets improvements	5 years, 10 years	20.00%, 10.00%
Leasehold improvements	Over the lease period	–

Construction-in-progress

Construction-in-progress represents buildings under construction and projects pending installation, and is stated at cost. Cost of construction-in-process includes the cost of construction, the cost of projects and interest charges and exchange differences arising from borrowings used to finance these projects during the period of construction or installation and testing, after deducting the income generated before the transfer to fixed assets. When the assets concerned are brought into use, the amounts are transferred to fixed assets.

Intangible assets

Intangible assets are recorded at cost. Payments for software are amortized on a straight-line basis over a period of five years starting from the date when the software is brought into use. Payments for purchase of branches are amortized on a straight-line basis over the beneficial period as stated in the contract or over 8 years if no beneficial period was stated in the contract.

Impairment in value of fixed assets, construction-in-progress and intangible assets

For fixed assets, construction-in-progress and intangible assets which can not be used normally or material permanent impairment exists, impairment in value of assets should be made for the differences between estimated recoverable amount and carrying amount and charged to the income statement.

Long-term deferred expenses and pre-operating expenses

Long-term deferred expenses are recorded at cost and are amortized over the beneficial period on a straight-line basis. Pre-operating expenses are charged into the income statement in the month of the commencement of operations.

Repossessed assets

Repossessed assets are stated at the total of the principals of the loans or other assets plus recognized interest receivables.

Provisions for impairment in value of repossessed assets are provided at period end when the carrying amount of an asset exceeds its estimated recoverable amount and charged to the income statement When assets are disposed, the differences between disposal income and net book value are charged to the income statement

Revenue recognition

Interest income, when loan principal is overdue (including overdue after extension) over 90 days or its interest receivable is overdue over 90 days, should not be accrued and should be recorded as off-balance-sheet items; previously recognized interest receivables should be reversed against interest income and should be recorded as off-balance-sheet items; off-balance-sheet interest are recognized as income upon receipt. Repayment of unrecorded loans is reversed against principal first, repayment over principal is recognized as interest income.

Revenue of services is recognized when the services are rendered, and when the proceeds are collected or relevant evidence is obtained that the proceeds are collectible.

Expense recognition

Interest expenses and other expense are recognized on an accrual basis.

Income tax

The Bank adopted the liability method of the tax-effected accounting on income tax. The current period income tax liabilities include: (1) Income tax in the current period; (2) Deferred income tax assets or liabilities resulted from current accruals or reversals due to timing difference in the current period; (3) The adjustments to prior year's balance of deferred income tax assets or liabilities caused by tax rate changes or the new taxes.

The Bank calculated its tax liabilities on the basis of its profit or loss before taxation for financial reporting purpose, adjusted for items that are not assessable or deductible for income tax purposes and the applicable tax rates.

The Bank adopted incurred timing difference to calculate incurred or reversed future accrued income tax (deferred income tax liabilities) and future deductible income tax (deferred income tax assets) by current income tax rates in the current year. The deferred income tax assets and liabilities will be classified under debit deferred taxes or credit deferred taxes on the balance sheet.

The timing difference causes by provision for assets impairment, when the timing difference needs to be reversed, and the balance of profit before taxation and provision is enough to cover the reversal, then the effects of income tax of timing difference should be recognized and recorded to debit deferred taxes.

Currency Contracts

Expected amount receivable of forward contracts upon maturity are stated in forward contract receivable in the off-balance-sheet, mature amount payable of future currency swap contracts are recorded in forward contract payable in the off-balance-sheet. Gain or loss resulted on the settlement day are charged to the income statement

Profit appropriation

In accordance with the "Company Laws of the People's Republic of China" and the Articles of Association of the Bank, the Bank is required to provide certain statutory reserves, which are appropriated from net profit under Accounting Standards for Business Enterprises. The Bank shall set aside 10% of net profit for statutory revenue reserve (except where the fund has reached 50% of the registered capital) and 5%–10% of net profit for the statutory common welfare fund.

According to the Accounting System For Financial Institutions and the CaiJin [2005] No. 49 "The Regulation Of Financial Institutions Bad Debt Provisions" which issued by MOF, The Bank should provide general reserve as the amount of 1% of the risk assets balance.

The Bank can provide discretionary reserve. The dividends should be distributed after those reserves appropriation.

Pursuant to "No. 4 Answers to Questions about Regulations Regarding Disclosure Requirements For Companies with Publicly Issued Shares – Audit Difference and Basis for Profit Appropriation of Financial Institutions" issued by China Securities Regulatory Committee, the Bank shall provide statutory revenue reserve and statutory common welfare fund based on net profit audited by local auditors. For discretionary revenue reserve and dividends, the basis should be the lower of profit attributable to shareholders audited by local auditors and International Financial Reporting Standards (IFRS) auditors.

Profit appropriation scheme is subject to the resolution of the broad of directors and the approval of shareholders' general meeting.

Consolidated financial statements

According to Commercial Bank Law and other regulations, the Bank intends to spin off its sole subsidiary Yuansheng. Yuansheng is under disposal in the year and has no significant impact to the financial statements of the Bank. According to the "Temporary Regulations For Consolidated Financial Statements", the Bank did not consolidate its financial statements. Information of Yuansheng is disclosed in Note XI.

Changes in accounting policies

The Bank set the cut-off date for loan interest income and deposit interest expenses at 20th of each month in the past years, Pursuant to the resolution of Board of Directors dated 30 March 2006, for the purpose of providing more reliable and relevant information in respect of the financial position and operation results of the Company in the financial statements and being consident with international practices, the Bank decided to adjust the cut-off day, accruing loan interest income and loan deposit expenses to the last day of each month.

The Bank retrospectively adjusted the changes of accounting policies, and adjusted the current year's beginning balance of and past years' contrasted balance accordingly. The impact to the comparative figures is as follows:

i. Impact to accumulated beginning balance of undistributed profit

RETROSPECTIVELY ADJUSTED ITEMS	Total	Impact to 2004 balance of net profit	Impact to 2003 balance of net profit	Impact to 2003 beginning balance of undistributed profit
Interest income	156,335,063	22,595,787	-34,326,474	168,065,750
Interest expenses	76,642,407	14,235,563	10,260,514	52,146,330
Business tax and surcharges	8,580,293	1,224,633	-1,887,956	9,243,616
Income taxes	21,460,371	2,340,197	-13,408,793	32,528,967
Total	49,651,992	4,795,394	-29,290,239	74,146,837

ii. Impact to past years' profit appropriation

ITEMS	Total	Impact to 2004 profit appropriation	Impact to 2003 profit appropriation	Impact to profit appropriation before 2003
Appropriation to statutory revenue reserve	4,965,199	479,539	-2,929,024	7,414,684
Appropriation to statutory welfare fund	2,482,600	239,770	-1,464,512	3,707,342
Appropriation general provision reserve	9,930,399	959,079	-5,858,047	14,829,367
Total	17,378,198	1,678,388	-10,251,583	25,951,393

iii. Compare the adjustment of the beginning balance

ITEMS	2004 Previously reported	Adjustments	**2005 Beginning balance**
Balance sheet			
Accounts receivable	75,008,634	156,335,063	**231,343,697**
Accounts payables	635,548,554	76,642,407	**712,190,961**
Taxes payable	395,564,267	32,047,373	**427,611,640**
Deferred tax liabilities	200,228,169	-2,006,709	**198,221,460**
Revenue reserve	262,684,525	7,447,799	**270,132,324**
General provision reserve	269,773,946	9,930,399	**279,704,345**
Welfare fund	87,561,508	2,482,600	**90,044,108**
Undistributed profits	634,655,241	32,273,794	**666,929,035**

INCOME STATEMENT AND THE PROFIT APPROPRIATION	2004 Previously reported	Adjustments	**2005 Beginning balance**
Interest income	5,492,569,629	22,595,787	**5,515,165,416**
Interest expenses	2,357,499,155	14,235,563	**2,371,734,718**
Business tax and surcharges	411,348,087	1,224,633	**412,572,720**
Income taxes	201,418,621	2,340,197	**203,758,818**
Undistributed profits at beginning of year	446,301,963	29,156,788	**475,458,751**
Appropriation to statutory revenue reserve	28,977,428	479,539	**29,456,967**
Appropriation to statutory welfare fund	14,488,714	239,770	**14,728,484**
Appropriation general provision reserve	57,954,855	959,079	**58,913,934**

III Taxation

TAXATION	Taxable items	Rate
Business tax	Revenue from financial business	5%
City maintenance and construction tax	Accessible business tax	1%, 7%
Enterprise income tax ("EIT")	Tax accessible profit	10%, 15%, 33%
	Including: Profit from offshore transactions	10%

According to CaiShui [2001] No. 21 issued by MOF and the National Tax Bureau, effective from 2001, business tax for financial and insurance institutions will be deducted by 1% every year until the rate reaches 5%, so the applicable business tax rate for 2004 was 5%.

According to Guoshuihan [2004] No. 1113 issued by the State Administration of Taxation, the head quarter of the Bank calculates and files EIT centrally for all the branches; the branches are not required to file EIT locally.

Notes to the Financial Statements

IV Investments in Subsidiary and Joint Venture

Name of subsidiary	Place of registration	Registered share capital	Percentage of equity interest attributable to the Bank	Principal activities	Consolidated or not
Shenzhen Yuansheng Industrial Co., Ltd. ("Yuansheng")	Shenzhen	20,100,000	100%	Real estate	No (Note II (Consolidated financial statements))

V Notes to Major Accounts of the Financial Statements

1 Cash on hand

ITEM	31 December 2005	31 December 2004
Cash on hand	787,992,420	703,081,594
Total	**787,992,420**	703,081,594

2 Due from the Central Bank

ITEMS	31 December 2005	31 December 2004
Statutory deposit reserve (RMB)	10,393,278,630	9,453,978,643
General deposits	10,422,812,921	8,823,368,542
Fiduciary deposits	14,374,000	11,232,000
Statutory deposit reserve (foreign currencies)	141,239,474	115,626,941
Total	**20,971,705,025**	18,404,206,126

The reserve rate of deposits denominated in RMB is 8% (31 December 2004: 8%), and the reserve rate of deposits denominated in foreign currencies is 3%.

3 Due from banks

ITEMS	31 December 2005	31 December 2004
Deposit at domestic banks	5,887,788,519	4,433,337,371
Deposit at foreign banks	768,467,991	803,126,612
Total	**6,656,256,510**	5,236,463,983
Impairment provision (Note 19)	76,826,553	78,642,796

Due from banks included RMB 20,242,340 which was being frozen as a result of bills in disputes.

4 Inter-bank placements

ITEMS	31 December 2005	31 December 2004
Placement at domestic banks	1,951,586,531	1,342,265,000
Placement at foreign banks	1,435,380,119	1,409,826,600
Total	**3,386,966,650**	2,752,091,600
Impairment provision (Note 19)	181,441,800	162,933,600

5 Advances to non-bank financial institutions

ITEMS	31 December 2005	31 December 2004
Placement at domestic financial institutions	238,325,138	271,021,624
Placement at foreign financial institutions	–	–
Total	238,325,138	271,021,624
Impairment provision (Note 19)	158,899,101	168,727,246

6 Reverse repurchase agreements

ITEMS	31 December 2005	31 December 2004
Securities under reverse repurchase agreements	5,209,000,000	6,857,800,000
Securities under reverse repurchase agreements (overdue)	51,722,138	55,022,138
Loans under reverse repurchase agreements	1,005,000,000	770,000,000
Bills under reverse repurchase agreements	1,683,169,336	3,465,367,508
Total	7,948,891,474	11,148,189,646
Impairment provision (Note 19)	27,549,923	29,022,137

The counterparties of the reverse repurchase agreements and repurchase agreements are Central Bank, commercial banks and non-bank financial institutitions in the PRC.

7 Accounts receivable

	31 December 2005		31 December 2004	
ITEMS	Amount	%	Amount	%
Interest receivable	229,337,261	100%	231,343,697	100%

Accounts receivable represented loan interest receivable within 90 days and interest receivable of inter-banks balances. No accounts receivable was due from any shareholder that held more than 5% of the Bank's shares.

8 Other receivable

	31 December 2005			
AGEING	Amount	%	Bad debt provision	Net value
Within 1 year	94,794,467	12%	12,876,216	81,918,251
1 to 2 years	28,564,878	4%	2,856,488	25,708,390
2 to 3 years	15,980,912	2%	3,196,183	12,784,729
Over 3 years	652,593,456	82%	525,100,283	127,493,173
Total	791,933,713	100%	544,029,170	247,904,543

	31 December 2004			
AGEING	Amount	%	Bad debt provision	Net value
Within 1 year	116,064,524	14%	1,160,645	114,903,879
1 to 2 years	20,284,815	3%	2,028,482	18,256,333
2 to 3 years	17,112,545	2%	3,422,509	13,690,036
Over 3 years	655,905,015	81%	499,018,643	156,886,372
Total	809,366,899	100%	505,630,279	303,736,620

No other receivable was due from the any shareholder that held more than 5% of the Bank's shares. Set out below are the major items of the other receivables and provision for bad debts:

ITEMS	31 December 2005		31 December 2004	
	Amount	Provision for bad debts	Amount	Provision for bad debts
Amount due from Yuansheng	515,704,656	381,226,094	523,477,275	366,590,901
Prepaid legal expenses	159,564,938	83,533,983	136,335,555	78,154,508
Prepayment for office building	22,447,541	22,447,541	22,447,541	22,447,541
SuZhou Eagle Shopping Centre	8,680,000	8,680,000	8,700,000	8,700,000
ZhuHai WeiShi	8,570,000	8,570,000	-	-

Amount due from provision for the receivable which was made based on analysis of Yuansheng's financial condition (Note XI); provision for prepaid legal expenses was made based on ageing analysis; full provision was made for others because the receivables were aged over 3 years and were considered to be unrecoverable.

9 Prepaid deposits and others

ITEMS	31 December 2005	31 December 2004
Prepayment for construction	3,039,563	861,331
Prepaid deposits	31,529,424	32,624,357
Other prepayments	11,249,966	19,299,559
Total	45,818,953	52,785,247

10 Deferred expenses

The ending balance and beginning balance of prepaid expenses amounted to RMB 18,156,667 and RMB 9,045,181, respectively and mainly represented the properties and cars rental expenses which would mature within 1 year.

11 Short-term investments

ITEMS	31 December 2005	31 December 2004
Financial bonds	6,150,926,049	9,821,736,155
Government bonds	1,157,418,704	1,225,130,852
Total	7,308,344,753	11,046,867,007
Provision for diminution in value of short-term investments (Note 19)	–	–

Financial bonds includes bonds amount to RMB 743,992,740 (31 December 2004: RMB 512,305,452) which had been signed opening repurchase agreement.

12 Loans

i. Loans by category

CATEGORIES	31 December 2005	%	31 December 2004	%
LOANS AND PAYMENTS				
Short-term loans (excluding factoring)	66,269,601,189	42.45	64,094,308,309	50.79
Medium and long-term loans	32,483,604,299	20.81	31,238,496,393	24.75
Overdue loans	496,724,787	0.31	1,264,560,541	1.00
Non-accrual loans	15,983,066,956	10.24	11,432,944,110	9.06
TRADE FINANCE:				
Trust receipt loans (excluding factoring)	1,886,572,642	1.21	1,154,051,709	0.91
Discounted bills	38,414,272,735	24.61	16,701,407,260	13.23
Factoring	569,181,364	0.36	309,694,918	0.26
Total	156,103,023,972	100.00	126,195,463,240	100.00

Loans included the loans amounted to RMB 1,601,405,140 (31 December 2004: RMB 4,060,480,000) were collateralized under repurchase agreement. In additional, discounted bills included the discounted bills amounted to RMB 450,000,000 (31 December 2004: RMB 1,958,829,991) were collateralized under repurchase agreement.

ii. Business segment information of loans was as follows:

BUSINESS SEGMENTS	31 December 2005	%	31 December 2004	%
Agriculture, stockbreeding and fish culture	1,444,442,032	0.92	1,318,900,000	1.05
Excavation (Heavy industry)	1,617,430,000	1.04	1,136,780,000	0.90
Manufacturing (light industry)	45,500,944,502	29.15	32,387,726,794	25.66
Energy industry	6,462,164,112	4.14	4,720,110,000	3.74
Transportation, storage and communication	12,152,949,578	7.79	13,582,130,000	10.76
Commercial	26,645,832,575	17.07	17,955,959,279	14.23
Real estate	10,627,560,247	6.81	14,640,437,167	11.60
Service industry	17,887,798,202	11.46	12,853,930,000	10.19
Technology, culture and sanitary industries	7,063,116,616	4.52	5,369,410,000	4.25
Construction	4,904,596,658	3.14	5,655,340,000	4.48
Finance and insurance	–	–	513,240,000	0.41
Others	21,796,189,450	13.96	16,061,500,000	12.73
Total loans	156,103,023,972	100.00	126,195,463,240	100.00
Loan impairment provision	6,232,551,493		5,111,559,816	
Net loans	149,870,472,479		121,083,903,424	

iii. Geographical segment information of loans was as follows:

GEOGRAPHICAL SEGMENTS	31 December 2005	%	31 December 2004	%
Shenzhen	34,408,179,076	22.04	28,982,232,263	22.97
Southern China	25,364,006,412	16.25	19,580,295,899	15.52
Eastern China	54,819,304,778	35.12	46,201,817,810	36.61
Northern China and Northeastern China	34,759,424,015	22.27	26,121,668,739	20.70
Others	5,774,159,902	3.70	4,924,293,229	3.90
Off-shore business	977,949,789	0.63	385,155,300	0.30
Total loans	156,103,023,972	100.00	126,195,463,240	100.00
Loan impairment provision	6,232,551,493		5,111,559,816	
Net loans	149,870,472,479		121,083,903,424	

Notes to the Financial Statements

iv. Segment information of loans by guarantee method was as follows

a) Short-term loans, trust receipt loans and discounted bills

ITEMS	31 December 2005	31 December 2004
Unsecured loans	20,644,423,887	14,087,914,321
Guaranteed loans	31,297,073,132	32,660,453,869
Collateralized loans	12,908,172,898	14,057,740,351
Pledged loans	42,289,958,013	21,453,353,655
Total	107,139,627,930	82,259,462,196

b) Medium and long-term loans

	31 December 2005			31 December 2004		
ITEMS	Total	1 to 3 years	Over 3 years	Total	1 to 3 years	Over 3 years
Unsecured loans	2,130,928,903	188,306,842	1,942,622,061	1,086,792,515	233,459,919	853,332,596
Guaranteed loans	9,401,134,127	2,306,948,612	7,094,185,515	11,078,584,463	5,126,681,012	5,951,903,451
Collateralized loans	18,576,422,219	3,227,829,963	15,348,592,256	16,292,368,366	5,242,989,455	11,049,378,911
Pledged loans	2,375,119,050	821,803,166	1,553,315,884	2,780,751,049	852,180,876	1,928,570,173
Total	32,483,604,299	6,544,888,583	25,938,715,716	31,238,496,393	11,455,311,262	19,783,185,131

c) Overdue loans

ITEMS	31 December 2005	31 December 2004
Unsecured loans	–	15,707,581
Guaranteed loans	174,991,011	933,003,857
Collateralized loans	167,982,827	283,399,103
Pledged loans	153,750,949	32,450,000
Total of overdue loans	496,724,787	1,264,560,541

d) Non-accrual loans

	31 December 2005				
ITEMS	Total	Within 90 days	90 days to 1 year	1 to 3 years	Over 3 years
Unsecured loans	115,178,662	79,402	390,325	21,611,462	93,097,473
Guaranteed loans	10,328,064,081	1,898,758,361	3,282,008,611	1,238,419,147	3,908,877,962
Collateralized loans	4,553,317,934	373,422,731	1,382,656,921	1,020,536,918	1,776,701,364
Pledged loans	986,506,279	829,578	231,294,565	409,998,249	344,383,887
Total	15,983,066,956	2,273,090,072	4,896,350,422	2,690,565,776	6,123,060,686

	31 December 2004				
ITEMS	Total	Within 90 days	90 days to 1 year	1 to 3 years	Over 3 years
Unsecured loans	136,366,720	–	15,537,662	91,604,637	29,224,421
Guaranteed loans	7,874,222,636	235,934,137	1,787,559,026	1,744,824,346	4,105,905,127
Collateralized loans	3,279,750,796	491,326,066	822,271,938	697,359,866	1,268,792,926
Pledged loans	142,603,958	20,293,942	57,464,446	12,271,884	52,573,686
Total	11,432,944,110	747,554,145	2,682,833,072	2,546,060,733	5,456,496,160

13 Loan impairment provision

LOAN IMPAIRMENT PROVISION	31 December 2005	31 December 2004
Balance at beginning of the year	**5,111,559,816**	4,174,149,507
Charge for the current period	**1,705,862,159**	1,786,885,574
Less: Transfer-out to repossessed assets	**–**	20,773,099
Loans written-off	**598,721,201**	835,480,598
Add: Exchange difference	**10,186,103**	–
Recovery of loans written-off in previous years	**3,664,616**	6,778,432
Balance at the end of the year	**6,232,551,493**	5,111,559,816

14 Long-term investments

ITEMS	31 December 2005	31 December 2004
LONG-TERM EQUITY INVESTMENTS		
Including: Equity investments	**42,985,408**	42,985,408
Other long-term equity investments	**116,063,856**	113,505,927
Sub-total	**159,049,264**	156,491,335
LONG-TERM DEBT INVESTMENTS		
Including: Long-term bonds investments	**20,764,060,992**	22,601,847,375
Sub-total	**20,764,060,992**	22,601,847,375
Total	**20,923,110,256**	22,758,338,710

i. Equity investments

NAME OF THE COMPANIES INVESTED	Shares	Percentage of equity interest	31 December 2005	Provision
Shenzhen Jintian	6,771,269	2.03%	**9,662,219**	9,662,219
Shenzhen Vanke	7,665,034	0.22%	**2,131,494**	–
Qiong Zhujiang	1,150,000	0.30%	**9,650,000**	9,316,500
Shenzhen Hongji	1,430,000	0.30%	**3,215,000**	955,600
Shenzhen Baoheng	1,031,250	0.22%	**2,519,500**	–
Shenzhen Xingyuan	405,221	0.06%	**187,195**	–
Hainan Wuzhou Travel Co., Ltd.	4,000,000	3.70%	**5,220,000**	5,220,000
Meizhou Polyester (Group) Co.	1,000,000	0.41%	**1,100,000**	1,100,000
Shenzhen Central South China Industrial Co.	2,000,000	4.10%	**2,500,000**	–
Hainan Junhe Travel Co., Ltd.	2,800,000	9.30%	**2,800,000**	2,800,000
Guangdong Sanxing Enterprises (Group) Co., Ltd.	500,000	0.05%	**500,000**	500,000
Hainan Baiyunshan Co, Ltd.	1,000,000	0.91%	**1,000,000**	1,000,000
Hainan Saige Co., Ltd.	1,000,000	0.56%	**1,000,000**	1,000,000
Hainan First Investment Co., Ltd.	663,600	0.27%	**500,000**	322,082
Hainan Zhonghailian Real Estate Co., Ltd.	1,000,000	0.74%	**1,000,000**	1,000,000
Total			**42,985,408**	32,876,401

The Bank is clearing up above mentioned equity investments, but there are certain restrictions against liquidating the investments. The provision for the investments impairment has been made according to the expected recovery amount.

Notes to the Financial Statements

ii. Other long-term equity investments

NAME OF THE COMPANIES INVESTED	Percentage of equity interest	Original Cost	Equity adjustment in current year	Accumulated equity adjustment	31 December 2005	Provision
Yuansheng.	100%	21,010,000	–	-21,010,000	**–**	–
Shenzhen Jiafeng Textile Industrial Co., Ltd.	13.82%	17,293,286	–	–	**17,293,286**	17,293,286
Membership fees of the Financial Fund administered by Guangdong PBOC, etc.	–	15,000,000	–	–	**15,000,000**	3,000,000
Shenzhen Clearance Center	–	15,770,570	–	–	**15,770,570**	–
Membership fees of General Settlement Center	–	12,000,000	–	–	**12,000,000**	–
China Bank Union Co. Ltd	3.03%	50,000,000	–	–	**50,000,000**	–
Membership fees of Kunming Bank Financial Electronic Settlement Center	–	3,000,000	3,000,000	3,000,000	**6,000,000**	–
Total		134,073,856	3,000,000	-18,010,000	**116,063,856**	20,293,286

The Bank is clearing up the equity investments of Yuansheng, Shenzhen Jiafeng, and Guangdong PBOC. The provision for long-term investments impairment has been made according to the expected recovery amount.

iii. Long-term bond investments

ITEMS	Par value	Interest rate (%)	Acquisition cost	Maturity date	Interests of the year	Interest receivable
Financial bonds	13,537,730,408	1.00–9.00	13,558,564,669	1999.3.20–2022.5.9	410,820,347	155,396,931
Government bonds	6,890,044,750	1.58–11.83	6,893,188,267	1999.2.26–2012.7.19	244,077,520	156,911,125
Total	20,427,775,158		20,451,752,936		654,897,867	312,308,056

There are no restrictions against cashing long-term bond investments, the future expected value of recoverable investments is expected to be not less than their book value.

15 Fixed assets and accumulated depreciation

ITEMS	Buildings	Motor vehicles	Computers (medium and mainframe)	Computers (mini and micro)	Electric appliances	Fixed assets improvements	Leasehold improvement	Total
COST								
31 December 2004	2,935,504,680	216,884,718	353,714,060	153,519,655	228,613,841	276,952,102	433,271,498	4,598,460,554
Transfer-in from construction in progress	–	–	463,874	1,323,741	730,294	1,399,645	8,991,622	12,909,176
Purchase	7,106,197	5,857,612	62.493.393	28,298,412	21,212,542	11,984,754	10,748,729	147,701,639
Disposals	673,694,745	10,748,756	29.162.405	9,727,381	12,151,983	–	1,521,062	737,006,332
31 December 2005	2,268,916,132	211,993,574	387,508,922	173,414,427	238,404,694	290,336,501	451,490,787	4,022,065,037
ACCUMULATED DEPRECIATION								
31 December 2004	389,565,239	131,917,963	204,751,355	117,397,291	129,339,246	175,535,311	206,384,820	1,354,891,225
Charge for the year	95,342,804	24,710,683	63,923,057	27,746,306	31,350,603	23,113,034	64,163,117	330,349,604
Additions	–	–	–	–	–	–	–	–
Disposals	19,922,560	9,954,618	28,724,482	9.729,826	11,058,367	249,267	1,259,245	80,898,365
31 December 2005	464,985,483	146,674,028	239,949,930	135,413,771	149,631,482	198,399,078	269,288,692	1,604,342,464
NET BOOK VALUE								
31 December 2005	1,803,930,649	65,319,546	147,558,992	38,000,656	88,773,212	91,937,423	182,202,095	2,417,722,573
31 December 2004	2,545,939,441	84,966,755	148,962,705	36,122,364	99,274,595	101,416,791	226,886,678	3,243,569,329

As of 31 December 2005, the original value of buildings and constructions already in use but with property titles pending or still in application status amounted to RMB 540,413,501 with a net book value of RMB 465,879,785 (As of 31 December 2004, the original value was RMB 1,244,690,510, and the net book value was RMB 1,183,859,375). Above mentioned buildings and constructions already in use but with property titles pending or still in application status mainly represented the commodity apartments which were bought for the employees by the Bank, they are selling to the employees and going through relevant formalities at the present.

16 Construction-in-progress

NAME OF THE PROJECTS	31 December 2004	Addition	Transfer to fixed assets	Other reduction	31 December 2005	Notes
Land at Longhua	9,607,758	–	–	9,607,758	–	Land value
Miscellaneous	2,185,088	15,511,657	12,909,176	194,874	**4,592,695**	
Total	11,792,846	15,511,657	12,909,176	9,802,632	**4,592,695**	

Construction-in-progress are financed by internal resources of the Bank, no interest was capitalized.

17 Intangible assets

CATEGORIES	31 December2004	Addition	Amortization	31 December 2005
Payment for software	43,012,899	7,304,472	27,406,081	**22,911,290**
License of new branches	22,844,167	–	4,175,000	**18,669,167**
Total	65,857,066	7,304,472	31,581,081	**41,580,457**

CATEGORIES	Original cost	Accumulated amortization	31 December 2005
Payment for software	146,904,657	123,993,367	**22,911,290**
License of new branches	33,400,000	14,730,833	**18,669,167**
Total	180,304,657	138,724,200	**41,580,457**

18 Long-term deferred assets

CATEGORIES	31 December2004	Addition	Amortization	31 December 2005
Pre-operating expenses	–	838,355	838,355	–
Rental expenses	120,757,538	6,070,494	14,835,843	**111,992,189**
Advertisement expenses	1,175,302	–	630,445	**544,857**
Others	9,473,773	2,783,926	3,312,559	**8,945,140**
Total	131,406,613	9,692,775	19,617,202	**121,482,186**

CATEGORIES	Original cost	Accumulated amortization	31 December 2005
Rental expenses	164,260,501	52,268,312	**111,992,189**
Advertisement expenses	1,943,679	1,398,822	**544,857**
Others	29,532,731	20,587,591	**8,945,140**
Total	195,736,911	74,254,725	**121,482,186**

Notes to the Financial Statements

19 Assets impairment provision

ITEMS	31 December 2004	Charge for the year/-reverse for the year	Written off	Transfer out	Changes in exchange rate	Recovery of items written off previously	31 December 2005
IMPAIRMENT PROVISION							
Accounts receivable	–	–	–	–		–	–
Other receivables	505,630,279	56,403,000	29,756,704	9,000,000	-387,343	3,139,938	544,029,170
Deposit with other banks	78,642,796	-1,816,243	–	–	–	–	76,826,553
Placement with other banks	162,933,600	18,508,200	–	–	–	–	181,441,800
Placement with other financial institutions	168,727,246	-9,828,145	–	–	–	–	158,899,101
Reverse repos	29,022,137	-1,472,214	–	–	–	–	27,549,923
Finance lease receivable	4,298,318	-103,579	–	–	–	–	4,194,739
Sub-total	949,254,376	61,691,019	29,756,704	9,000,000	-387,343	3,139,938	992,941,286
LOAN IMPAIRMENT PROVISION	5,111,559,816	1,705,862,159	598,721,201	–	10,186,103	3,664,616	6,232,551,493
PROVISION FOR DIMINUTION IN VALUE OF SHORT-TERM INVESTMENTS	–	–	–	–	–	–	–
PROVISION FOR DIMINUTION IN VALUE OF LONG-TERM INVESTMENTS	48,159,919	5,009,768	–	–	–	–	53,169,687
IMPAIRMENT PROVISION IN VALUE OF CONSTRUCTION-IN-PROGRESS	–	–	–	–	–	–	–
IMPAIRMENT PROVISION IN VALUE OF REPOSSESSED ASSETS	144,142,099	30,219,848	2,534,941	–	–	–	171,827,006
Total	6,253,116,210	1,802,782,794	631,012,846	9,000,000	9,798,760	6,804,554	7,450,489,472

20 Deferred taxes

ITEMS	31 December 2005	31 December 2004
ASSET		
Balance at the beginning of the year:	752,297,347	602,411,607
Additions in the year	406,337,164	362,979,414
Reversal in the year	157,745,684	213,093,674
Balance at end of the year	1,000,888,827	752,297,347
LIABILITIES		
Balance at beginning of the year	198,221,460	170,614,554
Additions in the year	36,827,113	27,606,906
Reversal in the year	–	–
Balance at end of the year	235,048,573	198,221,460
EFFECTS TO INCOME TAXES EXPENSE	-211,764,367	-122,278,834

The timing difference debited the deferred taxes that represented to the provision for assets impairment and the pre-operating expenses, the reversal was caused by written off of loans and the deduction of the pre-operating expenses in the current year. The timing difference credited the deferred taxes that was the result of the offsetting balance of all tax-paying regions with varying tax rates of which the net deficit between the income tax liabilities of loss-making regions and profit-making regions and the resulting reversal which should be made in the subsequent years.

21 Short-term deposits

ITEMS	31 December 2005	31 December 2004
Deposits from industrial enterprises	3,517,753,317	3,525,280,092
Deposits from collective industrial enterprises	637,595,937	520,759,237
Deposits from commercial enterprises	3,813,720,000	3,342,812,476
Deposits from collective commercial enterprises	1,178,928,840	946,822,513
Deposits from construction and infrastructure enterprises	3,210,711,512	2,862,009,178
Deposits from private enterprises and individuals	3,437,361,910	2,739,070,392
Deposits from foreign invested enterprises	5,240,022,315	4,795,649,526
Deposits from agricultural units	383,154,425	300,585,163
Deposits from military units	61,024,420	139,267,956
Deposits from insurance companies	86,418,935	66,837,823
Short-term trust deposits	1,324,112	1,382,062
Short-term term deposits	28,150,089,916	24,006,528,530
Call deposits	9,075,278,909	10,437,027,720
Other deposits	38,588,176,242	32,798,430,283
Total	97,381,560,790	86,482,462,951

22 Short-term guarantee deposits

ITEMS	31 December 2005	31 December 2004
Deposit for letter of credit	788,265,390	1,370,648,057
Deposit for bankers acceptance	52,438,307,536	29,897,525,084
Deposit for foreign currency transaction	11,605,378	34,042,696
Deposit for guarantee letter	754,219,803	426,215,168
Deposit for gold trading	–	27,787
Deposit for property development projects	339,625,913	–
Pledged deposits	210,300,974	–
Other deposit	1,933,971,432	7,811,220,514
Total	56,476,296,426	39,539,679,306

23 Inter-bank borrowings

ITEMS	31 December 2005	31 December 2004
Placement from domestic banks	–	322,764,999

24 Repurchase agreements

ITEMS	31 December 2005	31 December 2004
Securities under repurchase agreements	–	10,265,600,000
Loans under repurchase agreements	719,553,502	1,673,650,000
Bills under repurchase agreements – other banks	450,000,000	1,958,829,991
Total	1,169,553,502	13,898,079,991

The trading partners of repos included domestic commercial banks, and other financial institutes.

Notes to the Financial Statements

25 Tax payable

ITEMS	31 December 2005	31 December 2004
Business tax	**129,201,051**	112,778,726
City maintenance and construction tax	**7,093,231**	6,105,145
Education surcharges	**3,862,874**	4,023,700
Enterprise income tax	**381,599,128**	304,704,069
Total	**521,756,284**	427,611,640

26 Dividends payable

The ending balance of dividends payables amounted to RMB 23,441,268 and represented payable to domestic enterprise shareholders whose registrations for the dividends were in the progress.

27 Other payable

The beginning balance and ending balance of other payables amounted to RMB 1,150,119,977 and RMB 1,002,789,975 respectively. No other payable was due to any shareholder that holds more than 5% shares of the Bank. Major items of other payables were as follows:

ITEMS	31 December 2005	31 December 2004
Payable for purchasing staff apartments	**600,000**	698,917,424
Bank drafts	**386,718,906**	154,109,364
Balance pending for settlements from 24 hours system	**138,899,540**	–
Account payable for ATM&Post	**103,723,209**	448,974
Bills received on behalf of other banks	**78,247,559**	60,371,715
Inactive deposit account balance	**76,546,697**	29,321,623

28 Long-term guarantee deposits

ITEMS	31 December 2005	31 December 2004
Deposit for letter of credit	**634,756**	–
Deposit for guarantee letter	**47,428,435**	26,649,781
Pledged deposits	**3,100,000**	–
Other deposit	**131,992,182**	980,272,065
Total	**183,155,373**	1,006,921,846

29 Share capital

ITEMS *Unit: share*	31 December 2004	Addition/Deduction	31 December 2005
NON-CIRCULATING SHARES			
Shares held by the State	1,717,146	–	**1,717,146**
hares held by domestic enterprises	186,639,733	–	**186,639,733**
Shares held by foreign enterprises	348,103,305	–	**348,103,305**
Sub-total	536,460,184	–	**536,460,184**
CIRCULATING SHARES			
Domestic listed RMB Ordinary shares	1,409,361,965	–	**1,409,361,965**
Including: Shares held by senior officials	794,783	-713,786	**80,997**
Total	1,945,822,149	–	**1,945,822,149**

30 Capital reserve

ITEM	31 December 2004	Addition/Deduction	31 December 2005
Share premium	1,571,729,344	–	**1,571,729,344**

31 Revenue reserve

ITEMS	31 December 2004	Charge for the year	31 December 2005
Statutory revenue reserve	180,088,216	35,172,746	**215,260,962**
Statutory welfare fund	90,044,108	17,586,373	**107,630,481**
Discretionary revenue reserve	–	–	**–**
Total	270,132,324	52,759,119	**322,891,443**

32 Undistributed profits

Net profit of the Bank amounted to RMB 351,727,460 in current period, the beginning balance of undistributed profits after retrospective adjustments amounted to RMB 666,929,035 (please refer to the Note on Changes in accounting policies), the actual distributable profits amounted to RMB 1,018,656,495.

Pursuant to the Board of The Bank proposal on 30 March 2006, the profit appropriation for the year ended 31 December 2005 as follows:

Appropriate 10% of the net profit ((RMB 35,172,746) to the statutory surplus reserve; Appropriate 5% of the net profit (RMB 17,586,373)) to the statutory public welfare fund; Appropriate RMB 200,000,000 to general reserve. After the profit appropriations, the Undistributed profits is RMB 765,897,376.

The above proposed appropriations are pending for approval from shareholders at the forthcoming annual general meeting.

33 Geographical segment information of operating was as follows:

GEOGRAPHICAL SEGMENTS	Operating income	Operating expenditure	Operating expenses	Investment income	Operating profit
Shenzhen	3,722,689,439	3,171,576,074	996,465,119	776,234,064	330,882,310
Southern China	1,733,760,277	840,872,106	359,862,773	976,470	534,001,868
Eastern China	4,403,170,719	2,466,260,652	706,434,993	12,034,582	1,242,509,656
Northern China and Northeastern China	2,955,704,893	1,905,494,419	434,124,057	15,290,192	631,376,609
Others	341,074,681	148,133,439	99,924,665	229,481	93,246,058
Off-shore business	76,200,153	33,530,349	–	19,772,668	62,442,472
Sub-total	13,232,600,162	8,565,867,039	2,596,811,607	824,537,457	2,894,458,973
Elimination	4,716,980,128	4,716,980,128	–	–	–
Total	8,515,620,034	3,848,886,911	2,596,811,607	824,537,457	2,894,458,973

34 Investment income

ITEMS	2005	2004
SHORT-TERM INVESTMENTS		
Including: Stock investment income	**168,873,087**	71,263,517
LONG-TERM INVESTMENT		
Including: Stock investment income (cost method)	**766,503**	170,334
Bonds investment income	**654,897,867**	630,621,307
Other investment income (cost method)		–
Total	**824,537,457**	702,055,158

Notes to the Financial Statements

35 Non-operating income

ITEMS	2005	2004
Increase in value from stocktake	–	306,930
Profit from disposal of fixed assets	21,072,508	3,904,788
Cashier's cash income	147,865	167,741
Income from error transactions	177,670	150,970
Penalty income	2,788,634	5,122,544
Unclaimed long outstanding payable balances	255,875	521,434
Gain on disposal of repossessed assets	1,414,500	2,186,144
Others	5,240,604	8,599,447
Total	31,097,656	20,959,998

36 Non-operating expense

ITEMS	2005	2004
Loss in value from stocktake	40,913	328,664
Loss on disposal of fixed assets	3,368,718	1,245,372
Penalty expenses	9,466,591	99,289
Re-claim of long outstanding payable balances	375,041	229,538
Donations	234,313	1,228,606
Loss on disposal of repossessed assets	2,356,598	4,511,379
Expense from error transactions	22,431	34,831
Cashier's cash expense	22,330	96,245
Litigation provisions	48,328,799	16,805,674
Others	3,019,887	3,704,089
Total	67,235,621	28,283,687

37 Enterprise income tax

ENTERPRISE INCOME TAX	2005	2004
Enterprise income tax	499,132,006	330,424,931
Adjustment of EIT from prior year	-478,538	-4,387,279
(Additions) or reversal of deferred tax assets	-248,591,480	-149,885,740
Additions or (reversal) of deferred tax liabilities	36,827,113	27,606,906
Total	286,889,101	203,758,818

38 Cash received from other operating activities

ITEMS	2005
Net of exchange gain and loss	133,841,714
Other operating income	72,929,461
Net of other receivable and other payable	564,755,993
Trust securities payable	8,016,842
Gain on sale of bonds	112,416,794
Total	891,960,804

39 Cash paid for other operating activities

ITEMS	2005
Operating expenses (excluding cash paid for tax and for employees)	1,690,224,800
Prepaid expenses and Other payable	9,111,496
Total	1,699,336,296

40 Net cash flows from non-operating activies

ITEMS	2005
Net of non operating income and expense	648,678,348

41 Cash equivalents

ITEMS	31 December 2005	31 December 2004
Deposits with central bank available for payment	10,437,186,921	8,834,600,542
Deposits with other banks within three months	4,492,630,170	4,403,080,687
Placement with other banks within three months	1,577,936,050	1,509,426,600
Short-term investments within three months	2,152,154,550	178,920,000
Total	18,659,907,691	14,926,027,829

42 Liquidity position

ITEMS *In RMB ten thousand*	Overdue	Current	Within three months	Three months to one year	One to five years	Over five years	Total
ASSETS							
Cash	–	78,799	–	–	–	–	78,799
Deposit with central bank	–	2,097,171	–	–	–	–	2,097,171
Deposit with other banks	1,380	170,210	282,062	204,291	–	–	657,943
Placement with other banks	2,016	–	162,794	155,743	–	–	320,553
Placement with other financial institution	7,943	–	–	–	–	–	7,943
Reverse repos	2,417	–	749,717	40,000	–	–	792,134
Net, loans	1,032,113	25,537	4,893,970	6,252,934	1,058,533	1,723,960	14,987,047
investments	–	–	363,637	498,925	1,114,576	840,691	2,817,829
Other assets	152,666	–	152,814	371,111	134,981	350,651	1,162,224
Total assets	1,198,535	2,371,717	6,604,994	7,523,004	2,308,090	2,915,302	22,921,642
LIABILITIES							
Due to banks	–	888,626	46,040	112,257	–	–	1,046,923
Repurchase agreements	–	–	55,924	61,031	–	–	116,955
Customer deposits	–	13,533,848	2,645,108	3,080,724	890,682	941	–
Inward and outward remittance	–	100,354	–	–	–	–	100,354
Dividend payable	–	2,344	–	–	–	–	2,344
Other liabilities	57,935	117,154	224,423	446,792	119,127	34,027	999,458
Total liabilities	57,935	14,642,326	2,971,495	3,700,804	1,009,809	34,968	22,417,337
Net liquidity gap	1,140,600	-12,270,609	3,633,499	3,822,200	1,298,281	2,880,334	504,305

Notes to the Financial Statements

43 Net currency position

CURRENCY *In RMB ten thousand*	RMB	RMB equivalent of US Dollars	RMB equivalent of HK Dollars	RMB equivalent of other foreign currencies	Total of RMB and foreign currencies
Current assets	15,352,578	60,650	182,999	521,067	16,117,294
Non-current assets	6,328,968	31,319	95,183	147,260	6,602,730
Other assets	213,987	1,707	2,128	-16,204	201,618
Total assets	**21,895,533**	**93,676**	**280,310**	**652,123**	**22,921,642**
Current liabilities	19,791,276	74,121	244,213	615,392	20,725,002
Non-current liabilities	1,594,266	17,189	9,913	47,462	1,668,830
Other liabilities	-2,792	3,417	26,184	-3,304	23,505
Total liabilities	21,382,750	94,727	280,310	659,550	22,417,337
Net assets	**512,783**	**-1,051**	**–**	**-7,427**	**504,305**

VI Off-Balance-Sheet Exposures

ITEMS	31 December 2005	31 December 2004
Off-balance interest receivable	**3,237,140,390**	2,570,093,094
Forward contracts receivable	**416,975,876**	240,162,213
Forward contracts payable	**411,312,603**	239,091,175
Letter of credit issued	**2,082,434,994**	2,329,201,543
Letter of guarantee issued	**2,678,281,381**	2,885,660,362
Bank acceptance	**83,953,929,355**	66,963,251,636

VII Related Party Transaction

Shareholder and subsidiary company

Newbridge Asia AIV III, L. P. (Newbridge Asia) owns 17.89% of the total share capital of the Bank, and it is the effecting controlling shareholder of the Bank. Newbridge Asia is located in Delaware, the United States. It is an investment fund registered as a limited partnership with a paid-in capital of USD 724 million whose main business is strategic investment. Newbridge Asia was established on 22 June 2000 with maturity term of ten years. The ultimate controlling parties of the company are Mr David Bonderman , Mr James G. Coulter, Mr William S. Price III and Mr Richard C. Blum.

As at 31 December 2005, the balance of accounts receivable from Newbridge Asia AIV III, L. P. was RMB 40,000 (31 December 2004: Nil) representing the announcement fee for the equity takeover, which is paid by the Company on behalf of Newbridge Asia AIV III, L.P. It had been received in March 2006.

Shenzhen Yuansheng Industrial Co., Ltd. is a wholly owned subsidiary of the Bank (investments in subsidiary and joint venture, Supplyment information for Shenzhen Yuansheng Industrial Co., Ltd.). As at 31 December 2005, the balance of accounts receivable from Yuansheng was RMB 515,704,656 (31 December 2004: 523,477,275) that was incurred in previous years and still outstanding.

Significant influence related party and transactions

i. Key management, directors and supervisors related party transactions for the period under review are as follows:

ITEMS	Loans	Deposits
31 December 2004	600,000	5,248,882
Additions	3,130,000	27,980,471
Reductions	1,017,333	23,737,505
31 December 2005	2,712,667	9,491,848
Interest income (Expense)	121,454	(44,219)

The above loans are mortgage loans with an annual interest rate of 1.8% to 5.265%.

ii. Mr Richard C. Blum is one of the ultimate controlling parties of Newbridge Asia AIV III, L. P. and has the significant influence over both the Company and CB Richard Ellis Limited ("CBRE"). According to the contract signed between the Company and CBRE, CBRE provided real estate agency services to the Company during the year. The Company has paid CBRE services fee amounting to HK$2,675,153.

Others

On 28 September 2005, the Company entered into the "Equity Purchases Agreement" with GE Capital International Financing Corporation ("GECIFC"). Pursuant to the terms set forth in this agreement, after the approval of the related governing department and the shareholders at annual general meeting, the Company will issue new shares to GECIFC at a price of RMB 5.247 per share. The total purchase price of the shares amounted to US$0.1 billion.

On 28 September 2005, the Company entered into the "Strategic Cooperation Agreement" with GE Capital Finance (China) Co. Ltd ("GECFCO"). Pursuant to this agreement, GECFCO will provide consultancy services to the Company's retail business in connection with risk management, operation, sales and marketing, system, strategy and financing. As for consumers financing, professional knowledge, such as product developments, system and marketing, funding techniques, risk management, operations and employee training will be provided. The agreement period is of five years.

Pursuant to the "Strategic Cooperation Agreement", the consultancy fees shall be calculated on a cost recovery basis, and shall be equal to 140% of the aggregate remuneration in line with the prevailing cost rates charged by international firms of similar services. Pursuant to this agreement, after five years from the date of the agreement, to the extent permitted by Applicable Laws (and subject to any required regulatory and shareholders' approvals), the Company's obligation to pay to GECFCO's entitlement of 85% of the accumulated professional consultant fees and 100% of the accumulated travel and accommodation costs shall be satisfied by the issuance of the Company's shares, otherwise be satisfied by cash with the entitlement of 100% of the accumulated professional consultant fees and 100% of the accumulated travel and accommodation costs. The annual budget for the consulting fees should be between US$2 million to US$4 million. According to the invoice issued by GECFCO, the Company has recognized consultancy fees of US$1.25 million in the account of "accrued expenses".

GECIFC is a financial holding company registered in New York, USA. GECFCO is a wholly-owned foreign enterprise established in the PRC. GECIFC and GECFCO are both subsidiaries of General Electrics Co., Ltd.

Expect above, the Bank has no other significant related party transaction should be disclosed.

VIII Litigation, Disputes and Guarantee

As of 31 December 2005, there were 29 legal claims or commercial disputes raised by third parties against the Bank, total amount of the claims comprised RMB 182.47 million, a provision of RMB 58.72 million was made.

Except for the issued bank guarantees in the normal course of the banking business (Note VI), the Bank had no significant guarantee provided to third parties which should be approved by the board of directors.

In September 2004, the Institutional Supervision Department of China Securities Regulatory Commission released a notice to the Bank, requiring the Bank to return the deposits immediately which had been deducted from Deheng Securities Company Ltd; in January 2005, the Institutional Supervision Department and the Listed Company Supervision Department of China Securities Regulatory Commission jointly released a notice to the Bank, requiring the Bank to return a total of RMB 421.5 million which had been deducted from Deheng Securities Company Ltd. and Southern Securities Company to the two companies within 20 days; otherwise, the Bank would be subject to investigation and relevant administrative penalty. The Bank deducted above amounts for repaying the loans of relevant companies in the Bank. Up to the approval date of the financial statements, the Bank has not yet returned the above amounts, and these two companies have also not yet requested the Bank to return above amounts. The Bank has reported to China Securities Regulatory Commission and China Banking Regulatory Commission for coordination and resolution of this issue. Based on the legal opinion from an independent third-party lawyer, the Bank has no immediate legal obligation to make the payment of the above amount. Therefore the Bank is not required to recognize this payable amount as liability.

IX Lease Commitments

As of 31 December 2005, an analysis of operating lease commitments which had been contracted for was as follows:

ITEMS	31 December 2005	31 December 2004
Expiring in the coming year	**252,521,980**	248,372,458
Expiring in the second to fifth year	**630,161,691**	600,334,250
Expiring after the fifth year	**388,206,093**	348,970,585
Total	**1,270,889,764**	1,197,677,293

Notes to the Financial Statements

X Subsequent Events

The Bank has no significant subsequent events from the balance sheet date to the approval date of this report.

XI Supplementary Information for Shenzhen Yuansheng Industrials Co., Ltd.

According to the Commercial Banking Laws of the PRC and other relevant regulations, the Bank intends to dispose its investment. As most of the real estate investments of the Bank are held by Yuansheng and its subsidiaries, the main disposal work was conducted by Yuansheng and its subsidiaries. Yuansheng had sold or transferred or signed transfer contracts for those investments. Provision for impairment had been provided by Yuansheng based on recoverable amount for those can not be sold at this moment and outstanding balance of account receivables.

The brief of balance sheet of Yuansheng as of 31 December 2005 was as follows:

ASSETS	31 December 2005	31 December 2004
Cash and bank	27,430,408	25,284,100
Accounts receivable	179,284,492	191,604,020
Less: Bad debts provision	118,013,787	110,511,078
Accounts receivable, net	61,270,705	81,092,942
Inventories, net	660,121	4,639,961
Long-term investments	12,134,828	11,688,079
Less: provision for impairment in value of long-term investments	5,221,681	5,221,681
Long-term investments, net	6,913,147	6,466,398
Fixed assets, net	53,208,354	54,292,203
Total assets	149,482,735	171,775,604
Payable to the Bank	515,704,656	523,477,275
Other current liabilities	15,004,173	14,889,230
Total liabilities	530,708,829	538,366,505
Paid-in capital	21,010,000	21,010,000
Undistributed profits	-402,236,094	-387,600,901
Total shareholders' equity	-381,226,094	-366,590,901
Total liabilities and shareholders' equity	149,482,735	171,775,604

XII Supplementary Information

The differences of net assets and net profit between the financial statements audited under the IFRS (audited by Earst&Young Certified Public Accountant) and the statutory financial statements under PRC accounting standards (audited by Shenzhen PengCheng Certified Public Accountants) were as follows:

ITEMS	31 December 2005 Net assets	2005 Net profit	31 December 2004 Net assets	2004 Net profit
Statutory financial statements	5,043,041,955	351,727,460	4,734,314,280	294,569,669
ADJUSTMENTS				
Financial assets or liabilities at				
fair value through profit or loss	-9,985,844	544,603	-10,530,447	-1,126,482
Available-for-sale investments	2,643,889	250,000	-486,991,940	22,549,506
Write off set-up costs for sub-branches	-18,669,168	4,175,000	-22,844,167	-5,325,000
Accrual of short term investment interest income	18,710,626	-41,264,424	59,975,050	59,975,050
Revaluation of investment properties	52,733,087	11,804,274	–	–
Exchange rate difference	–	-43,002,702	–	–
Deferred tax impact	-10,308,012	2,259,090	66,980,094	-40,119,396
IFRS financial statements	5,078,166,533	286,493,301	4,340,902,870	330,523,347

The adjustments to the statutory financial statements for applying to the IFRS, includes:

i. Derivatives and structured deposits are stated at fair value;

ii. Available for sale investments are stated at fair value;

iii. Write-off of set-up costs of branches;

iv. Accrual of interest of short-term investments;

v. Investment properties are stated at fair value;

vi. Exchange difference charge to profit and loss;

vii. Recognition of deferred taxation resulting from above differences;

According to the No. 9 Regulation For Disclosure Requirements For Companies with Publicly Issued Shares – Calculation of Ratio of Return On Equity and Earning Per Share, the ratio of return of equity and earning per share of the Bank were as follows:

	Return on equity (%)				Earning per share			
	Diluted		Weighted-average		Diluted		Weighted-average	
NET PROFIT	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
Profit from main business	**57.40**	59.12	**58.95**	61.02	**1.49**	1.44	**1.49**	1.44
Operating profit	**57.40**	59.12	**58.95**	61.02	**1.49**	1.44	**1.49**	1.44
Net profit	**6.97**	6.22	**7.16**	6.42	**0.18**	0.15	**0.18**	0.15
Profit deducted by non-routine losses	**6.64**	5.96	**6.82**	6.15	**0.17**	0.14	**0.17**	0.14

NON-RECURRING INCOME STATEMENT EVENTS	**31 December2005**
Net non-operating income/expense after deduction aaccrued expenses	**12,190,834**
Reversal of prior years' assets impairment	**13,220,181**
Impact of changes in interest accrual date for loans and deposit to net profit	**-8,385,635**
Total	**17,025,380**

Change in shareholders' equity

ITEMS	31 December2004	Addition	Deduction	**31 December2005**
Share capital	1,945,822,149	–	–	**1,945,822,149**
Capital reserve	1,571,729,344	–	–	**1,571,729,344**
Revenue reserve	270,132,324	52,759,119	-	**322,891,443**
Including: welfare fund	90,044,108	17,586,373	–	**107,630,481**
General provision reserve	279,704,345	200,000,000	–	**479,704,345**
Undistributed profits	666,929,035	98,968,341	–	**765,897,376**
Including: cash dividends proposed to be distributed	–	–	–	**–**
Translation adjustments	-2,917	–	42,999,785	**-43,002,702**
Total shareholders' equity	4,734,314,280	351,727,460	42,999,785	**5,043,041,955**

Supplementary information for income statement

ITEMS	2005	2004
Gain on disposal of business units or investments	–	–
Loss arising from natural disasters	–	–
Increase/(decrease) in total profit/(loss) as a result of changes in interest accrual date for loans and deposits	–	–
Increase/(decrease) in total profit/(loss) as a result of changes in accounting policies of income tax	-4,238,935	122,264,286
Increase/(decrease) in total profit/(loss) as a result of changes in accounting estimates	–	–
Losses from debt restructuring	–	–
Other	–	–

Explanation to items of which the variation exceeded 30%

ITEM IN FINANCIAL STATEMENT *In RMB thousand*	Balance at End of period under review	% of Change	Cause for Change
Prepaid expenses	18,157	101%	Increase in rent
Short-term investments	7,308,345	-34%	Adjustment of assets structure
Import & export negotiation	1,886,573	63%	Adjustment of assets structure
Discounted bills	38,414,273	130%	Adjustment of assets structure
Overdue loans	496,725	-61%	Migrate to non-accruing loans
Non-accruing loans	15,983,067	40%	Less non-accruing loan can be roll-over due to more stringent credit control
Constructions in progress	4,593	-61%	Transferred to other receivables
Intangible assets	41,580	-37%	Amortization for the current year
Settled assets	1,024,062	42%	Intensified collection
Deferred tax assets	1,000,889	33%	Increase in time differences
Inter-bank borrowing	0	-100%	Adjustment of fund structure
Amounts payable to intermediaries for securities dealings	24,488	49%	Increase in business
Repos	1,169,554	-92%	Decrease in business
Accrued expenses	22,562	48%	Increase in accrued consultancy expenses
Deferred income	254,916	53%	Increase in discounted bills businesses
Long-term guarantee deposit	183,155	-82%	Decrease in business volume
Currency translation difference	-43,003	1474110%	RMB revaluation
Revenue from securities sales	112,417	375%	Increase in business
Exchange gains	143,199	45%	Increase in business
Current interest payments between banking enterprises	859,573	-35%	Decrease in rediscount interest payments
Non-operating revenue	31,098	48%	Gains in disposal of fixed assets
Non-operating expenses	67,236	138%	Increase in litigations provisions
Income tax	286,889	41%	Pursuant to tax laws, the pre-tax deductible amount of provision for asset depreciation etc was less than the actual payment stated in the income statement, therefore the taxable income was higher than the pre-tax profits stated in the income statement. Owing to high valid tax rate resulting from different profitability structures of the Bank in different tax areas, and increased total profit in 2005, the income tax was relatively high.

Auditor Report

To the shareholders
Shenzhen Development Bank Co., Ltd.

We have audited the accompanying balance sheet of Shenzhen Development Bank Co., Ltd. (the "Company") as at 31 December 2005 and the related statements of income, changes in equity 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 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. Those 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 an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

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

Ernst & Young

Certified Public Accountants
Hong Kong
30 March 2006

Income Statement

for the year ended 31 December 2005

In RMB	Notes	**2005**	2004 (Restated)
OPERATING REVENUE			
Interest income	5	**9,092,580,635**	9,065,560,354
Interest expense	5	**(3,771,538,713)**	(3,723,949,845)
Net interest income	5	**5,321,041,922**	5,341,610,509
Business tax and surcharges		**(416,921,653)**	(412,572,720)
Impairment provisions on loans and other assets	6	**(2,231,867,362)**	(2,261,819,473)
Net interest income after business tax and surcharges,			
impairment provisions on loans and other assets		**2,672,252,907**	2,667,218,316
Dividend income from investment securities		**766,503**	170,334
Net fee and commission income	7	**239,096,293**	187,838,510
Net gains/(losses) on financial assets/liabilities at fair value			
through profit or loss		**2,318,989**	(3,086,212)
Other net income	8	**205,469,305**	184,846,248
TOTAL OPERATING INCOME		**3,119,903,997**	3,036,987,196
OPERATING EXPENSES			
Staff expenses	9	**(1,086,201,486)**	(1,005,943,732)
General and administrative expenses	9	**(1,149,592,638)**	(1,137,422,112)
Depreciation	9	**(312,986,562)**	(319,219,787)
		(2,548,780,686)	(2,462,585,631)
PROFIT BEFORE TAX		**571,123,311**	574,401,565
Income tax expense	10	**(284,630,010)**	(243,878,218)
NET PROFIT		**286,493,301**	330,523,347
EARNINGS PER SHARE			
Basic earnings per share	11	**0.15**	0.17

The accounting policies and explanatory notes on pages 99 through 134 form an integral part of the financial statements.

Balance Sheet

31 December 2005

In RMB	Notes	2005	2004 (Restated)
ASSETS			
Cash on hand		**787,992,420**	703,081,594
Due from the Central Bank	12	**20,971,705,025**	18,404,206,126
Due from banks	13	**6,579,429,956**	5,157,821,187
Interbank placements	14	**3,205,524,850**	2,589,158,000
Advances to non-bank financial institutions	15	**79,426,036**	102,294,378
Reverse repurchase agreements	16	**8,665,334,290**	11,631,472,960
Financial assets at fair value through profit or loss	17	**853,322,484**	959,055,530
Loans	18	**149,870,472,480**	121,083,903,426
Investments	19	**26,355,784,770**	31,624,359,853
Construction in progress	20	**4,592,695**	11,792,846
Property and equipment	21	**1,789,164,998**	1,934,136,465
Investment properties	22	**692,637,283**	1,340,242,229
Long term prepayments		**128,147,275**	134,148,744
Deferred tax assets	23	**755,532,241**	621,055,981
Other assets	24	**1,629,491,058**	1,421,256,400
TOTAL ASSETS		**222,368,557,861**	197,717,985,719
LIABILITIES			
Due to banks	25	**10,469,234,116**	8,325,483,278
Interbank borrowings	14	**–**	322,764,999
Customer deposits	26	**200,812,259,481**	165,703,011,986
Repurchase agreements	16	**1,169,553,502**	13,898,079,991
Financial liabilities at fair value through profit or loss	17	**695,232,410**	1,007,867,936
Inward and outward remittances		**1,003,541,523**	1,194,130,735
Tax payable		**381,599,128**	304,704,071
Dividends payable	27	**23,441,268**	23,571,856
Other liabilities	28	**2,735,529,900**	2,597,467,997
TOTAL LIABILITIES		**217,290,391,328**	193,377,082,849
SHAREHOLDERS' EQUITY			
Share capital	29	**1,945,822,149**	1,945,822,149
Share premium		**1,571,729,344**	1,571,729,344
Reserves	30	**802,595,788**	549,833,753
Cumulative changes in fair value – available-for-sale investments		**2,247,304**	(413,730,650)
Investment property revaluation reserve		**297,989**	–
Retained earnings	31	**755,473,959**	687,248,274
TOTAL SHAREHOLDERS' EQUITY		**5,078,166,533**	4,340,902,870
TOTAL SHAREHODERS' EQUITY AND LIABILITIES		**222,368,557,861**	197,717,985,719

The accounting policies and explanatory notes on pages 99 through 134 form an integral part of the financial statements.

Statement of Changes in Equity

for the year ended 31 December 2005

In RMB	Share capital	Share premium	Reserves (Note 30)	Cumulative changes in fair value – available for sale investments	Investment property revaluation reserve	Retained earnings (Note 31)	Total
Balance as at 1 January 2004							
(before adjustment)	1,945,822,149	1,571,729,344	431,035,530	(9,132,206)	–	430,667,523	4,370,122,340
Retrospective adjustment of the changes							
in accounting policy of the statutory							
financial statements (note 30 (c))	–	–	15,699,810	–	–	29,156,789	44,856,599
Restated balance as at 1 January 2004	1,945,822,149	1,571,729,344	446,735,340	(9,132,206)	–	459,824,312	4,414,978,939
CHANGES IN EQUITY FOR 2004							
Available-for-sale investments:							
Valuation loss taken to equity	–	–	–	(466,160,961)	–	–	(466,160,961)
Transferred to the income statement							
upon disposal	–	–	–	(3,369,464)	–	–	(3,369,464)
Exchange differences of equity	–	–	(972)	–	–	–	(972)
Tax on items taken directly to or							
transferred from equity	–	–	–	64,931,981	–	–	64,931,981
Net income recognised directly in equity	–	–	(972)	(404,598,444)	–	–	(404,599,416)
Net profit for the year (Restated)	–	–	–	–	–	330,523,347	330,523,347
Total recognised income and expenses							
for the year (Restated)	–	–	(972)	(404,598,444)	–	330,523,347	(74,076,069)
Profit appropriation (Restated)	–	–	103,099,385	–	–	(103,099,385)	–
Restated balance as at 31 December 2004	1,945,822,149	1,571,729,344	549,833,753	(413,730,650)	–	687,248,274	4,340,902,870

The accounting policies and explanatory notes on pages 99 through 134 form an integral part of the financial statements.

Statement of Changes in Equity continued

for the year ended 31 December 2005

In RMB	Share capital	Share premium	Reserves (Note 30)	Cumulative changes in fair value – available for sale investments	Investment property revaluation reserve	Retained earnings (Note 31)	Total
Balance as at 1 January 2005							
(before adjustment)	1,945,822,149	1,571,729,344	532,455,555	(413,730,650)	–	654,974,479	4,291,250,877
Retrospective adjustment of the changes							
in accounting policy of the statutory							
financial statements (note 30 (c))	–	–	17,378,198	–	–	32,273,795	49,651,993
Restated balance as at 1 January 2005	1,945,822,149	1,571,729,344	549,833,753	(413,730,650)	–	687,248,274	4,340,902,870
Effect of adopting the revised IAS 40:							
Revaluation of investment properties (note 22)	–	–	–	–	–	40,578,238	40,578,238
Deferred tax impact	–	–	–	–	–	(6,086,735)	(6,086,735)
Adjusted balance as at 1 January 2005	1,945,822,149	1,571,729,344	549,833,753	(413,730,650)	–	721,739,777	4,375,394,373
CHANGES IN EQUITY FOR 2005							
Available-for-sale investments							
Valuation gain taken to equity	–	–	–	555,738,500	–	–	555,738,500
Transferred to the income statement							
upon disposal	–	–	–	(66,352,671)	–	–	(66,352,671)
Investment properties:							
Fair value adjustments taken into equity							
(note 22)	–	–	–	–	350,575	–	350,575
Exchange differences of equity	–	–	2,916	–	–	–	2,916
Tax on items taken directly to or							
transferred from equity	–	–	–	(73,407,875)	(52,586)	–	(73,460,461)
Net income recognised directly in equity	–	–	2,916	415,977,954	297,989	–	416,278,859
Net profit for the year	–	–	–	–	–	286,493,301	286,493,301
Total recognised income and							
expenses for the year	–	–	2,916	415,977,954	297,989	286,493,301	702,772,160
Profit appropriation	–	–	252,759,119	–	–	(252,759,119)	–
Balance as at 31 December 2005	1,945,822,149	1,571,729,344	802,595,788	2,247,304	297,989	755,473,959	5,078,166,533

The accounting policies and explanatory notes on pages 99 through 134 form an integral part of the financial statements.

Statement of Cash Flows

for the year ended 31 December 2005

In RMB	Notes	**2005**	2004 (Restated)
Cash flows from operating activities	32	**(4,181,877,402)**	6,932,471,218
Income tax paid		**(421,758,409)**	(118,721,994)
Net cash flow (used in)/generated from operating activities		**(4,603,635,811)**	6,813,749,224
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments made for new additions of construction in progress		**(15,511,657)**	(21,740,184)
Purchases of properties and equipment		**(149,443,923)**	(306,103,511)
Purchases of investment properties		**(704,218,246)**	–
Proceeds from disposal of property and equipment/construction in progress		**414,735**	66,447,731
Proceeds from disposal of investment property		**673,694,745**	–
Interest received from investment securities		**796,679,902**	706,851,792
Dividend received from investment securities		**766,503**	170,334
Payments made in bond investments		**(62,084,077,969)**	(37,487,990,235)
Proceeds from disposal of bond investments		**69,899,139,772**	26,757,263,961
Proceeds from disposal of equity investments		**5,110,309**	33,306,849
Net cash flow generated from/(used in) investing activities		**8,422,554,171**	(10,251,793,263)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		**(130,588)**	(38,701,599)
Net cash flow used in financing activities		**(130,588)**	(38,701,599)
Effect of exchange rates changes on cash and cash equivalents		**2,916**	(972)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**3,818,790,688**	(3,476,746,610)
Cash and cash equivalents at beginning of year		**15,629,109,423**	19,105,856,033
CASH AND CASH EQUIVALENTS AT END OF YEAR		**19,447,900,111**	15,629,109,423
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash on hand		**787,992,420**	703,081,594
General deposits at the Central Bank		**10,437,186,921**	8,834,600,542
Due from banks maturing in less than three months		**4,492,630,170**	4,403,080,687
Interbank placements maturing in less than three months		**1,577,936,050**	1,509,426,600
Short term investment maturing in less than three months		**2,152,154,550**	178,920,000
		19,447,900,111	15,629,109,423
SUPPLEMENT INFORMATION			
Interest received		**8,679,224,731**	8,572,064,797
Interest paid		**3,662,638,046**	3,555,920,294

The accounting policies and explanatory notes on pages 99 through 134 form an integral part of the financial statements.

Notes to the Financial Statements

1 General Information

Shenzhen Development Bank Co., Ltd. (the "Company") was established in the People's Republic of China (the "PRC") as a result of the restructuring of six agricultural credit co-operatives into a joint stock commercial bank with limited liability. The Company was established on 22 December 1987 after the initial public offering of its RMB ordinary shares on 10 May 1987. The Company was the first entity listed on securities companies of the Shenzhen Special Economic Zone on 7 April 1988.

The institution number of the Company on the 00000008 approval document issued by China Banking Regulatory Commission is B11415840H0001. The business licence number of the Company issued by the Shenzhen Municipal Administration of Industry and Commerce is N46884.

The Company is principally engaged in commercial and retail banking activities in the PRC.

The registered office of the Company is located at No. 5047, Shennan Road East, Shenzhen, Guangdong Province, the PRC. Headquartered in Shenzhen, the Company operates its business in the PRC. The Company has established branches and networks in Beijing, Shanghai, Tianjin, Guangzhou, Shenzhen, Chongqing, Dalian, Hangzhou, Nanjing, Haikou, Jinan, Qingdao, Zhuhai, Foshan, Ningbo, Wenzhou, Chengdu and Kunming.

The financial statements of the Company for the year ended 31 December 2005 were authorised for issue in accordance with a resolution of the directors on 30 March 2006.

2 Changes in Accounting Policy of Statutory Financial Statements

In line with the normal banking practice in the PRC, the Company set the cut-off date for loan interest income and deposit interest expenses at the twentieth day of each month. For the purpose of providing more reliable and relevant information in respect of the financial position and operation results of the Company in the financial statements and being consistent with international practices, pursuant to the resolution of Board of Directors dated 30 March 2006, management decided to adopt retrospectively the new accounting policy of accruing loan interest income and deposit interest expenses to the last day of each month, and to restate the comparative amounts accordingly. In connection with this, the balance of retained earnings as at 1 January 2005 increased by RMB 49,651,994, and the profit for the year decreased by the same magnitude.

Comparative figures in segmental reporting have been reclassified accordingly.

3 Summary of Significant Accounting Policies

Basis of presentation

These financial statements have been prepared following the accounting measurement policies set out below which are in accordance with International Financial Reporting Standards ("IFRSs"). IFRSs comprise standards and interpretations approved by the International Accounting Standards Board (the "IASB"), and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect. Disclosures have been made, in all material respects, in accordance with IFRSs 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 re-measurement at fair value of financial assets or liabilities through profit or loss, available-for-sale investment securities and investment properties.

As required by IFRSs in the preparation of the financial statements, management has to make estimates and assumptions for the balances in the financial statements or notes to the financial statements. These estimates or assumptions not only may affect the reported amount of financial assets and liabilities and disclosure of contingent liabilities, but may also affect the revenues and expenses and the resultant provisions as well as the fair value changes reported in equity. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required for non-performing assets. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty and therefore may differ from actual results, leading to changes in such provisions in future.

The Company maintains its books and prepares its statutory financial statements in accordance with the "Accounting System for Financial Enterprises" and accounting principles applicable to financial institutions 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 those of IFRSs. The material accounting measurement adjustments arising from restating the results and net assets of the Company to comply with IFRSs have been made in the preparation of the financial statements, but will not be taken up in the accounting records of the Company. Further details with respect to the net impact of these IFRS adjustments are included in Note 40.

These financial statements have been prepared in accordance with "International Accounting Standard 1 – Presentation of Financial Statements". This report has been prepared on a basis consistent with the accounting policies adopted in the 2004 financial statements except for changes in accounting policies following the adoption of the new and revised International Accounting Standards effective from 1 January 2005 (in which the Company has early adopted the revised International Accounting Standards 32 and 39).

For the impact to the financial statement on the adoption of the new IFRSs and revised International Accounting Standards, please refer to the explanation in the respective notes to the financial statements.

Impact of issued but not yet effective standards or interpretations

The IASB has approved certain IFRSs that are effective for periods commencing on 1 January 2006 or 1 January 2007. The Company has not adopted any of these IFRSs for the preparation of its supplementary financial statements for the year ended 31 December 2005. However, the Company will adopt these new standards as and when these standards come into effect.

Amongst these new standards, 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 the 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 have any financial impact and will not result in a change in accounting policies.

Segment reporting

A business segment is a distinguishable component of the Company that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments. A geographical segment is a distinguishable component of the Company that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

Consolidation

Subsidiaries or special purpose vehicles that are directly or indirectly controlled by the Company are consolidated. Material inter-company transactions between the Company and its subsidiaries and the related balances are eliminated in the preparation of the consolidated financial statements. Subsidiaries that are acquired during the year are included in the consolidation from the date which the title and ownership has been transferred. Subsidiaries that are expected to be disposed of are included in consolidation until the disposal has been completed.

Associate companies that the Company has significant influence on are accounted for by the equity method. Significant influence means the Company owns more than 20% of the voting rights of the associate companies. The Company's interests in associate companies are recognised at the acquisition date. The interests in associate companies will change according to the change in equity interest of the associated companies. The changes in equity interest of the associate companies are recognised in the income statement.

Revenue recognition

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

i. interest income is recognised on a time proportion basis that takes into account the principal outstanding and effective interest rate applicable;

ii. fee and commission income is recognised on an accrual basis after the services are rendered and the proceeds can be reasonably estimated; and

iii. dividend income is recognised when the shareholders' right to receive payment has been established.

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 is recognised 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.

i. Financial assets at fair value through profit or loss

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

a) Financial assets held for trading
A financial asset is classified as held for trading if it is:
- acquired principally for the purpose of sale 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 designated as a effective hedging instrument).

b) Financial assets designated at fair value through profit or loss by management upon initial recognition
After the 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 realised and unrealised gains or losses are included in the income statement for the year.

ii. 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. These investments are carried at amortised 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 if it has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity.

iii. 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 carried at amortised cost using the effective interest method, less provision for impairment in value.

iv. 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, 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 may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. After the 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 may incur by sale or other disposal. Premiums and discounts on available-for-sale financial assets are amortised 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 derecognised or the financial asset is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported as "cumulative changes in fair value – available for sale investments" within equity, is included in the income statement for the year.

A financial asset is derecognised when:

a) the contractual rights to the cash flows from the financial asset has expired;

b) the Company has transferred substantially all the risks and rewards of ownership of the financial asset; or

c) the Company has not retained control while it neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset.

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 have occurred after the initial recognition of the asset (a "loss event") and the loss event (or events) has/have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The amount of impairment loss is determined as follows:

i. For financial assets carried at amortised 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 there is objective evidence of impairment or not. For collective assessment, the Company will group the financial assets according to their credit risk characteristics and collectively assess them for impairment evidence.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised 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 the estimated future cash flows 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 recognised 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 the foreclosure is probable.

For the purpos e 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 the amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of 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, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the provision account. The amount of the reversal is recognised in the income statement for the year.

ii. For available-for-sale financial assets, the impairment is the difference between the acquisition cost (net of any principal repayment and amortisation) 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/are impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the investments are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss less any impairment loss on that financial asset previously recognised in profit or loss is removed from equity and is recognised in the income statement for the year.

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

iii. For financial assets carried at amortised 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, on impaired loans and other financial assets, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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 amortised cost. Management determines the classification of a financial liability at its initial recognition. When a financial liability is recognised initially, the Company shall measure it at its 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.

i. Financial liabilities at fair value through profit or loss

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

a) Financial liabilities held for trading
A financial liability is classified as held for trading if it is:

- incurred principally for the purpose of repurchasing 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).

b) Financial liabilities designated at fair value through profit or loss 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 realised and unrealised gains or losses are included in the income statement for the year.

ii. Financial liabilities carried at amortised cost

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

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

Derivatives and hedge accounting

Derivatives are stated at fair value.

For the purposes of hedge accounting, hedges are classified into three categories:

i. fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment,

ii. cash flow hedges which hedge exposure to variability in cash flows that could affect profit or loss, and

iii. hedge of a net investment in a foreign operation.

In relation to effective fair value hedges, any gain or loss from re-measuring the hedging instrument to the fair value, as well as related changes in fair value of the item being hedged, are recognised in the income statement for the year.

In relation to effective cash flow hedges, the gain or loss on the hedging instrument is recognised 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 recognised directly in equity are reclassified as profit or loss in the same period or periods during which the asset acquired or liability assumed affects the profit or loss.

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

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

Certain derivatives embedded in other financial instruments 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 recognised in the income statement for the year.

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 recognised in the income statement for the year.

Settlement date accounting

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

Offsetting

Financial assets and liabilities are offset and the net amount in the balance sheet is presented only when the Company has currently a legally enforceable right to offset the recognised amounts; and the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Reverse repurchase agreements and repurchase agreements

The Company enters into purchases of securities/loans/bills under agreements to resell and enters into sales of securities/loans/bills under agreements to repurchase. Securities/loans/bills purchased subject to commitments to resell at a future date are treated as loans collateralised by the securities/loans/bills and are included in reverse repurchase agreements. Securities/loans/bills which have been sold subject to repurchase agreements continue to be recognised in the balance sheet and securities/loans/bills are measured in accordance with the relevant accounting policy as appropriate. The proceeds from sale of these securities/bills/loans are treated as liabilities and included in repurchase agreements.

Interests earned from reverse repurchase agreements and interests borne on repurchase agreements are recognised as interest income and interest expenses respectively, over the tenor of each agreement.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the income statement on the straight-line basis over the period of the lease.

Construction in progress

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

The costs are transferred to property and equipment when the asset is ready for its intended use, and are depreciated in accordance with the related depreciation policy. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and put into use.

The carrying values of construction in progress are reviewed at each balance sheet date by the management of the Company or an independent appraiser to assess whether they are recorded in excess of their recoverable amount. If carrying values exceed their recoverable amount, the assets are written down. Impairment losses are charged to the income statement.

Property and equipment

All property and equipment are stated at cost less any accumulated depreciation and any impairment losses. 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 items of property and equipment have been put into operation, such as repairs 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 an item of property and equipment, the expenditure is capitalised as an additional cost of that asset.

The carrying values of property and equipment are reviewed at each balance sheet date by the management of the Company or an independent appraiser to assess whether they are recorded in excess of their recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. If carrying values exceed their recoverable amount, the assets are written down. Impairment losses are charged to the income statement.

Depreciation is provided on the straight-line method to write off the cost after deducting the residual value over the estimated useful lives of the items of property and equipment at the following rates per annum:

Properties and buildings	3.30%
Transportation vehicles	16.20%
Computers	19.80% or 33.00%
Computer software & equipment	20.00%
Electronic appliances	9.90% or 19.80%
Owner-occupied property improvement	10.00% or 20.00%
Leasehold improvement	Over the lease terms

Investment properties

Prior to 1 January 2005, the Company adopted the "Cost Model" to recognise and measure its investment properties which are stated at cost less any accumulated depreciation. Started from 1 January 2005, the Company has adopted the "Fair Value Model" for the recognition and measurement of investment properties under the revised IAS 17 – Leases and IAS 40 – Investment Property. No depreciation or amortisation is required for investment property.

At each year end, the carrying value of the investment property should be adjusted based on fair value, and the difference between the carrying amount and the fair value will be accounted for in the income statement. Fair value of investment property is with reference to the recent market price of similar properties in the active market and is adjusted with reference to the nature, location and condition of the specific asset. In the events that current market price are not available, the Company may make reference to recent prices in a less active market, with the consideration on the subsequent change in economic situation after those transaction dates; or according to the reasonable estimation on the future cashflow to discount them to present value.

As at 1 January 2005, the fair value of the investment properties of the Company was RMB 1,380,820,467. The difference between this fair value and the related net carrying amount under the "Cost Model" was RMB 40,578,238. After taking into account of the deferred tax effect, the net impact of this change in accounting policy to the retained earnings balance as at 1 January 2005 is RMB 34,491,503.

Foreign currency translation

The Company's functional currency and presentation currency are in RMB. The Company maintains separate financial records for assets and liabilities and transactions denominated in foreign currencies.

Foreign currency transactions are translated into RMB using the average market exchange rates for the year. At the balance sheet date, monetary items denominated in foreign currencies in the balance sheet are translated into RMB at the year end rate. Exchange differences are dealt with in the income statement. Non-monetary items denominated in foreign currencies are stated at historical cost or are translated at the exchange rate at the valuation date. Exchange differences resultant from the latter are recognised either through equity or income statement according to the recognition method of the related fair value changes.

For an available-for-sale monetary financial asset that denominated in a foreign currency, the changes in its carrying value comprise changes in foreign exchange rates and other changes. Exchange differences resulting from changes in amortised cost are recognised in profit or loss and other changes in carrying value are recognised in equity.

Exchange differences arising on translating non-monetary items are included in the changes in their carrying value. When a gain or loss on a non-monetary item is recognised directly in profit or loss such as non-monetary items carried at fair value through profit or loss, any exchange component of that gain or loss shall be recognised in profit or loss. When a gain or loss on a non-monetary item is recognised directly in equity, for example, available-for-sale equity instruments, any exchange component of that gain or loss shall be recognised in equity.

Acceptances

Acceptances comprise undertakings of the Company to pay bills of exchange on customers. The Company expects most acceptances to be settled simultaneously with the reimbursement from customers. Acceptances are accounted for as off-balance-sheet transactions and are disclosed as commitments and contingent liabilities.

Fiduciary activities

Assets arising thereon together with the 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 operational 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.

Income tax

PRC income 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 recognised for the temporary differences between the carrying amounts of assets and liabilities in the balance sheet and their tax base, which will result in taxable amounts in future periods. Deferred tax assets are recognised for the 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 utilised. Currently enacted tax rates are used to determine the deferred tax.

Employee benefits

According to the statutory requirements in the PRC, the Company is required to provide certain welfare and retirement benefits to the employees. The Company is obligated to contribute a fixed percentage of staff salaries to the retirement welfare scheme governed by the local government authority. All the contributions are recognised as an expense in the income statement.

Apart from the above benefits, the Company has provided termination and post-employment benefits to eligible employees. All the expected expenditures of the termination and post-employment benefits have been recognised in the welfare payable.

Cash and cash equivalents

Cash and cash equivalents represent cash on hand, general deposits with the Central Bank, due from banks and interbank placements maturing in less than three months, and short term highly liquid investments (maturity within three months starting from purchase date) which are readily convertible into known amounts of cash, subject to an insignificant risk of changes in value and which are within three months of maturity when acquired.

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 obligation; 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 recognised 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 recognised as provision in the financial statements, but is disclosed in the notes to the financial statements (unless the possibility of an outflow of economic resources from the Company is remote).

4 Segmental Reporting

The Company's principal business activities are commercial lending and accepting public deposits. The Company's main source of funding for financing its consumer and corporate lending business is from customer deposits. Considering that the Company's major business activities fall into a single business segment, no business segment report is therefore presented.

The Company has branches and sub-branches in various locations in the PRC. In order to facilitate a more meaningful analysis, a geographical segment report prepared on a management reporting basis is presented.

	2005									
	Shenzhen	Guangzhou	Shanghai	Beijing	Hangzhou	Nanjing	Offshore	Others	Eliminations	Total
External net interest income	1,818,011,114	483,914,639	553,858,938	249,053,525	468,277,223	290,630,968	64,421,704	1,392,873,811	–	**5,321,041,922**
Internal net interest income	(498,827,716)	90,563,190	80,046,129	217,694,079	37,094,337	26,792,622	389,468	46,247,891	–	**–**
Net interest income	1,319,183,398	574,477,829	633,905,067	466,747,604	505,371,560	317,423,590	64,811,172	1,439,121,702	–	**5,321,041,922**
Net fee and commission										
income	85,830,107	24,634,852	22,342,321	11,595,612	11,560,066	10,855,294	14,175,551	58,102,490	–	**239,096,293**
Dividend income from										
investment securities	766,503	–	–	–	–	–	–	–	–	**766,503**
Net gains/(losses) from										
financial assets/liabilities										
at fair value through										
profit or loss	(4,314,483)	1,709,269	28,622	314,130	650,594	–	–	3,930,857	–	**2,318,989**
Other net income	99,922,860	21,841,428	7,527,091	26,496,367	5,322,081	4,130,961	5,065,295	35,163,222	–	**205,469,305**
Operating income	1,501,388,385	622,663,378	663,803,101	505,153,713	522,904,301	332,409,845	84,052,018	1,536,318,271	–	**5,768,693,012**
Impairment losses on loans										
and other assets	(521,442,951)	(999,908,260)	(198,281,286)	(27,953,296)	(81,957,909)	(35,948,127)	(61,343,219)	(305,032,314)	–	**(2,231,867,362)**
Business tax and surcharges	(73,966,862)	(47,701,449)	(57,628,317)	(38,099,808)	(44,747,869)	(29,671,355)	–	(125,105,993)	–	**(416,921,653)**
Operating expenses										
Depreciation	(129,803,653)	(18,583,974)	(22,100,527)	(20,794,110)	(14,976,950)	(9,759,792)	–	(96,967,556)	–	**(312,986,562)**
Others	(823,977,229)	(205,943,282)	(258,465,812)	(178,851,478)	(175,038,946)	(104,966,293)	(2,360,137)	(486,190,947)	–	**(2,235,794,124)**
Profit before tax	(47,802,310)	(649,473,587)	127,327,159	239,455,021	206,182,627	152,064,278	20,348,662	523,021,461	–	**571,123,311**
Capital expenditure	75,542,269	7,309,295	14,465,142	11,538,013	2,551,403	10,709,198	–	42,840,262	–	**164,955,582**

	31 December 2005									
	Shenzhen	Guangzhou	Shanghai	Beijing	Hangzhou	Nanjing	Offshore	Others	Eliminations	Total
Segment assets	113,516,451,281	21,425,935,185	27,204,896,975	28,277,712,918	21,173,057,203	14,724,563,674	1,805,000,444	57,440,100,095	(63,954,692,155)	**221,613,025,620**
Income tax assets	755,532,241	-	-	-	-	-	-	-	-	**755,532,241**
Total assets	114,271,983,522	21,425,935,185	27,204,896,975	28,277,712,918	21,173,057,203	14,724,563,674	1,805,000,444	57,440,100,095	(63,954,692,155)	**222,368,557,861**
Segment liabilities	109,582,651,014	22,034,318,001	27,063,887,551	28,007,707,821	20,952,209,929	14,560,123,482	1,794,378,256	56,868,208,301	(63,954,692,155)	**216,908,792,200**
Income tax liabilities	381,599,128	-	-	-	-	-	-	-	-	**381,599,128**
Total liabilities	109,964,250,142	22,034,318,001	27,063,887,551	28,007,707,821	20,952,209,929	14,560,123,482	1,794,378,256	56,868,208,301	(63,954,692,155)	**217,290,391,328**
Off balance sheet items	7,902,248,248	8,866,232,920	5,090,628,655	6,899,190,128	10,025,422,360	6,663,013,993	231,046,924	45,268,705,740	-	**90,946,488,968**

Notes to the Financial Statements

	2004 (Restated)									
	Shenzhen	Guangzhou	Shanghai	Beijing	Hangzhou	Nanjing	Offshore	Others	Eliminations	Total
External net interest income	1,888,159,589	437,191,373	621,152,457	337,387,253	463,833,515	256,561,625	56,498,544	1,280,826,153	–	5,341,610,509
Internal net interest income	(327,864,442)	92,900,462	84,775,134	93,904,531	10,590,457	16,536,292	165,430	28,992,136	–	–
Net interest income	1,560,295,147	530,091,835	705,927,591	431,291,784	474,423,972	273,097,917	56,663,974	1,309,818,289	–	5,341,610,509
Net fee and commission										
income	63,570,885	21,523,418	23,055,108	9,456,580	10,038,377	5,703,326	8,260,161	46,230,655	–	187,838,510
Dividend income from										
investment securities	170,334	–	–	–	–	–	–	–	–	170,334
Net gains/(losses) from										
financial assets/liabilities										
at fair value through										
profit or loss	(10,624,416)	2,183,814	195,075	352,415	848,978	–	(241,829)	4,199,751	–	(3,086,212)
Other net income	87,869,027	18,314,625	20,042,889	17,411,337	2,232,149	3,520,216	2,757,783	32,698,222	–	184,846,248
Operating income	1,701,280,977	572,113,692	749,220,663	458,512,116	487,543,476	282,321,459	67,440,089	1,392,946,917	–	5,711,379,389
Impairment losses on loans										
and other assets	(1,514,343,372)	(138,479,381)	(259,504,467)	(48,719,408)	(35,612,467)	(40,954,700)	(27,878,145)	(196,327,533)	–	(2,261,819,473)
Business tax and surcharges	(76,979,211)	(42,928,074)	(66,831,936)	(33,281,492)	(46,097,711)	(26,800,015)	–	(119,654,281)	–	(412,572,720)
Operating expenses										
Depreciation	(140,151,214)	(18,346,047)	(22,700,665)	(20,217,263)	(11,010,316)	(9,411,900)	–	(97,382,382)	–	(319,219,787)
Others	(862,665,800)	(198,652,908)	(205,814,696)	(158,533,222)	(177,998,701)	(97,649,891)	998,219	(443,048,845)	–	(2,143,365,844)
Profit before tax	(892,858,620)	173,707,282	194,368,899	197,760,731	216,824,281	107,504,953	40,560,163	536,533,876	–	574,401,565
Capital expenditure	13,108,356	8,371,708	16,509,838	6,486,797	14,878,271	7,859,629	–	160,629,095	–	227,843,694

	31 December 2004 (Restated)									
	Shenzhen	Guangzhou	Shanghai	Beijing	Hangzhou	Nanjing	Offshore	Others	Eliminations	Total
Segment assets	99,984,868,057	18,857,093,017	26,301,204,906	19,763,511,121	16,326,795,351	11,593,959,962	2,000,277,637	46,528,403,493	(44,259,183,806)	197,096,929,738
Income tax assets	621,055,981	–	–	–	–	–	–	–	–	621,055,981
Total assets	100,605,924,038	18,857,093,017	26,301,204,906	19,763,511,121	16,326,795,351	11,593,959,962	2,000,277,637	46,528,403,493	(44,259,183,806)	197,717,985,719
Segment liabilities	97,330,313,648	18,673,021,018	26,078,585,158	19,554,842,428	16,085,517,692	11,476,656,246	2,180,485,258	45,952,141,136	(44,259,183,806)	193,072,378,778
Income tax liabilities	304,704,071	–	–	–	–	–	–	–	–	304,704,071
Total liabilities	97,635,017,719	18,673,021,018	26,078,585,158	19,554,842,428	16,085,517,692	11,476,656,246	2,180,485,258	45,952,141,136	(44,259,183,806)	193,377,082,849
Off balance sheet items	7,413,636,450	9,764,294,889	5,793,683,837	5,228,674,079	6,304,439,188	5,615,463,228	214,676,825	33,442,543,959	–	73,777,412,455

5 Net Interest Income

In RMB	2005	2004 (Restated)
INTEREST INCOME		
Interest income on loans (note)	**7,486,014,167**	7,605,957,411
Interest income on amounts due from banks and placements	**823,307,974**	703,506,988
Interest income from available-for-sale debt investments	**783,258,494**	756,095,955
	9,092,580,635	9,065,560,354
INTEREST EXPENSE		
Interest on customer deposits	**2,887,093,761**	2,371,734,718
Interest on amounts due to banks and borrowings	**884,444,952**	1,352,215,127
	3,771,538,713	3,723,949,845
	5,321,041,922	5,341,610,509

Note: Included within interest income is RMB 429 million (2004: RMB 409 million) with respect of interest income accrued on impaired loans (see note 18 (b)).

6 Impairment Provisions on Loans and Other Assets

In RMB	2005	2004
Additions of impairment provisions for loans (note 18 (b))	**2,135,196,728**	2,195,503,121
OTHER IMPAIRMENT PROVISIONS ON		
Other receivables	**41,664,226**	784,754
Due from banks	**(1,816,243)**	6,651,537
Interbank placements	**18,508,200**	–
Advances to non-bank financial institutions	**(9,828,145)**	12,662,876
Reverse repurchase agreements	**(1,472,214)**	1,511,069
	47,055,824	21,610,236
Impairment provisions on investments	**19,394,962**	18,664,125
Impairment provisions on repossessed assets	**30,219,848**	26,041,991
	2,231,867,362	2,261,819,473

7 Net fee and commission income

In RMB	2005	2004
Service fee and commission income	**307,086,758**	247,478,433
Service fee and commission expense	**(67,990,465)**	(59,639,923)
	239,096,293	187,838,510

8 Other Net Income

In RMB	**2005**	2004
Net gain on disposal of investment securities	**111,475,992**	23,643,664
Income from leasing safety box	**1,617,288**	1,644,247
Foreign exchange gains, net	**89,253,464**	99,464,534
(Loss)/gain on disposal of property and equipment, net	**(2,259,682)**	2,637,683
Net rental income	**32,558,787**	28,593,408
Loss on disposal of repossessed assets, net	**(942,098)**	(2,325,236)
Provision against litigation claims	**(48,328,799)**	(16,841,474)
Fair value changes of investment properties (note 22)	**(12,403,424)**	–
Others	**34,497,777**	48,029,422
	205,469,305	184,846,248

9 Operating Expenses

In RMB	**2005**	2004
STAFF EXPENSES		
Salaries and bonuses	**857,282,901**	786,404,984
Labour insurance and social welfare contributions	**205,504,056**	188,372,496
Other staff expenses	**23,414,529**	31,166,252
	1,086,201,486	1,005,943,732
GENERAL AND ADMINISTRATIVE EXPENSES		
Rental expenses	**271,566,952**	298,788,802
Training and union expenses	**25,290,970**	24,817,716
Computer system maintenance	**46,229,565**	46,575,743
Telecommunication and postage	**48,493,504**	43,773,077
Vault related transportation expenses	**20,103,524**	17,308,903
Water and electricity charges	**27,313,779**	24,933,105
Publication and stationery expenses	**92,045,994**	113,160,366
Travel expenses	**103,344,465**	99,849,497
Marketing and public relations expenses	**96,225,663**	91,685,726
Motor vehicle expenses	**83,199,711**	76,675,270
Legal expenses	**30,799,088**	15,599,963
Professional fees	**46,596,027**	18,071,648
Low-value consumables	**17,678,173**	19,304,630
Sundry taxes expenses	**27,089,655**	24,291,972
Pre-operating expenses	**838,355**	16,380,228
Amortisation of long term prepayment expenses	**17,272,446**	11,615,017
CBRC administration fee	**42,413,943**	40,126,858
Other expenses	**153,090,824**	154,463,591
	1,149,592,638	1,137,422,112
DEPRECIATION		
Depreciation of property and equipment	**312,986,562**	319,219,787
Total operating expenses	**2,548,780,686**	2,462,585,631
INCLUDING		
Auditors' remuneration – financial audit fee	**8,650,000**	4,000,000

10 Income Tax

In RMB	2005	2004 (Restated)
INCOME TAX EXPENSES		
Charge for the year	**467,200,130**	330,424,931
Additional charge/(over accrual) of prior years	**31,453,338**	(4,387,279)
Deferred tax	**(214,023,458)**	(82,159,434)
	284,630,010	243,878,218

The differences between income tax expenses reflected in the financial statements and the amounts calculated at the statutory rates of 15% to 33% are as follows:

In RMB	2005	2004 (Restated)
Operating profit before tax	**571,123,311**	574,401,565
Income tax at the statutory rate of 15–33%	**188,470,693**	189,552,516
INCREASE/(DECREASE) RESULTING FROM		
Additional charge/(over accrual) of prior years	**31,453,338**	(4,387,279)
Non-deductible expenses	**158,113,857**	154,815,121
Non-assessable income	**(93,407,878)**	(96,102,140)
	284,630,010	243,878,218

11 Earnings per Share

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

In RMB	2005	2004 (Restated)
EARNINGS PER SHARE CALCULATION		
Net profit for the year (RMB)	**286,493,301**	330,523,347
Weighted average number of common shares outstanding (No. of share)	**1,945,822,149**	1,945,822,149
Basic earnings per share (RMB)	**0.15**	0.17

The diluted earnings per share are not presented as there were no dilutive events during the year. There have been no transactions involving common shares or potential common shares during the period between the balance sheet date and the date these financial statements are authorised for issue.

12 Due from the Central Bank

In RMB	**31 December 2005**	31 December 2004
DUE FROM THE CENTRAL BANK		
General deposits	**10,422,812,921**	8,823,368,542
Statutory deposits	**10,534,518,104**	9,569,605,584
Fiduciary deposits	**14,374,000**	11,232,000
	20,971,705,025	18,404,206,126

The statutory deposits represent a statutory reserve of 8% (31 December 2004: 8%) on customer deposits denominated in RMB and 3% (31 December 2004: 2%) on customer deposits denominated in foreign currencies held by the Company.

Fiduciary deposits represent the amounts received from government-related bodies that are required to be deposited with the Central Bank according to the relevant regulations.

13 Due from Banks

In RMB	**31 December 2005**	31 December 2004
DUE FROM BANKS		
Domestic banks	**5,887,788,519**	4,433,337,371
Foreign banks	**768,467,991**	803,126,612
	6,656,256,510	5,236,463,983
Impairment provision	**(76,826,554)**	(78,642,796)
	6,579,429,956	5,157,821,187

Due from banks included RMB 20,242,340 which was being frozen as a result of bills in disputes.

14 Interbank Placements and Interbank Borrowings

In RMB	**31 December 2005**	31 December 2004
INTERBANK PLACEMENTS		
Domestic banks	**1,951,586,531**	1,342,265,000
Foreign banks	**1,435,380,119**	1,409,826,600
	3,386,966,650	2,752,091,600
Impairment provision	**(181,441,800)**	(162,933,600)
	3,205,524,850	2,589,158,000
INTERBANK BORROWINGS		
Domestic banks	**–**	322,764,999

15 Advances to Non-bank Financial Institutions

In RMB	**31 December 2005**	31 December 2004
DOMESTIC		
Finance companies	**62,973,242**	63,330,442
Trust and investment companies	**175,351,896**	207,691,182
	238,325,138	271,021,624
Impairment provision	**(158,899,102)**	(168,727,246)
	79,426,036	102,294,378

16 Reverse Repurchase Agreements and Repurchase Agreements

In RMB	**31 December 2005**	31 December 2004
REVERSE REPURCHASE AGREEMENTS CLASSIFIED BY COLLATERAL		
Securities under reverse repurchase agreements	**6,004,714,878**	7,425,127,590
Loans under reverse repurchase agreements	**1,005,000,000**	770,000,000
Bills under reverse repurchase agreements	**1,683,169,336**	3,465,367,508
Impairment provision	**(27,549,924)**	(29,022,138)
	8,665,334,290	11,631,472,960
REPURCHASE AGREEMENTS CLASSIFIED BY COLLATERAL		
Securities under repurchase agreements	**–**	10,265,600,000
Loans under repurchase agreements	**719,553,502**	1,673,650,000
Bills under repurchase agreements – rediscount of bills to other banks	**450,000,000**	1,958,829,991
	1,169,553,502	13,898,079,991

The counterparties of the reverse repurchase agreements and repurchase agreements are Central Bank, commercial banks and non-bank financial institutions in the PRC.

17 Financial Assets or Liabilities at Fair Value through Profit or Loss

In RMB	**31 December 2005**	31 December 2004
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		
Financial assets held for trading:		
Foreign currency structured debt instruments	**37,308,534**	38,634,701
Receivables from derivative instruments	**5,730,440**	7,593,320
	43,038,974	46,228,021
Financial assets at fair value through profit or loss designated at initial recognition:		
Foreign currency structured debt instruments	**810,283,510**	912,827,509
	853,322,484	959,055,530
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		
Financial liabilities held for trading:		
Foreign currency structured deposits	**37,308,535**	38,634,701
Payables to derivative instruments	**16,172,992**	14,730,766
	53,481,527	53,365,467
Financial liabilities at fair value through profit or loss designated at initial recognition:		
Foreign currency structured deposits	**641,750,883**	954,502,469
	695,232,410	1,007,867,936

Structured debt instruments and structured deposits contain embedded derivatives, whose value changes in response to the change in a specified interest rate, security price or similar variable.

Financial asset or liability at fair value through profit or loss is stated at fair value in the financial statements. Unrealised gains and losses arising from changes in the fair value of these financial assets or liabilities are recognised in profit or loss.

As at 31 December 2005, the Company designated financial liabilities of RMB 641,750,883 as at fair value through profit or loss upon their initial recognition. The amount of change in their fair values that is not attributable to changes in a benchmark interest rate is not significant. The difference between the carrying amount and the amount that the Company would be contractually required to pay at maturity to the holder of these financial liabilities is RMB 18,668,738.

18 a) Loans

The composition of the loan portfolio and the impairment provision by type of exposure at the end of the year is as follows:

In RMB	**31 December 2005**	31 December 2004
LOANS		
Corporate	**135,919,922,419**	111,128,751,683
Personal	**20,183,101,554**	15,066,711,558
	156,103,023,973	126,195,463,241
Impairment provision (note 18 (b))	**(6,232,551,493)**	(5,111,559,815)
	149,870,472,480	121,083,903,426

The composition of loans by type of collateral at the end of the year is as follows:

In RMB	**31 December 2005**	31 December 2004
LOANS AND ADVANCES TO CUSTOMERS		
Guaranteed	**51,202,670,850**	51,877,982,355
Secured by mortgages and other collateral	**41,139,794,929**	41,315,022,227
Unsecured	**22,890,531,453**	14,837,304,772
TRADE FINANCE		
Import and export advances and negotiation	**1,886,572,642**	1,154,051,709
Factoring	**569,181,364**	309,694,918
Discounted bills	**38,414,272,735**	16,701,407,260
	156,103,023,973	126,195,463,241

Loans to customers included loans amounting to RMB 1,601,405,140 (31 December 2004: RMB 4,060,480,000) that are pledged under repurchase agreements. Furthermore, discounted bills amounting to RMB 450,000,000 (31 December 2004: RMB 1,958,829,991) are pledged against repurchase agreements.

18 b) Loan Impairment Provision

In RMB	**31 December 2005**	31 December 2004
Balance at beginning of the year	**5,111,559,815**	4,174,149,507
Additions during the year (note 6)	**2,135,196,728**	2,195,503,121
Unwind of interest for impaired loans (note 5)	**(429,334,567)**	(408,617,548)
Net provision charge for the year	**1,705,862,161**	1,786,885,573
Recovery of loans previously written off	**3,664,616**	6,778,432
Write-off	**(598,721,200)**	(835,480,598)
Transfer out during the year	**–**	(20,773,099)
Exchange difference	**10,186,101**	–
Balance at end of the year (note 18 (a))	**6,232,551,493**	5,111,559,815

19 Investments

In RMB	**31 December 2005**	31 December 2004
AVAILABLE-FOR-SALE INVESTMENTS		
Bond investments		
Government bonds, listed/quoted	**6,565,983,200**	9,144,900,729
Government bonds, unlisted/unquoted	**1,420,044,750**	1,603,317,764
Financial bonds, listed/quoted	**17,130,519,300**	19,328,197,139
Financial bonds, unlisted/unquoted	**1,044,649,951**	1,325,497,001
	26,161,197,201	31,401,912,633
Equity investments, unlisted/unquoted (note 19 (a))	**625,983,351**	634,198,040
Impairment provision	**(431,395,782)**	(411,750,820)
	194,587,569	222,447,220
Total available-for-sale investments	**26,355,784,770**	31,624,359,853
Total investments	**26,355,784,770**	31,624,359,853

As at 31 December 2005, no bond investments of the Company were pledged for repurchase securities agreements.

As at 31 December 2004, certain bond investments amounted to RMB 10,282,720,000 were pledged for repurchase securities agreements. The bonds are related to available-for-sale investments of face value of RMB 10,490,000,000.

19 a) Equity Investments

COMPANY *In RMB*	Percentage of share held	**31 December 2005**	31 December 2004
Shenzhen Yuan Sheng Industrial Co., Ltd.	100.00%	**515,704,657**	523,477,275
China UnionPay Co., Ltd	3.03%	**50,000,000**	50,000,000
Gintian Industry (Group) Co., Ltd.	2.03%	**9,662,219**	9,662,219
China Vanke Co., Ltd.	0.22%	**2,131,494**	2,131,494
Hainan Pearl River Holdings Co., Ltd.	0.30%	**9,650,000**	9,650,000
Shenzhen Hongkai (Group) Co., Ltd.	0.30%	**3,215,000**	3,215,000
Shenzhen Baoheng (Group) Co., Ltd.	0.22%	**2,519,500**	2,519,500
Shenzhen Fountain Corporation	0.06%	**187,195**	187,195
Hainan Wuzhou Travel Co., Ltd.	3.70%	**5,220,000**	5,220,000
Meizhou Polyester (Group) Co.	0.41%	**1,100,000**	1,100,000
Shenzhen Central South China Industrial Co.	4.10%	**2,500,000**	2,500,000
Hainan Junhe Travel Co., Ltd.	9.30%	**2,800,000**	2,800,000
Guangdong Sanxing Enterprises (Group) Co., Ltd.	0.05%	**500,000**	500,000
Hainan Baiyunshan Co., Ltd.	0.91%	**1,000,000**	1,000,000
Hainan Saige Co., Ltd.	0.56%	**1,000,000**	1,000,000
Hainan First Investment Co., Ltd.	0.27%	**500,000**	500,000
Hainan Zhonghailian Real Estate Co., Ltd.	0.74%	**1,000,000**	1,000,000
Shenzhen Jiafeng Textile Industrial Co., Ltd.	13.82%	**17,293,286**	17,735,357
		625,983,351	634,198,040
Less: Impairment provision		**(431,395,782)**	(411,750,820)
		194,587,569	222,447,220

According to the PRC Commercial Banking Law as well as the request from relevant government departments, the Company is required to dispose of its wholly-owned subsidiary, Shenzhen Yuan Sheng Industrial Co., Ltd. In the opinion of management, Shenzhen Yuan Sheng Industrial Co., Ltd is in the process of disposing of its assets and its financial impact to the Company's overall financial position is not material. Accordingly, the financial statements of Shenzhen Yuan Sheng Industrial Co., Ltd have not been consolidated into the financial statements of the Company. The Company's interest in Shenzhen Yuan Sheng Industrial Co., Ltd has been classified as available-for-sale investment, and an impairment provision has been made according to the recoverability of the assets of Shenzhen Yuan Sheng Industrial Co., Ltd.

20 Construction in Progress

In RMB	**31 December 2005**	31 December 2004
CONSTRUCTION IN PROGRESS		
Balance at beginning of year	**11,792,846**	33,895,685
Additions	**15,511,657**	21,740,184
Disposal	**(9,802,632)**	(17,735,332)
Transferred to property and equipment (note 21)	**(12,909,176)**	(26,107,691)
Balance at end of year	**4,592,695**	11,792,846
IMPAIRMENT PROVISION		
Balance at beginning of year	**–**	16,246,880
Disposal	**–**	(16,246,880)
Balance at end of year	**–**	–
Net book value	**4,592,695**	11,792,846

21 Property and Equipment

In RMB	At beginning of year	Additions/Transfer from investment properties	Transfer from CIP (Note 20)	Disposals/Transfer to investment properties	At end of year
AT COST					
Properties and buildings	1,461,255,992	11,442,853	–	(2,433,390)	1,470,265,455
Transportation vehicles	216,884,718	5,857,612	–	(10,748,756)	211,993,574
Computers	507,233,716	90,791,805	1,787,615	(38,889,786)	560,923,350
Computer software & equipment	131,076,145	7,304,472	–	(7,025,572)	131,355,045
Electronic appliances	228,613,841	21,212,542	730,294	(12,151,983)	238,404,694
Owner-occupied property improvement	276,952,102	12,323,388	1,399,644	(338,634)	290,336,500
Leasehold improvement	433,271,498	10,748,728	8,991,623	(1,521,062)	451,490,787
	3,255,288,012	159,681,400	12,909,176	(73,109,183)	3,354,769,405
ACCUMULATED DEPRECIATION					
Properties and buildings	267,762,315	50,573,680	–	(532,324)	317,803,671
Transportation vehicles	131,917,963	24,710,684	–	(9,954,619)	146,674,028
Computers	322,148,646	91,669,363	–	(38,454,308)	375,363,701
Computer software & equipment	88,063,246	27,406,081	–	(7,025,572)	108,443,755
Electronic appliances	129,339,246	31,350,603	–	(11,058,367)	149,631,482
Owner-occupied property improvement	175,535,311	23,113,034	–	(249,267)	198,399,078
Leasehold improvement	206,384,820	64,163,117	–	(1,259,245)	269,288,692
	1,321,151,547	312,986,562	–	(68,533,702)	1,565,604,407
Net book value	1,934,136,465				1,789,164,998

The properties and buildings were stated at cost as at 31 December 2005. Properties and buildings at original cost of RMB 172,812,823 (31 December 2004: RMB 209,295,909) and net book value of RMB 123,609,403 (31 December 2004: RMB 162,947,655) are in use but the related legal ownership registration was still being applied for as at 31 December 2005. There was no impairment to the value of the properties and buildings as at 31 December 2005.

22 Investment Properties

In RMB	31 December 2005
Balance at beginning of year	1,340,242,229
Effect of adopting the revised IAS 40	40,578,238
Adjusted balance at the beginning of year	1,380,820,467
Additions	5,900,822
Disposals	(673,694,745)
Fair value changes recognised in the income statement (note 8)	(12,403,424)
Net transfer in from properties and buildings	(8,336,412)
Fair value adjustments of properties transferred in from properties and buildings during the year	350,575
Balance at end of year	692,637,283

The Company adopts the accounting policy as stated in Note 3 of the financial statements to re-recognise and re-measure all investment properties. Since it is not practical to measure the fair value of the investment properties portion separately from the related properties as a whole, the management estimates the fair value of investment properties by using the proportion of respective areas.

In addition, the gross rental income earned from the investment properties amounted to RMB 43,822,520 (31 December 2004: RMB 40,386,780). The direct operating expenses (including repairs and maintenance) arising from those investment properties (with or without generating income) were RMB 17,389,983 (31 December 2004: RMB 16,067,730).

23 Deferred Tax Asset

In RMB	31 December 2005	31 December 2004 (Restated)
Loan impairment provision	848,904,350	635,654,952
Financial assets or liabilities at fair value through profit or loss	846,445	1,579,567
Available-for-sale debt investments	(396,583)	73,048,791
Others	(93,821,971)	(89,227,329)
	755,532,241	621,055,981

Notes to the Financial Statements

24 Other Assets

In RMB	31 December 2005	31 December 2004 (Restated)
OTHER ASSETS		
Interest receivable on investment securities	**319,723,779**	333,145,187
Interest receivable on loans and amounts due from banks and placements	**229,337,261**	231,894,516
Rental receivables	**4,194,739**	4,293,888
Repossessed assets	**1,024,061,511**	722,981,888
Properties and buildings	**898,638,293**	597,558,670
Equities	**102,229,703**	102,229,703
Others	**23,193,515**	23,193,515
Prepaid legal expenses	**159,564,938**	136,335,555
Deferred expenses	**18,156,677**	9,045,181
Prepayments	**45,818,953**	52,785,247
Other receivables	**170,458,019**	221,254,732
	1,971,315,877	1,711,736,194
PROVISIONS FOR LOSSES ON OTHER ASSETS		
Repossessed assets	**(171,827,006)**	(144,142,099)
Other receivables – prepaid legal expenses	**(83,533,983)**	(78,154,508)
Other receivables – others	**(86,463,830)**	(68,183,187)
	(341,824,819)	(290,479,794)
	1,629,491,058	1,421,256,400

25 Due to Banks

In RMB	31 December 2005	31 December 2004
Domestic banks	**10,469,234,116**	8,325,483,278

26 Customer Deposits

In RMB	31 December 2005	31 December 2004
Short term deposits	**123,624,315,838**	107,911,754,375
Long term deposits	**15,814,148,368**	13,546,044,740
Guaranteed deposits	**56,659,451,799**	39,534,535,795
Deposits from government-related bodies	**4,714,343,476**	4,710,677,076
	200,812,259,481	165,703,011,986

27 Dividends Payable

In RMB	31 December 2005	31 December 2004
Dividends declared out of net profits of previous years	**23,441,268**	23,571,856

28 Other Liabilities

In RMB	31 December 2005	31 December 2004 (Restated)
Interest payable	**821,091,625**	712,190,961
Salary payable	**283,280,429**	257,289,040
Welfare payable	**126,647,848**	107,831,830
Deferred interest income on discounted bills	**255,040,137**	183,551,919
Bank drafts	**386,718,906**	154,109,364
Amounts payable to developers	**600,000**	698,917,424
Tax payable – business tax and other surcharges	**140,157,156**	114,327,278
Amounts pending for settlement and clearing	**193,775,005**	68,154,252
Amounts payable to intermediaries for securities dealings	**24,488,254**	16,471,412
Provision for litigation	**58,718,373**	30,389,574
Inactive deposit accounts balances	**76,546,697**	29,321,623
Others	**368,465,470**	224,913,320
	2,735,529,900	2,597,467,997

29 Share Capital

In RMB	31 December 2005	31 December 2004
AUTHORISED		
Ordinary shares of RMB 1 each	**1,945,822,149**	1,945,822,149

In RMB	31 December 2005	31 December 2004
ISSUED AND FULLY PAID		
Non-publicly tradable shares	**536,460,184**	536,460,184
Publicly tradable shares	**1,409,361,965**	1,409,361,965
	1,945,822,149	1,945,822,149

30 a) Reserves

In RMB	Statutory surplus reserve	Statutory Public welfare fund	Discretionary surplus reserve	General reserve	Total
Balance as at 1 January 2005	180,035,648	90,093,760	–	279,704,345	549,833,753
Appropriations from net profit for the year	35,172,746	17,586,373	–	200,000,000	252,759,119
Exchange difference of equity	2,916	–	–	–	2,916
Balance as at 31 December 2005	215,211,310	107,680,133	–	479,704,345	802,595,788

In accordance with the PRC Company Law and the Company's articles of association, the Company is required to allocate 10% of its profit after tax, as determined in accordance with the Accounting Standards for Business Enterprises and related 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 Company 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.

In accordance with the PRC Company Law, the Company is required to allocate 5% to 10% of its profit after tax, as determined in accordance with the Accounting Standards for Business Enterprises and related regulations applicable to the Company, to the statutory public welfare fund, which is a non-distributable reserve other than in the event of the liquidation of the Company. Statutory public welfare fund must be used for capital expenditure on staff welfare facilities and these facilities will remain the assets of the Company. When the statutory public welfare fund is utilised, the related amount will be transferred from the statutory public welfare fund to the discretionary surplus reserve.

Pursuant to "Accounting System for Financial Enterprises" issued on 27 November 2001, effective from 1 January 2002, general reserve made by financial enterprises engaging in deposit and loan activities shall form a part of the owner's equity.

In accordance with Cai Jin [2005] No. 49 "Administration of impairment provision for financial institutions", general provisions should be made by financial institutions based on certain proportion of risky asset balances. General provision rate is determined based on the overall consideration of risk factors undertaking by financial institutions. In principle, general provision balances shall not be lower than 1% of total risky asset balances at year end. In accordance with the relevant requirements, financial institutions provide general provision as a treatment of profit appropriations. General provision is a component of equity. According to Cai Jin [2005] No. 90 "Notices from Ministry of Finance relating to impairment provisions", adequate general provision should be made by financial institutions within three years, and not exceeding five years. In this regard, the Company decides to provide for the adequate general provision on a yearly basis.

30 b) Profit Appropriations for the Year

Pursuant to a board resolution on 30 March 2006, appropriations based on 10% and 5% of the net profit as reported in the Company's statutory financial statements of the year were proposed and made to the statutory surplus reserve and statutory public welfare fund respectively. The above proposed appropriations are pending for approval from shareholders at the forthcoming annual general meeting.

Pursuant to a board resolution on 23 April 2005, appropriations based on 10% and 5% of the net profit as reported in the Company's statutory financial statements for the financial year 2004 were proposed and made to the statutory surplus reserve and statutory public welfare fund respectively. The appropriations were approved at the Company's annual general meeting held on 17 June 2005.

Pursuant to a board resolution on 30 March 2006, appropriation to general reserve for the year 2005 was RMB 200,000,000.

Pursuant to a board resolution on 23 April 2005, appropriation to general reserve for the year 2004 was RMB 57,954,855. The appropriations were approved at the Company's annual general meeting held on 17 June 2005.

30 c) Profit Appropriation Adjustment Arising from the Changes in Accounting Policy of the Statutory Financial Statements

In line with the normal banking practice in the PRC, the Company set the cut-off date for loan interest income and deposit interest expenses at the twentieth day of each month in previous years. Pursuant to the resolution of Board of Directors dated 30 March 2006, the Company adopted retrospectively the new accounting policy of accruing loan interest income and deposit income expenses to last day of each month. The Board of Directors considered that the above changes would provide more reliable and relevant information in respect of the financial position and operation results of the Company in the financial statements and be consistent with international practices. The Company will continue the application of this new accounting policy in future.

The Company has adopted retrospective application in respect of the above mentioned changes in accounting policy. The related adjustments on opening balances of the year and comparative figures are as follows.

ITEMS *In RMB*	Increased by
Statutory surplus reserve	4,965,200
Statutory public welfare fund	2,482,600
General reserve	9,930,398
Total	17,378,198

31 Retained Earnings

These financial statements are prepared in accordance with the accounting policies set out in Note 3 of the financial statements. These financial statements are not the statutory financial statements of the Company and are prepared for readers' reference only.
In accordance with "Accounting System for Financial Enterprises" and Cai Jin [2005] No. 49 "Administration of impairment provision for financial institutions", the Company should make appropriations to the statutory surplus reserve, statutory public welfare fund and general reserve prior to dividend payments and making appropriations to the discretionary surplus reserve.

Effective 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 China Securities Regulatory Commission, listed financial institutions 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 dividend payments 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.

32 Note to the Statement of Cash Flows

In RMB	**31 December 2005**	31 December 2004 (Restated)
Profit before tax	**571,123,311**	574,401,565
Adjustments to reconcile profit before tax to cash flow arising from operating activities		
NON-CASH ITEMS INCLUDED IN PROFIT BEFORE TAX AND OTHER ADJUSTMENTS		
Depreciation of property and equipment	**312,986,562**	319,219,787
Impairment provision for loans	**2,135,196,728**	2,195,503,121
Interest income for impaired loans	**(429,334,567)**	(408,617,548)
Impairment provisions for other assets	**96,670,634**	66,316,352
Provision against litigation claims	**48,328,799**	16,841,474
Amortisation of long term prepayments	**18,110,801**	11,641,697
Unrecognised net trading (gain)/loss from financial assets/liabilities at fair value through profit or loss	**(2,318,989)**	9,878,638
Loss/(gain) on disposal of property and equipment	**2,259,682**	(2,637,683)
Interest income from available-for-sale debt investments	**(783,258,494)**	(756,095,955)
Dividend income from investment securities	**(766,503)**	(170,334)
Gain on disposal of investment securities	**(111,475,992)**	(23,643,664)
Revaluation gain for investment properties	**12,403,424**	–
NET DECREASE/(INCREASE) IN OPERATING ASSETS		
Deposits reserves with the Central Bank	**(964,912,520)**	(2,289,143,599)
Due from banks	**(1,330,243,044)**	306,246,067
Interbank placements	**(566,365,600)**	(935,025,221)
Advances to non-bank financial institutions	**32,696,486**	500,912,434
Reverse repurchase agreements	**2,967,610,884**	(4,066,220,966)
Financial assets at fair value through profit or loss	**106,981,617**	227,862,995
Loans	**(30,489,326,832)**	4,345,667,413
Long term prepayments	**(6,908,849)**	(21,210,023)
Other assets	**(297,937,994)**	(107,319,762)
NET INCREASE/(DECREASE) IN OPERATING LIABILITIES		
Due to banks	**2,143,750,838**	(3,627,926,888)
Interbank borrowings	**(322,764,999)**	(1,406,555,401)
Repurchase agreements	**(12,728,526,489)**	(13,861,099,375)
Financial liabilities at fair value through profit or loss	**(311,565,108)**	878,464,472
Customer deposits	**35,109,247,495**	24,672,341,327
Inward and outward remittances	**(190,589,212)**	227,185,665
Other liabilities	**797,050,529**	85,654,630
Cash flows from operating activities	**(4,181,877,402)**	6,932,471,218

33 Derivative Financial 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 the current or expected risks.

In order to mitigate market risk for transactions entered into with customers, the Company enters into back-to-back contracts with external third parties and effectively transfers the Company's market risk exposure arising from the contracts to the third parties.

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

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

Interest rate swap contracts: 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.

The notional amount of a derivative is the basis upon which changes in the value of the derivative are measured. It provides an indication of the volume of business transacted by the Company but does not provide any measurement of risk.

Certain derivatives are standardised in terms of their nominal amounts and settlement dates, and these are designed to be bought and sold in active markets (exchange traded). Others are packaged specifically for individual customers and are not exchange traded although they may be bought and sold between counterparties at negotiated prices ("OTC instruments").

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

The following table presents the notional amounts and the fair values of the Company's derivative instruments:

	31 December 2005		
	Notional amount	Fair Value	
In RMB		Assets	Liabilities
DERIVATIVES HELD FOR TRADING			
Currency forwards	169,206,603	5,730,440	16,574
Interest rate swap contracts	586,327,114	–	16,156,418

	31 December 2004		
	Notional amount	Fair Value	
In RMB		Assets	Liabilities
DERIVATIVES HELD FOR TRADING			
Currency forwards	239,091,175	7,404,483	5,818,934
Interest rate swap contracts	944,285,854	188,837	8,911,832

34 Commitments and Contingent Liabilities

In RMB	31 December 2005	31 December 2004
Bank acceptance	83,953,929,355	66,963,251,636
Guarantees issued	2,678,281,381	2,885,660,362
Letters of credit issued	2,082,434,994	2,329,201,543
Loan commitment	2,231,843,238	1,599,298,914

Except the above and normal guarantees issuing business, the Company did not enter into any material guarantee events authorised by the board of directors.

Loan commitment represented the credit card facilities granted by the Company but not yet utilised. As at 31 December 2005, the credit facilities granted to other customers by the Company but not yet utilised amounted to RMB 80,828,157,822 (31 December 2004: RMB 84,926,815,029).

In September 2004, the Company received a letter from the Institutional Supervision Department of the China Securities Regulatory Commission requesting the Company to immediately return curtain deposit monies which were received from DeHeng Securities Company Limited. In January 2005, the Company received a letter again from the Institutional Supervision Department and the Listed Company Supervision Department of China Securities Regulatory Commission. In this letter, the Company was requested to repay monies amounting to RMB 421.5 million in aggregate relating to two securities companies, namely, DeHeng Securities Company Limited and China Southern Securities Company Limited, within a time limit of 20 days, otherwise, the Company would be subject to investigation action and administrative penalty. Based on the legal opinion from an independent third-party lawyer, the Company has no immediate legal obligation to make the payment of the above amount. Up to the date that the financial statements are authorised for issue, the Company has not yet returned the above amount and has not received any repayment requests from the securities companies. The Company has reported to China Securities Regulatory Commission and China Banking Regulatory Commission for resolution of this issue. Management considers that no provision for any liability that may result is necessary for the period.

35 Fiduciary Transactions

In RMB	**31 December 2005**	31 December 2004
Entrusted deposits	**6,642,519,490**	6,145,411,762
Entrusted loans	**6,642,519,490**	6,145,411,762

Entrusted deposits represent third-party lenders' deposits received for lending to borrowers designated by the third-party lenders. The credit risk remains with the third-party lenders.

36 Operating Lease Commitments

As at 31 December 2005 and 31 December 2004, the Company had minimum lease payments in respect of irrevocable operating leases to be paid as follows:

In RMB	**31 December 2005**	31 December 2004
Within one year	**252,521,980**	248,372,458
In the first year to fifth years, inclusive	**630,161,691**	600,334,250
Over five years	**388,206,093**	348,970,585
	1,270,889,764	1,197,677,293

37 Financial Instruments Risk Position

The Company engaged in a wide variety of financial instruments including derivatives. The Company accepts short term funding from customers deposits at both fixed and floating rates for various durations. The Company seeks to earn above average interest margins by investing in loans to borrowers which carry longer terms with a range of credit standings whilst maintaining sufficient liquidity to meet all claims that might fall due.

Credit risk

Credit risk is the risk of loss from default by an obligor or counterparty when a payment falls due. In general, commercial banks will face this risk in their business operations, including loans and advances to customers, issuance of letters of credit, bank acceptances and guarantees. Other business operations such as inward and outward remittances, bills discounting and money market trading also have such credit risk.

During the credit process, borrowers may be unable to repay the loan principals and interests on time, which may result in overdue loans. Consequently, part of the overdue loans may become uncollectible and impairment provision may be required. This will affect the operating results of the Company.

Credit risk is often greater when counterparties are concentrated in a single industry or geographic location or have similar characteristics. A group of otherwise unrelated counterparties could be adversely affected in their ability to meet their obligations due to economic developments affecting their common industry or location.

All the loans of the Company are within the PRC, and major off balance sheet items such as bank acceptances are also related to the local customers. However, different areas in the PRC have their own unique characteristics in terms of economic development. Therefore, each area in the PRC could present different credit risk. For the geographical concentration of the above business, please refer to Note 4 for details. Loan customers of the Company are of different industries. Please refer to this note below for an analysis of concentration of loans by industries.

The Company controls the credit risk level of each borrower by setting a maximum risk limit. This type of risk is under regular reviews and monitor. Furthermore, the Company will, if necessary, adjust the facility limit to control the credit exposure according to the regular analysis on borrower's interest and principal repayment ability. The Company also obtains personal or corporate guarantees or collaterals to reduce the credit exposure to a certain extent.

The Company's derivative-related credit risks depend on whether the counterparty is able to settle all the amounts due according to the contractual terms of transactions. The fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable parties. The Company subjects its derivatives-related credit risks to the same credit approval and monitoring standards that it uses for managing other transactions that create credit exposure.

As at 31 December 2005, outstanding loan balances made to corporations and consumers by industry are as follows:

INDUSTRY *In RMB*	**RMB**	**Foreign currency**	**Total**	**%**
Agriculture, husbandry and fisheries	1,410,870,000	33,572,032	1,444,442,032	1
Manufacture	45,933,346,334	1,185,028,168	47,118,374,502	30
Construction	11,113,760,000	253,000,770	11,366,760,770	7
Commercial	24,892,339,520	1,753,493,056	26,645,832,576	17
Real estate	10,367,619,105	259,941,142	10,627,560,247	7
Transportation and communications	12,061,030,000	91,919,578	12,152,949,578	8
Public utilities	7,022,120,000	40,996,616	7,063,116,616	5
Social services	17,383,330,000	504,468,202	17,887,798,202	11
Others, primarily conglomerates and government related entities	21,790,136,800	6,052,650	21,796,189,450	14
	151,974,551,759	4,128,472,214	156,103,023,973	100

As at 31 December 2004, outstanding loan balances made to corporations and consumers by industry are as follows:

INDUSTRY *In RMB*	RMB	Foreign currency	Total	%
Agriculture, husbandry and fisheries	1,274,950,000	43,950,000	1,318,900,000	1
Manufacture	32,124,286,795	1,400,220,000	33,524,506,795	27
Construction	10,349,630,000	25,820,000	10,375,450,000	8
Commercial	16,643,969,279	1,311,990,000	17,955,959,279	14
Finance and insurance	513,240,000	-	513,240,000	–
Real estate	14,322,617,167	317,820,000	14,640,437,167	12
Transportation and communications	13,308,420,000	273,710,000	13,582,130,000	11
Public utilities	5,325,880,000	43,530,000	5,369,410,000	4
Social services	12,276,640,000	577,290,000	12,853,930,000	10
Others, primarily conglomerates and government related entities	15,640,140,000	421,360,000	16,061,500,000	13
	121,779,773,241	4,415,690,000	126,195,463,241	100

As at 31 December 2005, the total loan balances of the ten largest loan customers amounted to RMB 5.96 billion or 3.8% of the total loan balances of the Company. The ten largest customers are: Shenzhen Finance Service Center, Shenzhen CITIC City Plaza Investment Co., Ltd, Beijing Hyundai Motor Co., Ltd, Minmetals Steel Co., Ltd, Beijing Land Use Right Reserve Center, China Petrochemical Corporation, Yiqi Haima Motor Co., Ltd, Zhejiang Shunfeng Traffic Group Corporation, Jiangsu Shagang Group Co., Ltd and Sinochem Corporation.

Except for the above customers, China State-owned Enterprise Investment Co., Zhongshang Trade and Cooperation Co., Zhongcai Assets Management Co. and Shouchuang Network Co. are of the same series of borrowings. The total exposure of these four customers is RMB 1.5 billion as at 31 December 2005.

Currency risk

The Company is established and operates in the PRC, with Renminbi ("RMB") as its presentation and functional currency. The major foreign currency in which the Company transacts is US dollar ("USD"). The exchange rate between USD and RMB is subject to the administration of the Central Bank and hence fluctuates within a narrow range, as it does throughout the year. The Company's loans and advances are mainly denominated in RMB with the remaining mainly in USD. However, some of the Company's deposits and investments are in currencies other than RMB and USD. In order to manage these currency risks, the Company entered into foreign currency hedging transactions between such currencies and USD.

From 21 July 2005 onwards, the Central Bank pursues a more flexible, market-based foreign exchange system, of which the RMB exchange rate is reference to a basket of currencies. The exchange rate of USD to RMB was then adjusted to US$1:RMB 8.11. Currently, the USD/RMB exchange rate in the interbank market maintains a spread of 0.3 basis points from the middle price of USD/RMB exchange rates announced by the Central Bank. The exchange rates of other foreign currencies (other than USD) are traded within certain ranges from the respective middle exchange rates announced by the Central Bank. Management considers the above change in exchange rates does not have a material impact to the Company's financial position as a whole.

Below is a breakdown of the relevant assets and liabilities by currency:

	31 December 2005			
In RMB	RMB	USD	Others	Total
ASSETS				
Cash on hand	632,690,955	66,275,634	89,025,831	787,992,420
Due from the Central Bank	20,680,980,595	186,487,701	104,236,729	20,971,705,025
Due from banks	4,232,936,055	1,858,872,850	487,621,051	6,579,429,956
Interbank placements	1,814,090,000	395,439,800	995,995,050	3,205,524,850
Advances to non-bank financial institutions	71,300,000	6,458,282	1,667,754	79,426,036
Reverse repurchase agreements	8,665,334,290	–	–	8,665,334,290
Financial assets at fair value through profit or loss	–	816,788,838	36,533,646	853,322,484
Loans	146,031,203,817	2,919,315,789	919,952,874	149,870,472,480
Investments	25,334,932,918	862,058,360	158,793,492	26,355,784,770
Other assets	4,779,287,355	191,272,172	29,006,023	4,999,565,550
Total assets	212,242,755,985	7,302,969,426	2,822,832,450	222,368,557,861
LIABILITIES				
Due to banks	9,047,711,492	1,296,813,808	124,708,816	10,469,234,116
Interbank borrowings	–	–	–	–
Customer deposits	193,656,547,955	4,804,211,901	2,351,499,625	200,812,259,481
Repurchase agreements	782,183,902	387,369,600	–	1,169,553,502
Financial liabilities at fair value through profit or loss	–	627,414,800	67,817,610	695,232,410
Inward and outward remittances	781,576,056	123,562,306	98,403,161	1,003,541,523
Tax payable	381,599,128	–	–	381,599,128
Dividends payable	23,441,268	–	–	23,441,268
Other liabilities	2,672,481,977	49,770,382	13,277,541	2,735,529,900
Total liabilities	207,345,541,778	7,289,142,797	2,655,706,753	217,290,391,328
Net assets	4,897,214,207	13,826,629	167,125,697	5,078,166,533

Notes to the Financial Statements

	31 December 2004 (Restated)			
In RMB	RMB	USD	Others	Total
ASSETS				
Cash on hand	528,272,490	82,058,415	92,750,689	703,081,594
Due from the Central Bank	17,581,883,161	217,155,967	605,166,998	18,404,206,126
Due from banks	3,360,196,016	1,215,089,034	582,536,137	5,157,821,187
Interbank placements	1,096,566,400	1,473,217,000	19,374,600	2,589,158,000
Advances to non-bank financial institutions	29,339,030	37,803,803	35,151,545	102,294,378
Reverse repurchase agreements	11,631,472,960	–	–	11,631,472,960
Financial assets at fair value through profit or loss	–	926,882,765	32,172,765	959,055,530
Loans	116,165,087,563	3,448,190,580	1,470,625,283	121,083,903,426
Investments	30,139,920,290	966,135,250	518,304,313	31,624,359,853
Other assets	5,222,427,324	202,126,843	38,078,498	5,462,632,665
Total assets	185,755,165,234	8,568,659,657	3,394,160,828	197,717,985,719
LIABILITIES				
Due to banks	7,631,637,154	647,776,385	46,069,739	8,325,483,278
Interbank borrowings	239,999,999	82,765,000	–	322,764,999
Customer deposits	157,647,185,479	5,199,040,515	2,856,785,992	165,703,011,986
Repurchase agreements	13,898,079,991	–	–	13,898,079,991
Financial liabilities at fair value through profit or loss	–	787,102,463	220,765,473	1,007,867,936
Inward and outward remittances	1,087,467,694	26,528,546	80,134,495	1,194,130,735
Tax payable	304,704,071	–	–	304,704,071
Dividends payable	23,571,856	–	–	23,571,856
Other liabilities	2,574,627,920	16,749,113	6,090,964	2,597,467,997
Total liabilities	183,407,274,164	6,759,962,022	3,209,846,663	193,377,082,849
Net assets	2,347,891,070	1,808,697,635	184,314,165	4,340,902,870

Interest rate risk

The table below summarises the contractual repricing or maturity date, whichever is earlier, of the Company's financial assets and liabilities at 31 December 2005:

In RMB	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Overdue/Non-interest bearing	Total
ASSETS										
Cash on hand	–	–	–	–	–	–	–	–	787,992,420	**787,992,420**
Due from the Central Bank and other banks	23,933,768,128	940,351,000	2,042,912,001	–	–	–	–	–	634,103,852	**27,551,134,981**
Interbank placements	1,627,936,050	–	1,557,428,600	–	–	–	–	–	20,160,200	**3,205,524,850**
Advances to non-bank financial institutions	–	–	–	–	–	–	–	–	79,426,036	**79,426,036**
Reverse repurchase agreements	5,952,992,740	2,288,169,336	400,000,000	–	–	–	–	–	24,172,214	**8,665,334,290**
Financial assets at fair value through profit or loss	143,306,028	233,170,129	157,756,270	–	–	69,000,210	–	–	250,089,847	**853,322,484**
Loans	29,260,830,466	33,312,028,480	72,088,485,911	1,795,623,082	815,179,996	30,968,295	634,385,762	1,611,845,113	10,321,125,375	**149,870,472,480**
Investments	1,006,807,244	3,519,638,939	10,609,425,746	2,936,593,338	3,221,419,922	1,579,234,806	576,557,100	2,711,520,106	194,587,569	**26,355,784,770**
Other assets	–	–	–	–	–	–	–	–	4,999,565,550	**4,999,565,550**
Total assets	61,925,640,656	40,293,357,884	86,856,008,528	4,732,216,420	4,036,599,918	1,679,203,311	1,210,942,862	4,323,365,219	17,311,223,063	**222,368,557,861**
LIABILITIES										
Due to banks	9,346,663,248	327,737,718	794,833,150	–	–	–	–	–	–	**10,469,234,116**
Interbank borrowings	–	–	–	–	–	–	–	–	–	**–**
Customer deposits	151,377,240,441	15,363,516,232	30,963,890,130	2,372,128,188	576,970,988	88,973,108	69,540,394	–	–	**200,812,259,481**
Repurchase agreements	559,240,000	–	610,313,502	–	–	–	–	–	–	**1,169,553,502**
Financial liabilities at fair value through profit or loss	193,010,132	194,398,657	298,392,417	–	–	–	–	–	9,431,204	**695,232,410**
Other liabilities	–	–	–	–	–	–	–	–	4,144,111,819	**4,144,111,819**
Total liabilities	161,476,153,821	15,885,652,607	32,667,429,199	2,372,128,188	576,970,988	88,973,108	69,540,394	–	4,153,543,023	**217,290,391,328**
Net assets	(99,550,513,165)	24,407,705,277	54,188,579,329	2,360,088,232	3,459,628,930	1,590,230,203	1,141,402,468	4,323,365,219	13,157,680,040	**5,078,166,533**

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The table below summarises the contractual repricing or maturity date, whichever is earlier, of the Company's financial assets and liabilities at 31 December 2004:

In RMB	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Overdue/Non-interest bearing	Total
ASSETS										
Cash on hand	–	–	–	–	–	–	–	–	703,081,594	703,081,594
Due from the Central Bank and other banks	22,588,360,467	494,221,815	430,378,000	–	–	–	–	–	49,067,031	23,562,027,313
Interbank placements	1,614,578,600	715,848,000	218,000,000	–	–	–	–	–	40,731,400	2,589,158,000
Advances to non-bank financial institutions	–	–	–	–	–	–	–	–	102,294,378	102,294,378
Reverse repurchase agreements	8,109,004,066	2,602,468,894	894,000,000	–	–	–	–	–	26,000,000	11,631,472,960
Financial assets at fair value through profit or loss	164,545,097	269,291,652	159,246,613	32,152,829	–	–	76,797,644	–	257,021,695	959,055,530
Loans	7,840,258,595	23,303,046,245	57,683,134,651	6,450,999,654	2,972,198,351	1,165,647,835	1,332,612,302	12,308,266,428	8,027,739,365	121,083,903,426
Investments	1,156,943,075	6,904,649,824	10,048,932,375	2,750,832,924	4,003,249,550	1,826,318,243	1,678,467,046	3,032,519,596	222,447,220	31,624,359,853
Other assets	–	–	–	–	–	–	–	–	5,462,632,665	5,462,632,665
Total assets	41,473,689,900	34,289,526,430	69,433,691,639	9,233,985,407	6,975,447,901	2,991,966,078	3,087,876,992	15,340,786,024	14,891,015,348	197,717,985,719
LIABILITIES										
Due to banks	8,259,271,278	24,829,500	41,382,500	–	–	–	–	–	–	8,325,483,278
Interbank borrowings	322,764,999	–	–	–	–	–	–	–	–	322,764,999
Customer deposits	124,515,536,904	11,140,951,316	27,856,284,576	1,660,761,210	305,892,084	88,820,059	134,765,837	–	–	165,703,011,986
Repurchase agreements	10,635,600,000	1,750,196,146	1,468,903,845	43,380,000	–	–	–	–	–	13,898,079,991
Financial liabilities at fair value through profit or loss	331,572,083	230,896,441	404,469,454	–	–	–	24,653,211	–	16,276,747	1,007,867,936
Other liabilities	–	–	–	–	–	–	–	–	4,119,874,659	4,119,874,659
Total liabilities	144,064,745,264	13,146,873,403	29,771,040,375	1,704,141,210	305,892,084	88,820,059	159,419,048	–	4,136,151,406	193,377,082,849
Net assets	(102,591,055,364)	21,142,653,027	39,662,651,264	7,529,844,197	6,669,555,817	2,903,146,019	2,928,457,944	15,340,786,024	10,754,863,942	4,340,902,870

The table below summarises the fixed rate and floating rate exposure of the Company's financial assets and financial liabilities:

In RMB	31 December 2005 Fixed interest rate	Floating interest rate	Overdue/Non-interest bearing	Total	31 December 2004 Fixed interest rate	Floating interest rate	Overdue/Non-interest bearing	Total
FINANCIAL ASSETS								
Due from the Central Bank	20,816,091,551	–	155,613,474	20,971,705,025	18,392,974,126	-	11,232,000	18,404,206,126
Due from banks	5,226,345,091	874,594,487	478,490,378	6,579,429,956	4,234,094,544	885,891,612	37,835,031	5,157,821,187
Interbank placements	3,185,364,650	–	20,160,200	3,205,524,850	2,548,426,600	-	40,731,400	2,589,158,000
Advances to non-bank financial institutions	–	–	79,426,036	79,426,036	-	-	102,294,378	102,294,378
Reverse repurchase agreements	8,641,162,076	–	24,172,214	8,665,334,290	11,605,472,960	-	26,000,000	11,631,472,960
Financial assets at fair value through profit or loss	54,961,487	548,271,149	250,089,848	853,322,484	293,366,617	408,667,218	257,021,695	959,055,530
Loans	103,958,288,331	35,591,058,774	10,321,125,375	149,870,472,480	107,291,020,685	5,765,143,376	8,027,739,365	121,083,903,426
Investments	18,455,855,395	7,705,341,808	194,587,567	26,355,784,770	24,732,333,722	6,669,578,911	222,447,220	31,624,359,853
FINANCIAL LIABILITIES								
Due to banks	10,469,234,116	–	–	10,469,234,116	8,325,483,278	-	-	8,325,483,278
Interbank borrowings	–	–	–	–	322,764,999	-	-	322,764,999
Customer deposits	187,976,259,481	12,836,000,000	–	200,812,259,481	154,867,011,986	10,836,000,000	-	165,703,011,986
Repurchase agreements	1,169,553,502	–	–	1,169,553,502	13,898,079,991	-	-	13,898,079,991
Financial liabilities at fair value through profit or loss	451,256,177	234,545,029	9,431,204	695,232,410	742,886,941	248,704,248	16,276,747	1,007,867,936

The RMB interest rates are set by the Central Bank in the PRC. The Company is required to apply the interest rates set by the Central Bank for its loans and advances and deposit activities. The Central Bank adjusted the interest rates on 21 February 2002. On 29 October 2004, the Central Bank further adjusted the interest rates. The interest rates for the relevant periods for the following types of loans, advances and deposits are as follows:

	Since 29 October 2004 Annual rate (%)	Since 21 February 2002 Annual rate (%)
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
Overdue loans	From 30% to 50% above the contract rate (after 1 January 2004)	Daily rate of 0.021%
Personal and corporate savings deposits	0.72	0.72
Negotiation deposits	1.44	1.44
Fixed deposits (3 months to 5 years)	1.71 to 3.60	1.71 to 2.79
Corporate call deposits (1 day or 7 days)	1.08 or 1.62	1.08 or 1.62
BALANCES WITH THE CENTRAL BANK		
Deposits	1.89	1.89
Re-discounted bills	3.24 (after 25 March 2004)	2.97 (after September 2001)

In accordance with the regulations of the Central Bank, since 1 January 2004, the allowable ceiling and floor for loans have been set at 70% above and 10% below the applicable interest rates, respectively. Subsequently, effective from 29 October 2004, there is no ceiling for loan interest rate but the allowable floor remains unchanged. Furthermore, the deposit rate is allowed to move below the benchmark, i.e., all deposit-taking institutions have the discretion to adjust their RMB deposit rates below (but not above) the benchmark rates.

A spread above the interest rate charged by the Central Bank on re-discounted bills is allowed to be charged to the customer discounted bills.

Interest rates on interbank placements and borrowings are determined by the market.

Effective from 17 March 2005, the interest rate of non-statutory reserve deposited with Central Bank by financial institutions decreased from 1.62% to 0.99%. The interest rate of statutory reserve remains at 1.89%. Interest rates of the interbank deposits are determined by the market.

Liquidity risk

Liquidity represents the ability to realise assets under normal circumstances without deterioration in value. When the future demand of customer loans increases significantly, the demand for higher liquidity will increase. When the amount of customer deposits decreases significantly, or the maturity of loans is too long, or the Company has difficulties in collecting loans, the liquidity of the Company may be adversely affected. The liquidity of the Company will also be affected by the fluctuation in interest rates. The Company monitors its liquidity risk in accordance with the maturity of its assets and liabilities, implements liquidity risk management policies and procedures, including loans to deposits ratio management, reserve ratio management and early warning system on material fundings movement, etc. In addition, the Company is required to deposit 8% of its total deposits denominated in RMB and 3% of deposits denominated in foreign currencies with the Central Bank.

A maturity analysis of assets and liabilities of the Company as at 31 December 2005 was as follows:

In RMB	Overdue	Current	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
ASSETS							
Cash on hand	–	787,992,420	–	–	–	–	787,992,420
Due from the Central Bank and other banks	13,800,000	22,673,802,810	2,820,620,171	2,042,912,000	–	–	27,551,134,981
Interbank placements	20,160,200	–	1,627,936,050	1,557,428,600	–	–	3,205,524,850
Advances to non-bank financial institutions	79,426,036	–	–	–	–	–	79,426,036
Reverse repurchase agreements	24,172,214	–	8,241,162,076	400,000,000	–	–	8,665,334,290
Financial assets at fair value through profit or loss	–	–	36,823,568	–	299,247,517	517,251,399	853,322,484
Loans	10,321,125,375	255,368,399	48,939,716,038	62,529,338,361	10,585,327,983	17,239,596,324	149,870,472,480
Investments	–	–	2,796,952,812	4,832,894,000	10,800,975,582	7,924,962,376	26,355,784,770
Other assets	944,307,043	–	323,422,449	206,348,524	90,023,277	3,435,464,257	4,999,565,550
Total assets	11,402,990,868	23,717,163,629	64,786,633,164	71,568,921,485	21,775,574,359	29,117,274,356	222,368,557,861
LIABILITIES							
Due to banks	–	8,886,263,848	460,399,400	1,122,570,868	–	–	10,469,234,116
Interbank borrowings	–	–	–	–	–	–	–
Customer deposits	–	135,223,051,637	26,390,805,534	30,710,300,321	8,488,101,989	–	200,812,259,481
Repurchase agreements	–	–	559,240,000	610,313,502	–	–	1,169,553,502
Financial liabilities at fair value through profit or loss	–	–	60,662,513	92,333,225	495,513,508	46,723,164	695,232,410
Inward and outward remittances	–	1,003,541,523	–	–	–	–	1,003,541,523
Tax payable	–	–	–	381,599,128	–	–	381,599,128
Dividends payable	–	23,441,268	–	–	–	–	23,441,268
Other liabilities	–	1,171,537,538	1,006,054,739	395,847,322	162,090,301	–	2,735,529,900
Total liabilities	–	146,307,835,814	28,477,162,186	33,312,964,366	9,145,705,798	46,723,164	217,290,391,328
Net assets	11,402,990,868	(122,590,672,185)	36,309,470,978	38,255,957,119	12,629,868,561	29,070,551,192	5,078,166,533

A maturity analysis of assets and liabilities of the Company as at 31 December 2004 was as follows:

In RMB	Overdue	Current	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
ASSETS							
Cash on hand	–	703,081,594	–	–	–	–	703,081,594
Due from the Central Bank and other banks	33,980,000	22,520,682,498	576,986,815	430,378,000	–	–	23,562,027,313
Interbank placements	40,731,400	–	2,330,426,600	218,000,000	–	–	2,589,158,000
Advances to non-bank financial institutions	102,294,378	–	–	–	–	–	102,294,378
Reverse repurchase agreements	26,000,000	–	10,711,472,960	894,000,000	–	–	11,631,472,960
Financial assets at fair value through profit or loss	–	–	83,085,417	1,257,410	308,855,021	565,857,682	959,055,530
Loans	8,027,739,365	156,489,333	27,873,178,753	57,402,355,696	14,446,340,140	13,177,800,139	121,083,903,426
Investments	–	–	5,493,130,145	5,986,860,142	12,000,545,878	8,143,823,688	31,624,359,853
Other assets	621,621,083	–	371,448,099	393,856,798	56,070,700	4,019,635,985	5,462,632,665
Total assets	8,852,366,226	23,380,253,425	47,439,728,789	65,326,708,046	26,811,811,739	25,907,117,494	197,717,985,719
LIABILITIES							
Due to banks	–	8,201,335,778	82,765,000	41,382,500	–	–	8,325,483,278
Interbank borrowings	–	–	322,764,999	–	–	–	322,764,999
Customer deposits	–	107,431,636,434	25,708,851,787	20,836,284,576	11,726,239,189	–	165,703,011,986
Repurchase agreements	–	–	12,385,796,146	1,468,903,845	43,380,000	–	13,898,079,991
Financial liabilities at fair value through profit or loss	–	–	186,366,143	34,235,189	748,631,903	38,634,701	1,007,867,936
Inward and outward remittances	–	1,194,130,735	–	–	–	–	1,194,130,735
Tax payable	–	–	–	304,704,071	–	–	304,704,071
Dividends payable	–	23,571,856	–	–	–	–	23,571,856
Other liabilities	–	486,518,416	536,807,468	1,527,262,791	46,879,322	–	2,597,467,997
Total liabilities	–	117,337,193,219	39,223,351,543	24,212,772,972	12,565,130,414	38,634,701	193,377,082,849
Net assets	8,852,366,226	(93,956,939,794)	8,216,377,246	41,113,935,074	14,246,681,325	25,868,482,793	4,340,902,870

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 other financial assets and financial liabilities maturing within 12 months is assumed to be approximately equal to their carrying amount.

iv. The fair value of fixed rate loans is estimated by comparing the market interest rates when the loans are granted with the current market rates offered on similar loans. Changes in 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. 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 calculating of the fair value of the Company's assets and liabilities. However, other institutions may use different assumptions and methods for calculation, and therefore the fair values disclosed by different financial institutions may not be entirely comparable.

Loans, investments and customer deposits are the major assets and liabilities of the Company. In the opinion of the management, the difference between the fair values and the carrying amounts of the loans, investments and customer deposits arising from the changes in interest rate and other factors would not be material at the year end.

After considering the above factors and the impairment provisions on loans and other assets, in the opinion of the management, there is no material difference between the fair value and the carrying amount of the assets and liabilities of the Company.

38 Related Party Relationships and Transactions

Details of the Company's major shareholder are as follows:

		Equity interest held	
NAME	Place of registration	**31 December 2005**	31 December 2004
Newbridge Asia AIV III, L. P.	Delaware, USA	**17.89%**	17.89%

The ultimate controlling parties of Newbridge Asia AIV III, L. P. are Mr David Bonderman, Mr James G. Coulter, Mr William S. Price III and Mr Richard C. Blum.

As at 31 December 2005, the balance of accounts receivable from Newbridge Asia AIV III, L. P. was RMB 40,000 (31 December 2004: Nil) representing the announcement fee for the equity takeover, which is paid by the Company on behalf of Newbridge Asia AIV III, L. P. (received in March 2006).

In addition, Mr Richard C. Blum is one of the ultimate controlling parties of Newbridge Asia AIV III, L. P. and has the significant influence over both the Company and CB Richard Ellis Limited ("CBRE"). According to the contract signed between the Company and CBRE, CBRE provided real estate agency services to the Company during the year. The Company has paid CBRE services fee amounting to HK$2,675,153.

Details of the Company's subsidiary are as follows:

NAME *In RMB*	Place of registration	Registered capital	Equity interest held by the Company	Principal activity
Shenzhen Yuan Sheng Industrial Co., Ltd.	Shenzhen, the PRC	21,010,000	100%	Real estate

The related party transactions between the Company and the key management during the year are listed below:

LOANS *In RMB*	**2005**	2004
Balances at beginning of year	**600,000**	645,000
Drawdown during the year	**3,130,000**	900,000
Repayment during the year	**(1,017,333)**	(945,000)
Balances at end of year	**2,712,667**	600,000
Loan interest income	**121,454**	86,188

The above loans are mortgage loans with an annual interest rate of 1.8% to 5.265%. As at 31 December 2005, no impairment provision was made against the above loans.

DEPOSITS

In RMB	2005	2004
Balances at beginning of year	5,248,882	4,228,225
Granted during the year	27,980,471	26,425,316
Repayment during the year	(23,737,505)	(25,404,659)
Balances at end of year	9,491,848	5,248,882
Deposits interest expenses	44,219	49,681

The above deposit transactions are under normal business terms and conditions and were being processed under normal procedures.

Details of the compensations for key management are as follows:

In RMB	2005	2004
Salaries and other short term employee benefits	32,354,469	7,892,196
Post-employment benefits	–	–
Other long term employee benefits	–	–
Termination benefits	–	–
Share-based payment benefits	–	–
	32,354,469	7,892,196

Other related party transactions:
On 28 September 2005, the Company entered into the "Equity Purchases Agreement" with GE Capital International Financing Corporation ("GECIFC"). Pursuant to the terms set forth in this agreement, after the approval of the related governing department and the shareholders at annual general meeting, the Company will issue new shares to GECIFC at a price of RMB 5.247 per share. The total purchase price of the shares amounted to US$0.1 billion.

On 28 September 2005, the Company entered into the "Strategic Cooperation Agreement" with GE Capital Finance (China) Co. Ltd ("GECFCO"). Pursuant to this agreement, GECFCO will provide consultancy services to the Company's retail business in connection with risk management, operation, sales and marketing, system, strategy and financing. As for consumers financing, professional knowledge, such as product developments, system and marketing, funding techniques, risk management, operations and employee training will be provided. The agreement period is of five years.

Pursuant to the "Strategic Cooperation Agreement", the consultancy fees shall be calculated on a cost recovery basis, and shall be equal to 140% of the aggregate remuneration in line with the prevailing cost rates charged by international firms of similar services. Pursuant to this agreement, after five years from the date of the agreement, to the extent permitted by Applicable Laws (and subject to any required regulatory and shareholders' approvals), the Company's obligation to pay to GECFCO's entitlement of 85% of the accumulated professional consultant fees and 100% of the accumulated travel and accommodation costs shall be satisfied by the issuance of the Company's shares, otherwise be satisfied by cash with the entitlement of 100% of the accumulated professional consultant fees and 100% of the accumulated travel and accommodation costs. The annual budget for the consulting fees should be between US$2 million to US$4 million.

According to the invoice issued by GECFCO, the Company has recognized consultancy fees of US$1.25 million in the account of other liabilities.

GECIFC is a financial holding company registered in New York, USA. GECFCO is a wholly-owned foreign enterprise established in the PRC. GECIFC and GECFCO are both subsidiaries of General Electrics Co., Ltd.

Apart from the above transactions and the Company's interest in Shenzhen Yuan Sheng Company Limited as disclosed in Note 19 to the financial statements, the Company has no other material related party transactions.

39 Retirement Benefits

As stipulated by the government regulations, the Company is required to make contributions to the state retirement plan at rates ranging from 9% to 24% (2004: 9% to 24%) of the salaries of its staff.

40 Impact of IFRS Adjustments on Net Profit and Net Assets

In RMB	**Net profit for the year ended 31 December 2005**	**Net assets as at 31 December 2005**	Net profit for the year ended 31 December 2004 (Restated)	Net assets as at 31 December 2004 (Restated)
As reported in the financial statements prepared under PRC GAAP	**351,727,460**	**5,043,041,955**	294,569,669	4,734,314,280
Financial assets or liabilities at fair value through profit or loss	**544,603**	**(9,985,844)**	(1,126,482)	(10,530,447)
Available-for-sale investments	**250,000**	**2,643,889**	22,549,506	(486,991,940)
Write off set up costs for sub-branches	**4,175,000**	**(18,669,168)**	(5,325,000)	(22,844,167)
Accrual of short term investment interest income	**(41,264,424)**	**18,710,626**	59,975,050	59,975,050
Revaluation of investment properties	**11,804,274**	**52,733,087**	–	–
Exchange rate difference	**(43,002,702)**	**–**	–	–
Deferred tax impact	**2,259,090**	**(10,308,012)**	(40,119,396)	66,980,094
As reported in the financial statements	**286,493,301**	**5,078,166,533**	330,523,347	4,340,902,870

41 Litigation

As at 31 December 2005, the pending litigation against the Company involved claims amounted to RMB 182.47 million (31 December 2004: RMB 109.33 million). A provision of RMB 58.72 million (31 December 2004: RMB 30.39 million) has been provided as at 31 December 2005.

42 Post Balance Sheet Events

Up to the date that these financial statements are authorised for issue, there are no other significant post balance sheet events which require disclosure or adjustment to the financial statements.

43 Comparative Amounts

Certain amounts have been reclassified to conform to the current year's presentation.

Notes

Notes

Presentation format and contents of this annual report and the statutory annual report

This annual report is produced based on the contents of the statutory annual report plus additional information about our businesses. This annual report presentation format is re-arranged with an aim to provide greater transparency and to enable investors and user of this report more comprehensive information to understand the business and management of the Bank.

If investors want to have the statutory annual report announced on 1st April 2006, please download from the CSRC authorized website: http://www.cninfo.com.cn, or to obtain a copy from the board secretariat office of the Bank.

Forward-looking statements

This annual report includes forward-looking statements. All statements, other than statements of historical facts, that address activities, events or developments that the Bank expects or anticipates will or may occur in the future (including but not limited to projections, targets, estimates and business plans) are forward-looking statements. (The Bank's actual results or developments may differ materially from those indicated by these forward-looking statements as a result of various factors and uncertainties). The Bank makes the forward-looking statements referred to herein as at 15 May 2006 and undertakes no obligation to update these statements.

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