



**CHINA CONSTRUCTION BANK CORPORATION
ANNUAL REPORT 2004**

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1 Important Notice

- ◆ The Bank's Board of Directors and its directors severally and jointly accept responsibility for the truthfulness, accuracy and completeness of the contents of this annual report, and confirm that there are no false representations or misleading statements contained in, or material omissions from, this annual report.
- ◆ China Construction Bank Corporation's Annual Report 2004 was approved at the seventh meeting of the First Session of the Board of Directors.
- ◆ The financial statements contained in this annual report have been prepared as if the Bank had been in existence throughout the period from 1 January 2003 to 16 September 2004. The accounting policies adopted by the Bank are based on the Accounting Standards for Business Enterprises, *the Accounting Regulations for Financial Enterprises* (in 2001) issued by the Ministry of Finance ("MOF"), and other relevant regulations.

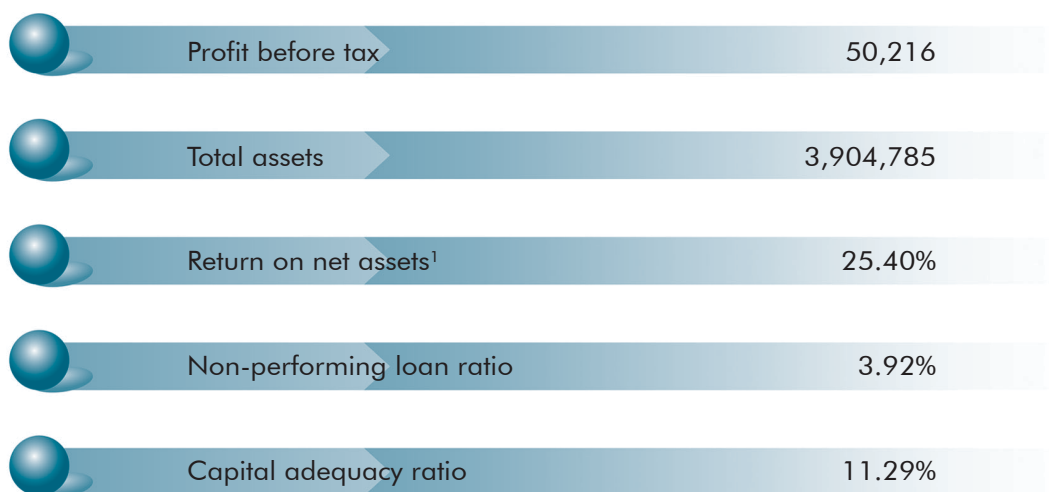
The previously issued statutory financial statements of CCB for the year ended 31 December 2003 include the income and expenses for the year then ended and the assets and liabilities as at the date of the businesses succeeded by both the Bank and Jianyin from CCB. These financial statements of CCB were prepared in accordance with accounting policies which conform to the Accounting Standards for Business Enterprises issued by the MOF (limited to those standards effective for all enterprises), *the Accounting Regulations for Financial Enterprises* issued by the MOF and the People's Bank of China ("PBOC") in 1993, and other relevant regulations. Due to the restructuring and the adoption of different accounting policies, the financial information contained in the statutory financial statements of the Bank for the year ended 31 December 2003 in this report are not comparable with the statutory financial statements of CCB for the same period.

- ◆ The Bank's financial statements for the year ended 31 December 2004 and comparatives for the year ended 31 December 2003 have been audited by KPMG Huazhen in accordance with China's Independent Auditing Standards of the Certified Public Accountants, who have issued a standard and unqualified auditors' report.

2 Financial Highlights

Summary of key financials and performance indicators for year 2004

(Expressed in millions of RMB)



¹ Return on net assets = Net profit / [(Net assets at the beginning of the year + Net assets at the end of the year) / 2] * 100%. The Bank's return on net assets for year 2004 reached 25.40%. Excluding the impact of income tax exemption relating to the restructuring, return on net assets was 17.28%.

Key financials and performance indicators for the two reporting years

(Expressed in millions of RMB)

	2004	2003
Operating income	126,953	113,985
Operating expenses	46,737	42,192
Profit before tax	50,216	37,473
Total assets	3,904,785	3,553,070
Loans	2,225,585	1,995,990
Total liabilities	3,710,041	3,366,840
Deposits	3,489,376	3,194,118
Shareholders'/ owner's equity	194,744	186,230
Return on assets ²	1.30%	0.70%
Loan to deposit ratio	63.78%	62.49%
Liquidity ratio	52.23%	44.07%
Cost to income ratio ³	39.17%	41.14%

² Return on assets = Net profit / [(Total assets at the beginning of the year + Total assets at the end of the year) / 2] * 100%. The Bank's return on assets for year 2004 was 1.30%. Excluding the impact of income tax exemption relating to the restructuring, return on assets was 0.88%.

³ Cost to income ratio = General and administrative expenses / (Net interest income + Non-interest income).



Chairman Guo Shuqing

3 Statement of the Chairman

2004 marked a historic milestone for the Bank.

At the end of 2003, a capital injection of US\$ 22.5 billion was received from China SAFE Investments Limited, previously known as Central Huijin Investment Co., Ltd. ("Huijin"), as part of the decision of the State Council of the People's Republic of China ("the State Council") to enhance the financial condition and competitiveness of the state-owned commercial banks. In September 2004, CCB was separated and China Construction Bank Corporation was incorporated into a joint stock company with limited liability. With the incorporation of the shareholding company, our modern corporate governance structure began to take shape as Shareholders' General Meetings were held and a Board of Directors and a Board of Supervisors were formed. We also established several Board Committees, including a Strategy and Nomination Committee, an Audit Committee, a Risk Management Committee, a Compensation and Evaluation Committee and a Related Party Transactions Committee. These achievements have demonstrated that we are fully committed to implementing international modern corporate governance practices.

2004 also marked the first year where the Bank has adopted *the Accounting Regulations for Financial Enterprises* issued (in 2001) by the MOF and the comparative figures have been restated accordingly. In particular, provisions on impaired assets, including loans and advances to customers, have been made where necessary and on a prudent and consistent basis with the newly established guidelines.

We are pleased to report that the Bank's profit before tax for 2004 reached RMB 50,216 million, an increase of RMB 12,743 million, or 34.0%, over the previous year. Operating costs were controlled through effective cost cutting measures. The cost to income ratio was lowered to 39.17%, a decrease of 1.97 percentage points compared to the previous year. Therefore, our strong financial performance has proved that we have not been steered away from our focus on sustaining a fundamentally sound and successful business.

The completion of the shareholding restructuring programme and continued efforts in maintaining and building a successful business will allow us to complete our long-term strategic goal of transforming the Bank into a modern and internationally competitive financial institution with adequate capital and sound and effective internal controls and operations, which strives for service excellence and delivering shareholder value. We shall continue to build and sustain the growth of our business by increasing our competitiveness through a customer focused strategy, enhancing our brand value, strengthening our capital base, improving the internal controls and risk management environment and investing in our operating capabilities and, most importantly, in our employees.

Finally, the Bank owes its past and future success to the hard work and efforts of every staff member. My sincere gratitude goes to our employees for their loyalty and dedication. I would also like to take this opportunity to express my appreciation to our customers, business partners, peers and the community for their continuing support and encouragement. I trust that we will be able to rely on your continued support and confidence in welcoming further success of the coming year!

Chairman

A stylized, handwritten signature in black ink, likely belonging to the Chairman mentioned in the text.



President Chang Zhenming

4 Statement of the President

Strong operating results in 2004 were largely attributable to our success in implementing a number of key strategic initiatives. Robust and steady growth was apparent, in particular with our deposit and lending business. This was achieved through effective marketing strategies to raise our overall brand profile and focus on delivering quality service. While maintaining our leading market positions in core products, we were active in exploiting new market opportunities, such as developing our strategic businesses, including credit card and foreign exchange, and electronic banking services with considerable success. We also sustained the rapid growth experienced in our intermediary services. We demonstrated our commitment to continuous product innovation with the launch of a number of new products, such as the pilot launch of the “Happy Investor” wealth management card and the bank-wide unified brand for our foreign exchange structured deposit products, “Profit from Exchange” (“汇得盈”). We became the first domestic commercial bank to launch an independent custodial banking system for securities settlement funds as part of our custodial services.

While a modern corporate governance framework was formed with the establishment of China Construction Bank Corporation, we have remained focused on strengthening our internal control and risk management environment. We believe that all key competencies are essential to executing our strategy and delivering financial performance on a sustained basis. By the end of 2004, our non-performing loan ratio fell to 3.92%. Improvement in the overall level of asset quality reflects our continued efforts to increase the capabilities and quality of our risk management. The Credit Risk Rating and Early Warning System was enhanced by incorporating modern techniques and measures, such as standardised credit risk ratings based on geographical regions, industries and customer types.

During 2004, initiatives were taken to improve the management of capital and the structure of the asset portfolio; we became the first amongst the domestic commercial banks to establish an economic capital driven risk and reward performance system and adopt economic capital budgeting. In 2004, the Bank issued a total of

RMB 40,000 million of subordinated bonds in three tranches in August, September and December which qualified as supplementary capital as approved by the China Banking Regulatory Commission ("CBRC"). Therefore, the capital adequacy ratio in 2004 was significantly strengthened to 11.29%.

By building on our competitive strengths, we plan to concentrate our resources and efforts in the following key strategic initiatives for the year 2005:

— *Continue to promote brand awareness and a customer focused strategy:*

We intend to maintain and enhance our leading position in key products and services, such as medium and long-term corporate lending as well as residential mortgages, by continuing our active marketing efforts to raise our overall brand profile. We shall also strive to capture significant growth opportunities in terms of target customer groups with growth and profit potential, fast developing businesses and geographical regions. We believe that continued focus on delivering service excellence and quality services will create a sustainable competitive edge. Service capabilities will be enhanced through further consolidation and rationalisation of our distribution channels and improved utilisation of alternative service delivery channels, such as electronic banking services. Customer relationship management will be improved by meeting and responding to customers' needs through innovative products and services.

— *Strengthen corporate governance to increase the effectiveness of our risk management capabilities:* Following the establishment of a modern corporate governance framework, our next step is to further improve our risk management system by implementing a number of measures. We are currently establishing a vertical reporting line for our risk management function that directly reports to the Chief Risk Officer. Independence of our internal controls will be improved by establishing an internal audit structure that reports directly to the Board of Directors and its Audit Committee, myself and the Board of Supervisors. We are also introducing advanced risk management tools to strengthen how we measure, control and manage risks inherent in our business as well as to enhance our ability to better price our products. In particular, our pilot trials of the Credit Risk Rating and Early Warning System for corporate borrowers have been successful and we intend to have the system gradually implemented throughout the bank. To improve our ability to control operational risks, we plan to start implementing our risk management platform project on a bank-wide basis in 2005.

— *Implement advanced information technology systems to support the development of our business operations:* We believe that sophisticated information technology systems are critical for us to effectively manage our business in an increasingly competitive environment. We intend to develop systems that will help improve our decision making process, client relationship management, operational management, credit risk management and asset and liability management. We are currently in the process of completing our core business processing systems to create an efficient and real-time operational platform.

— *Promote accountability and a performance-driven culture:* We recognise that our ability to compete largely depends on our ability to attract, retain and motivate high quality employees. We are refining the Economic Value Added performance evaluation system as a core management tool to measure the performance of our branches. Our Performance Assessment and Incentive System will be enhanced whereby our performance measurement tools will be centred around key performance indicators for our branch managers and other employees. Performance will be linked to our compensation system to establish a performance and shareholder value oriented corporate culture. Furthermore, we will maintain a number of on-going employee training programmes to improve and upgrade the skill sets of our senior management and key professionals.

Our success to date and a proven business model have built a solid strategic platform, and we recognise the challenges and opportunities ahead of us as a result of the shareholding restructuring programme. I believe that we can accomplish these goals with the continuing support and encouragement of our colleagues, customers, business partners and the community.

President

The image shows a handwritten signature in black ink. The signature is written in Chinese characters, which appear to be '王振明' (Wang Zhengming). The style is cursive and fluid, with the characters connected together. The signature is positioned to the right of the word 'President'.



Chairman of the Board of Supervisors Xie Duyang

5 Key Corporate Information

- 1 **Legal name in Chinese:** 中国建设银行股份有限公司
Legal name in English: CHINA CONSTRUCTION BANK CORPORATION
Abbreviated name in Chinese: 中国建设银行
Abbreviated name in English: CCB
- 2 **Registered address and office**
of the company: No. 25, Finance Street, Beijing, China
Postcode: 100032
Telephone: 86-10-67597114
Fax: 86-10-66212862
Internet website: www.ccb.cn
- 3 **Legal representative:** Guo Shuqing
- 4 **Secretary to the Board of**
Directors: Xuan Changneng
- 5 **Newspapers for information**
disclosure: Financial News, China Securities Journal
Annual report available at: The Office of China Construction Bank Corporation's Board of Directors
- 6 **Appointed auditor:** KPMG Huazhen
Registered address: 8th Floor, Tower E2, Oriental Plaza,
No.1, East Chang'an Avenue, Beijing
Postcode: 100738
- 7 **Other related information**
Date of registration: 17 September 2004
Place of registration: State Administration for Industry & Commerce of
the People's Republic of China
Business license registration
number: 1000001003912
Tax registration number: Jing Guo Shui Xi Zi No.110102100004447
Di Shui Jing Zi No.110102100004447000
- 8 **This report is produced in both Chinese and English versions. Should there be any discrepancies in interpretation between the two versions, the Chinese version will prevail.**

6 Shareholders' Information and Shareholders' General Meetings

6.1 Shareholders' information

As at the end of the reporting period, the Bank had a total of 5 shareholders, all of which were promoters.

Name of shareholder	Capital contribution (RMB '000)	Number of shares ('000)	Proportion	Legal representative	Registered capital (RMB '000)
China SAFE Investments Limited, previously known as Central Huijin Investment Co., Ltd. ⁴	165,538,000	165,538,000	85.228%	Guo Shuqing	372,465,000
China Jianyin Investment Limited	20,692,250	20,692,250	10.653%	Wang Jianxi	20,692,250
State Grid Corporation of China	3,000,000	3,000,000	1.545%	Liu Zhenya	200,000,000
Shanghai Baosteel Group Corporation	3,000,000	3,000,000	1.545%	Xie Qihua	45,800,000
China Yangtze Power Co., Ltd.	2,000,000	2,000,000	1.030%	Li Yongan	7,856,000
Total	194,230,250	194,230,250	100%		

⁴ On 19 April 2005, it was agreed at the tenth meeting of the Board of Directors of China SAFE Investments Limited that Mr. Guo Shuqing was to resign from the roles of director and Chairman of China SAFE Investments Limited.

China SAFE Investments Limited

China SAFE Investments Limited, previously known as Central Huijin Investment Co., Ltd., is an investment company wholly owned by the government of the People's Republic of China ("PRC") and was established with the approval of the State Council under the *PRC Company Law*. Huijin is wholly owned by the PRC government, which has designated Huijin to exercise the legal rights and obligations as a shareholder of certain core financial enterprises, including the Bank and Bank of China, on its behalf. Huijin was established to hold certain equity investment as authorised by the State Council and it does not engage in any other commercial business.

China Jianyin Investment Limited

China Jianyin Investment Limited ("Jianyin") is an investment company wholly owned by the PRC government as approved by the State Council. It has a registered capital of RMB 20,692 million and its principal activities are investment in enterprises, asset management and conducting other businesses as approved by the PRC government.

State Grid Corporation of China

State Grid Corporation of China ("State Grid") was founded based on businesses formally owned by State Power Corporation of China. The company was established and registered as a mega-sized state-owned enterprise with the approval of the State Administration for Industry and Commerce of the PRC. As a state-holding investment entity authorised by the State Council and a pilot wholly state-owned company with a registered capital of RMB 200,000 million, State Grid mainly engages in purchasing and selling power and trading and dispatching of power among grids in responsible areas. State Grid is also responsible for carrying out investment, construction and operation of power transformation and exchange across provinces, and is currently the largest domestic enterprise in the power industry.

Shanghai Baosteel Group Corporation

Shanghai Baosteel Group Corporation ("Shanghai Baosteel") is a state-holding investment entity authorised by the State Council and a pilot wholly state-owned company with a registered capital of RMB 45,800 million. The company is the largest and most modernised steel conglomerate offering the widest variety of products in China and has consistently ranked first in the domestic steel industry in recent years.

China Yangtze Power Co., Ltd.

China Yangtze Power Co., Ltd. ("Yangtze Power") was founded as a joint stock limited liability company by Three Gorges Project Corporation with five other entities: Huaneng Power International, Inc.; China National Nuclear Corporation; China National Petroleum Corporation; China Gezhouba Water Resources and Hydropower Engineering Group Co., Limited; and Changjiang Water Resource Commission's Changjiang Institute of Survey, Planning, Design and Research. The company has a registered capital of RMB 7,856 million and is the largest listed company engaging in hydroelectric generation in China. At the end of 2004, the company owned Gezhouba Hydroelectric Power Plant and the first 4 generator units in operation for the Three Gorges Project, and the total installed capacity was 5,515MW.

6.2 The notification, convening and holding of Shareholders' General Meetings

During the reporting period, the First Shareholders' General Meeting of the Bank was held in Beijing on 15 September 2004. The First and Second Extraordinary Shareholders' General Meetings of year 2004 were held in Beijing on 29 November 2004 and 27 December 2004 respectively. The three meetings were attended by shareholders and shareholders' proxies representing 194,230.25 million shares, equivalent to 100% of the total number of shares. The Shareholders' General Meetings have been notified, convened and held, and shareholders have voted, in accordance with the relevant requirements of *the PRC Company Law* and *the Articles of Association of China Construction Bank Corporation*.

6.3 Resolutions passed or vetoed at Shareholders' General Meetings

First Shareholders' General Meeting

The First Shareholders' General Meeting examined and approved the following proposals:

the Report on the Preparation for the Incorporation of China Construction Bank Corporation;

the Report on the Cost of the Incorporation of China Construction Bank Corporation;

the Proposal on the Incorporation of China Construction Bank Corporation and Capital Contribution of Promoters;

the Articles of Association of China Construction Bank Corporation;

the Proposal on the Election of the Members of the First Session of the Board of Directors of China Construction Bank Corporation;

the Proposal on the Election of the Members of the First Session of the Board of Supervisors of China Construction Bank Corporation;

the Rules and Procedures for Shareholders' General Meeting of China Construction Bank Corporation;

the Rules and Procedures for the Board of Directors of China Construction Bank Corporation;

the Rules and Procedures for the Board of Supervisors of China Construction Bank Corporation;

the Proposal on China Construction Bank Corporation's Appointment of Auditor;

the Proposal on the Authorisation for the Board of Directors of China Construction Bank Corporation to Register for the Business License; and

the Proposal on the Authorisation of the Board of Directors of China Construction Bank Corporation to sign "the Separation Agreement of China Construction Bank".

First Extraordinary Shareholders' General Meeting of year 2004

The First Extraordinary Shareholders' General Meeting of year 2004 examined and approved the following proposals:

the Proposal on the Amendments to "the Articles of Association of China Construction Bank Corporation";

the Proposal on the Examination of Amendments to the Rules and Procedures for the Board of Directors of China Construction Bank Corporation;

the Implementation Procedures for the Management of Related Party Transactions of China Construction Bank Corporation;

the Implementation Procedures for the System of Independent Directors of China Construction Bank Corporation;

the Proposal on the Election of Directors and Independent Directors of China Construction Bank Corporation; and

the Proposal on the Examination of Allowances for China Construction Bank Corporation's Independent Directors.

Second Extraordinary Shareholders' General Meeting of year 2004

The Second Extraordinary Shareholders' General Meeting of year 2004 examined and approved the *Profit Distribution Policy 2004 of China Construction Bank Corporation*.

6.4 Elections and changes of directors and supervisors

At China Construction Bank Corporation's First Shareholders' General Meeting on 15 September 2004, Mr. Zhang Enzhao, Mr. Chang Zhenming, Ms. Liu Shulan, Mr. Zhao Lin, Mr. Zhu Zhenmin, Mr. Jing Xuecheng, Ms. Wang Shumin, Mr. Wang Yonggang, Mr. Song Fengming and Mr. Yashiro Masamoto were elected as members of the First Session of the Board of Directors, among whom Mr. Song Fengming and Mr. Yashiro Masamoto were independent directors. Mr. Xie Duyang, Ms. Liu Jin, Mr. Jin Panshi and Ms. Chen Yueming were elected as members of the First Session of the Board of Supervisors.

At China Construction Bank Corporation's First Extraordinary Shareholders' General Meeting on 29 November 2004, Mr. Liu Xianghui, Mr. Zhang Xiangdong and Mr. Tse Hau Yin were elected as additional members of the First Session of the Board of Directors, among whom Mr. Tse Hau Yin was an independent director.

At the Extended Meeting of the Working Committee of the Labour Union of China Construction Bank Corporation on 15 December 2004, Ms. Cheng Meifen was elected as the Staff Representative Supervisor of the First Session of the Board of Supervisors of China Construction Bank Corporation by an anonymous ballot.

At China Construction Bank Corporation's First Extraordinary Shareholders' General Meeting of year 2005 on 16 March 2005, the resignation of Mr. Zhang Enzhao as a director of China Construction Bank Corporation due to personal reasons was approved.

At the Second Extraordinary Shareholders' General Meeting of year 2005 on 25 March 2005, Mr. Guo Shuqing was elected as a director of China Construction Bank Corporation, and Mr. Cui Jianmin and Mr. Guo Feng were elected as external supervisors of the First Session of the Board of Supervisors.

7 Directors, Supervisors, Executive Management and Employees

7.1 Directors, Supervisors and Executive Management

Board of Directors

Name	Title	Gender	Age	Start of the term of office
Guo Shuqing	Chairman	Male	48	2005.3
Chang Zhenming	Vice Chairman	Male	48	2004.9
Liu Shulan	Executive director	Female	59	2004.9
Zhao Lin	Executive director	Male	50	2004.9
Zhu Zhenmin	Non-executive director	Male	55	2004.9
Jing Xuecheng	Non-executive director	Male	59	2004.9
Wang Shumin	Non-executive director	Female	49	2004.9
Wang Yonggang	Non-executive director	Male	48	2004.9
Song Fengming	Independent director	Male	58	2004.9
Yashiro Masamoto	Independent director	Male	76	2004.9
Liu Xianghui	Non-executive director	Male	51	2004.11
Zhang Xiangdong	Non-executive director	Male	47	2004.11
Tse Hau Yin	Independent director	Male	57	2004.11

Secretary to the Board of Directors

Name	Title	Gender	Age	Start of the term of office
Xuan Changneng	Secretary to the Board of Directors ⁵	Male	38	2004.11

⁵ In accordance with the Articles of Association of China Construction Bank Corporation, the Secretary to the Board of Directors is a member of the Executive Management.



President	Chang Zhenming (front middle)	Vice President	Luo Zhefu (back second from right)
Vice President	Liu Shulan (front first from right)	Chief Compliance Officer	Xin Shusen (back second from left)
Vice President	Zhao Lin (front first from left)	Assistant President	Chen Zuofu (back first from right)
		Assistant President	Fan Yifei (back first from left)

Board of Supervisors

Name	Title	Gender	Age	Start of the term of office
Xie Duyang	Chairman of the Board of Supervisors	Male	56	2004.9
Liu Jin	Supervisor	Female	40	2004.9
Jin Panshi	Supervisor	Male	40	2004.9
Chen Yueming	Supervisor	Female	48	2004.9
Cheng Meifen	Staff Representative Supervisor	Female	49	2004.12
Cui Jianmin	External Supervisor	Male	72	2005.3
Guo Feng	External Supervisor	Male	42	2005.3

Executive Management

Name	Title	Gender	Age	Start of the term of office
Chang Zhenming	President	Male	48	2004.9
Liu Shulan	Vice President	Female	59	2004.9
Zhao Lin	Vice President	Male	50	2004.9
Luo Zhefu	Vice President	Male	52	2004.9
Xin Shusen	Chief Compliance Officer	Female	55	2004.9
Chen Zuofu	Assistant President	Male	50	2004.9
Fan Yifei	Assistant President	Male	40	2004.9

Annual remuneration

The annual remuneration of the Executive Management's senior executives is determined by the results of a comprehensive evaluation of their performance by the Board of Directors in accordance with the relevant requirements of the Bank. During the reporting period, a total of 12 directors, supervisors and senior executives received remuneration from the Bank. 13 did not receive any allowances from the Bank.

Resigned directors, supervisors and senior executives

During the reporting period, Mr. Zheng Zhijie resigned from the position of Vice President of China Construction Bank Corporation in accordance with the resolution passed at the second meeting of the First Session of the Board of Directors of China Construction Bank Corporation on 29 November 2004.

At the First Extraordinary Shareholders' General Meeting of year 2005 and the fourth meeting of the First Session of the Board of Directors on 16 March 2005, it was approved that Mr. Zhang Enzhao was to resign from the roles of director and Chairman of China Construction Bank Corporation due to personal reasons.

7.2 Employees

At the end of the reporting period, the Bank had a total of 310,391 employees, of which 254,689 were on medium to long-term employment contracts and 55,702 were on short-term contracts. Amongst the employees on medium to long-term employment contracts, there were 38,174 managers, 15,100 professional and technical personnel, 169,823 business staff, and 31,592 other personnel; in terms of educational background, there were 3,436 holding master degrees or above, 177,488 holding diplomas or bachelor degrees and 73,765 with below tertiary level education. At the end of 2004, the number of retired employees totalled 24,745. In 2004, the Bank's salaries, staff welfare and insurance expenses totalled RMB 20,714 million.



CORPORATE GOVERNANCE CCB ANNUAL REPORT 2004

> China Construction Bank Corporation Annual Report 2004 >

8 Corporate Governance

8.1 Overview

Corporate governance is the system by which business organisations are managed and controlled. The corporate governance structure specifies the authority and accountability of the different participants within the corporation, including the shareholders, the directors, the Executive Management, other management personnel and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs.

The Bank continues to be committed to business integrity and achieving international standards of modern corporate governance in order to continue delivering value to our customers and shareholders. We consider that implementing modern corporate governance practices is central to achieving our objective of becoming an internationally competitive and modern commercial bank.

As part of the shareholding restructuring programme, the Bank was incorporated into a joint stock company with limited liability. This was followed by the establishment of a new modern corporate governance framework which defined the various authorities and responsibilities of the Shareholders' General Meeting, the Board of Directors, the Board of Supervisors and the Executive Management. Our objective is to ensure there is adequate segregation of duties and powers between the Shareholders' General Meeting, the Board of Directors, the Board of Supervisors and the Executive Management. Therefore, this has established a sound and efficient structure for policy making, enforcement and oversight, ensuring that independence and effective checks and balances are in place between the supervisory levels.

Shareholders' General Meetings

The Bank convenes and holds the Shareholders' General Meetings in strict accordance with its *Articles of Association* and relevant laws and regulations. Shareholders' General Meetings represent approval authority for important events of the Bank's management, including approving profit distribution policies, annual

financial forecasts and strategy, changes in share capital, issuances of debt securities, mergers, separations and any amendment to the *Articles of Association*.

Board of Directors

Our Board of Directors, which consists of 13 members, was elected at the Shareholders' General Meetings in accordance with the *Articles of Association*. Among them, three are independent directors. The term of office of a director is 3 years and is renewable upon re-election, of which the term of an independent director cannot exceed 6 years.

The Board of Directors reports to the shareholders at the Shareholders' General Meetings and is responsible for implementing the resolutions of Shareholders' General Meetings in accordance with relevant laws, regulations, procedures and the Bank's *Articles of Association*. All directors have the duty to actively participate in the decision-making process of all the Bank's important events and protect the interests of the Bank and its shareholders.

The roles of the Chairman of the Board of Directors and the President of the Executive Management are segregated with a clear division of responsibilities. The President exercises all the rights that may be delegated to him by the Board of Directors.

Board Committees

The Board has set up five specialised Board Committees to ensure the efficiencies of the policies agreed on at the Shareholders' General Meetings:

The Strategy and Nomination Committee, chaired by Mr. Guo Shuqing, the Chairman of the Board, is responsible for formulating medium to long-term strategic development plans, recommending timely changes to the Bank's strategy to the Board of Directors; formulating and proposing procedures and criteria for the selection and appointment of directors and senior officers to the Board of Directors; and proposing candidates for the positions of director, president, chief auditor and secretary to the Board of Directors.

The Audit Committee, chaired by Mr. Tse Hau Yin, an independent director, is responsible for overseeing, examining, supervising and assessing the Bank's financial and internal control functions; and proposing the appointments or removals as well as monitoring the external auditors.

The Risk Management Committee, chaired by Mr. Zhang Xiangdong, a director of the Board, is responsible for building our risk management and internal control systems; formulating the risk strategy and approving the risk management policies; and assessing the effectiveness of the implementation of the risk management organisational structure, reporting lines and working procedures for risk management as well as proposing relevant recommendations.

The Compensation and Evaluation Committee, chaired by Mr. Yashiro Masamoto, an independent director, is responsible for drafting and examining the performance evaluation procedures and the compensation system and packages of the directors, supervisors and senior executives of the Bank; and monitoring and reviewing the performance evaluation and compensation systems.

The Related Party Transactions Committee, chaired by Mr. Song Fengming, an independent director, is responsible for identifying related parties, approving or filing general related party transactions, and reviewing material related party transactions, then seeking approval from the Board of Directors as well as reporting to the Board of Supervisors.

Board of Supervisors

The PRC Company Law requires a joint stock limited liability company to establish a Board of Supervisors. China Construction Bank Corporation's Board of Supervisors represents the supervising body of China Construction Bank Corporation, which reports to the Shareholders' General Meetings. The Board of Supervisors is responsible for monitoring the Bank's financial status and protecting shareholders' interests by supervising the legitimacy and compliance of the conduct of the Board of Directors, the President and the Executive Management.

Supervisors representing the shareholders and external supervisors were elected at the Shareholders' General Meetings, the Staff Representative Supervisor was elected at the meeting of the Labour Union and the Chairman was elected by the Board of Supervisors. Members of the Board of Supervisors cannot be represented by the Bank's directors, the President or other management personnel of the Bank. The term of office of a supervisor is 3 years and is renewable upon re-election. At the end of the reporting period, the Board of Supervisors consisted of 4 supervisors representing the shareholders and 1 supervisor representing the employees. On 25 March 2005 at the Second Extraordinary Shareholders' General Meeting of year 2005, 2 external supervisors were elected.

Executive Management

China Construction Bank Corporation's Executive Management includes the President, the Vice Presidents, the Chief Compliance Officer, the Chief Finance Officer, the Chief Risk Officer, the Chief Information Officer, the Chief Auditor, the Secretary to the Board of Directors, the Assistant Presidents and other management personnel appointed by the Board of Directors. At the end of the reporting period, the Executive Management consisted of 8 members.

The Executive Management has overall responsibility for making and implementing strategic decisions and managing and controlling the Bank. The President primarily follows laws, regulations, procedures and the Bank's *Articles of Association*, as well as delegated responsibilities from the Shareholders' General Meetings and the Board of Directors. His actions are bounded by the *Detailed Guidelines on the roles and responsibilities of the President of China Construction Bank Corporation*.

8.2 Independent directors and their fulfilment of duties

A system of independent directors is in place to ensure decisions made are efficient, fair and reasonable. This is an important safeguard to ensure that the Bank's policies are in the interests of shareholders. All independent directors are members of the five Board Committees under the Bank's Board of Directors, and three out of the five committees are chaired by independent directors. During the year, three independent directors attended the Board meetings and the meetings of the Board Committees and contributed actively to the development of the Bank, thereby promoting the effectiveness of the roles of the Board of Directors. The effectiveness of the independent director system is assured by the *Implementation Procedures for the System of Independent Directors of China Construction Bank Corporation* and the *Detailed Implementation Guidelines* of each committee.

8.3 Performance assessment and incentive system

The Executive Management of the Bank is evaluated and monitored by the Board of Directors, and regulated by the CBRC. The Bank aims to further improve its overall corporate governance structure and provide long term and sustainable returns for its shareholders. Therefore, it has begun building a long-term compensation scheme by engaging an international leading consulting firm to design an incentive programme which will be directly linked to the Bank's business performance.

8.4 Information disclosure and transparency

The Bank is committed to improving and increasing the level of transparency in its information disclosure. The Bank has in place the *Information Disclosure Guidelines for China Construction Bank Corporation*, which have standardised the contents and clearly set out the roles and responsibilities of the work relating to information disclosure. During the year, the Bank adopted for the first time the *Accounting Regulations for Financial Enterprises* issued (in 2001) by the MOF. Therefore, prior year's financials have been revised retrospectively. This has enhanced the accuracy, completeness, authenticity and timeliness of the information disclosed by the Bank.



REPORT FROM THE BOARD OF DIRECTORS CCB ANNUAL REPORT 2004

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9 Report from the Board of Directors

9.1 Daily responsibilities of the Board of Directors

On 15 September 2004, the first meeting of the First Session of China Construction Bank Corporation's Board of Directors was held in Beijing. All of the 10 eligible directors attended the meeting and a quorum was met in accordance with the PRC Company Law and the Articles of Association of China Construction Bank Corporation. During the meeting, the following proposals were reviewed and passed:

the Proposal on the Election of the Chairman and Vice-Chairman for China Construction Bank Corporation;

the Proposal on the Appointment of the President for China Construction Bank Corporation;

the Proposal on the Appointments of Vice Presidents, the Chief Compliance Officer and Assistant Presidents for China Construction Bank Corporation;

the Detailed Implementation Procedures for the Strategy and Nomination Committee under the Board of Directors of China Construction Bank Corporation;

the Detailed Implementation Procedures for the Audit Committee under the Board of Directors of China Construction Bank Corporation;

the Detailed Implementation Procedures for the Risk Management Committee under the Board of Directors of China Construction Bank Corporation;

the Detailed Implementation Procedures for the Compensation and Evaluation Committee under the Board of Directors of China Construction Bank Corporation;

the Detailed Implementation Procedures for the Related Party Transactions Committee under the Board of Directors of China Construction Bank Corporation;

the Proposal on the Authorisation for the Chairman to Sign “the Separation Agreement of China Construction Bank”; and

the Proposal on Matters Relating to the Business Licences of the Overseas Branches.

On 29 November 2004, the second meeting of the First Session of China Construction Bank Corporation’s Board of Directors was held in Beijing. All of the 10 eligible directors attended the meeting and a quorum was met in accordance with the PRC Company Law and the Articles of Association of China Construction Bank Corporation. During the meeting, the following proposals were reviewed and passed:

the Proposal on the Examination of Amendments to “the Articles of Association of China Construction Bank Corporation”;

the Proposal on the Examination of Amendments to “the Rules and Procedures for the Board of Directors of China Construction Bank Corporation”;

the Proposal on the Examination of Amendments to “the Detailed Implementation Procedures for the Strategy and Nomination Committee under the Board of Directors of China Construction Bank Corporation”;

the Proposal on the Examination of Amendments to “the Detailed Implementation Procedures for Audit Committee under the Board of Directors of China Construction Bank Corporation”;

the Proposal on the Examination of Amendments to “the Detailed Implementation Procedures for the Risk Management Committee under the Board of Directors of China Construction Bank Corporation”;

the Proposal on the Examination of Amendments to “the Detailed Implementation Procedures for the Compensation and Evaluation Committee under the Board of Directors of China Construction Bank Corporation”;

the Proposal on the Examination of Amendments to “the Detailed Implementation Procedures for the Related Party Transactions Committee under the Board of Directors of China Construction Bank Corporation”;

the Detailed Guidelines on the President of China Construction Bank Corporation's roles and responsibilities;

the Proposal on the Examination of "the Implementation Procedures for the Management of Related Party Transactions of China Construction Bank Corporation (Draft)";

the Information Disclosure Guidelines for China Construction Bank Corporation;

the Proposal on the Examination of "the Implementation Procedures for the System of Independent Directors of China Construction Bank Corporation (Draft)";

the Detailed Guidelines on the Secretary to the Board of Directors of China Construction Bank Corporation's roles and responsibilities;

the Proposal on the Examination of Allowances for Independent Directors and "the Service Contracts of Independent Directors of China Construction Bank Corporation";

the Proposal on the Nomination of Directors and Independent Directors of China Construction Bank Corporation;

the Proposal on the Appointment of Secretary to the Board of Directors of China Construction Bank Corporation;

the Proposal on the Election of Members for the Strategy and Nomination Committee under the Board of Directors of China Construction Bank Corporation;

the Proposal on the Election of Members for the Audit Committee under the Board of Directors of China Construction Bank Corporation;

the Proposal on the Election of Members for the Risk Management Committee under the Board of Directors of China Construction Bank Corporation;

the Proposal on the Election of Members for the Compensation and Evaluation Committee under the Board of Directors of China Construction Bank Corporation;

the Proposal on the Election of Members for the Related Party Transactions Committee under the Board of Directors of China Construction Bank Corporation;

the Proposal for the Termination of Mr. Zheng Zhijie as Vice President of China Construction Bank Corporation; and

the Proposal to Convene for an Extraordinary Shareholders' General Meeting for China Construction Bank Corporation, etc.

On 27 December 2004, the third meeting of the First Session of China Construction Bank Corporation's Board of Directors was held in Beijing. All of the 13 eligible directors attended the meeting and a quorum was met in accordance with the PRC Company Law and the Articles of Association of China Construction Bank Corporation. During the meeting, the following proposals were reviewed and passed:

the Proposal on "the Profit Distribution Policy 2004 of China Construction Bank Corporation";

the Strategic Development Plan of China Construction Bank Corporation;

the Plans for Organisational Reform and Establishment of the Organisational Structure of China Construction Bank Corporation; and

the Proposal to Convene for an Extraordinary Shareholders' General Meeting for China Construction Bank Corporation, etc.

On 16 March 2005, the fourth meeting of the First Session of China Construction Bank Corporation's Board of Directors was held in Beijing. 11 of the 13 eligible directors attended the meeting and a quorum was met in accordance with the PRC Company Law and the Articles of Association of China Construction Bank Corporation. During the meeting, the resignation of Mr. Zhang Enzhao as the Chairman of China Construction Bank Corporation's Board of Directors due to personal reasons was approved.

On 25 March 2005, the fifth meeting of the First Session of China Construction Bank Corporation's Board of Directors was held in Beijing. All of the 12 eligible directors attended the meeting and a quorum was met in accordance with the *PRC Company Law* and the *Articles of Association of China Construction Bank Corporation*. During the meeting, it was agreed that an Extraordinary Shareholders' General Meeting was to be convened on 25 March 2005 and the *Proposal on the Appointment of Mr. Guo Shuqing as a director of China Construction Bank Corporation* and the *Proposal on the Election of external supervisors for China Corporation Bank Corporation* were submitted to the Extraordinary Shareholders' General Meeting for approval.

On 25 March 2005, the sixth meeting of the First Session of China Construction Bank Corporation's Board of Directors was held in Beijing. All of the 13 eligible directors attended the meeting and a quorum was met in accordance with the *PRC Company Law* and the *Articles of Association of China Construction Bank Corporation*. During the meeting, Mr. Guo Shuqing was elected as the Chairman of China Construction Bank Corporation's Board of Directors.



9.2 Financial review

Overview

In 2004, China's GDP growth of 9.5% was a key driver behind the global economy. Market competition intensified as interest rates became more competitive and the financial regulatory environment was strengthened. As a result, we were faced with new challenges in areas, such as operational management and business development. The Bank was cautious with its strategies, but remained eager to enter new markets and committed to strengthening its risk management environment. Overall, in 2004, our businesses experienced healthy and steady growth. Asset quality and operational efficiency were further enhanced resulting in record highs in key performance indicators.

In 2004, the Bank realised a profit before tax of RMB 50,216 million, an increase of RMB 12,743 million, or 34.0%, over the previous year. Of this, the net interest income was RMB 100,296 million, an increase of RMB 11,349 million over the previous year. Provisions for impairment were RMB 8,830 million, an increase of RMB 661 million over the previous year. Key performance indicators improved: return on asset was 1.30% and, excluding the impact of income tax exemption received as part of the shareholding restructuring programme, was 0.88%, an increase of 0.18 percentage points over the previous year; return on net assets was 25.40% and, excluding the impact of income tax exemption received as part of the shareholding restructuring programme, was 17.28%; and cost to income ratio was 39.17%, a decrease of 1.97 percentage points over the previous year.

In 2004, the Bank focused on enhancing asset quality and reducing the level of non-performing assets, thereby enhancing the efforts in rationalising non-performing assets. This resulted in marked improvements in our overall asset quality. At the end of 2004, non-performing loans were RMB 87,345 million and the non-performing loan ratio was 3.92%.

The Bank remained focused on maintaining stable and healthy operations. We successfully controlled the volume and rate of new loans, realising steady growth in total assets and improvements in the structure of our loan portfolio. By the end of 2004, the Bank's total assets amounted to RMB 3,904,785 million, an increase of RMB 351,715 million, or 9.9%, over the previous year. Of this, loans totalled RMB 2,225,585 million, an increase of RMB 229,595 million, or 11.5%, over the previous year. Total liabilities were RMB 3,710,041 million, an increase of RMB 343,201 million, or 10.2%, over the previous year. Of this, deposits from customers reached RMB 3,489,376 million, an increase of RMB 295,258 million, or 9.2%, over the previous year.

Profit and loss account

Key financials

	Expressed in millions of RMB	
	2004	2003
Net interest income	100,296	88,947
Interest income	145,724	130,305
Interest expense	45,428	41,358
Net non-interest income	10,623	6,754
General and administrative expenses	43,960	39,711
Provisions for impairment	8,830	8,169
Profit before tax	50,216	37,473

Net interest income

In 2004, we realised net interest income of RMB 100,296 million, an increase of RMB 11,349 million, or 12.8%, over the previous year. The increase in net interest income was primarily a result of overall business expansion. In our lending business, personal mortgage loans, infrastructure lending and discounted bills were the main contributors to the increase in new loans. The volume of debt investments also rose

significantly as a result of the USD 22.5 billion capital injection from Huijin.

Net non-interest income

In 2004, the Bank realised net non-interest income of RMB 10,623 million, an increase of RMB 3,869 million, or 57.3%, over the previous year. This increase was primarily driven by the rapid growth experienced in our intermediary services. Fee and commission income from intermediary services grew significantly, realising net fee and commission income of RMB 6,368 million, an increase of RMB 1,787 million over the previous year; of which net income from equity investments amounted to RMB 2,408 million, an increase of RMB 1,277 million over the previous year.

General and administrative expenses

In 2004, the Bank's general and administrative expenses amounted to RMB 43,960 million, an increase of RMB 4,249 million, or 10.7%, over the previous year. The cost to income ratio decreased from 41.14% in 2003 to 39.17%. In recent years, the Bank has implemented stringent cost control measures and strengthened cost management. As a result, total costs were effectively controlled and operational efficiency was significantly increased. The increase in general and administrative expenses experienced in 2004 was mainly due to staff related social security expenses, expansion into new markets and product development.

Provisions for impairment

In 2004, the Bank made provisions for impairment of RMB 8,830 million, an increase of RMB 661 million. Of this, provision for loan losses amounted to RMB 5,586 million, a decrease of RMB 2,071 million over the previous year; provision for impairment of investments was RMB 1,902 million, an increase of RMB 1,828 million over the previous year; and provisions for impairment of fixed assets and other assets amounted to RMB 1,342 million, an increase of RMB 904 million over the previous year. The decrease in provision for loan losses was mainly due

to the Bank strengthening its efforts in managing the overall loan quality. The Bank's provision for impairment of investments was primarily in respect of debt equity swap investments.

Balance sheet

In 2004, our business maintained healthy growth and the structure of our assets and liabilities was rationalised. Overall, the growth in loans and deposits remained the key driver to the increases in total assets and total liabilities. Within assets, changes in the geographical structure and types of our loan portfolio have resulted in marked improvements in the loan quality. The proportion of investments significantly increased as holding in debt investments grew substantially. Within liabilities, deposits maintained steady growth, while deposits and placements from banks and other financial institutions and other non-interest bearing liabilities also experienced different rates of growth.

Loans

In 2004, loans increased by RMB 229,595 million, an increase of 0.82 percentage points for loans as a proportion of total assets. As part of the rationalisation of our loan portfolio, discounted bills increased by RMB 53,456 million compared with the previous year. Our growth in new business was selectively concentrated in industries, such as manufacturing, transportation, storage and postal services, electricity power, gas and education.

When compared to the previous year, the growth in loans had significantly slowed down. This was mainly driven by our response to the government's macroeconomic and industrial output policies. Therefore, loan underwriting to industries, such as steel, cement, electrolytic aluminium and real estate, correspondingly decreased.

Investments

In 2004, the Bank's investments increased considerably, representing an increase of RMB 303,808 million and an increase of 5.75 percentage points as a proportion of the total assets over the previous year. Our investments are mainly focused on government bonds, bills issued by the PBOC and debt securities issued by policy banks of the PRC.

Deposits with central banks

By the end of 2004, deposits with central banks reached RMB 372,286 million, an increase of RMB 65,948 million over the previous year. This was mainly due to Renminbi denominated deposits, which were used to calculate the statutory deposit reserve, increasing by RMB 418,770 million and the PBOC increasing the statutory deposit reserve requirements ratio from 7% to 7.5% on 25 April 2004, which resulted in an increase of RMB 45,499 million in the statutory deposit reserve funds. Meanwhile, the surplus deposit reserve ratio was raised, which also resulted in an increase in deposits with central banks.

Deposits

During 2004, our deposit business maintained rapid growth. Deposits increased by RMB 295,258 million, or 9.2%, compared to the previous year, of which the increase in corporate deposits amounted to RMB 138,831 million, an increase of 8.2%; the increase in personal deposits amounted to RMB 156,427 million, an increase of 10.5%. This was mainly driven by the strengthened marketing culture and increased efforts to explore new market opportunities. This also resulted in a continuous increase in our market share. In addition, the external environment became increasingly favourable as the overall market expanded.

Shareholders'/ owner's equity

At the end of 2004, shareholders' equity amounted to RMB 194,744 million, an increase of RMB 8,514 million, or 4.6%, over the previous year. The increase in shareholders'/ owner's equity was mainly due to a capital injection of RMB 8,000 million from the three shareholders, State Grid, Shanghai Baosteel and Yangtze Power, in September 2004.

Capital adequacy ratio

At the end of 2004, our capital adequacy and core capital adequacy ratios were 11.29% and 8.57% respectively, in accordance with *the Regulation Governing the Capital Adequacy of Commercial Banks* issued by the CBRC on 23 February 2004. By the end of 2004, the Bank's core capital was RMB 194,240 million, net capital were RMB 255,990 million and total risk-weighted assets amounted to RMB 2,267,467 million. The increases in the Bank's capital adequacy ratios and capital strength were primarily due to the above mentioned capital injection of RMB 8,000 million received from the three shareholders, the issue of long-term subordinated bonds of RMB 40 billion, and our efforts to strengthen our capital management and improve the structure of our assets.



9.3 Business performance and developments

Corporate and institutional banking

We provide a wide range of deposits, loans and intermediary products and services to our corporate and institutional customers, and our traditional competitive advantage in infrastructure lending is represented by our medium and long-term loan products and agency, consultancy and advisory services. In recent years, the rapid development of intermediary services, discounted bills, cash management and custodial services has also become our new service offerings. Corporate and institutional banking is strategically important to the Bank's assets and liabilities and intermediary business, as well as a significant contributor to the Bank financially.

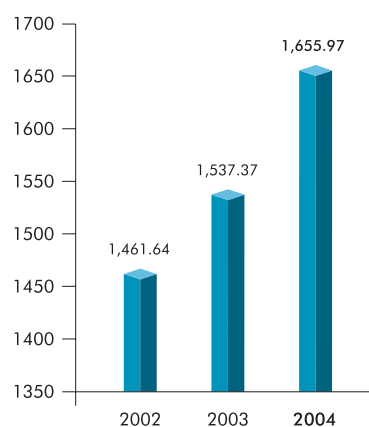
In 2004, we launched our marketing campaign under the theme: "combine intelligence and trust; strive for professionalism and integrity". We selected 24 competitive corporate and institutional banking products in response to market needs with the aim of reinforcing CCB's brand name in corporate banking products. We also strengthened our marketing efforts, targeting our corporate customers, multinational companies, government departments and financial institutions and signed strategic cooperation agreements with 7 target clients. Through the reorganisation of business capabilities and organisational structure, we have successfully realised the synergies between our intermediary services and our corporate loan products, thereby promoting the rapid development of our intermediary services.

Corporate and institutional lending

At the end of 2004, lending to corporate and institutional customers amounted to RMB 1,813,290 million, an increase of RMB 172,060 million over the previous year. Of this, discounted bills increased by RMB 53,456 million, contributing 31.1% of the total increase in lending to corporate and institutional customers.

Corporate and institutional loans (excluding discounted bills)

(In billions of RMB)



At the end of 2004, credit facilities granted to domestic financial institutions amounted to RMB 536,446 million. We continued to maintain a virtually zero non-performing loan ratio for all businesses within these credit facilities. We also became the first domestic bank in the country to be awarded permission to launch standard stock pledged lending business.

During the year, we effectively managed the growth of the Bank's corporate and institutional banking business and improved asset quality by strengthening portfolio management and rationalising the portfolio structure. We continued to focus our efforts on targeting strategic customer groups, and new loans granted to target customer groups in industries, such as the electric power and public road infrastructure, increased during the year as a proportion of total new loans.

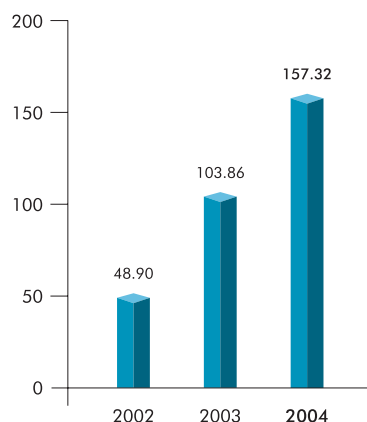
Also during 2004, we launched rediscounted commercial bills, with and without right of recourse, in response to the rapid development of the bill discounting market. The Bank's internally developed comprehensive discount processing system was launched in certain areas, which has further enhanced our service quality and the efficiency of our business delivery.

Corporate and institutional deposits

In 2004, we focused our efforts on enhancing the quality and stability of corporate and institutional deposits, and established new business relationships by

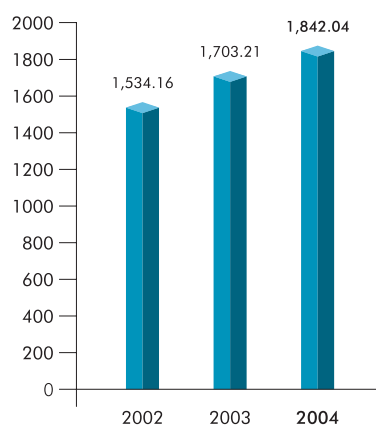
Discounted bills

(In billions of RMB)



Corporate and institutional deposits

(In billions of RMB)



attracting customers to open basic settlement accounts. By the end of 2004, corporate and institutional deposits amounted to RMB 1,842,044 million, an increase of RMB 138,831 million over the previous year, to which corporate and institutional deposits denominated in foreign currencies were a key contributor.

Corporate and institutional intermediary services

In 2004, the Bank focused on the three traditional intermediary services: agency, settlement and guarantee services. We also continued with our efforts to develop high value-added intermediary services, such as financial advisory, construction pricing advisory and cash management services, hence our influence over the intermediary services industry consistently increased. Net fee income from intermediary services for corporate and institutional customers for the year amounted to RMB 2,952 million, an increase of 11.6% over the previous year.

Agency business

Services to government departments: In 2004, we maintained our leading position in providing payment processing services to 61 State's departments and corporate customers, which represented 66.3% of the market share. We continued to be the largest settlement service provider to the lottery funds. The country's total sales in lottery tickets amounted to RMB 38,057 million in 2004, of which we provided settlement agency services for lottery funds amounted to RMB 25,940 million. The Bank gained the funds agency rights for the investment in railway projects totalling RMB 105.6 billion during the year and our market share of the fund settlement services for the Three Gorges Dam Resettlement Programme reached 98%.

Services to banking institutions: In 2004, we continued to provide fund settlement services to China Development Bank and Export-Import Bank of China, with a total transaction volume of RMB 32.6 billion, an increase of 24.4% over the previous year. We continued to be the leading provider of agency business to China Development Bank. We have also established agency service relationships with domestic and foreign operations of 70 domestic banks and developed a number of payment and settlement agency services.

Services to securities institutions: In 2004, we successfully launched an independent custodial system for securities settlement funds based on our VIP Service System and became the first domestic commercial bank to provide this type of service. By the end of 2004, we had started to officially provide independent custodial services for securities settlement funds with three securities companies. We provided such services to 554,000 corporate and personal customers, while pledged customer deposits increased by RMB 3,427 million.

Agency business for insurance companies: We have established extensive business relationships with a variety of large and medium domestic insurance companies, such as PICC Property and Casualty Company Limited, China Life Insurance Company Limited and Ping An Insurance (Group) Company of China, Limited. The total value of premiums collected was RMB 29,168 million and commission income reached RMB 330 million.

Services to other financial institutions: In 2004, the Bank entered into cooperation agreements with a number of automobile finance corporations and business relationships were established with 111 futures brokerage companies. We provided capital trust planning agency services for 43 trust funds on behalf of 20 trust companies, with a total transaction volume of RMB 2,867 million.

Consulting and advisory services

We provide financial advisory services to corporations and government agencies in investment, financing, mergers and acquisitions, asset management and other financial consulting services. In 2004, fee income from financial advisory and consulting services for our corporate customers amounted to RMB 302 million.

Cash management services

In 2004, our market presence in cash management services increased significantly. We participated as the only domestic bank in the EuroFinance Annual Conference on Cash and Treasury Management in Greater China, and were named the best domestic cash management bank in the country in a market survey conducted by EuroFinance Conference Limited. The Bank's main customers are

large corporations and, in particular, we provide cash management services to group companies operating in multiple locations. We also help customers in designing cash management plans and provide efficient and low cost working capital management through our service platforms, namely the VIP Service System and electronic banking systems. We have also begun cooperating with foreign banks and have provided cash management services for a number of multinational companies. We have therefore started to build a market reputation for providing high quality cash management services. By the end of 2004, we had built 376 funds settlement networks and generated a total transaction volume of RMB 2,669.5 billion.

Guarantee services

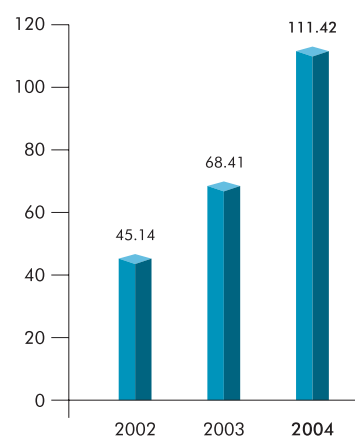
We offer our corporate customers products and services including bank acceptance bills, letters of credit, bid bonds, performance bonds and other forms of bank guarantees. At the end of 2004, the Bank had outstanding guarantees of RMB 233 million, an increase of RMB 53 million, or 29.1%, over the previous year.

Custodial services

We remain focused on expanding our custodial business and marketing our custodial products to leading investment funds and leading qualified foreign institutional investors ("QFII"). In 2004, we provided custodial services to the first domestic principal-guaranteed fund and increased the number of new products, such as money market funds and listed open-ended funds ("LOF"). While we were focused on increasing the number of custodial funds products, we were also driven to expand our QFII customer base. In 2004, we successfully won the QFII custody mandates for Hang Seng Bank and Power Corporation of Canada's QFIIs.

Income from custodial services for mutual funds

(In millions of RMB)



By the end of 2004, we had provided custodial services for 26 securities investment funds with a total net asset value reaching RMB 50,197 million, an increase of 41.8% over the previous year. Assets under custody amounted to RMB 13.3 billion, quadrupling the amount in the previous year. QFII funds under custody totalled USD 250 million, and we maintained our position as the leading Chinese bank in terms of the number of custodial customers and the value of assets under custody. During the year, we realised income of RMB 127 million from custodial services, of which, income from custodial services for mutual funds amounted to RMB 111 million, an increase of 62.9% compared with the previous year.

International business

Structured finance

In 2004, foreign currency on-lending transactions to domestic entities, our key structured finance product, reached transactions USD 205 million. During the year, the Bank signed 11 foreign currency denominated on-lending domestic agreements, with the Ministry of Railways for the import of road maintenance equipment from the United States of America and with China Railway Construction Corporation for the import of equipment from Germany, representing an increase of 99% over the previous year. As a result, 2004 demonstrated rapid growth for the second consecutive year.

In 2004, we furthered our product development in large aircraft structured financing transactions and completed aircraft financing business totalling USD 195 million as well as assisting a number of airline companies, including Air China Limited, in completing their debt restructuring exercises.

Trade finance

By the end of 2004, the Bank's trade finance lending amounted to RMB 5,762 million, an increase of RMB 612 million, or 11.9%, over the previous year. In response to customer needs, the Bank recently launched letter of credit at usance services at our overseas branches and trust receipt loans as part of our non-letter of credit products, for the relating transaction volume was nearly USD 334 million during the year. The transaction volume of our non-recourse letter of credit at usance

business during 2004 reached USD 84.36 million, an increase of 261% over the previous year.

In 2004, our new generation trade finance system was successfully launched at the Shanghai, Jiangsu and Beijing branches. This will help to foster changes in our operating model for trade finance settlement by shifting to a more centralised approach.

International settlement

In 2004, our international settlements amounted to USD 107,592 million, an increase of USD 25,695 million, or 31.4%, over the previous year. The transaction volume for letters of credit, collections and remittances amounted to USD 21,434 million, USD 4,392 million and USD 81,766 million respectively.

Overseas banking business

Our global correspondent banking network covers countries, which are China's major trading partners, and includes major international banks. By the end of 2004, the Bank had established correspondent banking relationships at the head office level with 949 banks in 107 countries and regions and signed cooperation agreements with a number of overseas banks on a full scale or individual business type basis. We will continue to be active in expanding cooperation with overseas banks in areas such as money market placements, foreign bank lending, clearance, cross-border trade, cash management, trade finance and international finance. In 2004, the transaction volume of our correspondent clearance banking service for foreign banks amounted to RMB 18,708 million, an increase of 28.1% compared to the previous year.

Personal banking

We provide deposits, loans and a wide range of intermediary products and services including bank cards to our personal banking customers. In 2004, the Bank maintained steady growth in traditional products such as personal deposits and loans, while new businesses, such as personal intermediary services and wealth management, experienced rapid growth. The Bank has significantly enhanced its market

competitiveness by rationalising its business structure and improving operational efficiency.

Personal deposits

Personal deposits provide a major source of funding for the Bank. In 2004, our personal deposit business grew steadily. By the end of 2004, the personal deposit balance increased to RMB 1,647,332 million, an increase of RMB 156,427 million, or 10.5%, over the previous year.

In 2004, we continued to improve our personal deposit-taking products by adding new features such as automated and scheduled rollover, to our personal time deposits, as well as improving the flexibility and convenience of our education savings deposits. Therefore, we have been able to further enhance the quality and efficiency of our customer services.

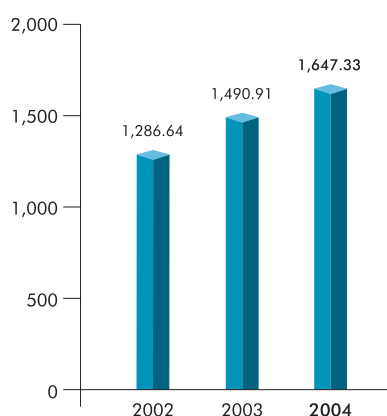
Personal lending

Residential mortgage lending

Residential mortgage loans account for the largest share of the Bank's personal lending business. It also has the highest growth potential and therefore brings relatively higher returns to the Bank. In 2004, we underwrote mortgage loans (including individual commercial property mortgage loans) totalling RMB 150,896 million. By the end of 2004, the year-end balance reached RMB 343,089 million, representing an increase of RMB 54,541 million, or 18.9%, over the previous year. In 2004, mortgage lending for the second-hand residential property market developed rapidly and became a new target growth area for the Bank. By the end of 2004, the new increase in mortgage loans for second-hand residential properties

Personal deposits

(In billions of RMB)



compared to the previous year amounted to RMB 10,660 million.

Consumer lending

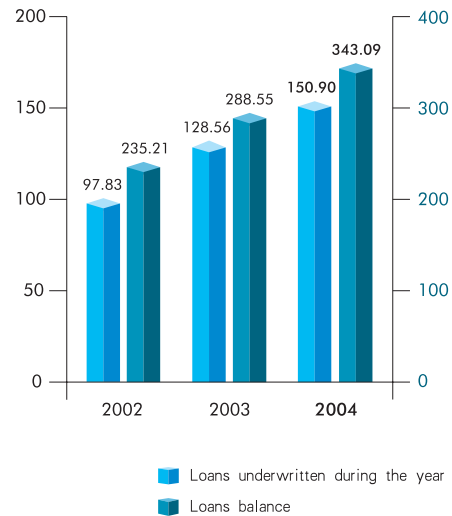
In 2004, the government began to set up a nationwide personal credit information database. As personal income was on the rise, the growth opportunities for consumer lending business unfolded. We continued to develop new innovative products and, in 2004, we launched personal business assistance loans which supported the development of personal business enterprises. At the same time, the Bank developed a new cooperation model for group car purchases, which provide customers with a one-stop car buying services and enable the Bank, car suppliers and insurance companies to all benefit from the customer base. By the end of 2004, consumer lending amounted to RMB 63,509 million, an increase of RMB 3,614 million over the previous year, realising interest income totalling RMB 3,420 million.

Personal intermediary services

In 2004, our personal intermediary services achieved breakthrough growth. By the end of the year, income from personal intermediary services increased by 87.1% over the previous year. Income from personal intermediary services as a proportion of the Bank's total income from intermediary services rose by 11.86 percentage points

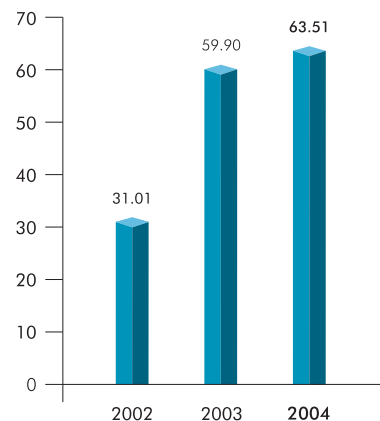
Personal mortgage loans

(In billions of RMB)



Consumer lending

(In billions of RMB)



when compared with the previous year. Among these services, bank card, Swift Remit and securities agency services accounted for 88.0% of the total income from personal intermediary services.

Bank card business

In 2004, our bank card business continued to experience rapid growth. The number of credit cards issued amounted to 6.25 million and transacted amounts reached RMB 25,357 million, an increase of 50.7% compared to the previous year. Of these, the number of dual currency credit cards issued reached 1.65 million and transacted amounts were RMB 6,604 million. Debit cards issued amounted to 149 million, an increase of 5.20 million over the previous year, and transacted amounts recorded a historical high of RMB 79,224 million, which nearly doubled the growth recorded in the previous year. In 2004, income from bank card business totalled RMB 2,316 million, an increase of RMB 1,309 million, or 130.0%, compared to the previous year.

In 2004, we strengthened our marketing initiatives for our bank card business and improved the card distribution network, thereby expanding our market capabilities. From September 2004, our Renminbi debit cards and quasi-credit cards could be used in Hong Kong and Macao. Based on statistics from China UnionPay Bank Card Information Exchange Centre, the cross-bank and cross-province entrusted settlement and agency settlement volumes of our bank card business ranked first and second respectively amongst the domestic banking industry.

Entrusted housing fund business

At the end of 2004, our entrusted housing fund deposits totalled RMB 154,131 million, representing a market share of 57.3%. Entrusted provident housing fund deposits amounted to RMB 104,037 million, which represented a market share of 57.9%, therefore maintaining our leading position in the market. By the end of 2004, the balance of the entrusted provident housing fund lending was RMB 119,081 million, an increase of RMB 24,616 million, or 26.1%, over the previous year, representing a market share of 56.9%.

Personal wealth management services

In 2004, our personal wealth management services developed and expanded in all aspects, while the number of VIP customers multiplied and our service offerings further improved. By the end of 2004, our personal VIP customers numbered near 484,000, a growth of 405,000, or 5 times, over the previous year. In 2004, there were 233 personal wealth management service centres, representing an increase of 53 outlets during the year. In addition, we have set up personal wealth management service outlets, including VIP designated service windows, open-plan service counters and private VIP rooms, at our branch outlets. The number of personal wealth management account managers reached over 6,000.

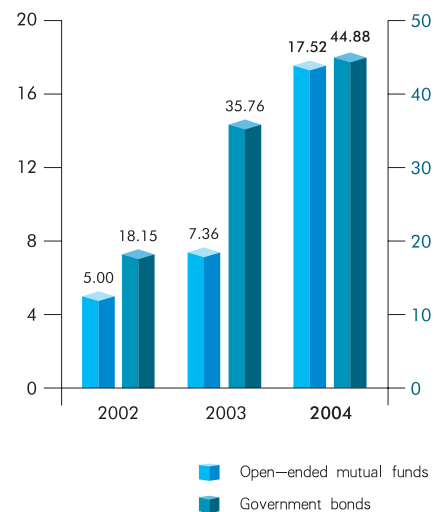
In 2004, we launched 10 VIP services specifically for our personal VIP customers. We developed VIP services through co-operating with 1,500 partners and launched personal wealth management consulting services. In addition, we designed an array of personal wealth management package products and provided professional personal wealth management planning services. Furthermore, we launched a new comprehensive and multi-features product – “Happy Investor” personal wealth management card.

Securities agency services

By the end of 2004, sales from acting as an agent for the trading of government bonds and open-ended mutual funds totalled RMB 62,402 million, which represented an increase of 44.7% over the previous year and marked a historical high. Of this, certificate government bonds sold amounted to RMB 42,554 million, which represented a market share of 17.0%, ranking second in the marketplace. Non-certificate government bonds sold amounted to RMB 2,329 million. Meanwhile, we acted as the agent

Total government bonds and open-ended mutual funds sold

(In billions of RMB)



for 14 open-ended mutual funds where sales volume amounted to RMB 17,519 million. The total agency sales volume and the number of investment funds sold both exceeded the sum of the previous three years.

Personal foreign currency services

We were authorised by the CBRC to conduct transactions in financial derivative products and became the first domestic bank to launch foreign currency structured products and services and “Profit from Exchange” products to our personal foreign currency depositors. In 2004, we issued, in total, 11 “Profit from Exchange” products in different maturities, structures and currencies, including USD, HKD and EUR. In total, foreign currency funds amounted to USD 2,196 million, customers numbered over 200,000 and the total transaction volume in foreign currency exchange amounted to USD 9,437 million.

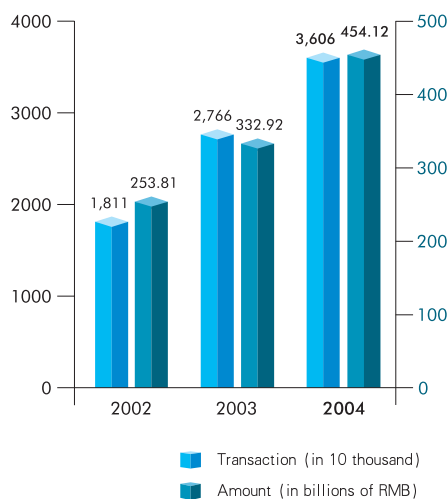
Swift Remit

In 2004, Swift Remit business sustained steady growth both in terms of business volume and commission income. By the end of 2004, the number of transactions reached 36.06 million, an increase of 30.4% over the previous year, which was equivalent to RMB 454,124 million, an increase of 36.4%. This resulted in fee and commission income of RMB 619 million, an increase of 25.8% over the previous year.

Treasury business

In 2004, while the global GDP grew at its fastest rate in nearly two decades, the increase in inflation remained steady. In the interest rate market, yields from US Treasury bills rose due to consecutive increases in the US Federal Fund rates which totalled 125 basis points by the year end. The US dollar remained weak throughout the year due to concerns over the US trade deficit.

Swift Remit transactions volume



In the domestic market, money market rates increased in the middle of the year, when the statutory deposit rate increased, and declined in the second half of year with the rising inflow of foreign currencies, leading to increased money supply. Prices of government bonds remained relatively low compared with previous years, which was mainly driven by the strengthened Consumer Price Index and increased interest rates.

We closely followed the above mentioned changes in the domestic and foreign financial markets, were flexible in our operational strategy and strengthened our risk management which all led to sound results recorded by our treasury business.

Results

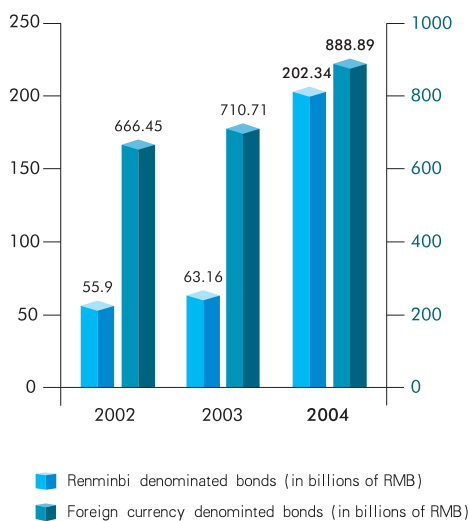
In 2004, our treasury business in Renminbi experienced a steady increase in transaction volume, of which, volume in money market transactions amounted to RMB 118.4 billion, ranking first in the marketplace, while securities repurchase and reverse purchase reached RMB 1,287,800 million, ranking second in the marketplace. We underwrote RMB 328,150 million of issues in government and quasi-government bonds, subordinated bonds and central bank bills. The total transaction volume in the secondary bond market amounted to RMB 117.6 billion.

In 2004, the volume of foreign currency transactions experienced significant increase. At the end of 2004, foreign currency denominated money market placements amounted to USD 7,423 million, and investment in government bonds denominated in foreign currency was USD 24,448 million. Our investment portfolio also experienced steady growth as a result of a prudent investment strategy and close monitoring approach. Overall, this achieved diversification as well as profit growth in our portfolio during the year.

In 2004, Renminbi and foreign currency denominated transactions on behalf of our customers developed at a fast pace. By the end of 2004, Renminbi denominated bonds under custody were RMB 14,350 million, ranking third in the marketplace, and the transaction volume amounted to RMB 41,070 million. During

the year, we conducted precious metal trading activities on behalf of 30 corporate customers with transaction volume totalling 4,624 kg. The volume of foreign currency exchange on behalf of our customers and trade-related foreign currency exchange and settlement reached USD 84.0 billion, an increase of 16% over the previous year, while derivative transactions conducted on behalf of our customers increased significantly and recorded a total transaction volume of USD 4,913 million, an increase of 85% over the previous year.

Renminbi and foreign currency denominated bonds



Investment strategy

Our short-term financing activities consist of short-term money market placements and the repurchase of debt securities. Our short-term financing objective is to achieve targeted returns on the amount of assets which we have determined to keep highly liquid. During the first half of 2004, we reduced our holding in debt securities with longer maturity profiles under increasingly volatile interest rate market conditions. As the market improved during the second half of 2004, we altered the make-up of our portfolio to achieve higher profitability.

Our investment strategy for long-term investments is primarily to achieve a targeted return with targeted maturity and duration profile. Such target profile is principally determined by our continuous assessment of interest rate and exchange rate risks, sovereign credit risks and other risks related to the securities.

Business expansion

In 2004, we were authorised by the CBRC to conduct transactions in all financial derivative products, including gold, but excluding equity and commodity-related

derivatives. In the same year, we began further developing our Renminbi denominated bond repurchase and reverse purchase business and increased our proprietary investment and trading activities in subordinated bonds issued by policy banks and commercial banks and other money market products. We also completed the development work for our gold consignments and personal gold investment businesses, which was launched in February 2005.

In customer driven business, our foreign currency exchange agency business developed rapidly with the foreign currency option and structured foreign exchange forward businesses as our target growth areas. We remained innovative with our product development and launched several foreign currency structured deposit products focusing on the demands of our personal banking customers. Such efforts have contributed to the growth in foreign currency deposits and our market share in this area.

Overseas branches

The Bank has overseas branches in Hong Kong, Singapore, Frankfurt, Johannesburg and Seoul and representative offices in London and New York. Our Tokyo branch has currently suspended operations according to the relevant Japanese legislations and we are currently applying for a renewal of the banking licence. In 2004, we selectively developed the overseas market with the aim of integrating our domestic and overseas businesses.

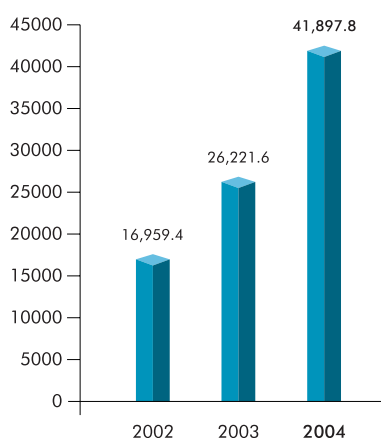
The principal activities of the overseas branches are to provide trade financing and lending to our customers. They have been active in participating in their local financial and debt securities markets as well as in the inter-bank lending markets. They also provide settlement and trade finance services to local Chinese companies and other local small to medium-sized enterprises. The Hong Kong Branch has entered into the inter-bank lending markets in Australia and the Middle East, and is currently working with Jian Sing Bank Limited of Hong Kong with plans to launch a series of personal banking services. The Singapore branch has started providing investment banking services to small and medium-sized Chinese enterprises to enable them to access the Singaporean capital markets, while our Frankfurt office, being

our only operating outlet in Europe, assists our Head Office in conducting treasury activities and has therefore become our Euro clearing centre.

At the end of 2004, our overseas branches had total assets of USD 4,280 million, an increase of 5.7% over the previous year, while profit before tax was USD 41,897,800, an increase of 59.8% over the previous year.

Profit generated by overseas branches

(In USD'000)



Distribution channels

We deliver our products and services through a variety of distribution channels, including the traditional operating outlets, self-service banks and electronic banking. We believe that we have one of the most extensive distribution networks among the commercial banks in China. In 2004, we started to improve and integrate our various distribution channels with the aim of delivering more extensive, convenient and efficient service to our customers.

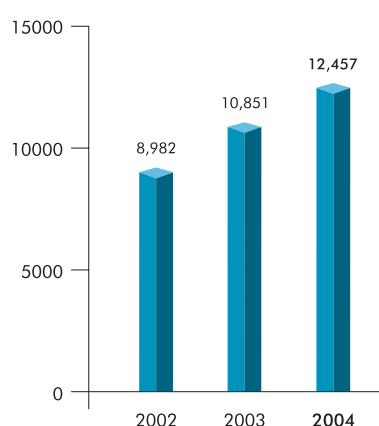
Outlet network

We conduct our business activities principally through our network of operating outlets, which includes branches, sub-branches, sub-operating offices and deposit-taking offices. By the end of 2004, we had 14,467 domestic and overseas outlets and subsidiaries. In 2004, we rationalised and improved the distribution structure of our domestic operating outlets by decreasing the number of operating outlets with lower efficiency and increasing our investment in areas with higher returns and growth potential, thereby centralising our operations. In 2004, we reduced the number of outlets by 2,005. While our sub-branches have maintained an effective coverage of our customers across the country, geographical distribution of our outlets has improved. The number of deposit-taking offices with only one single function has been proportionally reduced and we have gradually converted some into multi-functional outlets. As a result, sales volume and operational efficiency have effectively enhanced.

Self-service banks

In 2004, the Bank strengthened the development in its self-service banking business. At the end of 2004, we had 466 self-service banking outlets, an increase of 130 over the previous year. The number of automatic teller machines ("ATMs") in the year reached 12,457, an increase of 1,606, or 14.8%, over the previous year. We ranked second among the four major Chinese commercial banks in terms of the number of ATMs.

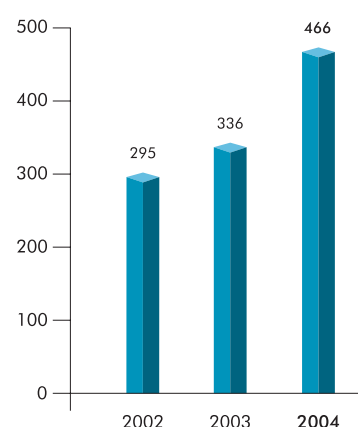
Number of ATMs



Electronic banking

In 2004, our electronic banking service expanded rapidly and the number of electronic banking customers across the Bank reached 15.20 million, an increase of 336% over the previous year. The number of transactions was 187.84 million, an increase of 179% over the previous year, and the transacted amount reached RMB 4,760.6 billion, an increase of 243% over the previous year. Our share in this market further increased in the year and the reputation of our electronic banking brand "e-Route" ("e 路通") was enhanced.

Number of self-service banking outlets



Internet banking

By the end of 2004, we had nearly 4.73 million Internet banking customers, 4.66 million of which were personal banking customers, an increase of 3.77 million over the previous year, 70,000 of which were corporate customers, an increase of 50,000

over the previous year. During the year, the total number of transactions was 61.28 million, an increase of 430% over the previous year. The transaction amount was RMB 2,800.8 billion, an increase of 166.4% over the previous year. In 2004, we entered into agreements to provide Internet banking service for a number of large corporate customers.

VIP Service System

The VIP Service System is directly connected to our computer systems, allowing these customers to monitor their accounts and effect various customised transactions on a real-time basis. It is also the first superior financial product of its kind among the domestic banks and has consistently maintained a leading position in the marketplace. At the end of 2004, we had over 350 preferred corporate customers using VIP Service System, including the State's ministries and commissions, large corporations and financial institutions. We are ranked top in the marketplace for supporting the MOF through the delegated payment processing system. Our cash management service is already used by many major group companies. A number of strategic clients have already linked up their internal information systems with our systems; our systems are also "directly linked" to other foreign banks. In 2004, transactions processed reached RMB 1,500.2 billion, an increase of 329% over the previous year, which represents 1.63 million transactions, an increase of 250% over the previous year.



The 95533 call centre service

Our customers enjoy convenient, efficient and secure banking service from the 95533 call centre by directly connecting through with their telephones or fax machines, 24 hours a day. The 95533 call centre service allows customers to enjoy over 20 types of services, such as enquiries on balances of accounts and transactions, balance transfers, Swift Remit, bill payments, bank securities account transfers and foreign currency exchange. It has become an important and indispensable transaction channel of the Bank. At the end of 2004, the number of registered customers reached 10.03 million, an increase of 348% over the previous year. Total transactions amounted to RMB 151.2 billion, an increase of 12.0% over the previous year and were equivalent to 115.43 million transactions, an increase of 32.9% compared with the previous year.

Mobile phone banking

On 19 July 2004, we officially launched the mobile phone BREW banking service with China Unicom, which was the first standardised mobile phone banking service launched nationwide by a major domestic commercial bank. Meanwhile, 12 tier-1 branches⁶ also cooperated with China Mobile Communications Corporation and launched short messaging services providing financial information. With the launch of the various mobile phone banking services, our electronic banking service has demonstrated that the Bank leads the industry with the most comprehensive network of distribution channels. By the end of 2004, the number of customers, including short messaging service customers, amounted to over 420,000, and the transaction volume amounted to 7.35 million, equivalent to RMB 67.16 million.

⁶ Tier-1 branch includes branches at province and autonomous region level, municipality directly under the central government level and special-listed city level.

Information Technology

In 2004, we launched a number of strategic projects, including the customer information integration and customer relationship management project, the corporate and institutional lending management information project, channel integration project and the internal rating-based system in accordance with our information technology plan. We completed preliminary planning for independent projects, such as the set-up of a data warehouse and management of information systems, after a thorough and comprehensive review process. We believe that through the implementation of such projects, we will build an integrated platform which is driven by and focuses on customer needs and fully supports a commercial bank's management decision making process.

We are in the process of implementing a data centre consolidation project to unify our core banking systems, which will allow real-time access to the majority of our customer transaction data. In 2004, we completed the link-up of our head office and 15 tier-1 branches and the progress of the northern and southern data centres has been sound to date. The centres are expected to be in full operation by the end of 2005.

In 2004, we sped up the progress in building and implementing the relevant information systems required to satisfy the needs of operational management and external information disclosure requirements. The credit management information system underwent large-scale upgrades and improvements. The second version of the credit management information system was launched across the Bank.

In 2004, we established a set of standard data protection and safety procedures, which is expected to be implemented by the first half of 2005. These standard procedures were based on international safety standards and data safety policies issued by relevant departments of the PRC government.

We aim to support and improve new product development and customer services, as well as enhance our capabilities in risk management and financial management. Therefore, our key targets for 2005 are: to complete the data centre

consolidation project for the core business processing systems across the Bank; to implement an Enterprise Resource Planning (“ERP”) system which aims to standardise financial operational procedures and enhance the quality of financial information disclosures; and to develop and implement a number of key projects, such as customer relationship management, and the channel integration to support the development of our corporate and personal businesses, the internal rating-based system (“IRB”) and the assets and liabilities management system. The Bank plans to develop a disaster recovery centre in Shanghai for our northern and southern data centres and completing the first phase of this project will be one of our key tasks for 2005.

Major subsidiaries

Jian Sing Bank Limited

Jian Sing Bank Limited (“Jian Sing Bank”) is a licensed commercial bank registered in Hong Kong and our wholly owned subsidiary. It mainly provides deposits and loans as well as intermediary services, such as remittance, letters of credit, guarantees and agency services, and commercial lending, trade finance and other services to small and medium-sized local enterprises. At the end of 2004, total assets of Jian Sing Bank reached USD 502 million and profit before tax was USD 5,439,700.

Sino-German Bausparkasse Co. Ltd.

Sino-German Bausparkasse Co. Ltd. (“Sino-German Bausparkasse”), a joint venture between the Bank and Bausparkasse Schwäebisch Hall, commenced operations in Tianjin on 15 February 2004. Sino-German Bausparkasse’s registered capital is RMB 150 million, to which the Bank contributed RMB 112.65 million, representing 75.10% shareholding of the company. Its major business is mortgage savings credit business and providing customers with various forms of mortgage financing service.

9.4 Risk management

Building a modern risk management system

The Bank is committed to enhancing the capabilities and quality of its risk management by introducing new approaches and practices. As a result, we have achieved considerable improvements in asset quality and financial results.

In 2004, while we began to speed up the restructuring of our risk management system and mechanism in line with the basic requirements of the New Basel Capital Accord, we also focused our efforts on strengthening our risk management culture, the restructuring of our organisational structure, developing advanced technological tools and streamlining business processes and our team structure. This has put in place an initial framework for our risk management system covering credit, market and operational risks and enhanced the Bank's overall risk management capabilities.

◆ A risk management culture was gradually introduced throughout the Bank through concepts, such as maximising value while balancing risks and rewards, control of capital, comprehensive risk management and prioritisation of internal controls.

◆ We explored ways of restructuring our risk management organisational structure. We quickened the pace of building an independent and systematic risk management strategy and a corresponding framework. A vertical reporting line for our risk management function was promoted and we have built a team of risk managers. We are also looking into building a co-ordination system between business managers and risk managers which would achieve a risk-led process system.

◆ Risk management technology was improved. Based on the Credit Risk Rating and Early Warning System ("CRREW"), we launched a research project on the internal rating-based system and began building the foundation of the risk management platform. We gradually incorporated operational risk management when designing the structure of this platform. We also sped up the introduction of quality market risk management techniques, such as the use of sensitivity gap analysis to measure our exposure to fluctuations in interest rates, as well as other risk measurement techniques

such as stress testing and scenario analysis on both individual portfolios and on a consolidated basis.

◆ The relating risk management systems were modified and improved, including strictly enforcing the single legal responsibility framework, refining the credit customer assessment and evaluation procedures, standardising and unifying the control of credit management and group risk exposure, strengthening the post-event sample credit review and risk monitoring analysis, implementing the five-category loan classification system and standardising the accountability system.

Since completing the incorporation of the joint stock limited liability company and further improvements in the corporate governance structure, the Bank has begun implementing changes to its risk management thereby further improving the overall risk management structure. The Risk Management Committee of the Board of Directors (the “Risk Management Committee”) is responsible for formulating our risk strategy, reviewing risk management policies and monitoring their implementation, providing guidance on building our risk management and internal control systems, assessing the effectiveness of the organisational structure, reporting lines and working procedures for risk management, and conducting periodic assessments of our overall risk exposure.

In 2005, the Bank plans to implement a risk management structure in line with international practices, which reports directly to a Chief Risk Officer. We have further enhanced the independence and the effectiveness of our risk management bank-wide through reorganising the risk management organisational structure with clearly defined roles and responsibilities, implementing vertical management in risk management and credit approval and building and improving supplementary procedures for managing risk vertically.

Risk management’s information system structure

The Bank has been striving to build a risk management information system to further enhance the standard of its risk management techniques. Currently, we have two major information systems for risk management: the Credit Management Information System (“CMIS”) and the CRREW system.

In order to comply with the requirements of the New Basel Capital Accord and narrow the gap with leading international banks in respect of risk management, we began an independent research into the use of the internal rating-based system based on the successful launch of the CRREW system. A feasibility research report and a project plan for the blueprint design were prepared.

Credit risk management

Credit risk is the probability of loss resulting from the failure of a customer or counter party to meet its obligations or commitments to the Bank. We are exposed to credit risk primarily through the loan portfolios, discounting of bills and receivables, letters of credit, various forms of guarantees, investment portfolios and other on-and -off balance sheet credit risk exposures. Credit risk is one of the most important risks when managing a bank. The Bank is focused on and committed to improving its credit management technologies and strengthening its overall credit management practice.

Credit risk is monitored and centrally controlled by the Risk Management Department. Credit operations, credit approval and credit administration work together but are independent of each other to ensure that risk control and segregation of duties are fully effective. By building a team of credit management professionals throughout the Bank, we have significantly enhanced our credit risk management capability.

In 2003, the Bank conducted an assessment to review modifications to the five-category loan classification system and its provisioning policies in response to the revised regulatory requirements. Correspondingly, the credit ratings have been reassessed and provisions against doubtful debts have been revised according to the revised guidelines, which have been significantly realigned with relevant regulations and international best practice. By 2004, the revised five-category loan classification system and provisioning policies have been fully adopted.

Credit risk management and control policies

The Bank's credit risk strategy primarily follows the objective of maximising shareholder value by ensuring that the net income generated by the Bank's exposure is commensurate with the risk taken, avoiding undue risk concentration by rationalising the asset portfolio and realising continuous improvement in asset quality. To implement this strategy, the Bank has in place a credit management system, which comprises a series of standards, policies, procedures and systems allowing the Bank to effectively measure and control different types of credit exposure.

◆ *The China Construction Bank Corporation's Credit Manual* provides the Bank with a standardised set of comprehensive standards, policies and procedures with the aim of ensuring the alignment of credit risk management practices across all branches. *The China Construction Bank Corporation's Credit Manual* is regularly reviewed and updated during the year to ensure that the policies in place meet the demands of the Bank's continuously developing lending business closely.

◆ We operate under a system of delegated authorities, where clearly defined approval limits are assigned according to the approved credit strategy, authority level and differences in risk exposure across the lines of business. By the end of 2004, we revised our credit approval strategy and centralised most of the final decisions of the credit approval process at the Head Office and tier-1 branch levels. This has helped to unify the Bank's credit approval process and has enhanced the overall internal control environment.

◆ When evaluating the credit risk of customers or counterparties, our primary considerations are their financial strength and repayment ability. To effectively lower credit risk, we usually request security, such as collateral, from customers or counterparties.

◆ We continue to monitor loan asset quality through the use of the CMIS. The CRREW system has been successfully implemented for our corporate banking business and assists in monitoring loans by generating warning signals which indicate risk build-up in particular regions, industries, products, customers or types of loans. Therefore, the Bank's risk monitoring and management has been transformed from a post-event to a forward-looking approach.

◆ To ensure the effectiveness of the policies and procedures in place, credit risk management is subject to regular internal audit assessment. The Off-site Auditing System enables data to be collected from the branches. The system provides consistent and thorough analysis, detects problems, issues and irregularities and performs analysis for risk assessments. It also provides information for on-site auditing and facilitates the formulation of audit plans.

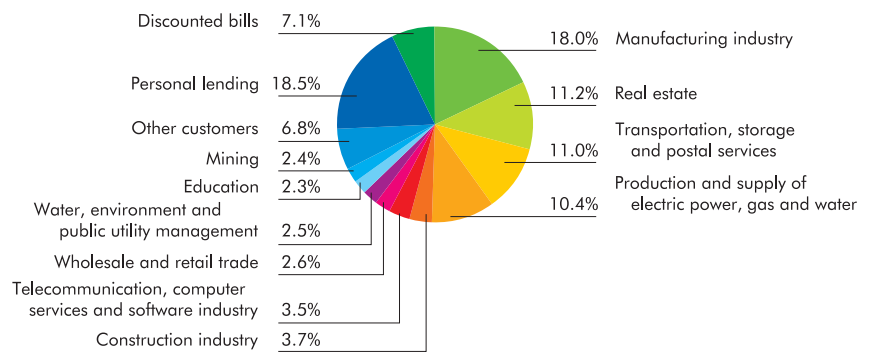
Risk-based loan classification system

The five-category loan classification system is based on the relevant regulatory requirements. We have therefore in place a set of clearly defined standards, methodology, procedures, organisational structure and tools to monitor and analyse loan data. During 2004, the five-category loan classification system was aligned with relevant regulations and adherence to the set classification criteria has been more rigorous.

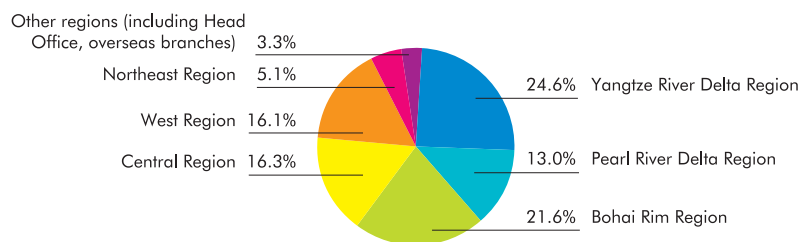
◆ *Assets subject to risk-based classification.* Assets subject to five-category classifications include loan assets denominated in all currencies and off balance sheet items, such as letters of credit, bank acceptances, guarantees, payments under guarantee and loan commitments.

◆ *Criteria of the risk-based loan classification.* The Bank adopts a risk-based loan classification methodology and classifies loans into five categories: pass, special-mention, substandard, doubtful and loss. The last three categories are defined as non-performing loans. For each type of loan, the Bank has defined clearly the primary classifications and relating general characteristics, which include the repayment ability of the borrower, repayment history, the borrower's willingness to pay and the loan collateral, etc.

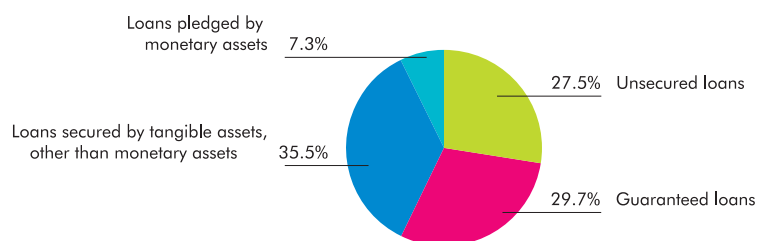
Loans balance by industry in 2004



Loans by region in 2004



Loans by type of security held in 2004



◆ *Classification methodology.* The classification is based on the assessment of repayment ability of borrowers which considers the borrowers' normal business revenues as the primary source of repayment, while treating loan guarantees as a secondary source of repayment. When defining the five-category classification for personal lending, a matrix methodology based on factors such as the overdue loans or overdrafts and loan guarantees is used.

◆ *Basic procedures in defining risk-based loan classification.* When performing the initial assessment and grading of the risk-based loan classification, the Bank follows a set of strictly defined standards, methodology, procedures and requirements. All grading approvals are made within a strict set of authority limits. The main procedures include: (1) initial assessment; (2) credit management discussions; (3) grading; (4) approval of grading; and (5) recommendations on risk management.

Loan portfolio

Loan portfolio management has always been one of the key areas of management focus. In recent years, we have ensured diversification and rationalisation of credit portfolios by spreading loans to various customers, industries, regions and maturity structures. This has, in turn, enhanced the overall profitability. The rate of loan growth in the second half of 2004 had decreased by 32.9% when compared to the first half of the year. This reflects our efforts to carefully manage our lending business with the aim of achieving healthy and steady growth, while maintaining the overall quality of the portfolio. At the end of the reporting period, loans to top 10 customers totalled RMB 106,308 million and accounted for 4.78% of the total loan balance. Please refer to the diagrams for the analysis of loans by industry, region and type of security.

Loan quality

At the end of 2004, the non-performing loan ratio was 3.92%, a decrease of 0.35 percentage points over the previous year. Total restructured loans amounted to RMB 2,563 million.

In 2004, the Bank modified the five-category loan classification system to align with relevant regulations. Provision for loan losses is therefore made where necessary and on a prudent and consistent basis with the newly established guidelines and international practices. Please see note 17 to the financial statements.

Loans grading profile (bank-wide level)

Expressed In millions of RMB

	31 December 2004		31 December 2003	
	Balance	Percentage	Balance	Percentage
Total loan balance	2,225,585	100%	1,995,990	100%
Pass	1,766,806	79.4%	1,545,165	77.4%
Special mention	371,434	16.7%	365,573	18.3%
Non-performing	87,345	3.9%	85,252	4.3%
Including: Substandard	51,418	2.3%	51,211	2.6%
Doubtful	31,058	1.4%	27,692	1.4%
Loss	4,869	0.2%	6,349	0.3%

Special assets resolution

In accordance with the Bank's credit risk management policies, some of the loans classified as substandard and all of the loans classified as doubtful or loss are transferred to a separate department, the Special Assets Resolution Department. Using a dedicated department to manage the recovery, activation and disposal of these non-performing assets has allowed us to build up considerable experience and expertise, and recovery rates have consistently improved.

In 2004, we continued to focus on recovering and disposing of non-performing assets and increasing the rate of cash recovery. We remained active in pursuing different types of disposal methods as well as exploring different ways of resolving repossessed assets. Therefore, we made some breakthroughs with the disposals of our repossessed assets. In 2004, we disposed of RMB 9,478 million and wrote off RMB 6,337 million non-performing loans assets.

Market risk management

Market risk is the risk that the Bank's earnings or capital, or its ability to meet business objectives, will be adversely or favourably affected by changes in the level or volatility of market rates or prices such as interest rates, foreign exchange rates, and equity and commodity prices. We have in place a market risk management system

which uses and continues to introduce different quantitative techniques to measure, monitor and manage the Bank's market risks in an objective, effective and timely manner. Our aim is to have satisfactory financial returns while maintaining market risks within acceptable parameters.

Historically, the Bank operates in an environment where interest rates and exchange rates for both deposits and loans are set by the PRC government. As the PRC government gradually removes these restrictions and the domestic financial services sector becomes more competitive, the Bank's market risk exposure increases accordingly.

Risk Management Department is responsible for formulating market risk policies, assessing and evaluating risk conditions; and Asset and Liability Management Department is responsible for the whole bank's market risk management. Limits by location and portfolio are proposed by the businesses within the terms of agreed policy, taking into account factors such as product characteristics, staff experience, economic environment and market competition. We aim to continuously improve the overall structure and framework by using a combination of risk management techniques to enable us to effectively manage market risk on an individual level and portfolio basis.

Management monitors the Bank's market risk exposure by using a periodic reporting system, together with ad-hoc and on-line reporting. A summary market risk report for treasury transactions is produced on a daily basis, which details the Bank's market risk exposure against the agreed limits and highlights key issues for management.

Interest rate risk management

Most of our market risk is due to interest rate risk arising from mismatches in the maturities or repricing of our assets and liabilities. The resultant gap may cause net interest income to be affected by fluctuations in the prevailing levels of interest rates.

We manage our interest rate risk primarily by adjusting the maturity profile of our assets and liabilities based on our assessment of potential changes in interest rate. Since 2004, we have also begun to measure our exposure to fluctuations in interest rates using gap analysis, which provides a static view of the repricing characteristics

of our assets and liabilities.

As at 31 December 2004, the Renminbi and foreign currency businesses' interest rate sensitivity gap for not more than 3 months totalled RMB -1,261,238 million and the Renminbi and foreign currency businesses' interest rate sensitivity gap for not more than 1 year amounted to RMB -340,585 million.

Value at Risk analysis ("VaR ") is a technique that estimates the potential losses that could occur on risk positions taken due to movements in market rates and prices over a specified time horizon and to a given level of confidence. VaR is currently used to measure the market exposure of the Bank's foreign currency denominated investment and trading portfolios. But due to the limitation on pricing data for the Renminbi business, the calculation cannot be used as a principal source of measurement.

The following table shows the VaR of our foreign currency denominated trading positions for 2004 and 2003:

	Expressed in USD	
	31 December 2004	31 December 2003
Interest rate risk	3,947,227	5,054
Foreign exchange risk	1,285	761
Diversification effect	1,873	932
Total VaR	3,946,639	4,883

Note: The above VaR should be viewed in the context of the following methodology limitations:

- The use of historical data as a proxy for estimating future events may not capture all potential events, particularly those which are extreme in nature. The model assumes that changes in risk factors follow a normal or logarithmic distribution. This may not be the case in reality and may lead to an underestimation of the probability of extreme market movement;
- The use of a 1-day holding period assumes that all positions can be liquidated or hedged in that period of time. This assumption may not fully reflect the market risk arising from times of severe illiquidity, when liquidation or hedging in that period of time may not be possible;
- The use of a 99% confidence level does not take into account of any losses that might occur beyond this level of confidence;
- VaR is calculated at the close of business with intra-day exposures excluded; and
- VaR does not necessarily capture all the market risks and may underestimate real market risk exposure.

The Bank recognises the above limitations, and uses a number of complementary techniques such as stress testing and scenario analysis both on individual portfolios and on a consolidated basis. When performing stress testing, we analyse the sensitivity of earnings from yield curve shifts and twists.

We also enter into derivative contracts such as swaps and options to hedge our interest rate risk exposure on foreign-currency-denominated trading and investment portfolios. We generally do not use these instruments to hedge our interest rate risk on Renminbi denominated securities as hedging instruments are not well-developed in the domestic market.

Exchange rate risk management

Whilst the Bank's predominant market risk is interest rate risk, we are exposed to exchange rate risk as a result of holding loans, deposits, securities and financial derivatives denominated in currencies other than Renminbi. Exchange rate risk arises from mismatches in the currency denomination of assets and liabilities and mismatches in our positions in foreign currency transactions both for proprietary accounts and on behalf of customers. We manage our exchange rate risks by seeking to match the amount and maturity period of our lending and borrowing on a currency-by-currency basis. We hedge the open positions from our proprietary currency transactions for foreign currency investments and inter -bank transactions by entering into currency spot and forward contracts. For most foreign currency purchases and transactions we execute on behalf of our customers, we generally seek to close our open positions within the same business day to the extent permissible by the State Administration of Foreign Exchange of the PRC.

Liquidity risk management

Liquidity is the risk that the Bank is unable to meet its payment obligations when they fall due or to replace funds when they are withdrawn. The Asset and Liabilities Management Department is responsible for managing the liquidity structure of the Bank's assets, liabilities and off-balance sheet commitments in order to ensure that the Bank can meet its current and future re-financing needs at acceptable costs, as well as managing the Bank's day-to-day liquidity.

To achieve centralised liquidity management, we have a uniform liquidity policy in place for all domestic tier-1 branches, with an authorised set of liquidity limits and ratios for all branches to follow, and any surplus funds are remitted to the Head Office.

Liquidity is managed by analysing sources and uses of funding, economic and business conditions and by projecting future cash flows. Regulatory and statutory liquidity requirements are also taken into account.

Key liquidity ratios for Renminbi domestic business

	Loan to deposit ratio	Liquidity ratio	Surplus reserve ratio	Inter-bank lending ratio
31 December 2004	60.98%	51.37%	4.69%	0.39%
31 December 2003	66.54%	44.64%	4.13%	0.49%

Liquidity positions are monitored daily, and reviewed quarterly, by senior management. The sources and maturities of assets and liabilities are closely monitored and diversified to avoid any undue concentration. In 2004, the loan to deposit ratio decreased from 66.54% at the end of 2003 to 60.98%, a reduction of 5.56 percentage points which reflects the Bank's tightened credit underwriting policy in response to the government's macroeconomic policies. The liquidity ratio increased from 44.64% in 2003 to 51.37%, an increase of 6.73 percentage points which is mainly a result of the Bank utilising its abundant capital and therefore increasing in its holding in placements and investments.

Operational risk management

Operational risk is the potential for direct or indirect financial loss arising from failed or inadequate internal processes, people and systems or from external events such as fraud, unauthorised transactions, error omission, negligence, inefficiency, systems failure and other events.

The Bank has formulated and implemented internal policies, procedures and criteria to manage operational risk. We have slowly built an operational risk

management framework which covers all business functions ranging from finance, credit, accounting, settlement, savings, treasury, intermediary business, computer applications and management, special assets resolution and legal affairs. This has facilitated the Bank to comprehensively identify and address the operational risk inherent in all key products, activities, processes and systems. Key controls include:

- ◆ Segregation of duties whereby responsibilities within our operating departments, including the business departments, the Credit Approval Department, the Risk Management Department and the Audit Department, are clearly defined and separated;
- ◆ A centralised appointment and rotation system for key positions, in particular for key accounting and financial control positions at our branches;
- ◆ Delegation of authority for various business activities to branches within set limits according to their respective business scope, risk management capabilities and credit approval procedures. Authorisations are revised on a periodic basis to reflect changes in market conditions and business development and risk management needs;
- ◆ A dedicated anti-money laundering division under the Legal Department which is responsible for overseeing that cash management and account management are in compliance with the relevant regulations and for improving training on anti-money laundering to ensure our staff are well-equipped with the necessary knowledge and basic skills to combat money laundering;
- ◆ Accountability managed under a code of conduct. Enforcement and strict disciplinary measures in place for those violating our rules and regulations; and
- ◆ Contingency facilities maintained (including backup systems and disaster recovery schemes) to support all operations, especially back office operations, in the event of an unforeseen interruption. Insurance cover arranged to mitigate potential losses associated with certain operational events.

The Bank continues to be committed to seeking effective ways to control operational risks. Since 2003, the Risk Management Platform project was initiated with the aim of unifying our various risk management procedures and criteria across all business activities and branches. The project is based on five key elements of an internal control framework: internal control environment; internal control planning; internal control implementation, operation and monitoring; assessment and continuous enhancements; and information and communication.

Internal audit

The Audit Department's objective is to promote an effective internal control and corporate governance environment. It is responsible for auditing and evaluating the internal controls of the Bank's business operations, risk profiles and economic accountability of key managers, and proposing improvements to the Bank's risk management, internal controls and corporate governance processes.

In 2004, the Audit Department implemented a risk-focused audit strategy by conducting a number of audit projects such as audits of the carve-out of doubtful debts, the new loans origination process, residential mortgages and consumer lending, the bills discounting business, the foreign exchange business, and the information systems. Meanwhile, we enhanced the quality and effectiveness of our internal audit review by integrating both on and off-site audits, ensuring audit findings were resolved on a timely basis and management and information analysis of our audits were strengthened. We remain committed to investing in new audit techniques and computer aided tools and have completed the initial phases in developing a new risk assessment audit planning system, an internal controls audit assessment methodology and an audit information management system.

In 2005, as part of our efforts to increase the independence and authority of our internal controls, we are establishing a vertical internal audit structure that reports directly to the Board of Directors and its Audit Committee, the President and the Board of Supervisors.

9.5 Community involvement

To fulfil our corporate social responsibility, we support a variety of community activities to promote improvements in the community and social benefits. With an objective of helping the community to benefit from the development of the Bank, we have seen progress in areas such as education, aiding the poor, medical and sports, which have all benefited from our years of support.

◆ In 2004, the CCB Caring Foundation, established through employee donations, donated a total of RMB 2 million to help over 1,460 students with financial difficulties in 86 universities; RMB 500,000 to the China Youth Development Foundation to build a “CCB Hope Primary School” in Rongshui County of Guangxi Zhuang Municipality Autonomous Region; RMB 500,000 to the China Foundation for Justice and Courage, which honours and rewards individuals for exemplary and courageous actions and commitments. By the end of 2004, in total, the CCB Caring Foundation had donated RMB 28.25 million to the community; RMB 18 million to help over 13,160 students with financial difficulties in 86 universities; RMB 4.5 million to the China Youth Development Foundation to build over 20 Hope Primary Schools in 13 provinces, autonomous regions and municipalities directly under the central government throughout the country; and RMB 4.5 million to the China Foundation for Justice and Courage.

◆ In 2004, we continued to support the China Children and Teenagers’ Fund and were entrusted to raise charity donations in aid of children in underprivileged areas wanting to return to school. Together with the China Children and Teenagers’ Fund, we developed the “Change for Charity” donation boxes campaign. By the end of 2004, we helped to raise funds totalling RMB 2,187,100 on behalf of the China Children and Teenagers’ Fund for underprivileged children to return to school. In 2004, as a result of our continued support and active aid assistance for the cause of children education, the Bank was awarded the “Children Care Outstanding Award” at the third “Chinese Children Charity Activity Day” jointly held by the Chinese People’s Association for Friendship with Foreign Countries, the World Chinese Entrepreneurs General Association, the China International Institute of Multinational Corporations and China Children and Teenagers’ Fund.



REPORT FROM THE BOARD OF SUPERVISORS CCB ANNUAL REPORT 2004

10 Report from the Board of Supervisors

10.1 Daily responsibilities of the Board of Supervisors

At China Construction Bank Corporation's First Shareholders' General Meeting on 15 September 2004, Mr. Xie Duyang, Ms. Liu Jin, Mr. Jin Panshi, Ms. Chen Yueming were elected as supervisors; at the Extended Meeting of the Working Committee of the Labour Union of China Construction Bank Corporation on 15 December 2004, Ms. Cheng Meifen was elected as the Staff Representative Supervisor; at China Construction Bank Corporation's Second Extraordinary Shareholders' General Meeting of year 2005 on 25 March 2005, Mr. Cui Jianmin and Mr. Guo Feng were elected as external supervisors.

Since its establishment, the Board of Supervisors has worked in accordance with the relevant requirements of *the PRC Company Law* and *the Articles of Association of China Construction Bank Corporation* by developing its work scope and setting out relevant rules and guidelines with the aim of protecting the interests of the shareholders, the Bank and the employees.

(1) Meetings of the Board of Supervisors

Between 17 September 2004 and 31 December 2004, two Board of Supervisors meetings were held:

At the first meeting of the Board of Supervisors on 15 September 2004, Mr. Xie Duyang was elected as Chairman.

At the second meeting of the Board of Supervisors on 5 November 2004, *the Work Procedures of China Construction Bank Corporation's Board of Supervisors* was approved, while the matters relating to the office of the Board of Supervisors and the candidates for key and assistant office directors and the *Latest Work Progress and Plans of the Board of Supervisors* were circulated.

(2) Attendance and absences at the Board of Supervisors meetings

Between 17 September 2004 and 31 December 2004, the supervisors attended the First Shareholders' General Meeting and two Extraordinary Shareholders' General Meetings, three of the meetings of the Board of Directors. Certain supervisors attended the meetings of the Board Committees and the Bank's operational management meetings.

(3) Work progress of the supervisors

◆ Fulfilment of duties supervision: The Board of Supervisors supervised how the Board of Directors and the Executive Management discharged their due duties through setting up case files and reviewing, on a sample basis, documents signed by the Executive Management and senior executives, and work progress reports of the Board of Directors and the Executive Management.

◆ Financial supervision: the Board of Directors reviewed the Bank's financial information, performed an off-site financial review and met with the appointed external auditors. The Board of Supervisors also considered and laid out the review plan to perform specific reviews at Hebei and Qingdao branches for assessing the accuracy of the risk-based corporate loan classifications and the adequacy and reasonableness of the relating impairment provisions.

◆ Internal control supervision: The Board of Supervisors reviewed the quality and changes in the Bank's assets. The Board performed a review of the risk management and internal control environment at the Hainan and Guangxi branches, designed a review plan and performed on-site reviews of the lending business related internal control and risk management environment at the Chongqing and Shaanxi branches. The Board of Supervisors paid close attention to other matters such as related party transactions and significant sales of assets.

10.2 Board of Supervisors' independent opinion on relevant issues

Since the incorporation of China Construction Bank Corporation, the Board of Directors duly conducted the resolutions of the Shareholders' General Meetings and achieved significant progress in promoting further developments in the Bank's restructuring and improvements in corporate governance. The Executive Management duly conducted the decisions made by the Board of Directors and achieved significant progress in terms of making the necessary preparation for a listing, risk management, internal controls and business development. The current Board of Directors and Executive Management were diligent and conducted their roles in a legitimate manner. In 2004, the Bank experienced steady growth in all lines of business and maintained growth in its operating results, therefore this has laid a sound platform for achieving the Bank's long-term goal.

(1) Legitimacy of the Bank's operations and conduct

Between 17 September 2004 and 31 December 2004, the Bank conducted its operations in a legitimate manner. The conduct of the Shareholders' General Meetings and the meetings of the Board of Directors, the proposal of agenda items and the approval of resolutions were performed in a legal and effective manner, in accordance with *the PRC Company Law* and *the Articles of Association of China Construction Bank Corporation*.

At the fourth meeting of the Bank's First Session of the Board of Directors on 16 March 2005, it was approved that Mr. Zhang Enzhao was to resign from the role of Chairman of China Construction Bank Corporation due to personal reasons. On the same day, at the First Extraordinary Shareholders' General Meeting of year 2005, it was approved that Mr. Zhang Enzhao was to resign from the role of director of China Construction Bank Corporation due to personal reasons.

On 25 March 2005, the Second Extraordinary Shareholders' General Meeting of year 2005 was convened, at which Mr. Guo Shuqing was elected as a director. On the same day, the fifth meeting of the First Session of the Board of Directors was convened, at which Mr. Guo Shuqing was elected as the Chairman of the Board of Directors.

(2) Analysis of the Bank's assets and financial position

KPMG Huazhen have performed an audit of the Bank's financial statements for the years ended 31 December 2003 and 2004 in accordance with China's Independent Auditing Standards of the Certified Public Accountants and have issued a standard and unqualified auditors' report. The Board of Supervisors is of the opinion that the Bank's financial statements present a true and fair view of the Bank's financial positions and operating results.

(3) Related party transactions

The Bank's related party transactions have been conducted in accordance with the laws of the PRC and the relevant internal rules and guidelines of the Bank. The related party transactions were fair and reasonable and were conducted in accordance with the Bank and the shareholders' interests.

(4) Events including acquisition and sale of assets

Between 17 September 2004 and 31 December 2004, the Bank had no significant acquisition or sale of assets required to be disclosed.



11 Important Events

11.1 Important events including restructuring, incorporation and sale of assets

◆ In 2004, CCB was separated into China Construction Bank Corporation and Jianyin. According to the separation procedure under *the PRC Company Law* and the separation proposal approved by the CBRC on 8 June 2004, CCB released its separation announcement on 10, 11 and 12 June 2004. Following the final approval by the CBRC on 14 September 2004, Huijin, Jianyin and the Bank entered into a separation agreement on 15 September 2004 which was completed on 17 September 2004.

◆ After the separation of CCB, the Bank took over all the commercial banking businesses and related assets and liabilities of CCB, including all deposits, loans, bank cards, clearing activities and other businesses, and the related rights, ownership and interests in intellectual property rights originally held by CCB. All CCB's other businesses, assets and liabilities were transferred to Jianyin.

◆ Upon incorporation of the Bank on 17 September 2004, the Bank formally incorporated after completing the registration with the State Administration for Industry and Commerce and obtained the relevant business license. China Construction Bank Corporation's registered capital amounts to RMB 194,230.25 million, and its promoters are Huijin, Jianyin, State Grid, Shanghai Baosteel and Yangtze Power, which holds 85.228%, 10.653%, 1.545%, 1.545% and 1.030% of shareholding respectively.

◆ On 15 September 2004, the CBRC issued a financial services certificate to the Bank. New banking licenses have been approved and obtained by overseas branches in Hong Kong, Frankfurt, Johannesburg, Singapore and Seoul. The Tokyo Branch has

suspended its operations according to the relevant Japanese legislations but retained all existing assets and employees. The Bank is currently applying for a renewal of the banking licence for its Tokyo branch. In addition, our London and New York representative offices have also obtained relevant regulatory approvals to operate as representative offices.

◆ With the approval of the relevant departments of the State Council at the end of 2003, the Bank transferred non-performing loans with a principal amount of RMB 128,900 million outstanding at 50% of the principal amount. In June 2004, the PBOC selected Cinda to act as a receiver through an auction process.

◆ On 2 March 2004, the Bank transferred loans with principal amounting to RMB 56.9 billion which were previously written off in 2003 to Cinda after obtaining approval from the MOF.

11.2 Appointment of accounting firm

The First Shareholders' General Meeting on 15 September 2004 approved the "Proposal on China Construction Bank Corporation's Appointment of Auditor" to engage KPMG Huazhen as the auditor of the financial statements for the year ended 31 December 2004.



FINANCIAL STATEMENTS

CCB ANNUAL REPORT 2004

A wide-angle, low-angle shot of a modern office lobby. The ceiling is high and features a series of long, rectangular light fixtures arranged in a grid pattern. A large, curved staircase with a glass railing leads up from the ground floor. In the foreground, there are several large potted plants, including a tall palm tree and several smaller ones in pots. The floor is polished and reflects the light. In the background, there are glass-walled offices and a reception desk.

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Auditors' report

KPMG-A (2005) AR No.0350

To all shareholders of China Construction Bank Corporation (the "Bank"):

We have audited the attached balance sheets as at 31 December 2003 and 2004, and the related income statements, statements of changes in owners' equity and cash flow statements of the Bank for the years then ended. The preparation of these financial statements is the responsibility of the Bank's management. 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 of the Certified Public Accountants. 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 principles used and significant estimates made by the Bank's 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 above mentioned financial statements comply with the requirements of the Accounting Standards for Business Enterprises, *the Accounting Regulations for Financial Enterprises* issued by the Ministry of Finance of the People's Republic of China and present fairly, in all material respects, the financial positions of the Bank as at 31 December 2003 and 2004, and the results of operations and cash flows of the Bank for the years then ended.

KPMG Huazhen

8th Floor, Tower E2
Oriental Plaza
No.1, East Chang'an Avenue
Beijing, The People's Republic of China
Postcode: 100738

Certified Public Accountants

Registered in the People's Republic of China

Jin Naiwen

Zhang Bohui

6 June 2005

Balance sheet

Expressed in millions of Renminbi

ASSETS	Note	2004	2003
Current assets			
Cash		27,080	24,410
Deposits with central banks	5	372,286	306,338
Deposits with banks and other financial institutions	6	6,516	10,900
Placements with banks and other financial institutions	7	69,981	205,527
Short-term loans	8	687,530	715,000
Trade finance	9	5,762	5,150
Interest receivable		10,329	7,393
Other receivables	10	30,417	151,688
Discounted bills	11	157,319	103,863
Short-term investments	12	149,880	82,398
Amounts held under resale agreements	13	37,022	21,603
Long-term debt investments maturing within one year	14	35,473	38,700
Total current assets		1,589,595	1,672,970
Long-term assets			
Medium and long-term loans	15	1,306,604	1,118,286
Non-accrual loans	16	68,370	53,691
Less: Provision for loan losses	17	(53,829)	(54,359)
Long-term debt investments	18	905,882	652,773
Long-term equity investments	19	16,433	29,989
Fixed assets at cost		85,842	83,999
Less: Accumulated depreciation		(19,053)	(13,686)
Less: Provision for impairment of fixed assets		(490)	-
Fixed assets at net book value	20	66,299	70,313
Construction in progress		764	963
Total long-term assets		2,310,523	1,871,656
Intangible assets and other assets			
Intangible assets		1,336	1,619
Long-term deferred expenses		469	654
Repossessed assets	21	2,862	6,171
Total intangible assets and other assets		4,667	8,444
TOTAL ASSETS		3,904,785	3,553,070

The notes on pages 98 to 145 form part of these financial statements.

Balance sheet (continued)

Expressed in millions of Renminbi

LIABILITIES AND SHAREHOLDERS' / OWNER'S EQUITY	Note	2004	2003
Current liabilities			
Short-term deposits	22	1,688,645	1,538,543
Short-term savings deposits	23	1,326,249	1,217,702
Fiscal balances		2,408	1,665
Amounts due to central banks		2,222	2,222
Deposits from banks and other financial institutions	24	88,854	89,293
Placements from banks and other financial institutions	25	23,270	19,693
Amounts sold under repurchase agreements	26	125	3,760
Outward remittances		29,134	29,280
Inward remittances		6,098	7,833
Interest payable		23,480	21,720
Salaries payable		2,669	2,151
Accrued welfare expenses		1,275	590
Dividends payable		2,914	-
Tax payable	27	4,446	2,264
Other payables	28	27,678	26,643
Long-term liabilities due within one year	29	183,567	153,568
Total current liabilities		3,413,034	3,116,927
Long-term liabilities			
Long-term deposits	30	39,480	55,961
Long-term savings deposits	31	199,430	184,239
Long-term pledged deposits	32	5,546	7,130
Structured foreign currency deposits		9,892	994
Certificates of deposit issued		2,659	1,589
Subordinated bonds issued	33	40,000	-
Total long-term liabilities		297,007	249,913
Total liabilities		3,710,041	3,366,840
Share capital		194,230	-
Surplus reserve		514	-
Owner's equity		-	186,230
Total shareholders' / owner's equity	34	194,744	186,230
TOTAL LIABILITIES AND SHAREHOLDERS' / OWNER'S EQUITY		3,904,785	3,553,070

These financial statements have been approved by the Board of Directors of the Bank.

Guo Shuqing

Authorised representative

Fan Yifei

Officer in charge of Accounting

Wang GuiyaGeneral Manager of
the Planning & Financial Department**Lu Kegui**General Manager of
the Accounting Department

6 June 2005

The notes on pages 98 to 145 form part of these financial statements.

Income statement

Expressed in millions of Renminbi

	Note	2004	2003
Operating income			
Interest income	35	110,025	99,494
Interest income from deposits and placements with banks and other financial institutions	36	8,408	8,123
Fee and commission income		7,352	5,159
Other operating income		1,168	1,209
Total operating income		126,953	113,985
Operating expenses			
Interest expense	37	(43,577)	(39,251)
Interest expense on deposits and placements from banks and other financial institutions	38	(1,851)	(2,107)
Fee and commission expense		(984)	(578)
Other operating expenses		(325)	(256)
Total operating expenses		(46,737)	(42,192)
General and administrative expenses	39	(43,960)	(39,711)
Investment income	40	30,703	23,908
Operating profit		66,959	55,990
Less: Business tax and surcharges		(6,459)	(5,516)
Add: Non-operating income		1,433	545
Less: Non-operating expenses	41	(2,887)	(5,377)
Total profit before provisions for impairment		59,046	45,642
Less: Provisions for impairment	42	(8,830)	(8,169)
Total profit after provisions for impairment		50,216	37,473
Less: Income tax	43	(1,828)	(15,086)
Net profit		48,388	22,387

These financial statements have been approved by the Board of Directors of the Bank.

Guo Shuqing
Authorised representative

Fan Yifei
Officer in charge of Accounting

Wang Guiya
General Manager of
the Planning & Financial Department

Lu Kegui
General Manager of
the Accounting Department

6 June 2005

The notes on pages 98 to 145 form part of these financial statements.

Statement of changes in owners' equity

Expressed in millions of Renminbi

	Note	Share capital	Surplus reserves	Retained profits	Owner's equity	Total
As at 1 January 2003		-	-	-	(134,322)	(134,322)
Net profit		-	-	-	22,387	22,387
Profit distribution	34 (a)	-	-	-	(3,542)	(3,542)
Restructuring	1,34 (b)					
- Capital injection by owner		-	-	-	186,230	186,230
- Disposal of non-performing loans		-	-	-	35,818	35,818
- Receivable from the government		-	-	-	65,499	65,499
- Surplus on valuation		-	-	-	14,160	14,160
As at 31 December 2003		-	-	-	186,230	186,230
Shares issued upon incorporation of the Bank	34 (c)	194,230	-	-	(186,230)	8,000
Net profit		-	-	48,388	-	48,388
Profit distribution	34 (d)	-	514	(48,388)	-	(47,874)
As at 31 December 2004		194,230	514	-	-	194,744

These financial statements have been approved by the Board of Directors of the Bank.

Guo Shuqing
Authorised representative

Fan Yifei
Officer in charge of Accounting

Wang Guiya
General Manager of
the Planning & Financial Department

Lu Kegui
General Manager of
the Accounting Department

6 June 2005

The notes on pages 98 to 145 form part of these financial statements.

Cash flow statement

Expressed in millions of Renminbi

	Note to the cash flow statement	2004	2003
Cash flows from operating activities			
Repayment of medium and long-term loans		442,244	393,186
Net amount of current deposits taken		78,108	182,809
Non-current deposits taken		4,452,560	3,971,128
Net increase in deposits from banks and other financial institutions		-	100
Net increase in placements from banks and other financial institutions		-	5,796
Net decrease in placements with banks and other financial institutions		-	50,146
Interest and commission received		125,352	112,661
Recoveries of loans written off in prior years		653	2,117
Proceeds from certificates of deposit issued		2,131	3,755
Cash inflow from other operating activities		33,167	10,045
Sub-total of cash inflow		5,134,215	4,731,743
Net increase in statutory deposits with central banks		(45,499)	(49,831)
Medium and long-term loans drawn		(474,621)	(544,918)
Net amount of short-term loans drawn		(168,937)	(257,253)
Repayment of non-current deposits		(4,232,618)	(3,781,419)
Net decrease in deposits from banks and other financial institutions		(439)	-
Net decrease in placements from banks and other financial institutions		(58)	-
Net increase in placements with banks and other financial institutions		(20,937)	-
Interest and commission paid		(44,546)	(40,516)
Cash paid to and on behalf of employees		(22,337)	(22,850)
Payment of all types of taxes		(6,658)	(6,236)
Repayment of certificates of deposit		(2,797)	(1,149)
Net borrowings from central banks		-	(185)
Cash outflow from other operating activities		(17,915)	(15,418)
Sub-total of cash outflow		(5,037,362)	(4,719,775)
Net cash inflow from operating activities	(I)	96,853	11,968

The notes on pages 98 to 145 form part of these financial statements.

Cash flow statement (continued)

Expressed in millions of Renminbi

	Note to the cash flow statement	2004	2003
Cash flows from investing activities			
Cash received from disposal of equity investments		13,502	2,022
Cash received from disposal and redemption of debt investments		528,661	279,216
Cash received from dividends		777	997
Cash received from interest on debt investments		21,499	21,888
Net cash received from disposal of fixed assets and other assets		2,701	3,174
Sub-total of cash inflow		567,140	307,297
Cash paid for acquisition of equity investments		(143)	(113)
Cash paid for acquisition of debt investments		(823,971)	(330,936)
Cash paid for acquisition of fixed assets and other assets		(7,099)	(8,163)
Sub-total of cash outflow		(831,213)	(339,212)
Net cash outflow from investing activities		(264,073)	(31,915)
Cash flows from financing activities			
Cash received from capital injection/shares issued		8,000	186,230
Cash received from subordinated bonds issued		40,000	-
Sub-total of cash inflow		48,000	186,230
Distribution to the owner in connection with the Restructuring		-	(60)
Cash paid for expenses for the issue of subordinated bonds		(106)	-
Sub-total of cash outflow		(106)	(60)
Net cash inflow from financing activities		47,894	186,170
Effect of exchange rate changes on cash held		(3)	1
Net (decrease) / increase in cash and cash equivalents	(II)	(119,329)	166,224

The notes on pages 98 to 145 form part of these financial statements.

Cash flow statement (continued)

Notes to the cash flow statement

Expressed in millions of Renminbi

	2004	2003
(I) Reconciliation of net profit to cash flows from operating activities		
Net profit	48,388	22,387
Add: Provision for loan losses	5,586	7,657
Provision for impairment on other assets	3,244	512
Depreciation of fixed assets and amortisation of intangible assets and long-term deferred expenses	8,532	7,122
Net loss on disposal of fixed assets, intangible assets and other assets	210	730
Investment income	(30,703)	(23,908)
Decrease in deferred tax assets	-	14,887
Fees on issue of subordinated bonds	106	-
Increase in operating receivables	(234,163)	(503,138)
Increase in operating payables	295,653	485,719
Net cash inflow from operating activities	96,853	11,968
(II) Net (decrease) / increase in cash and cash equivalents		
Cash and cash equivalents at the end of the year	220,106	339,435
Less: Cash and cash equivalents at the beginning of the year	(339,435)	(173,211)
Net (decrease) / increase in cash and cash equivalents	(119,329)	166,224
(III) Cash and cash equivalents		
Cash	27,080	24,410
Cash equivalents		
- Deposits with central banks	123,540	100,299
- Deposits with banks and other financial institutions	6,516	10,900
- Placements with banks and other financial institutions	62,970	203,826
Sub-total of cash equivalents	193,026	315,025
Total	220,106	339,435

The notes on pages 98 to 145 form part of these financial statements.

Cash flow statement (continued)

Notes to the cash flow statement (continued)

(IV) Activities that do not involve cash receipts and payments

- | | |
|--|----------------------|
| (i) Assets and liabilities separated at the Restructuring | (Notes 1 and 34 (b)) |
| (ii) Receivables settled by bills | (Note 1) |
| (iii) Recognition and replenishment of a receivable
from the government | (Notes 1 and 10) |
| (iv) Interest repaid on special government bonds | (Note 34 (a)) |

These financial statements have been approved by the Board of Directors of the Bank.

Guo Shuqing
Authorised representative

Fan Yifei
Officer in charge of Accounting

Wang Guiya
General Manager of
the Planning & Financial Department

Lu Kegui
General Manager of
the Accounting Department

6 June 2005

The notes on pages 98 to 145 form part of these financial statements.

Notes to the financial statements

(Expressed in millions of Renminbi, unless otherwise stated)

1 Company status

China Construction Bank Corporation (the “Bank”) is a joint stock company with limited liability incorporated in Beijing in the People’s Republic of China (“PRC”) on 17 September 2004. The Bank obtained a financial service certificate B10411000H0001 on 15 September 2004, as approved by the China Banking Regulatory Commission (“CBRC”), and business license 1000001003912 on 17 September 2004, as approved by the State Administration for Industry and Commerce of the PRC. The Bank is under the supervision of the banking regulatory bodies empowered by the State Council of the PRC (“the State Council”).

With the approval of the State Council on 30 December 2003, China Construction Bank (“CCB”) underwent a restructuring (the “Restructuring”), whereby CCB received a capital injection of USD 22,500 million (equivalent to RMB 186,230 million) from China SAFE Investments Limited, previously known as Central Huijin Investment Co., Ltd. (“Huijin”), in cash on 30 December 2003 as CCB’s paid-in capital. CCB eliminated all paid-in capital (excluding the above mentioned paid-in capital), capital reserve and surplus reserve as at 31 December 2003 together with the net profit for the year ended 31 December 2003 against the accumulated losses as at 31 December 2003. As a result, Huijin became the sole owner of CCB.

As part of the Restructuring, the State Council also approved the following:

— The disposal of non-performing loans with a principal amount of RMB 128,900 million outstanding as at 31 December 2003 at 50% of the principal amount. The People’s Bank of China (“PBOC”) has been designated by the State Council to temporarily receive these loans. As such, the Bank recognised the transaction immediately on the basis that substantially all the risks and rewards of these loans have been transferred. Disposal proceeds of RMB 64,450 million were recognised as a receivable (Note 10) and the difference of RMB 35,818 million between the disposal proceeds and the net carrying value of the loans was directly credited to owner’s equity as an equity contribution by the owner (Note 34).

In June 2004, China Cinda Asset Management Company (“Cinda”) was chosen as the receiver of these loans by the PBOC. On 28 June 2004, Cinda entered into an ownership transfer contract with CCB to purchase these loans at the above mentioned price.

Disposal proceeds of RMB 64,450 million were fully settled by Cinda on 30 June 2004, of which RMB 63,354 million was used to subscribe to a bill issued by the PBOC at par value on the same day. The bill will mature in June 2009 and bears a fixed interest rate of 1.89% per annum. The PBOC has a right to early redeem this bill (Note 18).

— The PBOC issued a bill to CCB with a nominal value of RMB 21,000 million on 30 June 2004 to settle receivables arising from acting as the receiver, appointed by the State Council and the PBOC, for the liquidation of a trust and investment company. The bill will mature in June 2007 with a right of the PBOC to early redeem subject to certain conditions, and bears a fixed interest rate of 1.89% per annum (Notes 10 and 18).

— An agreement to replenish CCB's remaining accumulated losses of RMB 65,499 million. This will be repaid in the short term and is recorded as a receivable from the PRC government (Note 10).

— Financial support by the Ministry of Finance (the "MOF") for the payment of interest and support by the MOF for the repayment of principal of a bond with a nominal value of RMB 247,000 million, issued by Cinda, which is held by the Bank. The bond will mature in September 2009 and bears a fixed interest rate of 2.25% per annum (Note 18).

— An adjustment of the interest rate of a special government bond which is held by the Bank, with a nominal value of RMB 49,200 million, to a fixed interest rate of 2.25% per annum effective 1 December 2004. The related bond interest is settled periodically in cash (Note 18).

— The issuance of subordinated bonds with a total nominal value of RMB 40,000 million to strengthen the capital base.

Pursuant to the separation agreement signed by Huijin, China Jianyin Investment Limited ("Jianyin") (a state owned company which is directly and wholly owned by Huijin) and the Bank on 15 September 2004 ("Separation Agreement"), the Bank succeeded to substantially all the commercial banking businesses and related operations, together with the relevant assets and liabilities (the "Succeeding Business") of CCB as at 31 December 2003. Businesses that were not related to the commercial banking businesses, including the entrusted lending business transacted prior to 20 October 2000 (excluding the entrusted housing fund mortgage business), and certain assets and liabilities (the "Non-core Business") were transferred to Jianyin as a distribution to the owner (Note 34).

The above mentioned net assets of CCB, to which the Bank succeeded, were valued at RMB 186,230 million (including the above mentioned receivable from the government) by China Consultants of Accounting and Financial Management Co., Ltd (“CCAFM”). On 14 September 2004, the MOF approved the above valuation by issuing Cai Jin [2004] No. 84 “MOF’s Approval on the Asset Valuation Project for the Incorporation of China Construction Bank Corporation”. In accordance with the relevant regulations relating to the Restructuring, the Bank restated the related assets at the valuation amount as at 31 December 2003.

Upon incorporation on 17 September 2004, the Bank issued 165,538 million and 20,692 million promoters’ shares with a par value of RMB 1 each to Huijin and Jianyin respectively as consideration for the Succeeding Business and related assets and liabilities. On the same date, the Bank issued a total of 8,000 million promoters’ shares with a par value of RMB 1 each for cash to three other promoters, State Grid Corporation of China (“State Grid”), Shanghai Baosteel Group Corporation (“Shanghai Baosteel”) and China Yangtze Power Co., Ltd. (“Yangtze Power”). In total, the Bank issued 194,230 million shares with a par value of RMB 1 each. All shares rank *pari passu*.

Commercial banking activities referred to above include deposit taking, lending, payment settlement and other financial services in Renminbi and foreign currencies as approved by the CBRC.

2 Basis of preparation

The financial statements have been prepared as if the Bank had been in existence throughout the period from 1 January 2003 to 16 September 2004 and on the basis of the accounting policies stated in Note 3. The accounting policies adopted by the Bank are based on the Accounting Standards for Business Enterprises, *the Accounting Regulations for Financial Enterprises* (in 2001) issued by the MOF, and other relevant regulations.

In accordance with the Separation Agreement, the effective date of separation was 31 December 2003. The comparative figures of the Bank’s income statement for the year ended 31 December 2003 include the profits arising from the Succeeding Business and the Non-core Business. The assets and liabilities transferred to Jianyin (Non-core Business) are not included in the balance sheet as at 31 December 2003 and are accounted for as a distribution to the owner as at 31 December 2003 (Note 34). From 1 January 2004, the financial statements include only the assets and liabilities, the income and expenses and the cash flow of the Bank’s Succeeding Business.

The previously issued statutory financial statements of CCB for the year ended 31 December 2003 include the income and expenses for the year then ended and the assets and liabilities as at the date of the businesses succeeded by both the Bank and Jianyin from CCB. These financial statements were prepared in accordance with accounting policies which conform to the Accounting Standards for Business Enterprises issued by the MOF (limited to those standards effective for all enterprises), *the Accounting Regulations for Financial Enterprises* issued by the MOF and the PBOC in 1993 and other relevant regulations. Due to the Restructuring and the adoption of different accounting policies adopted by the Bank and CCB respectively, the financial information contained in the statutory financial statements for the year ended 31 December 2003 in this report are not comparable with the financial statements of CCB for the same period. As a result, the Bank has appointed KPMG Huazhen to audit the financial statements for the year ended 31 December 2004 as well as comparative figures for the year ended 31 December 2003.

3 Significant accounting policies

(a) Accounting year

The accounting year of the Bank is from 1 January to 31 December.

(b) Basis of preparation of the financial statements

The Bank's financial statements have been prepared based on the individual financial statements and other relevant information of its 38 tier-1 domestic branches, the head office Banking Department and 6 overseas branches. All material inter-branch transactions and balances have been eliminated during consolidation.

(c) Accounting basis and measurement principles

The financial statements of the Bank have been prepared on an accruals basis. Unless otherwise stated, the measurement basis used is historical cost.

(d) Reporting currency

The Bank's reporting currency is the Renminbi.

(e) Accounting for foreign currency transactions and foreign currency translation

Foreign currency transactions are recorded in multi-currency ledgers. For the purpose of compiling the financial statements at the balance sheet date, financial statements denominated in foreign currencies are translated into Renminbi and consolidated with the financial statements denominated in Renminbi.

All balance sheet items denominated in foreign currencies, except for equity, are translated into Renminbi at the exchange rates ruling at the balance sheet date. Equity items are translated into Renminbi at the exchange rates ruling at the historical transaction dates. The resulting exchange differences are dealt with as a foreign exchange gain or loss and disclosed as a separate equity item. The income statements were translated into Renminbi at the exchange rates ruling at the period end.

The Bank adopts the exchange rates quoted by the PBOC or other recognised exchange rates.

(f) Loans

(i) Loan classification

Short, medium and long-term loans: Loans are classified according to their original maturity terms. Except for non-accrual loans, loans originally maturing within one year are classified as short-term loans, whilst those originally maturing after one year are classified as medium and long-term loans.

Non-accrual loans: Loans are classified as non-accrual loans when the principal or interest is overdue for more than 90 days.

(ii) Loan recognition

Loans are stated at the amount actually drawn.

(iii) Provision for loan losses

A provision for credit impairment is made if there is objective evidence that the Bank will be unable to collect all amounts due from on and off balance sheet risk-bearing credits. Credit subject to impairment provisioning includes loans (including loans secured by tangible

assets other than monetary assets, loans pledged by monetary assets, guaranteed loans and unsecured loans), bank card overdrafts, discounted bills, trade bills and credit advances (e.g. bank acceptance bills, guarantees and letters of credit).

A provision for credit impairment is reported as a reduction in the carrying value of an on balance sheet item, whereas for off balance sheet items such a provision for credit impairment is reported in other payables. Provisions for credit impairment are recognised as profit or loss for the current period.

Provisions for credit impairment are evaluated at a counterparty-specific and a portfolio-general level based on the following principles:

Counterparty-specific: credit is considered impaired if management considers that it is probable that the bank will not be able to collect all amounts due based on the original contractual terms or an equivalent amount. Individual credit exposures are evaluated based upon the borrower's willingness to pay, the payment history, the market value of the security pledged and the ability and the intention of the guarantor. The estimated recoverable amount is the present value of expected future cash flows. Impairment is measured as a difference between the carrying amount and the estimated recoverable amount.

Portfolio-general: if there are indications of significant probable losses in the credit portfolio that have not been individually identified, a provision for credit impairment would also be recognised on a portfolio basis.

All impaired credits are reviewed and assessed at least annually with any subsequent changes to the estimated recoverable amounts resulting in changes in the provisions for credit impairment.

A provision for impairment is reversed only if the credit quality has improved such that there is a reasonable assurance of collection of the principal and interest.

(iv) *Loan write-off*

A write-off is made when management determines that the credit is uncollectible after the completion of legal or other procedures to collect the loan or credit. Write-offs are charged against the previously made provisions for credit impairment. Recoveries of amounts previously written off are netted against provisions for credit impairment expensed in the current period.

(g) Discounted bills

Discounted bills are unmatured bills discounted by the Bank. The interest income from discounted bills is calculated based on the face value of the bill, the maturity period and the relevant interest rate. Unaccrued interest income from discounted bills is deferred. The discounted bills are shown on the balance sheet at face value net of any deferred interest income at the balance sheet date.

(h) Amounts held under resale and repurchase agreements

In resale and repurchase agreements, the cash advanced or received is recognised as amounts held under resale and repurchase agreements on the balance sheet. Securities received or delivered under these agreements are in general not recognised on or derecognised from the balance sheet.

Interest earned and incurred on these agreements is recognised over the period of these agreements as interest income and expenses from deposits and placements with banks and other financial institutions respectively.

(i) Short-term investments

Short-term investments represent investments readily realisable with intended holding periods of within one year. Short-term investments are carried at the lower of cost and market value. The cost of a short-term investment is the total price paid on acquisition of the investment. However, it does not include unpaid interest on debt securities which was due at the time of acquisition.

Provisions for diminution in value are made on an item-by-item basis for any shortfall in the market value below the cost of short-term investments.

With the exception of interest on debt securities, which is due but not yet paid at the time of acquisition, interest is set off against the carrying amount of short-term investments when received by the Bank. Upon the disposal or redemption of short-term investments, the difference between the carrying amount of the short-term investments and the proceeds received is recognised as profit or loss for the current period.

(j) Long-term investments

Long-term investments are investments other than short-term investments.

Upon the disposal or transfer of long-term investments, the difference between the proceeds received and the carrying amount of the investments is recognised in the income statement.

(i) Long-term equity investments

Where the Bank has the power to control, jointly control or exercise significant influence over an investee enterprise, the investment is accounted for under the equity method of accounting whereby the investment is initially recorded at cost and adjusted thereafter for any post acquisition change in the Bank's share of the investors' equity in the investee enterprise.

Where the Bank does not control, jointly control or exercise significant influence over an investee enterprise, the investment is accounted for under the cost method whereby it is stated at the initial investment cost. Investment income is recognised when the investee enterprise declares a cash dividend or distributes profits.

Long-term investments are accounted for in the balance sheet at cost less provision for impairment (Note 3 (p)).

(ii) Long-term debt investments

The initial investment cost of a long-term debt investment is the total price paid on the acquisition of the investment. However, this excludes any due but unpaid interest receivable at the time of acquisition.

If long-term debt investments have been purchased at a premium or discount, those premiums and discounts are amortised through the income statement over the period from the date of acquisition to the date of maturity. These securities are included in the balance sheet at cost adjusted for the amortisation of premiums and discounts arising on acquisition.

Transaction costs associated with the acquisition of long-term debt investments are expensed.

Accrued interest on long-term debt investments with periodic interest payments that are not yet due at the balance sheet date is separately accounted for under interest receivable within current assets. Accrued interest on long-term investments with interest payable upon maturity is separately accounted for under interest receivable of long-term debt investments.

At the period end, long-term investments are accounted for in the balance sheet as the principal, plus the interest receivable from bonds with interest payable upon maturity and unamortised premiums and discounts, less any provision for impairment (Note 3 (p)).

(k) Fixed assets and construction in progress

Fixed assets are assets with comparatively high unit values held by the Bank for developing its banking business. They are expected to be used for more than one year.

Fixed assets are stated in the balance sheet at cost or valuation amount (Note 1) less accumulated depreciation and provision for impairment (Note 3 (p)). Construction in progress is stated in the balance sheet at cost or valuation amount less provision for impairment (Note 3 (p)).

All direct and indirect costs that are related to the construction of fixed assets and incurred before the assets are ready for their intended use are capitalised as construction in progress. Construction in progress is transferred to fixed assets when it is ready for its intended use. No depreciation is provided against construction in progress.

Fixed assets are depreciated using the straight-line method over their estimated useful lives, after taking into account of their estimated residual value. The respective estimated useful lives for the Bank's fixed assets are as follows:

Asset category	Estimated useful life
Land use rights	30 - 50 years
Bank premises	30 - 35 years
Computer equipment	3 - 8 years
Others	4 - 11 years

(l) Intangible assets

Intangible assets are stated in the balance sheet at cost or valuation amount (Note 1) less accumulated amortisation and provision for impairment (Note 3 (p)). The cost or valuation amount of the intangible assets is amortised on a straight-line basis over their estimated useful lives which range from 3 to 50 years.

(m) Long-term deferred expenses

Long-term deferred expenses are amortised on a straight-line basis over their beneficial

periods which range from 2 to 10 years. During the beneficial periods, unamortised amounts of any long-term deferred assets that are no longer deemed useful are fully charged to the income statement in the current period.

(n) Repossessed assets

Reposessed assets are recorded at the amount of the related loan principal value plus any recognised interest receivable and the relating taxes paid arising from the acquisition of the assets. At the same time, all the corresponding loan provisions are transferred to provisions for impairment of repossessed assets. At the period end, repossessed assets are stated in the balance sheet at cost less provision for impairment (Note 3 (p)).

(o) Provision for bad debts

Provisions for bad debts against all types of receivable items (including deposits, placements and other receivables, etc.) are made on an item-by-item basis when they are estimated to be unrecoverable. The Bank accounts for bad debt losses through provisioning.

(p) Provision for impairment

The carrying amounts of assets (including long-term investments, fixed assets, construction in progress, intangible assets and repossessed assets) are reviewed regularly at each balance sheet date to determine whether their recoverable amounts have declined below their carrying amounts. Assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable.

When such a decline has occurred, provisions for impairment are recognised on an item-by-item basis for the deficit between the recoverable amount and the carrying amount. Changes in the provision for impairment are recognised as a profit or loss in the income statement. The recoverable amount is the greater of the net selling price and the present value of the estimated future cash flows arising from the continuous use of the asset and from the disposal of the asset at the end of its useful life.

If there is an indication that there has been a change in the estimates used to determine the recoverable amount and as a result the estimated recoverable amount is greater than the carrying amount of the asset, the impairment loss recognised in prior periods is reversed. Reversals of impairment losses are recognised in the income statement. An impairment loss is reversed only to the extent of the asset's carrying amount that would have been determined

had no impairment loss been recognised in prior years.

(q) Subordinated bonds issued

Subordinated bonds issued are recognised as a liability for the total proceeds received upon issuance. The difference between the total proceeds and the face value of the debt securities represent the premium or discount of the debt securities, which is amortised through the income statement over the maturity period. The amount of expenses arising from the issuance of the debt securities which exceeds the interest income accrued during the blocked issue period is recognised in the income statement.

Interest payable for subordinated bonds issued is recognised on an accruals basis. Interest expenses and the amortisation of the discount and premium are recognised in the related period.

(r) Entrusted loans and entrusted funds

The Bank enters into entrusted loan agreements with a number of customers, whereby the customers provide funding ("entrusted funds") to the Bank, and the Bank grants loans to third parties ("entrusted loans") on the instructions of the customers.

Entrusted loans and the corresponding entrusted funds are recorded as off balance sheet items and no provisions are set aside for these entrusted loans. Entrusted funds received but not yet released to borrowers are recorded as deposits from customers.

(s) Financial derivatives

Financial derivatives arise from spot, forward, foreign currency swap, interest rate swap and option transactions undertaken by the Bank in the foreign exchange, interest rate and equity markets. Financial derivatives are recorded at the contract value as off balance sheet items. The Bank recognises gains and losses in the income statement upon the settlement date of the derivative contracts.

(t) Income recognition

When it is probable that the economic benefits will flow to the Bank and the income can be measured reliably, income is recognised in the income statement according to the following methods:

(i) Interest income

— Loan interest income is recognised on an accruals basis with reference to the principal and period outstanding and at the rate applicable. For either the loan principal or interest overdue for more than 90 days (including extension), the accrual of interest is discontinued and is accounted for in the off balance sheet memorandum accounts. Interest receivable is reversed in the income statement and recorded as an off balance sheet item. Amounts received subsequently will first be set off against the loan principal. It is only when the loan principal is fully recovered that any further amounts received can be recognised in the income statement.

— Other interest income is recognised on an accruals basis with reference to the principal and period outstanding and at the rate applicable.

(ii) Commission income

Commission income is recognised when the related services are rendered.

(iii) Other income

Other income is recognised on an accruals basis.

(u) Expense recognition***(i) Interest expenses***

Interest expenses are recognised on an accruals basis with reference to the amount and period outstanding and at the rate applicable.

(ii) Other expenses

Other expenses are recognised on an accruals basis.

(v) Employee benefits

The Bank participates in social insurance programs established by government agencies, including pension plans, medical insurance, housing provident funds and other social insurance. Insurance and provident funds contributions, a proportion of salaries not exceeding the prescribed maximum limit, are paid to the relevant labour and social insurance agencies and recognised as general and administrative expenses when incurred.

(w) Income tax

The Bank uses the tax-effect accounting method to account for income tax. Income tax for the year comprises current tax paid and payable and movements in deferred tax assets and liabilities.

Current income tax is calculated at the applicable tax rate on taxable income.

Deferred tax is provided for using the liability method for the differences between the accounting profits and the taxable profits arising from the timing differences in recognising income, expenses or losses between the accounting and tax regulations. Deferred tax is only recognised to the extent that it is probable that the asset can be utilised in the future. When the tax rate changes or a new type of tax is levied, adjustments are made to the amounts originally recognised for the timing differences under the liability method. The current tax rates are used in arriving at the reversal amounts when the timing differences are reversed.

When it is not probable that the tax benefits of deferred tax assets will be realised, the deferred tax assets are reduced to the extent that the related tax benefits are expected to be realised.

(x) Cash equivalents

Cash equivalents include short-term, highly liquid investments, which are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value, as well as surplus deposit reserve funds with central banks and deposits and placements with other banks and financial institutions.

(y) Provisions and contingent liability

Provisions are recognised when the Bank has a present obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligations and a reliable estimate can be made.

Where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow cannot be estimated reliably, the obligation is disclosed as a contingent liability.

(z) Profit distributions

Profit distributions are recognised in the income statement and statement of changes in owners' equity upon approval. Cash dividends approved after the balance sheet date, but before the approval of the financial statements, are disclosed on the face of the balance sheet as a separate component under shareholders' equity.

(aa) Related parties

If the Bank has the power, directly or indirectly, to control, jointly control or exercise significant influence over another party, or vice versa, or where the Bank and one or more parties are subject to common control from another party, they are considered to be related parties. Related parties may be individuals or enterprises.

4 Taxes

The Bank's main applicable taxes and tax rates are as follows:

(a) Business tax

Business tax is charged at 5% on operating income, excluding interest income from deposits and placements with banks and other financial institutions and interests recovered for loans already written off included in other operating income, plus penalty income included in non-operating income and postage income and handling charges from customers.

(b) City construction tax

City construction tax is calculated as 1% - 7% of business tax.

(c) Education surcharge

Education surcharge is calculated as 3% of business tax.

(d) Income tax

The Bank's income tax is paid centrally by the head office and the applicable rate is 33%. As taxation on overseas branches is charged at the relevant local rates, when filing the consolidated tax return, tax deductions are allowable according to the relevant income tax laws of the PRC. Tax exemptions are duly recognised upon approval from relevant government departments.

5 Deposits with central banks

		2004	2003
Statutory deposit reserve funds	(a)	245,208	199,709
Surplus deposit reserve funds		123,540	100,299
Fiscal balances		3,538	6,330
Total		372,286	306,338

(a) The Bank places statutory deposit reserve funds with the PBOC and the central banks of overseas countries where it has operations. Statutory deposit reserve funds placed with the PBOC are not available for the Bank's daily business and are calculated at 7.5% of eligible RMB deposits for domestic branches from 25 April 2004 during the year ended 31 December 2004. This was increased from 7% with effect from 25 April 2004 and previously increased from 6% on 21 September 2003. The Bank is also required to deposit 2% of its foreign currency deposits from customers from domestic branches as statutory deposit reserve funds throughout the relevant years. The amounts of statutory deposit reserve funds placed with the central banks of overseas countries are determined by local jurisdictions.

6 Deposits with banks and other financial institutions

(a) By nature

		2004	2003
Deposits in the PRC			
- Banks		3,214	3,478
- Other financial institutions		1,126	4,019
Sub-total		4,340	7,497
Bank deposits outside the PRC		2,546	3,984
Total		6,886	11,481
Less: Provision for bad debts	(b)	(370)	(581)
Net balance		6,516	10,900

(b) Movements in provision for bad debts

		2004	2003
As at 1 January		(581)	(836)
Charge for the year		(4)	(30)
Write-offs		215	285
As at 31 December		(370)	(581)

7 Placements with banks and other financial institutions

(a) By nature

	2004	2003
Placements in the PRC		
- Banks	4,190	1,287
- Other financial institutions	6,518	195,689
Sub-total	10,708	196,976
Placements with banks outside the PRC	61,542	11,795
Total	72,250	208,771
Less: Provision for bad debts (b)	(2,269)	(3,244)
Net balance	69,981	205,527

(b) Movements in provision for bad debts

	2004	2003
As at 1 January	(3,244)	(5,633)
Charge for the year	(267)	(102)
Write-offs / write back	1,242	2,491
As at 31 December	(2,269)	(3,244)

8 Short-term loans

	2004	2003
Unsecured loans	169,698	160,655
Guaranteed loans	278,961	309,515
Loans secured by tangible assets, other than monetary assets	205,607	203,815
Loans pledged by monetary assets	33,264	41,015
Total	687,530	715,000

9 Trade finance

	2004	2003
Outward bills	1,154	726
Trust receipt loans	3,293	3,092
Packing loans	1,315	1,332
Total	5,762	5,150

10 Other receivables

		2004	2003
Receivable from the government	(a)	23,781	65,499
Receivables on liquidation of a trust and investment company	(Note 1)	-	15,917
Receivable on disposal of non-performing loans	(Note 1)	-	64,450
Other net receivables	(b)	6,636	5,822
Total		30,417	151,688

(a) Receivable from the government

		2004	2003
As at 1 January		65,499	-
Recognised receivable from the government	(Note 1)	-	65,499
Repayment	(Note 34 (d))	(41,718)	-
As at 31 December		23,781	65,499

(b) Other net receivables

		2004	2003
Other gross receivables		13,619	15,099
Less: Provision for bad debts	(c)	(6,983)	(9,277)
Net balance		6,636	5,822

(c) Movements in provision for bad debts

	2004	2003
As at 1 January	(9,277)	(20,319)
Charge for the year	(375)	(315)
Write-offs / write back	2,669	11,357
As at 31 December	(6,983)	(9,277)

11 Discounted bills

	2004	2003
Bank acceptance bills	147,513	96,194
Commercial acceptance bills	9,806	7,669
Total	157,319	103,863

12 Short-term investments**(a) By nature**

		2004		
		Balance	Provision for impairment	Net balance
			(b)	
Government bonds	(i)	6,915	-	6,915
Bills issued by the PBOC	(i)	111,725	-	111,725
Debt securities issued by policy banks	(i)	5,651	-	5,651
Other debt securities	(ii)	25,612	(23)	25,589
Total		149,903	(23)	149,880

		2003		
		Balance	Provision for impairment	Net balance
			(b)	
Government bonds	(i)	2,699	-	2,699
Bills issued by the PBOC	(i)	69,697	-	69,697
Debt securities issued by policy banks	(i)	9,673	-	9,673
Other debt securities	(ii)	344	(15)	329
Total		82,413	(15)	82,398

(i) Government bonds, bills issued by the PBOC and debt securities issued by policy banks held by the Bank are traded in the inter-bank bond market. However, as these securities are not actively traded, up-to-date market prices are not always available, the Bank assesses the provision for diminution in value by using the net present value of the principal and interest income recoverable. The Bank's management considers that no impairment provisions are required for these securities at the above balance sheet dates.

(ii) Other debt securities are denominated in foreign currencies and were acquired on the Hong Kong or overseas capital markets. The analysis of their market values (average trading price in the inter-bank market on the balance sheet dates) is as follows:

	2004		2003	
	Net Carrying amount	Market value	Net Carrying amount	Market value
Listed securities	24,872	24,967	320	320
Unlisted securities	717		9	
	<u>25,589</u>		<u>329</u>	

The Bank's management considers that no provision for diminution in value is required to be made against the above investments, except for overdue unlisted securities.

The above investments are not subject to significant realisation constraints.

(b) Movements in provision for diminution in value of short-term investments

	2004	2003
As at 1 January	(15)	(25)
Transfer-in	(8)	-
Write-offs / write back	-	10
As at 31 December	<u>(23)</u>	<u>(15)</u>

13 Amounts held under resale agreements

(a) By pledged security held

	2004	2003
Government bonds	19,965	14,748
Bills issued by the PBOC	5,113	190
Other debt securities	11,955	6,687
Total	37,033	21,625
Less: Provision for bad debts (b)	(11)	(22)
Net balance	37,022	21,603

(b) Movements in provision for bad debts

	2004	2003
As at 1 January	(22)	(30)
Write-offs	11	8
As at 31 December	(11)	(22)

14 Long-term debt investments maturing within one year

(a) By nature

2004							
Category	Annual interest rate	Maturity date	Nominal value	Premium / discount	Interest	Provision for impairment	Total
Government bonds	1.90%-12.00%	2005/2 - 2005/12	15,157	6	134	(b) -	15,297
Debt securities issued by policy banks	1.99%-3.26%	2005/4 - 2005/11	10,920	(66)	-	-	10,854
Other debt securities	0.56%-7.75%	2005/1 - 2005/12	10,153	11	54	(896)	9,322
Total			36,230	(49)	188	(896)	35,473

2003							
Category	Annual interest rate	Maturity date	Nominal value	Premium / discount	Interest	Provision for impairment	Total
Government bonds	1.90%-6.50%	2004/2 - 2004/12	22,943	-	300	(b) -	23,243
Debt securities issued by policy banks	1.93%-3.38%	2004/3 - 2004/11	8,917	(37)	-	-	8,880
Other debt securities	0.30%-7.88%	2004/2 - 2004/12	7,533	2	77	(1,035)	6,577
Total			39,393	(35)	377	(1,035)	38,700

The above investments are not subject to significant realisation constraints.

(b) Movements in provision for impairment of long-term debt investments maturing within one year

	2004	2003
As at 1 January	(1,035)	(1,822)
Write-offs / write back	139	1
Distribution to the owner in connection with the Restructuring	-	786
As at 31 December	(896)	(1,035)

15 Medium and long-term loans

By original maturity:

2004			
	One to five years	Over five years	Total
Unsecured loans	135,408	143,368	278,776
Guaranteed loans	146,529	207,476	354,005
Loans secured by tangible assets other than monetary assets	192,286	356,313	548,599
Loans pledged by monetary assets	26,415	98,809	125,224
Total	500,638	805,966	1,306,604

	2003		
	One to five years	Over five years	Total
Unsecured loans	126,958	115,035	241,993
Guaranteed loans	145,519	166,708	312,227
Loans secured by tangible assets other than monetary assets	149,854	318,132	467,986
Loans pledged by monetary assets	28,383	67,697	96,080
Total	450,714	667,572	1,118,286

16 Non-accrual loans

	2004	2003
Unsecured loans	4,188	9,341
Guaranteed loans	26,606	19,546
Loans secured by tangible assets other than monetary assets	34,864	22,659
Loans pledged by monetary assets	2,712	2,145
Total	68,370	53,691

17 Provision for loan losses

Movements in provision for loan losses

	2004	2003
As at 1 January	(54,359)	(207,260)
Charge for the year	(5,586)	(7,657)
Transfer-out	432	3,492
Recoveries	(653)	(2,117)
Write-offs	6,337	58,549
Disposal of non-performing loans	-	100,268
Distribution to the owner in connection with the Restructuring	-	366
As at 31 December	(53,829)	(54,359)

Upon the disposal of non-performing loans in 2003 with a principal amount of RMB 128,900 million, as described in Note 1, the provision for loan losses of RMB 100,268 million previously made against these loans was transferred out.

18 Long-term debt investments

(a) By nature

2004								
Category		Annual interest rate	Maturity date	Nominal value	Premium / discount	Interest	Provision for impairment	Total
Government bonds	(i)	1.50%-13.00%	2006/2 - 2028/8	285,388	520	350	(b) -	286,258
Bills issued by the PBOC	(ii)	1.89%-4.15%	2007/6 - 2009/6	92,724	-	198	-	92,922
Debt securities issued by policy banks		2.01%-8.25%	2006/3 - 2032/1	158,578	287	2	-	158,867
Debt securities issued by Cinda	(iii)	2.25%	2009/9	247,000	-	-	-	247,000
Other debt securities		0.66%-10.60%	2006/1 - 2039/2	120,527	330	51	(73)	120,835
Total				904,217	1,137	601	(73)	905,882

2003								
Category		Annual interest rate	Maturity date	Nominal value	Premium / discount	Interest	Provision for impairment	Total
Government bonds	(i)	1.90%-12.00%	2005/2 - 2028/8	220,674	355	242	(b) -	221,271
Debt securities issued by policy banks		1.57%-8.25%	2005/4 - 2032/1	139,567	137	2	-	139,706
Debt securities issued by Cinda	(iii)	2.25%	2009/9	247,000	-	-	-	247,000
Other debt securities		0.31%-10.60%	2005/1 - 2018/8	44,477	209	144	(34)	44,796
Total				651,718	701	388	(34)	652,773

(i) Government bonds include a non-negotiable bond, with a nominal value of RMB 49,200 million, issued by the MOF for strengthening the capital base of commercial banks wholly owned by the PRC government. The bond has a term of 30 years and will mature in 2028. In accordance with "the Notice on the Interest Settlement of Special Government Bonds" issued by the MOF, the bond bore an interest rate of 7.2% per annum and interest income was settled by profit distribution, as approved by the MOF. As mentioned in Note 1,

effective from 1 December 2004, the interest rate of the bond was revised to 2.25% per annum and interest income is settled in cash as part of the Restructuring.

(ii) Bills issued by the PBOC are represented by:

— a bill with a nominal value of RMB 633.54 million issued specifically to CCB. As mentioned in Note 1, the majority of the proceeds received from Cinda on CCB's disposal of non-performing loans were used to subscribe to a PBOC bill at par value; and

— a bill with a nominal value of RMB 21,000 million issued for the settlement of receivables arising from acting as a receiver, appointed by the State Council and the PBOC, for the liquidation of a trust and investment company (Note 1).

(iii) Cinda issued a bond specifically to CCB in 1999 for the acquisition of CCB's non-performing assets at their original book value. The bond has a nominal value of RMB 247,000 million and matures in September 2009. It bears an interest rate of 2.25% per annum. According to Cai Jin [2004] No. 87 "the Notice to Questions on the Principal and Interest Income of the Bonds issued by a financial asset management company and held by the Bank of China and CCB" issued by the MOF, from 1 January 2005, the MOF will provide financial support if Cinda is unable to repay the interest in full. The MOF will also provide support for the repayment of bond principal, if necessary.

(b) Movements in provision for impairment of long-term debt investments

	2004	2003
As at 1 January	(34)	(21)
Charge for the year / transfer-in	(39)	(13)
As at 31 December	(73)	(34)

19 Long-term equity investments

(a) By nature

		2004	2003
Investment in subsidiaries	(i)	554	524
Debt equity swap investments	(ii)	32,096	45,351
Other equity investments	(iii)	461	402
Total		33,111	46,277
Less: Provision for impairment	(b,c)	(16,678)	(16,288)
Net balance		16,433	29,989

(i) Investment in subsidiaries

The Bank's investment in its subsidiaries is as follows.

Company name	2004	2003
Jian Sing Bank Limited ("Jian Sing")	451	411
Sino-German Bausparkasse Co. Ltd. ("Sino-German")	103	113

As the financial positions, operating results and cash flows of the above subsidiaries for the years ended 31 December 2003 and 2004 were not material to the Bank's financial statements, these were not consolidated. The Bank's interest in these subsidiaries was accounted for using the equity accounting method.

(ii) Debt equity swap investments

Debt equity swap investments were part of the arrangement of the former State Economic & Trade Commission, the PBOC and the MOF since 1999 to swap some of

CCB's loans for investment in legal person shares. Cinda was appointed to hold and manage these debt equity swap investments on its behalf as required by the former State Economic & Trade Commission and the PBOC, and the Bank does not directly or indirectly exercise influence over the operations and decisions of the debt equity swap investee enterprises.

(iii) Other equity investments

Other equity investments include equity investments in domestic banks, China UnionPay, and enterprises outside of the PRC. The Bank has less than 20% of the voting rights in these investments and does not exercise significant influence.

(b) Movemens in provision for impairment of long-term equity investments

	2004	2003
As at 1 January	(16,288)	(20,485)
Charge for the year / transfer-in	(1,876)	(61)
Disposal	1,486	933
Distribution to the owner in connection with the Restructuring	-	3,325
As at 31 December	(16,678)	(16,288)

(c) Provision for impairment of long-term equity investments by category

	2004	2003
Debt equity swap investments	(16,675)	(16,285)
Other equity investments	(3)	(3)
As at 31 December	(16,678)	(16,288)

20 Fixed assets

By category

	Land use rights and bank premises	Computer equipment	Others	Total
Cost / valuation amount				
As at 1 January 2004	61,938	9,920	12,141	83,999
Additions	1,310	3,415	1,742	6,467
Disposals	(1,479)	(387)	(2,758)	(4,624)
As at 31 December 2004	61,769	12,948	11,125	85,842
Less: Accumulated depreciation				
As at 1 January 2004	(4,189)	(3,372)	(6,125)	(13,686)
Charge for the year	(2,207)	(3,182)	(2,601)	(7,990)
Disposals	46	244	2,333	2,623
As at 31 December 2004	(6,350)	(6,310)	(6,393)	(19,053)
Less: Provision for impairment				
As at 1 January 2004	-	-	-	-
Charge for the year	(505)	(9)	(9)	(523)
Disposals	33	-	-	33
As at 31 December 2004	(472)	(9)	(9)	(490)
Net carrying value				
As at 31 December 2004	54,947	6,629	4,723	66,299
As at 31 December 2003	57,749	6,548	6,016	70,313

As required by the relevant PRC rules and regulations in respect of the Restructuring, the fixed assets of the Bank as at 31 December 2003 were valued by CCAFM on a depreciated replacement cost or comparable market basis as appropriate. The surplus valuation on fixed assets of RMB 13,784 million has been recorded in the Bank's financial statements as at 31 December 2003 onwards. This valuation represents a one-off event as a result of the Restructuring and the effect of this valuation was to increase the depreciation charges of fixed assets by approximately RMB 617 million for the year ended 31 December 2004.

As at 31 December 2004, ownership documentation for the Bank's premises, with a net carrying value of RMB 166 million, was being finalised.

21 Repossessed assets

	2004	2003
Land and buildings	6,450	13,362
Others	858	1,536
Total	7,308	14,898
Less: Provision for impairment	(4,446)	(8,727)
Net book value	2,862	6,171

On 30 June 2004, CCB entered into sale and purchase agreements ("Agreements") to dispose of repossessed assets with a gross carrying value of RMB 3,277 million (against which RMB 2,204 million has been provided for as at 31 December 2003) for a consideration of RMB 1,098 million. The completion dates were 30 March 2005 and 30 May 2005 respectively. Pursuant to the Agreements, all gains or losses arising from these repossessed assets after the date of the Agreements belong to the buyers. However, the Bank has an obligation to buy back those assets which are found to be with defects within nine months from the completion dates, or for assets whose titles fail to be transferred to the buyers, within three years from the completion dates. Up to the date of this report, management considered the potential buy-back amounts to be immaterial.

22 Short-term deposits

	2004	2003
Demand deposits	1,351,715	1,284,212
Term deposits maturing within one year	281,277	213,469
Corporate call deposits	55,653	40,862
Total	1,688,645	1,538,543

23 Short-term savings deposits

	2004	2003
Demand savings deposits	604,019	549,958
Term savings deposits maturing within one year	677,650	626,395
Others	44,580	41,349
Total	1,326,249	1,217,702

24 Deposits from banks and other financial institutions

	2004	2003
Deposits in the PRC		
- Banks	7,412	7,768
- Other financial institutions	76,312	78,616
Sub-total	83,724	86,384
Bank deposits outside the PRC	5,130	2,909
Total	88,854	89,293

25 Placements from banks and other financial institutions

	2004	2003
Placements in the PRC		
- Banks	6,202	6,086
- Other financial institutions	38	6
Sub-total	6,240	6,092
Placements from banks outside the PRC	17,030	13,601
Total	23,270	19,693

26 Amounts sold under repurchase agreements

	2004	2003
Bills sold under repurchase agreements		
- Bills rediscounted to banks and other financial institutions	100	286
- Bills rediscounted to the PBOC	25	3,474
Total	125	3,760

The above are secured by discounted bills with equivalent value.

27 Tax payable

	2004	2003
Income tax	1,741	51
Business tax and surcharges	2,020	1,704
Others	685	509
Total	4,446	2,264

28 Other payables

	2004	2003
Payables to Jianyin (a)	6,405	-
Supplementary retirement benefit obligations (b)	5,743	6,367
Staff insurance and termination payables	3,266	4,067
Litigation provision	2,107	2,587
Bond redemption payable	1,717	1,874
Payment and collection clearance account	1,358	1,694
Settlement accounts	1,287	3,015
Others	5,795	7,039
Total	27,678	26,643

(a) Payables to Jianyin

The balance mainly includes:

— a payable of RMB 5,113 million arising from the receipt of a bill issued by the PBOC with a nominal value of RMB 21,000 million which exceeded the amount of advances made by CCB for the liquidation of a trust and investment company (Note 1); and

— the proceeds from the disposal of assets owned by Jianyin collected by the Bank on behalf of Jianyin.

(b) Supplementary retirement benefit obligations

The Bank pays supplementary retirement benefits for its PRC employees who retired on

or before 31 December 2003 in addition to the statutory pension schemes. Supplementary benefits include supplementary pensions and allowances, as well as reimbursed medical expenses higher than the PRC government's mandatory level ("supplementary retirement benefits"). The Bank estimates the obligations arising from the supplementary retirement benefits, which is the present value of the total estimated amount of future benefits that the Bank is committed to pay for the above mentioned employees. The discount rate used is an approximation of the interest rate of domestic government bonds during the period for which the Bank is obligated. The Bank performs periodic valuation of this obligation at each period end. If any cumulative unrecognised gains or losses exceed 10% of the present value of the obligation at the period end, that portion is recognised in the income statement. At the balance sheet date, the net liabilities recognised by the Bank include the above mentioned present value of the supplementary retirement benefit obligation and the unrecognised cumulative gains or losses of less than 10% of the present value of the obligation.

On 20 April 2005, the MOF approved the Bank's supplementary retirement benefit obligations as at 31 December 2003.

(i) Net liabilities recognised in the balance sheet represent:

	2004	2003
Present value of the obligations	5,221	6,440
Unrecognised actuarial gains / (losses)	522	(73)
As at 31 December (ii)	5,743	6,367

(ii) Movements in the net liabilities recognised in the balance sheet are as follows:

	2004	2003
As at 1 January	6,367	6,572
Payments made	(348)	(355)
(Net income) / net expense recognised in the income statement (iii)	(276)	150
As at 31 December	5,743	6,367

(iii) (Net income) / net expense recognised as (non-operating income) / general and administrative expenses in the income statement comprise:

	2004	2003
Interest cost	219	150
Actuarial gain recognised	(495)	-
(Net income) / net expense	(276)	150

Income recognised in the year ended 31 December 2004 arose mainly from changes in the discount rate.

(iv) Principal actuarial assumptions at the balance sheet dates are as follows:

	2004	2003
Discount rate	4.75%	3.5%
Health care cost increases	7%	7%

The Bank's obligation in respect of the supplementary retirement benefits at the balance sheet dates was reviewed by an independent actuary, Towers, Perrin, Forster & Crosby, Inc., Hong Kong, using the projected unit credit actuarial cost method.

29 Long-term liabilities due within one year

	2004	2003
Long-term deposits	4,166	1,816
Long-term savings deposits	111,539	87,679
Long-term pledged deposits	66,789	61,276
Certificates of deposit issued	1,073	2,797
Total	183,567	153,568

30 Long-term deposits

	2004	2003
Long-term fixed deposits	20,476	31,489
On-lending funds	23,170	26,288
	43,646	57,777
Less: Long-term deposits maturing within one year	(4,166)	(1,816)
Total	39,480	55,961

31 Long-term savings deposits

	2004	2003
Long-term fixed deposits	281,950	251,436
Long-term education deposits	28,006	18,067
Others	1,013	2,415
	310,969	271,918
Less: Long-term savings deposits maturing within one year	(111,539)	(87,679)
Total	199,430	184,239

32 Long-term pledged deposits

	2004	2003
Long-term pledged deposits for:		
- Acceptance	40,756	40,805
- Letters of credit	6,971	7,958
- Guarantees	8,550	7,358
- Foreign currency and gold transactions	1,357	192
- Others	14,701	12,093
	72,335	68,406
Less: Long-term pledged deposits maturing within one year	(66,789)	(61,276)
Total	5,546	7,130

33 Subordinated bonds issued

The Bank issued subordinated bonds with a 10 year maturity term and an aggregate nominal value of RMB 40,000 million, upon the approvals of the PBOC and the CBRC, between July and December 2004. As at 31 December 2004, subordinated bonds issued by the Bank include:

		Nominal value
4.87% subordinated fixed rate bonds maturing in August 2014	(a)	11,140
Subordinated floating rate bonds maturing in August 2014	(b)	3,860
4.95% subordinated convertible fixed rate bonds maturing in September 2014	(c)	8,300
Subordinated floating rate bonds maturing in December 2014	(d)	6,078
4.95% subordinated convertible fixed rate bonds maturing in December 2014	(e)	10,622
		40,000

(a) The interest rate per annum on the subordinated fixed rate bonds is 4.87%. The Bank has an option to redeem the bonds on 1 August 2009. If they are not redeemed early, the interest rate of the bonds will increase to 7.67% per annum in August 2009.

(b) The interest rate per annum on the subordinated floating rate bonds is the PBOC one-year fixed deposit rate plus an interest margin of 2.00%. The Bank has an option to redeem the bonds on 1 August 2009. If they are not redeemed early, the interest margin of the bonds will increase to 2.75% from August 2009 until the maturity date.

(c) The interest rate per annum on the subordinated convertible fixed rate bonds is 4.95%. The bondholders may convert the interest rate into a floating rate, being the PBOC one-year fixed deposit rate plus an interest margin of 1.80%, on 22 September 2006. The Bank has an option to redeem the bonds on 22 September 2009. Fixed rate bonds not redeemed early by the Bank on 22 September 2009 will start to pay 7.95% per annum for the next five years. For floating rate bonds not redeemed early by the Bank on 22 September 2009, the interest margin of the bonds will increase to 2.80% for the next five years.

(d) The interest rate per annum on the subordinated floating rate bonds is the benchmark rate plus an interest margin of 2.00%. The benchmark rate is the PRC inter-bank money market 7-days repo rate, which is reset and payable every six months. The Bank has an option to redeem the bonds on 27 December 2009. If they are not redeemed early, the interest margin of the bonds will increase to 3.00%.

(e) The interest rate per annum on the subordinated convertible fixed rate bonds is 4.95%. The bondholders may convert the interest rate into a floating rate, being the PBOC one-year fixed deposit rate plus an interest margin of 1.80%, on 27 December 2006. The Bank has an option to redeem the bonds on 27 December 2009. Fixed rate bonds not redeemed early by the Bank on 27 December 2009 will start to pay 7.95% per annum for the next five years. For floating rate bonds not redeemed early by the Bank on 27 December 2009, the interest margin of the bonds will increase to 2.80% for the next five years.

34 Shareholders' / owner's equity

(a) Profit distribution for the year ended 31 December 2003

As mentioned in Note 18, the Bank holds a special government bond, which is non-negotiable, with principal value of RMB 49,200 million issued by the MOF in 1998. During the year ended 31 December 2003, interest receivable on the bond was settled by the profit distribution approved by the MOF.

For the eleven-months period ended 30 November 2004, interest receivable on the bond was settled by the same amount of the Bank's profit distribution, as approved by the Bank's shareholders (Note 34 (d)). From 1 December 2004, interest payable on the bond was settled by cash.

(b) Restructuring

(i) Pursuant to the Restructuring as mentioned in Note 1, the financial impact of the following is reflected in the owner's equity:

— receipt of cash of USD 22,500 million (equivalent to RMB 186,230 million) as a capital injection from Huijin;

— the difference of RMB 35,818 million between the disposal proceeds and the net carrying value of the loans was directly credited to owner's equity as an equity contribution by the owner in 2003;

— replenishment of the remaining accumulated losses of CCB by the PRC government of RMB 65,499 million; and

— surplus on valuation of RMB 14,160 million.

(ii) Impact of the separation

Pursuant to the Separation Agreement, businesses, assets and liabilities that were not related to the commercial banking businesses and the entrusted lending business transacted prior to 20 October 2000 (excluding the entrusted housing fund mortgage business) and certain assets and liabilities were transferred to Jianyin as at 31 December 2003. The assets and liabilities transferred to Jianyin were reflected as a distribution to the owner.

The net carrying value of assets and liabilities transferred to Jianyin as at 31 December 2003 was as follows:

Assets	
- Cash	60
- Investments	1,146
- Fixed assets, intangible assets and long-term deferred assets	5,981
	<u>7,187</u>
Liabilities	
- Entrusted funds	146,073
- Less: Entrusted loans	(146,073)
- Net liabilities of entrusted lending business	-
- Other liabilities	7,187
	<u>7,187</u>
Net assets	-

CCB's entrusted lending business includes entrusted loans made under the instruction or at the direction of government bodies and corporations and funded by entrusted funds from them. Due to insufficient and unclear documentation at the time of loan initiation, it is uncertain as to whether CCB has the rights or obligations in relation to the entrusted lending business transacted prior to 20 October 2000 (excluding the entrusted housing fund mortgage business) ("pre 2000 entrusted lending"). However, CCB had paid immaterial amounts for claims arising from the obligations of the pre 2000 entrusted lending up to 31 December 2003, correspondingly, no provisions for impairment have been made. As part of the Restructuring, the pre 2000 entrusted lending and entrusted funds of RMB 146,073 million as at 31 December 2003 were transferred to Jianyin. The Bank will have no rights or obligations arising from the pre 2000 entrusted lending after the separation.

(c) Shares issued upon incorporation of the Bank

As mentioned in Note 1, the Bank was incorporated on 17 September 2004, with a registered capital of RMB 194,230 million divided into 194,230 million shares with a par value of RMB 1.00 each. All shares rank pari passu and are unlisted. The Bank's issued and paid-up share capital is as follows:

Shareholders	Share capital	Means of injection
Huijin	165,538	Net assets
Jiayin	20,692	Net assets
State Grid	3,000	Cash
Shanghai Baosteel	3,000	Cash
Yangtze Power	2,000	Cash
	194,230	

As mentioned in Note 1, shares issued to Huijin and Jiayin were consideration for the Succeeding Business according to the Separation Agreement.

KPMG Huazhen Certified Public Accountants have verified the above capital contributions, and issued related capital verification report (KPMG-A(2004)CR No. 0069) on 15 September 2004.

(d) Profit distribution for the year ended 31 December 2004

At the Shareholders' General Meeting held on 27 December 2004, the shareholders approved the principles of the profit distribution plan for the year ended 31 December 2004. The Bank's profit appropriations for the year ended 31 December 2004 are determined in June 2005 as follows:

— RMB 3,242 million as a settlement of the interest receivable on special government bonds (Note 34 (a));

— RMB 41,718 million as a settlement of the receivable from the government (Note 10);

— A total of RMB 514 million as appropriations to the statutory surplus reserve and the statutory public welfare fund. This was determined based on 10% and 5% of net profit after deducting the above appropriations, which amounted to RMB 3,428 million (Note 34 (d) (i)); and

— A cash dividend of RMB 2,914 million at RMB 0.015 per share.

(i) Surplus reserve

Movements in surplus reserve:

	Statutory surplus reserve	Statutory public welfare fund	Total
As at 1 January	-	-	-
Profit distribution	343	171	514
As at 31 December	343	171	514

35 Interest income

	2004	2003
Interest income on loans	105,186	96,870
Interest income on discounted bills	4,839	2,624
Total	110,025	99,494

36 Interest income from deposits and placements with banks and other financial institutions

	2004	2003
Interest income on deposits with central banks	6,119	5,409
Interest income on deposits with banks and other financial institutions	107	183
Interest income on placements with banks and other financial institutions	1,593	1,192
Interest income on amounts purchased under resale agreements	589	1,339
Total	8,408	8,123

37 Interest expense

	2004	2003
Interest expense on deposits	19,260	17,878
Interest expense on savings deposits	23,206	20,551
Others	1,111	822
Total	43,577	39,251

38 Interest expense on deposits and placements from banks and other financial institutions

	2004	2003
Interest expense on amounts due to central banks	44	43
Interest expense on deposits from banks and other financial institutions	1,503	1,733
Interest expense on placements from banks and other financial institutions	221	279
Others	83	52
Total	1,851	2,107

39 General and administrative expenses

	2004	2003
Salaries, staff welfare and insurance expenses	20,714	19,479
Depreciation	7,990	6,554
Office expenses	5,018	4,844
Rental	2,104	1,896
Travelling and entertainment	1,649	1,864
Repair and maintenance	937	987
Others	5,548	4,087
Total	43,960	39,711

40 Investment income

	2004	2003
Interest income from debt investments	27,291	22,688
Interest income from equity investments	2,408	1,131
Net gain from disposal of debt investments	1,004	89
Total	30,703	23,908

41 Non-operating expenses

	2004	2003
Losses on disposal of fixed assets	210	730
Staff termination costs	1,457	3,726
Charitable donations	13	65
Penalty	32	61
Others	1,175	795
Total	2,887	5,377

42 Provisions for impairment

	2004	2003
Provision for loan losses	5,586	7,657
Provision for impairment of investments	1,902	74
Provision for impairment of fixed assets, intangible assets and construction in progress	541	100
Others	801	338
Total	8,830	8,169

43 Income tax

	2004	2003
Current tax	1,828	199
Deferred tax	-	14,887
Total	1,828	15,086

According to the Cai Shui [2005] No. 90 “the Notice from the Ministry of Finance and the State Administration of Taxation on the Income Tax Policies of China Construction Bank Corporation” issued on 1 June 2005 by the Ministry of Finance and the State Administration of Taxation, a substantial portion of the Bank’s income tax for the year ended 31 December 2004 was exempted.

The Bank’s income tax liability for the year ended 31 December 2004 was RMB 1,828 million, and the amount of income tax exempted was RMB 15,473 million.

44 Related party relationships and transactions

(a) China SAFE Investments Limited

Type of legal entity:	government-owned investment holding company
Legal representative:	Guo Shuqing (Resignation from the roles of director and chairman was approved by Huijin’s board of directors on 19 April 2005)
Registered capital:	RMB 372,465 million
Shareholding in the Bank:	85.23%
Registered address:	Beijing

Huijin is wholly owned by the PRC government, which has designated Huijin to exercise the legal rights and obligations as a shareholder of certain core financial institutions, such as the Bank and Bank of China, on its behalf. Huijin was established to hold certain equity investments as authorised by the State Council and it does not engage in any other commercial activities.

Due to Huijin’s special nature and function, the Bank does not consider Huijin and other companies controlled by Huijin as related parties of the Bank.

(b) Related parties with controlling relationships

	Registered address	Principal activities	Relationship with the Bank	Type of legal entity	Authorised representative
Jian Sing	Hong Kong	Commercial banking and related financial services	Unconsolidated subsidiary	Limited company	-
Sino-German	Tianjin	Home mortgage and deposit taking business	Unconsolidated subsidiary	Limited liability company	Guo Shuqing

(i) Paid-in capital of related parties with controlling relationships

	2004	2003
Jian Sing	HKD 300 million	HKD 300 million
Sino-German	RMB 150 million	RMB 150 million

(ii) Shareholding or equity interests of related parties with controlling relationships held by the Bank

	2004	2003
Jian Sing	100.00%	100.00%
Sino-German	75.10%	75.10%

(iii) Transactions carried out by related parties with controlling relationships are as follows:

		2004	2003
Interest income	(1)	15	3
Interest expense	(2)	3	4
Other operating income	(3)	5	5

The Bank's management is of the opinion that the above transactions were carried out in the normal course of business and on normal commercial terms.

(1) Interest income represents interest income arising from deposits and placements with related parties at the rate applicable.

(2) Interest expense represents interest expense payable on deposits and placements from related parties at the rate applicable.

(3) Other operating income mainly includes income from information technology services.

(iv) Balances with related parties with controlling relationships are as follows:

	2004	2003
Deposits and placements with related parties	998	492
Other receivables	754	843
Deposits and placements from related parties	209	258

(c) Related parties without controlling relationships

(i) Jianyin

Jianyin is an investment company wholly owned by the PRC government as approved by the State Council. It has a registered capital of RMB 20,692 million and its principal activities are investment in enterprises, asset management and conducting other businesses as approved by the PRC government. As at 31 December 2004, Jianyin held a 10.65% shareholding in the Bank.

The principal transactions carried out between the Bank and Jianyin in the ordinary course of business are as follows:

		2004
Other operating income	(1)	5
Operating expenses	(2)	190

(1) Other operating income mainly represents custodial management fee income earned by the Bank for managing assets on behalf of Jianyin.

(2) Operating expenses mainly represents rental expenses paid by the Bank for leasing Jianyin's properties.

The principal balances between the Bank and Jianyin in the ordinary course of business are as follows:

		2004
Other payables	(Note28)	6,405

(ii) Directors, supervisors, key management personnel and other close related family members of the Bank and the Bank's related legal representatives, as well as enterprises controlled or affected significantly by them

The Bank's management is of the opinion that the transactions carried out with the above related parties are conducted in the normal course of business, under normal commercial terms. Since the related transactions amounts are not material, details of these transactions have not been disclosed in this report.

(iii) CCB's equity investments succeeded by Jianyin

Pursuant to the Separation Agreement, CCB's domestic equity investments in non-financial institutions and enterprises (excluding debt equity swap investments and investments in China UnionPay) were succeeded by Jianyin on 31 December 2003 and were reflected as a distribution to the owner. As a result, the Bank does not disclose transactions with these entities as related party transactions.

45 Entrusted lending business

The Bank's entrusted lending business includes entrusted loans made under the instruction or at the direction of government bodies and corporations and funded by entrusted funds from them. The Bank generally does not take on credit risk in relation to these transactions. It acts as an agent to hold and manage these assets and liabilities at the direction of customers and receives fee income for the services provided.

	2004	2003
Entrusted loans	194,418	149,387
Entrusted funds	194,418	149,387

46 Off balance sheet items

(a) Businesses with contingent risk

(i) Derivative financial instruments

2004			
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate derivatives:			
- Currency swaps	9,296	319	318
- Interest rate swaps	67,280	745	802
Currency derivatives:			
- Forwards	17,673	113	401
- Swaps	22,859	446	83
- Spot	2,268	-	-
Options	22,873	1	212
Total	142,249	1,624	1,816

2003			
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate derivatives:			
- Currency swaps	6,075	109	108
- Interest rate swaps	30,326	386	502
Currency derivatives:			
- Forwards	12,889	107	198
- Swaps	28,387	26	20
- Spot	7,917	-	-
Options	1,838	10	10
Total	87,432	638	838

(ii) Irrevocable lending businesses recorded off balance sheet

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties.

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank's management expects most acceptances to be settled simultaneously with the reimbursement from customers.

The amount reflected in the table below for guarantees and letters of credit represents the maximum loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

	2004	2003
Financing guarantees	22,209	10,674
Non-financing guarantees	78,484	58,653
Letters of credit at sight	17,918	20,745
Letters of credit at usance	17,680	18,194
Acceptances	113,073	127,711
Others	766	482
Total	250,130	236,459

These commitments and contingent liabilities have off balance sheet credit risk. Before the commitments are fulfilled or expire, management of the Bank assesses and makes provision for any probable losses. Since a significant portion of the commitments and contingent liabilities will expire without being advanced in whole or in part, the total of the contracted amounts is not representative of expected future cash outflows.

(b) Off balance sheet items with contingent revenues

This represents interest receivable not yet collected when the loan principal or interest receivable remains overdue for more than 90 days.

	2004	2003
Interest receivable not yet collected	22,778	23,783

47 Contingent liabilities

(a) Outstanding litigations and disputes

As at 31 December 2004, the Bank was the defendant in certain pending litigations and disputes. Provisions have been made for the estimated losses of such litigations based upon the opinions of the Bank's internal and external legal counsels. The Bank's management considers that the provisions made are reasonable and adequate.

48 Commitments

(a) Credit commitments

At any time, the Bank has undrawn outstanding commitments to extend credit. These commitments provided by the Bank for certain customers take the form of the following irrevocable credit commitments:

	2004	2003
Undrawn loan facilities	164,061	157,778
Overdraft facility of credit cards	25,044	15,567
Total	189,105	173,345

(b) Operating lease commitments

As at each balance sheet date, the Bank's future minimum lease payments under non-cancellable property operating leases are as follows:

	2004	2003
Within one year	950	1,033
After one year but within two years	749	802
After two years but within three years	615	620
After three years	1,807	2,180
Total	4,121	4,635

(c) Capital commitments

Category	2004	2003
Authorised but not contracted for	1,528	1,010
Contracted for but not paid up	777	1,164
Total	2,305	2,174

(d) Underwriting and redemption obligations

The Bank's unexpired underwriting commitments of bonds as at 31 December 2004 amounted to RMB 6,870 million (2003: RMB 1,250 million).

As an underwriting agent of government bonds, the Bank has the responsibility to pay the principal and interest of the government bonds sold by it upon redemption. If the holders decide to redeem the bonds held early, the redemption price for the bonds at any time before its maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. However, the Bank can only collect the principal and interest from the MOF at the maturity date for any bonds redeemed early. The redemption price for the bonds redeemed early may not be the same as the market value of the similar financial instruments trading at the same date.

The redemption obligations of the Bank as at each balance sheet date are as follows:

	2004	2003
Redemption obligations	97,158	83,407

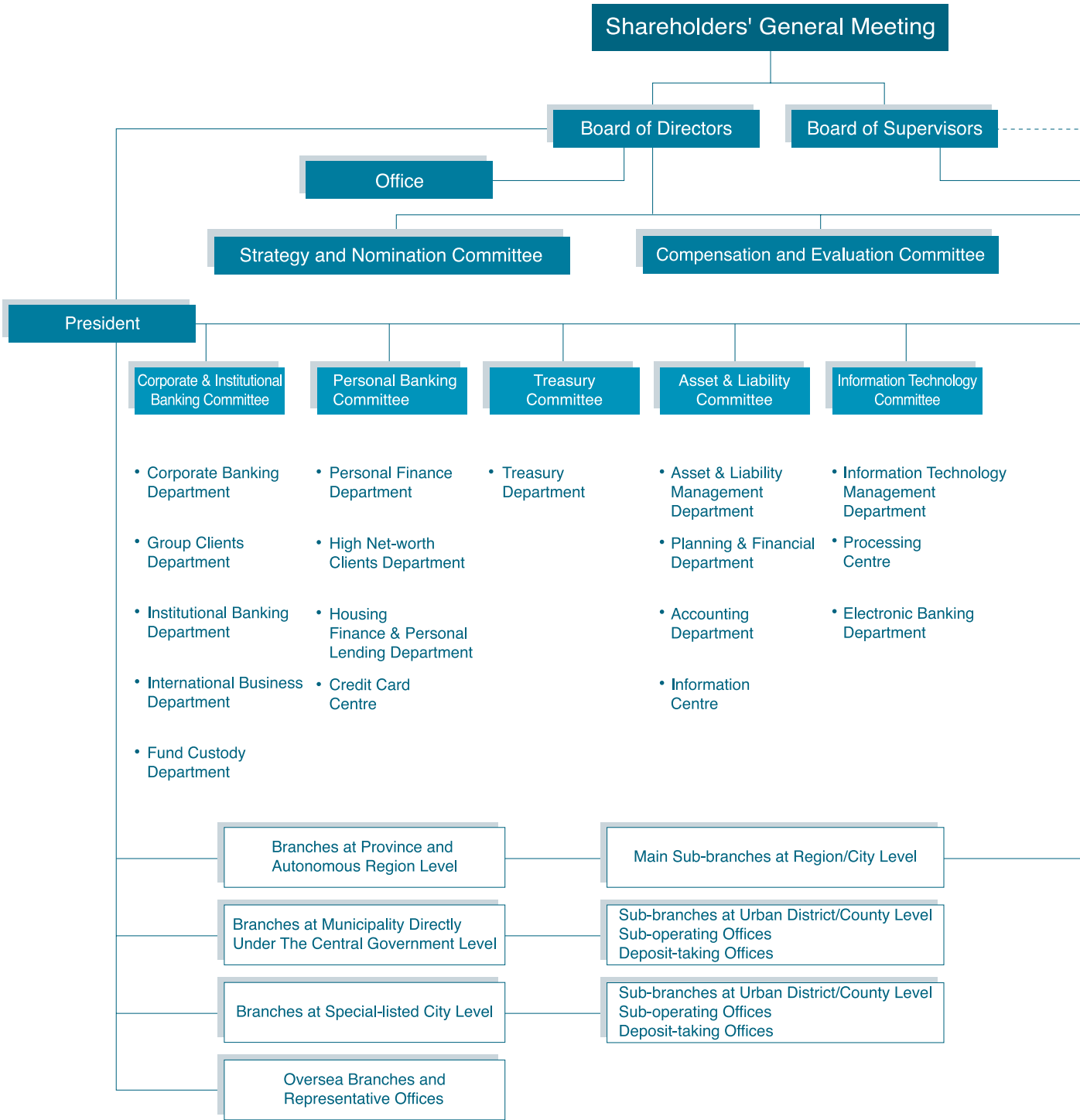
Management expects that any amount of redemption before maturity will not be material.

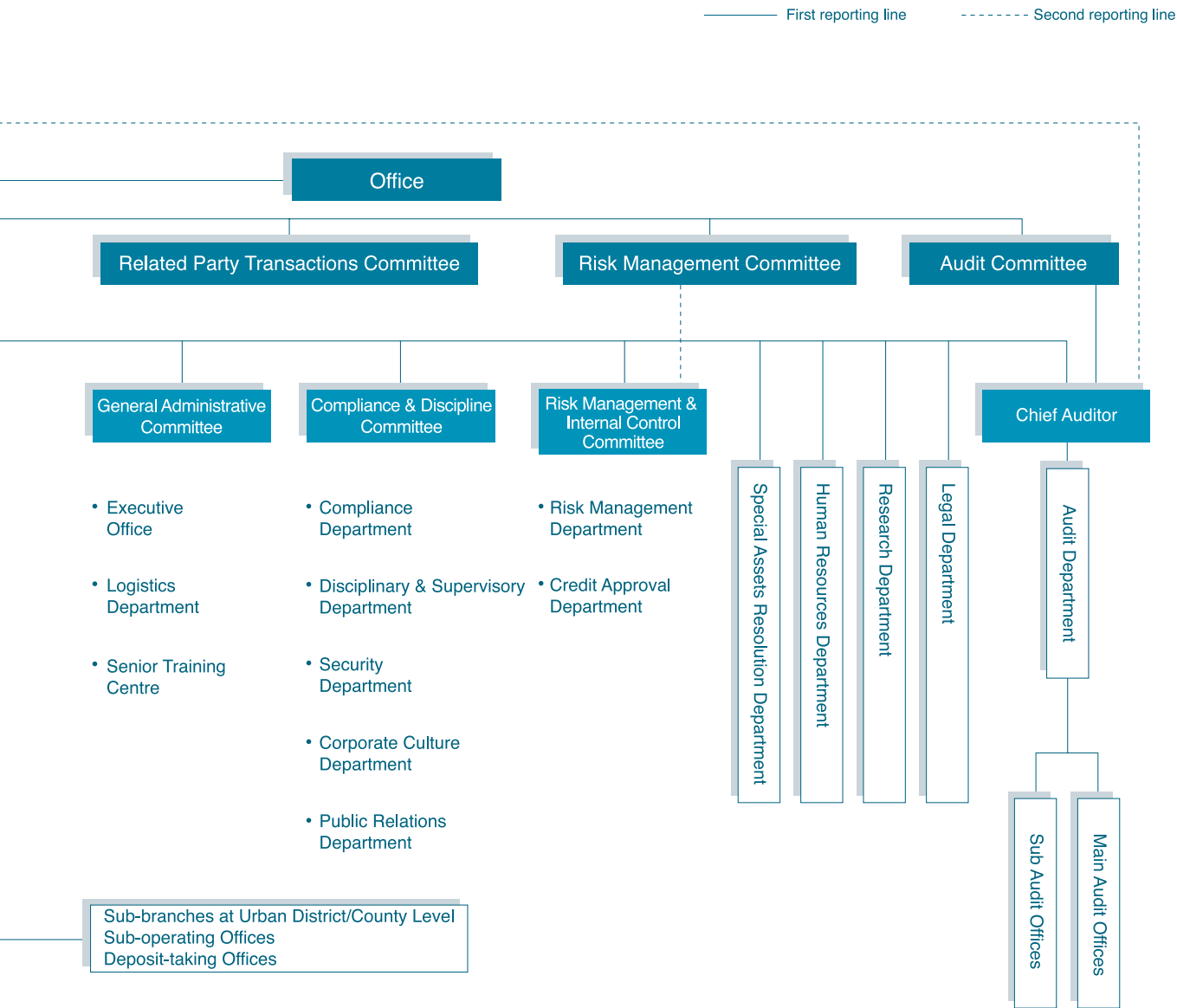
49 Post balance sheet events

The Bank does not have any significant post balance sheet events that require disclosure.

13 Organisation Structure and Information on Branches and Subsidiaries

13.1 Organisation structure





13.2 Branches and subsidiaries in China and overseas

BEIJING BRANCH

Address: Gate 4, No. 28, West Street,
Xuanwumen, Beijing
SWIFT: PCBCCNBJBJX
Telephone: (010) 63603664
Facsimile: (010) 63603656
Postcode: 100053

TIANJIN BRANCH

Address: Plus 1 No. 19, Nanjing Road,
Hexi District, Tianjin
SWIFT: PCBCCNBJTJX
Telephone: (022) 23401616
Facsimile: (022) 23400503
Postcode: 300203

HEBEI BRANCH

Address: No. 40, Ziqiang Road, Shijiazhuang
SWIFT: PCBCCNBJHBX
Telephone: (0311) 7888866
Facsimile: (0311) 8601010
Postcode: 050000

SHANXI BRANCH

Address: No. 126, Yingze Street, Taiyuan
SWIFT: PCBCCNBJJXA
Telephone: (0351) 4957800
Facsimile: (0351) 4957871
Postcode: 030001

INNER MONGOLIA BRANCH

Address: No. 45, South Xincheng Street, Huhhot
SWIFT: PCBCCNBJNMX
Telephone: (0471) 6200303
Facsimile: (0471) 6200257
Postcode: 010010

LIAONING BRANCH

Address: No. 176, Zhongshan Road,
Heping District, Shenyang
SWIFT: PCBCCNBJLNX
Telephone: (024) 22787600
Facsimile: (024) 22856915
Postcode: 110002

DALIAN BRANCH

Address: No. 1, Jiefang Street,
Zhongshan District, Dalian
SWIFT: PCBCCNBJDLX
Telephone: (0411) 82818818
Facsimile: (0411) 82804560
Postcode: 116001

JILIN BRANCH

Address: No. 810, Xi'an Road, Changchun
SWIFT: PCBCCNBJJLX
Telephone: (0431) 8573030
Facsimile: (0431) 8988748
Postcode: 130061

HEILONGJIANG BRANCH

Address: No. 67, Hongjun Street,
Nangang District, Harbin
SWIFT: PCBCCNBJLJX
Telephone: (0451) 53619788
Facsimile: (0451) 53625552
Postcode: 150001

SHANGHAI BRANCH

Address: No. 201, Yincheng East Road,
Pudong District, Shanghai
SWIFT: PCBCCNBJSHX
Telephone: (021) 58880000
Facsimile: (021) 58781818
Postcode: 200120

JIANGSU BRANCH

Address: No. 188, Hongwu Road, Nanjing
 SWIFT: PCBCCNBJJSX
 Telephone: (025) 84200545
 Facsimile: (025) 84209316
 Postcode: 210002

FUJIAN BRANCH

Address: No.142, Guping Road, Fuzhou
 SWIFT: PCBCCNBJFJX
 Telephone: (0591) 87811098
 Facsimile: (0591) 87856865
 Postcode: 350003

SUZHOU BRANCH

Address: No. 158, Sanxiang Road, Suzhou
 SWIFT: PCBCCNBJJSX
 Telephone: (0512) 68621973
 Facsimile: (0512) 68273307
 Postcode: 215004

XIAMEN BRANCH

Address: No. 98, Lujiang Road, Xiamen
 SWIFT: PCBCCNBJSMX
 Telephone: (0592) 2158888
 Facsimile: (0592) 2158862
 Postcode: 361003

ZHEJIANG BRANCH

Address: No. 288, Tiychang Road, Hangzhou
 SWIFT: PCBCCNBJJX
 Telephone: (0571) 85313000
 Facsimile: (0571) 85313001
 Postcode: 310003

JIANGXI BRANCH

Address: No. 366, Bayi Street, Nanchang
 SWIFT: PCBCCNBJJXX
 Telephone: (0791) 6848200
 Facsimile: (0791) 6848318
 Postcode: 330006

NINGBO BRANCH

Address: No. 31, Guangji Street, Ningbo
 SWIFT: PCBCCNBJNPX
 Telephone: (0574) 87313888
 Facsimile: (0574) 87325019
 Postcode: 315010

SHANDONG BRANCH

Address: No. 178, Luoyuan Street, Jinan
 SWIFT: PCBCCNBJSDX
 Telephone: (0531) 2088000
 Facsimile: (0531) 6169108
 Postcode: 250012

ANHUI BRANCH

Address: No. 373, Meiling Road, Hefei
 SWIFT: PCBCCNBJAHX
 Telephone: (0551) 2874100
 Facsimile: (0551) 2872014
 Postcode: 230001

QINGDAO BRANCH

Address: No. 71, Guizhou Road, Qingdao
 SWIFT: PCBCCNBJQDX
 Telephone: (0532) 2651888
 Facsimile: (0532) 2670157
 Postcode: 266002

HENAN BRANCH

Address: No. 80, Huayuan Road, Zhengzhou
 SWIFT: PCBCCNBHAX
 Telephone: (0371) 5556699
 Facsimile: (0371) 5556688
 Postcode: 450003

HUBEI BRANCH

Address: No. 709, Jianshe Street, Wuhan
 SWIFT: PCBCCNBHPX
 Telephone: (027) 65775888
 Facsimile: (027) 65775881
 Postcode: 430015

THREE GORGES BRANCH

Address: No. 122, Xiling First Road,
 Yichang, Hubei
 SWIFT: PCBCCNBHP3
 Telephone: (0717) 6736888
 Facsimile: (0717) 6738137
 Postcode: 443000

HUNAN BRANCH

Address: Yin'gang Plaza, No. 2,
 Baisha Road, Changsha
 SWIFT: PCBCCNBHUX
 Telephone: (0731) 4419191
 Facsimile: (0731) 4419141
 Postcode: 410005

GUANGDONG BRANCH

Address: No. 509, Dongfeng Middle Road,
 Guangzhou
 SWIFT: PCBCCNBGDX
 Telephone: (020) 83608888
 Facsimile: (020) 83606207
 Postcode: 510045

SHENZHEN BRANCH

Address: East Section, Finance Centre,
 South Hongling Road, Shenzhen
 SWIFT: PCBCCNBJSZX
 Telephone: (0755) 82488189
 Facsimile: (0755) 82246144
 Postcode: 518010

GUANGXI BRANCH

Address: No. 92, Minzu Road, Nanning
 SWIFT: PCBCCNBGXX
 Telephone: (0771) 5513110
 Facsimile: (0771) 5513012
 Postcode: 530022

HAINAN BRANCH

Address: CCB Plaza, Guomao Avenue, Haikou
 SWIFT: PCBCCNBHJNX
 Telephone: (0898) 68587488
 Facsimile: (0898) 68587569
 Postcode: 570125

CHONGQING BRANCH

Address: No. 123, Minzu Road,
 Yuzhong District, Chongqing
 SWIFT: PCBCCNBQCX
 Telephone: (023) 63771855
 Facsimile: (023) 63771835
 Postcode: 400010

SICHUAN BRANCH

Address: Sichuan CCB Plaza, No. 86,
 Tidu Street, Chengdu
 SWIFT: PCBCCNBJSX
 Telephone: (028) 86767161
 Facsimile: (028) 86767187
 Postcode: 610016

GUIZHOU BRANCH

Address: No. 113, Ruijin North Road, Guiyang
 SWIFT: PCBCCNBJUZX
 Telephone: (0851) 5976660
 Facsimile: (0851) 6505883
 Postcode: 550003

QINGHAI BRANCH

Address: No. 59, West Street, Xining
 SWIFT: PCBCCNBJQHX
 Telephone: (0971) 8261181
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 Postcode: 810000

YUNNAN BRANCH

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 SWIFT: PCBCCNBJYNX
 Telephone: (0871) 3060997
 Facsimile: (0871) 3060333
 Postcode: 650021

NINGXIA BRANCH

Address: No. 98, Nanxun West Road, Yinchuan
 SWIFT: PCBCCNBJNXX
 Telephone: (0951) 4104666-80313
 Facsimile: (0951) 4112064
 Postcode: 750001

TIBET BRANCH

Address: No. 32, Beijing Middle Road, Lhasa
 Telephone: (0891) 6838792
 Facsimile: (0891) 6836818
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XINJIANG BRANCH

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 SWIFT: PCBCCNBJIXJ
 Telephone: (0991) 2848666
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 Postcode: 830002

SHAANXI BRANCH

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HONG KONG BRANCH

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 Facsimile: 00852-25377182
 Telex: 87335 PCBCH HX
 Website: www.ccbhk.com

GANSU BRANCH

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 SWIFT: PCBCCNBJGSX
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 Facsimile: (0931) 4891862
 Postcode: 730030

SINGAPORE BRANCH

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 Republic Plaza, Singapore 048619
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 Telephone: 0065-65358133
 Facsimile: 0065-65356533
 Website: www.ccb.com.sg

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Facsimile: 0049-69-97149588
Website: www.ccbff.de

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Sandton, Johannesburg,
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Telephone: 0027-11-5209401
Facsimile: 0027-11-5209411
Website: www.ccbjhb.com

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Chung-gu, Seoul, Korea
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Facsimile: 0082-2-67301701
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