

**INDUSTRIAL BANK CO.,LTD.**  
**2004 ANNUAL REPORT**

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## **Warrant**

The Directors and Board of Directors of the Bank hereby warrant that there are not any false record, nor misleading statement, nor important missing existing in this Report and take the individual and related responsibility for the truthfulness, accuracy and completeness of this Report. The 2004 Annual Report of the Bank was reviewed and approved by the 4th Session of the 5th Board of Directors on March 20, 2005.

The 2004 Annual Financial Report of the Bank has been audited by Fujian Huaxing Certified Public Accountants Ltd in accordance with the domestic Auditing Standards.

A Standard Auditors' Report without reservation has been issued by Fujian Huaxing Certified Public Accountants Ltd.

Board of Directors  
Industrial Bank Co., Ltd.

Both Chinese and English versions of the Annual Report are available. It is subject to the Chinese version should there be any different interpretations.

## Chairman's Statement

In 2004, in pursuit of the strategic target of Establishing A First-class Bank with Outstanding Reputation, the bank made great efforts to urge forward the transitions of business development and profitability under the guidance of scientific development concept. All these were in compliance with the requirements of the State Macro-control and led to fruitful results for the Bank.

As of the end of 2004, the total assets of the Bank amounted to RMB340.52 billion, an increase of 30.97% from the previous year; deposit outstanding reached RMB283.19 billion, upped 36.38%; loans outstanding reached RMB203.01 billion, an increase of 29.35%. The asset quality of the Bank was improved steadily and kept on leading its domestic peers. At the year end, its non-performing loan ratio was 2.50% based on the standards of Five-tier Classification. The economic result of the Bank rose remarkably with a total profit of RMB2.255 billion realized, an increase of 38.04% from last year. The ratios of assets and liabilities were reasonable and all index met the requirements of the State regulators. The Bank also made significant achievements in service products innovation, including "WHT" (A product of foreign exchange asset management) and "WLB" (a product of RMB asset management) and "Wise Fortune", etc., all these products gained remarkable repercussions from the market. Based on capital introduction, the Bank speeded up its cooperation with Hang Seng Bank and succeeded in issuing IB dual currencies Credit Card with shortest time and lowest cost. In addition, the Bank also finished developing its Internet-Banking System 3.0 Version which further improved the technical input of its internet banking. The On-line CIB was awarded the honor of "One of the Top 100 Websites" and "A Website with Fastest Growth".

The Bank has made great achievements in all respects in addition to the fast and healthy growth in its franchise. A significant improvement has been achieved in its Corporate Governance, for example, the revision of the Articles of Association; the formulation of the rules of procedures for General Shareholders Meeting, Board of Directors, Board of Supervisors and the working rules for the President; the restructuring of the Board of Directors, Board of Supervisors, sub-committees of the two Boards and the committees under the Management; all these efforts showed that a basic system and a key structure for modern corporate governance has been established in the Bank. The nationwide service network was well expanded with Zhengzhou and Xi'an branches opened on schedule and Foshan City Commercial Bank acquired successfully based on market approach. The professional operating capacity has been strengthened to some great extent with the approval for the establishment of Financial Markets, the successful operation of Credit Card Center and VIC Department, the preparation work of Asset Trusteeship Department moving forward smoothly. And the work of capital supply has got fruitful results with an investment of RMB2.7 billion paid in from Hang Seng Bank, International Finance Corporation and GIC Special Investments Pte Ltd. at the same time, and another RMB3 billion worth of subordinated bond issued successfully at the year end.

All these achievements should be attributed to the unremitting efforts of our staff, to the honest trust of all shareholders, to the kind supports of all clients from various circles of the society, to the concerns of Communist Party of China and governments and regulators at

various levels. To them, I hereby express my heartfelt gratitude on behalf of the Board of Directors.

In 2005, the Bank will resolutely urge forward the transitions of business development and profitability to contribute to the China's economic construction, social progress and development of banking sector with sound management and perfect performance based on tighter governance, professional operation, sound services and the support of science and technology.

## Brief Introduction

**Legal Chinese name :** 兴业银行股份有限公司

**Legal English name :** INDUSTRIAL BANK CO.,LTD.

**Abbreviated English name :** Industrial Bank ( “The Bank” )

**Introduction :** The Bank is one of China’s first batch of joint-stock commercial banks authorized by the People’s Bank of China, China’s central bank. Founded in August 1988, Industrial Bank is headquartered in Fuzhou, Fujian Province.

Currently, the Bank has more than 292 branches or sub-branches in China’s major cities including Beijing, Tianjin, Shanghai, Shenyang, Nanjing, Wuxi, Hangzhou, Ningbo, Fuzhou, Xiamen, Jinan, Zhengzhou, Wuhan, Changsha, Guangzhou, Shenzhen, Foshan, Chongqing, Chengdu, and Xi’an, etc.

The Bank provides comprehensive commercial banking services pursuant to the Commercial Banking Law of the People’s Republic of China as well as other services set forth in the State’s relevant laws and administrative regulations.

**Legal representative :** Gao Jianping

**Board Secretariat:** Tang Bin

**Registered address :** 154 Hudong Road, Fuzhou, Fujian, PRC

Post code: 350003

**Contact details:** Tel : ( 86 ) 591 - 87824863

Fax : ( 86 ) 591 - 87842633

Website : <http://www.cib.com.cn>

## Financial Highlights

### I. Key Indicators of Income

Unit: RMB 100 million

Item	Year 2004
Profit before tax	22.55
Net profit	11.01
Core Business revenue	122.97
Core Business profit	22.61
Operating profit	22.61
Investment income	8.11
Net cash flows from operating activities	136.31

### II. Key Accounting Data for the past 3 years

Unit: RMB 100 million

Item	2004	2003	2002
Total assets	3405.22	2599.99	1910.63
Total liabilities	3300.55	2530.00	1847.19
Total deposits	2831.87	2076.50	1454.65
Total loans	2030.11	1569.45	1108.93
Net profit	11.01	9.85	4.77
Shareholders equity	104.67	69.99	63.44
EPS ( RMB )	0.28	0.33	0.16
<b>NAV per share ( RMB )</b>	<b>2.62</b>	<b>2.33</b>	<b>2.11</b>

### III. Key ratios for the past 3 years

Unit: %

Item	2004	2003	2002
ROE	10.52	17.07	7.52
Loan to deposit ratio : RMB	67.64	69.71	64.36
Foreign currency	53.54	70.83	50.64
Reserve ratio : RMB	17.70	23.46	19.52
Foreign currency	13.16	7.99	6.10
<b>Interest recovery ratio</b>	<b>98.72</b>	<b>96.26</b>	<b>94.96</b>

### IV. Annual Average Balance of Deposit and Loan calculated monthly and Interest Rate

Unit: 100 million

Item	Average balance	Interest rate%
Corporate demand deposit	1027.76	0.92
Corporate time deposit	1064.47	2.37
Individual demand deposit	74.08	0.53
Individual time deposit	105.83	1.50
<b>Total</b>	<b>2272.14</b>	<b>1.61</b>

Unit: 100 million

Item	Average balance	Interest rate%
Short-term loan	1362.79	5.07
Medium and long term loan	528.89	4.74
<b>Total</b>	<b>1891.68</b>	<b>4.98</b>

#### V. Major Government Bonds hold by the Bank

Item	Bookvalue (million)	Interest rate (%)	Maturity
Account treasury bond issued before 1998	2466.18	5.01-11.83	2005/05/18-2008/09/04
Account treasury bond issued in 1999	1517.30	3.20-4.88	2006/06/18-2009/04/29
Account treasury bond issued in 2000	3260.00	2.72-3.50	2005/06/21-2010/09/21
Account treasury bond issued in 2001	2580.00	2.77-4.69	2006/07/13-2021/10/23
Account treasury bond issued in 2002	1525.00	2.00-2.93	2009/06/06-2032/05/24
Account treasury bond issued in 2003	1930.00	2.45-3.50	2008/04/24-2013/04/09
Account treasury bond issued in 2004	3407.85	2.98-4.89	2006/06/15-2011/11/25

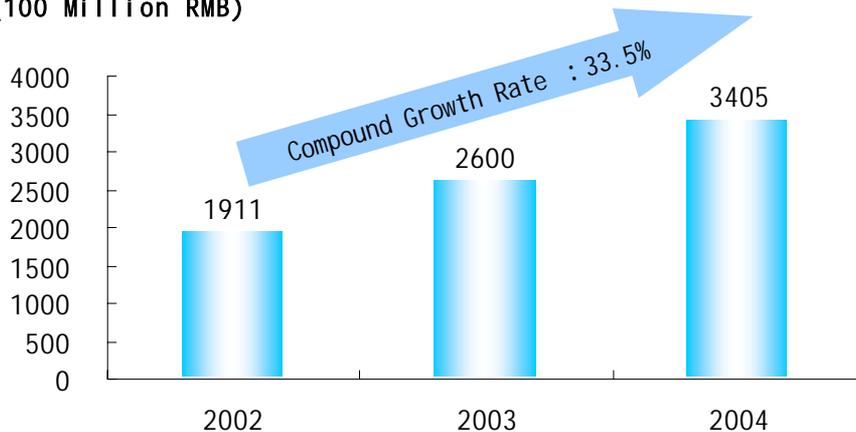
#### VI. Items increased or decreased more than 30% compared with last year and explanation

Unit: 100 million

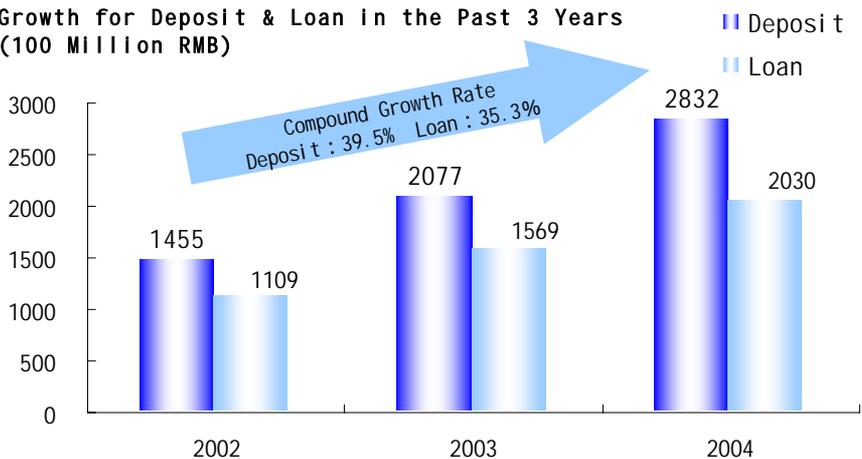
Item	Year end of 2004	Increase or Decrease(+, -)%	Explanation
Due from other banks	142.99	67.93	Due from other banks increased
Inter-bank placement	15.22	380.74	Inter-bank placement increased
Placement with non-bank financial institutions	10.61	-37.09	Placement with non-bank financial institutions decreased
<b>Short-term loan</b>	<b>1301.75</b>	<b>30.72</b>	<b>Short-term loan decreased</b>

Item	Year end of 2004	Increase or Decrease(+, -)%	Explanation
Import & Export advance and negotiation	6.50	-30.26	Advance and negotiation decreased
Interest receivables	4.86	44.99	Interest receivables increased
Other receivables	5.02	102.14	Other receivables increased
Provision for bad debts	0.53	65.72	Provision for bad debts increased
Short-term investment	188.68	164.42	Short-term investment increased
Reverse repurchase agreements securities	36.01	368.59	Reverse repurchase agreements securities increased
Deferred expenses	0.30	55.69	Deferred expenses increased
Long-term bonds investment maturing within 1 year	32.75	68.30	Long-term bonds investment increased
Long and mid-term loan	550.49	39.64	Loans increased
Overdue loan	3.97	281.17	Overdue loans increased
Provision for bad loans	32.82	39.61	Provision for bad loans increased
Long-term investment in bonds	292.84	50.50	Investment in bonds increased
Construction in progress	0.14	-79.76	Construction in progress increased
Intangible assets	4.97	1453.78	Intangibles assets increased
Short-term saving deposit	115.51	58.62	Saving deposit increased
Financial deposit	1.23	-41.89	Financial deposit decreased
Due to the Central Bank	0.00	-100.00	Due to the Central Bank decreased
Repurchase agreements-securities	28.44	-31.05	Repurchase agreements-securities decreased
Repurchase agreements-bills	19.27	-54.69	Repurchase agreements-bills decreased
Outward remittances	1.41	-83.69	Outward remittances decreased
Short-term guarantee deposit	67.99	59.38	Short-term guarantee deposit increased
Interest payable	7.93	49.37	Interest payable increased
Payroll payable	5.13	84.68	Payroll payable increased
Staff welfare payable	1.98	39.67	Staff welfare payable increased
Taxes payable	8.60	64.59	Taxes payable increased
Dividends payable (profits payable)	1.66	145.44	Dividends payable increased
Long-term deposit	1068.14	55.58	Deposit increased
Subordinated bond	60.00	100.00	Subordinated bond increased
Paid-in capital	39.99	33.30	Foreign investment introduced
Capital reserve	28.39	148.85	Premium of foreign investment
Surplus reserve	19.28	45.84	Surplus of profit distribution
Interest income	95.86	35.39	Loans increased
Interest income from financial institutions	15.59	38.57	Due from and placement with other banks and financial institutions increased
Income from Service fee and commissions	2.35	56.42	Service fee and commissions increased
Interest expenses	37.82	47.20	Deposit increased
Expenses for service fee and commissions	0.41	56.68	Settlement increased
<b>Operating expenses</b>	<b>28.73</b>	<b>37.84</b>	<b>Business development needs</b>

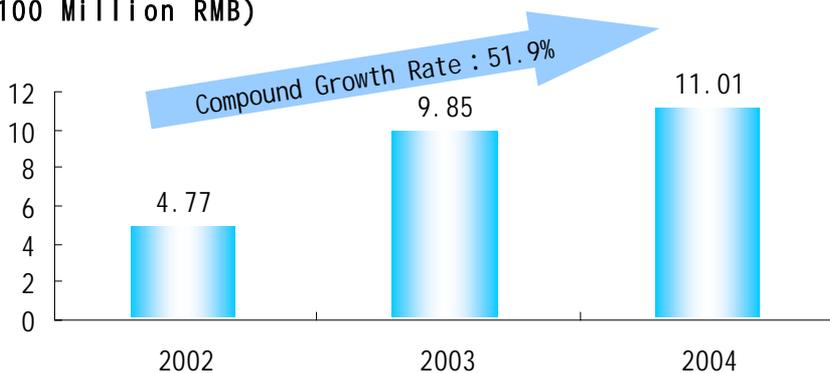
**Growth for Total Assets in the Past 3 Years  
(100 Million RMB)**



**Growth for Deposit & Loan in the Past 3 Years  
(100 Million RMB)**



**Growth for Net Profit in the Past 3 Years  
(100 Million RMB)**



## **Business Development**

### **Corporate Banking**

The corporate banking of the Bank kept on rapid growth based on exploring and implementing “Matrix Management” mechanism, and focused on brand construction to drive forward marketing innovation, management innovation and product innovation. As of the end of 2004, the outstanding deposit of corporate customers amounted to RMB229.80 billion, an increase of 38.68% from last year; and the outstanding loans reached RMB185.61 billion, upped 19.67%. Its asset quality took a lead among the domestic peers.

The Bank is the first one to introduce a corporate banking product of Wise Fortune into the market. Its services of “keeping pace with time, unlimited products restructuring” were widely accepted by its customers with its competitive edge and service marketing improved significantly. The development of banking service resolution for different sectors were speeded up and its banking service resolutions for the sectors including Tobacco, Customs and Logistics had sound outcomes.

### **Inter-bank and Financial Institutions Banking**

The Bank focused on the constructions of channels, products and marketing, insisted on the strategy of professional operation and innovation, technical support and scientific management, and introduced “Matrix Management” on trial. All these efforts led to a steady growth of its business. At the end of 2004, source of funding from other banks and financial institutions totaled RMB106.09 billion, securities fund settlement reached RMB252.19 billion, agent for fund collection and payment for 15 trust programs amounted to RMB739 million, acted as agent for sales of 11 new Funds including Monetary Market Fund and Breakeven Fund and the sales amount reached RMB900 million. In addition, the Bank signed 103 Correspondent Agreements with other banks in 2004 and 657 Correspondent banks in total.

The Bank made a breakthrough in business innovation. The Bank was one of the second batch of commercial banks approved to operate RMB money management, a product named as “WLB”. Industrial Bank was the first bank to open up the “Bank to Bank Cooperation” correspondent platform system and made breakthroughs in the cooperation with securities companies and trust companies. The Bank also had a try in credit assets securitization and investment banking, and participated actively in asset management of securities companies, asset securitization and syndicate loans in the past year.

### **Retail Banking**

The retail banking of the Bank centered on the expansion of asset business and fee business and put more efforts into product innovation, franchise interaction, marketing and popularizing, and offering differential service. All these efforts contributed to the sustained and rapid growth of its retail banking. At the end of 2004, the personal saving deposit outstanding amounted to RMB23.85 billion, upped 39.46% while the personal loans outstanding were RMB17.40 billion, an increase of 117.55% from the previous year, two times more than last year. And the personal asset quality kept fine with a non-performing loan ratio of 0.14%. There were 4.17 million debt cards issued, an increase of 33.58%, with a card consumption turnover of RMB1.62 billion.

The Bank was the unique commercial bank that offered its customers with Fund transaction business by using IB Debit Card connected with Union Pay for transaction settlement. The Bank took the lead in using the function of multi-bank transferring for its Debit Card as well as authorizing its Debit Cards to be used in Hong Kong and Macao. Therefore, its overseas service network got extended. In addition, the Bank speeded up the development of service fee and commission business with WHT and WLB products well accepted. The outcome of its cooperation with CITIBANK in FX trading with 100% margin was quite satisfactory. The Bank also witnessed a rapid growth in such business as agency for sales of treasury bond, funds and insurance as well as cooperation with securities companies.

### **E-banking**

The Bank's e-banking got a rapid growth in 2004 by improving the service quality and reputation. The Bank offered a series of e-banking including Internet-banking, nationwide uniform hotline: 95561, short message service: Smart Messenger and self-service banking, etc. CIB on Line got the honor of "One of the Top 100 Commercial Websites" and "One of the Top Websites with Fastest Growth" in 2004, a unique domestic commercial bank awarded these honors. Based on this platform, the Bank brought to the market the nationwide uniform short message with value added, a unique domestic Internet Fund transaction and IB e-card.

As of the year end, the Bank's corporate Internet clients reached 11,000, an increase of 85.92% from last year, and the transaction times were 825200, upped 197%. And the personal Internet clients reached 41,000, an increase of 129.22%, with transaction times of 396700, upped 1308%. The nationwide uniform service hotline 95561 has dealt with 5.1 million person-time of Automated Voice service, and the Client Service Representatives dealt with 18,000 person-time. The transaction volume at ATM reached 20.9 million times with a turnover of RMB5.44 billion. The success ratio of ATM transactions always takes lead among its domestic peers.

### **Money market**

The Financial Markets of the Bank tried all possible ways to enlarge its fund operation by making full use of the regional and systematic priorities with its market ranking enhanced remarkably in the past year. As of the year end, its fund trading volume amounted to RMB522.8 billion, ranked No. 13, much better than previous No. 20. Among which, its fix income trading volume reached RMB104.4 billion, ranked No. 9; its money lending and borrowing reached RMB111 billion, ranked No. 4.

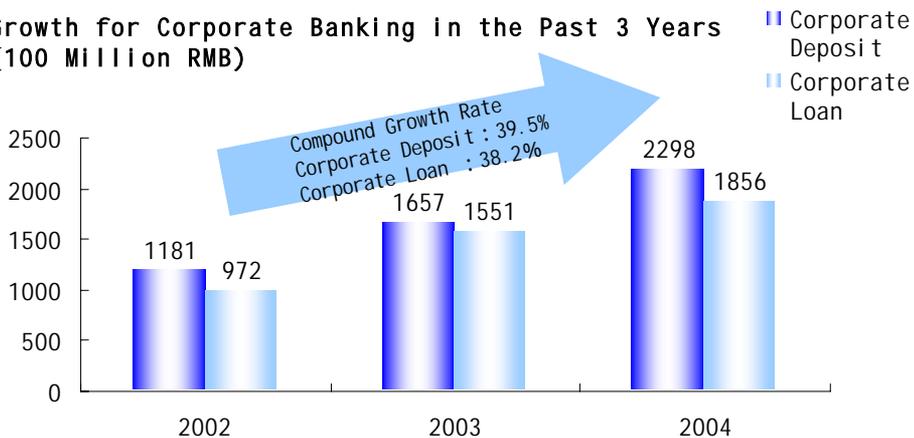
In 2004, the Financial Markets was approved by the State regulator with independent operation qualification. The Financial Markets was the first financial institution in China to have a separate license issued for its professional fund trading. In addition, the Financial Markets also succeeded in obtaining the qualification for trading derivative products. In 2004, it was awarded "Outstanding Trading Member in 2004" by the National Inter-bank Lending & Borrowing Center.

### **Credit Card**

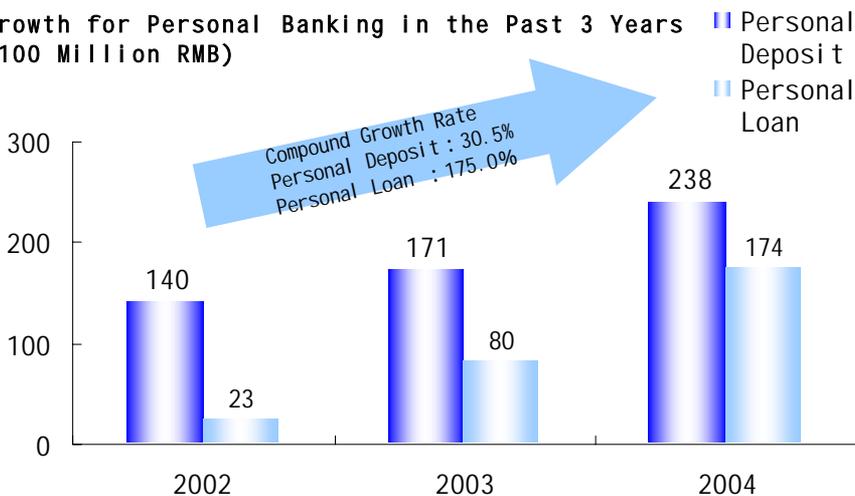
In July 2004, the Bank founded a Credit Card Center in Shanghai, a typical case for outsourcing operation. The Bank cooperated with its strategic investor Hang Seng Bank and

succeeded in issuing a dual-currency IB credit card which met the international standards. In the year end, the Bank issued a new kind of credit card with both logos of Industrial Bank Co.,Ltd. and Hang Seng. The functions of its credit card were improved gradually with the following 10 specific functions: dual-currency, 50 days grace free from interest, interaction with short message notice, password for consumption available, loss register effective at real time, preferential shops nationwide, flexible FX trading for repayment and 24 hours hotline, etc. Based on various kinds of marketing, its card issuing, trading volume and income increased steadily. As of the end of 2004, the Center issued 61,400 credit cards, ranked No. 10 among its domestic peers. Its card clients had sound creditworthiness and the credit card consumption amounted to more than 100 million, and the average card trading took the lead among its domestic peers.

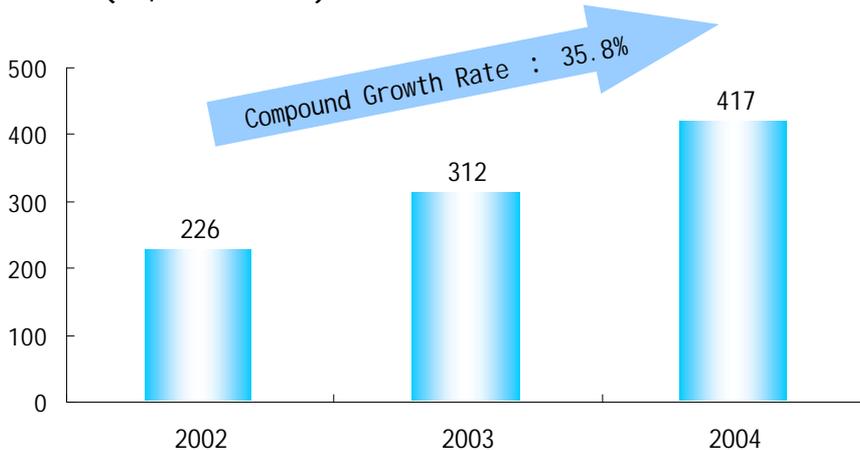
**Growth for Corporate Banking in the Past 3 Years  
(100 Million RMB)**



**Growth for Personal Banking in the Past 3 Years  
(100 Million RMB)**



**Growth for Bank Debit Cards Issued In the Past 3  
Years (10,000 Pieces)**



## Shareholders and Changes in Shareholding Structure

### 1. Changes of share capital

Classification	Opening Balance	Changes ( +、 - )	Closing Balance
1.State stock	1212103232	-3000000	1209103232
2.State-owned corporate stock*	1022660676	-38193707	984466969
3.Domestic corporate stock	765236092	41193707	806429799
4.Foreign corporate stock	0	999000000	999000000
<b>Total</b>	<b>3000000000</b>	<b>999000000</b>	<b>3999000000</b>

Unit: shares

\*(1). The stocks were classified in accordance with the approval issued by Fujian Financial Bureau (FCC[2005] No. 16), and the shares at the beginning of the year were adjusted accordingly.

(2). Share changes were net increase or decrease.

### 2. Shareholders

(1) The Bank has a total of 153 shareholders at the end of the reporting period, which altogether held 3.999 billion of the Bank's shares.

(2) Share transferences of the top 10 shareholders

During the reporting period, the Bank's shareholders changes as follows: Fujian Energy Investment Co., Ltd has transferred its ownship of 133,333,334 shares to Fujian Tobacco Company; Orient International Group Corp and Fujian Xiesheng Industrial Co., Ltd. both have transferred their ownship of 40,000,000 respectively to Shanghai Guoxin Investment & Development Co., Ltd. After the transference, Shanghai Guoxin Investment & Development Co., Ltd. owned 80,000,000 shares of the Bank; Shanghai Fosun Industrial Investment Co., Ltd. and Shanghai Dongsheng Trade Co., Ltd. have transferred their ownership of 45,333,333 and 40,000,000 respectively to Fujian Sept-wolves Investment Co., Ltd. After the transference, Fujian 7-wolves Investment Co., Ltd. owned 85,333,333 shares of the Bank; after Xishui Strong Year Co., Ltd Inner Mongolia acquired Shanghai Yanquan Softdrink Co., Ltd ownership of 6,206,703 shares of the Bank, it owned 76,206,703 shares of the Bank.

(3) The top 10 shareholders of the Bank at the end of the reporting period are as follows:

Unit : shares

Shareholders	Opening balance	Change	Closing balance	Weight(%)
Fujian Finance Department	1020000000	0	1020000000	25.51
Hang Seng Bank	0	639090000	639090000	15.98
Tetrad Ventures Pte Ltd	0	199950000	199950000	5.00
International Finance Corp	0	159960000	159960000	4.00
China Electronics Corporation	150000000	0	150000000	3.75
Fujian Tobacco Company	0	133333334	133333334	3.33
Fujian Septwolves Co., Ltd.	0	85333333	85333333	2.13
Shenzhen Chuyuan Investment & Development Co., Ltd.	84000000	0	84000000	2.10
Shanghai Guoxin Investment & Development Co., Ltd.	0	80000000	80000000	2.00
Xishui Strong Year Co., Ltd Inner Mongolia	70000000	6206703	76206703	1.91
<b>Total</b>	<b>1324000000</b>	<b>1303873370</b>	<b>2627873370</b>	<b>65.71</b>

Notes:

Among the top 10 shareholders of the Bank, the shares held by Fujian Finance Department was on behalf of the State. And Hang Seng Bank, Tetrad Ventures Pte Ltd and International Finance Corporation were foreign shareholders.

As of the end of reporting period, among the top 10 shareholders, only the shares held by China Electronics Corporation was held as pledges.

Shareholders held 5 Percent (or more) shares of the Bank: Fujian Finance Department, Hang Seng Bank and Tetrad Ventures Pte Ltd.

There are not any related parties among the top 10 shareholders.

(4) A brief introduction to the shareholders who hold 5% (or more) shares of the Bank.

Fujian Finance Department: a government institution;

Legal representative: Mr. Ma Lusheng;

Legal address: No. 5, Zhongshan Road, Gulou District, Fuzhou, China

Post Code: 350003

Hang Seng Bank: A Hong Kong based Bank, listed in Hong Kong, founded on March 3<sup>rd</sup>, 1933;

Legal Representative: Vincent Cheng;

Registered capital: HKD11 billion;

Legal address: 83 Dex Voeux, Central Hong Kong.

Tetrad Ventures Pte Ltd: a private company, founded in 1995;

Legal representative: Mr. Goh Yew Hong, Mr. Chia Yew Boon;

Legal address: 168 Robinson Road, #37-01 Capital Tower, Singapore 068912.

## Directors, Supervisors, Senior Management and the Staff

### I. Directors, Supervisors and Senior Management

#### 1. Background Information

Name	Post	Employment	tenure	Gender	Age
Gao Jianping	Chairman of Board of Directors	Industrial Bank Co., Ltd.	Jun. 28, 2004 - Jun. 27, 2007	male	45
Liao Shizhong	Director	Fujian Finance Department	Jun. 28, 2004 - Jun. 27, 2007	male	42
Patrick K W Chan	Director	Hang Seng Bank	Jun. 28, 2004 - Jun. 27, 2007	male	48
Chua Phuay Hee	Director	Tetrad Ventures Pte Ltd	Jun. 28, 2004 - Jun. 27, 2007	male	51
Ludwig Chang	Director	International Finance Corp	Jun. 28, 2004 - Jun. 27, 2007	male	52
Zhang Yutang	Director	China Electrics Corporation	Jun. 28, 2004 - Jun. 27, 2007	male	47
Song Li	Director	Fujian Tobacco Company	Jun. 28, 2004 - Jun. 27, 2007	male	48
Li Renjie	Director, President	Industrial Bank Co., Ltd.	Jun. 28, 2004 - Jun. 27, 2007	male	49
Bi Zhonghua	Director, Vice President	Industrial Bank Co., Ltd.	Jun. 28, 2004 - Jun. 27, 2007	female	52
Kang Yukun	Director, Vice President	Industrial Bank Co., Ltd.	Jun. 28, 2004 - Jun. 27, 2007	male	50
Wang Guogang	Independent Director		Jun. 28, 2004 - Jun. 27, 2007	Male	49
Deng Liping	Independent Director		Jun. 28, 2004 - Jun. 27, 2007	Male	50
Lin Jingyao	Independent Director		Jun. 28, 2004 - Jun. 27, 2007	Male	69
Gu Gongyun	Independent Director		Jun. 28, 2004 - Jun. 27, 2007	male	47
Huang Guangtong	Chairman of Board of Supervisors	Industrial Bank Co., Ltd.	Jun. 28, 2004 - Jun. 27, 2007	male	59
Xu Yimeng	Supervisor	Hunan Electric Power Co., Ltd	Jun. 28, 2004 - Jun. 27, 2007	male	43
Dong Binggen	Supervisor	UDC Development & Investment Co., Ltd.	Jun. 28, 2004 - Jun. 27, 2007	male	55
Huang Dazhan	Supervisor	Shenzhen Chuyuan Investment & Development Co., Ltd	Jun. 28, 2004 - Jun. 27, 2007	male	46
Wang Xiaobin	Supervisor	Xishui Strong Year Co., Ltd Inner Mongolia	Jun. 28, 2004 - Jun. 27, 2007	male	35
Liu Peiyuan	Supervisor	Industrial Bank Co., Ltd.	Jun. 28, 2004 - Jun. 27, 2007	male	53
Hua Bing	Supervisor	Industrial Bank Co., Ltd.	Jun. 28, 2004 - Jun. 27, 2007	male	38
Li Shuang	External Supervisor		Jun. 28, 2004 - Jun. 27, 2007	male	60
Zhang Yichun	External Supervisor		Jun. 28, 2004 - Jun. 27, 2007	male	71
Tang Bin	Board Secretary	Industrial Bank Co., Ltd.	Jun. 28, 2004 - Jun. 27, 2007	male	47

Neither the directors nor supervisors hold any shares of the Bank personally.

## 2. The posts of directors and supervisors appointed by shareholders

Name	Shareholders	Post
Patrick K W Chan	Hang Seng Bank	Vice General Manager, Chief Financial Officer
Zhang Yutang	China Electrics Corporation	Vice General Manager
Song Li	Fujian Tobacco Company	General Manager
Xu Yimeng	Hunan Electric Power Co., Ltd.	Head of Financial Division
Dong Binggen	UDC Development & Investment Co., Ltd.	Chairman
Wang XiaoBin	Xishui Strong Year Co., Ltd Inner Mongolia	Department General Manager

Other directors and supervisors of the Bank do not have any posts appointed by shareholders.

The above directors and supervisors haven't got any compensation from the bank, but got paid by their employers respectively.

## 3. Senior Management

Mr. Gao Jianping, Chairman of the Board, senior economist, has been working 21 years in economic work and 17 years in banking sector; ever served the following posts:

- Vice General Manager of the Executive Office of Industrial Bank;
- Head of Industrial Bank Fuzhou Economic & Technological Development Zone Office;
- General Manager of the Executive Office of Industrial Bank;
- Head of the Preparatory Team of Industrial Bank Shanghai Branch;
- Vice President of Industrial Bank and President of Industrial Bank Shanghai Branch;
- Vice President of Industrial Bank ( presiding over the Bank ) ;
- President of Industrial Bank.

Mr. Li Renjie, President of the Bank, senior economist, has been engaging 25 years in economic work and 25 years in financial work; ever served the following posts:

- Director of the Planning Department of PBOC Fujian Branch;
- Managing Director and Vice General Manager of Jiangnan Financial (Hong Kong) Co., Ltd;
- Chairman of the Board of Directors of Great Wall Securities Co. Ltd.;
- Head of the Preparatory Team of Industrial Bank Shenzhen Branch;
- President of Industrial Bank, Shenzhen Branch;
- Vice President of Industrial Bank.

Mr. Huang Guangtong, Chairman of the Board of Supervisors, senior administrant, has been engaging 22 years in economic work and 14 years in financial work, ever served the following posts:

- Vice General Manager and General Manager of Personnel Department of Industrial Bank;
- Chairman of the Labor Union of Industrial Bank;
- CPC Vice Secretary and Secretary of Industrial Bank in institutional base;
- General Manager of Human Resource Department of Industrial Bank.

Ms Bi Zhonghua, Vice President, senior economist, has been engaging 29 years in economic work and 25 years in financial work, ever served the following posts:

- Vice General Manager and General Manager of International Business Department of Industrial Bank;
- Assistant President of Industrial Bank and General Manager of International Business Department of Industrial Bank;
- Assistant President of Industrial Bank and General Manager of Head Office Banking Department of Industrial Bank.

Mr. Kang Yukun, Vice President, senior economist, has been engaging 25 years in economic work and 16 years in financial work, ever served the following posts:

- Vice Manager of Credit Department of Industrial Bank;
- Vice President of Industrial Bank Putian Branch;
- Vice President of Industrial Bank Fuzhou Branch;
- President of Industrial Bank Fuzhou Branch.

During the reporting period, there were not any new employments, nor any dismissals in relation with the senior management.

#### **4. The Remuneration of Senior Management**

There were 8 persons including directors, supervisors and senior management of the Bank received remuneration from the Bank in the reporting period, among which, the remuneration of the top 5 totaled RMB3.05million., while the other three totaled RMB0.78million.

## **II. The Staff of the Bank**

At the end of the reporting period, the Bank has 7060 employees in enrollment with an average age of 31.72, among which, 6.35% are post graduate educational background (or above), 45.98% of the total are colleague educational Background; and 36.13% are junior colleague educational background; 32.5% of the total have senior professional titles. So far, there were 63 employees retired.

## Corporate Governance

In the reporting period, the Bank revised its Articles of Association and Rules of Procedures for General Shareholders Meeting, Board of Directors and Board of Supervisors in accordance with the requirements of Corporate Governance Guidance for joint-stock Commercial Banks, Guidance for Independent Directors and External Supervisors for joint-stock Commercial Banks, Governance Standards for Listed Companies and Guidance for Articles of Association of Listed Companies. In addition, the Bank also formulated working rules for the sub-committees of the Board of Directors and Board of Supervisors to improve the structure of the two boards and corporate governance. Details as follows:

### **1. With reference to shareholders and General Meeting of Shareholders**

During the reporting period, the Bank strictly abided by the requirements of relevant laws, regulations and the Articles of Association of the Bank to convene Shareholders Meeting to ensure that all shareholders enjoyed the rights of information, participation and voting. The Bank always invited lawyers to witness all shareholders meetings and issued Official Legal Opinion.

### **2. With reference to directors and the Board of Directors**

During the reporting period, the Bank elected a new Board of Directors following the requirements of State laws. The new board consisted of 14 directors, including 3 directors nominated by foreign investors and 4 independent directors, which improved the structure of the board. All directors were industrious with keen sense of responsibility and attached great importance to safeguarding the interests of the Bank and all shareholders as well. Under the Board, there were five sub-committees including the Executive Committee, Audit Committee, Risk Management Committee, Related Party Transaction Control Committee and Nomination, Compensation and Evaluation Committee, which helped to improve the organizational structure of the Board. The Board and its sub-committees always convened meetings in accordance with the requirements of laws, regulations, the Articles of Association of the Bank, relevant rules of procedures and working rules.

### **3. With reference to supervisors and Board of Supervisors**

During the reporting period, the Bank elected a new Board of Supervisors following the requirements of State laws. The new board consisted of 9 supervisors including 2 external supervisors and 3 supervisors served by staff representatives. All supervisors attached great importance to their duties on behalf of the shareholders and supervised the behaviors of the accountants, directors, the president and other senior management to safeguard the legal interests of all shareholders. Under the board, there were two sub-committees including a Supervisory Committee and Nomination, Compensation and Evaluation Committee, which helped to improve the organizational structure of the Board. The Board and its sub-committees always convened meetings in accordance with the requirements of laws, regulations, the Articles of Association of the Bank, relevant rules of procedures and working rules.

**4. Independent directors and their performance**

The Bank established a system of independent directors and enacted relevant working rules in accordance with the requirements of the Guidance of Independent Directors and External Supervisors for Joint Stock Commercial Banks. Up to now, the Bank has 4 independent directors who are professional experts majored in Finance, Accounting and Law Affairs. During the reporting period, all independent directors were responsible for all shareholders and fulfilled their duties honestly with due diligence. They participated all board meetings and played important roles in the board.

**5. Evaluation, incentive, check and balance mechanism**

The Board of Directors is responsible for the evaluation and oversight of the senior management. Its sub-committee, the Nomination, Compensation and Evaluation Committee is responsible for enacting evaluation standards and compensation policy and program for the senior management. The Bank improved its check and balance system by setting up scientific and reasonable evaluation targets to encourage senior management effectively with check and balance.

## **Extracts of General Shareholders Meeting**

During the reporting period, the Bank convened three general shareholders meetings, details as follows:

### **1. Notification, convening and opening of the annual General Shareholders Meeting**

The Bank issued a notice of the 2003 General Shareholders Meeting of Industrial Bank Co., Ltd. on the Financial Times and Fujian Daily On May 26, 2004 and June 11, 2004. The General Shareholders Meeting was held in Fuzhou on June 28, 2004. Ninety two shareholders and authorized representatives presented the meeting who represented for 3639million shares, accounted for 90.99% of the total 3999000000 shares, which was in conformity with the Company Law of the People's Republic of China and the relevant regulations of the Bank's Articles of Association.

The 2003 General Shareholders Meeting of the Bank examined and passed the following bills by registered voting:

Work Report of the Board of Directors of Industrial Bank Co., Ltd. 2003;

Work Report of the Board of Supervisors of Industrial Bank Co., Ltd. 2003;

Public Offering Program of Industrial Bank, Co., Ltd.

Proposal for Revising the Rules of Procedures for the General Shareholder Meeting of Industrial Bank Co., Ltd.;

A Proposal of Appointment of External Accountant Firm in 2004;

Financial Statements for 2003 and Financial Budget Program for 2004 (Draft) of Industrial Bank Co., Ltd.;

Profit Distribution Program of Industrial Bank Co., Ltd. 2003;

2003 Annual Report of Industrial Bank Co., Ltd.;

Change of Investment Company Proposed by GIC Special Investments Pte Ltd;

Election of Directors for the 5<sup>th</sup> Session of Board of Directors of Industrial Bank, Co., Ltd.;

Election of Supervisors for the 3<sup>rd</sup> Session of the Board of Supervisors of Industrial Bank Co., Ltd.

C & I Partners (a Beijing Based Law Firm) presented a legal opinion on the legality and validity of the meeting's convening, opening procedures, qualifications of the participating shareholders and the resolutions adopted in the meeting.

### **2. Notification, convening and opening of the 1st Interim General Shareholders Meeting 2004**

The Bank issued a notice of the 1<sup>st</sup> Interim General Shareholders Meeting 2004 of Industrial Bank Co., Ltd. on the Financial Times and Fujian Daily On Dec. 15<sup>th</sup>, 2003 and Dec. 31, 2003. The 1<sup>st</sup> Interim General Shareholders Meeting 2004 of the Bank was held in Fuzhou on Jan. 15, 2004. 73 shareholders and authorized representatives presented the meeting who represented for 2551million shares, accounted for 85.02% of the total 3000000000 shares, which was in conformity with the Company Law of the People's Republic of China and the relevant regulations of the Bank's Articles of Association.

The 1<sup>st</sup> Interim General Shareholders Meeting 2004 examined and passed the following bills by registered voting:

A Proposal of Revising the Articles of Association of Industrial Bank Co., Ltd (Draft);

A Proposal of Capital Increase and Shares Expansion and Introducing Foreign Strategic Investors;

A Proposal on Issuing Certificates of Deposit of Industrial Bank Co., Ltd.

C & I Partners (a Beijing Based Law Firm) presented a legal opinion on the legality and validity of the interim meeting's convening, opening procedures, qualifications of the participating shareholders and the resolutions adopted in the interim meeting.

### **3. Notification, convening and opening of the 2nd Interim General Shareholders Meeting 2004**

The Bank issued a notice of the 2<sup>nd</sup> Interim General Shareholders Meeting 2004 of Industrial Bank Co., Ltd. on the Financial Times and China Securities Journal On Oct. 19, 2004 and Nov. 3, 2004. The 2nd Interim General Shareholders Meeting 2004 of the Bank was held in Fuzhou on Nov. 19, 2004. 82 shareholders and authorized representatives presented the meeting who represented for 3603millionshares, accounted for 90.09% of the total 3999000000 shares, which was in conformity with the Company Law of the People's Republic of China and the relevant regulations of the Bank's Articles of Association.

The 2<sup>nd</sup> Interim General Shareholders Meeting 2004 examined and passed the following bills by registered voting:

A Proposal of Revising the Articles of Association of Industrial Bank Co., Ltd;

A Proposal of Authorizing the Board of Directors with Plenary Powers to Handle the Initial Public Offering and Listing Issues Concerned;

A Proposal of Utilization Program for the Capital raised from IPO;

Profit Distribution Program Concerning the Accumulated Undistributed Profit Prior to IPO and the Profit of the Same Year of IPO;

A Proposal of Issuing Subordinated Bonds;

A Proposal of Drawing up Rules for Management of Related Party Transactions Between Industrial Bank, the Insiders and shareholders;

A Proposal of Appointment Agreement for Independent Directors;

A Proposal of Appointment Agreement for External Supervisors.

C & I Partners (a Beijing Based Law Firm) presented a legal opinion on the legality and validity of the interim meeting's convening, opening procedures, qualifications of the participating shareholders and the resolutions adopted in the interim meeting.

### **4. Elections and Changes of Directors and Supervisors, Appointment of the Senior Management**

On June 28, 2004, the 5<sup>th</sup> Session of Board of Directors were elected by the 2003 General Shareholders Meeting of the Bank and Mr. Gao Jianping, Liao Shizhong, Patrick K W Chan, Chua Phuy Hee, Ludwig Chang, Zhang Yutang, Song Li, Li Renjie, Ms. Bi Zhonghua and Mr. Kang Yukun, Wang Guogang, Deng Liping, Lin Jingyao and Gu Gongyun were elected as directors, among which, Mr. Wang Guogang, Deng Liping, Lin Jingyao and Gu Gongyun were appointed as independent directors.

On June 28, 2004, members of the 3<sup>rd</sup> Session of Board of Supervisors were elected by the 2003 General Shareholders Meeting of the Bank and Mr. Xu Yimeng, Dong Binggen, Huang Dazhan, Wang Xiaobin were elected as Supervisors while Mr. Li Shuang, Zhang Yichun were appointed as external supervisors. And Mr. Huang Guangtong, Liu Peiyuan and Hua Bing were elected as staff representative supervisors by the Staff Representative Meeting of the Bank.

On June 28, 2004, Mr. Gao Jianping was elected as Chairman of the Board of Directors by the first meeting of the 5<sup>th</sup> Session of Board of Directors.

The 5<sup>th</sup> Session of the Board of Directors appointed Mr. Li Renjie as President of the Bank and Mr. Tang Bin as the Board Secretary according to the nomination of Chairman Gao Jianping.

The 5<sup>th</sup> Session of the Board of Directors appointed Ms Bi Zhonghua and Mr. Kang Yukun as Vice Presidents of the Bank according to the nominations of President Li Renjie.

On June 28, 2004, Mr. Huang Guangtong was elected as the Chairman of the Board of Supervisors by the first meeting of the 3<sup>rd</sup> Session of the Board of Supervisors.

## Report of Board of Directors

In 2004, the Bank followed the strategy of “Building a First Class Bank with Outstanding Reputation”, abided by the requirements of the state macro control, adapted to the external changes, adjusted its development strategies and urged for the transition of business development and profitability. All these efforts led to a steady growth of its franchise with its structure improved, profitability enhanced and the IPO preparation well progressed. Its all-round cooperation with foreign strategic investors went forward smoothly, and the composition of the Board of Directors and its sub-committees and the basic system of corporate governance were well improved. All these were conducive to the standard operation of the Bank’s corporate governance.

### **I. Business Development in 2004**

As of the end of 2004, the total assets of the Bank reached RMB 340.52 billion, representing an increase of 30.97% from last year, its outstanding liabilities were RMB330.06 billion, a growth of 30.46% over the previous year, its equity amounted to RMB10.47 billion upped 49.55%, and the ratio of NPL was 2.5%, almost the same with last year based on Five-tier Classifications, and the profit of the Bank reached RMB2.26 billion, upped 38.04%.

#### **1. Business grew rapidly, and the innovation of fee business speeded up**

Deposits grew rapidly and the distribution of newly increased loans were focused relatively. At the end of 2004, the Bank’s outstanding deposits reached RMB283.19 billion, representing an increase of 36.38% over last year; its outstanding loans were RMB203.01 billion, a growth of 29.35%. The newly increased loans were mainly granted to the regions including Beijing, Hangzhou, Guangzhou, Shanghai, Ningbo and Nanjing, etc. with a better asset quality.

The innovation of fee business was strengthened with revenue increased significantly and the transition of business development brought an initial positive result to the Bank. In July 2004, the Bank succeeded in issuing IB Credit Card which met international standards. In the year end, the Bank issued a new kind of credit card with both logos of Industrial BankCo.Ltd and Hang Seng. Its RMB and FX asset management products, Union Pay transactions and personal FX tradings obtained a sound outcome. The Internet banking of the Bank got the honor of “One of the Top 100 Commercial Websites” and “One of the Top Websites with Fastest Growth” in 2004. Its yearly sales of Funds amounted to RMB900 million and its international settlement reached USD12.36 billion. In addition, the Bank established correspondent relationship with 133 institutional entities. The annual fee income of the Bank reached RMB341 million, an increase of 57.68% from last year, which was 22.16% more than the increase of loan interest income. A positive outcome of business adjustment came into being.

#### **2. The profitability of the Bank was well improved with its sustained profitability strengthened.**

The yearly revenue of the Bank amounted to RMB12.32 billion, a growth of 31.97% over the previous year; the total expenses were RMB10.07 billion, upped 30.68%, and the total profit for the year was RMB2.26 billion, a year-on-year growth of 38.04%.

#### **3. A harmonious development with a healthy balance sheet**

As of the year end, the Bank's capital adequacy ratio(CAR) was 8.07% with a core CAR of 5.08%, one of the commercial banks met the demands of new regulations. And management ratios for assets and liabilities also met relevant regulatory requirements, details as follows: The ratio of deposit and loan of RMB currency denominated was 67.64%, and that of foreign currencies denominated was 53.54%; the ratio of short term liquidity of RMB was 37.75%, and that of foreign currencies denominated was 65.68%;and the ratio of RMB currency denominated reserve was 17.70% while that of foreign currencies denominated was 13.16%; the outstanding loans of the top 10 clients accounted for 46.33% of the capital, and that of the top one accounted for 6.35%. Compared with the previous year, all the above mentioned ratios were improved to a certain extent.

## **II. All-round co-operation with foreign strategic investors, a successful acquirement of Foshan City Commercial Bank and efforts for IPO**

### **1. All foreign investment paid in at the same time, and all-round co-operations started**

On April 29, 2004, Hang Seng Bank, International Finance Corporation and GIC Special Investments Pte Ltd paid in their shares subscription capital and the Bank started its co-operations with the foreign partners immediately. The technical assistance regarding corporate governance from IFC had an initial outcome; and the cooperation with Hang Seng Bank in the field of credit card came out with a great success; and other technical assistance concerning risk management, finance control, internal audit and IT etc. were clearly confirmed and would be brought to the eventual operations step by step.

### **2. A successful acquirement of Foshan City Commercial Bank (FCCB) based on the principles of "Risk Controlled and Cost Locked"**

After the local government recovered the major asset loss of FCCB, the Bank merged and acquired FCCB successfully based on market approaches, e.g. acquired its positive assets and accepted its book debts and established IB Foshan Branch, a first symbolic case that a Chinese joint stock commercial bank acquired a city commercial bank.

On Dec. 6, 2004, IB Foshan Branch opened officially. As of the year end, Foshan Branch developed smoothly and witnessed a sustained growth in all respect; there was an increase of RMB446 million in its total assets and RMB494 million increase in its outstanding deposit.

### **3. Efforts for IPO**

Under the guidance and assistance of Bank of China International in relation to IPO, the Bank had a self inspection and adopted relevant resolutions to resolve relevant issues in accordance with the requirements of People's Bank of China (PBOC), China Banking Regulatory Commission (CBRC) and China Securities Regulatory Commission (CSRC).

So far, the Bank has basically met the requirements for IPO concerning corporate governance, business operation and laws compliance. Meanwhile, the Bank conducted a wide range of research in domestic and foreign capital markets, and communicated with key regulators actively. And the basic program for the Bank's IPO was adopted by 2003 General Shareholders Meeting. In January 2005, CSRC Fujian Branch checked and accepted the IPO guidance and assistance work of the Bank.

## **III. A significant improvement on corporate governance concerning regulations**

## **and organizations**

### **1. Further improvement on relevant rules and regulations and organizational structure.**

The Bank improved its corporate governance in accordance with the requirements of relevant law, rules and regulations based on the introduction of foreign strategic investors, details as follows: first, the Bank had thorough revise to its Articles of Association based on the advanced experience of the international peers and the standard requirements for commercial banks in relation to corporate governance set out by state regulators; secondly, the Bank introduced independent directors and external supervisors to improve its Board of Directors and Supervisors in terms of composition and organization; thirdly, the Bank modified and improved its basic rules and regulations for corporate governance to make clear the detailed operation standards for corporate governance at all levels and helped to improve the check and balance and effective links among all levels and finished the establishment of a routine operation mechanism concerning corporate governance.

### **2. Adapting to the keen competition of the financial market, the Bank improved its incentive, check and balance mechanism.**

In 2004, the Bank implemented an overall evaluation system of “economic value added” based on the trend of international banking development to lead the Bank to an intensive development. The Bank introduced “Risk Fund” to the composition of the remuneration of senior management members to reinforce the functions of long-term check and incentive to better balance the relation between short-term operation and long-term development of the Bank. The Bank led the way in establishing responsibility insurance system for its directors, supervisors and senior management among the domestic peers to divert professional responsibility risks to enhance the motivation of duty performance of directors, supervisors and senior management.

### **3. Improvement on information disclosure and management of investor relation to establish a better profile for the Bank**

In 2004, the Bank finished various kinds regular and irregular information disclosures in accordance with relevant rules and procedures and improved its management on investor relations. The Bank worked out its annual report based on the standards of listed banks and disclosed to the investors and the public through various channels as scheduled. It edited and delivered News Report to shareholders to report the performance and material issues of the Bank to all shareholders. It paid visits to directors, supervisors and part of the shareholders non-periodically and strengthened its information interaction with investors. In order to enhance the scientific decision-making of the Board of Directors and the effectiveness of the supervision of Board of Supervisors, the Bank invited some of the directors, supervisors and shareholders to visit Guangzhou and Foshan to have a spot investigation about the issue of acquiring Foshan City Commercial Bank with a positive outcome.

## **IV. Risk Factors**

### **1. Credit risk**

In 2004, the Bank succeeded in resolving credit risks and withstanding external pressures and tests by adjusting its development strategies actively based on the State macro-control and market change, details as follows: first, the Bank followed the principles of “keeping its involvement in certain sectors and reducing the other, entry into some sectors without our

involvement and exit from some sectors in case of need” to restructure its credit portfolio, and to exit from some markets and regions with existing risks or great potential risks timely or ahead of time; secondly, the Bank reformed its credit review and approval workflow and improved its delegation and worked out a series of rules and regulations like the Regulations for Due Diligence in Corporate Customers’ Credit Facility Granting and released credit directions, guidance and risk disclosures timely to improve the groundwork of risk management; thirdly, the Bank continued to improve its risk management approaches and techniques based on the technical assistance of International Finance Corporation; fourthly, the Bank made efforts to seek for new approaches to dispose non-performing assets so as to improve the operation and management of non-performing assets based on real time monitoring, highlighted priorities, and overall checking to NPL. As of Dec. 31, 2004, the outstanding NPL of the Bank based on five-tier classification amounted to RMB5.077 billion, representing 2.50% of the total. The asset quality of the Bank was sound compared with its domestic peers.

## **2. Market risk**

**Liquidity risk:** In 2004, the Bank improved its liquidity management by transiting from balance management to tenure management to establish a liquidity risk management model of real time monitoring and flexible adjustment; the Bank also worked out lots of asset and liability management policies to improve a completed management of the ratio of deposit and loan connected with fund price and set up liquidity ratios and alarming points to restructure its assets and liabilities flexibly based on analysis and comparison. Therefore, the Bank succeeded in withstanding the test of the Central Bank’s tight money supply and also improved its assets and liabilities structures due to its prompt reaction and effective measures.

**Interest rate risk:** In 2004, People’s Bank of China further enlarged the interest rate floating range for deposits and loans of financial institutions which led to a steady progress of interest rate market-oriented reform. In order to meet the challenges of interest rate market-oriented reform, the Bank reinforced its management of interest rate pricing to improve its management and control towards risk positions of interest rate based on internal fund-transfer pricing according to different products and tenures. In the meantime, the Bank provided professional analysis and anticipation to assets and liabilities with interest rate sensitivity depending on its asset and liability management computer system to follow up and monitor risk exposure of interest rate and adopted proper balance sheet measures or off balance sheet tools to cut down risk exposures of financial tools with interest rate sensitivity.

**Exchange rate risk:** The Bank divided clearly its self trading with agency for client’s trading in relation to its FX management and insisted on concentrating its risk exposures of exchange rate to its head office and granted delegation to its Financial Markets responsible for an overall management and conducting real time monitoring and squaring position for RMB exchange exposures to avoid from any possible exchange rate risks uttermostly.

## **3. Operational risk**

In 2004, the Bank started a complete quality management and ISO9001 identification towards international settlement and bills trading so as to realize a procedural and standard management to its business operation. The Bank also improved its rules and regulations for internal control and made clear responsibilities for all operating units and departments in relation to operational risk. And the Bank helped those new branches and departments to

improve understanding towards operational risk based on guidance, check and acceptance and follow-up auditing. In a word, the internal control measures of the Bank were carried out effectively, and there were not any material risks occurred due to the deficiencies or errors of its internal procedures, staff and computer system.

## **V. Work Summary of the Board in 2004**

### **1. The Convening of General Shareholders Meeting and the Execution of Relevant Resolutions**

The Bank convened 3 General Shareholders Meetings in January, June and November 2004 respectively with 22 proposals discussed and adopted covering introducing foreign strategic investors, amendment of the Articles of Association, IPO, changes of Board of Directors and Board of Supervisors, profit distribution, issuing subordinated bond and formulating Regulations for Management of Related Party Transaction, etc. The General Shareholders Meeting also listened to the report of the Board of Directors about implementing rectification requirements of CBRC.

Execution of relevant resolutions: The Bank distributed RMB1.1 Yuan dividend to each 10 shares after appropriated statutory surplus reserves and statutory surplus reserve for welfare of employees from the profit of year 2003 after tax according to the resolution of profit distribution adopted by the 2003 General Shareholders Meeting. The total dividends paid to all shareholders amounted to RMB330,000,000.00. In December 2004, the Bank issued RMB3 billion worth of subordinated bond successfully in the inter-bank market in a way of private placement and replenished its subsidiary capital. At the year end, the Bank's capital adequacy ratio reached 8.07%, and the Bank became one of the first commercial banks to meet the new requirements of capital adequacy ratio.

### **2. Faithful execution of responsibilities and earnest review of material decisions of the Bank.**

In 2004, the Board convened 5 meetings, one of them was held in the form of voting by correspondence, covering 42 proposals including nomination of the candidates for the 5<sup>th</sup> Session of Board of Directors, IPO, capital adequacy ratio, acquisition of Foshan City Commercial Bank, issuing subordinated bond and profit distribution, etc. which had positive effects to the steady, balanced and sustained development of the Bank.

During March 19 to 26, 2004, the 21<sup>st</sup> Meeting of the 4<sup>th</sup> Session of Board of Directors was held in the form of voting by correspondence resolved 3 proposals including Financial Statements 2003 and Notes, Proposal of Changing Investment Project Company by GIC and the Proposal of the Change of Certain Shareholders.

On May 25, 2004, the 22<sup>nd</sup> Meeting of the 4<sup>th</sup> Session of Board of Directors was held in Fuzhou with the Report of Board of Directors, Report of the President, Proposal on Final Accounting of Revenue & Expenditure 2003 & Financial Budget (draft) 2004, Annual Report 2003, Proposal of Engagement of Accountant Firm in 2004, IPO, Amendment to Working Rules of the General Shareholders Meeting, Nomination of the Candidates for the 5<sup>th</sup> Session of Board of Directors and the Proposal of Convening 2003 Annual General Shareholders Meeting resolved.

On June 28, 2004, the 1<sup>st</sup> Meeting of the 5<sup>th</sup> Session of Board of Directors was held in

Fuzhou with 11 proposals resolved including the election of Chairman for the 5<sup>th</sup> Session of Board of Directors, composition of the sub-committees of the Board, appointments of President, Vice Presidents and Board Secretary, amendment of the working rules for the Board of Directors, working rules for sub-committees and working rules for the President, appointment contract for independent directors, acquisition of Foshan City Commercial Bank and the changes of certain shareholders.

On Oct. 15, 2004, the 2<sup>nd</sup> Meeting of the 5<sup>th</sup> Session of the Board of Directors was held in Hangzhou with 11 proposals resolved covering A Proposal of Amending Articles of Association (requirements for A-share listing), A proposal of Granting Full Delegation to the Board of Directors to Deal with IPO and Listing, Usage Program for the Capital Raised from IPO, A Proposal for Distribution of the Non-distributed Profit Integrated before IPO and the Profit Earned in the Year of IPO, A Proposal of Issuing Subordinated Bond, the Regulations for Management of Related Party Transaction Between Industrial Bank and Insiders and Shareholders, Detailed Rules for Management of Related Party Transaction Between Industrial Bank and Insiders and Shareholders, Bad Debt Written-off Budget, A Program to Meet the Requirements of Capital Adequacy Ratio, A Proposal of the Change of Certain Shareholders and A Proposal of Convening the 2<sup>nd</sup> Interim General Shareholders Meeting 2004. The Board meeting also listened to the Report of Board of Directors about implementing rectification requirements of CBRC.

On Nov. 19, 2004, the 3<sup>rd</sup> Meeting of the 5<sup>th</sup> Session of the Board of Directors was held in Fuzhou and resolved 5 proposals including A Proposal of the Change of Accounting Policies, A Proposal of the Setting Program for Branches and Sub-branches, Regulations for Compensation of the Senior Management in 2004, Regulations for Evaluation of Directors and Senior Management Members in 2004 and A Proposal of the Change of Certain Shareholders.

## **VI. Key work for 2005**

In 2005, the Bank will continue to follow the strategy of “Building a First Class Bank with Outstanding Reputation” and insist on perfect services with its own features and make efforts to change its modes of business development and profitability so as to repay shareholders with sound performance and serve the society with perfect banking services. The key work of the Board will be as follows:

### **1. Targets for business development**

The targets of the Bank in 2005: to increase source of fundings by RMB67.79 with year-end balance of RMB342.14 billion, an increase of 24.71% over last year; to increase loans by RMB45 billion, with a year-end outstanding of RMB248.01 billion, an increase of 22.17%; while controlling non-performing loan ratio below 2.27% with the NPL amount controlled under RMB5.64 billion and achieving a total profit of RMB3.15 billion, an increase of 18.4% over last year.

The Bank’s financial budget for 2005 will be reported separately to the General Shareholders Meeting.

### **2. To carry out the rich contents of corporate governance step by step to further improve its operating efficiency**

In 2005, the Bank will carry out the functions of the Board and its sub-committees in accordance with the requirements of the Articles of Association and relevant regulations. It will

improve the function of the Board in decision-making based on the following priorities including medium and long-term strategic development program, risk management, incentive and check mechanism and information disclosure. Meanwhile, the Bank will improve its transmission mechanism in relation to corporate governance to promote a well connection and cooperation between the Board of Directors and Board of Supervisors, all sub-committees and senior management to ensure that the idea, spirit and principle of corporate governance will be carried out effectively.

**3. To speed up public offering to safeguard a healthy and sustained development for the Bank**

The Bank will start to report its public offering application to CSRC officially based on cooperation with various intermediary institutions in accordance with the resolution adopted by the General Shareholders Meeting in relation to public offering. In addition, the Bank will pay close attention to the situations of domestic and foreign capital markets as well as the change of regulatory policies to grasp the positive market opportunities to realize IPO as soon as possible. Meanwhile, the Bank will study and prepare various optional plans for capital supplement and lay a solid ground for a sustained development of the Bank.

**4. To push ahead all-round cooperation with foreign strategic investors and improve the operation and management of the Bank by learning the advanced experience from the international peers**

The Bank will continue its cooperation with the foreign strategic investors in the fields of corporate governance, credit card business, retail banking, risk management, financial control, internal auditing, personnel training and information technology in accordance with technical assistance and business cooperation agreements based on its exchanges and cooperation with them in 2004 to catch up with the advanced international peers so as to improve the core competitive edge of the Bank.

## Report of Supervisory Board

### I . Work Summary

#### 1. Meetings of the Supervisory Board

In 2004, the Supervisory Board held 5 meetings (one was held in the form of voting by correspondence), reviewing hearing 14 proposals as follows:

From March 19 to 26, 2004, the 6th session of the 2nd Supervisory Board was held in the form of voting by correspondence, with the “Financial Statements and Notes of the Bank for 2003” adopted.

On May 25, 2004, the 7th session of the 2nd Supervisory Board was held in Fuzhou. The meeting reviewed and unanimously approved 4 proposals including: Work Report of the Supervisory Board for 2003, Report on the Business Performance and Financial Budget for 2003”, “Annual Report 2003” and “Motion on Nominating Candidates for Supervisors of the 3rd Supervisory Board”.

On June 28, 2004, the 1st session of the 3rd Supervisory Board was held in Fuzhou. The meeting reviewed and unanimously approved 5 proposals including the election of Chief Supervisor of the 3rd Supervisory Board, the composition of the subcommittees of the Supervisory Board, the amendment of the rules of procedure of the Supervisory Board, the stipulation of the work rules of the subcommittees, and the employment contract with external supervisors.

On October 15, 2004, the 2nd session of the 3rd Supervisory Board was held in Hangzhou. On the meeting, the Supervisory Board listened to the “Report on Implementation of Regulatory Opinions and Rectification Suggestion from China’s Banking Regulatory Commission (CBRC)”.

On November 19, 2004, the 3rd session of the Supervisory Board was held in Fuzhou. The meeting reviewed and unanimously approved 3 proposals including: the Report on the Bank’s Financial Status (January-October, 2004), Motion on the Remuneration of Supervisors, and Proposal of Supervisor Evaluation Methods.

#### 2. Legitimate Attendance of the General Shareholders Meetings

Strictly in compliance with law, members of the Supervisory Board attended the Bank’s General Shareholders Meetings (“the Meeting”) held respectively in January, June and November, 2004. The Supervisory Board carefully reviewed all proposals submitted to the Meetings, supervised the legitimacy of meeting convening procedure, and designated certain supervisors to scrutinize the voting result of every proposal to ensure the fairness, impartialness and openness. What’s more, the Supervisory Board made the “Work Report of the Supervisory Board 2003” to the Meeting, and submitted “Motion on Electing Supervisors for the 3rd Supervisory Board” and “Proposal of the Nomination of Candidates for Supervisors”, with all adopted by the Meeting.

#### 3. Lawful Supervision over the Responsibility Fulfillment of the Board of Directors, Directors and Senior Management Personnel

By attending the General Shareholders Meetings as voting delegates, and Board of Directors Meetings and senior management meetings as non-voting delegates, expressing

opinions on regular reports submitted to regulators, and communicating with directors, senior management, etc., the Supervisory Board possessed an overall understanding of the Bank's operation status, strengthened its supervision over the implementation of the resolutions of General Shareholders Meeting and Board of Directors, the meeting convening procedure, and the responsibility fulfillment of Board of Directors, directors and senior management personnel.

In August, 2004, some supervisors visited Guangzhou and Foshan to conduct an on-site investigation and research of the acquisition of Foshan City Commercial Bank, requiring that the acquisition should strictly follow the principle of "Risk Controlled and Cost Locked". By doing so, the Board safeguarded the interests of the shareholders and the Bank. Supervisors representing staff paid frequent visits to Foshan to investigate and direct the acquisition.

#### **4. Careful Inspection of the Bank's Financial Status**

In 2004, the Supervisory Board legally supervised the Bank's financial status, periodically reviewed or listened to interim reports on the Bank's financial and operation status, attended special financial meetings, strengthened communications with the head of the Financial Department, and promoted the standardization of the Bank's financial management. Meanwhile, the Supervisory Board also paid close attention to possible financial deterioration risk due to changes of macro economy, and promoted the transition of the Bank's development and profitability.

#### **5. Reconstruction of the Board's Composition with Relevant Rules of Procedure Improved**

In June, 2004, the 3rd Supervisory Board was officially set up in accordance with the election result of the General Shareholders Meeting. The introduction of two external supervisors helped to optimize the Supervisory Board's member composition. The Supervisory Board's organization structure was improved by setting two subcommittees: Supervision Committee and Nomination, Remuneration and Evaluation Committee. The Board conducted a second amendment of the "Rules of Procedures of the Supervisory Board", and formulated working rules for two committees, thus enhancing the Board's systematic guarantee. As for corporate governance, the new Supervisory Board clearly defined its responsibilities, improved its efficiency, and strengthened its supervision priorities. In April 2005, a separate Executive Office of the Supervisory Board was set up with professional staff in charge of the daily work, which further improved the independence of the Supervisory Board.

#### **6. Proactively Urging Senior Management to Effectively Resolve Operating Risk and Improve Operating Result**

In 2004, by reviewing or listening to proposals submitted by senior management, and attending Board of Directors Meetings as non-voting delegates, the Supervisory Board obtained an in-depth understanding of the Bank's operation and management affairs, encouraged senior management to strengthen the analysis of macro economy and financial policies, and urged it to stipulate effective measures to meet challenges arising from the changes of external economic environment. The Supervisory Board also urged relevant function departments to form an inspection team to conduct special audit on branches with relatively fast-growing non-performing assets since early this year, which helped to effectively restrain pressure due to the non-performing asset growth imposed on the Bank's operation, and was conducive to the improvement of the Bank's performance, management and asset quality.

## **II. Independent Opinions of the Supervisory Board**

### **1. Operational Review**

As of the end of 2004, the Bank's total assets reached RMB 340.52 billion, representing an increase of 30.97% over last year, the total liabilities grew by 30.46% to RMB 330.06 billion, and the owner's equity amounted to RMB 10.47 billion, 49.55% upped compared with last year. The outstanding deposits reached RMB 283.19 billion, a growth of 36.38% over last year, and the outstanding loans were RMB 203.01 billion, which was a 29.35% increase over last year. The revenue of the fee business increased to RMB 341 million, representing a 57.68% year-on-year increase, and the profits of the Bank reached RMB 2.26 billion, 38.04% upped over the previous year.

After a careful review, the Supervisory Board believed that the Bank operated in accordance with law, its management was standardized and its performance was reported objectively and true to the fact. The decision-making procedures were legal, and the internal control system was sound, rational and effective. The Bank could scientifically deal with changes of macro economic environment, and achieved the annual business goal set by the Board of Directors.

### **2. Financial Status and Asset Quality**

The Bank's Annual Financial Statements 2004 had been audited by Fujian Huaxing Certified Public Accountants Ltd. and Ernst & Young in accordance with the domestic and international auditing standards with Auditors' Reports issued without any reserved opinions.

After a careful review, the Supervisory Board believed that the Annual Financial Statements 2004 well reflected the financial status and performance of the Bank in a true, fair, and complete manner, and the Auditors' Reports were true and objective.

### **3. Usage of Capital Raised**

In December, 2003, the Bank issued RMB 3 billion worth of designated large amount deposits. In April, 2004, three foreign strategic investors paid in RMB 2.6973 capital to the Bank at one time. In December, 2004, the Bank successfully issued another RMB 3 billion subordinated bonds.

The above proceeds were used to supplement the Bank's capital, which was conducive to the Bank's sustainable, rapid, and healthy development. The proceeds were granted to the following areas: information system construction, brand promotion, product innovation, network expansion, personnel training and treasury operation, etc.. The actual usage of the proceeds was consistent with the promises made in the prospectus.

### **4. Sales and Acquisitions**

During the reporting period, the Bank successfully acquired the whole Foshan City Commercial Bank at the price of RMB 430 million, and transformed it into the Bank's Foshan branch, which was officially opened on December 6, 2004.

After a careful review, the Supervisory Board believed that this acquisition faithfully followed the principle of "Risk Controlled, and Cost Locked", and promoted the Bank's network expansion in Pearl River Delta after the Bank successfully realized its strategic network layout in Yangtze River Delta. What's more, with the local financial risks resolved and social stability safeguarded, this acquisition was of great significance to China's ongoing financial reform.

### **5. Related Party Transactions**

The Bank's related party transactions mainly covered deposit and loans business.

After a careful review, the Supervisory Board believed that during the reporting period, the Bank strictly followed relevant requirement and regulations in handling related party transactions. Both the process and result of the transactions were fair and impartial. No insider trading or acts detrimental to the interests of the Bank and shareholders were found.

## **6. Internal Control**

The Supervisory Board recommended that: in 2004, the Bank strengthened the construction of internal control system, promoted the standardization and systemization of its business operation and management procedures, and enhanced the enforcement of supervision. Meanwhile, the Bank officially launched the overall quality management, promoting the ISO9001 quality system certification for international settlement and bills trading to improve the standardization of business operation. In early 2005, the Bank successfully passed the ISO9001 certification. What's more, the Bank cooperated with CBRC in the internal control inspection and with International Finance Corporation in the corporate governance assessment project conducted in the Bank. The Bank rectified relevant internal control weakness and potential risk points in a timely and effective way, and strengthened the accountability mechanism to eliminate hidden risks.

## **7. The Implementation of the Resolutions of the General Shareholders Meeting**

In 2004, members of the Supervisory Board legally attended General Shareholders Meeting, and held no objection towards proposals submitted. After a careful review on the implementation of relevant resolutions, the Supervisory Board believed that the Board of Directors seriously executed the resolutions of the General Shareholders Meetings.

## **8. The Responsibility Fulfillment of Directors and Senior Management Personnel**

In 2004, all directors were earnest and industrious in fulfilling their responsibilities. Under the leadership of Chairman Gao Jianping, the Board of Directors successfully completed its reconstruction, and systematically amended a series of fundamental systems of corporate governance, laying a sound foundation for achieving the goal of "Building A First-class Bank". The introduction of foreign strategic investors had completely finished, and relevant business cooperation and technical assistance projects were conducted in an orderly and smooth way. The Bank successfully acquired the whole Foshan City Commercial Bank, which was regarded as an unprecedented case that a Chinese joint stock commercial bank successfully acquired a city commercial bank in a market-oriented way. The Bank issued another RMB 3 billion subordinated bonds, which placed the Bank among the first batch of commercial banks meeting capital adequacy ratio requirement after the issuance of "New Capital Adequacy Ratio Management Method".

Led by President Li Renjie, senior management personnel actively and carefully carried out the resolutions of Board of Directors, reformed the evaluation mechanism for operating units, promoted the strategic business restructuring, strengthened the innovation of financial products, strived for building excellent financial brands, and further improved its nationwide network layout. Its transformation of business development and profitability had gained initial success, with the Bank's sustained profit-making ability further strengthened.

After a careful review, the Supervisory Board believed that the directors and senior management personnel were cautious, serious, earnest and industrious in fulfilling their responsibilities, and their work was highly effective. No breach of law, rules, regulations and

Articles of the Association, or events detrimental to the interests of the Bank and shareholders were found in the responsibility fulfillment of the Board of Directors, directors and senior management personnel.

### **III. Plan for 2005**

In 2005, following the strategy of “Building A First-class Bank with Outstanding Reputation”, the Supervisory Board will fully implement its basic systems, make clear its supervision route, well perform its functions of supervision, inspection, rectification and suggestion, and further improve the supervision mechanism.

#### **1. To improve the supervision mechanism in an all-round way**

With the aim to improve supervision priorities and efficiency, the Supervisory Board will fully carry out relevant regulations stipulated in the Articles of the Association, make clear its supervision route, and define supervision responsibility. The Supervisory Board will establish a system to require the senior management to regularly submit interim reports on the Bank’s operation and financial analysis, and the Supervisory Board will focus on both the reviewing of proposals and daily supervision, instead of mainly focusing on the reviewing of proposals.

#### **2. To fulfill the supervision responsibilities effectively**

The supervisors will be encouraged to make full use of their expertise and work experiences, and actively fulfill their duties. The Supervisory Board will require the Bank to put right decisions detrimental to the interests of shareholders, staff and depositors, to rectify major internal control weaknesses discovered in inspection, and seriously look into law cases resulting in material losses to ascertain where the responsibility lies and relevant persons responsible. The Supervisory Board will bring its function into full play.

#### **3. To communicate with external auditors from different angles**

Members of the Supervisory Board will strengthen its communication with domestic and foreign auditors, so as to obtain a comprehensive understanding of the Bank’s financial and risk status, highlight major internal control deficiencies and regulation breach activities found in auditing process, and urge the management to take appropriate measures to improve or rectify them. By doing so, the Supervisory Board will improve its efficiency.

#### **4. To carry out a whole-process track of the implementation of supervisory opinions and rectification measures**

The Supervisory Board will strengthen its whole-process track of the implementation of supervisory opinions and rectification measures, and effectively carry out the supervision links in relation to corporate governance. As for events having significant influence on the Bank, the Supervisory Board can set up an inspection team to conduct on-site investigation, and can outsource external professional institutions when necessary.

## Key Disclosures

### I. Significant Lawsuits and Arbitrations

At the end of the reporting period, there were 14 cases of lawsuits or arbitrations depending on judgement with the Bank as the prosecution amounting to RMB408million. There was not any cases of lawsuit or arbitration depending on judgement with the Bank as the defence.

### II. Important Contracts and their performance

1. Important Mergers and Acquisitions and Sales: During the report period, the Bank acquired Foshan Commercial Bank with RMB430,000,000, and set up IB Foshan Branch.

2. Important Custodies and Contracts: During the reporting period, the Bank has not conducted any custody or contracted other corporate assets, nor has the Bank authorized any other company to conduct any custody or contract the assets of the Bank.

3. Cash Asset Management: During the reporting period, the Bank has never entrusted others to conduct cash asset management for the Bank.

4. Significant Guarantee: During the reporting period, the Bank has no significant guarantee business required disclosure except those within the Business Scope approved by the relevant government regulators.

5. Performance of other Important Contracts: During the reporting period, all contracts of the Bank were performed normally without significant contract disputes.

### III. Appointment of External Accountant Firms

During the reporting period, the Bank appointed Fujian Hua Xing Certified Public Accountant Ltd and E & Y to conduct the audit work for 2004 Financial Report of the Bank.

### IV. Other Important Issues

During the reporting period, the Bank issued RMB3 billion worth of subordinated bonds based on private placement.

## Risk Management

### 1. Key Regulatory Index over the Past 3 Years as of the End of the Reporting Period

unit : %

Items	2004	2003	2002
Capital Adequacy	8.07	8.97	8.14
Risk-weighted Asset (100 million)	2049.70	1388.76	939.17
Net Capital (100 million)	165.45	124.58	76.48
Tier 1 Capital (100 Million)	104.08	71.18	64.68
Non-performing Loan Ratio (Aging method)	2.05	2.13	2.81
Non-performing Loan Ratio (Five-tier classification)	2.50	2.49	3.11
Liquidity ratio for Short Term Asset: RMB	37.75	46.98	43.94
foreign currency	65.68	61.83	60.32
Borrowing Ratio: RMB	0.07	0.60	0.39
Lending Ratio: RMB	0.77	0.97	2.62
Ratio of Mid and Long Term Loans: RMB	67.73	64.54	98.15
foreign currency	35.35	27.48	26.16
Loan Ratio of the Top Individual Client	6.35	4.11	15.26
<b>Loan Ratio of the Top 10 Clients</b>	<b>46.33</b>	<b>38.49</b>	<b>75.15</b>

### 2. Loan Distribution by Geographic Regions and Industries at the end of 2004

unit: RMB100 million

Region	Amount	Percentage(%)
Fujian	365.73	18.02
Guangdong	331.52	16.33
Shanghai	272.41	13.42
Zhejiang	265.91	13.10
Beijing	202.10	9.96
others	592.42	29.17
<b>Total</b>	<b>2030.11</b>	<b>100.00</b>

unit: RMB100 million

Industry	Amount	Percentage(%)
Agriculture, forestry, animal husbandry and fishery	15.95	0.79
Excavation	21.23	1.05
Manufacturing	454.32	22.37
Power, fire gas and water producers and suppliers	130.62	6.43
Construction	108.91	5.36
Transportation, storing and postal service	152.77	7.53
Information transmission, computer service and software	48.72	2.4
Wholesale and retail	222.44	10.96
Hotels and restaurants	11.32	0.56
Financial sector	15.68	0.77

Real estates	198.18	9.76
lease and commercial service	118.86	5.86
Science research, technical service and geological prospecting	10.760	0.53
Water conservancy, environment and public facilities management	126.56	6.22
Household service and other services	29.77	1.47
Education	15.73	0.77
Health, social security and social services	8.03	0.40
Culture, sport and entertainment	13.52	0.67
Public management and social organization	25.87	1.27
Personal loans	174.04	8.57
others	126.83	6.52
<b>Total</b>	<b>2030.11</b>	<b>100.00</b>

### 3. Loans of the Top 10 Clients

unit: RMB100 million

<b>Client</b>	<b>Loan outstanding</b>	<b>In % of the Bank's total loans</b>
Jinan Land Reservation & Trading Center	10.50	0.52
Fujian Telecom Co., Ltd.	10.02	0.49
State Power Grid Corporation	8.80	0.43
The Expressway Operation & Administration Center Of Jiangsu Province	8.50	0.42
Fuzhou Luo Chang Expressway Co., Ltd.	7.50	0.37
Beijing Longhaiyuan Development & Construction Co., Ltd	7.00	0.34
Beijing Zhongwu Ideal Real Estate Development Co., Ltd.	6.58	0.32
Guangdong Yuelong Power Generating Co., Ltd.	6.00	0.30
Hunan Hualing Iron & Steel Group Co., Ltd	6.00	0.30
Nanjing City Construction & Investment Holding (Group) Co., Ltd.	5.58	0.27
<b>Total</b>	<b>76.66</b>	<b>3.78</b>

### 4. Five-tier Classification of Credit Assets

unit: RMB100 million

	<b>2004</b>	<b>Percentage(%)</b>	<b>2003</b>	<b>Percentage(%)</b>
Pass	1918.06	94.48	1487.63	94.79
Special Mentioned	61.28	3.02	42.80	2.73
Sub-standard	27.17	1.34	11.27	0.72
Doubtful	13.68	0.67	17.42	1.11
Loss	9.91	0.49	10.33	0.66
<b>Total</b>	<b>2030.11</b>	<b>100</b>	<b>1569.45</b>	<b>100</b>

## 5. Provision for Bad Loans

unit: RMB100 million

Item	Amount
Opening balance	23.51
Provisions charged for the year	12.52
Increased from other sources	0.12
Recoveries	0.15
Written off for the year	3.35
Decreased for other reasons	0.13
<b>Closing balance</b>	<b>32.82</b>

## 6. Key Items Off-balance Sheet

unit: RMB100 million

Item	Outstanding Amount
Letter of Guarantee	30.14
Letter of Credit	52.29
<b>Banker's Acceptance Draft</b>	<b>586.60</b>

## 7. Risk Management of Facilities Granting to Conglomerates

The Bank has drawn up the Rules for Risk Management of Credit Facility Granting to Conglomerates and An Operation Manual for Credit Facility Granting to Conglomerates in accordance with the Guidance issued by China Banking Regulatory Commission. The Bank granted facilities to its clients based on the principles of “uniform, appropriate, selective and prewarning” to standardize the operation. When selecting a conglomerate to be the entity of granting facility, the Bank required that the enterprise selected should have assets with true value and the relevant project should have stable cash flow so that the Bank can ratify a credit line according to the extent of risk and how much the Bank can undertake the risk and avoid multi-granting and excessive granting surpassing the debt paying ability of the conglomerate. Besides, based on its Credit Management Information System, the Bank emphasized on the information collection, analysis as well as risk monitoring and pre-warning to safeguard the credit assets of the Bank.

## 8. Key Policies and Measurements to Non-performing Loans (NPL)

The Bank insisted on the principles of “classified guidance, prior monitoring, standard management, active recovery, strict assessment and combining performance with efficiency” in dealing with NPL. The Bank established an oversight system to monitor and analyse NPL so that the operation and management of NPL would become a routine work and run through all the course of business. The Bank also highlighted its oversight to the potential risks and related party risks and required a real time reporting about significant issues and material projects based on prior oversight and prior communication towards risk events. The standards of loans classifications have been followed strictly with provisions allocated accordingly for bad debt and strength to resist risks enhanced.

The Bank carried out a professional NPL management to improve its management and disposal efficiency towards NPL and kept on researching new approaches and new methodologies for the management of NPL, for example, the Bank tried to restructure its NPL

assets depending on Risk Agency and Trust etc. In addition, the Bank improved its management on performance evaluation and attached great importance to responsibility investigation based. The Bank also formulated incentive rules for bad debt recovery to enhance the initiatives of its loan officers.

The Bank wrote off its bad debts timely and adjusted its rights and interests accurately so that the true asset quality would be reflected.

### 9. Interest discounted for loans accounting for more than 20% of its total loans at the year end

There were not any of such cases during the reporting period.

### 10. Renewed loans and loans granted for repayment

At the end of the reporting period, the Bank's outstanding loans granted for repayment were RMB3235 million, among which, the overdue loans were RMB207 million; the outstanding renewed loans were RMB3268 million, among which, the overdue loans were RMB316 million.

### 11. Related Parties Transactions

At the end of the reporting period, a shareholder holding more than 5% of the bank's shares had an outstanding deposit of RMB3.082 billion; an enterprise who was a related party of the Bank's senior manager had an outstanding deposit of RMB452 million in the Bank.

### 12. Non-performing Loan of the Related Parties Transactions (RPT)

At the end of the reporting period, there was no NPL in the Bank's related parties transactions.

### 13. Non-performing loans of shareholders and their related parties

At the end of the reporting period, the details of the non-performing loans of shareholder and their related parties were as follows:

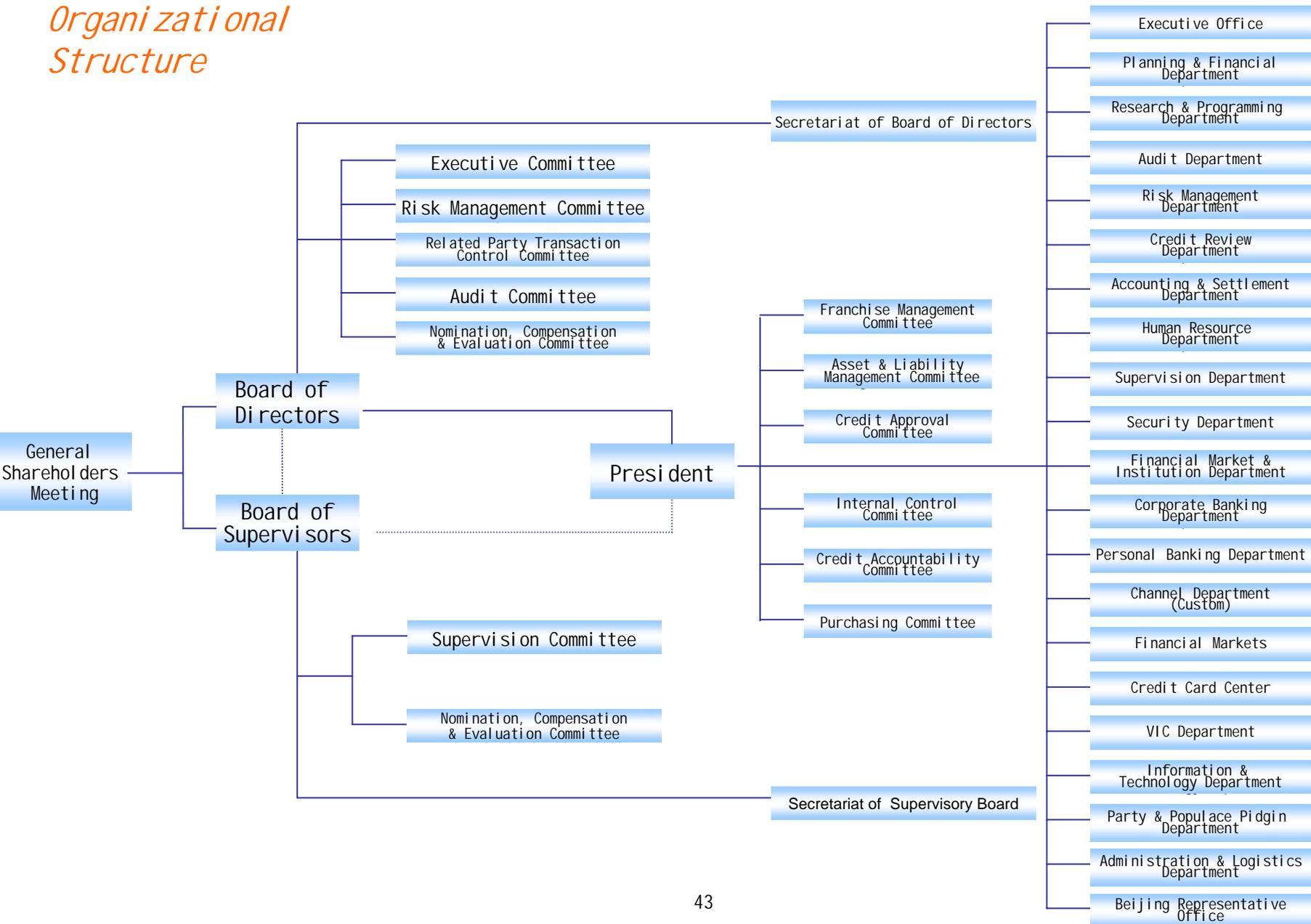
Unit: 10,000

shareholder and related party	Shares hold	Outstanding loans	Secured by	Risk classification	Major reasons
Fujian Local & Livestock Products Import & Export Co. Ltd.	400.00	490.09	other company	Sub-standard	Bad operation, export stopped, loan overdue.
Xiamen Nong Fang Co., Ltd.	4.55	150.00	House property	Sub-standard	Bad operation, loan overdue, interest unpaid.
Zhangzhou Jinli Computers Co., Ltd.	126.08	370.00	Other company	Sub-standard	The borrower operated normally with rather high amount of contingent debt, weak liquidity.
<b>Total</b>	<b>530.63</b>	<b>1010.09</b>			

## Major Events in 2004

- April 29            The Bank's foreign strategic investors Hang Seng Bank, International Finance Corporation and GIC Special Investments Pte Ltd paid in their investment.
- June 28            A new Board of Directors and Board of Supervisors were elected by the General Shareholders Meeting, and the system of independent directors and external supervisors were established.
- July                The Bank's Credit Card Center was founded in Shanghai. On July 21, the Bank issued a dual-currency credit card which met international standards.
- October            Industrial Bank Zhengzhou Branch and Xi'an Branch officially opened.
- October            The VIC (Very Important Clients) Department of the Bank was founded in Beijing.
- November 16      The Financial Markets of the Bank became the first domestic professional funds operating organ who was granted the Financial License with the approval of CBRC.
- December 6        The Bank finished the acquirement of Foshan City Commercial Bank and set up IB Foshan Branch. It was an initial typical case that a nationwide joint stock commercial bank acquired a city commercial bank based on market approach.
- December 20      The Bank succeeded in issuing a new credit card with both IB and Hang Seng Logoes.
- December 30      The Bank issued RMB 3 billion worth of subordinated bond successfully.
- December 31      The Acting Governor of Fujian Province Mr. Huang Xiaojing and Vice Governor Mr. Chen Yun had an inspection visit to the Bank.

# Organizational Structure



## Network Information

### Head Office

Add : 154 Hudong Road, Fuzhou, Fujian, PRC

Post code: 350003

Tel : (86) 591-87839338 (the Exchange)

Fax : (86) 591-87841932

Http://www.cib.com.cn

### Hangzhou Branch

Add : 286 Yan'an Road, Hangzhou, Zhejiang, PRC

Post code: 310006

Tel : (86) 571-87037999 (the Exchange)

Fax : (86) 571-87923988

### Beijing Branch

Add : No.11, 3th Block, Anzhen Xili, Chaoyan District, Beijing, PRC

Post code: 100029

Tel : (86) 10-64429988 (the Exchange)

Fax : (86) 10-88392519

### Shanghai Branch

Add : 168 Jiangning Road, Shanghai, PRC

Post code: 200041

Tel : (86) 21-62677777 (the Exchange)

Fax : (86) 21-62679777

### Guangzhou Branch

Add : Jinan Plaza, 300 Dongfengzhong Road, Guangzhou, Guangdong, PRC

Post code: 510030

Tel : (86) 20-87639939 (the Exchange)

Fax : (86) 20-83637822

### Shenzhen Branch

Add : Industrial Bank Building, 4013 Shennan Road, Shenzhen, PRC

Post code: 518026

Tel : (86) 755-82980900

Fax : (86) 755-83026510

### Fuzhou Branch

Add : Yuanhong Plaza, 32 Wuyizhong Road, Fuzhou, Fujian, PRC

Post code: 350005

Tel : (86) 591-83310369 (the Exchange)

Fax : (86) 591-83332347

### Tianjin Branch

Add : Senmiao Business Square B, Wujiayao Street, Hexi District, Tianjin, PRC

Post code: 300074

Tel : (86) 22-23336666 (the Exchange)

Fax : (86) 22-23558066

**Nanjing Branch**

Add : 63 Zhujiang Road, Nanjing, Jiangsu, PRC

Post code: 210008

Tel : (86) 25-83193666 (the Exchange)

Fax : (86) 25-83193600

**Jinan Branch**

Add : 71 Jingshi Road, Jinan, Shandong, PRC

Post code: 250061

Tel : (86) 531-2619619 (the Exchange)

Fax : (86) 531-2619609

**Shenyang Branch**

Add : 36 Shiyiwei Road, Heping District, Shenyang, Liaoning, PRC

Post code: 110003

Tel : (86) 24-22710608

Fax : (86) 24-22711011

**Wuhan Branch**

Add : 156 Zhongbei Road, Wuchang, Wuhan, Hubei, PRC

Post code: 430077

Tel : (86) 27-86781169 (the Exchange)

Fax : (86) 27-50807080

**Chongqing Branch**

Add : Hejing Mansion B, 108 Minzu Route, Yuzhong District, Chongqing, PRC

Post code: 400010

Tel : (86) 23-63529888 (the Exchange)

Fax : (86) 23-63736800

**Chengdu Branch**

Add : Sichuan International Plaza, 101 Tidu Street, Chengdu, Sichuan, PRC

Post code: 610016

Tel : (86) 28-82994999 (the Exchange)

Fax : (86) 28-86521312

**Zhengzhou Branch**

ADD: Xingye Building, 22 Agriculture Road, Zhengzhou, Henan, PRC

Post Code: 450008

Tel: (86) 371-5826688

Fax: (86)371-5826600

**Xi'an Branch**

ADD: Huangcheng Building, 258 Dongxin Street, Xincheng District, Xi'an, Shaanxi, PRC

Post Code: 710004

Tel: (86) 29-87482988

Fax: (86)29-87482986

**Xiamen Branch**

Add : 78 Hubin North Road, Xiamen, Fujian, PRC

Post code: 361012

Tel : (86) 592-5312555 (the Exchange)

Fax : (86) 592-5312375

**Ningbo Branch**

Add : 676 Zhongxing Road, Ningbo, Zhejiang, PRC

Post code: 315040

Tel : (86) 574-87733333 (the Exchange)

Fax : (86) 574-87700611

**Quanzhou Branch**

Add : Fengze Street, Quanzhou, Fujian, PRC

Post code: 362000

Tel : (86) 595-2150780 (the Exchange)

Fax : (86) 595-2107281

**Changsha Branch**

Add : 4<sup>th</sup> Floor, Zhongtian Power Building, 521 Laodong West Road, Changsha, Hunan, PRC

Post code: 410007

Tel : (86) 731-5557318 (the Exchange)

Fax : (86) 731-5526441

**Zhangzhou Branch**

Add : Longmen Plaza, Shengli West Road, Zhangzhou, Fujian, PRC

Post code: 363000

Tel : (86) 596-2055570 (the Exchange)

Fax : (86) 596-2028626

**Longyan Branch**

Add : Industrial Bank Building, 46 Jiuyi South Road, Longyan, Fujian, PRC

Post code: 364000

Tel : (86) 597-2106086 (the Exchange)

Fax : (86) 597-2296377

**Ningde Branch**

Add : 11 Jiaocheng South Road, Ningde, Fujian, PRC

Post code: 352100

Tel : (86) 593-2078888 (the Exchange)

Fax : (86) 593-2821207

**Sanming Branch**

Add : Industrial Bank Building, 1 Liedong Street, Meilie District, Sanming, Fujian, PRC

Post code: 365000

Tel : (86) 598-8298880

Fax : (86) 598-8241862

**Nanping Branch**

Add : Guanlin Building, 399 Binjiang Middle Road, Nanping, Fujian, PRC

Post code: 353000

Tel : (86) 599-8827555 (the Exchange)

Fax : (86) 599-8850026

**Putian Branch**

Add : 22 Xueyuan South Road, Chengxiang District, Putian, Fujian, PRC

Post code: 351100

Tel : (86) 594-2339033 (the Exchange)

Fax : (86) 594-2280719

**Foshan Branch**

Add : 45 Jihuawu Road, Changcheng District, Foshan, Guangdong, PRC

Post code: 528000

Tel : (86) 757-83322153

Fax : (86)757-83321770

**Beijing Representative Office**

Add : Room 2104, China People Palace, 1 Zhenwumiao Road, Xicheng District, Beijing, PRC

Post code: 100045

Tel : (86) 10-68576699 (the Exchange)

Fax : (86) 10-68563507

## AUDITORS' REPORT

FJHXCPA(2005)AUDIT G-025

### To the Shareholders of Industrial Bank Co., Ltd. :

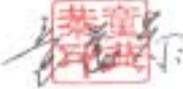
We have audited the accompanying balance sheet of Industrial Bank Co., Ltd.(the "Company ")as at 31 December 2004, and the related statements of income and cash flows for the year then ended. These financial statements are the responsibility of the Company ' s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the Independent Auditing Standards of the People ' s Republic of China. These 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 management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2004 and of the results of the Company ' s operations and its cash flows for the year then ended in accordance with the Accounting Regulations for Financial Institutions (unrevised) and the Finance Regulations for Financial Institutions and Insurance Companies.

( This report is subjected to the Chinese version. )



(signature)   
**Certified Public Accountant:**

(signature)   
**Certified Public Accountant:**

**March 5,2005**

# Balance Sheet

As at 31 December, 2004

Industrial Bank Co., Ltd.

Unit:RMB

Assets	NoteIV	2004	2003
<b>Current Assets:</b>			
Cash on hand and in bank	1	957,304,209.32	797,019,763.95
Scarce metal			
Due from the central bank	2	48,742,137,918.24	46,465,664,283.02
Due from banks and other financial institutions	3	14,299,155,981.41	8,515,095,530.39
Inter-bank balance			
Internal funds transfer balance			
Inter-bank placements	4	1,521,784,393.43	316,553,400.00
Placements with non-bank financial institutions	5	1,060,689,100.00	1,686,014,580.00
Short-term loans	6	130,175,488,662.03	99,581,305,581.43
Import & export advance and negotiation	7	649,965,617.31	932,045,276.27
L/C negotiations			
Interests receivable	8	485,562,299.80	334,883,963.37
Other receivables	9	502,141,876.77	248,410,800.87
Less:Provision for bad debts	10	52,513,414.86	31,688,573.76
Discounted bills	11	12,682,700,851.98	12,991,988,684.77
Short-term investments	12	18,868,164,727.32	7,135,726,700.54
Designated loans and investments			
Reverse repurchase agreements-securities	13	3,601,058,987.70	768,495,000.00
Reverse repurchase agreements-bills	14	11,381,907,055.70	10,425,505,217.63
Deferred expenses	15	30,428,264.82	19,544,637.94
Long-term bonds investments maturing within 1 year	16	3,274,871,434.91	1,945,857,859.78
Other long-term investments maturing within 1 year			
Other current assets	17	2,715,300,000.00	3,637,600,000.00
<b>Total current assets</b>		<b>250,896,147,965.88</b>	<b>195,770,022,706.20</b>
<b>Non-current assets:</b>			
Long or mid-term loans	18	55,048,963,615.91	39,423,275,893.80
Overdue loans	19	397,014,170.12	104,157,806.21
Non-accrual loans	20	4,056,684,420.39	3,912,562,497.48
Less:Provision for bad loans	21	3,281,708,657.18	2,350,626,347.04
Long-term investments in bonds	22	29,284,032,105.77	19,457,982,888.26
Long-term equity investments	23	50,000,000.00	50,000,000.00
Long-term investments-net book value		29,334,032,105.77	19,507,982,888.26
Fixed assets-cost	24	3,398,288,116.94	3,246,737,656.91
Less:Accumulated depreciation	24	756,037,202.07	614,091,560.66
Fixed assets		2,642,250,914.87	2,632,646,096.25
Less:Allowance for impairment of fixed assets			
Fixed assets-net book value		2,642,250,914.87	2,632,646,096.25
Construction in progress	25	14,140,115.41	69,858,881.23
Disposal of fixed assets			
Loss of fixed assets to be approved			
<b>Total Non-current Assets</b>		<b>88,211,376,685.29</b>	<b>63,299,857,716.19</b>
<b>Intangible, Deferred and Other Assets:</b>			
Intangible assets	26	497,171,858.15	31,997,552.25
Long-term deferred expenses (deferred assets)	27	262,470,079.60	255,122,528.55
Assets possessed from insolvent debtors pending disposal	28	668,401,877.88	642,046,174.97
Less:Provision for Assets possessed from insolvent debtors pending disposal	29	85,566,558.91	
Other long-term assets	30	71,906,917.00	
<b>Total Intangible, Deferred and Other Assets</b>		<b>1,414,384,173.72</b>	<b>929,166,255.77</b>
<b>Deferred Tax:</b>			
Deferred tax debits			
<b>Total Assets</b>		<b>340,521,908,824.89</b>	<b>259,999,046,678.16</b>

These financial statements are subjected to the Chinese version, and the accompanying explanatory notes form an integral part of the financial statements.

# Balance Sheet

As at 31 December, 2004

Industrial Bank Co., Ltd.

Unit:RMB

Liabilities and Shareholders' Equity	Note IV	2004	2003
<b>Current Liabilities:</b>			
Short-term deposit	31	122,986,562,156.14	95,018,303,086.57
Short-term saving deposit	32	11,550,912,083.06	7,282,134,095.13
Financial deposit		123,263,295.43	212,109,022.60
Due to the central bank	33		300,000,000.00
Due to banks and other financial institutions	34	30,949,229,694.62	28,330,086,570.93
Intra-bank balance			
Internal funds transfer balance			
Inter-bank and other financial institutions borrowings	35	903,502,500.00	1,200,000,000.00
Repurchase agreements-securities	36	2,844,300,000.00	4,125,178,032.56
Repurchase agreements-bills	37	1,927,209,629.55	4,253,406,056.16
Outward remittances		141,418,518.27	867,130,637.73
Inward remittances & Temporary deposit		341,208,930.33	343,168,216.34
Designated deposit			
Short-term guarantee deposit	38	6,799,097,302.41	4,266,098,032.12
Interest payable	39	793,148,828.00	530,995,687.32
Payroll payable		513,370,948.81	277,984,288.59
Stall welfare payable		198,346,987.19	142,011,485.98
Taxes payable	40	860,148,076.46	522,609,068.43
Other taxes payable	41	50,163,900.69	20,962,028.39
Dividends payable (Profits payable)	42	165,665,937.46	67,496,616.07
Other payables	43	776,963,435.55	744,286,631.83
Accrued expenses			
Deferred gains and income			
Short-term bills and bonds issued			
Long-term liabilities due within 1 year			
Other current liabilities (other liabilities)	44	886,105,166.59	1,835,000,000.00
<b>Total Current Liabilities</b>		<b>182,810,617,390.56</b>	<b>150,338,959,556.75</b>
<b>Long-term Liabilities:</b>			
Long-term deposit	45	106,813,992,812.82	68,653,658,996.21
Long-term saving deposit	46	12,296,165,592.16	9,867,251,979.90
Long-term guarantee deposit	47	22,133,890,227.27	21,140,263,435.66
The subordinated bonds	48	6,000,000,000.00	3,000,000,000.00
Long-term bonds issued			
Long-term payable			
Other long-term liabilities			
<b>Total Long-term Liabilities</b>		<b>147,244,048,632.25</b>	<b>102,661,174,411.77</b>
<b>Deferred Tax:</b>			
Deferred tax credits			
<b>Total liabilities</b>		<b>330,054,666,022.81</b>	<b>253,000,133,968.52</b>
<b>Shareholders' Equity:</b>			
Paid-in capital	49	3,999,000,000.00	3,000,000,000.00
Capital reserve	50	2,839,213,878.93	1,140,913,986.58
Surplus reserve	51	1,701,377,942.93	1,536,223,412.91
Including: Reserve for welfare of employees		324,875,138.70	269,823,628.69
Retained earnings	52	1,927,650,980.22	1,321,775,310.15
<b>Total Shareholders' Equity</b>		<b>10,467,242,802.08</b>	<b>6,998,912,709.64</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>340,521,908,824.89</b>	<b>259,999,046,678.16</b>

These financial statements are subjected to the Chinese version, and the accompanying explanatory notes form an integral part of the financial statements.

# Income Statement & Statement of Profit Appropriation and Distribution

For the year 2004

Industrial Bank Co., Ltd.

Unit:RMB

Item	NoteIV	2004	2003
<b>I、 Operating Revenue</b>	53	12,296,747,406.49	9,310,670,359.67
Interest income	54	9,585,829,950.45	7,079,952,474.37
Interest income from financial institutions	55	1,558,617,189.57	1,124,759,415.94
Service fee and commissions		234,554,007.35	149,956,196.97
Exchange gains		66,678,144.90	51,434,822.73
Income from investments	56	811,131,111.47	889,588,824.01
Other operating income		39,937,002.75	14,978,625.65
<b>II、 Operating Expenses</b>		9,484,883,631.39	7,281,552,069.06
Interest expenses	57	3,781,558,816.32	2,569,037,791.77
Interest expenses with financial institutions	58	1,362,098,080.14	1,405,073,368.10
Service fee and commissions		41,487,728.83	26,478,607.13
General & administrative expenses	59	2,873,325,478.84	2,084,549,040.08
Exchange losses			193,685.36
Other operating expenses	60	1,426,413,527.26	1,196,219,576.62
<b>III、 Business Taxes and Surcharges</b>	61	550,887,505.06	405,686,889.00
<b>IV、 Operating Profit</b>		2,260,976,270.04	1,623,431,401.61
Add:Non-operating income	62	25,600,333.10	26,911,448.80
Less:Non-operating expense	63	31,820,931.66	16,974,319.13
<b>V、 Profit before Tax</b>		2,254,755,671.48	1,633,368,531.28
Less:Income tax		1,153,725,471.39	648,822,100.00
<b>VI、 Profit after Tax</b>		1,101,030,200.09	984,546,431.28
Add:Retained earnings brought forward		1,321,775,310.15	814,910,843.56
Transferred-in from reserves			
<b>VII、 Profit Available for Distribution</b>		2,422,805,510.24	1,799,457,274.84
Less:Appropriations to statutory surplus reserves		110,103,020.01	98,454,643.13
Appropriations to statutory surplus reserve for welfare of staff		55,051,510.01	49,227,321.56
<b>VIII、 Profit Available for Distribution to Shareholders</b>		2,257,650,980.22	1,651,775,310.15
Less:Dividends declared on preferred stock			
Appropriations to discretionary reserves			
Dividends declared on common stock		330,000,000.00	330,000,000.00
Transferred to discretionary surplus reserve			
<b>IX、 Undistributed Porfit</b>		1,927,650,980.22	1,321,775,310.15

These financial statements are subjected to the Chinese version,and the accompanying explanatory notes form an integral part of the financial statements.

# Statement of Cash Flow

For the year 2004

Industrial Bank Co., Ltd.

Unit:RMB

Item	NoteIV	2004	2003
<b>Cash flow from operating activities</b>			
Cash received from recovery of long or mid-term loans		17,312,617,423.03	12,011,216,961.66
Cash received from deposit on demand,net		31,915,294,607.62	7,305,258,061.50
Cash received from non-on-demand deposit		158,927,011,525.20	114,269,728,839.69
Cash received from deposit of banks and other financial institutions,net		2,619,143,123.69	10,811,114,600.72
Cash received from interest		11,129,100,680.37	8,362,016,938.69
Cash received from service fee and commissions		234,554,007.35	149,956,196.97
Cash received from recovery of bad debts or bad loans		20,018,023.53	3,040,404.47
Cash received from designated deposit,net		2,969,312,797.72	474,844,692.65
Cash received from recovery of placement of bank and other financial institutions,net		-	95,457,020.00
Cash received from central bank or banks and other financial institutions borrowings,net		-	980,000,000.00
Cash received from other operating income		249,238,998.69	99,992,138.21
<b>Sub-total of cash inflows</b>		225,376,291,187.20	154,562,625,854.56
Cash paid for long or mid-term loans		32,591,926,413.60	26,727,502,175.14
Cash paid for short-term loans		30,759,038,121.93	32,062,255,259.99
Cash paid for designated loans,net		3,067,199,809.15	414,089,196.64
Cash paid for reverse repurchase agreements,net		5,554,173,586.46	4,617,840,617.81
Cash paid for repurchase agreements,net		4,687,814,459.17	9,478,794,865.01
Cash paid for non-short-term deposit		118,480,724,155.23	59,450,944,408.48
Cash paid for statutory deposit with the Central bank,net		5,479,333,434.26	4,745,102,648.96
Cash paid for deposit of banks and other financial institutions,net		1,794,196,219.65	1,435,662,264.25
Cash paid for placement of banks and other financial institutions,net		65,833,120.00	-
Cash paid for central bank or banks and other financial institutions borrowings,net		596,497,500.00	-
Cash paid for interest		4,772,991,847.58	3,847,278,786.82
Cash paid for service charges and commissions		41,487,728.83	26,478,607.13
Cash paid to and for staff		1,051,159,251.86	739,014,127.75
Income tax paid		890,236,317.46	440,040,800.97
Cash paid for business tax and surcharges		476,837,650.96	394,535,118.61
Cash paid for other operating activities		1,435,427,455.30	948,979,914.83
<b>Sub-total of cash outflows</b>		211,744,877,071.44	145,328,518,792.39
<b>Net cash flows from operating activities</b>		13,631,414,115.76	9,234,107,062.17
<b>Cash flows from investing activities</b>			
Cash received from recovery of investments		105,018,319,951.25	68,104,867,241.79
Cash received from interest on investment in bonds		677,526,939.58	945,896,114.23
Cash received from disposal of fixed assets,intangible assets and other long-term assets		58,511,967.20	32,810,324.52
Cash received from other investing activities	65	2,448,706,575.52	-
<b>Sub-total of cash inflows</b>		108,203,065,433.55	69,083,573,680.54
Cash paid to acquire fixed assets, intangible assets and othe long-term assets		782,748,447.78	474,936,739.57
Cash paid to acquire equity investments		-	-
Cash paid for investments in bonds		126,903,899,954.56	69,649,196,634.00
Cash paid for other investing activities		-	-
<b>Sub-total of cash outflows</b>		127,686,648,402.34	70,124,133,373.57
<b>Net cash flows from investing activities</b>		-19,483,582,968.79	-1,040,559,693.03
<b>Cash flows from financing activities</b>			
Cash received from issuing stocks		2,697,299,892.35	-
Cash received from issuing bonds		3,000,000,000.00	3,000,000,000.00
Cash received from borrowings		-	-
Cash received from other financing activities		-	-
<b>Sub-total cash inflows</b>		5,697,299,892.35	3,000,000,000.00
Cash paid for repayment of debts		-	-
Cash payments for distribution of dividends or profits		231,830,678.61	185,826,023.68
Cash payments of interest expenses		118,597,916.67	-
<b>Sub-total of cash outflows</b>		350,428,595.28	185,826,023.68
<b>Net cash flows from financing activities</b>		5,346,871,297.07	2,814,173,976.32
<b>Effect of foreign exchange rates changes on cash</b>		4,510,456.78	-12,052,938.35
<b>Net increase in cash and cash equivalents</b>		-500,787,099.18	10,995,668,407.11

These financial statements are subjected to the Chinese version,and the accompanying explanatory notes form an integral part of the financial statements.

# Statement of Cash Flow

For the year 2004

Industrial Bank Co., Ltd.

Unit:RMB

Supplementary Information		2004	2003
Item	NoteIV		
<b>Investing and financing activities that do not involve cash receipts and payments</b>			
Repayment of debts by transfer of fixed assets			
Repayment of debts by transfer of investment			
Investing by transfer of fixed assets			
Repayment of debts by transfer of other tangible assets			
Financing leased fixed assets			
Non-cash assets form donation			
Loans changed from investments			
<b>Reconciliation of profit after tax to cash flows from operating activities</b>			
<b>Profit after tax</b>		1,101,030,200.09	984,546,431.28
Add:Bad debt provision		15,832,876.02	-1,804,761.83
Provision for due from banks and other financial institution		78,544,390.38	
Provision for Assets possessed from insolvent debtors pending disposal		73,932,395.86	
Provision for investment			
Bad loan provision		1,251,830,692.47	1,189,898,474.87
Depreciation of fixed assets		190,067,232.62	158,190,461.94
Amortization of intangible assets		10,772,366.33	3,073,326.13
Amortization of deferred assets		122,933,183.35	84,382,353.21
Losses on disposal of fixed assets,intangible assets and other assets		-1,997,546.94	-1,447,457.75
Losses on scarped fixed assets			
Investing loss		-811,131,111.47	-889,588,824.01
Decrease in deferred assets		-10,797,266.64	-15,624,408.99
Increase in payable of operating nature (or deduct:decrease)		-59,257,525,923.20	-57,426,606,664.50
Decrease in receivable of operating nature(or deduct:increase)		70,753,835,167.00	65,137,035,193.47
Cash payments of interest on the subordinated bond		118,597,916.67	
Others		-4,510,456.78	12,052,938.35
<b>Net cash flows from operating activities</b>		13,631,414,115.76	9,234,107,062.17
<b>Net increase in cash and cash equivalents</b>			
Ending balance of cash and cash equivalents		957,304,209.32	797,019,763.95
Less:beginning balance of cash and cash equivalents		797,019,763.95	653,273,961.01
Add:ending balance of cash equivalents	64	53,223,204,143.59	53,884,275,688.14
Less:beginning balance of cash equivalents		53,884,275,688.14	43,032,353,083.97
<b>Net increase in cash and cash equivalents</b>		-500,787,099.18	10,995,668,407.11

These financial statements are subjected to the Chinese version,and the accompanying explanatory notes form an integral part of the financial statements.

## Notes to the Financial Statement

(These notes are subjected to the Chinese version)

( Unit: RMB in thousands )

### I. Introduction to the Company

#### 1. Background

Industrial Bank Co., Ltd. (hereinafter referred to as “the Company”) is a joint-stock commercial bank approved by the People’s Bank of China (PBOC) with the document [YF (1998) NO.347] issued on July 20, 1988, in accordance with the “Application by Fujian Province for Deepening Reform and Opening and Accelerating the Development of Export-oriented Economy” [GH (1998) NO.58] approved by the State Council. The Company obtained its business license (MSDZ NO.136) on August 22, 1988 from Fujian Provincial Administration of Industry and Commerce and the license was renewed on July 16, 2001, with the registration number of 3500001000202 and the license number for carrying out financial activities of NO.B11313900H0001. The Company had changed its registered name from “Fujian Industrial Bank Co., Ltd.” to “Industrial Bank Co., Ltd.” on December 25, 2002 with the approval document [YF(2002)NO.361] issued by PBOC. And the license was renewed by Fujian Provincial Administration of Industry and Commerce on January 8, 2003. With the written approval [YJF(2004) No.35] of China Banking Regulatory Commission issued on March 29, 2004, the Company is entitled to expand shares to attract overseas investors. The license was then renewed on May 20, 2004 by Fujian Provincial Administration of Industry and Commerce, with the registration number of 3500001000202.

The legal representative of the Company is Mr. Gao Jianping. The Company has a registered capital of RMB 3.999 billion, which has been verified by Fujian Huaxing Certified Public Accountants Ltd with a verification report referenced “MHXS(2004) YZ NO.G-003”.

2. The industry and scope of business

Industry: Finance;

Scope of business: Commercial banking activities approved by PBOC.

3. Principal activities and services provided

Accepting public deposits; granting short, mid and long-term loans; payment and settlement services; bills discounting services; issuing financial debentures; agency services in issuing, funding and underwriting government bonds; placements and borrowings from banks and other financial institutions; services related to letter of credit and guarantee facilities; factoring and assignment of receivables and payments; agency sales services for insurance; safe-box custodian; accepting foreign currencies deposits; foreign currencies lendings; remittance of foreign currencies; borrowings in foreign currencies; issuing of foreign currency securities (except stocks) on its own behalf or on behalf of clients; bill acceptance and discounting facilities in foreign currency; proprietary trading and agency trading of foreign securities excluding stocks; proprietary trading and agency trading of foreign currency; exchange of foreign currencies; foreign currency guarantees; settlement of trade and non-trade nature; credit reference, consultation and certification services; and other services approved by PBOC.

4. Corporate Structure

By December 31, 2004, apart from the headquarters, the Company has set up 26 branches in cities of Fuzhou, Xiamen, Ningde, Putian, Quanzhou, Zhangzhou, Longyan, Sanming, Nanping, Shanghai, Shenzhen, Changsha, Beijing, Hangzhou, Guangzhou, Nanjing, Ningbo, Chongqing, Jinan, Wuhan, Shenyang, Chengdu, Tianjin, Xi'an, Zhengzhou and Foshan respectively as well as one agency in Beijing. A total of 292 outlets have been opened in these cities.

## II. Principal Accounting Policies and Accounting Estimates

### 1. Applicable financial regulation and accounting standard

Financial regulation: “Finance Regulations for Financial Institutions and Insurance Companies” and related supplementary rules;

Accounting standard: “Accounting Regulations for Financial Institutions (unrevised)” and related supplementary rules.

### 2. Accounting year

January 1 to December 31 of each calendar year.

### 3. Reporting currency

Renminbi is the reporting currency.

### 4. Reporting basis and accounting principle

The Company’s books and records are accounted for on accrual basis, and stated at historical cost.

### 5. Accounting for foreign currencies transactions

The separate books and records are kept for foreign currency transactions in original currencies. The ending separate accounting balance in foreign currency is translated into RMB in light of the ending benchmark exchange rate issued by the People’s Bank of China (PBOC) or the exchange rate ratified by the state. The account in foreign currency is then combined with the final accounting statement in RMB to make an overall final accounting statement in RMB.

### 6. Translation of foreign currencies financial statement

Balance sheet items (excluding shareholder’s equity items) are translated into RMB at the exchange rate prevailing on the balance sheet date; equity items are translated into RMB at historical exchange rates prevailing on the date of transactions. The differences

resulting from the fluctuation of exchange rates are reported as an independent item named “Exchange benefits or losses”.

Income statement items are translated into RMB at the exchange rate prevailing on the balance sheet date.

#### 7. Making of Overall Accounting Statement

The overall accounting statement of the Company is made on the basis of the separate accounting statements and other documents of the headquarters, the branches and sub-branches directly under the Company. The internal major transactions and the balance of the Company have been offset in the overall accounting statement.

#### 8. Basis for recognition of cash and cash equivalents

Judging on the nature of banking industry, cash equivalents of the Company include demand deposit with the central bank (excluding the statutory deposit reserve), amounts due from banks and other financial institutions (excluding those overdue and fixed-term deposits with tenure of more than 3 months) and placements with banks and other financial institutions (excluding those overdue and fixed-term placements with tenure of more than 3 months), short-term investments in bonds maturing within 3 months, and reverse repurchase agreements maturing within 3 months.

9. Discounted bills, reverse repurchase agreements-bills, repurchase agreements-bills, and the related accounting methods

Discounted bills mainly fall into the following 4 categories: first, the discount accepted by the company from customers holding the commercial bills that have been honored but not matured, second, the outright purchase rediscount accepted by the company from other financial institutions; third, the company’s outright purchase rediscount with the central bank out of the need of capital management; fourth, the company’s outright purchase rediscount with other financial institutions. Since all the above categories belong to outright purchase, they will be represented by the balance between assets and liabilities in financial statements.

Reverse repurchase agreements-bills mainly refer to the counter-purchase rediscount accepted by the company from other financial institutions and must be represented under assets in financial statements.

Repurchase agreements-bills mainly refer to the counter-purchase rediscount of the company's bill with the central bank out of the need of capital management and counter-purchase rediscount with other financial institutions and must be represented under liabilities in financial statements.

#### 10. Classification of loans

##### (1) Identification to the short, mid and long-term loans

Short, mid and long-term loans are classified by maturities of the loans. Loans with maturities of one year or less are classified as short-term loans; loans with maturities of more than 1 year are classified as mid and long term loans.

##### (2) Recognition of overdue loans

The loan receivable with principal overdue within 90 days (inclusive)

##### (3) Definition basis of a non-accrual loan

If a loan cannot be refunded when its principal or interest accrued is 90 days overdue, the calculation and drawing of its interest is to be stopped, and the loan is transferred to a non-accrual loan.

#### 11. Accounting for bad loans

##### (1) Criteria for recognition of bad loans

When one of the following arises, after all possible measures have taken place and all necessary procedures have been performed, the loans that cannot be recovered as scheduled by the Company are classified as bad loans:

A. Both the borrower and guarantor have declared bankrupt, shut down or dissolved, and they have ceased to exist as legal persons, and the loan cannot be recovered after the legal liquidation proceedings have been performed against the borrower and guarantor;

B. The borrower deceased or has been declared dead or missing by the court in accordance with the General Principles of Civil Laws of the PRC, and the loan cannot be recovered after repayment of his debt out of his properties or heritage and exercise of recourse against the guarantor;

C. The borrower has suffered material loss caused by drastic natural disaster or accident that is not covered by insurance, which causes failure to repay all or part of its indebtedness to the Company, or it cannot repay the loans out of the insurance indemnity, and the loan cannot be recovered in full after the exercise of recourse against the guarantor;

D. The borrower and guarantor, though not formally declared bankrupt, shut down or dissolved, have terminated its business activities and have been de-registered by the administration authorities of industry and commerce, and they have ceased to exist as a legal person. And, the loan still cannot be recovered after claiming repayment out of the properties of the borrower and exercise of recourse against the borrower and guarantor;

E. The borrower has committed a crime and is subjected to criminal sanction, and the loan cannot be recovered in full by the Company out of its properties, and there is no other party to assume this liability, thus the loans cannot be recovered after exercise of recourse;

F. The Company has sued the borrower and/or the guarantor for their inability to repay the borrowings when falling due, and the court, at the request of the Company, made an enforced execution on the borrower and/or guarantor, but it was determined that no property is available for the settlement of the debt. And after the court has decided upon the termination of the enforced execution, all or part of the loan still cannot be recovered by the Company;

G. For advances made by the Company in the case of credit overdraft, establishment of L/C and L/G, acceptance of bank drafts etc., the applicant and the guarantor failed to reimburse that advance for the reasons presented in A-F above, and after exercise of recourse by the Company, the advance still cannot be recovered;

H. In the case of equity investment that the Company is entitled to legitimately make in accordance with relevant laws and regulations, the Company, after liquidation and exercise of recourse, still can not recover its equity interests in invested enterprises that have gone bankrupt, shut down or dissolved and ceased to exist as legal persons;

I. Loans written off as approved specifically by the State Council.

If bad loans cannot be recovered and are supported by sufficient evidences, the bad loans can be written off upon the approval of the Board of Directors or the other authorized organ of the Company.

(2) Provision for bad loans policy: Allowance method.

Bad loans provision is made for lending assets including: loans (including secured loans, mortgage and other collaterals, guaranteed loans and unsecured loans), overdraft of debit card, discounted bill (including discounting of bank acceptance draft and commercial acceptance draft, and purchase of foreign currency bills), advances (including advances for bank acceptance draft, advances for guarantee and L/C, etc.), import & export advances and negotiations, placements with banks and other financial institutions. No provision for designated loans will be made as no risk assumed by the Company.

In accordance with the regulations “Provisions of Bank Loan Losses” [YF(2002)NO.98] issued by PBOC, general provisions is provided quarterly, and the balance of the general provisions is not less than 1% of the balance of all lending assets at the balance sheet date. In addition, from 2002, specific provision is provided for particular losses incurred according to the level of risks and their recoverability.

The percentage of specific provision is detailed as follows:

<u>Five-tier-classification of loans</u>	<u>Percentage of specific provision%</u>
Pass	0
Special mentioned	2
Sub-standard	25
Doubtful	50
Loss	100

## 12. Accounting for bad debts

### (1) Criteria for identification of bad debts:

When one of the following situations arises, the receivables that cannot be recovered as scheduled are classified as bad debts:

A. The debtor has declared bankrupt or deceased, and the receivables cannot be recovered after repayment of the debt out of the properties or heritage;

B. The debtor unable to repay the amounts when they fall due and there is strong evidence as to the inability of the debtor to repay the whole or part of the amount outstanding;

C. Other receivables not repaid in 3 years.

If the fact that the receivables mentioned above cannot be recovered is proved to be true by strong evidence, the bad debts can be written off after being approved by the Board of Directors or the other authorized organ of the Company.

### (2) Accounting for provisions for bad debts of receivables: Allowance method.

The scope of receivables to provide provisions includes: interest receivable (excluding interest receivable from loans and advances, and interest receivable from financial institutions), dividend receivable, lease expense receivable and other receivables.

The Company makes provision for bad debts of receivables according to aging method and specific recoverability.

The percentages of provisions for bad debts based on maturity are as follows:

<u>Maturity</u>	<u>percentage (%)</u>
Within 90 days	2
90-180 days	25
180 days – 1 year	50
Over 1 year	100

## 13. Accounting for short-term investments

Short-term investments are accounted for at historical cost. Investment income is recognized when they are disposed or cash received upon maturity.

14. Recognition of interest income or interest expense on placements/borrowings

Interest income/expense on inter-bank placements/borrowings is recognized on accrual basis.

15. Repurchase agreement-securities and reverse repurchase agreement-securities transactions

Repurchase agreement-securities and reverse repurchase agreement-securities transactions are accounted for at historical cost.

16. Accounting for long-term investments

(1) Accounting for long-term bonds investments

The cost of long-term bonds investments must be calculated on the basis of the total price actually paid after not only such additional expenses as agency commission, taxes and service fee but also the accrued interest for the period from the date of issuance or the last date of interest settlement to the date of purchase. The premium or discount of long-term bonds investments must be amortized with the straight-line method during the term of the long-term bonds. The interest income of long-term bonds investments must be calculated and drawn by installments. As regards the bonds investments whose principal and interest must be refunded once and for all on the date of expiration, the interest not yet received must be represented under the subject of long-term bonds investments as “long-term bonds investments--accrued interest”. As regards the bonds investments whose interest must be paid by installments during the term of the long-term bonds, the interest not yet received must be represented under the subject of “interest receivable” on the date of the balance sheet.

(2) Accounting for long-term equity investments

Long-term equity investment is specially approved by the People’s Bank of China. The investment is entered into the account book in light of the actual payment. As the Company has no control, joint control and significant influence over the businesses

receiving the investment, cost accounting method is employed in the calculation of long-term equity investments. The returns on investments are affirmed when the businesses receiving the investments declare the apportionment of dividend.

#### 17. Accounting for fixed assets

(1) Fixed assets are assets that meet one of the following criteria: (a) properties and buildings, machinery equipment, transportation facilities, electronic appliances and computers used in operation of the Company with economic useful lives of more than 1 year; (b) consumables with economic useful lives of 2 years or more with individual values exceeding RMB 2,000.

(2) Depreciation on fixed assets is provided on straight-line basis. When determining depreciation rates for each group of fixed assets, the original cost of fixed assets and their estimated useful lives are taken into consideration. Their residual value is estimated to be zero. Annual depreciation rates for each category of fixed assets are detailed as follows:

<u>Items</u>	<u>Useful lives (years)</u>	<u>Depreciation rate p.a%</u>
Properties and buildings	20-30	3.33-5
Transportation facilities	6-8	12.5-16.67
Other equipment	5-10	10-20

#### 18. Accounting for construction in progress

Constructions in progress are valued at historic cost. When they reach their expected usable condition, they will be transferred to fixed-assets account.

#### 19. Valuation, amortization of intangible assets

(1) Valuation: Intangible assets are valued at actual cost incurred.

(2) Amortization of intangible assets

A. The charges for additional seats in stock exchange are amortized over 10 years starting in the month in which they were acquired;

B. Trademarks are amortized over 10 years starting in the month in which they were acquired;

C. Land use right is amortized over their useful lives starting in the month in which they were acquired;

D. Computer software is amortized over 5 years starting in the month in which they were acquired.

#### 20. Recognition and amortization of long-term deferred expenses

(1) Decoration and furnishing expenditure of business operation premises are recognized as the historic cost incurred and amortized on straight-line basis over the duration of lease or estimated useful lives, whichever is shorter, starting in the month in which these premises are put into use;

(2) Rental expenses are amortized on straight-line basis over the duration of lease.

#### 21. Accounting method of subordinated fixed-maturity bonds

Subordinated fixed-maturity bonds refer to the long-term bonds maturing over 5 years (inclusive) and issued to make up for the daily operation losses, with the reimbursement claim after the deposit and other liabilities but before equity capital.

The gross value of the subordinated fixed-maturity bonds shall be calculated according to the actual issue price. The interest accrued shall be calculated periodically and included in current profits and losses during the tenure of the bond.

#### 22. The principle of revenue recognition

##### (1) Interest revenue

A. Interest revenue on loans granted is recognized on accrual basis.

As prescribed by the document CJ (2002) NO.5 “Notification on Shortening the Calculating Period of Interest Receivable for Financial Institutions” issued by the Ministry of Finance, interest receivable that are overdue for less than 90 days (inclusive) should be reflected in the profit and loss account; when interests receivable of loans are overdue for

more than 90 days, regardless the principles related thereto are overdue or not, they should be charged off to the current period profit and loss account and transferred off-balance-sheet, any interest income previously recognized and accrued is also reversed against interest income and transferred off-balance-sheet. Interest receivables overdue for more than 90 days are reflected in the current period profit and loss account for the period when they are actually received.

B. Interest revenue on discounted bills is the difference between maturity value and the discounted value of the bill actually paid to the applicant, which is recognized when the discounting took place.

C. Interest revenue on placement activities and securities is recognized on accrual basis.

(2) Handling charges and commissions: Handling charges and commissions is recognized when it is actually received by the Company.

(3) Other operating revenue, including income on guarantees issued etc., is recognized upon receipt.

### 23. Accounting for income taxes

The tax payable method was adopted for accounting for income taxes.

### 24. Accounting for derivative financial instruments and recognition of related gain/loss

The major derivative financial instruments of the Company include forward exchange contract and exchange-interest rate swap contract. The Company uses derivatives mainly for hedging purposes except for the trading on behalf of clients. In order to minimize the market risks, the Company enters into back-to-back agreements with third parties, which effectively transferred away the Company's risk exposure arising from the contracts. Derivatives are carried in the books of the Company at their value upon receipt/payment, and their nominal value and fair value are disclosed off-balance-sheet.

(1) Gains and losses are recognized on the settlement date.

(2) Criteria of accounting for hedging activities: The Company uses hedging as part of its asset/liability management activities in the event that there are mismatches in exchange rate, interest rate, and duration etc.

### III. Taxation

1. The major taxes and surcharges applicable are as follows:

<u>Category</u>	<u>Tax and surcharge rate%</u>	<u>Calculation basis</u>
Business tax	5	Operating revenue leviable
	15	Income leviable (Shenzhen city)
Income tax	33	Income leviable (excluding Shenzhen city)
	%	5% of the business tax (Shenzhen city)
City maintenance and construction tax	7	5% of the business tax (excluding Shenzhen city)
Educational surcharge	3	5% of the business tax

2. As prescribed by the document CS (2001) NO.21 “Notification of Reducing the Business Tax Rate for Financial Institutions and Insurance Companies” issued by the Ministry and the National Administration of Taxation, a business tax rate of 5% is adopted for the year 2003 by the Company.

3. Settlement and payment of income tax

According to the related documents of the state tax administration, the Company’s headquarters and branches except those in Xiamen and Shenzhen cities shall pay the 2004 business income tax in Fuzhou. The branches outside Fujian can make advance payment of

60% of the yearly income tax payable in the local places, while those inside Fujian shall pay the tax in Fuzhou city.

In 2003, the Company's headquarters and branches except those in Xiamen and Shenzhen cities shall pay the yearly business income tax in Fuzhou. The branches outside Fujian can make advance payment of 60% of the yearly income tax payable in the local places, while those inside Fujian shall pay the tax in Fuzhou city.

#### **IV. Notes to Significant Items of the Financial Statements**

##### 1. Cash on hand and in bank

<u>Currency</u>	<u>Dec.31,2004</u>			<u>Dec.31,2003</u>		
	<u>Original currency</u>	<u>Exchange rate</u>	<u>RMB equivalent</u>	<u>Original currency</u>	<u>Exchange rate</u>	<u>RMB equivalent</u>
RMB	676,003	1.0000	676,003	562,895	1.0000	562,895
USD	17,642	8.2765	146,017	14,917	8.2767	123,464
HKD	41,992	1.0643	44,692	30,771	1.0660	32,801
EUR	980	11.2759	11,046	1,411	10.3856	14,658
JPY	986,576	0.0804	79,368	811,004	0.0774	62,733
GPB	8	15.9207	135	14	14.7135	205
<u>Others</u>	7	-	<u>43</u>	42	-	<u>264</u>
<u>Total</u>			<u>957,304</u>			<u>797,020</u>

##### 2. Due from the central bank

<u>Items</u>	<u>Dec.31, 2004</u>	<u>Dec.31, 2003</u>
Deposit reserve	16,595,673	11,110,470
Demand deposit with the Central bank (excluding statutory deposit reserve)	32,107,473	35,310,333
<u>Financial deposit</u>	<u>38,992</u>	<u>44,861</u>
<u>Total</u>	<u>48,742,138</u>	<u>46,465,664</u>

Note:

(1) The financial deposit of the Company includes: agency service of issuing treasury bond (less: agency issuing treasury bond), agency service of underwriting and issuing treasury bond (less: agency underwriting and issuing treasury bond), budgetary deposit, agency service of financial account settlement, agency service of buying treasury bond on

behalf of businesses and individuals, agency service of other government securities, and deduction and cashing the principal and interest of treasury bond. All the financial deposit is put in the central bank.

(2) Ordinary deposits include private savings deposit, unit deposit, trust deposit, trust loan fund (less: trust loan and investment), factoring and assignment of receivables and payments, deposit of insurance company, agency service of cashing other bonds (less: agency cashing other bonds), and agency service of issuing other bonds (less: agency issuing other bonds). The RMB deposit reserve is provided at a rate of 7.5% (7% before April 25 of 2004). The sum of RMB deposit reserve is adjusted once in every period of 10 days; The foreign currency deposit reserve is provided at a rate of 2%. The sum of foreign currency deposit reserved is adjusted once in every period of 10 days.

(3) Demand deposit with the central bank refers to the money of different natures deposited at the central bank to ensure normal deposit withdrawal and operation of the Company, excluding special purpose money like statutory deposit reserve.

### 3. Due from banks and other financial institutions

<u>Term</u>	<u>Dec.31,2004</u>	<u>Dec.31,2003</u>
Current deposit due from domestic banks and other institutions	9,848,730	6,190,294
Current deposit due from offshore banks and other institutions	223,721	608,986
Fixed deposit due from domestic banks and other institutions		
- within three months	953,583	88,092
- over three months	2,838,382	1,190,388
Fixed deposit due from offshore banks and other institutions		
- within three months	-	140,966
- over three months	402,536	248,302
Overdue deposit from domestic banks and other institutions	40,036	48,068
<u>Less: provision</u>	<u>7,832</u>	<u>-</u>
<u>Total</u>	<u>14,299,156</u>	<u>8,515,096</u>

Note: The amounts due from banks and other financial institutions include overdue deposit of RMB 16,373 thousand from Financial Company of Shenzhen Saige Corporation, overdue deposit of RMB 15,830 thousand from funding centers in different places, and USD 946 thousand from Financial Company of Shandong Heavy Vehicle Corporation (equivalent to RMB 7,832 thousand, full ending allowance for impairment in value).

#### 4. Inter-bank placements

<u>Items</u>	<u>Dec.31,2004</u>	<u>Dec.31,2003</u>
Due from domestic banks and other institutions	1,479,736	300,000
<u>Due from offshore banks and other institutions</u>	<u>42,048</u>	<u>16,553</u>
<u>Total</u>	<u>1,521,784</u>	<u>316,553</u>

Note: The placements balance with domestic banks includes overdue placements of RMB 40, 000 thousand from Hainan Development Bank and RMB 14,000 thousand from Hainan Financing Center.

#### 5. Placement with non-bank financial institutions

<u>Category</u>	<u>Dec.31,2004</u>	<u>Dec.31,2003</u>
Security companies	987,390	1,467,000
Trust and investment companies	-	25,000
Financial companies	144,011	194,015
<u>Less: provision</u>	<u>70,712</u>	<u>-</u>
<u>Total</u>	<u>1,060,689</u>	<u>1,686,015</u>

Note: The placement balance with financial companies includes overdue placements of RMB 88,390 thousand from Fujian Minfa Securities Co., Ltd., USD 9,000 thousand (equivalent to RMB 74,489 thousand) from Hong Kong Huaxin (Holding) Co., Ltd., and USD 8,400 thousand (equivalent to RMB 69,522 thousand) from Jianxing Financial Co., Ltd.

6. Short-term loans

<u>Items</u>	<u>Dec.31, 2004</u>	<u>Dec.31, 2003</u>
Unsecured	18,992,793	15,055,888
Guaranteed	61,510,001	55,294,165
Secured by mortgage	25,271,668	15,150,047
<u>Secured by other collaterals</u>	<u>24,401,027</u>	<u>14,081,206</u>
<u>Total</u>	<u>130,175,489</u>	<u>99,581,306</u>

7. Import & export advances and negotiations

<u>Items</u>	<u>Dec.31, 2004</u>	<u>Dec.31, 2003</u>
Import advances and negotiations	553,928	843,694
<u>Export advances and negotiations</u>	<u>96,038</u>	<u>88,351</u>
<u>Total</u>	<u>649,966</u>	<u>932,045</u>

8. Interest receivable

(1) On balance sheet

<u>Items</u>	<u>Dec.31, 2004</u>	<u>Dec.31, 2003</u>
Interest on debentures	447,714	314,110
Interest on loans	16,017	11,908
Interest due from banks	7,137	6,857
Interest on placement	98	-
Interest on repurchase agreement	12,541	600
<u>Other interests</u>	<u>2,055</u>	<u>1,409</u>
<u>Total</u>	<u>485,562</u>	<u>334,884</u>

(2) The account of the interest receivable on loans matures within 90 days, while that of other interests receivable within one year.

9. Other receivables

( 1 ) Analysis of account age

<u>Maturity</u>	<u>Dec.31, 2004</u>		<u>Dec.31, 2003</u>	
	<u>Sum</u>	<u>Percentage%</u>	<u>Sum</u>	<u>Percentage%</u>
Within 1 year	465,121	92.63	218,081	87.79
1-2 years	19,200	3.82	14,722	5.93
2-3 years	4,582	0.91	5,427	2.18
<u>Over 3 years</u>	<u>13,239</u>	<u>2.64</u>	<u>10,181</u>	<u>4.10</u>
<u>Total</u>	<u>502,142</u>	<u>100.00</u>	<u>248,411</u>	<u>100.00</u>

( 2 ) Breakdown

<u>Item</u>	<u>Dec.31, 2004</u>	<u>Dec.31, 2003</u>
Legal fare	29,099	15,902
Earnest money	18,658	3,382
Prepayment	10,131	1,697
Others	356,724	95,544
Provision	6,476	189
<u>Accounts to be settled</u>	<u>81,054</u>	<u>131,697</u>
<u>Total</u>	<u>502,142</u>	<u>248,411</u>

(3) The accounts to be settled result from the different periods and points of time for inter-bank account settlement within the interchange area of a city.

(4) The closing balance of other receivables increases as against the opening balance due to the payment of receivables of RMB 259,518 thousand from Foshan State Assets Administrative Commission and the receivables of RMB 24,000 thousand to be repaid by Nongkai Group.

10. Provision for bad debts

<u>Item</u>	<u>2004</u>	<u>2003</u>
Opening balance	31,689	39,327
Provisions charged for the year	15,833	-1,805
Provision reversal for the year	-	-
Recoveries	4,991	-
<u>Write off for the year</u>	<u>-</u>	<u>5,833</u>
<u>Closing balance</u>	<u>52,513</u>	<u>31,689</u>

11. Discounted bills

<u>Items</u>	<u>Dec.31, 2004</u>	<u>Dec.31, 2003</u>
Forfaiting	-	4,750
Bank acceptance discounted	10,138,001	7,234,599
Commercial acceptance discounted	2,538,072	5,747,721
<u>Notes in foreign currency discounted</u>	<u>6,628</u>	<u>4,919</u>
<u>Total</u>	<u>12,682,701</u>	<u>12,991,989</u>

Note:

(1) Forfaiting refers to a trade financing method involving the Company's non-recourse buying over of time bills honored by the bank of deposit from the exporter or the time bill or cashier's check guaranteed by the local bank of the importer.

(2) By December 31, 2004, RMB 1,927,210 thousand of the discounted bill has been used to repurchase agreements-bills.

12. Short-term investments

(1) Investment categorization

<u>Items</u>	<u>Dec.31, 2004</u>	<u>Dec.31, 2003</u>
Investment in treasury bonds	762,130	1,506,766
Investment in financial bonds	16,954,112	4,555,247
<u>Investment in debentures in foreign currency</u>	<u>1,151,923</u>	<u>1,073,714</u>
<u>Total</u>	<u>18,868,165</u>	<u>7,135,727</u>

(2) Itemized account of the top five short-term investments

<u>Bond name</u>	<u>Yearly interest rate</u>	<u>Period</u>	<u>Sum</u>
04 central bank bill 37		May 19,2004- May 19,2005	4,844,500
04 central bank bill 73		Sep.22,2004- Sep.22,2005	1,835,550
04 central bank bill 79	Discounted zero	Oct.20,2004- Oct.20,2005	1,073,035
04 central bank bill 92	coupon bond	Dec.3,2004- Dec.3,2005	854,754
<u>04 central bank bill 91</u>		Dec.1,2004- Dec.1,2005	<u>774,560</u>
<u>Total</u>			<u>9,382,399</u>

(3) By December 31 , 2004, the investment in treasury bonds with a par value of RMB 63,290 thousand comes from the purchase of bonds when acquisition of Foshan City Commercial Bank was made by the Company. The procedures of the bond transfer are still under way.

13. Reverse repurchase agreements-securities

<u>Items</u>	<u>Dec.31, 2004</u>	<u>Dec.31, 2003</u>
Treasury bonds	1,762,922	410,000
Financial bonds	1,705,856	358,495
<u>Bonds in foreign currency</u>	<u>132,281</u>	<u>-</u>
<u>Total</u>	<u>3,601,059</u>	<u>768,495</u>

Note: By December 31 , 2004, reverse repurchase bonds in foreign currency equivalent to RMB 132,281 thousand, with par value of USD 16,000 thousand have been sold.

14. Reverse repurchase agreements-bills

<u>Items</u>	<u>Dec.31, 2004</u>	<u>Dec.31, 2003</u>
Bank acceptance	8,618,219	9,790,325
<u>Commercial acceptance</u>	<u>2,763,688</u>	<u>635,180</u>
<u>Total</u>	<u>11,381,907</u>	<u>10,425,505</u>

15. Deferred expenses

<u>Items</u>	<u>Dec.31, 2004</u>	<u>Dec.31, 2003</u>
Rental expenses	26,880	18,933
<u>Others</u>	<u>3,548</u>	<u>612</u>
<u>Total</u>	<u>30,428</u>	<u>19,545</u>

16. Long-term investments maturing within 1 year

(1) Itemized account

<u>Name of bond</u>	<u>Dec.31, 2004</u>	<u>Dec.31, 2003</u>
Treasury bond	3,192,397	1,937,573
Financial bond	-	-
<u>Bond in foreign currency</u>	<u>82,474</u>	<u>8,285</u>
<u>Total</u>	<u>3,274,871</u>	<u>1,945,858</u>

(2) Breakdown of investment by Dec.31, 2004

<u>Name of bond</u>	<u>Maturing</u>	<u>Yearly interest rate</u>	<u>Par value</u>	<u>Premium discount</u>	<u>Accumulated interest accrued</u>	<u>Total</u>
Treasury bond	Mar.1,2005– Dec.23,2005	2.07%-6.8%	3,166,976	71	25,350	3,192,397
Financial bond			-	-	-	-
<u>Bond in foreign currency</u>	<u>Jun.2,2005– Jul.18,2005</u>	<u>2.8%-5.25%</u>	<u>82,765</u>	<u>-291</u>	<u>-</u>	<u>82,474</u>
<u>Total</u>			<u>3,249,741</u>	<u>-220</u>	<u>25,350</u>	<u>3,274,871</u>

(3) Breakdown of top five investments by Dec.31, 2004

<u>Name of bond</u>	<u>Opening and closing date</u>	<u>Yearly interest rate</u>	<u>Par value</u>	<u>Premium discount</u>	<u>Accumulated interest accrued</u>	<u>Total</u>
00 treasury bond 05	Jun.21,2000 -Jun.21,2005	3.00%	2,020,000	71	-	2,020,071
98 special treasury bond	May 18,1998 -May 18,2005	6.80%	791,200	-	-	791,200
00 certificate T-bond 3/5	Nov.15,2000 -Nov.15,2005	3.14%	132,148	-	17,255	149,403
98 T-bond 5	Dec.23,1998 -Dec.23,2005	5.01%	100,000	-	-	100,000
<u>02 certificate T-bond3/3</u>	<u>Sep.2,2002 -Sep.1,2005</u>	<u>2.12%</u>	<u>72,765</u>	<u>-</u>	<u>3,608</u>	<u>76,373</u>
<u>Total</u>			<u>3,116,113</u>	<u>71</u>	<u>20,863</u>	<u>3,137,047</u>

(4) Repurchase agreements-long-term investment in bonds maturing within one year

<u>Name of bond</u>	<u>Par value</u>	<u>Sum of repurchase</u>
00 T-bond 05	1,094,300	1,094,300

17. Other current assets

<u>Items</u>	<u>Dec.31, 2004</u>	<u>Dec.31, 2003</u>
<u>Reverse repurchase agreements-loans</u>	<u>2,715,300</u>	<u>3,637,600</u>
<u>Total</u>	<u>2,715,300</u>	<u>3,637,600</u>

18. Mid and long-term loans

<u>Items</u>	<u>Total</u>	<u>Dec.31,2004</u>	
		<u>1-5 years</u>	<u>Over 5 years</u>
Unsecured	9,990,330	6,908,133	3,082,197
Guaranteed	17,416,340	11,489,559	5,926,781
Secured by Mortgage	20,238,665	7,231,326	13,007,339
Secured by other collaterals	<u>7,403,629</u>	<u>3,670,285</u>	<u>3,733,344</u>
<u>Total</u>	<u>55,048,964</u>	<u>29,299,303</u>	<u>25,749,661</u>
<u>Percentage</u>	<u>100.00%</u>	<u>53.22%</u>	<u>46.78%</u>

<u>Items</u>	<u>Total</u>	<u>Dec.31,2003</u>	
		<u>1-5 years</u>	<u>Over 5 years</u>
Unsecured	7,529,063	5,886,110	1,642,953
Guaranteed	16,997,721	11,818,504	5,179,217
Secured by Mortgage	9,760,295	3,628,240	6,132,055
Secured by other collaterals	<u>5,136,197</u>	<u>2,591,247</u>	<u>2,544,950</u>
<u>Total</u>	<u>39,423,276</u>	<u>23,924,101</u>	<u>15,499,175</u>
<u>Percentage</u>	<u>100.00%</u>	<u>60.69%</u>	<u>39.31%</u>

19. Overdue loans

<u>Item</u>	<u>Dec.31, 2004</u>	<u>Dec.31, 2003</u>
Unsecured	38	27
Guaranteed	293,340	65,489
Secured by mortgage	102,717	33,151
<u>Secured by other collaterals</u>	<u>919</u>	<u>5,491</u>
<u>Total</u>	<u>397,014</u>	<u>104,158</u>

20. Non-accrual loans

<u>Items</u>	<u>Total</u>	<u>Dec.31,2004</u>					
		<u>Within 90 days</u>	<u>90~180 days</u>	<u>180 days ~1 year</u>	<u>1~2 years</u>	<u>2~3 years</u>	<u>Over 3 years</u>
Guaranteed	2,706,624	224,584	295,740	592,985	363,810	261,397	968,108
Unsecured	165,851	-	5	-	12,663	4,197	148,986
Secured by mortgage	919,939	125,872	38,200	189,377	49,255	114,002	403,233
<u>Secured by other collaterals</u>	<u>264,270</u>	<u>31,056</u>	<u>5,870</u>	<u>71,904</u>	<u>70,166</u>	<u>3,080</u>	<u>82,194</u>
<u>Total</u>	<u>4,056,684</u>	<u>381,512</u>	<u>339,815</u>	<u>854,266</u>	<u>495,894</u>	<u>382,676</u>	<u>1,602,521</u>

<u>Items</u>	<u>Total</u>	<u>Dec.31,2003</u>					
		<u>Within 90 days</u>	<u>90~180 days</u>	<u>180 days ~1 year</u>	<u>1~2 years</u>	<u>2~3 years</u>	<u>Over 3 years</u>
Guaranteed	2,670,308	892,870	171,801	359,092	264,515	509,949	472,081
Unsecured	273,091	1,980	17	15,264	13,961	71,361	170,508
Secured by mortgage	834,689	72,835	15,235	185,130	129,201	87,936	344,352
<u>Secured by other collaterals</u>	<u>134,474</u>	<u>7,016</u>	<u>-</u>	<u>42,380</u>	<u>2,712</u>	<u>82,366</u>	<u>-</u>
<u>Total</u>	<u>3,912,562</u>	<u>974,701</u>	<u>187,053</u>	<u>601,866</u>	<u>410,389</u>	<u>751,612</u>	<u>986,941</u>

21. Provision for bad loans

<u>Items</u>	<u>2004</u>	<u>2003</u>
Opening balance	2,350,626	1,243,500
Provisions charged for the year	1,251,830	1,189,898
Transfer in for the year	12,262	-
Recoveries	15,026	3,041
Write off for the year	334,836	85,813
<u>Transfer out for the year</u>	<u>13,199</u>	<u>-</u>
<u>Closing balance</u>	<u>3,281,709</u>	<u>2,350,626</u>

Note: The transfer in for the year involves the provision for bad loans on the day when Foshan City Commercial Bank was acquired by the Company. The transfer out involves the settlement and transfer of the reserve when the provision for bad loans is accounted as the assets for repayment of debt.

22. Long-term bonds investments

(1) Breakdown

<u>Items</u>	<u>Dec.31, 2004</u>	<u>Dec.31, 2003</u>
Investment in treasury bonds	14,164,463	11,199,610
Investment in financial bonds	11,627,037	4,477,908
Investment in debentures <u>in foreign currencies</u>	<u>3,492,532</u>	<u>3,780,465</u>
<u>Total</u>	<u>29,284,032</u>	<u>19,457,983</u>

(2) Breakdown of investment by December 31, 2004

<u>Items</u>	<u>Maturing</u>	<u>Yearly interest rate%</u>	<u>Par value</u>	<u>Premium discount</u>	<u>Accrued interest</u>	<u>Total</u>
Investment in treasury bonds	Jun.20,2006- May 24,2032	2.00-11.83	14,034,983	105,548	23,932	14,164,463
Investment in financial bonds	May 26,2006- Dec.01,2032	2.41-5.10	11,555,900	71,137	-	11,627,037
Investment in debentures in <u>foreign currencies</u>	Mar.27,2006- May 21,2033	1.50-9.00	<u>3,465,702</u>	<u>26,830</u>	<u>-</u>	<u>3,492,532</u>
<u>Total</u>			<u>29,056,585</u>	<u>203,515</u>	<u>23,932</u>	<u>29,284,032</u>

(3) Breakdown of top five investments by December 31, 2004

<u>Name of bond</u>	<u>Opening and closing date</u>	<u>Yearly interest rate%</u>	<u>Par value</u>	<u>Premium discount</u>	<u>Accrued interest</u>	<u>Total</u>
00 China Development Bank 05	Jun.12,2000- Jun.12,2010	2.59	1,400,000	-	-	1,400,000
04 China Minsheng Banking Corp.01 fixed	Nov.2,2004- Nov.2,2014	5.10	1,000,000	-	-	1,000,000
00 T-bond01	Feb.24,2000- Feb.24,2007	2.63	900,000	-	-	900,000
99 T-bond 5	Aug.20,1999- Aug.20,2007	3.28	933,800	7,324	-	941,124
<u>02 T-bond 05</u>	May 24,2002- May 24,2032	2.90	<u>860,000</u>	<u>-</u>	<u>-</u>	<u>860,000</u>
<u>Total</u>			<u>5,093,800</u>	<u>7,324</u>	<u>-</u>	<u>5,101,124</u>

(4) Breakdown of subordinated financial bonds

<u>Name of bond</u>	<u>Opening and closing date</u>	<u>Yearly interest rate%</u>	<u>Par value</u>
04 China Mingsheng Banking Corp.01 fixed	Nov.2,2004-Nov.2,2014	5.10	1,000,000
04 Bank of China 02	Nov.16,2004-Nov.16,2014	4.94	716,000
04 Construction Bank of China 02	Sep.22,2004-Sep.22,2014	4.95	500,000
Subordinated bond of NewChina Life Insurance Co.	Dec.30,2004-Jan.30,2010	1Y+2.6%	330,000
04 Bank of China 01	Jul.20,2004-Jul.20,2014	4.87	10,000
<u>04 Construction Bank of China 01 fixed</u>	Aug.2,2004-Aug.2,2014	4.87	<u>10,000</u>
<u>Total</u>			<u>2,566,000</u>

(5) Breakdown of repurchase in long-term investments

<u>Name of bond</u>	<u>Par value</u>	<u>Sum of repurchase</u>
00 China Development Bank 05	1,000,000	1,000,000
96 T-bond 6	300,000	300,000
<u>98 special T-bond</u>	<u>450,000</u>	<u>450,000</u>
<u>Total</u>	<u>1,750,000</u>	<u>1,750,000</u>

(6) By Dec. 31 of 2004, the financial bonds with par value of RMB 290,000 thousand in the long-term investment in bonds are the original financial bonds kept by Foshan City Commercial Bank. The procedures of bond transfer are still under way.

### 23. Long-term equity investments

On the basis of the Approval of the People's Bank of China on Founding China Unionpay Co., Ltd. [PBOC YF (2001) No. 124], the Company has invested RMB 50,000 thousand on China Unionpay Co., Ltd., accounting for 3.03% of the registered capital of China Unionpay.

### 24. Fixed assets and accumulated depreciation

#### (1) Original value of fixed assets

<u>Category</u>	<u>Dec.31,2003</u>	<u>Addition</u>	<u>Disposal</u>	<u>Dec.31,2004</u>
Properties and buildings	2,588,592	151,263	54,922	2,684,933
Transportation facilities	170,224	28,528	53,269	145,483
<u>Others</u>	<u>487,922</u>	<u>102,872</u>	<u>22,922</u>	<u>567,872</u>
<u>Total</u>	<u>3,246,738</u>	<u>282,663</u>	<u>131,113</u>	<u>3,398,288</u>

#### Notes:

The fixed assets of the year increase by RMB 282,663 thousand, of which RMB 106,524 thousand is transferred in from projects under construction and RMB 24,772 thousand from assets transfer for repayment of debt.

The decrease of the fixed assets of the year results from the conversion of properties and buildings into intangible assets, which involves RMB 20,000 thousand, long-term deferred expense of RMB 9,900 thousand, and the disposal and retirement of fixed assets.

There are no fixed assets guaranteed or secured by mortgage in the year.

There are no sale and swap of fixed assets involving large-sum transaction in the year.

There are no fixed assets for financing lease or for lease as a replacement of purchase in the year.

By Dec. 31, 2004, the Company has not acquired the property right to properties and buildings with original worth of RMB 573,436 thousand.

(2) Accumulated depreciation

<u>Category</u>	<u>Dec.31,2003</u>	<u>Addition</u>	<u>Disposal</u>	<u>Dec.31,2004</u>
Properties and buildings	346,075	86,695	3,967	428,803
Transportation tools	64,153	17,715	23,415	58,453
<u>Others</u>	<u>203,864</u>	<u>85,657</u>	<u>20,740</u>	<u>268,781</u>
<u>Total</u>	<u>614,092</u>	<u>190,067</u>	<u>48,122</u>	<u>756,037</u>

25. Construction in progress

<u>Project name</u>	<u>Budget</u>	<u>Dec.31,2003</u>	<u>Addition</u>	<u>Disposal</u>	<u>Dec.31,2004</u>	<u>Progress</u>
Mansion of Chongqing Branch	85,688	52,810	32,624	85,434	-	Completed
Decoration of Shenzhen Branch	14,555	8,825	4,297	13,122	-	Completed
Decoration of Mawei Training Center	7,311	2,632	3,420	4,736	1,316	Partly completed
Decoration of Zhengzhou branch	4,914	-	5,209	5,209	-	Completed
Decoration of Mansion of Xiamen branch	4,868	-	4,027	989	3,038	Partly completed
Decoration of Mansion of Hongwu Sub-branch (Nanjing branch)	2,005	-	1,129	-	1,129	Not completed
<u>Others</u>	<u>63,267</u>	<u>5,592</u>	<u>55,903</u>	<u>52,838</u>	<u>8,657</u>	<u>Partly completed</u>
<u>Total</u>	<u>182,608</u>	<u>69,859</u>	<u>106,609</u>	<u>162,328</u>	<u>14,140</u>	

Notes:

(1) The expenditure of the year on the projects under construction decreases by RMB 162,328 thousand, of which RMB 106,524 thousand is transferred to fixed-assets, RMB

54,201 thousand to long-term deferred expense of, and other transfers out of RMB 1,603 thousand.

(2) The capital for the projects under construction derives from the self-possessed working capital of the Company. By December 31, 2004, there had been no capitalized interest involved in the projects under construction.

## 26. Intangible assets

<u>Items</u>	<u>Original cost</u>	<u>Dec.31, 2003</u>	<u>Addition</u>	<u>Disposal</u>	<u>Amortization</u>	<u>Accumulated amortization</u>	<u>Dec.31, 2004</u>
Operation certificate and customer resources	430,000	-	430,000	-	3,583	3,583	426,417
Title sponsorship	20,000	-	20,000	-	667	667	19,333
Land use right	17,831	2,426	17,561	2,113	202	159	17,672
Computer software	24,438	16,666	7,336	1,836	4,457	6,729	17,709
Business license	13,000	12,350	-	-	1,300	1,950	11,050
Seat charge	800	480	-	-	80	400	400
<u>Others</u>	<u>5,200</u>	<u>76</u>	<u>5,000</u>	<u>-</u>	<u>485</u>	<u>609</u>	<u>4,591</u>
<u>Total</u>	<u>511,269</u>	<u>31,998</u>	<u>479,897</u>	<u>3,949</u>	<u>10,774</u>	<u>14,097</u>	<u>497,172</u>

Note: Operation certificate and customer resources refer to the intangible assets acquired in the acquisition of Foshan City Commercial Bank.

## 27. Long-term deferred expenses

<u>Items</u>	<u>Original cost</u>	<u>Dec.31, 2003</u>	<u>Addition</u>	<u>Disposal</u>	<u>Accumulated amortization</u>	<u>Closing balance</u>	<u>Dec.31, 2004</u>
Decoration expense of business buildings	455,681	246,242	82,594	87	86,144	213,076	242,605
Starting-up expenses	34,631	-	34,631	-	33,521	33,521	1,110
<u>Others</u>	<u>33,147</u>	<u>8,881</u>	<u>14,160</u>	<u>1,018</u>	<u>3,268</u>	<u>14,392</u>	<u>18,755</u>
<u>Total</u>	<u>523,459</u>	<u>255,123</u>	<u>131,385</u>	<u>1,105</u>	<u>122,933</u>	<u>260,989</u>	<u>262,470</u>

28. Assets possessed from insolvent debtors pending disposal

<u>Items</u>	<u>Dec.31,2004</u>	<u>Dec.31,2003</u>
Properties and buildings	571,755	545,399
Land use right	95,242	95,242
Motor Vehicles	955	955
<u>Equity rights</u>	<u>450</u>	<u>450</u>
<u>Total</u>	<u>668,402</u>	<u>642,046</u>

29. As for the assets to be transferred for repayment of debt, the closing balance of the allowance for impairment in value is RMB 85,567 thousand, of which RMB 73,933 thousand is due in the year. The disposal of assets transferred for repayment of debt in the year is RMB 1,565 thousand, of which RMB 13,199 thousand is transferred in from the bad loan reserve.

30. The closing balance of other long-term assets is RMB 71,907 thousand, which involves the some fixed assets, with the property right not transferred, of Foshan City Commercial Bank.

31. Short-term deposits

<u>Items</u>	<u>Dec.31,2004</u>	<u>Dec.31,2003</u>
Current deposit of units	120,962,430	94,647,250
Deposit of small private businesses	-	189,367
Deposit of insurance companies	567,108	37,176
Special current deposit	1,415,830	141,388
Deposit of public accumulated fund	39,570	-
Deposit of special undertakings	1,619	2,904
<u>Deposit of special businesses</u>	<u>5</u>	<u>218</u>
<u>Total</u>	<u>122,986,562</u>	<u>95,018,303</u>

32. Short-term savings deposits

<u>Items</u>	<u>Dec.31,2004</u>	<u>Dec.31,2003</u>
Current savings deposit	11,547,342	7,281,147
<u>Current or fixed deposit</u>	<u>3,570</u>	<u>987</u>
<u>Total</u>	<u>11,550,912</u>	<u>7,282,134</u>

33. Amounts due to the central bank

<u>Items</u>	<u>Dec.31,2004</u>	<u>Dec.31,2003</u>
<u>Re-borrowing from the central bank</u>	—-	300,000
<u>Total</u>	—-	<u>300,000</u>

34. Amounts due to banks and other financial institutions

<u>Institution</u>	<u>Dec.31,2004</u>	<u>Dec.31,2003</u>
Banks	11,084,218	9,033,785
Trust and investment companies	9,735,282	9,166,572
<u>Other non-bank institutions</u>	<u>10,129,730</u>	<u>10,129,730</u>
<u>Total</u>	<u>30,949,230</u>	<u>28,330,087</u>

35. Inter-bank borrowings

<u>Institution</u>	<u>Dec.31,2004</u>	<u>Dec.31,2003</u>
Banks	903,503	1,200,000
<u>Other non-bank institutions</u>	—-	—-
<u>Total</u>	<u>903,503</u>	<u>1,200,000</u>

36. Repurchase agreements- securities

<u>Items</u>	<u>Dec.31,2004</u>	<u>Dec.31,2003</u>
Financial bonds	1,844,300	1,490,000
Treasury bonds	1,000,000	2,228,500
<u>Debentures in foreign currencies</u>	—-	<u>406,678</u>
<u>Total</u>	<u>2,844,300</u>	<u>4,125,178</u>

37. Repurchase agreements-bills

<u>Institution</u>	<u>Dec.31,2004</u>	<u>Dec.31,2003</u>
Central bank	-	850,558
<u>Other non-bank institutions</u>	<u>1,927,210</u>	<u>3,402,848</u>
<u>Total</u>	<u>1,927,210</u>	<u>4,253,406</u>

38. Short-term guarantee deposits

<u>Items</u>	<u>Dec.31,2004</u>	<u>Dec.31,2003</u>
Deposit for L/C	720,403	695,276
Deposit for foreign exchange transactions	4,159	1,981
Deposit for factoring derivatives	1,046,101	265,247
Deposit for bank acceptance draft	2,474,096	1,782,284
Deposit for letter of quarantine	138,861	88,007
Deposit for lease	170	537
<u>Other deposits</u>	<u>2,415,307</u>	<u>1,432,766</u>
<u>Total</u>	<u>6,799,097</u>	<u>4,266,098</u>

39. Interest payable

<u>Items</u>	<u>Dec.31,2004</u>	<u>Dec.31,2003</u>
Deposit interest due to insurance companies	313,014	144,638
Placement interest due to other banks	16,810	14,179
Long-term savings deposit interest	179,092	170,890
Long-term deposit interest	209,685	127,411
Deposit interest of earnest money	53,575	67,056
Interest of credit assets repurchase	17,693	146
<u>Other interest payable</u>	<u>3,280</u>	<u>6,676</u>
<u>Total</u>	<u>793,149</u>	<u>530,996</u>

40. Taxes payable

<u>Items</u>	<u>Dec.31,2004</u>	<u>Dec.31,2003</u>
Income tax	664,434	400,944
Business tax	173,796	107,403
City maintenance and construction tax	9,793	5,622
Real estate tax	1,591	377
Land use tax	7	6
Personal income tax	6,669	2,283
<u>Other taxes payable</u>	<u>3,858</u>	<u>5,974</u>
<u>Total</u>	<u>860,148</u>	<u>522,609</u>

41. Other Taxes Payable

<u>Items</u>	<u>Dec.31,2004</u>	<u>Dec.31,2003</u>
Basic endowment insurance fund payable	14,639	14,777
Stamp duty payable	2,028	2,093
Education surcharge payable	4,573	1,988
Unemployment premium payable	1,370	1,155
<u>Public reserve fund for housing payable</u>	<u>27,554</u>	<u>949</u>
<u>Total</u>	<u>50,164</u>	<u>20,962</u>

42. The closing balance of dividends payable totals RMB 165,666 thousand.

43. Other payables

<u>Items</u>	<u>Dec.31,2004</u>	<u>Dec.31,2003</u>
Promissory notes	319,329	227,882
Foreign exchange to be refunded and agency collection	20,122	84,342
Payables for agency collection and payment	31,382	43,543
Other expenses payable	58,249	35,370
Aged payable pending for collection	11,299	14,363
Additional endowment insurance fund payable	5,027	9,523
Educational and Trade union expenses payable	20,120	9,397
On account debit documents of intra-city presentation	26,878	8,964
<u>Other payables</u>	<u>284,557</u>	<u>310,903</u>
<u>Total</u>	<u>776,963</u>	<u>744,287</u>

44. Other current liabilities

<u>Items</u>	<u>Dec.31,2004</u>	<u>Dec.31,2003</u>
Repurchase agreements-loans	754,260	1,835,000
<u>Others</u>	<u>131,845</u>	<u>-</u>
<u>Total</u>	<u>886,105</u>	<u>1,835,000</u>

Note: Other current liabilities-Other closing balance totals RMB 131,845 thousand, which derives from the selling of undue reverse repurchase agreements-bonds in foreign

currency, with a par value of USD 16,000 thousand. It is to be used to buy back the corresponding reverse repurchase agreements-bonds in foreign currency before they are due.

#### 45. Long-term deposits

<u>Items</u>	<u>Dec.31,2004</u>	<u>Dec.31,2003</u>
Fixed-term deposit of units	45,417,978	31,692,190
Deposit of units at call	19,145,473	13,664,761
Fixed-term deposit of insurance companies	756,542	307,264
Contract deposit of insurance companies	39,784,000	22,884,000
Special fixed-term deposit	1,560,000	60,000
<u>Fixed-term deposit for special undertakings</u>	<u>150,000</u>	<u>45,444</u>
<u>Total</u>	<u>106,813,993</u>	<u>68,653,659</u>

#### 46. Long-term saving deposits

<u>Items</u>	<u>Dec.31,2004</u>	<u>Dec.31,2003</u>
Fixed amount and period	10,663,054	8,150,497
Regular deposits	9,943	8,349
Regular withdrawal of interest savings	763	5,338
Value-preserved deposit	6,738	8,126
Bulk deposit negotiable	237	268
Educational deposit	655	520
<u>Personal deposit at notice</u>	<u>1,614,776</u>	<u>1,694,154</u>
<u>Total</u>	<u>12,296,166</u>	<u>9,867,252</u>

#### 47. Long-term guarantee deposits

<u>Items</u>	<u>Dec.31,2004</u>	<u>Dec.31,2003</u>
Deposits for L/C	367,135	276,220
Deposits for foreign exchange transactions	3,500	1,464
Deposits for bank acceptance draft	20,284,982	18,263,217
Deposits for letter of guarantee	170,303	110,179
<u>Other fixed deposits</u>	<u>1,307,970</u>	<u>2,489,183</u>
<u>Total</u>	<u>22,133,890</u>	<u>21,140,263</u>

48. The subordinated bond

<u>Units</u>	<u>Dec.31,2004</u>		<u>Dec.31,2003</u>	
	<u>Fixed</u> <u>interest rate</u>	<u>Floating</u> <u>interest rate</u>	<u>Fixed</u> <u>interest rate</u>	<u>Floating</u> <u>interest rate</u>
New China Life Insurance Co., Ltd.	-	1,000,000	-	1,000,000
Postal Deposit & Remittance Branch of the State Post Bureau	-	1,000,000	-	1,000,000
China Life Insurance Co., Ltd.	-	1,000,000	-	1,000,000
Industrial and Commercial Bank of China	60,000	140,000	-	-
Agricultural Bank of China	-	300,000	-	-
Construction Bank of China	500,000	-	-	-
Bank of China	-	490,000	-	-
Bank of Communications	300,000	-	-	-
China Everbright Bank	-	30,000	-	-
China Minsheng Bank	1,000,000	-	-	-
<u>Beijing City Commercial Bank</u>	<u>-</u>	<u>180,000</u>	<u>-</u>	<u>-</u>
<u>Total</u>	<u>1,860,000</u>	<u>4,140,000</u>	<u>-</u>	<u>3,000,000</u>

Notes:

(1) In Dec. of 2003, the Company issued subordinated bonds totaling RMB 3,000,000 thousand with a term of 5 years and 1 month at the floating interest rate 2.01% over the benchmark rate of one-year fixed deposit stipulated by the People's Bank of China. The issuing of the subordinated bonds was ratified in the Approval of China Banking Regulatory Commission on Industrial Bank Company's Collecting of Subordinated Fixed Bonds as Supplementary Capital [YJF (2003) No. 133].

(2) In Dec. of 2004, the Company issued subordinated bonds totaling RMB 3,000,000 thousand with a term of 10 years. The Company is entitled to redeem part of or all the bonds at the par value on the last day of the fifth interest year. Fixed and floating interest rates are adopted for the bonds: The yearly interest rate (namely the inaugural interest rate) of the fixed interest rate bonds is 5.1% in the period from the first to the fifth year. If the Company does not resort to the redemption right, the contract interest rate will increase by 300BP (100BP is equivalent to 1%) over the inaugural interest rate. The contract interest

rate of the floating interest rate bonds is the summation of the benchmark interest rate and the basic margin; The benchmark interest rate refers to the interest rate for fixed amount and period deposit with a term of one year stipulated by the People's Bank of China, which is applicable on the inaugural date and the value date of other interest years; The basic interest spread in the first five interest years is 2.4%; If the Company does not resort to the redemption right, the basic margin of the rest five interest years will increase by 50BP (100BP is equivalent to 1%) over the basic margin during the period from the sixth year to the maturing date of the floating interest rate bonds. The issuing of the subordinated bonds was ratified in the Approval of China Banking Regulatory Commission on Industrial Bank Company's Issuing of Subordinated Fixed Bonds [YJF (2004) No. 209].

#### 49. Paid-in capital

<u>Items</u>	<u>Dec.31,2003</u>	<u>Percentage%</u>	<u>Changes</u>	<u>Dec.31,2004</u>	<u>Percentage%</u>
Shares owned by state	1,204,761	40.16	-3,000	1,201,761	30.05
Shares owned by state-owned legal person	1,183,594	39.45	-36,215	1,147,379	28.69
Shares owned by legal persons other than promoters	611,645	20.39	39,215	650,860	16.28
Shares held by offshore legal person	—	—	999,000	999,000	24.98
<u>Total of shares</u>	<u>3,000,000</u>	<u>100.00</u>	<u>999,000</u>	<u>3,999,000</u>	<u>100.00</u>

Notes:

(1) The above shares are non-tradable ordinary shares with par value of RMB 1 each.

(2) In 2004 the Company had 25 equity transfers. The movements of the year refer to the movements of the offset balance as a result of equities.

(3) The recognition of equity is mainly based on the business license provided by the shareholder. The equity will ultimately be recognized in light of the state-owned shares management program of the Company ratified by Fujian Finance Bureau.

(4) According to the resolutions of the Company shareholders' meeting held on Jan. 15 of 2004, and with the Approval of China Banking Regulatory Commission on Industrial

Bank Company's Capital and Shares Expansion to Attract Offshore Strategic Investors [YJF(2004) No. 35], the Company newly issued 999 million shares to attract overseas strategic investors. Hang Seng Bank Company has subscribed for 639.09 million shares, accounting for 15.9812% of the Company's capital stock including the new shares. Government of Singapore Investment Corporation has subscribed through Tetrad Venture Pte Lcd for 199.95 million shares, accounting for 5% of the Company's capital stock. International Finance Corporation has subscribed for 159.96 million shares, accounting for 4% of the total. The subscription price per share is RMB 2.70. The capital stock increases by RMB 999 million, with the capital reserve expanded by RMB 1.6983 billion. The subscription of the new shares concluded in the period when the balance sheet was being made. It has been verified by Fujian Huaxing Certified Public Accountants Ltd with a verification report referenced "MHXS(2004) YZ NO.G-003". The above three overseas strategic investors jointly hold 24.9812% of the total shares of the Company.

#### 50. Capital reserves

<u>Items</u>	<u>Equity premium over par value</u>	<u>Transferred in from other capital reserve items</u>	<u>Total</u>
Opening balance	1,106,583	34,331	1,140,914
Increase in current year	1,698,300	-	1,698,300
<u>Decrease in current year</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Closing balance</u>	<u>2,804,883</u>	<u>34,331</u>	<u>2,839,214</u>

Note: The increase of the capital reserve results from the equity premium over par value with the offshore strategic investors becoming shareholders of the Company. For more information, refer to IV. 49 Paid-in Capital

#### 51. Surplus reserve

<u>Items</u>	<u>Statutory Surplus reserve</u>	<u>Reserve for welfare of employees</u>	<u>Discretionary surplus reserve</u>	<u>Total</u>
Opening balance	429,595	269,824	836,805	1,536,224
Increase in current year	110,103	55,051	-	165,154
<u>Decrease in current year</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Closing balance</u>	<u>539,698</u>	<u>324,875</u>	<u>836,805</u>	<u>1,701,378</u>

52. Retained Earnings

<u>Items</u>	<u>2004</u>	<u>2003</u>
Opening Balance	1,321,775	814,911
Add: Net profit for the year	1,101,030	984,546
Less: Appropriations to statutory surplus reserve	110,103	98,455
Appropriations to reserve for welfare of employees	55,051	49,227
Appropriations to discretionary surplus reserve	-	-
<u>Dividends declared for ordinary shares</u>	<u>330,000</u>	<u>330,000</u>
<u>Closing Balance</u>	<u>1,927,651</u>	<u>1,321,775</u>

Notes:

(1) Dividends in an amount of RMB330,000 thousand has been declared for ordinary shares according to the Resolution of Profit Distribution for the year of 2003, which was adopted in the 2003 Shareholders' Meeting held on 28<sup>th</sup> June 2004.

(2) Dividends in an amount of RMB330,000 thousand has been declared for ordinary shares according to the Resolution of Profit Distribution for the year of 2002, which was adopted in the 2002 Shareholders' Meeting held on 28<sup>th</sup> June 2003.

53. Operating revenue by geographic region

<u>Region</u>	<u>2004</u>		<u>2003</u>	
	<u>Amount</u>	<u>Percentage%</u>	<u>Amount</u>	<u>Percentage %</u>
Fujian province	2,185,806	17.78	2,639,878	28.35
Shanghai	2,668,031	21.70	1,291,391	13.87
Guangdong province	1,826,897	14.86	1,792,461	19.25
Beijing	1,048,361	8.53	765,040	8.22
Zhejiang province	1,610,836	13.10	1,084,059	11.64
<u>Other regions in China</u>	<u>2,956,816</u>	<u>24.05</u>	<u>1,737,841</u>	<u>18.67</u>
<u>Total</u>	<u>12,296,747</u>	<u>100.00</u>	<u>9,310,670</u>	<u>100.00</u>

54. Interest income

<u>Items</u>	<u>2004</u>	<u>2003</u>
Short-term loans	6,257,210	4,372,045
Long and medium-term loans	2,464,819	1,849,211
Overdue loans	123,691	112,941
Discount interest	700,988	877,652
Import & export advances and negotiations	39,824	28,228
<u>Interest accrued for over 90 days in the previous year</u>	<u>-702</u>	<u>-160,125</u>
<u>Total</u>	<u>9,585,830</u>	<u>7,079,952</u>

55. Interest income from financial institutions

<u>Items</u>	<u>2004</u>	<u>2003</u>
Due from central bank	400,964	272,968
Placements with banks and other financial institutions	261,164	154,587
Inter-bank lendings	82,690	83,751
Reverse repurchase agreements-bills and rediscount	747,735	541,024
Price margin in reverse repurchase bonds	57,021	72,429
<u>Reverse repurchase credit loan</u>	<u>9,043</u>	<u>-</u>
<u>Total</u>	<u>1,558,617</u>	<u>1,124,759</u>

56. Investment income

<u>Items</u>	<u>2004</u>	<u>2003</u>
Short-term investment in bonds	81,768	81,787
Long-term investment in bonds	<u>729,363</u>	<u>807,802</u>
<u>Total</u>	<u>811,131</u>	<u>889,589</u>

57. Interest expenditure		
<u>Items</u>	<u>2004</u>	<u>2003</u>
Short-term deposit	898,946	680,873
Short-term savings deposit	39,455	41,909
Long-term deposit	2,213,929	1,204,888
Long-term savings deposit	158,754	127,477
Other interest expenditure	351,877	513,891
<u>Subordinated fixed bonds</u>	<u>118,598</u>	<u>-</u>
<u>Total</u>	<u>3,781,559</u>	<u>2,569,038</u>

58. Interest expenditure on business with financial institutions		
<u>Items</u>	<u>2004</u>	<u>2003</u>
Due to central bank and rediscount interest	407	4,507
Inter-bank borrowings	48,179	39,065
Repurchase agreements-bills and inter-bank discount	677,394	869,195
Price margin of repurchase securities	120,691	93,627
Repurchase credit assets	15,885	-
<u>Due to other banks and financial institutions</u>	<u>499,542</u>	<u>398,679</u>
<u>Total</u>	<u>1,362,098</u>	<u>1,405,073</u>

59. Operating expenses		
<u>Items</u>	<u>2004</u>	<u>2003</u>
Pay, bonus and welfare	1,267,708	858,845
Depreciation of fixed assets and amortization of fitting up expenses	276,211	217,421
Tax	30,648	23,934
Lease charge	202,254	176,821
<u>Other management expenses such as office expenses and advertising expenses</u>	<u>1,096,504</u>	<u>807,528</u>
<u>Total</u>	<u>2,873,325</u>	<u>2,084,549</u>

60. Other operating expenses		
<u>Items</u>	<u>2004</u>	<u>2003</u>
Loan losses provision	1,251,830	1,189,898
Bad debt provision	15,833	-1,805
Provision of Inter-bank placements and placements with non-bank financial institutions	70,712	-
Provision of assets transferred for repayment of debt	73,933	-
Provision of inter-bank placements	7,832	-
<u>Others</u>	<u>6,273</u>	<u>8,127</u>
<u>Total</u>	<u>1,426,413</u>	<u>1,196,220</u>

61. Business taxes and surcharges		
<u>Items</u>	<u>2004</u>	<u>2003</u>
Business taxes	497,829	368,676
City maintenance and construction tax	32,202	22,287
Education surcharge	17,258	12,293
<u>Others</u>	<u>3,599</u>	<u>2,431</u>
<u>Total</u>	<u>550,888</u>	<u>405,687</u>

62. Non-operating income		
<u>Items</u>	<u>2004</u>	<u>2003</u>
Gain on aged payable pending for collection	6,088	7,155
Gain on disposal of fixed assets	10,311	5,386
Penalties and fines received	2,707	1,477
Tellers' cash overage	365	47
<u>Others</u>	<u>6,129</u>	<u>12,846</u>
<u>Total</u>	<u>25,600</u>	<u>26,911</u>

63. Non-operating expenses		
<u>Items</u>	<u>2004</u>	<u>2003</u>
Loss on disposal of fixed assets	9,829	3,938
Loss on retirement of fixed assets	50	-
Relief donation expenses for public welfare	1,325	2,278
Penalties and fines paid	887	1,003
Relief donation expenses not for public welfare	4,506	1,555
<u>Others</u>	<u>15,224</u>	<u>8,200</u>
<u>Total</u>	<u>31,821</u>	<u>16,974</u>

64. Cash and cash equivalents		
<u>Items</u>	<u>Dec.31,2004</u>	<u>Dec.31,2003</u>
Cash and deposit	957,304	797,020
Cash equivalent:		
Prepaid reserve at central bank	32,107,473	35,310,333
Inter-bank placements maturing within 3 months	11,026,034	7,028,337
Inter-bank placements and placements with non-bank financial institutions maturing within 3 months	2,366,785	1,782,000
Investments in short-term bonds maturing within 3 months	646,815	
Reverse repurchase agreements maturing within 3 months	7,076,097	9,763,605
<u>Sub-total</u>	<u>53,223,204</u>	<u>53,884,275</u>
<u>Total</u>	<u>54,180,508</u>	<u>54,681,295</u>

#### 65. Other received cash related to investment

According to the 2004 cash flow sheet, the Company received other cash related to investment, which totals RMB 2,448,707 thousand and which derives from the cash and cash equivalents received when Foshan City Commercial Bank was acquired.

## V. Related Parties Relationship and Transactions

### i. Related parties

The company's related parties included: shareholders holding more than 5% (including 5%) of the Company's shares as well as their controlling shareholders; legal persons or any other entity which were subject to direct, indirect, joint control or significant influence by the Company's shareholders holding more than 5% (including 5%) of the Company's shares; the Company's directors, senior management and their close relatives (hereinafter referred to as "Key management personnel and their close relatives"); Legal persons or any other entity which were subject to direct, indirect, joint control or significant influence by directors and senior management (hereinafter referred to as "Key management-related enterprises").

1. Shareholders holding more than 5% (including 5%) of the Company's shares from 2003 to 2004

#### ( 1 ) General information

<u>Related party</u>	<u>Economic nature</u>	<u>Domicile</u>	<u>Business scope</u>	<u>Legal Representative</u>	<u>Remark</u>
Fujian Finance Bureau	Legal person of government units	Fuzhou	Administration of Fujian provincial fiscal and tax policy	Ma Lusheng	A . B
Hang Seng Bank Limited	Limited company	Hong Kong	Financial services	Zhen Haiquan	A
Tetrad Ventures Pte Ltd	Limited company	Singapore	Investment	Goh Yew Hong Chia Yew Boon	A
China Electronics Corporation	Wholly state-owned company	Beijing	Investment in electronic industry, scientific research, development, design, manufacturing and sellings of military and civil electronic products, etc	Yang Xiaotang	B

#### Notes :

Related Parties with remark "A" held more than 5% (including 5%) of the Company's shares on December 31, 2004.

Related Parties with remark "B" held more than 5% (including 5%) of the Company's shares on December 31, 2003.

Founded in Hong Kong in 1933, Hang Seng Bank is a principal member of the HSBC Group, which is among the world's largest financial services organizations. Being a listed bank in Hong Kong (0011), Hang Seng Bank is named the Best Domestic Commercial Bank in Hong Kong and the Strongest Bank in Asia by Asiamoney magazine, and is named the Best Local Bank in Hong Kong by FinanceAsia magazine. The “Hang Seng Index”, a benchmark index tracking the performance of Hong Kong stock market, is established by Hang Seng Bank.

Tetrad Ventures Pte Ltd is wholly owned by GIC Special Investments Pte Ltd (“GICSI”) , while GICSI is a wholly-owned investment company of Government of Singapore Investment Corporation Pte Ltd (“GIC” ), mainly responsible for investments in unlisted enterprises. Wholly owned by Ministry of Finance of Singapore, GIC is an investment management company responsible for managing Singapore’s foreign exchange reserves. Therefore, Ministry of Finance of Singapore is the final shareholder of the Company. The investment of Ministry of Finance of Singapore in the Company was conducted by Tetrad.

( 2 ) Registered capital and changes

<u>Related party</u>	<u>Dec.31,2003</u>	<u>Increase</u>	<u>Decrease</u>	<u>Dec.31,2004</u>
Fujian Finance Bureau	-	-	-	-
Hang Seng Bank Limited	HKD11,000,000,000	-	-	HKD11,000,000,000
Tetrad Ventures Pte Ltd	SGD 2	-	-	SGD 2
China Electronics Corporation	RMB 5,734,334,000	-	-	RMB 5,734,334,000

( 3 ) Number of shares held or equity and changes

Unit: RMB’0000

<u>Related party</u>	<u>2003-12-31</u>		<u>Increase</u>		<u>Decrease</u>		<u>2004-12-31</u>	
	<u>Amount</u>	<u>Percentage%</u>	<u>Amount</u>	<u>Percentage%</u>	<u>Amount</u>	<u>Percentage%</u>	<u>Amount</u>	<u>Percentage%</u>
Fujian Finance Bureau	102,000	34.00	-	-	-	-	102,000	25.51
Hang Seng Bank Limited	-	-	63,909	15.98	-	-	63,909	15.98
Tetrad Ventures Pte Ltd	-	-	19,995	5.00	-	-	19,995	5.00

**Industrial Bank Co., Ltd.**  
**Notes to Financial Statement of 2004**

**Unit: RMB in thousands**

China Electronics Corporation	15,000	5.00	-	-	-	-	15,000	3.75
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2. Legal persons or any other entity which were subject to direct, indirect, joint control or significant influence by the Company's shareholders holding more than 5% (including 5%) of the Company's shares, from 2003 to 2004

<u>Related party</u>	<u>Economic Nature</u>	<u>Domicile</u>	<u>Registered Capital</u>	<u>Business scope</u>	<u>Legal representative</u>	<u>Remark</u>
China Electronic Communication Technology Corporation Ltd (CECT)	Limited company	Beijing	USD 36,231,884	mobile phone development, manufacturing and selling	Wu Zhiyang	B
Beijing Hengxin Real Estate, Co., Ltd	Limited company	Beijing	RMB50,000,000	Real estate development and selling	Zhang Yutang	B
AMOI Electronics Holding Co.,Ltd	Limited company	Xiamen	RMB429,840,000	daily-used electronic instrument production and selling	Liu Xuehong	B
Amoi Electronics Co., Ltd.	Limited company	Xiamen	USD12,245,000	Assembly and production of television , vidicon, camera and other electronic products	Liu Xuehong	B
Beijing Zhongdian Chansheng Investment Management Co., Ltd	Limited company	Beijing	RMB10,000,000	Investment management, electronic product and software development	Zhang Yutang	B
Minfa Securities Company Limited	Limited company	Fuzhou	RMB800,000,000	Securities agent buying and selling, propriety trading, and underwriting	Zhang Fuchun	B

Note: Related parties with remark "B" were legal persons or any other entity which were subject to direct, indirect, joint control or significant influence by the Company's shareholders holding more than 5% (including 5%) of the Company's shares, and all of them were subsidiaries controlled by China Electronics Corporation.

3、 General information of key management-related enterprises from 2003 to 2004

Unit: RMB'0000

<u>Related party</u>	<u>Economic nature</u>	<u>Domicile</u>	<u>Registered capital</u>	<u>Business scope</u>	<u>Legal representative</u>	<u>Remark</u>
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**Industrial Bank Co., Ltd.**  
**Notes to Financial Statement of 2004**

**Unit: RMB in thousands**

<u>Related party</u>	<u>Economic nature</u>	<u>Domicile</u>	<u>Registered capital</u>	<u>Business scope</u>	<u>Legal representative</u>	<u>Remark</u>
China Electronics Corporation	Wholly state-owned	Beijing	573,433	Investment in electronic industry, scientific research, development, design, manufacturing and selling of military and civil electronic products, etc.	Yang Xiaotang	A
(Continued)Unit:RMB'0000						
China Electronics Financial Co., Ltd	Limited company	Beijing	51,800	Domestic and foreign currency trust, agency, deposit and loan business, investment, leasing, etc.	Zhang Yutang	A
China Electronics Engineering Co., Ltd	Limited company	Beijing	20,000	Contracting of electronic engineering and civil construction project, real estate development and operation	Zhang Yutang	A
Shandong Bohai Oil and Fat Industry Co., Ltd	Limited company	Jinan	5,940	Edible oil, fat, byproduct production, processing, deep processing and selling	Shu Zhongfeng	A
Shandong Koufu Grain and Oil-rape Co.,Ltd	Limited company	Jinan	4,431	Edible oil, fat, byproduct production, processing, deep processing and selling	Shu Zhongfeng	A
Shanghai Huahong (Group) Co., Ltd	Limited company	Shanghai	487,000	Integrated circuit and relevant products development, design, processing, production and selling	Zhang Wenyi	A
Fujian Tobacco Corporation	State-owned enterprise	Fuzhou	5,000	Cigarette, cigar production, and tobacco raw material, machinery, department store, electronic apparatus and tobacco storage, etc.	Song Li	A
Quanzhou Fuhai Grain and Oil-rape Industril Co., Ltd	Limited company	Quanzhou	USD1,500	Edible oil, fat, byproduct production, processing, deep processing and selling	Hung Yen Stephen	A
Huamin (Group) Co.,Ltd	State-owned enterprise	Hong Kong	HKD3,000	Foreign trade, investment	Xu Meixing	B
Shenzhen Hualian Development Group Co., Ltd	Limited company	Shenzhen	6,320	Industry investment, technical consultation, technical cooperation and raw material adjustment	Dong Binggen	B
Orient International (Group) Co., Ltd	Limited company	Shanghai	80,000	Import and export or acting as an import and export agent of textile, clothes and some other commodities	Wang Zukang	B

**Industrial Bank Co., Ltd.**  
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**Unit: RMB in thousands**

Guohua Energy Investment Co. Ltd	Limited company	Beijing	59,500	Coal-over-oil management, etc.	capital asset	Xie Jianning	B
Ping An Trust & Investment Co., Ltd	Limited company	Shenzhen	27,000	Entrusted to manage liquid asset, fixed asset and some other assets	capital, asset and	Sun Jianyi	B

Note : Related parties with remark “A” were key management-related enterprises on December 31, 2004.

Related parties with remark “B” were key management-related enterprises on December 31, 2003.

ii. Related party transactions and balance

Related party transactions mainly cover: loans, banker’s acceptance, letters of credit, letters of guarantee and deposit, etc. Both transaction condition and the interest rate charged were in accordance with the Company’s normal business terms.

1.Loans

<u>Related party</u>	<u>Dec.31,2004</u>		<u>Dec.31,2003</u>	
	<u>Amount</u>	<u>Percentage%</u>	<u>Amount</u>	<u>Percentage%</u>
A. Shareholders holding more than 5%(including 5%) of the Company’s shares	-	-	-	-
B. Legal persons or any other entity which were subject to direct, indirect, joint control or significant influence by the Company’s shareholders holding more than 5% (including 5%) of the Company’s shares				
a. China Electronic Technology Co., Ltd	-	-	30,000	0.02
b. Beijing Hengxin Real Estate, Co., Ltd	-	-	1,040,000	0.69
c. Related parties except the <u>above two related parties</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Subtotal</u>	<u>-</u>	<u>-</u>	<u>1,070,000</u>	<u>0.71</u>
C. Key management personnel and their close relatives	-	-	-	-
<u>D. Key management-related enterprises</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

<u>TOTAL</u>	<u>-</u>	<u>-</u>	<u>1,070,000</u>	<u>0.71</u>
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## 2.Loan interest income

<u>Related party</u>	<u>2004</u>	<u>2003</u>
A. Shareholders holding more than 5%(including 5%)of the Company's shares	-	5,340
B. Legal persons or any other entity which were subject to direct, indirect, joint control or significant influence by the Company's shareholders holding more than 5% (including 5%) of the Company's shares	-	63,780
C. Key management personnel and their close relatives	-	-
<u>D. Key management-related enterprises</u>	<u>4,240</u>	<u>221</u>
<u>TOTAL</u>	<u>4,240</u>	<u>69,341</u>

## 3.Discounted bills

<u>Related party</u>	<u>Dec.31,2004</u>		<u>Dec.31,2003</u>	
	<u>Amount</u>	<u>Percentage%</u>	<u>Amount</u>	<u>Percentage%</u>
A. Shareholders holding more than 5%(including 5%)of the Company's shares	-	-	-	-
B. Legal persons or any other entity which were subject to direct, indirect, joint control or significant influence by the Company's shareholders holding more than 5% (including 5%) of the Company's shares				
a. China Electronic Communication Technology Co., Ltd	-	-	20,000	0.15
b. Beijing Hengxin Real Estate Co., Ltd	-	-	-	-
<u>c. Related parties except the above two related parties</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Subtotal</u>	<u>-</u>	<u>-</u>	<u>20,000</u>	<u>0.15</u>
C. Key management personnel and their close relatives	-	-	-	-
<u>D. Key management-related enterprises</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>TOTAL</u>	<u>-</u>	<u>-</u>	<u>20,000</u>	<u>0.15</u>

#### 4. Deposit

<u>Related party</u>	<u>Dec.31,2004</u>	<u>Dec.31,2003</u>
A. Shareholders holding more than 5%(including 5%)of the Company's shares	3,081,712	2,409,620
B. Legal persons or any other entity which were subject to direct, indirect, joint control or significant influence by the Company's shareholders holding more than 5% (including 5%) of the Company's shares	-	433,373
C. Key management personnel and their close relatives	12,680	4,543
<u>D. Key management-related enterprises</u>	<u>496,378</u>	<u>207,667</u>
<u>TOTAL</u>	<u>3,590,770</u>	<u>3,055,203</u>

#### 5. Deposit interest expense

<u>Related party</u>	<u>2004</u>	<u>2003</u>
A. Shareholders holding more than 5%(including 5%)of the Company's shares	25,681	18,954
B. Legal persons or any other entity which were subject to direct, indirect, joint control or significant influence by the Company's shareholders holding more than 5% (including 5%) of the Company's shares	-	6,145
C. Key management personnel and their close relatives	-	-
<u>D. Key management-related enterprises</u>	<u>4,897</u>	<u>17</u>
<u>TOTAL</u>	<u>30,578</u>	<u>25,116</u>

#### 6. Other payables

<u>Related party</u>	<u>Dec.31,2004</u>	<u>Dec.31,2003</u>
Fujian Finance Bureau	194,011	194,015

#### 7. Dividends payable

<u>Related party</u>	<u>2004-12-31</u>	<u>2003-12-31</u>
Fujian Finance Bureau	138,214	26,010

### 8.Others

The Company introduced Hang Seng Bank Limited (hereinafter referred to as “HSB” for short) as one of its strategic investors, and conducted cooperation with it in credit card business and unsecured consumer credit business. On December 17, 2003, the Company and HSB signed “Agreement on Credit Card and Unsecured Consumer Credit Cooperation” (“the Agreement”). According to the Agreement, HSB will provide relevant consultant services and technical assistance for the Company, and will designate two professionals to assist in the implementation of the cooperation project. The Company will shoulder the following fees: compensation to professionals for their technical support services, however, the Company will not enjoy any rights and interests related to all intellectual properties provided, owned, permitted or authorized the Company to use by HSB pursuant to the Agreement.

### 9.Off-balance sheet business

<u>Related party</u>	<u>2004-12-31</u>			<u>2003-12-31</u>		
	<u>Letters of credit</u>	<u>Banker's acceptance bills</u>	<u>Letters of guarantee</u>	<u>Letters of credit</u>	<u>Banker's acceptance bills</u>	<u>Letters of guarantee</u>
China Electronic Communication Technology Corporation Ltd (CECT)	-	-	-	-	67,550	-
AMOI Electronics Holding Co.,Ltd	-	-	-	-	14,500	-
Shandong Koufu Grain and Oil-rape Co.,Ltd	—	<u>85,000</u>	—	—	—	—
<b><u>TOTAL</u></b>	<u>—</u>	<u>85,000</u>	<u>—</u>	<u>—</u>	<u>82,050</u>	<u>—</u>

## VI. Segment data

### 1. Loans in different areas

<u>Regions</u>	<u>Dec.31,2004</u>		<u>Dec.31,2003</u>	
	<u>Amount</u>	<u>Percentage %</u>	<u>Amount</u>	<u>Percentage %</u>
Fujian province	36,573,306	18.02	32,297,557	20.58
Guangdong province	33,152,409	16.33	28,007,989	17.85
Shanghai	27,241,299	13.42	23,756,745	15.14
Zhejiang province	26,591,471	13.10	18,209,916	11.60
Beijing	20,209,874	9.96	14,573,747	9.29
<u>Other areas in China</u>	<u>59,242,458</u>	<u>29.17</u>	<u>40,099,382</u>	<u>25.54</u>
<u>Total</u>	<u>203,010,817</u>	<u>100.00</u>	<u>156,945,336</u>	<u>100.00</u>
<u>Less: bad loan provision</u>	<u>3,281,709</u>		<u>2,350,626</u>	
<u>Net balance of loan</u>	<u>199,729,108</u>		<u>154,594,710</u>	

Note: The credit loan business includes imp. and exp. advances & negotiations, discounted bills, short-term loan, long and medium-term loan, overdue loan, and non-accrual loan.

### 2. Loans in different sectors

<u>Sectors</u>	<u>Dec.31,2004</u>		<u>Dec.31,2003</u>	
	<u>Amount</u>	<u>Percentage %</u>	<u>Amount</u>	<u>Percentage %</u>
Agriculture, forestry and husbandry	1,594,702	0.79	1,058,075	0.67
Mining	2,122,599	1.05	1,693,605	1.07
Manufacturing	45,431,892	22.37	31,003,873	19.75
Producers and suppliers of electric power, gas and water	13,062,377	6.43	7,884,510	5.02
Construciton	10,890,827	5.36	8,344,913	5.32
Communications and transportation, warehousing and post service	15,276,980	7.53	11,387,873	7.26
Information communication, computer service and software	4,871,755	2.40	6,028,896	3.84

**Industrial Bank Co., Ltd.**  
**Notes to Financial Statement of 2004**

**Unit: RMB in thousands**

Wholesale and retail	22,244,180	10.96	18,547,467	11.82
Hotel and catering	1,132,452	0.56	986,455	0.63
Finance	1,568,164	0.77	3,046,434	1.94

( Continued )

<u>Sectors</u>	<u>Dec.31,2004</u>		<u>Dec.31,2003</u>	
	<u>Amount</u>	<u>Percentage %</u>	<u>Amount</u>	<u>Percentage %</u>
Real estate	19,818,122	9.76	17,308,431	11.03
Lease and business service	11,886,286	5.86	7,875,598	5.02
Research, technological service and geological investigation	1,075,826	0.53	704,518	0.45
Irrigation works, and environment and public facilities management	12,656,450	6.22	11,171,715	7.12
Resident-oriented service and other services	2,976,961	1.47	3,474,518	2.21
Education	1,572,793	0.77	1,263,378	0.80
Health, social securities and social service	802,680	0.40	687,000	0.44
Art, sport and entertaining	1,351,665	0.67	1,390,165	0.89
Public management and social organization	2,587,480	1.27	1,923,560	1.23
Private loan	17,403,926	8.57	8,172,363	5.21
<u>Discount</u>	<u>12,682,701</u>	<u>6.25</u>	<u>12,991,989</u>	<u>8.28</u>
<u>Total</u>	<u>203,010,817</u>	<u>100.00</u>	<u>156,945,336</u>	<u>100.00</u>
<u>Less: bad loan provision</u>	<u>3,281,709</u>		<u>2,350,626</u>	
<u>Net balance of loan</u>	<u>199,729,108</u>		<u>154,594,710</u>	

### 3. Top ten loan borrowers

#### (1) Top ten loan borrowers by Dec.31, 2004

<u>Units</u>	<u>Amount</u>	<u>Term of loan</u>	<u>Yearly interest rate %</u>
Jinan Land Reserve and Trade Center	1,050,000	Mar.29,2004-Oct.28,2005	From 5.244 to 5.735
Fujian Telecom	1,020,000	Jul.21,2004-Jun.28,2005	From 4.536 to 4.704
State Grid Corp. of China	880,000	May 7,2003-May 8,2011	From 5.184 to 5.929

**Industrial Bank Co., Ltd.**  
**Notes to Financial Statement of 2004**

**Unit: RMB in thousands**

Jiangsu Expressway Operation and Management Center	850,000	Oct.25,2001-Jun.24,2013	From 5.316 to 5.760
Fuzhou Luochang Expressway Co., Ltd.	750,000	Jun.16,2000-Feb.4,2010	5.184

(Continued)

<u>Units</u>	<u>Amount</u>	<u>Term of loan</u>	<u>Yearly interest rate %</u>
Beijing Longhaiyuan Development Co., Ltd.	700,000	Jun.30,2003-Jun.29,2006	5.496
Beijing Zhongwu Ideal Real Estate Development Co., Ltd.	658,000	Dec.15,2004-Dec.29,2014	From 5.856 to 6.120
Guangdong Yuelong Power Generation Co., Ltd.	600,000	Dec.13,2002-Sep.6,2014	From 4.776 to 5.472
Hunan Hualing Steel Group Co., Ltd.	600,000	Jun.30,2002-Dec.27,2005	From 5.028 to 5.796
Nanjing City Construction Investment Holding (Group) Co., Ltd.	<u>558,000</u>	Jun.5,2004-Dec.29,2005	From 5.316 to 5.580
<u>Total</u>	<u>7,666,000</u>		

(2) Top ten loan borrowers by Dec.31, 2003

<u>Units</u>	<u>Amount</u>	<u>Term of loan</u>	<u>Yearly interest rate %</u>
Beijing Hengxin Pioneer Real Estate Development Co., Ltd.	1,040,000	Feb.12,2002-Dec.13,2006	6.138
China Telecom (Fujian)	755,000	Sep.9,2003-Jun.7,2004	4.536
Fuzhou Luochang Expressway Co., Ltd.	750,000	Jun.16,2000-Feb.4,2010	5.184
China Unicom (Fujian)	730,000	Jan.21,2001-Sep.29,2004	From 4.79 to 5.49
Jiangsu Electric Power Company	600,000	May 7,2003-Apr.7,2008	5.76
Yankuang Group Co., Ltd.	590,000	Sep.28,2002-Sep.27,2005	5.215
Huaxin Investment (Group) Co., Ltd.	512,494	Dec.13,2002-May 21,2004	From 5.31 to 7.56
Hangzhou Xiaoshan Land Reserve Center	500,000	Mar.10,2003-Mar.10,2004	5.0439
Jiaying Zhajiasu Expressway Co., Ltd.	500,000	Jul.30,2002-Sep.5,2007	From 5.022 to 5.184
Jiangsu Beijing-Shanghai Expressway Co., Ltd.	<u>500,000</u>	Apr.19,2002-Apr.18,2012	5.76

Total 6,477,494

#### 4. Deposits in different areas

<u>Areas</u>	<u>Dec.31,2004</u>		<u>Dec.31,2003</u>	
	<u>Amount</u>	<u>Percentage%</u>	<u>Amount</u>	<u>Percentage%</u>
Fujian province	57,812,133	20.41	47,659,148	22.95
Guangdong province	48,171,356	17.01	37,992,065	18.30
Shanghai	44,934,978	15.87	32,434,232	15.62
Zhejiang province	33,380,215	11.79	23,338,458	11.24
Beijing	29,506,225	10.42	25,280,558	12.17
<u>Other areas in China</u>	<u>69,381,604</u>	<u>24.50</u>	<u>40,945,657</u>	<u>19.72</u>
<u>Total</u>	<u>283,186,511</u>	<u>100.00</u>	<u>207,650,118</u>	<u>100.00</u>

Note: The deposits include short-term deposit, short-term savings deposit, long-term deposit, long-term savings deposit, financial deposit, outward remittance deposit, inward remittance and temporary deposit, short-term guarantee deposit, long-term guarantee deposit.

**VII. Assets and liabilities represented by liquidity distribution**

<u>Assets:</u>	<u>overdue</u>	<u>due on demand</u>	<u>within 3 months</u>	<u>3 months-1 year</u>	<u>1-5 years</u>	<u>over 5 years</u>	<u>total</u>
Cash on hand and in bank	-	957,304	-	-	-	-	957,304
Due from the central bank and other financial institutions	32,203	58,674,659	1,711,884	1,445,154	945,693	231,701	63,041,294
Placement with bank and other financial institutions	215,689	-	2,366,784	-	-	-	2,582,473
Reverse repurchase agreements	-	-	9,948,901	5,034,065	-	-	14,982,966
Loans(net)	2,649,075	-	40,496,986	110,492,300	24,608,520	21,482,229	199,729,110
Investments	-	-	2,971,341	15,475,139	18,792,034	14,238,554	51,477,068
Other assets	-	101,054	2,078,004	1,229,413	842,056	3,501,167	7,751,694
<b>Total assets</b>	<b><u>2,896,967</u></b>	<b><u>59,733,017</u></b>	<b><u>59,573,900</u></b>	<b><u>133,676,071</u></b>	<b><u>45,188,303</u></b>	<b><u>39,453,651</u></b>	<b><u>340,521,909</u></b>
<b><u>Liabilities :</u></b>							
Due to the central bank	-	-	-	-	-	-	-
Due to banks and other financial institutions	-	29,123,761	415,419	707,500	272,550	430,000	30,949,230
Inter-bank and other financial institutions borrowings	-	-	903,503	-	-	-	903,503
Repurchase agreements	-	-	4,601,510	170,000	-	-	4,771,510
Deposits	-	162,931,142	39,078,572	45,533,960	32,121,701	3,521,136	283,186,510
The subordinated bonds	-	-	-	-	3,000,000	3,000,000	6,000,000
Other liabilities	-	1,233,301	2,500,552	410,232	89,966	9,862	4,243,913
<b>Total liabilities</b>	<b><u>-</u></b>	<b><u>193,288,204</u></b>	<b><u>47,499,556</u></b>	<b><u>46,821,692</u></b>	<b><u>35,484,217</u></b>	<b><u>6,960,998</u></b>	<b><u>330,054,666</u></b>
<b>Net exposure</b>	<b><u>2,896,967</u></b>	<b><u>-133,555,187</u></b>	<b><u>12,074,344</u></b>	<b><u>86,854,379</u></b>	<b><u>9,704,086</u></b>	<b><u>32,492,653</u></b>	<b><u>10,467,243</u></b>

Note:Loans(net)=total loans+Import & export advance and negotiation+Discounted bills-provision for bad loans

**VIII. Assets and liabilities represented by original currencies**

2004-12-31

<u>Item</u>	<u>RMB</u>	<u>USD ( RMB equivalent )</u>	<u>Others (RMB equivalent)</u>	<u>Total</u>
<b>Assets:</b>				
Cash on hand and in bank	676,003	146,017	135,284	957,304
Due from the central bank and other financial institutions	58,325,379	3,045,408	1,670,507	63,041,294
Placement with bank and other financial institutions	1,535,678	996,986	49,809	2,582,473
Reverse repurchase agreements	14,850,685	132,281	-	14,982,966
Loans(net)	194,999,313	4,025,964	703,831	199,729,108
Investments	46,750,139	4,684,826	42,103	51,477,068
Other assets	7,666,239	64,480	20,977	7,751,696
<b>Total assets</b>	<b><u>324,803,436</u></b>	<b><u>13,095,962</u></b>	<b><u>2,622,511</u></b>	<b><u>340,521,909</u></b>
<b><u>Liabilities :</u></b>				
Due to the central bank	-	-	-	-
Due to banks and other financial institutions	200,000	703,503	-	903,503
Inter-bank and other financial institutions borrowings	28,191,730	2,330,104	427,395	30,949,229
Repurchase agreements	4,771,510	-	-	4,771,510
Deposits	274,090,057	7,586,497	1,509,957	283,186,511
The subordinated bonds	6,000,000	-	-	6,000,000
Other liabilities	4,060,926	172,749	10,238	4,243,913
<b>Total liabilities</b>	<b><u>317,314,223</u></b>	<b><u>10,792,853</u></b>	<b><u>1,947,590</u></b>	<b><u>330,054,666</u></b>
<b>Net exposure</b>	<b><u>7,489,213</u></b>	<b><u>2,303,109</u></b>	<b><u>674,921</u></b>	<b><u>10,467,243</u></b>

Note:Loans(net)=total loans+Import & export advance and negotiation+Discounted bills-provision for bad loans

### IX. Interest rate risk analysis

On the date of the balance sheet, the Company's yearly interest rates of loan and deposit in RMB are as follows: Unit:%

<u>Client business</u>	<u>From Oct.29,2004</u>	<u>Jan.1,2004</u> <u>-Oct.28,2004</u>	<u>2003</u>
Short-term loan and advances to be repaid	5.22-5.58	5.04-5.31	5.04-5.31
Long and medium-term loan	5.76-6.12	5.49-5.76	5.49-5.76
Overdue loan	The fine interest rate is 30-50% higher over the loan interest rate specified in the loan contract.		The fine interest rate is 2.1/10,000 per day
Private current deposit and current deposit of units	0.72	0.72	0.72
Private fixed deposit and fixed deposit of units	1.71-3.60	1.71-2.79	1.71-2.79
Deposit of unit at call (with a term of 1 or 7 days)	1.08-1.62	1.08-1.62	1.08-1.62
Contract deposit of units	1.44	1.44	1.44
<u>With central bank</u>	<u>From Mar.25,2004</u>	<u>Dec.21,2003</u> <u>-Mar.24,2004</u>	<u>Jan.1,2003</u> <u>-Dec.20,2003</u>
Reserve deposit	1.89	1.89	1.89
Excess reserve deposit	1.62	1.62	1.89
Rediscount	3.24	2.97	2.97

According to the stipulations of the People's Bank of China, from Oct. 29 of 2004 the loan interest of financial institutions is not subject to upper limits, and the lower limit of loan interest rate is 0.9 time of the benchmark interest rate. The regulations allow the decline of deposit interest rates but within the range of fluctuations according to different benchmark deposit interest rates. The deposit interest rate, however, is not to be increased.

The discount interest rate shall not exceed the loan interest rate (floating loan interest rate inclusive) of the corresponding period on the basis of the rediscount interest rate of the People's Bank of China.

The inter-bank placement and borrowings interest rate shall be decided with mutual

consultation in light of capital supply and demand in the market.

## X. Post Balance Sheet Date Events

On January 24, 2005, the Company started a lawsuit to the People's High Court of Guangdong Province against Shenzhen Airport Co. Ltd for disputes in lending contract. The Company required the Court to discharge the lending contract with Shenzhen Airport Co. Ltd, and sentence Shenzhen Airport to refund the principal RMB 225 million as well as the interest and penalty interest. Currently, the People's High Court of Guangzhou Province had accepted this case, but had not held an oral hearing.

## XI. Contingencies

By Dec.31 of 2004, the Company has deposits in the plaintiffs of 14 unjudged loan dispute lawsuits involving target money of over RMB 10 million each, with the target money totaling RMB 408.405 million. The Company has deposits in the defenders of 2 unjudged lawsuits involving total target money of RMB 20.6954 million. As for the deposits in the defenders of unjudged lawsuits, the Company holds that it will not suffer major losses resulting from the unjudged lawsuits and therefore the loss provisions are not included in the financial statement.

## XII. Loan, expense and lease commitment

### 1. Loan commitment

By Dec. 31, 2004, the balance of irrevocable loan commitments of the Company totals RMB 559,404 thousand, which is within the credit limit. The credit card business of the Company started from July of 2004.

### 2. Capital expense commitment

<u>Items</u>	<u>Dec.31,2004</u>	<u>Dec.31,2003</u>
Ratified but not signed	102,180	-
Signed but not appropriated	6,829	41,119

With the examination and approval of the executive committee of board of directors in

August of 2004, the Company approved the premises purchase of Ningbo branch in the document [XY (2004) F No. 288], with the purchase limit of RMB 107,180 thousand. The premises of Ningbo branch, which is under construction, is developed by Ningbo Pacific Real Estate Company. Ningbo branch has signed letters of intent with and paid earnest money of RMB 5,000 thousand to the contractor.

### 3. Lease commitment

By Dec. 31 of 2004, the lowest rent payable of the Company according to the irrevocable house lease agreements in the following terms is:

<u>Term</u>	<u>Dec.31,2004</u>	<u>Dec.31,2003</u>
Within 1 year	185,478	165,649
1 to 5 years	419,129	397,121
<u>Over 5 years</u>	<u>120,939</u>	<u>123,424</u>
<u>Total</u>	<u>725,546</u>	<u>686,194</u>

## XIII. Off-balance sheet operations

The Company has opened special chart of account, namely off-balance sheet account, to calculate the related business and release the account concerned so that the different operations of the Company can be accurately and completely recorded.

### 1. Off-balance sheet operations fall into two categories in terms of risk

(1) Risk-free off-balance sheet operations, which mainly include account settlement and agency services (factoring and assignment of receivables and payments, sales services for insurance, issuing financial debentures, and issuing, funding and underwriting government bonds)

(2) Off-balance sheet operations with contingent risks, which mainly include derivative financial instruments, guarantee for the liquidation capacity of clients, and operations involving risks of contract violation of clients (including various letters of

guarantee, L/C and bank acceptance drafts).

A. Nominal value of derivative financial instruments

<u>Categories</u>	<u>Dec.31,2004</u>	<u>Dec.31,2003</u>
Currency forward contracts	1,292,607	1,320,780
Derivative financial instruments-interest rate	1,340,043	872,025
Derivative financial instruments-credit contracts	<u>413,825</u>	<u>-</u>
<u>Total</u>	<u>3,046,475</u>	<u>2,192,805</u>

On the basis that the interest and exchange rates have been taken into account in the financial report settlement date, the Company management estimated that the derivative financial instruments have limited fair value.

B. Different bank letters of guarantee, L/C and bank acceptance drafts

<u>Items</u>	<u>Dec.31,2004</u>	<u>Dec.31,2003</u>
Letters of guarantee	3,013,569	2,335,466
L/C	5,229,449	5,362,490
Bank acceptance drafts	58,659,623	42,232,307

2. Contingent income

The contingent income of the Company mainly includes overdue interest, which refers to the interest receivable yet not received. The contingent income is identified and calculated according to the Circular on Shortening Interest Receivable Accounting Period of Financial Businesses [CJ (2002) No. 5] promulgated by the Ministry of Finance. The loan interest receivable overdue for less than 90 days (inclusive) from the interest expiry date is included in the current gains and losses. The loan interest receivable overdue for over 90 days (inclusive), no matter the principal of the loan is overdue or not, is not included in the current gains and losses but accounted off the balance sheet. It will be included in the gains and losses when received. As for the interest receivable included in the gains and losses, it is deducted from the interest income when the loan principal or interest receivable is overdue for over 90 days (exclusive). The balance of overdue interest off balance sheet is as follows.

<u>Category</u>	<u>Dec.31,2004</u>	<u>Dec.31,2003</u>
Off-balance sheet interest receivable	1,644,970	1,518,396

#### **XIV. Other Material Events**

##### 1.Introduction of foreign strategic investors

Pursuant to the resolution passed by General Shareholder Meeting on January 15, 2004, and with the approval of CBRC with the document YJF [2004] No.35, the Company issued RMB 999 million worth of new shares to three foreign strategic investors, namely, Hang Seng Bank Limited, Tetrad Ventures Pte Ltd and International Finance Corporation, representing 24.98% of the total shares after the issuance.

##### 2.Acquisition of Foshan City Commercial Bank

Pursuant to the resolution passed by the Board of Directors on June 28, 2004, the Company was approved to acquire Foshan City Commercial Bank. On August 30, 2004, the Company signed the “Acquisition Agreement” with State-owned Assets Supervision and Administration Commission of Foshan Municipal Government and Foshan City Commercial Bank. It was stipulated in the Agreement that: the Company acquired part of Foshan City Commercial Bank’s assets and liabilities at the total price of RMB 430 million. Before the acquisition, all non-performing assets and losses should be stripped off in accordance with the auditing result. The stripped-off non-performing assets and losses should be made up jointly with the acquisition capital from the Company and the capital from Foshan Municipal Government. RMB 18 million of the acquisition capital should be used to compensate the dismissed original natural person shareholders of Foshan City Commercial Bank, and the rest RMB 12 million should be used for the disposal of dismissed employees. For proceeds exceeding the above-mentioned amount, as well as the capital used to compensate legal person shareholders and institutional shareholders, it should be shouldered by Foshan Municipal Government. With the document “YJBF [2004] No.260”, CBRC General Office approved the Company to acquire Foshan City Commercial Bank and to set up its Foshan Branch. On December 6, 2004, the Company’s

Foshan Branch was officially opened.

### 3. Issuance of subordinated bonds

Pursuant to the resolution passed by the General Shareholders Meeting on November 19, 2004, and upon the approval of People's Bank of China with the document YF[2004] No.84, and CBRC with the document YJF[2004] No.209, the Company issued RMB 3 billion worth of subordinated bonds in national inter-bank bond market within five workdays (from December 23, 2004 to December 29, 2004), underwritten by a group in the form of private placement.

### 4. Preparation for founding new branches

According to the Company's branch development plan for 2005, the Company planned to found new branches in Taiyuan and Kunming, and relevant application procedures were in process.

### 5. Appropriation and distribution of accumulated retained earnings

Pursuant to the resolution passed by the General Shareholders Meeting on November 19, 2004, if the Company successfully launches its Initial Public Offering in 2005, the accumulated retained earnings after distribution of 2004 and the net profits of 2005 will be shared jointly by new and old shareholders.

## ASSESSMENT REPORT ON INTERNAL CONTROL

FJHXCPA(2005)AUDITG-033

To the Board of directors of Industrial Bank Co., Ltd. :

We were entrusted to make assessment on the completeness, rationality and effectiveness of the internal control and risk control systems of Industrial Bank Co., Ltd. (Hereinafter referred to as “the Company”). It is the Company’s responsibilities to keep its internal control and risk control systems complete, rational and effective. And our responsibilities is to examine the planning and execution on the Company’s key aspects of internal control and the major business operation procedures through inquiry, examination, inspection, testing and other measures we think necessary and express an opinion based on the Independent auditing standards of Chinese Certified Public Accountants and Information Publicity Regulation of Securities Company No.18-Special Stipulation on Information Disclosure of Commercial Banks. We believe that our examination provides a reasonable basis for our opinion.

Internal control has its inherent limit, so there exists the possibility of the mistakes and fraud occurred but not be detected. Furthermore, because of the variety and changing of the conditions, internal control may be not suitable or the control policy and control procedure can not be properly executed. So it is risky to presume the validity of the future internal control just based on the current internal control.

Based on our analysis and evaluation of the company’s internal control, we have not detected any material weakness and mistakes on the completeness, rationality and effectiveness of the Company’s internal control and risk control systems.

We bring forth some suggestions on how to optimize the internal control of the company as follows:

### 1. About management on credit business

The credit loan risk control is the nuclear of risk control of commercial banks. A complete credit loan risk control system must ensure the safety, mobility and profitability of credit loans so that it can support the healthy and sustainable overall operation of the bank. We suggest that the Company further improve the credit loan management and the warning mechanism.

### 2. About management of electronic information system

The Company shall give full play to the advantages of electronic information system, which is efficient, control-effective and accurate. Based on the existing overall operation system, a electronic information platform, which is an integration of all its sub-systems, shall be established to meet the demands on the management of credit loan, accounting and auditing ect..

### 3. About internal auditing management

The internal auditing system of the Company basically meets the requirements of examination and feedback on the execution of the internal control system. But we suggest that the internal auditing of the Company shall develop from static examination to dynamic risk control management, and from traditional internal control assessment and assets preservation to the functions of investigation, analysis, comparison, assessment and consultancy. This is intended to help the management achieve overall goals of the Company to meet the increasingly severe market competition as well as the challenges of rapid developing financial innovations and information safety.

This report is only used by the management, Board of Directors of the company, and to the supervision of China Securities Regulatory Commission.

( This report is subjected to the Chinese version. )



(signature) 

**Certified Public Accountant:**

(signature) 

**Certified Public Accountant:**

**March 20, 2005**

## **A Statement to the Completeness, Rationality and Effectiveness of Internal Control and Risk Management System**

In accordance with the requirements of the Guidance of Internal Control for Commercial Banks, commercial banks should establish and improve their internal control to prevent from financial risks to safeguard the steady operation of banking sector. Based on the strategy of “Establishing a first Class Bank with Outstanding Reputations”, the Bank insisted on the principles of “Completeness, Prudence, Effectiveness, Independence in all respects” to improve its internal control concerning credit facility, money trading, fee business, accounting, computer information system control, etc. to standardize its operation so that operational risk would be under control, so that all business would get a rapid, safe and steady development in compliance with laws and regulations. In a word, the Bank had established a clear and effective internal control mechanism, and its requirements on internal control were implemented in all key links. The following nine points would explain the completeness, rationality and effectiveness of the internal control of the Bank:

### **I. Internal Control Environment**

#### **1. A scientific Corporate Governance established**

The core of the corporate governance of the Bank was General Shareholders Meeting, Board of Directors and Board of Supervisors with clear rights and responsibilities, check and balance, effective accountability. The Bank introduced independent directors and external supervisors to improve the composition of Board of Directors and Board of Supervisor to improve corporate governance in accordance with the requirements of “A Guidance for Independent Directors and External Supervisors for Joint Stock Commercial Banks” and “A Guidance of Corporate Governance for Joint Stock Commercial Banks” (Document NO. 15, 2002) issued by PBOC.

The General Shareholders Meeting is the supreme power organ. It exercises risk control power by electing and changing directors and supervisors, amending Articles of Association, discussing the reports of Board of Directors and Board of Supervisors and other material financial issues. Board of Directors is responsible for material decision-making and approval of annual operation targets of the Bank, for oversight of the effectiveness and completeness of the internal control. The President has a legitimate right towards the operation and management of the Bank’s assets to ensure that the assets value would be protected and added under the leadership of the Board of Directors. Board of Supervisors is a supervising organ which oversees the operation and management of the Bank, the activities of directors and senior management. The decision making system of the Board of Directors, the executive system under the leadership of the President and the Supervising system under Board of Supervisors performed their duties respectively which formed a check and balance mechanism with a clear separation of duties and responsibilities.

The Bank formulated the Rules for Evaluating Internal Control and established an Internal

Control Committee with a Vice President of the Bank as chairperson. The members of the Committee consisted of heads of the following departments: Executive Office, Planning & Financial Dept, Research & Programming Dept, Audit Dept, Risk Management Dept, Credit Review Dept, Accounting & Settlement Dept, Security Dept and Information & Technology Dept. The Committee met each quarter and it might meet in case of need. Its main responsibilities were to review, approve and implement the concrete measures concerning BOD's risk management policies; to examine recommendations submitted by relevant departments in relation to risk management; to examine and approve rules and regulations concerning internal control; to examine the audit procedures, annual plan, credit delegation program, etc.

In order to establish a risk management structure to meet regulatory requirements, the BOD had a sub-committee, the Risk Management Committee, to be responsible for drawing, adjusting strategies, policies and targets of risk management for the purpose of sustained and healthy development; it is also responsible for oversight of the senior management in the risk control concerning credit, market and operations to assess risk status of the Bank periodically; it is responsible for evaluation of the workflow and outcome of risk management department of the Bank and to provide recommendations for the Bank to improve risk management and internal control to safeguard risk control to realize the business strategy.

### **2. A scientific modern corporate organization system has been formed.**

The Bank clearly clarified the terms of reference of the head office and branches, various departments, different jobs and units based on the principles of "Separate Jobs Cooperation, Check and Balance, Powers combined with Responsibility, Concise and High Efficiency" following the requirements of the Guidance of Internal Control for Commercial Bank. The Audit Department, Risk Management Department, Supervision Department are granted absolute independence and authority to deal with their business. Any important issues involved the changes of asset, liability, finance and human resources should not be decided by one person. By so doing, a basic risk control and check and balance mechanism has been formed in different departments and operation units with different functions.

The Bank has formulated the Rules and Regulations for Preparation to Build a New Branch, Rules and Regulations for *Check and Acceptance of New Branches*, *A Guidance for Management of the Guidance and Assistance Period for New Branches*. These rules and regulations would provide helps and standard management for new branches in drawing up rules and regulations, staff training, check and acceptance, guidance and assistance to ensure that the staff of new branches understand the requirements of the Bank and possess basic abilities for operation and management.

### **3. A rational staff management system has been formed.**

The Bank pursued talents and carried out the strategy of experts operation and management. It formulated the Rules for Staff Management, Rules for Employment and Appointment of Bank Officials. Therefore, a rather completed human resource management system has been established in respect of job setting, staff employment, official appointment, promotion and dismissal, annual evaluation and remuneration. The Bank established information records for all staff and carried out yearly assessment and duly job adjustment. In addition, the Bank also provided quality education, business training and performance evaluation for the staff to improve their competence and abilities, to standardize their behaviors. As a result, an employment environment with openness, fairness, competitiveness has been formed within the

Bank with a management system for employment, dismissal, promotion and demotion established.

## **II. Internal Control concerning Credit Facility Granting**

### **1. A prudent delegation and credit facility granting approval system**

In respect of delegation system, the Bank formulated the Interim Regulations for Business delegation. When the Bank conducted delegations to its branches, it followed the principles of “Limited Delegation, Differentiated Authorization, Timely Adjustment and Combining Rights with Responsibilities”. Based on branches classification, the Bank granted different delegations to different branches according to their business development and risk control ability, regional economic and financial status and regional financial risk degree. Besides, the Bank carried out dual controls towards risk exposure and lower risk business in its delegation. In relation to risk exposure control, the Bank set credit limit for individual clients, meanwhile, it brought affiliated clients and pledges accepted into the client’s risk exposure in calculation of delegation. In addition, the Bank granted different delegations towards inter-bank and financial institutions customers, corporate customers and personal clients.

In respect of customer’s credit facility granting, the Bank followed the principles of “Centralized Credit Facility Granting, Differentiation between Clients, Ceiling Credit, Rational Decision and Duly Adjustment ” in accordance with the requirements of the Regulations for Credit Facility Granting Management, Regulations for Risk Management of Credit Facility Granting to Group Clients, and A Guidance to the Operations of Credit Facility Granting to Group Clients. In the process of credit facility granting, credit fund safety is the top criterion. All operating units should assess client’s repayment ability and risk implication before ratifying credit facility to clients rationally according to their operation and management ability, assets and liabilities, operating cash flow, credibility and market environment. At the meantime, all operating units were required to bring different currencies, different types of credit business of the group clients or clients with the same legal person into an integrated credit line to have a unified control towards client’s risk and adjusted accordingly depending on market environment changes and the changes of client’s operation and credibility.

The Bank enacted the Regulations for Management of Related Party Transaction Between IB and Insiders and Shareholders, and Detailed Implementation Rules for Management of Related Party Transaction Between IB and Insiders and Shareholders in accordance with the Regulations for Management of Related Party Transaction Between Commercial Bank and Insiders and Shareholders issued by CBRC. The Bank set out different delegations for different persons and different units to approve different types and sizes of related party transactions to improve its management towards related party transactions and control the risk of related party transactions.

In relation to due diligence in the links of credit facility granting, the Bank enacted Regulations for Investigation Before Granting Credit Facility to Corporate Customer, Regulations for Due Diligence in Review of Credit Facility for Corporate Customer, Regulations for Due Diligence in Approval Decision Making for Credit Facility for Corporate Customer, Regulations for Due Diligence in Verification before Granting Loan to Corporate Customer, Regulations for Due Diligence After Credit Facility Granted. All these rules and regulations further improved all links including investigations before credit facility granting,

review, approval decision-making, verification before granting loans, and management after facility granted. They helped to define all jobs responsibilities and led to cooperation, check and balance mechanism.

In respect of the decision-making for credit facility granting, the Bank implemented the following policies: separating credit review from loans granting, credit transactions must be approved at different levels, group decision making and responsibility defined clearly. There were two levels involved in credit facility review and approval: the head office and branch. On the head office level, the Credit Facility Approval Department, Credit Approval Committee and other authorized persons were granted different limits of delegation. For those transactions submitted to the head office, they should be reviewed by Credit Facility Approval Department first, and then submitted to authorized persons for approval. On the branch level, all credit transactions should be centralized to the branch level for review and then submitted to authorized persons for approval except those transactions already approved, lower risk transactions and retail transactions delegated to the operating units. All branches established a Loan Granting Center responsible for verification of the legitimacy, completeness and effectiveness of loan granting conditions, legal documents, guarantee procedures. Loans should not be delivered until they were verified and agreed by the Center.

## **2. A clear guidance for credit facility granting**

The Bank issued guidance for loans granting periodically. It defined different sectors, regions, clients and assets. It also made clear what should be focused, fostered, involved prudently, restricted and prevented. The guidance told operating units what to do and not to do, it also led operating units to plan jointly so as to take into consideration of every aspect to distribute and utilize resources reasonably. The Bank paid great attention to the national macro control policies and formulated policy guidance accordingly. For example, in accordance with the state macro control of certain sectors, the Bank enacted A Guidance for Loans to Electrolyzed Aluminum Sector, A Guidance for Loans to Cement Sector, A Guidance for Loans Based on Government Credibility, A Guidance for Loans to Development Zone successively which made clear the criteria for loans granting and improved its control and guidance towards operating units.

## **3. A system of risk identification, monitoring and pre-warning has been established which suited business development**

The Bank formulated Implementing Regulations for Risk Classifications of Credit Assets, Risk Classifications Criteria for Guarantee Credit Transactions Off Balance Sheet, and Risk Classifications Criteria for Personal Credit Assets, to separate risk classifications from identification and double check procedures to seek for accuracy and efficiency in identifying risks in credit assets. The Bank carried out real time monitoring to all risk index depending on its Credit Management Information System. In the meantime, the Bank also enacted Regulations for Credit Risk Pre-warning and Disposal, and released risk disclosure and risk pre-warning announcement in relation to related customers, and directed operating units to exit from sectors and customers with material risks.

## **4. Risk resolution, operation and management of non-performing assets (NPA) improved**

The Bank enacted Regulations for Management of Non-performing Credit Assets (NPCA), Interim Regulations for Management of the Offset Debt Assets (ODA) successively and established a management system for NPA and ODA. Learning from the experiences of its

domestic and international peers, the Bank issued A Guidance for Professional Operations of NPCA to reform the operation system of NPA and ODA. On the branch level, there was a Special Asset Operation Department responsible for professional operation of special assets including NPA and ODA, independent from operating units, reported directly to branch management, provided with specific duty staff, and implemented independent accounting. The Department focused on the recovery, safety, offset debt with other asset, disposal resolution and operation for NPA and other special assets. It separated from business operating units and developed towards a professional and intensive operation and management for NPA.

### **III. Internal Control of Fund Business**

The Bank managed its RMB and FX fund business with strict delegation and facility, defined relevant job description clearly so as to check and monitor effectively with risk monitoring system established.

The fund business of the Bank followed the principles of “Limited Delegation, Differentiated Authorization, Timely Adjustment and Combining Rights with Responsibilities” and set up targets for evaluation of performance of the fund operating units and made duly adjustment to the delegation according to the outcome of the evaluation. These helped to improve its internal delegation management mechanism. The delegator of the fund business is the head office while the delegatee is fund business function department or branches. The delegatees should conduct their business within the scope of delegation. They were not allowed to go beyond their delegation.

There was a cooperation, check and balance mechanism existing between departments, jobs, and workflows based on the Regulations of Fund Business Management with defined responsibility and rational delegation. The head office would have inspections and supervisions to fund delegation implementation and business performance of its branches and Financial Markets.

The Bank had convened the Asset and Liability Committee meetings regularly to discuss policies for fund distributions and decide for direction and targets of investment. The Planning & Financial Department was responsible for fund distribution program in accordance with the targets set by the Asset and Liability Committee. Inside the Planning & Financial Department, there was a treasurer, responsible for fund overall arrangement, routine money supply and financing. The fund trading departments were responsible for RMB and FX operation; the Risk Management Department exercised risk supervising function to fund business; and the Accounting and Settlement Department was responsible for monitoring the operational risks of fund business and providing back office settlement and accounting support; and the Audit Department was responsible for inspection and evaluation.

### **IV. Internal Control for Fee Business**

All kinds of fee business conducted by the Bank were controlled within the business scope approved by CBRC and reported to relevant regulators in accordance with requirements of the Interim Rules for Fee Business of Commercial Bank and got the approval of the regulators.

The Bank could control its operational risks in relation to its traditional fee business, for example, the Bank had risk control models for review of bills of payment and settlement, approval of FX trading and accounting records, and management of agency business. All business conducted by the Bank were equipped by relevant rules and regulations and detailed operating manuals following the principle of “rules and regulations were the top priority” to

define the responsibilities of all jobs, to standardize the operation in key links including fund settlement, account checking, adjustment for error of account. The Bank also implemented strict control to the delegation granted to traders to keep from operational risks and internal management risks. The Bank defined clearly its relationship with its partners, other banks and clients to control legal risks to safeguard the fund of the Bank and its clients.

## **V. Internal Control of Liquidity Risk**

The Bank formulated the Interim Regulations for Liquidity Risk Management, Interim Rules for Liquidity Emergency Program Management, Interim Rules for Internal Fund Management, Rules for FX Money Supply Forecast and Payment Management successively with a liquidity risk management model established: to manage liquidity risk at different levels with real time monitoring and duly adjustment under the leadership of the Asset & Liability Management Committee.

The Asset & Liability Management Committee, a top decision-making organ, in charge of management of asset and liability ratio and liquidity risks under the leadership of the President, made policies and measures for liquidity risk management, asset and liability ratio management in accordance with external macro economic situation, the business development and operation leading of the Bank. The Committee should meet monthly to analyze the changes of fund operation, asset and liability structures, and made recommendations to the material policies in relation to market risks and liquidity risks. In the meantime, the Committee would work out countermeasures to solve the existing problems to improve the asset and liability quality and structure to realize a harmonious development concerning liquidity, safety and profitability based on guidance to internal fund pricing and supervision to a series of ratio management targets. The Planning & Financial Department was responsible for monitoring and controlling the key liquidity ratios, and made improvement accordingly to its asset and liability management policies and adjusted its fund operating strategies timely in accordance with the ratio changes or when the ratios came close or beyond the warning points to keep the liquidity ratios within a rational level; and the Financial Markets of the Bank was responsible for arrangement of long-term investment and short-term fund operation and co-operated with the Planning & Financial Department to jointly work out liquidity emergency program to enlarge financing channels to safeguard the liquidity of the Bank.

## **VI. Internal Control for Accounting**

The Accounting work was the groundwork of the Bank. The Bank implemented “Unified Leadership and Managed at Different Levels” towards accounting work. The Accounting & Settlement Department was responsible for management and control of the accounting work. The Bank followed the principle of standardization and focused on internal control to meet the needs of business development. The Bank worked out Ranking Management Rules for Accounting Groundwork, Basic Regulations for Accountants, Regulations for Cashiers, Regulations for Investigation of Accountant’s Responsibility, Reporting Regulations for Material and Extraordinary Events of Accounting & Settlement, Key Points for Internal Accounting Control, Regulations for Separation of Accounting Terms of Reference, Regulations for Tellers of RMB & FX Core Computer System, Regulations for Accounting

Stamps, Regulations for Valuable Paper, Blank Account Book, Documentations and Forms, A Manual for Unified Business Accounting, A Manual for RMB & FX Core Computer System successively. So the Bank established a strict accounting control system based on the prerequisite of implementing unified accounting system and manual to improve the accounting internal control system including clarification of terms of reference, post supervision, inspection, guidance and assistance, accounting groundwork, ranking management, and responsibility investigation as well to prevent from accounting risks, details as follow:

#### **1. Independence of accounting work established**

The Bank set up an independent Accounting & Settlement Department responsible for the management and control of accounting. The Department was absolutely independent. No one is allowed to incite, hint, urge and force the Department and its accountants to deal with accounting business illegally or against regulations. The Department and its accountants are authorized to reject any illegal and wrongful accounting business.

#### **2. Check and balance among accounting posts improved**

The accounting posts of the Bank were set up in accordance with the principle of “separation of responsibility, check and balance”. No one is allowed to hold posts concurrently that would create conflicts. The terms of reference for the Department and accountants were well defined. The accounting departments and accountants at all levels should conduct their accounting work following their terms of reference. If any work went beyond their terms of reference, they should not execute it unless authorized accordingly. The Bank also defined clearly for management of goods safekeeping in relation to either entry or out of the treasury and improved the management of cashiers.

#### **3. A strict accounting control for deposit and counter business**

The Bank had a strict, meticulous and effective control to deposit and counter business. First, the control covered the entire workflow and all operating links including account management, cash receipt and payment, fund transference, loss report, change of password, stamp management, test key management, management of key blank documents and valuable documents as well as account monitoring, etc. with detailed regulations, strict operating requirements and effective risk preventing measures. Secondly, the Bank had separated the terms of reference for each teller based on the RMB & FX Core Computer System and the teller’s operation was under strict control, that is, to separate tellers into junior teller, senior teller and chief teller. All tellers were granted with different types and sizes of transaction dealing limits. Special and large amount transactions were under pre-control and also controlled in the course of dealing. Thirdly, the functions of post supervision for accounting work were improved. The Bank had realized a separation of supervision with transactions dealing in relation to time and space and staff and carried out the rules of compulsory holidays and jobs rotation and strengthened its management and control towards key departments and key jobs.

#### **4. A mechanism of accounting supervision and errors investigation established**

First, the Bank implemented supervision to the whole course of accounting and had verification and management on the accounting data and transactions based on RMB & FX Core Computer System to ensure the truth, completeness and legality of the accounting information, and ensure that its account book information would be in compliance with that of ledgers, evidences, proceeds, material objects, financial statements and off balance sheet information. It is strictly forbidden to have different account books or to indiscriminate the

account headings or to work out and report false accounting data and information. Secondly, material and extraordinary events reporting system had been established. All units were required to work out a practical emergence program to prevent from the operational risk of accounting and settlement effectively, to encounter emergencies of accounting and settlement, to reduce and avoid economic loss to the greatest extent. Thirdly, if any accounting errors detected, the operating units should make relevant correction in accordance with authorization limits or report to its upper levels for disposal, and investigate into the responsibilities of relevant persons. For those material accounting errors, fraudulences and illegal cases, the head of the operating unit and the head of accounting should bear the responsibilities arising therefrom apart from investigation to those people responsible.

#### **5. To improve management to accountants**

On one hand, the Bank strengthened its management to the qualification of accountants, it required that all people engaged on accounting should obtain relevant qualification certificate and set up independent records for junior, senior and chief accountants; on the other hand, the Bank made efforts to keep the stability of accountants, the appointment of chief accountants should obtain the approval of its upper function department. Whenever the chief accountants were redeployed or dismissed, they should go through the procedures of handing over and taking over.

In addition, the Bank also worked out the Regulations for Management of Accounting Records to manage accounting records and looking up formalities properly to ensure their truth and completeness. The printing, manufacture, delivery and destruction of accounting documents, books, forms and stamps were under strict control.

### **VII. Internal Control of Computer Information System**

Computer information system is an important part of the internal control of the Bank. It is the Information & Technology Department that is responsible for the development program and risk control of the whole bank's computer information system. The Bank worked out the Rules for Management of the Control Room of the Computer Operating Center, Regulations for Computer Safety Event Reporting, Regulations for Management of the Password Confidential Key of the Head Office Producing System, Regulations for Management of Computer Virus Prevention, Regulations for Management of the application and maintain of the Producing System, Job Descriptions for the Computer Operating Center, Regulations for Management of Password and Information System Users, Regulations for Information Safety Inspection, Regulations for Management of Producing System Data and Regulations for Management of Data Modification, etc. successively. The Bank Improved its Management to the information system operating to ensure its safety operation based on the following work:

#### **1. Defining the terms of reference to realize a check and balance mechanism**

There are three centers under the Information & Technology Department including Management Center, Research & Development Center and Operating Center. The Management Center is responsible for control to the software research and development and quality conducted by Research & Development Center, for supervision of the Operating Center. There is a mechanism of separate terms of reference, cooperation, check and balance existing among the three centers. Secondly, the Bank separated research and development personnel from that of the operating and maintaining by establishing Operating Center and Research &

Development Center to eliminate the possibility of research and development personnel engaging on the work of operating and maintaining concurrently which greatly lowered the insiders criminal acts. Thirdly, the Bank separated the application maintaining personnel from system maintaining personnel. Fourthly, the Bank established a Technology Management Committee composed of technical hardcore personnel to take all demands including research, development, operating, safety and management into consideration in decision-making and assessment in relation to material technological platform to prevent risk arising from these regards.

## **2. Improving its authorization limits setting and implementing a system of group dealing**

First, the Bank worked out detailed operating and maintaining manuals on every system maintenance based on the features of each system. The following management model should be implemented strictly, e.g. one person's operation should be verified by another, in addition, it also required that the maintenance daily records should be reviewed carefully to ensure the safety of transaction data. Secondly, different jobs were granted with different authorization limits, with a system of visiting delegation and identity authentication established to make clear the authorization limits of each system operator and user. Thirdly, the Bank worked out a scientific and effective rules for password key management based on password, client's identity authentication and test key management which led to a trust system to the banking service network of the Bank.

## **3. A complete system for monitoring of information safety established**

The Bank improved its safeguarding on Internet-banking and OA System by strengthening the alarming function against external invasion as well as regular analysis on alarming information to discover and dispose any possible internet attacks, virus invasions, internet password loss and stealings and insider non-authorization operations timely. The Bank also founded a Crisis Leaders Group and Crisis Working Group and set up safety reporting system to analyze any material issues, to enlarge the frequencies of analyzing fire-wall and daily records to ensure its network and information safety.

## **4. Establishing a safety assessment mechanism to improve management quality of information safety**

The Bank made efforts to discover the hidden risks and safety dangers existing in the network system and information system based on the safety assessments conducted by internal auditing departments and external professional information safety assessment firms so as to confirm risk ranking to dispose accordingly. And then, the Bank would rectify and adopt relevant protection measures accordingly to achieve the goal of risk control and improve its management quality towards information safety.

## **5. Establishing a supervision mechanism**

The Auditing Department of the head office introduced professionals to monitor and inspect regularly the management of all departments including the Information & Technology Department to eliminate the blind spots of the Bank concerning internal control based on internal supervision and external inspection at the head office level.

## **VIII. Internal Control of Emergency**

Prompt disposal towards emergencies is an important part of the internal control of the

Bank. The Bank improved the system of internal control towards emergencies based on the following measures:

### **1. To establish emergency disposal systems**

The Bank worked out various kinds of emergency systems to guide and help the Bank to adopt effective emergency measures promptly whenever there were any emergencies of power supply breakdown, fire, robbery and hijacking events happened in its key position and banking units to ensure the safety and completeness of various data information. In the meantime, the Bank had a Remote Disaster Copy Center founded in Shanghai to reinforce its emergency mechanism and improve its capabilities concerning reaction, disposal and recovery.

### **2. To work out business continuity program for information and technology system**

Various kinds of work including business development and crisis disposal were involved in the business continuity program. The Bank implemented the business continuity program in relation to information and technology and introduced relevant consultation. The Bank studied to construct an organization to deal with emergencies so that business development of the Bank would not be undermined by material emergencies. In addition, the Bank should improve its crisis events reporting and disposal systems, define time limits and disposal programs for different types of crisis events and how to start relevant decision-making mechanism and the prepared scheme for disposal of crisis and operation recovery.

## **X. Supervision and Rectification of Internal Control**

The supervision and rectification of internal control is an important part of the internal control system of the Bank. The Bank followed the principles of “Unified Leadership, Vertical Management, Delegations at Different Levels, Separate Responsibilities”. It covered three key parts: First, it is a control to the operation, management and internal control of all units including the auditing supervision system itself to improve their management ability and ensure that their functions are brought into full play. Secondly, the Bank would investigate into those staff conducted wrongful or illegal behaviors discovered by auditing or daily supervision and hand over to authorities concerned for further authentications and prosecution. Thirdly, all problems discovered should be reported to the Board of Directors and senior management, and also reported to the Auditing Committee under the BOD regularly and inform the senior management. And rectifications should be carried out so that the management ability of operating units and rules and regulations enforcement would be improved.

The effective approaches for the Bank to improve its internal control in relation to internal auditing and supervision are as follows:

### **1. Independence and authority of internal auditing reinforced**

First, the Bank had reinforced its work of drawing up auditing rules and regulation by working out the Regulations for Internal Auditing, Interim Regulations for Internal Auditing Work Evaluation, Regulations for Management of Internal Auditing Project Records successively. These rules and regulations had detailed stipulations to the workflows, approaches, tasks and targets of the auditing work and defined terms of reference and work division for auditors. Secondly, the Bank made clear the position for internal auditing, and the internal auditing should report to Board of Directors, the head of internal auditing department should be appointed upon the approval of Board of Directors. On one hand, the internal auditors should

exercise their duties to discover deficiencies based on their auditing and report to the Board of directors as well as senior management, and also report to the Auditing Committee about the auditing work, and inform the results of its auditing to relevant function departments. On the other hand, internal auditors should provide assistance to operating units to further improve enforcement. In 1997, the Bank led its domestic peers in carrying out Auditors Accredited System and improved its management mechanism in accordance with the change of situations to enhance the independence of auditing work efficiently.

## **2. The work of external auditing improved**

The Bank engaged external auditing firm by inviting for bids to conduct independent auditing to the Bank. This kind of auditing approach is conducive to evaluation of the Bank's risk resistance, to the relief of the contradictions of insufficient staff concerning auditing ability due to the development of its network and franchise. It helped to improve the Bank's risk management by drawing on external experience and wisdom to discover potential risks so as to cut down risk loss of the Bank.

## **3. Formulation of rules and regulations for auditing reinforced**

The Bank worked out Manual for Internal Auditing, Rules for Auditing to Managers of Operating Units Leaving Offices in order to improve operation and management of all levels. The Bank made clear that the auditing supervision were authorized to use various kinds of auditing approaches according to different issues and reported auditing results to the upper decision-making units to form a prompt feedback mechanism for decision-making system and executive system to ensure the completeness and effectiveness.

## **4. Responsibility investigation reinforced while insisting on solving problems thoroughly**

The Bank followed the principles of "Solving Problems Thoroughly, Combining Punishment with Prevention, Focusing on Prevention" in relation to supervision and rectification. It worked out many rules and regulations including Regulations for Discipline Inspection and Supervision Concerning Cases Inspection, Rules for the Disposal Procedures and Disciplinary Actions Approval Power for Discipline Inspection and Supervision Cases, Interim Rules for Transference of Cases of Material Wrongful & Discipline Violations, Rules for Investigation of Credit Responsibility, Regulations for Disposal of Violation of Banking Regulations successively. The head office of the Bank always sent its rectification requirements to relevant units accordingly and conducted follow-up inspection in case of need. In the meantime, the Bank took auditing outcome and routine supervision into consideration in terms of annual performance evaluation.

In 2004, the auditing department of the Bank followed the principle of focusing on risk and compliance, and finished 65 auditing inspections, among which, 18 were ad hoc auditing inspections and auditing investigations, 47 were audits to managers of operating units leaving their offices. The ad hoc auditing inspections and auditing investigations mainly involved asset auditing, auditing investigation to bills and bond investment conducted by the Financial Markets of the Bank, and auditing inspections conducted by auditors accredited to branches towards newly increased credit quality, directions of credit fund, operation of accounting & settlement center and internal control of operating units. Based on these auditing, the Bank conducted follow-up disposals to several branches on the following ways: the senior management had a face to face conversation with the heads of relevant branches, conducted risk accountability, identified and investigated responsibilities to the wrongful activities.

( This report is subjected to the Chinese version. )