



**兴业银行**  
INDUSTRIAL BANK CO.,LTD.

ANNUAL REPORT 2005



The revolving logo, full of dynamic and vitality, represents the forging of the Bank as a pioneering and active alliance in pursuit of a worthy cause.

The inward zigzag and outward circle coincides with the ancient Chinese thought that the heaven is round and the earth square, reflecting the Bank's commitment to operating in compliance with law and providing the very best service to its customers.

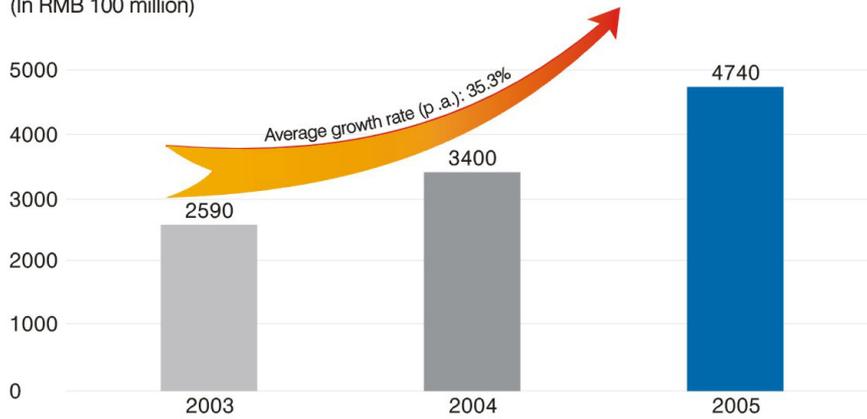
Two paralleling lines deliver the Bank's dedication to growing together with its customers, employees, shareholders and the society.

The outstretching track symbolizes the footsteps of the Bank to the goal of Building A Top-Grade Industrial Bank with Centuries of Reputation.



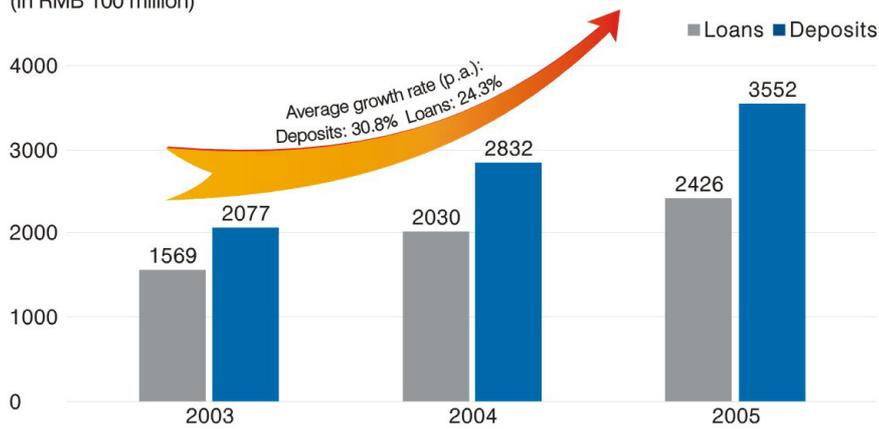
### TOTAL ASSETS GROWTH IN PAST THREE YEARS

(In RMB 100 million)



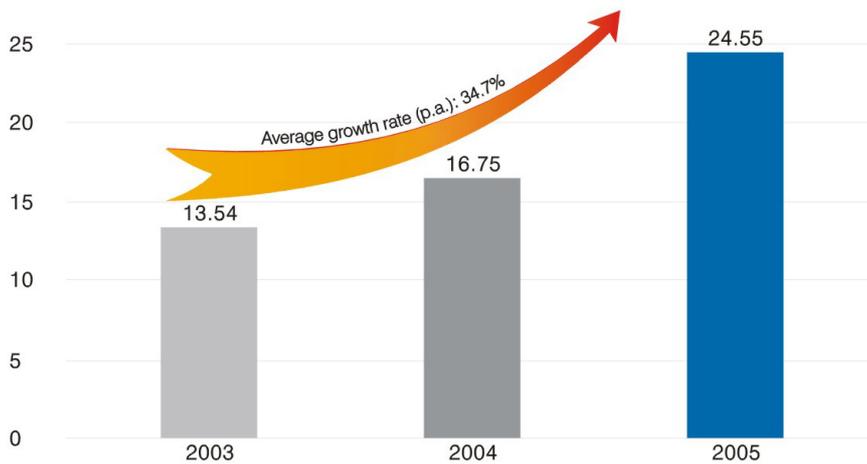
### DEPOSITS AND LOANS GROWTH IN PAST THREE YEARS

(In RMB 100 million)



### NET PROFIT GROWTH IN PAST THREE YEARS

(In RMB 100 million)





**兴业银行**  
INDUSTRIAL BANK CO.,LTD.



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Chairman: Gao Jianping

## Chairman's Statement

In 2005, the business environment witnessed profound changes. Guided by the scientific development concept and the objective of Building A Top-grade Industrial Bank with Centuries of Reputation, the Bank strictly adhered to the strategy of Strict Administration, Professional Management, Revitalization through Science and Technology, and Outstanding Service, proactively seized development opportunities, evaded high operating risks to ensure prudent operation, successfully accomplished every mission of 2001-2005 development plan, and achieved great development in every business line.

With stronger value creation capability, the Bank's comprehensive operational strength and market position was improved remarkably. At the end of 2005, the total assets of the Bank amounted to RMB 473.988 billion, an annual average growth rate of 40.8% for the past five years; the total deposit outstanding balance reached RMB 355.218 billion, posting a 47.03% year-on-year increase for the past five years; the loans outstanding balance totaled RMB 242.572 billion, a yearly jump of 46.7% for the past five years. With the year-end non-performing loan ratio standing at 2.33% based on the five-category classification, the Bank enjoyed relatively sound asset quality compared with its domestic peers. As the profit-making capability enhanced remarkably, net profit in 2005 reached RMB 2.455 billion, which was 6.68 times that of year 2000, and the accumulative net profit of the past five years amounted to RMB 6 billion, with an annual average growth rate of 50.3%. The return on asset and return on equity ratio in 2005 was 0.52% and 20.26% respectively. The shareholders' equity at the end of 2005 amounted to RMB 12.115 billion, 3.26 times that of year 2000, with an annual growth rate of 26.67%. The Bank's international ranking rose significantly. According to the latest Top 1000 World Banks Ranking compiled by the British magazine The Banker, the Bank was ranked No.325 in terms of Tier I capital, up 243 places from that of year 2000, and No. 210 in terms of total assets, rising 203 places from that of year 2000, which has made the Bank one of the Top 300 World Banks.

Service and management innovation was promoted orderly, and the modernization of business administration was improved significantly. With 29 branches and 328 outlets established in major economic areas, and the setting-up of online and phone banking network that covered the whole country, the Bank's service network extended rapidly, which enabled the Bank to transform from a regional bank to a national bank. Service capability was enhanced greatly, and the product range of different business lines like corporate banking, retail banking, financial institutional banking kept enriching, and new businesses including fund trade, asset custody and investment banking started up successfully, and market brands like Industrial Bank Wise Fortune, Natural Life, Wan Li Bao(a RMB asset management product), Wan Hui Tong(a foreign exchange asset management product), Bank-to-bank Platform have been initially built up. Internal management continued to improve, and a basic corporate governance framework in line with international rules, national conditions and bank reality has been established. The organization structure characterized with unified management and operation was further strengthened, the risk management and internal control system was stricter, the level of technology application in business management improved constantly, and great accomplishments were made in the construction of professional team and enterprise culture.

In retrospect, every achievement of the Bank shall be attributed to the correct guidance of administrative departments and regulatory authorities at all levels, to the strong support from all shareholders, customers and people from all walks of life, to the dedication and endeavor of all staff. To them, I hereby extend our heartfelt thanks on behalf of the Board of Directors of Industrial Bank!

Year 2006 is the opening year for China to implement the 11th five-year plan, as well as the starting year for the Bank to pursue a new round of five-year development. Faced with new situations, the Bank will make arduous efforts to optimize the business structure, deepen the transformation of business development mode and profitability mode, improve the value-creation-centered service capability and management competence, build itself into a universal bank boasting prudent operation, standard management, rapid growth, best service, distinctive feature and high return, advance in the road to the goal of Building A Top-grade Industrial Bank with Centuries of Reputation, and make greater contribution to the economic and social development of China.

Chairman:





President: Li Renjie

## President's Report

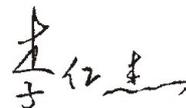
In 2005, the Bank implemented seriously every decision of the Board of Directors, actively responded to changes in the business environment, promoted the transformation of business development mode and profitability mode, achieved a sustained, rapid and healthy development in every business line, and completed the annual business plan set by the Board of Directors, thus drawing a perfect conclusion to the last five-year development.

Every business line maintained strong momentum of development. As of 2005, total assets of the Bank reached RMB 473.988 billion, an increase of 39.42% over last year; total deposit outstanding balance amounted to RMB 355.218 billion, up 25.44% from the previous year; total loan outstanding balance totaled RMB 242.572 billion, a growth of 19.49% over last year; according to the five-category classification, the year-end non-performing loan ratio was 2.33%, down 0.17 percentage point from the beginning of year; the net profit reached RMB 2.455 billion, up 46.56% over last year; the year-end net capital reached RMB 20.077 billion, with capital adequacy ratio standing above 8%; the business structure was further optimized, and great breakthrough was made in lump sum active liabilities, RMB 10 billion three-year financial bonds were issued, retail banking and intermediate banking saw a rapid growth, new business lines like asset custody and investment banking started up successfully, two types of enterprise short-term financial notes were underwritten and issued by the Bank, and the Bank also acted as custodian and principal agent of two funds.

Substantial achievements have been made in management and services. While gaining great results in innovation and brand construction, the Bank pioneered a new inter-bank cooperation mode, developed and spread Bank-to-bank Platform system in a creative way, launched the Natural Life family wealth management card and A+3 service project, issued the first cartoon hetero-shape credit card in China, gained access to the domestic gold market with financial membership, and acquired the qualification of RMB market maker in the inter-bank foreign exchange market. The service network was further extended, with Dongguan, Taiyuan, Kunming branches and 34 sub-branches established and starting operation in economic central cities. In respect of online banking and phone banking, the construction of service brand and system was reinforced. The Bank's marketing ability was strengthened and its business volume grew rapidly. Risk management and internal control was improved. Regional credit examination and approval centers and audit centers were set up to reinforce the independency and authority of the Bank's credit examination and auditing system. The administrative measures on credit assets classification were further specified, the risk control on operational units was intensified, and special case treatment was carried out to prevent operational risks. The core technology capability and application level was improved, and the incessant data processing method and system gained the national invention patent of PRC. The management base was further consolidated, and great achievements were made by virtue of external professional strength on carrying out significant consultation projects like development strategy planning, information technology planning, energy efficiency financing, remuneration system, enterprise culture construction, business process reengineering, and overall quality management, etc..

Year 2006 is the starting year of a new round of five-year development. The Bank will adhere to the strategy of Strict Administration, Professional Management, Revitalization through Science and Technology, and Outstanding Service, proactively unearth all opportunities, deepen the reform and innovation, and make great efforts to complete every mission set by the Board of Directors, so as to lay a solid foundation for the implementation of 2006-2010 development plan.

President:





Chief Supervisor  
Huang Guangtong

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Director, Vice President  
Bi Zhonghua

A stylized handwritten signature in black ink, featuring a prominent loop and several vertical strokes.



Director, Vice President  
Kang Yukun

A handwritten signature in black ink, appearing to be 'Kang Yukun'.



Vice President  
Chen Dekang

A handwritten signature in black ink, appearing to be 'Chen Dekang'.

## Important Notice

The Bank's Board of Directors, directors, and senior executives hereby warrant that there is no false representation, misleading statement contained in, or material omissions from, this annual report, and take individual and related responsibility for the truthfulness, accuracy, and completeness of the contents of this annual report.

The tenth session of the fifth Board of Directors reviewed and approved the Annual Report 2005 of Industrial Bank and Abstract. Fourteen of fifteen eligible directors attended the meeting. Director Mr. Ludwig Chang authorized Director Mr. Patrick K W Chan to exercise his voting right, and Independent Director Mr. Deng Liping authorized Independent Director Mr. Wang Guogang to exercise his voting right. Six supervisors attended the meeting as non-voting delegates. There are no directors, supervisors or senior executives who can not warrant or disagree on the truthfulness, accuracy and completeness of the contents of this annual report.

The Bank's Financial Accounting Report 2005 has been audited by Fujian Huaxing Certified Public Accountants Ltd. and Ernst & Young respectively in accordance with Chinese Auditing Standards (CAS) and the International Auditing Standards (IAS) respectively and both have issued standard and unqualified Auditors' Reports.

*Perfect Cooperation,  
Mutual Prosperity.*

*We grow together with you.*



## Corporate Profile

**I. Legal Chinese Name:** 兴业银行股份有限公司

Abbreviated as: Industrial Bank (hereinafter referred to as "the Bank")

Legal English Name: INDUSTRIAL BANK CO.,LTD.

**II. Legal Representative:** Gao Jianping

**III. Secretary of the Board of Directors:** Tang Bin

Address: 154 Hudong Road, Fuzhou, Fujian, PRC

Tel: (86)591-87824863

Fax: (86)591-87842633

Postcode: 350003

Investor Email: IRM@cib.com.cn

**IV. Registered Address:** 154 Hudong Road, Fuzhou, Fujian, PRC

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

Postcode: 350003

**V. Newspaper Designated for Information Disclosure:**

Financial Times, China Securities Journal, and Shanghai Securities News

**Place Where the Annual Report Is Prepared and Placed:**

Office of the Board of Directors, and branches of the Bank

**VI. Other Relevant Information:**

Date of First Registration: August 22, 1988

Place of First Registration: Fujian Provincial Administration Bureau of Industry and Commerce

Date of Change of Registration: May 20, 2004

Place of Change of Registration: Fujian Provincial Administration Bureau of Industry and Commerce

Business License No.: 3500001000202

Taxation Registration No.: State Tax Rongtai Zi 350100158142711

Local Tax Fujian Zi 350102158142711

Domestic Certified Public Accountants Engaged by the Bank:

Fujian Huaxing Certified Public Accountants Limited

Office Address: 7-9 Floor, B# Zhongshan Building, 152 Hudong Road, Fuzhou

International Certified Public Accountants Engaged by the Bank: Ernst & Young

Office Address: 18th Floor, Two International Finance Centre, Hong Kong

**VII. The Annual Report is prepared in both Chinese and English.**

**Should there be any difference in interpretation, the Chinese version shall prevail.**

Unless otherwise specified, all the currency units in the Annual Report are in RMB '000.

## Highlights of Accounting and Business Data

### I. PRINCIPAL PROFIT INDICATORS IN THE REPORTING PERIOD

Items	In RMB'000	
	CAS	IAS
Total profit	3,527,879	3,770,113
Net profit	2,454,989	2,615,980
Net profit less non-recurring gains and loss	2,448,664	2,615,980
Prime operating profit	3,511,417	3,770,113
Operating profit	3,511,417	3,770,113
Including: investment income	2,764,476	2,667,583
Net non-operating income and expenses	16,462	0
Net increase in cash and cash equivalents	36,490,545	36,490,545
Net cash flow arising from operating activities	83,008,145	82,989,527

Non-recurring gains and loss were determined and calculated according to No.1 Question- and-Answer Concerning Standards on Information Disclosure by Listed Companies (Revised in 2004, CSRC [2004]4). The deducted non-recurring gains and loss items are as follows:

In RMB '000	
Items of non-recurring gains and loss	Amount
Non-operating income and expenses less daily withdrawal of provision for devaluation	16,462
Recovery of assets written off in previous years	1,958
Reversal of provision for devaluation of assets withdrawn in previous years	-
Income tax relevant to non-recurring gains and loss	-12,095
<b>Total</b>	<b>6,325</b>

### II. MAJOR FINANCIAL DATA PREPARED UNDER CAS AND IFRS AND DIFFERENCES HEREIN

	In RMB'000			
	Net profit		Net assets	
	2005	2004	2005 year-end	2004 year-end
<b>Amount based on Chinese GAAP</b>	<b>2,454,989</b>	<b>1,675,059</b>	<b>12,114,888</b>	<b>10,063,951</b>
<b>Adjustment based on IFRS</b>				
1. Interest income and expenses of bills	225,390	-63,426	-	-225,390
2. Profit of short term investment	-34,443	134,007	210,115	244,557
3. Market value of investment available-for-sale	-	-	731,880	-224,492
4. Market value of transactional investment	-12,542	12,542	-	12,542
5. Amortization of pre-operating expenses	-2,352	-3,565	-5,917	-3,565
6. Fair value of derivative instruments	66,179	-	66,179	-
7. Impact on deferred tax and income tax of above matters	-81,243	-25,755	-331,759	65,284
<b>Amount based on IFRS</b>	<b>2,615,980</b>	<b>1,728,862</b>	<b>12,785,385</b>	<b>9,932,887</b>

Note: For reasons for the differences, please refer to page 130.

### III. KEY ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE PREVIOUS THREE YEARS AS OF THE REPORTING PERIOD

In RMB '000

Items	2005		2004		2003	
	CAS	IAS	CAS	IAS	CAS	IAS
Prime operating revenue	17,600,747	17,916,194	12,297,449	12,706,539	9,470,795	9,672,463
Total profit	3,527,879	3,770,113	2,659,940	2,739,497	1,965,541	2,072,490
Net profit	2,454,989	2,615,980	1,675,059	1,728,862	1,354,116	1,425,781
Net profit less non-recurring gains and loss	2,448,664	2,615,980	1,637,024	1,728,862	1,350,222	1,425,781
Total assets	473,987,669	474,760,896	339,960,543	340,062,114	258,985,628	259,106,787
Shareholders' equity (excluding the minority shareholders' equity)	12,114,888	12,785,384	10,063,951	9,932,887	6,021,592	5,951,294
Net cash flow arising from operating activities	83,008,145	82,989,527	13,631,164	13,585,776	9,234,107	9,219,135
Earnings per share (RMB)	0.61	0.65	0.42	0.47	0.45	0.48
Earnings per share, less non-recurring gains and loss (RMB)	0.61	0.65	0.41	0.47	0.45	0.48
Net assets per share (RMB)	3.03	3.20	2.52	2.48	2.01	1.98
Net assets after adjustment (RMB)	2.95	3.19	2.44	2.48	1.92	1.98
Net cash flow from operating activities per share (RMB)	20.76	20.75	3.41	3.40	3.08	3.07
Return on net assets (%)	20.26	20.46	16.64	17.41	22.49	23.96
Return on net assets less non-recurring gains and loss (%)	20.21	20.46	16.27	17.41	22.42	23.96

Notes: 1. Relevant indicators were calculated in accordance with Article 21 of No. 2 Criteria on Details and Format of Information Disclosure for Listed Companies: Details and Format of Annual Report (Revised in 2005) and Rules for Report Preparation in Information Disclosure for Listed Companies No. 9: Calculation and Disclosure of Return on Net Assets and Earnings per Share.

2. Earnings per share under IAS was calculated according to International Accounting Standards No.33-Earnings per Share.

### IV. LOAN LOSS PROVISION UNDER CAS AND IAS

In RMB'000

Items	CAS	IAS
Balance at beginning of year	4,415,804	4,415,804
Provision during the year	1,422,214	1,571,739
Reversal of interests on impaired loans	-	149,525
Recoveries of loans written-off in previous years	1,958	1,958
Write-offs during the year	576,472	576,472
Transfer-out during the year	151,952	151,952
<b>Year-end balance</b>	<b>5,111,552</b>	<b>5,111,552</b>

Note: 'Transfer-out' refers to provision for idle loans transferred out when loans were transferred out or transferred into 'wait-deal debt repayment assets'.

## V. SUPPLEMENTARY FINANCIAL DATA OF THE PAST THREE YEARS AS OF THE REPORTING PERIOD

In RMB '000

Items	2005		2004		2003	
	CAS	IAS	CAS	IAS	CAS	IAS
Total liabilities	461,872,782	461,975,512	329,896,592	330,129,227	252,964,036	253,155,493
Inter-bank borrowings	403,510	403,510	903,503	903,503	1,200,000	1,200,000
Total deposits	355,218,109	355,218,109	283,186,511	283,186,511	207,682,794	207,682,794
Including:						
long term deposits	45,865,585	45,865,585	41,433,453	41,433,453	24,399,977	24,399,977
Total loans	242,571,507	242,571,507	203,010,817	203,010,817	156,945,336	156,945,336
Including:						
short term loans	148,100,217	148,100,217	130,175,488	130,175,489	99,581,306	99,581,306
import & export negotiation	751,248	751,248	649,966	649,966	932,045	932,045
discount	12,618,852	12,618,852	12,682,701	12,682,701	12,991,989	12,991,989
medium and long term loans	75,856,968	75,856,968	55,048,964	55,048,963	39,423,276	39,423,276
overdue loans	550,086	550,086	397,014	397,014	104,158	104,158
non-accruing loans	4,694,136	4,694,136	4,056,684	4,056,684	3,912,562	3,912,562

- Notes:
1. Total deposits include short term deposits, short term savings deposits, fiscal deposits, outward remittance, remittances outstanding and temporary deposits, short term guarantee deposits, long term deposits, long term savings deposits and long term guarantee deposits; netting-off between liability side and asset side of trusted fund.
  2. Long term deposits include long term deposits, long term savings deposits and long term guarantee deposits.
  3. Total loans include short term loans, import & export negotiation, discount, medium and long term loans, overdue loans and non-accruing loans.

## VI. APPENDIX TO INCOME STATEMENT OF 2005

In RMB '000

Items	Profit		Return on net assets (%)		EPS (RMB)	
	CAS	IAS	CAS	IAS	CAS	IAS
Prime operating profit	3,511,417	3,770,113	28.98	29.49	0.88	0.94
Operating profit	3,511,417	3,770,113	28.98	29.49	0.88	0.94
Net profit	2,454,989	2,615,980	20.26	20.46	0.61	0.65
Net profit less non-recurring gains and loss	2,448,664	2,615,980	20.21	20.46	0.61	0.65

Note: Relevant data were calculated in accordance with Rules for Report Preparation in Information Disclosure for Listed Companies No. 9: Calculation and Disclosure of Return on Net Assets and Earnings per Share.

## VII. SUPPLEMENTARY FINANCIAL INDICATORS OF THE PREVIOUS THREE YEARS AS OF THE REPORTING PERIOD

Unit: %

Items	Reference	2005 year-end	2004 year-end	2003 year-end
Capital adequacy ratio	≥ 8	8.13	8.07	8.97
Non-performing loan ratio	≤ 15	2.33	2.50	2.49
Ratio of deposits to loans	RMB	64.83	67.64	69.71
	Foreign currency	63.46	53.54	70.83
	Converted into RMB	64.80	67.19	69.75
Ratio of assets liquidity	RMB	32.22	37.75	46.98
	Foreign currency	60.41	65.68	61.83
Proportion of call capital	Called-in RMB	0.00	0.07	0.60
	Called-out RMB	0.30	0.77	0.97
Proportion of international commercial borrowings	≤ 100	0.00	1.00	0.00
Interest recovery rate		97.07	98.72	96.26
Proportion of loans to the top single borrower	≤ 10	5.77	6.17	4.11
Proportion of loans to the top 10 borrowers	≤ 50	39.43	42.35	38.49

Note: Non-performing loan ratio was calculated on five-category classification basis.

Non-performing loan ratio = (substandard loan + doubtful loan + loss loan) / total loan balance x 100%.

## VIII. CHANGES IN SHAREHOLDERS' EQUITY DURING THE REPORTING PERIOD

In RMB '000

Items	Year-beginning balance		Increase during the year		Decrease during the year		Year-end balance	
	CAS	IAS	CAS	IAS	CAS	IAS	CAS	IAS
Equity	3,999,000	3,999,000	-	-	-	-	3,999,000	3,999,000
Capital reserve	2,839,214	2,839,214	-	-	-	-	2,839,214	2,839,214
Surplus reserve	754,256	384,317	245,499	615,438	-	-	999,755	999,755
Including:								
statutory public welfare fund	288,103	128,105	-	159,998	-	-	288,103	288,103
Reserve for general risks	-	-	2,400,000	2,400,000	-	-	2,400,000	2,400,000
Retained earnings	2,471,482	2,860,785	2,454,989	2,615,980	3,049,551	3,419,491	1,876,919	2,057,274
Unrealized gains/loss from investment available-for-sale (after-tax)	N/A	-150,429	N/A	640,570	N/A	-	N/A	490,141
<b>Total shareholders' equity</b>	<b>10,063,951</b>	<b>9,932,887</b>	<b>5,100,488</b>	<b>6,271,988</b>	<b>3,049,551</b>	<b>3,419,491</b>	<b>12,114,888</b>	<b>12,785,384</b>

## Changes in Share Capital and Information of Shareholders

### I. CHANGES IN SHARE CAPITAL

Unit: Share

	At beginning of year	+/-	At end of year
1. State-owned shares	1,209,103,232	-1,403,369	1,207,699,863
2. State-owned legal person shares	984,466,969	116,666,667	1,101,133,636
3. Domestic legal person shares	806,429,799	-115,263,298	691,166,501
4. Overseas legal person shares	999,000,000	0	999,000,000
<b>Total</b>	<b>3,999,000,000</b>	<b>0</b>	<b>3,999,000,000</b>

Note: "+/-" refers to the netting-off amount of change.

### II. INFORMATION OF SHAREHOLDERS DURING THE REPORTING PERIOD

#### (i) Number of shareholders and shareholding structure

At the end of the reporting period, the Bank had a total of 148 shareholders, which held 3.999 billion shares of the Bank.

#### (ii) Information about share transfers of top ten shareholders

During the reporting period, Foshan Sanshui Jianlibao Health Industry Investment Co., Ltd., Hunan Province Electric Power Company, and Hunan Xiangneng Electric Power Co., Ltd. transferred 70,000,000 shares, 61,333,333 shares and 38,666,667 shares respectively to China National Cereals, Oils & Foodstuffs Corp.. After this transfer, China National Cereals, Oils & Foodstuffs Corp. held 170,000,000 shares of the Bank. Shanghai Bus Industrial Co., Ltd. and Fujian Hongming Plastics Co., Ltd. transferred 6,666,667 shares and 1,333,333 shares respectively to Shanghai Guoxin Investment Development Co., Ltd.. After this transfer, Shanghai Guoxin Investment Development Co., Ltd. held 88,000,000 shares of the Bank.

#### (iii) Shares held and pledged by top ten shareholders:

Unit: Share

Shareholders	Opening balance	+/-	Closing Balance	%
Finance Bureau of Fujian Province	1,020,000,000	0	1,020,000,000	25.51
Hang Seng Bank Limited	639,090,000	0	639,090,000	15.98
Tetrad Ventures Pte Ltd	199,950,000	0	199,950,000	5.00
China National Cereals, Oils & Foodstuffs Corp.	0	170,000,000	170,000,000	4.25
International Finance Corporation	159,960,000	0	159,960,000	4.00
China Electronic Information Industry Group Corporation	150,000,000	0	150,000,000	3.75
Fujian Tobacco Company	133,333,334	0	133,333,334	3.33

II. INFORMATION OF SHAREHOLDERS DURING THE REPORTING PERIOD *continued*(iii) Shares held and pledged by top ten shareholders: *continued*

Shareholders	Opening balance	+/-	Closing balance	%
Shanghai Guoxin Investment & Development Co., Ltd.	80,000,000	8,000,000	88,000,000	2.20
Fujian Sept-wolves Investment Co., Ltd.	85,333,333	0	85,333,333	2.13
Shenzhen Chuyuan Investment & Development Co., Ltd.	84,000,000	0	84,000,000	2.10
<b>Total</b>	<b>2,551,666,667</b>	<b>178,000,000</b>	<b>2,729,666,667</b>	<b>68.25</b>

Notes: 1. Among the Bank's top ten shareholders, Finance Bureau of Fujian Province held the state-owned shares on behalf of the State, and Hang Seng Bank Limited, Tetrad Ventures Pte Ltd and International Finance Corporation were foreign legal person shareholders.

2. As of the reporting period, among the top ten shareholders, all the shares held by China Electronic Information Industry Group Corporation were pledged as securities.

3. Shareholders holding 5%(or more) shares of the Bank were Finance Bureau of Fujian Province, Hang Seng Bank Limited and Tetrad Ventures Pte Ltd.

4. There was no related relationship among the top ten shareholders.

## (iv) Shareholders holding 5% (or more) shares of the Bank

- Finance Bureau of Fujian Province: a government institution  
Legal representative: Mr. Ma Lusheng  
Legal address: No. 5 Zhongshan Road, Gulou District, Fuzhou, PRC  
Post code: 350003
- Hang Seng Bank Limited: a Hong Kong listed company  
Legal representative: Mr. Raymond OR Ching Fai  
Registered capital: HKD 11 billion  
Legal address: 83 Dex Voeux, Central Hong Kong  
Date of incorporation: March 3, 1933
- Tetrad Ventures Pte Ltd: a private Singapore company  
Legal representative: Mr. Goh Yew Hong, Mr. Ng Koon Siong  
Legal address: 168 Robinson Road, #37-01 Capital Tower, Singapore 068912  
Time of incorporation: 1995

## Directors, Supervisors, Senior Executives, and Employees

### I. DIRECTORS, SUPERVISORS AND SENIOR EXECUTIVES

(i) Basic information and total remuneration (after tax) withdrawn from the Bank during the reporting period

Names	Positions	Sex	Date of Birth	Office Term	Remuneration (in RMB 0'000)
Gao Jianping	Chairman	Male	1959.07	2004.06.28-2007.06.27	102.10
Liao Shizhong	Director	Male	1962.10	2004.06.28-2007.06.27	0.00
Patrick K W Chan	Director	Male	1956.05	2004.06.28-2007.06.27	0.00
Chua Phuay Hee	Director	Male	1953.09	2004.06.28-2007.06.27	0.00
Ludwig Chang	Director	Male	1952.10	2004.06.28-2007.06.27	0.00
Fan Qingwu	Director	Male	1963.05	2005.05.20-2007.06.27	0.00
Song Li	Director	Male	1956.10	2004.06.28-2007.06.27	0.00
Li Renjie	Director, President	Male	1955.03	2004.06.28-2007.06.27	99.70
Bi Zhonghua	Director, Vice President	Female	1952.07	2004.06.28-2007.06.27	85.00
Kang Yukun	Director, Vice President	Male	1954.05	2004.06.28-2007.06.27	85.00
Wang Guogang	Independent Director	Male	1955.11	2004.06.28-2007.06.27	11.56
Deng Liping	Independent Director	Male	1954.11	2004.06.28-2007.06.27	10.56
Lin Jingyao	Independent Director	Male	1935.09	2004.06.28-2007.06.27	11.56
Gu Gongyun	Independent Director	Male	1957.07	2004.06.28-2007.06.27	11.06
Ba Shusong	Independent Director	Male	1969.08	2005.09.21-2007.06.27	2.89
Huang Guangtong	Chief Supervisor	Male	1945.10	2004.06.28-2007.06.27	92.50
Dong Binggen	Supervisor	Male	1949.07	2004.06.28-2007.06.27	0.00
Huang Dazhan	Supervisor	Male	1958.07	2004.06.28-2007.06.27	0.00
Wang Xiaobin	Supervisor	Male	1969.11	2004.06.28-2007.06.27	0.00
Liu Peiyuan	Supervisor	Male	1951.07	2004.06.28-2007.06.27	43.30
Hua Bing	Supervisor	Male	1966.11	2004.06.28-2007.06.27	48.10
Li Shuang	Outside Supervisor	Male	1944.08	2004.06.28-2007.06.27	9.06
Zhang Yichun	Outside Supervisor	Male	1933.06	2004.06.28-2007.06.27	9.56
Chen Dekang	Vice President	Male	1954.09	2005.03.20-2007.06.27	56.50
Tang Bin	Secretary of the Board of Directors	Male	1957.02	2004.06.28-2007.06.27	65.70

**I. DIRECTORS, SUPERVISORS AND SENIOR EXECUTIVES** *continued*

**(i) Basic information and total remuneration (after tax) withdrawn from the Bank during the reporting period** *continued*

- Notes: 1. Directors, supervisors and senior executives do not hold any shares of the Bank.
2. Remuneration of directors and supervisors is verified and granted according to Administrative Measures on Remuneration for Directors of Industrial Bank, Remuneration Project for Supervisors of Industrial Bank, Engagement Contract of Independent Directors of Industrial Bank. The specific criteria are as follows: directors and supervisors holding full-time positions in the Bank shall receive remuneration according to their posts, and no cross or repeated withdrawal of remuneration is allowed; shareholder-appointed directors and supervisors who do not have full-time positions in the Bank shall receive remuneration from their own working units; the yearly remuneration of the independent directors and outside supervisors is RMB 75,600 per year each. In addition, independent directors and outside supervisors shall be paid with meeting investigation fees of no more than RMB10,000 and RMB 5,000 per quarter respectively in proportion to their personal attendance to Board of Directors' meetings, General Shareholders' Meetings and relevant committee meetings.
3. Remuneration Project for Senior Executives is determined by the Nomination, Remuneration and Evaluation Committee under the Board of Directors according to the Provisional Administrative Measures on the Remuneration for Senior Executives of Industrial Bank, Provisional Measures on the Evaluation of Performance of Senior Executives of Industrial Bank.

**(ii) Positions held by directors and supervisors in shareholder companies**

<b>Names</b>	<b>Shareholder Companies</b>	<b>Positions</b>
Patrick K W Chan	Hang Seng Bank Limited	Executive Director, Chief Financial Officer
Fan Qingwu	China Electronic Information Industry Group Corporation	Chief Economist
Dong Binggen	Shenzhen Union Developing Investment Co., Ltd.	Chairman
Wang Xiaobin	Xishui Strong Year Co., Ltd., Inner Mongolia	General Manager of Capital Operation Department

At the end of 2005, other directors and supervisors did not hold any position in the existing shareholder companies.

**(iii) Major working experience of directors, supervisors and senior executives and their positions in companies other than shareholders or part-time work**

**Gao Jianping**

Bachelor degree, senior economist. He has worked successively as Deputy General Manager of the Executive Office of Industrial Bank, Director of the Industrial Bank's Office in Fuzhou Economic and Technological Development Zone, General Manager of the Executive Office of Industrial Bank, Preparatory Team Leader of Shanghai Branch, Vice President of Industrial Bank and President of Shanghai Branch, Vice President of Industrial Bank (in charge of overall management), President of Industrial Bank, and currently as Chairman of Industrial Bank.

He holds no position in companies other than shareholders or part-time work.

**Liao Shizhong**

Master degree, associate research fellow. He has worked successively as Assistant Research Fellow of Economics Institute of Fujian Province Academy of Social Sciences, Deputy Director and Associate Research Fellow of Scientific Research Division, Deputy Director of Fujian Province Institute for Fiscal Science Research, Deputy Secretary-general and Secretary-general of Fujian Province Finance Society, and currently as Vice President of Fujian Province Finance Society and Director of Fujian Province Institute for Fiscal Science Research.

Positions in companies other than shareholders or part-time work: Vice President of Fujian Province Finance Society, and Director of Fujian Province Institute of Fiscal Science Research.

**Patrick K W Chan**

Master degree. He has worked successively as Accounting Head of Ernst & Young (Hong Kong), Director of the Accounting Department of Southeast Asia Properties & Finance Ltd., Head of Finance Management Department and Chief Audit Executive of Australia and New Zealand Banking (Hong Kong) Group, Head of Accounting Department of Chase Manhattan Bank (Hong Kong), Deputy General Manager and Group Chief Financial Officer and Corporate Secretary of Hong Kong Dah Sing Financial Holdings Ltd., Deputy General Manager and Chief Financial Officer of Hang Seng Bank, and currently as Executive Director and Chief Financial Officer of Hang Seng Bank.

He holds no position in companies other than shareholders or part-time work.

**Chua Phuay Hee**

Master degree. He has worked successively as Director of Insurance and Statistics Department, Manager of Human Resources and Administration Department, Director of Securities Business Department of Monetary Authority of Singapore, General Manager of Investment and Plan Department, Chief Financial Officer, Chief Risk Officer of Keppel TatLee Bank of Singapore, and currently as Director and Chief Financial Officer of Wilmar Trading Pte Ltd..

Positions in companies other than shareholders or part-time work: Director and Chief Financial Officer of Wilmar Trading Pte Ltd.

I. DIRECTORS, SUPERVISORS AND SENIOR EXECUTIVES *continued*

(iii) Major working experience of directors, supervisors and senior executives and their positions in companies other than shareholders or part-time work *continued*

**Ludwig Chang**

Master degree. He has worked successively as Vice President of JP Morgan Chase Bank and its predecessor, Director of Financing Department of Swiss UBS Bank, and currently as Senior Consultant of Kim Eng Enterprise Capital (Hong Kong) Pte Ltd.

Positions in companies other than shareholders or part-time work: Senior Consultant of Kim Eng Enterprise Capital (Hong Kong) Pte Ltd.

**Fan Qingwu**

Master degree, assistant research fellow. He has worked successively as Assistant Research Fellow of National Research Center for Science & Technology for Development of the State Science and Technology Commission, International Research Fellow of SRI International, Senior Manager of China Securities Market Research and Design Center, Standing Associate Director of Securities Training Center of China, General Manager of Investment Banking Department of China Electronic Information Industry Group Co., Ltd.; and currently as Chief Economist of China Electronic Information Industry Group Co.,Ltd. and Deputy General Manager of China Electronic Industry Engineering Co., Ltd..

Positions in companies other than shareholders or part-time work: Deputy General Manager of China Electronic Industry Engineering Co., Ltd.

**Song Li**

Master degree, senior economist. He has worked successively as Director of Political Department, Deputy General Manager and General Manager of Fujian Tobacco Company.

He holds no position in companies other than shareholders or part-time work.

**Li Renjie**

Bachelor degree, senior economist. He has worked successively as Director of Planning Division of the People's Bank of China Fujian Branch, Executive Director and Deputy General Manager of Hong Kong Jiang Nan Finance Ltd., Chairman of Great Wall Securities Co., Ltd., Preparatory Team Leader and President of Industrial Bank Shenzhen Branch, Vice President of Industrial Bank; and currently as President of Industrial Bank.

He holds no position in companies other than shareholders or part-time work.

**Bi Zhonghua**

Bachelor degree, senior economist. She has worked successively as Deputy General Manager and General Manager of Industrial Bank's International Business Department, Assistant to President of Industrial Bank and General Manager of International Business Department and Operational Department; and currently as Vice President of Industrial Bank.

She holds no position in companies other than shareholders or part-time work.

### **Kang Yukun**

Bachelor degree, senior economist. He has worked successively as Deputy General Manager of Industrial Bank's Credit Department, Vice President of Industrial Bank Putian Branch, Vice President and President of Industrial Bank Fuzhou Branch; and currently as Vice President of Industrial Bank.

He holds no position in companies other than shareholders or part-time work.

### **Wang Guogang**

PhD degree, research fellow. He has worked successively as Teacher of Fujian Normal University, Professor of Nanjing University International Business School, General Manager of Jiangsu Xingda Securities Investment Service Co., Ltd., Chairman of Jiangsu Xingda CPA Office, Vice President of China Huaxia Securities Co., Ltd., Research Fellow of China Academy of Social Sciences; and currently as Vice Director of Research Institute of Finance of China Academy of Social Sciences.

Positions in companies other than shareholders or part-time work: Vice Director of Research Institute of Finance of China Academy of Social Sciences.

### **Deng Liping**

PhD degree, doctoral advisor. He has worked successively as Professor of Canada Mount Allison University Department of Economics (tenure-track), Professor and Doctoral Advisor of Xiamen University School of Economics, Director of Xiamen University Department of International Trade, Deputy Dean of Xiamen University School of Economics, Dean of Xiamen University School of Online Education, Assistant to the President and Vice President of Xiamen University; and currently as Dean of Xiamen National Accounting Institute, Professor and Doctoral Advisor of Xiamen University.

Positions in companies other than shareholders or part-time work: Dean of Xiamen National Accounting Institute, Professor and Doctoral Advisor of Xiamen University.

### **Lin Jingyao**

Bachelor degree, senior economist. He has worked successively as Governor and Secretary of Communist Party Leadership Group of the People's Bank of China Fuzhou Branch, Governor and Secretary of Communist Party Leadership Group of the People's Bank of China Fujian Branch (Cocurrent Director of Fujian Province Administration Bureau of Foreign Exchange), Member of the Standing Committee of Fujian Province Political Consultative Conference, Deputy Director of Fujian Province Economic and Scientific Committee, Director of China National Securities Repurchase and Clearing Office organized by the People's Bank of China, Ministry of Finance and State Council Securities Committee, Counselor of the People's Bank of China; and currently as President of Fujian Province Association of Credit Cooperation.

Positions in companies other than shareholders or part-time work: President of Fujian Province Association of Credit Cooperation.

I. DIRECTORS, SUPERVISORS AND SENIOR EXECUTIVES *continued*

(iii) Major working experience of directors, supervisors and senior executives and their positions in companies other than shareholders or part-time work *continued*

**Gu Gongyun**

Bachelor degree, doctoral advisor. He has worked successively as Lecturer of affiliated school of Fudan University, Associate Professor and Professor of East China University of Politics and Law, Vice Director and Director of Economic Law Department of East China University of Politics and Law, Assistant to President of East China University of Politics and Law; and currently as Vice President of East China University of Politics and Law.

Positions in companies other than shareholders or part-time work: Vice President of East China University of Politics and Law; Independent Director of Ganyue Expressway Co., Ltd., Dazhong Public Utilities Co., Ltd. and Pudong Development Co., Ltd., and Highly Group Co., Ltd..

**Ba Shusong**

PhD degree, research fellow. He has worked successively as Deputy Division Director of Bank of China Head Office Development and Planning Department, Vice President of Bank of China Hangzhou Branch, Senior Manager of Bank of China Hong Kong-Macau Regional Administration Division, Assistant General Manager of Bank of China (Hong Kong) Ltd. Risk Management Department, Vice Director and Director of Development Strategy Committee of Securities Association of China; and currently as Vice Director, Research Fellow and Doctoral Advisor of Financial Research Institute of Development Research Center of the State Council of P.R.C.

Positions in companies other than shareholders or part-time work: Vice Director of Financial Research Institute of Development Research Center of the State Council of P.R.C., Independent Director and Chairman Director of Audit Committee of Anhui Commercial Bank, Independent Director of Baoying Fund Management Company, Da'an Gene Co., Ltd of Zhongshan University.

**Huang Guangtong**

Bachelor degree, senior political economist. He has worked successively as Deputy General Manager and General Manager of Industrial Bank Human Resources Department, Labor Union Chairman of Industrial Bank, General Manager of Human Resources Department, Convener of Supervisory Board Industrial Bank; and currently as Chief Supervisor of Industrial Bank.

He holds no position in companies other than shareholders or part-time work.

**Dong Binggen**

Bachelor degree, senior engineer. He has worked successively as Lecturer, Secretary of Youth League Committee, Assistant to the Dean, and Vice Dean of Zhejiang Institute of Silk Textile, General Manager of China National Garments Corporation; and currently as Chairman and President of Union Developing Group Co., Ltd., and Chairman of Shenzhen Union Developing Investment Co., Ltd..

Positions in companies other than shareholders or part-time work: Chairman and President of Union Developing Group Co., Ltd., Chairman of Union Holdings Co., Ltd., Zhejiang Hualian Sunshine Petro-chemical Co., Ltd., and Zhejiang Hualian Hangzhou Bay Venture Capital Co., Ltd.

## **Huang Dazhan**

PhD degree. He has worked successively as Director of Union Bank of Hong Kong Co., Ltd., Director of BOC China Fund Limited, Supervisor of Ping An Insurance Co., Ltd.; and currently as Managing Director of China Merchants Finance Holdings Co., Ltd., Chairman of China Merchants China Direct Investment Limited., China Merchants Holdings (UK) Co., Ltd., China Merchants Insurance Co., Ltd., Holder China Insurance Brokers Co., Ltd., Shenzhen China Merchants Finance Investment Holdings Co. Ltd..

Positions in companies other than shareholders or part-time work: Director of China Merchants Group (Hong Kong) Co., Ltd. and China Merchants Finance Holdings Co., Ltd.; Director and General Manager of China Merchants Finance Holdings Co., Ltd.; Chairman of Merchants China Direct Investment Limited, China Merchants Holdings (UK) Co., Ltd., etc.

## **Wang Xiaobin**

Bachelor degree, economist. He has worked in BOC Harbin Branch Funding Division, as General Manager of Business Department of Harbin Securities Company, Assistant to General Manager of Northeast Administration Department and Assistant of Investment Banking H.O. of United Securities Co., Ltd., General Manager of Datong Securities Co., Ltd. Business Department; and currently as General Manager of Capital Operation Department of Xishui Strong Year Co.,Ltd. Inner Mongolia.

He holds no position in companies other than shareholders or part-time work.

## **Liu Peiyuan**

College degree, senior accountant. He has worked successively as Vice Director and Deputy General Manager of Industrial Bank Audit Department, Deputy General Manager and General Manager of Industrial Bank Financial Accounting Department; and currently as General Manager of Industrial Bank Accounting and Settlement Department.

He holds no position in companies other than shareholders or part-time work.

## **Hua Bing**

Master degree, economist. He worked in Guangdong Province Lingnan Law Firm, Guangzhou Lide Law Firm of Bureau of Justice of Guangzhou Municipality, and has successively worked as Deputy General Manager of Industrial Bank Law Affairs Office, Deputy General Manager of Risk Management Department, and Deputy General Manager of Secretariat of Board of Directors of Industrial Bank, and currently as General Manager of Supervisory Board Office, Deputy General Manager of Risk Management Department, and Director of Law Affairs Center of Industrial Bank.

He holds no position in companies other than shareholders or part-time work.

I. DIRECTORS, SUPERVISORS AND SENIOR EXECUTIVES *continued*

(iii) Major working experience of directors, supervisors and senior executives and their positions in companies other than shareholders or part-time work *continued*

**Li Shuang**

Master degree, doctoral advisor. He has worked successively as Professor, Director and Academic Secretary of Accounting Department of Central University of Finance and Economics, Vice President of Central University of Finance and Economics, Deputy Secretary-general of Chinese Institute of Certified Public Accountants, Consultant of Chinese Institute of Certified Public Accountants; and currently as Professor and Doctoral Advisor of School of Accounting of Central University of Finance and Economics.

Positions in companies other than shareholders or part-time work: Professor and Doctoral Advisor of School of Accounting of Central University of Finance and Economics; Independent Director of Zhong Bao Ke Kong Investment Co., Ltd., Chengde Xinxin Vanadium and Titanium Co., Ltd., Beijing Wangfujing Department Stores (Group) Co., Ltd., Shenyin and Wanguo Securities Co., Ltd. and Jiangsu Shuangdeng Group Co., Ltd.

**Zhang Yichun**

Bachelor degree, doctoral advisor. He has worked successively as Administrative Secretary of Fu'an Committee of the Chinese Communist Party, Director, Professor and Doctoral Advisor of Department of Economics of Xiamen University, Dean of School of Economics of Xiamen University; and currently as Director of Research Institute of Finance of School of Economics, Professor of Department of Finance, and Doctoral Advisor of Xiamen University.

Positions in other companies or part-time work: Director of Research Institute of Finance of School of Economics, Professor of Department of Finance, and Doctoral Advisor of Xiamen University; and Independent Director of Everbright Pramerica Fund Management Co., Ltd., Zhengzhou Gas Co., Ltd. and Fujian Zhonghe Co., Ltd.

**Chen Dekang**

Bachelor degree, senior economist. He has worked successively as Vice President of Industrial Bank Ningde Branch, Deputy General Manager and General Manager of Industrial Bank Operational Department, Vice President (in charge of overall management) of Industrial Bank Xiamen Branch, President of Industrial Bank Xiamen Branch; and currently as Vice President of Industrial Bank.

He holds no position in companies other than shareholders or part-time work.

**Tang Bin**

Bachelor degree, MBA, senior economist. He has worked successively as Vice Director of Trade Statistics Division and Foreign Economic Statistics Division of Statistics Bureau of Fujian Province, Vice Director of Planning Division and Director of Assignment System Division of Fujian Province System Reform Committee, General Manager of the Executive Office, Business Development Department, Corporate Finance Department of Industrial Bank, Preparatory Team Leader of Hangzhou Branch, General Manager of Secretariat of Board of Directors of Industrial Bank; and currently as Secretary of the Board of Directors of Industrial Bank and General Manager of the Office of Board of Directors.

He holds no position in companies other than shareholders or part-time work.

#### (iv) Change of directors, supervisors and senior executives

The fourth session of the fifth Board of Directors approved Mr. Zhang Yutang's resignation from the position of director, and nominated Mr. Fan Qingwu as the candidate for director of the Bank on March 20, 2005. Mr. Fan Qingwu was elected as Director of the Bank's Board of Directors at the 2004 Annual General Shareholders' Meeting on May 20, 2005.

Nominated by the fifth session of the fifth Board of Directors, Mr. Ba Shusong was elected as Independent Director of the fifth Board of Directors of the Bank at the 2005 First Extraordinary General Shareholders' Meeting on September 21, 2005.

The tenth session of the fifth Board of Directors approved Mr. Ludwig Chang and Mr. Song Li to resign from the position of director, and nominated Mr. John Law and Mr. Yang Peisen as candidates for director on March 18, 2006. This nomination is subject to approval by shareholders in the forthcoming General Shareholders' Meeting.

The seventh session of the third Supervisory Board approved Mr. Xu Yimeng's resignation from the position of supervisor on December 15, 2005.

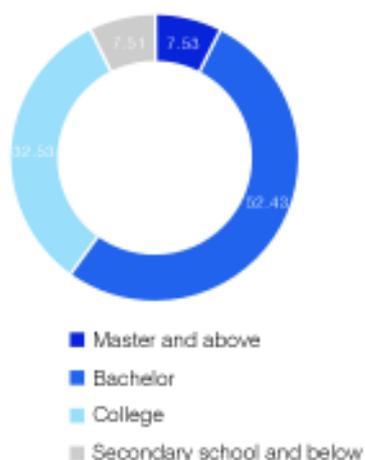
The eighth session of the third Supervisory Board nominated Ms. Wu Xiaohui as the candidate for supervisor on March 17, 2006, which is subject to approval by shareholders in the forthcoming General Shareholders' Meeting.

As nominated by President Li Renjie, Mr. Chen Dekang was engaged by the fifth Board of Directors as Vice President of the Bank on March 20, 2005.

## II. NUMBER, EDUCATIONAL LEVEL, POSITION COMPOSITION OF EMPLOYEES

As at the end of 2005, the Bank had 8337 employees on-the-job, with relevant composition as follows:

(1) By educational degrees (%)



(2) By positions (%)



(3) By age (%)



The Bank currently has 79 retired employees.



*Teamwork: The Core of Our Strength.*

*We grow together with you.*

# Corporate Governance

## I. CORPORATE GOVERNANCE OVERVIEW

In 2005, in consideration of actual situations, the Bank kept improving relevant systems and organization structure of corporate governance, optimized boundary of duty and working mechanism of Board of Directors, Supervisory Board, and senior management, and put the function of every level of corporate governance structure into further practice in strict accordance with new Corporate Law, Securities Law, Guidelines for Board of Directors Code of Conduct of Joint Stock Commercial Banks (provisional), Guidelines on Corporate Governance of Joint Stock Commercial Banks, and Guidelines on Rules of Independent Director and Outside Supervisor of Joint Stock Commercial Banks. Details are as follows:

### (i) Reinforcing construction of fundamental framework of corporate governance

While improving the organizational structure of corporate governance, the Bank has built up a complete framework of corporate governance based on the Articles of Association, rules of procedure of General Shareholders' Meeting, Board of Directors and Supervisory Board, which includes working rules of the Bank's President, Board of Directors, and Supervisory Board, Administrative Measures on Information Disclosure, Administrative Measures on Investors Relations Management, Provisional Measures on Shareholding Management, Administrative Measures on Related Party Transactions, Administrative Measures on Expenses for Board of Directors, and Administrative Measures on Remuneration and Evaluation of Directors, Supervisors and Senior Executives. This fundamental framework guarantees the perfection and effectiveness of corporate governance.

### (ii) Shareholders and General Shareholders' Meeting

#### 1. Convention of General Shareholders' Meeting

The Bank convoked General Shareholders' Meetings in strict accordance with relevant laws, regulations and Articles of Association of the Bank, to ensure that all shareholders have the rights to know, to participate, and to vote. In 2005, the Bank convened two General Shareholders' Meetings, which examined and approved 17 proposals including capital replenishment plan, issuance of financial bonds, withdrawal of general reserves from retained earnings, election of directors and profit distribution, etc., which played a significant role in promoting development of the Bank, protecting rights and interests of investors and other stakeholders. The two General Shareholders' Meetings were on-site witnessed by lawyers and issued with legal opinions.

#### 2. Related party transactions

Standardizing related party transactions is one of the goals of optimizing corporate governance structure, and whether a related party transaction is fair or impairing the interests of the Bank and all the shareholders is an important part of supervision by supervisory authorities. The Bank set down the Administrative Measures on Related Party Transactions between Industrial Bank and Insiders or Shareholders, and Detailed Rules for the Implementation of Administrative Measures on Related Party Transactions between Industrial Bank and Insiders or Shareholders in light of Administrative Measures on Related Party Transactions between Commercial Banks and Insiders or Shareholders issued by the China Banking Regulatory Commission (CBRC) and the Articles of Association of the Bank.

## I. CORPORATE GOVERNANCE OVERVIEW *continued*

### (ii) Shareholders and General Shareholders' Meeting *continued*

#### 2. Related party transactions *continued*

In the management of related party transactions, every level of the corporate governance structure has clear distinctions of authority and responsibility. The senior management, Board of Directors and General Shareholders' Meeting administer, examine and approve related party transactions according to their authorities. The risk management department reports periodically the situation of related party transactions to the Related Party Transaction Control Committee of the Board of Directors every year; the independent directors express independent opinions on significant related party transactions to the Board of Directors; the Supervisory Board supervises the performance of the Board of Directors and senior management during the process of examining and approving related party transactions.

### (iii) Directors and Board of Directors

#### 1. Structure of Board of Directors and its work

The Board of Directors consists of 15 directors, including 3 foreign directors and 5 independent directors. All directors were responsible and diligent, attended meetings, reviewed and approved proposals in real earnest, protected the interests of the Bank and all shareholders, and effectively assumed the function of decision-making. In 2005, the Bank convened 6 sessions of Board of Directors (including 2 meetings held in the form of voting by correspondence), reviewed and approved 40 proposals including development plan for the next five years, Administrative Measures on Investor Relations Management, Administrative Measures on Information Disclosure, capital replenishment plan, A share listing application documents, credit card cooperation with Hang Seng Bank, issuance of financial bonds, construction of Shanghai Business Operation Center, and share transfers, etc., and listened periodically to reports on the operating performance of the Bank. These significant decisions have created positive conditions for the Bank to adopt a scientific view on business development and capital restriction, and promoted the reform in business management system.

#### 2. Operation of special committees under Board of Directors

Every special committee under the Board of Directors convened meetings in accordance with laws, regulations, Articles of Association, and working rules of the Bank. In 2005, totally 12 meetings were held to review or listen to 46 proposals including annual business authorization, financial authorization, establishment of new branches, write-off of bad debts, risk position, situation of related party transactions, reports of internal audit, etc.. These committees have effectively assisted the Board of Directors in making decisions.

### (iv) Supervisors and Supervisory Board

#### 1. Structure of Supervisory Board and its work

The Supervisory Board consists of 8 supervisors, including 2 outside supervisors and 3 staff-representative supervisors. Highly responsible for shareholders, all supervisors diligently supervise the Bank's financial status and the performance of Board of Directors and senior management to protect legal rights and interests of shareholders. In 2005, the Supervisory Board convened 4 meetings, reviewed or listened to 15 proposals

including the annual report, report of performance of supervisors, audit on credit extension, financial status, internal audit, implementation of credit accountability system, etc.. In addition, the Supervisory Board organized two on-site examinations on several branches.

## 2. Special committees under the Supervisory Board

The Supervisory Committee and the Nomination, Remuneration and Evaluation Committee under the Supervisory Board convened meetings in accordance with laws, regulations, Articles of Association and working rules of the Bank. In 2005, each committee convened 1 meeting respectively to discuss proposals including annual financial report, report of performance of supervisors, etc., effectively exerting the function of assisting Supervisory Board in supervision.

## 3. System of outside supervisors

Currently, the Supervisory Board has 2 outside supervisors, who, as well-known experts in accounting and finance, supervise the legitimacy of decisions of the Board of Directors and performance of the senior management, and perform in real earnest the leading duty in Nomination, Remuneration and Evaluation Committee, and Supervisory Committee by virtue of their professional knowledge and independent stance. The diligence, conscientiousness and faithfulness of outside supervisors effectively ensured the objectiveness and independence of supervision of the Supervisory Board, protected legal rights and interests of depositors, small and medium shareholders, and promoted the healthy development of the Bank.

## II. INVESTOR RELATIONS MANAGEMENT AND INFORMATION DISCLOSURE

In strict accordance with the Administrative Measures on Information Disclosure of Commercial Banks, and with references to the Stock Listing Rules of Shanghai Securities Exchange and Notice Concerning Promoting Investor Relations Management of Listed Companies, Working Guidelines on Investor Relations in Listed Companies, the Bank took into account of actual situations to stipulate the Administrative Measures on Investor Relations Management and Administrative Measures on Information Disclosure. Meanwhile, the Bank set up a special column of Investor Relations on its website, [www.cib.com.cn](http://www.cib.com.cn), and adopted various communication methods such as investor newsletter, correspondence, phone, fax, face-to-face communication, etc., to truly and accurately disclose information, and protect the interests of investors.

## III. PERFORMANCE OF INDEPENDENT DIRECTORS

The Board of Directors has 5 independent directors, who account for one third of the total directors. With specialty covering finance, accounting and law, the personnel structure was reasonable. In 2005, with a view to protect the interests of small and medium shareholders and the Bank as a whole, the independent directors faithfully performed the leading duty in Audit Committee, Nomination, Remuneration and Evaluation Committee and Related Party Transaction Control Committee, attended the Board of Directors' meetings, and expressed independent opinions on events like remuneration and profit distribution plan, remuneration for directors and senior executives, significant related party transactions and assets depreciation reserves etc.. The diligence, conscientiousness and faithfulness of independent directors effectively ensured the Board of Directors to make scientific decisions, protected the legal interests and rights of investors, especially the small and medium shareholders, and promoted the prudent operation of the Bank.

### III. PERFORMANCE OF INDEPENDENT DIRECTORS *continued*

#### (i) Independent directors' attendance to the Board of Directors' meetings

Unit:times

Names	Meetings	Personal attendance	Entrusted attendance	Absence
Wang Guogang	4	4		
Deng Liping	4	3	1	
Lin Jingyao	4	4		
Gu Gongyun	4	3	1	
Ba Shusong	1	1		

Notes: 1. The office term of Mr. Ba Shusong started from September 21, 2005.

2. Mr. Deng Liping entrusted Mr. Wang Guogang to perform his voting right on the sixth session of the fifth Board of Directors.
3. Mr. Gu Gongyun entrusted Mr. Wang Guogang to perform his voting right on the fifth session of the fifth Board of Directors.

#### (ii) Independent directors' objection to relevant events

Independent directors of the Bank did not take any exception against resolutions of the Board of Directors meetings or other meetings of the Bank.

### IV. DECISION-MAKING MECHANISM

General Shareholders' Meeting is the supreme organ of the Bank; the Board of Directors is responsible for making decisions on significant events and setting annual operational objectives for the Bank; the Supervisory Board is responsible for supervising directors and senior management, while the senior management is responsible for managing the Bank under the guidance of Board of Directors. The decision-making system centered by the Board of Directors, the execution system centered by the senior management, and the supervisory system centered by the Supervisory Board perform their own duties independently, and a check and balance relationship has been formed between each other.

The Bank adopts unified corporate legal person management system, and delegates authority to branches and sub-branches in accordance with the principle of "limited and differentiated authority delegation, timely adjustment and integration of power and responsibility".

### V. PERFORMANCE EVALUATION, INCENTIVE AND RESTRICTION MECHANISM FOR SENIOR EXECUTIVES

The senior executives accept evaluation and supervision by the Board of Directors. In 2005, the Board of Directors reviewed and approved the Provisional Administrative Measures on Performance Evaluation of Senior Executives, and Provisional Administrative Measures on Remuneration for Senior Executives. By setting appropriate evaluation indicators, the Bank has built up an effective evaluation mechanism linking the senior executives' remuneration with risk, responsibility and performance, and an incentive and restriction mechanism to encourage the senior executives' working enthusiasm.

## General Shareholders' Meeting

Two sessions of General Shareholders' Meeting were held in 2005, specified as follows:

### I. 2004 ANNUAL GENERAL SHAREHOLDERS' MEETING

The Notice Concerning Convention of Industrial Bank 2004 Annual General Shareholders' Meeting was published on China Securities Journal and Financial Times on April 19 and May 9, 2005 respectively.

The 2004 Annual General Shareholders' Meeting was held in Fuzhou on May 20, 2005.

89 shareholders and shareholders' authorized representatives attended the meeting, representing 3.730 billion voting shares and 93.27% of the Bank's total 3.999 billion shares, which was in compliance with the Corporate Law and the Bank's Articles of Association.

The following proposals were reviewed and approved through open ballot voting: Work Report of the Board of Directors for 2004, Work Report of the Supervisory Board for 2004, Proposal on Engagement of Accountant Firms in 2005, Financial Settlement Report of 2004 and Financial Budget of 2005, Profit Distribution Plan of 2004, Annual Report 2004, Report on Assessment of Directors' Performance in 2004, Proposal on Administrative Measures on Remuneration of Senior Executives in 2004, Report on Assessment of Supervisors' Performance in 2004, Proposals on Remuneration of Supervisors, and Proposal on Change of Directors.

Beijing King & Wood PRC Lawyers witnessed on-site the legitimacy and validity of convocation procedures of the meeting, qualifications of shareholders attending the meeting, proposals and voting procedures, and issued a legal opinion letter.

### II. 2005 FIRST EXTRAORDINARY GENERAL SHAREHOLDERS' MEETING

The Notice Concerning Convention of Industrial Bank 2005 First Extraordinary General Shareholders' Meeting was published on China Securities Journal and Financial Times on August 20 and September 5, 2005 respectively.

The Bank's 2005 First Extraordinary General Shareholders' Meeting was held in Fuzhou on September 21, 2005.

74 shareholders and shareholders' authorized representatives attended the meeting, representing 3.629 billion shares and 90.76% of the Bank's 3.999 billion total shares, which was in compliance with the Corporate Law and the Bank's Articles of Association.

The following proposals were reviewed and approved through open ballot voting: Industrial Bank's Capital Replenishment Plan, Proposal on Issuance of Financial Bonds, Proposal on Stipulation of Administrative Measures on Remuneration of Directors, Proposal on Electing Mr. Ba Shusong as Independent Director of the Fifth Board of Directors, Proposal on Revising the Provisional Measures on Shareholding Management, and Proposal on Withdrawal of General Reserves from Retained Earnings.

Beijing King & Wood PRC Lawyers witnessed on-site the legitimacy and validity of convocation procedures of the meeting, qualifications of shareholders attending the meeting, proposals and voting procedures, and issued a legal opinion letter.

## Report of Board of Directors

### I. MANAGEMENT DISCUSSION AND ANALYSIS

#### (i) Review of operating performance of the Bank during the reporting period

##### 1. General Operating Status

Since 2005, the Bank has seriously implemented the annual operation plan set by the Board of Directors, responded proactively to changes in the business environment, adhered to the objective of Building A Top-grade Industrial Bank with Centuries of Reputation, promoted the transformation of business development mode and profitability mode, and achieved a sustained, rapid and healthy development in every business line. At the end of 2005, total assets of the Bank reached RMB 473.988 billion, increasing 39.42% over last year, the shareholders' equity stood at RMB 12.115 billion, up 20.38%; total deposit balance amounted to RMB 355.218 billion, jumping by 25.44%; total loan balance was RMB 242.571 billion, at a growth rate of 19.49%; based on the five-category classification, the year-end non-performing loan ratio was 2.33%, down 0.17 percentage point; the profit before tax reached RMB 3.528 billion, up 32.63%, and the profit after tax amounted to RMB 2.455 billion, up 46.56%; the year-end net capital totaled RMB 20.077 billion, with the capital adequacy ratio standing at 8.13%.

##### 2. Composition of prime operating revenue and prime operating profit

In 2005, the prime operating revenue of the Bank was RMB 17.601 billion, and the prime operating profit was RMB 3.511 billion.

##### (1) By Regions

Regions	In RMB '000	
	Prime operating revenue	Prime operating profit
Head Office (Including: Financial Markets and Credit Card Center)	3,170,076	-848,259
Beijing	1,425,347	584,652
Tianjin	294,782	93,992
Taiyuan	4,668	-9,907
Shenyang	347,097	79,031
Shanghai	2,007,901	746,522
Nanjing	973,117	238,178
Hangzhou	1,377,210	407,515
Ningbo	756,776	312,205
Fuzhou	710,121	362,772
Xiamen	489,128	164,685
Quanzhou	624,671	256,299
Other areas in Fujian Province	565,949	207,081
Jin'an	634,912	171,446
Zhengzhou	325,964	86,321
Wuhan	372,584	88,350
Changsha	426,843	113,021
Guangzhou	1,201,198	350,058
Shenzhen	866,838	35,963
Chongqing	562,105	274
Chengdu	279,778	67,306
Kunming	570	-18,962
Xi'an	183,112	21,974
<b>Total</b>	<b>17,600,747</b>	<b>3,511,417</b>

(2) By Business types

In RMB '000

Business types	Operating revenue	%
Loan	12,526,761	71.17
Inter-bank placements	1,889,936	10.74
Bond investment	2,764,476	15.71
Other businesses	419,574	2.38
<b>Total</b>	<b>17,600,747</b>	<b>100.00</b>

3. Financial status and business performance

(1) Changes in major financial indicators compared with last year and major reasons

In RMB '000

Items	2005	+/- (%)	Major reasons
Total assets	473,987,669	39.42	Rapid growth of business scale
Total liabilities	461,872,782	40.01	Rapid growth of business scale
Including: long term liabilities	61,865,585	30.43	Increase in time deposit and issuance of RMB 10 billion long term financial bonds
Shareholders' equity	12,114,888	20.38	Profit balance of current year
Prime operating profit	3,511,417	31.75	Rapid growth in business
Net profit	2,454,989	46.56	Tax free effect of significant increase in treasury bond investment
Net Increase of cash and cash equivalents	36,490,545	7,386.64	Increase of inter-bank deposits, applied mainly in current inter-bank placements, short term treasury bonds and central bank notes

I. MANAGEMENT DISCUSSION AND ANALYSIS *continued*(i) Review of operating performance of the Bank during the reporting period *continued*3. Financial status and business performance *continued*

## (2) Accounting items with changes over 30% compared with last year in financial statements

In RMB '000

Items	2005	+/- (%)	Major reasons
Inter-bank placement	567,368	-61.48	More increase of reverse repurchase agreements securities, and decrease of placements
Placement with financial institutions	130,000	-86.85	More increase of reverse repurchase agreements securities, and decrease of placements
Interest receivable	1,321,604	172.18	Withdrawal time of interest extending from December 21 to December 31, and increase of interest on installment coupon payment bonds
Other receivables	691,845	37.78	Normal growth
Bad debts provision	80,428	53.16	Normal growth
Short term investment	58,205,771	208.49	More increase of source of short term funds, correspondingly used in short term investment and other short term fund finances
Reverse repurchase agreements	50,514,045	185.42	More increase of source of short term funds, correspondingly used in short term investment and other short term fund finances
Medium and long term loans	75,856,968	37.80	Normal growth
Overdue loans	550,086	38.56	Normal growth
Long term bond investment	59,015,745	101.53	Increase of bond investment
Construction in progress	71,866	408.24	Expenses of decorating newly-purchased building of Ningbo Branch in 2005, not yet completed
Fiscal deposits	23,649	161.56	Broadened channel for fund source
Due to banks and financial institutions	65,429,964	111.41	Liberalization of interest rate of inter-bank deposits, and improvement in the Bank's competitiveness
Borrowings from banks and financial institutions	403,510	-55.34	More increase of source of other fund, and less inter-bank lending
Repurchase agreements	19,123,051	246.07	Enhancement of short term capital operation
Outward remittance	284,974	101.51	Rapid development of inter-bank agent service

Items	2005	+/- (%)	Major reasons
Trusted fund	1,171,728	925.83	Rapid development of money management in domestic and foreign currency
Short term guarantee deposits	53,756,208	85.84	Enhancement of capital management, decrease in risk exposure
Interest payable	1,888,087	138.05	Withdrawal time of interest extending from December 21 to December 31
Salary payable	915,120	78.26	Payment of remuneration in 2005 was not made in time
Other taxes payable	73,258	46.04	Normal growth
Dividends payable	42,839	-74.14	Distribution of dividends of 2005 was not made in cash
Other payables	1,708,035	119.83	Rapid development of bank cashier order, agent collection of entrusted loans and payables
Deferred income	158,852	-	Accounting of notes business of 2005 changed from cash basis to accrual basis
Other current liabilities	-	-	Balance at the end of 2004 was the amount received from selling the undue reverse repurchase agreements bonds in foreign currency.
Long-term guarantee deposits	19,058	166.55	Enhancement of capital management; decrease in risk exposure
Long term bond payable	10,000,000		Issuance of RMB 10 billion financial bonds
Surplus reserve	999,754	32.55	Profit distribution plan of 2005
General reserves	2,400,000		Withdrawal of general reserves from retained earnings according to new policy from the Ministry of Finance
Retained earnings	1,876,919	-24.56	Normal growth
Interest income	12,526,761	30.67	Normal growth
Intermediate business revenue	316,067	34.75	Normal growth
Investment revenue	2,764,476	240.82	Increase of bond investment in 2005
Interest expenses	5,705,421	50.87	Rapid growth in scale
Expenses of borrowing from other financial institutions	2,235,472	68.84	Significant increase of inter-bank deposits
Commission expenses	78,840	90.03	Business transformation, and increase of intermediate services
Operating expenses	3,885,392	35.22	Normal growth
Other operating expenses	1,444,562	36.15	Normal growth
Operating tax & surcharge	739,643	34.26	Normal growth
Non-operating revenue	34,693	30.42	Normal growth
Non-operating expenses	18,231	-42.71	Small base with fluctuation in increase range

## I. MANAGEMENT DISCUSSION AND ANALYSIS *continued*

### (i) Review of operating performance of the Bank during the reporting period *continued*

#### 4. Changes in assets and profit composition

(1) The Bank proactively adjusted its asset structure. The proportion of total loans to total assets kept decreasing, while that of investment kept increasing, which enabled the Bank's asset structure to transform towards the low-risk structure. In 2005, profitable assets of the Bank accounted for 97.30% of the total assets, up 0.43 percentage point over last year, of which, loans accounted for 51.18%, declining 8.54 percentage point from last year, and investment accounted for 25.40%, up 10.26 percentage point over last year. Meanwhile, the Bank actively controlled the development of non-operating assets and non-interest-bearing assets, with the proportion of profitable assets increasing year by year, which effectively offset the influence of decrease in the proportion of high-risk assets on income.

(2) Operating expenses increased by 35.22% over the previous year, mainly due to rapid growth of business scale, which made the operating expenses increase accordingly.

#### 5. Major shareholding and affiliated shareholding companies

The Bank invested RMB 50 million in China Union Pay Co., Ltd., which accounted for 3.03% of the registered capital of China Union Pay Co., Ltd..

### (ii) Prospect of future development

#### 1. Annual operation plan for 2006

Under the Bank's five-year strategic objectives and the operational guidance of enhancing service and management capability centered by value creation, and in consideration of both internal and external factors, the business operation plan of the Bank for 2006 is as follows:

##### *Source and utilization of funds*

The source of funds in domestic and foreign currency will increase by RMB 111 billion, with the year-end balance standing at RMB 545.6 billion, an increase of 26% over the previous year; of which, total deposits in domestic and foreign currency will increase by RMB 91 billion, with the year-end balance amounting to RMB 444.8 billion, up 26% over the previous year, and over RMB 20 billion bonds will be issued, with year-end balance reaching RMB 36 billion; total loans (including discount notes) in domestic and foreign currency will increase by RMB 82 billion, with the year-end balance standing at RMB 324 billion, increasing 34% over the previous year.

##### *Asset quality*

At the end of 2006, the non-performing loans (based on five-category classification) in domestic and foreign currency will be controlled at RMB 6.515 billion(after written-off), and the non-performing loan ratio will be controlled below 2.01%.

### *Profit plan*

Profit before tax of 2006 will be RMB 4.22 billion, increasing by 20% over the previous year, and the net profit will be RMB 2.8 billion, up 14% over last year.

#### 2. Demand, utilization plan, and source of funds required to realize future development strategy

While optimizing asset structure, enriching types of assets, and rapidly expanding the asset scale, the Bank will gradually decrease the proportion of credit assets, grant more loans to high-grade small and medium enterprises and retail customers, strengthen investment in bonds, and actively develop new asset products. With a view to match asset scale with structure, the Bank is to further develop the liability business and optimize the gearing structure. At the same time of expanding source of liabilities such as enterprise deposits and savings deposits, the Bank will increase active liabilities by issuing financial bonds, absorbing lump-sum deposits under agreement, etc., and develop new liability instruments like lump-sum negotiable certificate of deposits to broaden the channel of liabilities source.

#### 3. Risk factors and analysis of countermeasures

Risks confronting the Bank are mainly credit risk, market risk, operational risk, and information & technology risk. During the reporting period, the Bank strictly followed the requirement of overall risk management, improved risk management and internal control system, and promoted risk management methods and measures. The specific countermeasures are as follows:

##### *Countermeasures to credit risk*

Setting up regional credit examination and approval centers directly under the Head Office in Beijing, Shanghai, Guangzhou and Fuzhou, implementing the unified credit policy and standards of Head Office, in order to reinforce the independency and quality of credit examination and approval; separating credit review function from some branches' risk management departments to promote the specialization of credit examination and management, enhance personnel allocation, and improve the competence and effectiveness of the branches' risk management; organizing independent after-loan check on some projects by branches' risk management departments based on normal after-loan check; further segmenting the pass and special-mentioned loans based on five-category classification to elaborate asset risks; amending credit accountability system on credit business; upgrading the credit management system and developing enterprise financial analysis system to improve the technological support for risk management and reinforce the electronic hard restriction.

## I. MANAGEMENT DISCUSSION AND ANALYSIS *continued*

### (ii) Prospect of the future development *continued*

#### 3. Risk factors and analysis of countermeasures *continued*

##### *Countermeasures to market risk*

Putting requirements of Guidelines on Market Risk Management of Commercial Banks into practice, using assets & liabilities management system to carry out real-time monitor on the whole bank's liquidity status, calculate interest risk exposure, and improve risk supervision management capacity; strictly controlling the risk exposure of all treasury operation business in domestic and foreign currency, enhancing limits management on treasury operation business, and carrying out reasonable and effective internal control through transaction limits, risk limits and stop-loss limits; improving the project of internal funds transfer and pricing, and adopting market-based measures to ensure balanced structure of assets and liabilities in domestic and foreign currency; strengthening market analysis and research, implementing bond investment classification management, and improving bond portfolio management.

##### *Countermeasures to operational risk*

Enhancing examination and supervision on operational risk through normal examination, special examination and shock examination to implement special case treatment as required by CBRC; uncovering problems and hidden risks in the operational process of every business, and carrying out relevant rectification in a timely fashion; summarizing key risk points in the process of every business and issuing prevention measures to intensify risk indication mechanism; promoting the system of accrediting accounting directors to grass-root units to improve accounting supervision system, and requiring accounting directors to control the flow direction of credit funds; enhancing on-post training, daily training and education of operational personnel.

##### *Countermeasures to information & technology risk*

Enhancing system construction, stipulating and issuing rules and regulations concerning information technology management, project research and development, operation maintenance and safety management; adopting measures like setting up the firewall and invasion supervision system, enhancing access control, implementing graded protection to reinforce safety and prevent illegal access; promoting and implementing business continuity plan, strengthening emergency rehearsal of information system, and establishing inner-city data backup system based on the construction of Shanghai Disaster Backup Center; standardizing procedures to amend the production system data, and developing a special data maintenance platform to handle core database.

## II. BUSINESS OPERATION OF THE BANK

### (i) Capital structure and changes

In RMB 100 million

Items	2005 year-end	2004 year-end	2003 year-end
Net capital	200.77	165.45	124.58
Including: core capital	121.12	104.08	71.18
supplementary capital	79.65	61.37	53.40
deduction	0	0	0
Risk weighted assets	2,469.91	2,049.70	1,388.76
Capital adequacy ratio(%)	8.13	8.07	8.97
Core capital adequacy ratio(%)	4.90	5.08	5.13

### (ii) Five-category of loan classification and loan loss provision

The Bank classifies its credit loans into pass, special-mentioned, substandard, doubtful and loss loans in accordance with Guidelines on Loan Risk Classification (YF[2001]No.416) issued by the People's Bank of China. According to the asset risk classification result and in consideration of borrowers' solvency and the repayment status of principals and interests, reasonable value of mortgage and pledged securities, warrantor's solvency, company's internal management, etc., the Bank withdraws loan loss provision proportionally according to the possible loan loss rate.

#### 1. Five-category loan classification and loan loss provision proportion of different categories

In RMB '000

Items	At end of 2005	%	Loan loss provision (%)
Pass	229,017,352	94.41	1.00
Special-mentioned	7,907,079	3.26	2.00
Substandard	2,642,211	1.09	25.93
Doubtful	2,153,560	0.89	58.25
Loss	851,305	0.35	100.00
<b>Total</b>	<b>242,571,507</b>	<b>100.00</b>	

#### 2. Changes of Non-performing Loans during the Reporting Period:

In RMB '000

Categories	At end of 2004		Changes during the period		At end of 2005	
	Balance	%	Balance	%	Balance	%
Substandard	2,717,443	1.34	-75,232	-0.25	2,642,211	1.09
Doubtful	1,368,170	0.67	785,390	0.22	2,153,560	0.89
Loss	991,250	0.49	-139,945	-0.14	851,305	0.35
<b>Total</b>	<b>5,076,863</b>	<b>2.50</b>	<b>786,335</b>	<b>-0.17</b>	<b>5,647,076</b>	<b>2.33</b>

II. BUSINESS OPERATION OF THE BANK *continued*

## (iii.) Distribution of loans

## 1. Distribution to major industries

As of the reporting period, the top five industries in respect of loan distribution were manufacturing industry, personal loans, real estate industry, wholesale and retail industry, transportation, storage and postal industry. Details are as follows:

	In RMB '000	
Industries	Balance	%
Agriculture, forestry, animal husbandry and fishery	1,169,737	0.48
Mining	4,007,733	1.65
Manufacturing	52,820,913	21.78
Electric power, gas and water producers and suppliers	15,961,361	6.58
Construction	12,454,859	5.13
Transportation, storage and postal service	18,199,842	7.50
Information transmission, computer and software service	4,732,405	1.95
Wholesale and retail	24,974,476	10.30
Accommodation and catering	1,178,140	0.49
Finance	2,238,066	0.92
Real estate	25,690,727	10.59
Lease and commercial service	11,010,600	4.54
Scientific research, technical service and geologic prospecting	1,202,155	0.50
Hydro-engineering, environmental and public facilities administration	14,867,003	6.13
Residents service and other services	2,087,282	0.86
Education	2,392,738	0.99
Health, social guarantee and social services	872,720	0.36
Culture, sports and entertainment	1,398,751	0.58
Public administration and social organizations	2,117,306	0.87
Personal loans	30,575,841	12.60
Discount	12,618,852	5.20
<b>Total</b>	<b>242,571,507</b>	<b>100.00</b>

## 2. Loan distribution by regions

	In RMB '000	
Regions	Balance	%
Beijing	22,988,459	9.48
Shanghai	26,677,557	11.00
Zhejiang Province	33,615,412	13.86
Fujian Province	43,187,724	17.79
Guangdong Province	37,758,883	15.57
Other regions in China	78,343,472	32.30
<b>Total</b>	<b>242,571,507</b>	<b>100.00</b>

#### (iv) Loan to top ten borrowers

As of the reporting period, the top ten borrowers were: State Grid Corporation of China, Northeast China Grid Company Limited, China Telecom ( Fujian ) Co., Ltd., Guangzhou Mingsheng Real Estate Industry Co., Ltd., Jiangsu Province Expressway Operation and Administration Center, Fuzhou Luo-Chang Expressway Co., Ltd., Beijing Electric Power Corporation of North China Grid Company Limited, Hangzhou Hang-Qian Expressway Development Co., Ltd., Beijing Zhongwu Lixiang Real Estate Development Co., Ltd., Jiaxing City Zha-Jia-Su Expressway Co., Ltd.. The total loan balance to the top ten borrowers amounted to RMB 7,916 billion, accounting for 3.26% of the closing loan balance.

#### (v) The Bank offered no soft loans during the reporting period

#### (vi) Ending balance of the restructured loan and overdue loan herein

At the end of the reporting period, the restructured loan balance of the Bank was RMB 5.601 billion, of which, RMB 1.345 billion was overdue.

#### (vii) Major loan types, monthly average loan balance and annual average loan interest rate

In RMB '000

Items	Amount
Monthly average loan balance	243,372,741
Including: average balance of short-term loans, discount, import & export negotiation	174,414,964
medium & long-term loans	62,284,898
average overdue, non-accruing loan balance	6,672,879
Annual average loan interest rate	5.19

#### (viii) Treasury bonds with large amount held at end of year

In RMB '000

Bond types	Par value	Maturity date	Interest rate(%)
04 T- Bond 03	7,292,660	2009-4-20	4.42
05 T- Bond 04	4,630,000	2025-5-15	4.11
04 T- Bond 05	4,359,410	2006-6-15	Zero coupon
05 T- Bond 03	4,153,000	2010-4-26	3.30
05 Central Bank Notes112	3,700,000	2006-2-17	Discount
<b>Total</b>	<b>24,135,070</b>	<b>-</b>	<b>-</b>

II. BUSINESS OPERATION OF THE BANK *continued*

## (ix) Interest receivable and bad debt provision for other receivables

In RMB '000

Item	Amount	Loss provision	Provision withdrawal method
Bad debt provision for other receivables	691,845	80,428	The Bank withdrew bad debt provision for other receivables through aging analysis and single identification.

## (x) Major deposit types, monthly average deposit balance and annual average deposit interest rate

In RMB '000

Items	Amount
Monthly average deposit balance	295,839,736
Including: enterprise deposits	184,408,521
saving deposits	25,005,432
other deposits	86,425,783
Annual average deposit interest rate(%)	1.82

## (xi) The Bank had no overdue outstanding liabilities at the end of the reporting period

## (xii) Balance of off-balance-sheet items that may have significant effect on financial conditions and business results and relevant important information

In RMB '000

Items	2005 year-end	2004 year-end
B/A draft	81,257,416	58,659,623
Issued bank guarantee	3,586,177	3,013,569
Issued L/C	6,454,035	5,229,449
Exchange rate derivative financial instrument	5,131,161	1,292,607
Interest rate derivative financial instrument	2,032,277	1,340,043
Credit derivative financial instrument	484,212	413,825
Bonds derivative financial instrument	6,215,000	-

### **(xiii) Basic information of debt repayment assets**

#### **1. Balance**

As of the reporting period, the book balance of debt repayment assets of the Bank was RMB 656,555,000, and the opening balance of debt repayment assets was RMB 668,402,000.

#### **2. Provision for Impairment**

At the end of the reporting period, the amount of provision for impairment made for debt repayment assets was RMB 99,572,000, while the opening balance of provision for impairment was RMB 85,567,000.

#### **3. Breakdown of the debt repayment assets**

Among debt repayment assets, the amount of house property, land use right, equity, automobiles was RMB 529,216,000, RMB 92,404,000, RMB 32,880,000, RMB 2,055,000 respectively, accounting for 80.6%, 14.07%, 5%, and 0.31% respectively.

### **(xiv) Risk management of credit extension to group customers**

During the reporting period, the Bank attached great importance to the risk management on credit extension to group customers, and continued to reinforce its management capability. The Bank revised Measures of Risk Management of Credit Extension to Group Customers of Industrial Bank in accordance with Guidelines on Risk Management of Credit Extension to Group Customers by Commercial Banks issued by CBRC. Meanwhile, the group customer management module of credit management system was upgraded, adding new functions like group customer information collection and recording, exposure calculation, credit line control, etc., which strengthened the Bank's electronic management on group customers. The Bank implemented unified management and risk control on credit extension to group customers. Overall credit line to group customers was determined based on credit receivers' risk size and risk-resilience to avoid over-concentration of risks. When granting credit to group customers, the Bank was careful in choosing enterprises with real assets(tangible assets) and projects with stable cash flow as the credit-granting targets. Through collection and analysis of group customers' information, the Bank enforced the supervision on group customers, made risk pre-warnings, and took corresponding measures in a timely manner.

### **(xv) Non-performing loans and corresponding measures taken**

As of 2005, the Bank's non-performing loan balance amounted to RMB 5.647 billion, with non-performing loan ratio standing at 2.33%, down 0.17 percentage point from that of the beginning of the year.

## II. BUSINESS OPERATION OF THE BANK *continued*

### (xvi) Non-performing loans and corresponding measures taken *continued*

During the reporting period, the Bank took the following measures to resolve non-performing loans: firstly, strengthening the examination of customers to prevent potential non-performing loans; secondly, setting up Special Assets Management Department in the Head Office to enhance the management of non-performing loans, disposal effectiveness and efficiency; thirdly, collecting risk information of relevant industries, customers, especially related groups, making risk pre-warnings throughout the Bank, executing business lock and control in the credit management system; fourthly, segmenting pass and special-mentioned loans and increasing withdrawal of stimulant special provision correspondingly, encouraging the operating units to strengthen risk awareness and sustainable operation concept; fifthly, strengthening the research and innovation in non-performing loan disposal methods, adopting various ways to clear up non-performing loans, so as to enforce the non-performing loans disposal capability; sixthly, withdrawing sufficient special provision to write off loss loan in time.

### (xvii) Completeness, rationality and effectiveness of the Bank's internal control system

According to Commercial Banks' Internal Control Guidelines issued by the People's Bank of China, and guided by the principle of "completeness, cautiousness, effectiveness, and independence", the Bank made continuous efforts to improve its internal control system by reinforcing internal control measures on internal control environment, credit-granting business, treasury operation business, intermediate business, accounting business, computer information system control, supervision and rectification mechanism, etc., stipulated, revised and improved all kinds of rules and regulations in a timely way in light of business development, product development and risk management, and periodically carried out audit and appraisal to ensure the completeness, rationality and effectiveness of the internal control system. During the reporting period, the Bank organized an internal audit investigation on its institutional construction status, revised existing systems one by one based on the problems found in the audit process, and formed a clear, stable system that can be real-time maintained, which covered every management aspect including organization structure, planning and finance, accounting, authority-delegation and credit-extension management, law affairs, funds management, security and guard, audit management, etc.. On the above basis, the Bank worked out and issued Administrative Measures on Systems of Industrial Bank, regulated system management procedures, and carried out the accountability mechanism to improve the effectiveness of implementation.

As audited by Fujian Huaxing Certified Public Accountants Ltd. and Ernst & Young, the internal control system of the Bank did not have any significant defects in respect of completeness, rationality, and effectiveness.

### III. ROUTINE WORK OF THE BOARD OF DIRECTORS DURING THE REPORTING PERIOD

#### (i) Meetings of the Board of Directors

Six sessions of the Board of Directors were held during the reporting period, details of which are as follows:

The fourth session of the fifth Board of Directors was held in Xiamen on March 20, 2005. At this meeting, the following fourteen proposals were reviewed, approved, and became resolutions: A-share listing prospectus, accounting statements for 2002-2004, change of directors, engagement and appointment of Vice President; change of shareholding structure, profit distribution, engagement of accountant firms, stipulation of Basic Financial Rules, Work Report of the Board of Directors for 2004, Work Report of President for 2004 and the Annual Report 2004, Final Financial Report for 2004 and Financial Budget Plan for 2005, Report on Assessment of Directors' Performance of Duties and Responsibilities, and the proposal to convene Annual General Shareholders' Meeting 2004. The Report on Acquisition of Foshan City Commercial Bank was also heard at the meeting.

The fifth session of the fifth Board of Directors was held in Fuzhou on June 21, 2005, at which the following ten proposals were reviewed, approved, and became resolutions: nomination of candidates for independent directors, cooperation with Hang Seng Bank in credit card business, investment in construction of Shanghai Business Operation Center, A-share listing prospectus, accounting reports for 2002-2004 and the first quarter of 2005, adjustment of the proceeds utilization plan, withdrawal of general provisions from retained earnings, budget project for written-off bad loans for 2005, amendment to Provisional Measures on Shareholding Management and Implementation Measures on Credit Asset Risks Classification. The Report on Business Operation for January-May of 2005 was also heard at the meeting.

The sixth session of the fifth Board of Directors was held in Chengdu on August 19, 2005, at which the following eight proposals were reviewed and approved: capital replenishment plan, issuance of financial bonds, supplementing members to the Auditing Committee of the Board of Directors, convening of the First Extraordinary General Shareholders' Meeting 2005, and the stipulation of Administrative Measures on Directors' Remuneration, Administrative Measures on Performance Evaluation of Directors, Provisional Administrative Measures on Remuneration for Senior Executives, and Provisional Administrative Measures on Performance Evaluation of Senior Executives. The Report on Implementation of 2004 Regulatory Opinions from CBRC and Rectification Suggestion, the Report on Stipulation of Development Plan for 2006-2010 and the Report on Business Operation for January-July of 2005 were also heard at the meeting.

The eighth session of the fifth Board of Directors was held in Fuzhou on December 16, 2005, at which the following six proposals were reviewed and approved and became resolutions: stipulation of the Development Plan Outline for 2006-2010; branch setting-up plan in 2006, stipulation of Measures on Investor Relations Management, Administration Measures on Information Disclosure, Basic Standards on Internal Audit of Industrial Bank, and amendment to Administrative Measures on Expenses for Board of Directors. The Report on the Progress of Capital Replenishment Plan and the Report on Business Operation for January-October of 2005 were also heard at the meeting.

The seventh and ninth sessions of the fifth Board of Directors were held in the form of voting by correspondence during November 3-10 and December 16-23, 2005, at which matters related to shares transfer were reviewed, approved and became resolutions.

### III. ROUTINE WORK OF THE BOARD OF DIRECTORS DURING THE REPORTING PERIOD *continued*

#### (ii) Implementation of resolutions of General Shareholders' Meetings by the Board of Directors

##### 1. Implementation of profit distribution for 2004

In light of a resolution of the Annual General Shareholders' Meeting for 2004, the Bank carefully implemented the profit distribution plan for 2004. with the total equity being RMB 3.999 billion at the end of 2004, dividend of RMB1.1 (after tax) per 10 weighted average shares was distributed. The cash dividend for new shareholders who invested in the Bank in 2004 was calculated in the weighted average method according to the number of days after their capital was transferred to the Bank's account, and the weighted average total number of shares was 3,673,205,200 in 2004. To date, except some shareholders to whom the dividend has not been distributed due to their stock pledge or freezing, the dividend for the other shareholders has been distributed.

##### 2. Implementation of Resolutions Approved at General Shareholders' Meetings and Matters Authorized by the Board of Directors

According to a resolution of the Annual General Meeting of Shareholders 2004, the Board of Directors continued to engage Fujian Huaxing Certified Public Accountants Ltd. and Ernst & Young as auditors of the Bank.

In light of the resolution approved by the General Shareholders' Meeting held on September 21, 2005, and upon the approval with the Reply of the People's Bank of China on Industrial Bank's Issuing of Financial Bonds (YF [2005] No.77) and the Reply of China Banking Regulatory Commission on Industrial Bank's Issuing of Financial Bonds (YJF [2005] No.253), the Bank issued RMB 10 billion three-year financial bonds (the first phase) in the way of bookkeeping filing in the national inter-bank bond market. Another batch of RMB 5 billion five-year financial bonds were issued in the way of bookkeeping filing in the national inter-bank bond market on March 31, 2006.

At the First Extraordinary General Shareholders' Meeting 2005, the Proposal on Capital Replenishment Plan was reviewed and approved. As the resolution required the Bank to study issues concerning the issuance of hybrid capital bonds, the Bank carried out relevant application and reporting work. In mid December, CBRC issued the Notice on the Issuance of Hybrid Capital Bonds by Commercial Banks for the Replenishment of Supplementary Capital and approved the Bank to issue RMB 4 billion of hybrid capital bonds. The issuance of these bonds is subject to approval from the People's Bank of China.



*Striving for Perfection.*

*We grow together with you.*

## Report of Supervisory Board

### I. MEETINGS

During the reporting period, the Supervisory Board held four meetings, details of which are as follows:

The fourth session of the third Supervisory Board was held in Xiamen on March 20, 2005. The meeting reviewed and approved four proposals including Work Report of the Supervisory Board for 2004, Annual Report 2004, Report on Assessment of Supervisors' Performance in 2004, and Report on Business Performance and Final Financial Accounting for 2004. The Explanation made by Fujian Huaxin Certified Public Accountants Ltd. on Annual Auditing was also heard at the meeting.

The fifth session of the third Supervisory Board was held in Dongguan on May 13, 2005, at which the Report on Financial Conditions for January-April of 2005 and the Report on Internal Auditing were heard.

The sixth session of the third Supervisory Board was held in Fuzhou on September 20, 2005. At this meeting, the Supervisory Board reviewed and approved the Proposal on Carrying out Audit on Credit Business, listened to the Report on Implementation of 2004 Regulatory Opinions from China Banking Regulatory Commission and Rectification Suggestion, the Report on Non-performing Assets Status for the First Half of 2005, and the Report on Financial Conditions for the First Half of 2005.

The seventh session of the third Supervisory Board was held in Fuzhou on December 15, 2005. At this meeting, the Proposal on Mr. Xu Yimeng's Resignation as Supervisor was approved, the Report on Financial Conditions for the First Three Quarters of 2005 and the Report on Implementation of Credit Accountability System were heard, and the Inspection Plan of the Supervisory Board for 2006 was studied and stipulated.

### II. SPECIAL INSPECTIONS BY SUPERVISORY BOARD

During the reporting period, the Supervisory Board conducted two special inspections, which played an active role in pushing forward the Bank to operate legally and strengthen its internal control.

In May, 2005, the Supervisory Board organized all the supervisors to inspect Dongguan Branch which was still under preparation at that time, listened to the report on business operation of Foshan Branch after acquisition, and exchanged views with the branch's management team. During the inspection, the Supervisory Board pointed out that, while accelerating development, the branch should always adhere to prudent operation and standard management, and enhance risk management and internal control in an all-round manner, so as to lay a solid foundation for long term and sustainable development.

During November 21-December 9, 2005, the Supervisory Board organized some supervisors and Auditing Department of the Head Office to form a special auditing team. They went to regional credit examination and approval centers and relevant branches to conduct a special auditing and investigation on the Bank's credit examination and approval process. The investigation was made mainly in the forms of questionnaire, exchanging views through discussion and check of records to evaluate whether the credit business management is scientific, reasonable and effective. The Supervisory Board believed that the Bank's current credit examination and approval system can basically meet the requirements of business development and risk control. It also issued a management proposal to the senior management in light of the existing problems in efficiency of credit examination and approval, business authorization, and so on.

### III. INDEPENDENT OPINIONS OF THE SUPERVISORY BOARD ON RELEVANT MATTERS

The supervisors attended the General Shareholders' Meetings and meetings of the Board of Directors as nonvoting delegates to carry out supervision on the performance of directors and senior executives.

#### (i) Legitimate business operation

During the reporting period, the Bank's operation was prudent, the management was standard, the decision-making procedures were lawful, and the internal control system was sound and rational. The Bank has fully fulfilled its annual operation plan stipulated by the Board of Directors and its business performance was objective and true.

#### (ii) Inspection on financial report

During the reporting period, the Bank's annual financial report gives a true and impartial view of the Bank's financial status and operating achievements. Fujian Huaxing Certified Public Accountants Ltd. and Ernst & Young have audited the annual financial report respectively in accordance with domestic and international auditing standards and both have issued standard and unqualified Auditors' Reports.

#### (iii) Acquisition and disposal of assets

During the reporting period, there was no material acquisition, merger or disposal of assets.

#### (iv) Utilization of raised funds

During the reporting period, the Bank has raised RMB10 billion from issuance of three-year financial bonds. The actual use of the raised funds was in conformity with the promise stipulated in the prospectus.

#### (v) Related party transactions

During the reporting period, the Bank strictly observed relevant rules and regulations in its management of related party transactions. The process of related party transactions was fair and impartial, and the result was fair. No insider transaction or act that infringed the interests of the shareholders and the Bank was found.

#### (vi) Internal control system

During the reporting period, the internal control system of the Bank was sound and reasonable.

#### (vii) Implementation of resolutions of General Shareholders' Meetings

During the reporting period, members of the Supervisory Board legitimately attended the General Shareholders' Meetings and did not object to any proposals submitted to the General Shareholders' Meetings for review. After supervising the implementation of relevant resolutions approved at the two General Shareholders' Meetings held this year, the Supervisory Board believed that the Board of Directors had conscientiously fulfilled the resolutions of General Shareholders' Meetings.

## Significant Events

### I. MATERIAL LAWSUITS AND ARBITRATION

During the reporting period, the Bank was not involved in any lawsuit or arbitration that had material influence on its operating activities. As of the reporting period, there were a total of 76 unsettled cases with each one involving an amount over RMB10 million. The total amount involved was approximately RMB 2711.35 million. Among them, there was one case in which the Bank was defendant and the amount involved was approximately RMB 32.25 million; there were 66 cases in which the Bank was plaintiff, and there were 9 arbitration cases in which the Bank was claimant. The amount involved in the 79 cases in which the Bank was plaintiff and claimant was RMB 2679.10 million. All these lawsuits or arbitrations were resulted from the normal business operations of the Bank.

### II. ACQUISITION, DISPOSAL OF ASSETS AND MERGERS

During the reporting period, there was no material acquisition, merger or disposal of assets.

### III. MATERIAL RELATED PARTY TRANSACTIONS

The related parties of the Bank mainly include: shareholders holding 5% (or more) of the total shares and their controlling shareholders; the legal persons or other organizations that are directly, indirectly or jointly controlled or may be greatly influenced by the shareholders holding 5% (or more) of the total shares; the directors, supervisors, senior executives and their close relatives; the legal persons or other organizations that are directly, indirectly or jointly controlled or may be greatly influenced by the directors, supervisors, senior executives and their close relatives (hereinafter referred to as "units connected with key management executives"). During the reporting period, the related party transactions include: granting loans to the related parties; handling acceptance, letter of credit and letter of guarantee for the related parties; accepting deposits of the related parties; and other businesses.

During the reporting period, the related party transactions involving an amount of over RMB 30 million include: two shareholders holding more than 5% of the total shares deposited RMB 6.136 billion in the Bank; a related legal person (Zhejiang Hualian Sunshine Petro Chemical Company Limited) that is significantly influenced by a supervisor of the Bank got a loan of RMB352 million from the Bank, the off-balance-sheet business it handled concerned RMB165 million and it deposited in the Bank RMB164 million as guarantee fund.

All the related party transactions mentioned above were resulted from normal operating activities. The conditions and interest rates of these transactions were subject to the general business regulations of the Bank.

#### **IV. MATERIAL CONTRACTS AND THEIR PERFORMANCE**

##### **(i) Material trust, lease or contracting**

The Bank had no significant events concerning trust, leasing or contracting during the reporting period.

##### **(ii) Significant guarantee**

During the reporting period, except the normal financial guarantee business as approved in the scope of business, the Bank had no other significant guarantee events that need to be disclosed.

##### **(iii) Events of entrusting others with cash asset management**

During the reporting period, the Bank had no event of entrusting others with cash asset management.

##### **(iv) Other material contracts**

During the reporting period, all contracts of the Bank have been normally performed and no significant contract dispute has ever occurred.

#### **V. ENGAGEMENT/DISENGAGEMENT OF CERTIFIED PUBLIC ACCOUNTANTS FIRMS**

During the reporting period, the Bank engaged Fujian Huaxing Certified Public Accountants Ltd. and Ernst & Young to undertake the auditing of the statutory and supplementary financial accounting report for 2005. The Bank paid RMB 2.2 million and RMB 2.5 million respectively to Fujian Huaxing Certified Public Accountants Ltd. and Ernst & Young as the financial auditing fees of 2005.

#### **VI. PUNISHMENTS ON DIRECTORS, SUPERVISORS AND SENIOR EXECUTIVES OF THE BANK**

During the reporting period, no directors, supervisors or senior executives of the Bank had ever been severely punished by the State regulatory authorities.

## Financial Accounting Report

The Bank's Financial Accounting Report 2005 has been audited by Fujian Huaxing Certified Public Accountants Ltd. and signed by Mr. Tong Yigong and Ms. Lin Xia, two certified public accountants from the above accountant firm, who have issued a standard and unqualified Auditors' Report with "FJHXCPA(2006)AUDIT NO. G-21". Ernst & Young audited the Bank's Financial Accounting Report 2005 in accordance with International Financial Reporting Standards. (Please refer to Appendix 1 and 2.)

## Documents Available for Inspection

- I. Accounting Statements Bearing the Signatures of the Bank' Chairman, President and Financial Director.
- II. Original Audit Reports Bearing the Seal of the Certified Public Accountants Firms and Personally Signed and Sealed by the Certified Public Accountants.
- III. Original Annual Report Bearing the Signature of the Bank's Chairman.
- IV. Originals of All Documents and Notices Openly Disclosed by the Bank in Financial Times, China Securities Journal and Shanghai Securities News during the Reporting Period.
- V. Articles of Association of Industrial Bank Co.,Ltd.

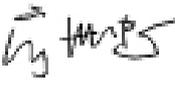
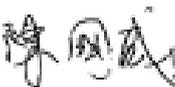
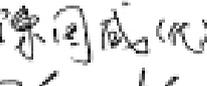
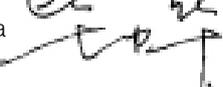
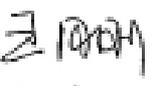
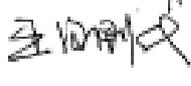
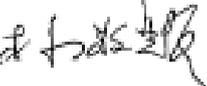
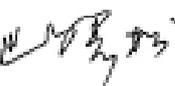
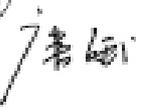
**Written Affirmative Opinion of Directors and Senior  
Executives of Industrial Bank Co.,Ltd. on Annual Report 2005**

In accordance with related provisions and requirements of Securities Law of the People's Republic of China and Guideline No. 2 Concerning the Content and Format of the Information Disclosure by Listed Companies- Content and Format of Annual Report (as amended in 2005), we, directors and senior executives of the Bank, hereby issue the following opinion after we have gained a full understanding of and reviewed the Bank's Annual Report 2005:

1. The Bank has operated in strict compliance with the Accounting Standard for Business Enterprises, the Accounting System for Business Enterprises and the Accounting System for Financial Enterprises. The Annual Report 2005 of the Bank gives a true and fair view of the financial position and operating results of the Bank in the year then ended.

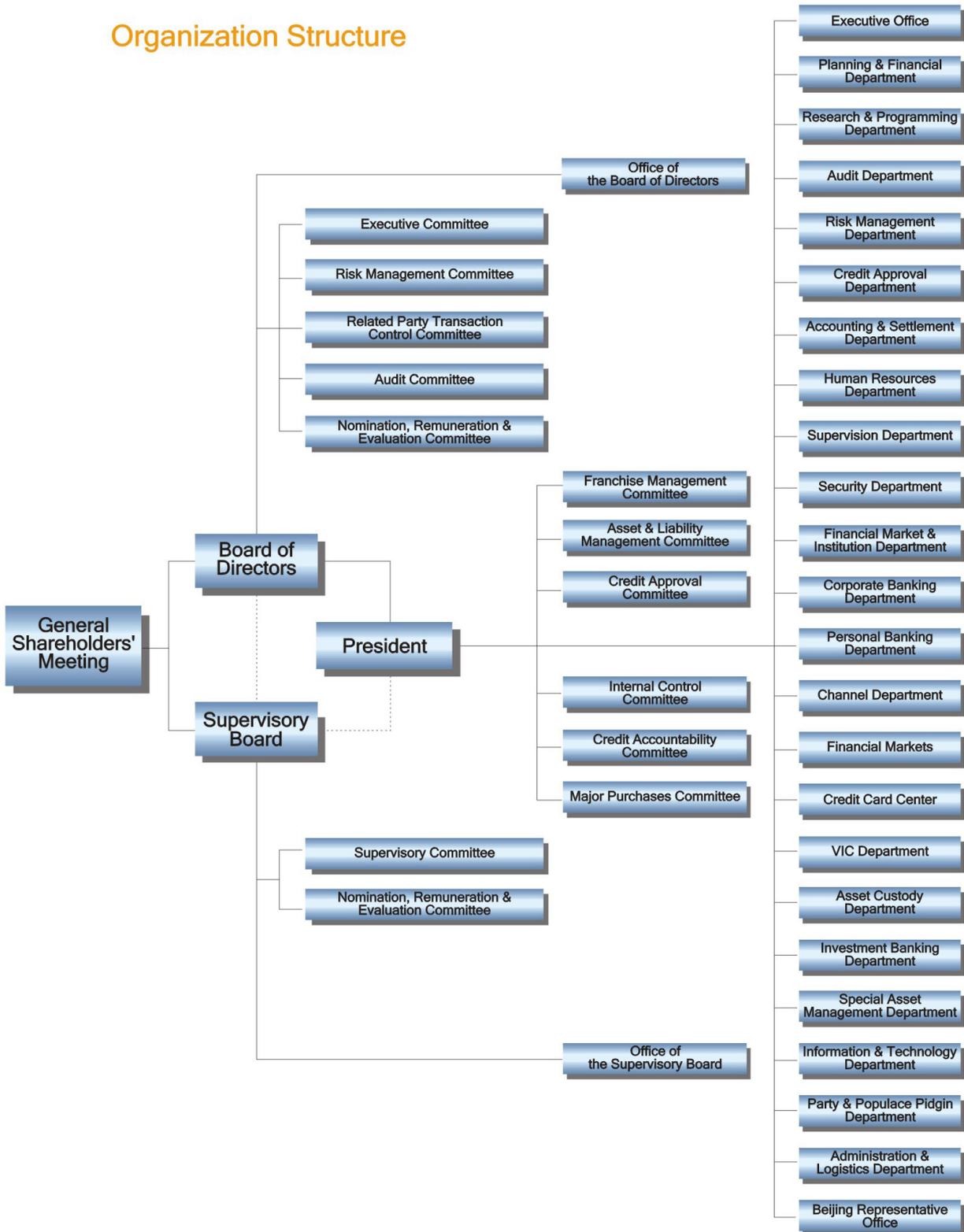
2. The Financial Report 2005 of the Bank has been audited by Fujian Huaxing Certified Public Accountants Ltd. and Ernst & Young respectively according to domestic and international auditing standards, and both have issued standard and unqualified Auditors' Reports.

We hereby guarantee that the information disclosed in the Annual Report 2005 of the Bank is true, accurate, complete and free of any false record, misleading representation or major omission. We bear severe and joint responsibility for the truthfulness, accuracy and completeness of content thereof.

Gao Jianping		Liao Shizhong		Patrick K W Chan	
Chua Phuy Hee		Ludwig Chang		Fan Qingwu	
Li Renjie		Bi Zhonghua		Kang Yukun	
Wang Guogang		Deng Liping		Lin Jingyao	
Gu Gongyun		Ba Shusong		Chen Dekang	
Tang Bin					

Board of Directors of Industrial Bank Co.,Ltd.  
March 18, 2006

# Organization Structure





*Our Carefulness,  
Your Success.*

*We grow together with you.*

## Appendix 1: Domestic Auditors' Report

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## AUDITORS' REPORT

FJHXCPA(2006)AUDIT NO.G-021

To the Shareholders of Industrial Bank Co.,Ltd.

We have audited the accompanying balance sheet of Industrial Bank Co.,Ltd. (the "Company") as at December 31, 2005, 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 2005 and of the results of the Company's operations and its cash flows for the year then ended in accordance with the Accounting Standards for Enterprises and the Accounting Regulations for Financial Institutions.

(This report is subjected to the Chinese version.)



Certified Public Accountant:

Certified Public Accountant:

March 18, 2006

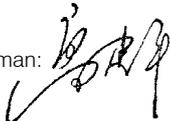
BALANCE SHEET

Industrial Bank Co.,Ltd.

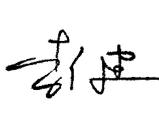
Unit: RMB

Assets	Notes	2005-12-31	2004-12-31
<b>Current assets</b>			
Cash on hand and in bank	VII. 1	1,186,229,027.95	957,304,209.32
Scarce metal		-	-
Due from the central bank	VII. 2	38,351,448,108.76	48,742,137,918.24
Due from banks and other financial institutions	VII. 3	18,506,908,724.52	14,272,216,277.09
Inter-bank placements	VII. 4	567,368,100.39	1,472,784,393.43
Placement with non-bank financial institutions	VII. 5	130,000,000.00	988,683,550.00
Short-term loans	VII. 6	148,100,216,820.98	130,175,488,662.03
Import & export advances and negotiations	VII. 7	751,248,018.65	649,965,617.31
Interest receivable	VII. 8	1,321,603,704.77	485,562,299.80
Other receivables	VII. 9	691,844,587.55	502,141,876.77
Less: Provision for bad debts	VII.10	80,428,249.32	52,513,414.86
Discounted bills	VII.11	12,618,852,083.75	12,682,700,851.98
Short term investments	VII.12	58,205,770,999.41	18,868,164,727.32
Less:Provision for short term investments		-	-
Reverse repurchase agreements	VII.13	50,514,044,718.80	17,698,266,043.40
Deferred expenses	VII.14	36,037,449.80	30,428,264.82
Long-term investments maturing within 1 year	VII.15	3,130,586,825.97	3,274,871,434.91
Other current assets		-	-
<b>Total current assets</b>		<b>334,031,730,921.98</b>	<b>250,748,202,711.56</b>
<b>Non-current assets</b>			
Mid and long-term loans	VII.16	75,856,967,749.40	55,048,963,615.91
Overdue loans	VII.17	550,086,134.25	397,014,170.12
Non-accrual loans	VII.18	4,694,136,089.14	4,056,684,420.39
Less:Provision for bad loans	VII.19	5,111,552,220.07	4,415,803,716.93
Long-term bonds investments	VII.20	59,015,744,762.98	29,284,032,105.77
Long-term equity investments	VII.21	50,000,000.00	50,000,000.00
Less: Provision for long term investments		-	-
Long-term investments-net book value		59,065,744,762.98	29,334,032,105.77
Original value of fixed assets	VII.22(1)	3,591,647,357.72	3,398,288,116.94
Less: Accumulated depreciation	VII.22(2)	982,326,926.88	795,807,202.07
Fixed assets		2,609,320,430.84	2,602,480,914.87
Less: Provision for impairment	VII.22(3)	10,087,112.92	10,087,112.92
Fixed assets-net book value		2,599,233,317.92	2,592,393,801.95
Construction in progress	VII.23	71,865,995.73	14,140,115.41
Less: Provision for construction in progress		-	-
Disposal of fixed assets		-	-
<b>Total Non-current Assets</b>		<b>137,726,481,829.35</b>	<b>87,027,424,512.62</b>
<b>Intangible, Deferred and Other Assets</b>			
Intangible assets	VII.24	465,338,091.45	497,171,858.15
Less: Provision for intangible assets	VII.25	-	-
Long-term deferred expenses	VII.26	284,751,728.88	262,470,079.60
Assets possessed from insolvent debtors pending disposal	VII.27	656,554,916.92	668,401,877.88
Less:Provision for assets possessed from insolvent debtors pending disposal	VII.28	99,572,204.24	85,566,558.91
Other long-term assets	VII.29	69,721,983.16	71,906,917.00
<b>Total Intangible, Deferred and Other Assets</b>		<b>1,376,794,516.17</b>	<b>1,414,384,173.72</b>
<b>Deferred Tax</b>			
Deferred tax assets	VII.30	852,661,974.65	770,531,796.91
<b>Total Assets</b>		<b>473,987,669,242.15</b>	<b>339,960,543,194.81</b>

(These statements are subjected to the Chinese version.)

Chairman: 

President: 

Financial Director: 

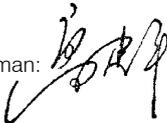
BALANCE SHEET *continued*

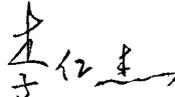
Industrial Bank Co.,Ltd.

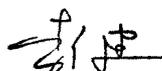
Unit: RMB

Liabilities and shareholders' equity	Notes	2005-12-31	2005-12-31
<b>Current Liabilities:</b>			
Short-term deposits	VII.31	224,831,088,310.89	189,701,726,033.14
Short-term saving deposits	VII.32	29,022,512,823.63	22,519,603,940.79
Financial deposit	VII.33	23,648,711.16	9,041,284.26
Amounts due to central bank		-	-
Amounts due to banks and other financial institutions	VII.34	65,429,964,246.84	30,949,229,694.62
Inter-bank borrowings	VII.35	403,510,000.00	903,502,500.00
Repurchase agreements	VII.36	19,123,051,435.14	5,525,769,629.55
Outward remittances		284,973,797.82	141,418,518.27
Inward remittances & Temporary deposit		262,365,117.20	341,208,930.33
Trust funds	VII.37	1,171,727,843.94	114,222,011.17
Short-term guarantee deposits	VII.38	53,756,208,115.95	28,925,837,610.28
Interest payable	VII.39	1,888,086,741.11	793,148,828.00
Payroll payable		915,119,653.01	513,370,948.81
Stall welfare payable		254,167,784.57	198,346,987.19
Taxes payable	VII.40	657,788,999.57	702,074,065.33
Other Taxes Payable	VII.41	73,257,874.68	50,163,900.69
Dividends payable	VII.42	42,839,077.71	165,665,937.46
Other payables	VII.43	1,708,034,769.72	776,963,435.55
Accrued expenses		-	-
Deferred gains	VII.44	158,851,802.15	-
Short-term bills and bonds issued		-	-
Other current liabilities	VII.45	-	131,845,166.59
<b>Total current liabilities</b>		<b>400,007,197,105.09</b>	<b>282,463,139,422.03</b>
<b>Long-term Liabilities:</b>			
Long-term deposits	VII.46	44,334,330,798.45	40,098,828,935.82
Long-term saving deposits	VII.47	1,512,195,651.85	1,327,473,734.43
Long-term guarantee deposits	VII.48	19,058,159.07	7,149,919.40
The subordinated liabilities	VII.49	6,000,000,000.00	6,000,000,000.00
Long term bonds payable	VII.50	10,000,000,000.00	-
Long-term payable		-	-
Other long-term liabilities		-	-
<b>Total long-term liabilities</b>		<b>61,865,584,609.37</b>	<b>47,433,452,589.65</b>
<b>Deferred Tax:</b>			
Deferred tax liabilities		-	-
<b>Total liabilities</b>		<b>461,872,781,714.46</b>	<b>329,896,592,011.68</b>
<b>Shareholders' Equity:</b>			
Paid-in capital	VII.51	3,999,000,000.00	3,999,000,000.00
Capital reserves	VII.52	2,839,213,878.93	2,839,213,878.93
Surplus reserves	VII.53	999,754,441.71	754,255,550.45
Including: Reserve for welfare of employees		288,102,492.11	288,102,492.11
General reserve	VII.54	2,400,000,000.00	-
Retained Earnings	VII.55	1,876,919,207.05	2,471,481,753.75
Including proposed cash dividend		-	404,052,568.03
<b>Total shareholders' equity</b>		<b>12,114,887,527.69</b>	<b>10,063,951,183.13</b>
<b>Total liabilities and shareholders' equity</b>		<b>473,987,669,242.15</b>	<b>339,960,543,194.81</b>

(These statements are subjected to the Chinese version.)

Chairman: 

President: 

Financial Director: 

INCOME STATEMENT AND STATEMENT OF PROFIT APPROPRIATION AND DISTRIBUTION

Industrial Bank Co.,Ltd.

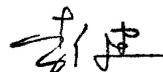
Unit:RMB

Items	Notes	2005	2004
<b>I. Operating revenue</b>	<b>VII. 56</b>	<b>17,600,747,438.59</b>	<b>12,297,449,266.74</b>
Interest income	VII. 57	12,526,760,673.25	9,586,531,810.70
Interest income from financial institutions	VII. 58	1,889,936,162.79	1,558,617,189.57
Service fee and commissions		316,067,256.46	234,554,007.35
Exchange gains		53,911,178.89	66,678,144.90
Investment income	VII. 59	2,764,476,064.71	811,131,111.47
Other operating income		49,596,102.49	39,937,002.75
<b>II. Operating expenses</b>		<b>13,349,687,146.35</b>	<b>9,081,401,178.49</b>
Interest expenditure	VII. 60	5,705,421,467.01	3,781,558,816.32
Interest expenditure on business with financial institutions	VII. 61	2,235,471,861.65	1,324,005,073.49
Service fee and commissions		78,839,708.15	41,487,728.83
Operating expenses	VII. 62	3,885,391,654.79	2,873,325,478.84
Exchange losses		-	-
Other operating expenses	VII. 63	1,444,562,454.75	1,061,024,081.01
<b>III. Business taxes and surcharges</b>	<b>VII. 64</b>	<b>739,643,181.66</b>	<b>550,887,505.06</b>
<b>IV. Operating profit</b>		<b>3,511,417,110.58</b>	<b>2,665,160,583.19</b>
Add:Non-operating income	VII. 65	34,693,113.16	26,600,333.10
Less:Non-operating expense	VII. 66	18,231,188.89	31,820,931.66
<b>V. Profit before tax</b>		<b>3,527,879,034.85</b>	<b>2,659,939,984.63</b>
Less:Income tax	VII. 67	1,072,890,122.26	984,880,960.32
<b>VI. Profit after tax</b>		<b>2,454,988,912.59</b>	<b>1,675,059,024.31</b>
Add: Retained earnings brought forward		2,471,481,753.75	1,377,681,583.09
Transferred-in from reserves		-	-
<b>VII. Profit available for distribution</b>		<b>4,926,470,666.34</b>	<b>3,052,740,607.40</b>
Less: Appropriations to statutory surplus reserves		245,498,891.26	167,505,902.43
Appropriations to statutory surplus reserve for welfare of staff		-	83,752,951.22
Appropriations to general provision		2,400,000,000.00	-
<b>VIII. Profit available for distribution to shareholders</b>		<b>2,280,971,775.08</b>	<b>2,801,481,753.75</b>
Less: Dividends declared on preferred stock		-	-
Appropriations to discretionary reserves		-	-
Dividends declared on common stock		404,052,568.03	330,000,000.00
Transferred to discretionary surplus reserve		-	-
<b>IX. Undistributed profit</b>		<b>1,876,919,207.05</b>	<b>2,471,481,753.75</b>

(These statements are subjected to the Chinese version.)

Chairman: 

President: 

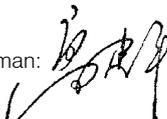
Financial Director: 

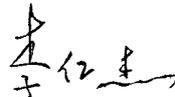
STATEMENT OF CASH FLOW

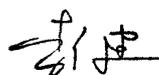
Industrial Bank Co.,Ltd.

Unit:RMB

Items	Notes	2005	2004
<b>I Cash flow from operating activities</b>			
Cash received from recovery of long or mid-term loans		19,365,339,156.35	17,312,617,423.03
Cash received from short-term deposits,net		66,541,960,559.58	58,568,128,793.62
Cash received from non-short-term deposits		333,208,699,572.20	132,274,177,339.20
Cash received from deposit of banks and other financial institutions,net		34,480,734,552.22	2,619,143,123.69
Cash received from interest		14,526,967,953.19	11,129,100,680.37
Cash received from service fee and commissions		316,067,256.46	234,554,007.35
Cash received from recovery of bad debts or bad loans		1,957,536.15	20,018,023.53
Cash received from trust deposit,net		18,927,288,170.58	2,969,312,797.72
Cash received from reverse repurchase agreements,net		6,027,000,002.68	-
Cash received from repurchase agreements,net		13,465,436,639.00	-
Cash received from other operating income		126,192,854.94	249,238,998.69
<b>Sub-total of cash inflows</b>		<b>506,987,644,253.35</b>	<b>225,376,291,187.20</b>
Cash paid for long or mid-term loans		40,173,343,289.84	32,591,926,413.60
Cash paid for short-term loans		19,528,577,486.00	30,759,038,121.93
Cash paid for trust loans,net		17,869,782,337.81	3,067,199,809.15
Cash paid for reverse repurchase agreements,net		-	5,554,173,586.46
Cash paid for repurchase agreements,net		-	4,687,814,459.17
Cash paid for non-short-term deposits		328,776,567,552.48	118,480,724,155.23
Cash paid for statutory deposit with the Central bank,net		4,127,293,153.53	5,479,333,434.26
Cash paid for deposit of banks and other financial institutions,net		1,658,045,156.97	1,794,196,219.65
Cash paid for placement of banks and other financial institutions,net		393,744,847.27	65,833,120.00
Cash paid for central bank or banks and other financial institutions borrowings,net		499,992,500.00	596,497,500.00
Cash paid for interest		6,911,864,155.83	4,772,991,847.58
Cash paid for service charges and commissions		78,839,708.15	41,487,728.83
Cash paid to and for staff		1,132,252,430.79	1,051,159,251.86
Income tax paid		1,293,163,608.38	890,236,317.46
Cash paid for business tax and surcharges		693,462,890.57	476,837,650.96
Cash paid for other operating activities		842,569,864.76	1,435,677,455.30
<b>Sub-total of cash outflows</b>		<b>423,979,498,982.38</b>	<b>211,745,127,071.44</b>
<b>Net cash flows from operating activities</b>		<b>83,008,145,270.97</b>	<b>13,631,164,115.76</b>

Chairman: 

President: 

Financial Director: 

STATEMENT OF CASH FLOW *continued*

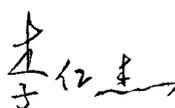
Industrial Bank Co.,Ltd.

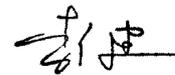
Unit:RMB

Items	Notes	2005	2004
<b>II Cash flows from investing activities</b>			
Cash received from recovery of investments		179,394,272,144.19	104,970,765,628.32
Cash received from interest on investment in bonds		2,354,719,549.70	922,474,852.07
Cash received from disposal of fixed assets,intangible assets and other long-term assets		53,213,301.08	58,511,967.20
Cash received from other investing activities		-	2,448,706,575.52
<b>Sub-total of cash inflows</b>		<b>181,802,204,994.97</b>	<b>108,400,459,023.11</b>
Cash paid for acquire fixed assets, intangible assets and othe long-term assets		472,374,068.10	782,748,447.78
Cash paid for acquire equity investments		-	-
Cash paid for investments in bonds		236,921,507,294.92	127,101,043,544.12
Cash paid for other investing activities		-	-
<b>Sub-total of cash outflows</b>		<b>237,393,881,363.02</b>	<b>127,883,791,991.90</b>
<b>Net cash flows from investing activities</b>		<b>-55,591,676,368.05</b>	<b>-19,483,332,968.79</b>
<b>III Cash flows from financing activities</b>			
Cash received from issuing stocks		-	2,697,299,892.35
Cash received from issuing bonds		10,000,000,000.00	3,000,000,000.00
Cash received from borrowings		-	-
Cash received from other financing activities		-	-
<b>Sub-total cash inflows</b>		<b>10,000,000,000.00</b>	<b>5,697,299,892.35</b>
Cash paid for repayment of debts		-	-
Cash payments for distribution of dividends or profits		526,879,427.78	231,830,678.61
Cash payments of interest expenses		275,670,000.00	118,597,916.67
<b>Sub-total of cash outflows</b>		<b>802,549,427.78</b>	<b>350,428,595.28</b>
<b>Net cash flows from financing activities</b>		<b>9,197,450,572.22</b>	<b>5,346,871,297.07</b>
<b>IV Effect of foreign exchange rates changes on cash</b>		<b>-123,374,699.73</b>	<b>4,510,456.78</b>
<b>V Net increase in cash and cash equivalents</b>		<b>36,490,544,775.41</b>	<b>-500,787,099.18</b>

(These statements are subjected to the Chinese version.)

Chairman: 

President: 

Financial Director: 

STATEMENT OF CASH FLOW (SUPPLEMENTARY INFORMATION)

Industrial Bank Co.,Ltd.

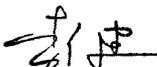
Unit:RMB

Items	Notes	2005	2004
<b>I 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>II Reconciliation of profit after tax to cash flows from operating activities</b>			
Profit after tax		2,454,988,912.59	1,675,059,024.31
Add: Bad debt provision		27,966,938.46	15,832,876.02
Provision for due from banks and other financial institution		-59,914,092.75	37,324,684.38
Provision for Assets possessed from insolvent debtors pending disposal		41,153,286.98	-9,816,604.14
Bad loan provision		1,422,213,528.06	1,011,409,952.22
Depreciation of fixed assets		210,311,496.85	190,067,232.62
Amortization of intangible assets		53,104,007.54	10,772,366.33
Amortization of deferred expenses		144,644,897.75	122,933,183.35
Losses on disposal of fixed assets,intangible assets and other assets		-9,559,160.85	-2,997,546.94
Losses on scarped fixed assets		-	-
Investing loss		-2,764,476,064.71	-811,131,111.47
Decrease in deferred expenses		-5,609,184.98	-10,797,266.64
Increase in payable of operating nature (or deduct:decrease)		-41,490,330,396.51	-56,513,919,677.97
Decrease in receivable of operating nature(or deduct:increase)		122,543,860,097.26	67,802,339,543.80
Cash payments of interest on the subordinated bond		316,416,305.55	118,597,916.67
Others		123,374,699.73	-4,510,456.78
<b>Net cash flows from operating activities</b>		<b>83,008,145,270.97</b>	<b>13,631,164,115.76</b>
<b>III Net increase in cash and cash equivalents</b>			
Closing balance of cash and cash equivalents		1,186,229,027.95	957,304,209.32
Less: Opening balance of cash and cash equivalents		957,304,209.32	797,019,763.95
Add: Closing balance of cash equivalents	VII.68	89,484,824,100.37	53,223,204,143.59
Less: Opening balance of cash equivalents		53,223,204,143.59	53,884,275,688.14
<b>Net increase in cash and cash equivalents</b>		<b>36,490,544,775.41</b>	<b>-500,787,099.18</b>

(These statements are subjected to the Chinese version.)

Chairman: 

President: 

Financial Director: 

**NOTES TO FINANCIAL STATEMENTS**  
(These notes are subjected to the Chinese version)  
(Unless otherwise specified, all the currency units herein are in RMB'000)

**I. BRIEF INTRODUCTION**

**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 (1988) 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 (1988) 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 35000010002021/1 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 the 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 Bureau 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 capital verification report referenced "MHXS (2004) YZ No.G-003".

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

The industry in which the Company operates: finance

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

**3. Principal activities and services performed**

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; lending in foreign currencies; remittance of foreign currencies; borrowings in foreign currencies; issuing of foreign currency securities (excluding 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, 2005, apart from the Head Office, the Company has set up 29 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, Foshan, Taiyuan, Kunming and Dongguan respectively as well as Financial Markets, Credit Card Centre, Asset Custody Department and Beijing Representative Office. A total of 328 outlets have been opened in these cities.

## II. BASIS OF FINANCIAL STATEMENT

1. The Company has acquired its business license as a joint stock company with limited liability on August 22, 1988. The current corporate structure has been in existence since early 2004 except newly founded branches and sub-branches. The financial statements of the Company in 2004 and 2005 were generated by consolidating individual financial statements from existing branches, sub-branches and other reporting entities within the bank structure in the reporting period.

2. In 2004, the Company adopted the Accounting System for Financial Institutions (unrevised) and related supplementary accounting treatment regulations as its accounting policies. According to the resolutions of the Company's general shareholders' meeting held on June 28, 2004, the Company proposed to make a public offering of A shares, and with the resolution of the Company's Board of Directors meeting held on November 19, 2004, the Company decided to implement the Accounting System for Financial Institutions (unless otherwise specified, hereinafter the Accounting System for Financial Institutions refers to the Accounting System for Financial Institutions promulgated by Ministry of Finance in 2001) starting from 2005. Therefore the Company's financial statements in 2004 were revised according to the change of accounting policies.

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES ADOPTED BY THE COMPANY

### 1. Accounting system

The Company adopted Accounting Standards for Enterprises; Accounting System for Enterprises, Accounting System for Financial Institutions and other related regulations.

### 2. Accounting year

The accounting year of this Company is from January 1 to December 31 on the Gregorian calendar.

### 3. Accounting currency

Renminbi(RMB) is adopted by the Company as accounting currency.

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES ADOPTED BY THE COMPANY *continued*

#### 4. Bookkeeping basis and pricing principle

For purpose of the accounting of this company, the accrual system is adopted as bookkeeping basis. Unless otherwise specified herein, the pricing principle is based on historical cost.

#### 5. Accounting method for business in foreign currency

This Company practices separate ledger accounting system for the business in foreign currency, which is charged to the ledger in the original currency as it occurs. The ending balances of the foreign currency ledgers under separate ledger accounting are converted into RMB at the then basic rate published by the People's Bank of China or the cross rate approved by the State to be consolidated with the accounting statements of final accounts in RMB for compilation of the accounting statements of final accounts in RMB.

#### 6. Translation method for financial statements in foreign currencies

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 rate. The differences resulting from the fluctuation of exchange rates the separately listed for reflection as the difference of foreign currency conversion.

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

#### 7. Method of compiling consolidated statements

The consolidated accounting statement of this Company is compiled on the basis of summarizing the individual accounting statements and other information of the head office, the branches and directly subordinate sub-branches (in other places). During the consolidation, the major transactions and the balances thereof that occurred within this Company have been set off.

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

According to the characteristics of the banking industry, cash equivalents include the deposits in the central bank (excluding the reserve deposited in the central bank) and other banks (excluding the time deposits that have become overdue and exceed three months in time limit), amount due from other banks and financial companies (excluding the amount due from other banks and financial companies that has become overdue and exceeds three months in the term of contract), short-term investment in bonds of less than 3 months from purchase date to maturity date and purchase under agreements to resell with a time limit of less than 3 months.

## 9. Classification of loans

(1) Basis for classification of short, mid and long-term loans.

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

(2) Recognition of overdue loans

Loans whose principal and interest receivable was in arrear for less than 90 days (inclusive) are classified as overdue loans, which includes: maturing (including extending) loans not repaid due to borrower's reasons; overdue discount notes not paid by the counter party and insufficient deposit in discount applicant's account; bank acceptances, import and export advances and negotiations, letters of credit, and guarantees issued by the Bank that converted into compulsory advances due to inadequate collaterals by the counter party.

(3) Basis for classification of non-accrual loans

In the case of a loan whose principal or interest receivable remains uncollected 90 days after its maturity, the withdrawal of its interest income will be stopped and the loan will be changed to non-accrual loan.

## 10. Accounting method for loan loss provision

Accounting method for loan loss reserves: allowance method.

The scope of withdrawal for loan loss reserves covers: short-term loans, medium and long-term loans, overdue loans, non-accrual loans, discounting bills of exchange (commercial acceptance bills), inward and outward documentary bills. In the case of entrust loans for which this Company bears no risks, no loan loss reserves will be withdrawn.

This Company withdraws loan loss reserves for the above credit assets in accordance with the Circular on Printing and Distributing the "Management Measures for Withdrawal of Bad Debt Reserves by Financial Enterprises" (CJ [2005] No.49), the Circular on Issues Related to the Withdrawal of Bad Debt Reserves (CJ [2005] No. 90), both of the Ministry of Finance, and the Accounting System for Financial Enterprises. Loan loss reserves are classified into special reserves and specific reserves. The former refers to the reserves withdrawn according to the extent of loan loss to make up the special loss after a risk classification is made for credit assets pursuant to the Guideline for Classification of Loan Risks, while the latter refers to the reserves withdrawn for the loans issued to a particular country, region or industry.

In pursuance of the Guidelines on Risk-Based Loan Classification of the PBOC [YF (2001) No. 416], credit assets are classified into five categories, namely, pass, special mentioned, sub-standard, doubtful and loss. Pass: The borrower can perform the contract and there isn't enough reason to suspect that the principal and the interest of the loan cannot be repaid in full amount and in time. Special Mentioned: Notwithstanding the borrower currently has the ability to repay the principal and the interest of the loan, there are still some factors that may adversely

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES ADOPTED BY THE COMPANY *continued*

#### 10. Accounting method for loan loss provision *continued*

affect the repayment. Sub-standard: The repayment abilities of the borrower become apparently problematic, and the borrower cannot repay the principal and the interest of the loan in full amount by entirely relying on its normal business income, even though guarantee is called, some losses may still be incurred therefrom. Doubtful: The borrower cannot repay the principal and the interest of the loan in full amount, even though guarantee is called, some great losses will surely be incurred therefrom. Loss: After taking all possible measures or resorting to all necessary legal procedures, the principal and the interest still cannot be recovered or only a small portion thereof can be recovered. The Company estimates each loan's possible loss based on relevant risk classification and also taking into account of borrowers' repayment ability, repayment status of principal and interest, reasonable value of pledges, sponsor's financial position, based on which, provision for loan loss is made accordingly. Then the balances of loan loss provision for each category are determined. The loan loss provision is made according to the difference between loans' book value and recoverable amounts.

When a loan is written off, the withdrawn loan loss reserves are reduced. A written-off loan that is recovered later is reversed according to the amount of the written-off loan loss reserves.

#### 11. Accounting method for recognition of bad debts

##### (1) Standard for recognition of bad debts

Accounts receivable that meet any one of the following conditions and cannot be recovered by this Company on time can be listed as bad debts:

- A. Accounts receivable that remain unrecoverable in spite of the liquidation of the bankruptcy properties or legacies after the bankruptcy or death of debtor;
- B. Accounts receivable that cannot be recovered due to the failure of the debtor to discharge his repayment obligations in excess of the time limit and show clear signs of impossible recovery;
- C. Accounts receivable that remain unrecoverable 3 years after maturity.

##### (2) Accounting method for bad debt reserves: allowance method.

A. Interest receivable: The age of the ending interest receivable on all loans of this Company is less than 90 days and the interest that is more than 90 days in age has been moved outside the balance sheet. No bad debt is expected to result from the interest receivable on bond investment and, therefore, no bad debt reserves are withdrawn;

B. Problematic interbank deposits and amount due from other banks and financial companies: The Company uses the specific identification method to withdraw the bad debt reserves for the part, which is listed in the statement as the value after deduction of bad debt reserves;

C. Other accounts receivable: This Company uses the combined methods of age analysis and specific identification to withdraw the bad debt reserves of the part.

When deciding the withdrawal ratio of bad debt reserves, this Company bases reasonable estimates on the relevant information, including past experience, the actual financial conditions of debtors and cash flow.

The withdrawn bad debt reserves are itemized as current profit and loss and the incurred bad debt loss reduce the withdrawn bad debt reserves. In the case of a written-off bad debt loss that is recovered later, the reduced bad debt reserves are reversed.

## **12. Accounting method for discounting bills of exchange**

The discounting bills of exchange mainly include the discount of the customers holding the commercial bills that have been honored and not yet fallen due and the buyout rediscount of other financial institutions accepted by this Company. They also include the sellout rediscount that this Company offers to the central bank and other financial institutions for the bills it holds to suit the needs of capital management. Since the bills belong to buyout or sellout business, they are recognized in the statements as the difference between set-off assets and debts. The discounting bills of exchange are priced according to the par value of the bills.

## **13. Accounting method for reverse repurchase agreements and repurchase agreements**

The assets involved in the Company's reverse repurchase agreement and repurchase agreement include securities, bills and credit assets. Reverse repurchase agreement is a purchase of assets with an agreement to resell them at a specific future date. Repurchase agreement is a sale of assets with an agreement to repurchase them at a specific future date. For purchased assets for future reverse repurchase, the purchase cost will be used as collateral to offer amounts and purchased assets will be used as collateral for offered amounts. For sold assets for future repurchase, such assets will continue to be reflected on the Company's balance sheet and accounted in accordance with related accounting policies. Amounts received from selling such assets will be recognized as liabilities.

Interest revenue from reverse repurchase agreements and interest expenditure for repurchase agreements are recognized on accrual basis.

## **14. Accounting method for short-term investments**

- (1) Short-term investments are charged to the Company's books at their actual cost at the time of acquisition.
- (2) In disposal of short-term investments, the difference between book value and actual procurement price is listed in the current profit and loss account.
- (3) Ending short-term investment is measured as per the lower of cost and market price. The difference of market price lower than the cost as calculated as per investment category is included into the current profit and loss as reserves for depreciation of short-term investment.

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES ADOPTED BY THE COMPANY *continued*

#### 15. Accounting method for long-term investment

##### (1) Accounting method for long-term bond investment

The cost of long-term bond investment is priced on the basis of the balance of all the amount actually paid, including the commission of brokers, taxes, service charges and other surcharges, minus the accrual interest in the period starting on the day the bond is issued or the last interest settlement day and ending on the purchase day. The premium (discount) price of long-term bond investment is amortized during the existence of the bond with the straight-line method and interest will be withdrawn on schedule.

##### (2) Accounting method for long-term equity investment

Long-term equity investment refers to the equity investment made with the special approval of the People's Bank of China. The cost of long-term equity investment is charged to account as per the price actually paid at the time of the investment. Since this Company has no control, no common control and no major influence over the investment-receiving units, cost method is adopted for the accounting of long-term equity investment. Investment income is recognized when an investment-receiving unit declares the distribution of dividends.

##### (3) Accounting method for long-term investment depreciation reserves

Long-term investment is checked on individual item basis at the end of a period. If the amount recoverable is lower than the book value due to such factors as the continuous drop of market price or worsening operation conditions of investment-receiving enterprises and the reduced value cannot be restored with foreseeable future, the difference of the recoverable amount that is lower than the book value of the long-term investment is included into the long-term investment depreciation reserves. At the time of withdrawal, the long-term investment depreciation reserves are recognized as per the difference of the recoverable amount of a single investment that is lower than its book value.

#### 16. Accounting method for fixed assets

##### (1) Standard for fixed assets

- A. Houses and buildings, machinery equipment, vehicles and other electrical appliances and computers related to production and operations with a service term of one year or longer;
- B. Articles of high unit value that are not included into major production and operation equipment.

##### (2) Pricing of fixed assets recognition standards and withdrawal method for depreciation reserves

- A. Fixed assets are charged to account as per actual cost or determined value. All direct or indirect costs related to the procurement or construction of fixed assets by the Company are capitalized and included into the cost of fixed assets provided that it is incurred before the procured or constructed assets reach their intended service status;

B. The subsequent expenses related to fixed assets are included into the book value of fixed assets if they have enabled the economic interests that may flow into the Company to exceed the original estimation by, for example, extending the service life of fixed assets, or materially enhancing product quality, or materially lowering product cost. But the increased amount should not exceed the recoverable amount of the fixed assets. Subsequent expenses other than those indicated above are recognized as current expenses.

C. The fixed assets are checked on an individual item basis at the end of a period to withdraw fixed assets depreciation reserves if the recoverable amount thereof is lower than book value due to such reasons as continuous drop of market price, or obsolete technology, damage and prolonged idling. At the time of withdrawal, fixed assets depreciation reserves are recognized as per the difference of the recoverable amount of a single fixed asset that is lower than its book value.

(3) Depreciation method for fixed assets

Straight-line method is adopted for the calculation of fixed assets. The depreciation rate is fixed as per the original value and the economical service years of accounting of various fixed assets with no residual value. The depreciation rate of various fixed assets is as follows:

Items	Useful lives (years)	Annual depreciation rate(%)
Properties and buildings	20-30	3.33-5.00
Transportation facilities	6-8	12.5-16.67
Other equipment	5-10	10.00-20.00

To withdraw the depreciation of the fixed assets for which depreciation reserves have been withdrawn already, their depreciation rate and amount of depreciation are recalculated as per their book value and the remaining service life. If the value of a fixed asset is restored after withdrawal of depreciation reserves, its depreciation rate and amount of depreciation are recalculated as per its restored book value and the remaining service life.

**17. Accounting method for construction in progress**

(1) The construction in progress of the Company is priced as per actual cost. When a construction in progress reaches its intended service status, all the expenses that have been incurred are itemized as the bookkeeping value of fixed assets.

(2) Construction in progress is checked on an individual item basis at the end of a period. If construction is in prolonged suspension and will not be restarted in 3 years to come, or the constructed work is already backward in performance and technology, causing great uncertainty in the economic benefit it may bring to the enterprise, or other conditions have turned up that are enough to prove that the construction in progress has already depreciated, depreciation reserves are withdrawn for construction in progress. At the time of withdrawal, the depreciation reserves for construction in progress are recognized as per the difference of its recoverable value that is lower than its book value.

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES ADOPTED BY THE COMPANY *continued*

#### 18. Accounting method for intangible assets

(1) Pricing method for intangible assets: Pricing is based on the price actually paid at the time of procurement.

(2) Amortization of intangible assets

A. The seat charge of the stock exchange is amortized in 10 years starting from the month when the seat is obtained.

B. Land use right is amortized averagely in the statutory years starting from the month of procurement.

C. Software expenses are amortized averagely in 5 years starting from the month of procurement.

D. Other intangible assets are amortized in 10 years starting from the month when they are obtained.

(3) Standard for recognition and method for withdrawal of intangible assets depreciation reserves

The Company checks each of the intangible assets at the end of a period to withdraw intangible assets depreciation reserves for the asset with a recoverable value that is expected to be lower than its book value. At the time of withdrawal, the intangible assets depreciation reserves are recognized as per the difference of the recoverable value of a single intangible asset that is lower than its book value.

#### 19. Accounting method for long-term deferred expenses

Long-term deferred expenses refer mainly to expenses that are already paid, but have an amortization period of more than 1 year (exclusive), including expenses for decoration of business premises and other capital expenses, which are charged to account as per the actual amount incurred.

(1) The expenses for decoration of business premises are charged to account as per the actual amount incurred to be amortized averagely in the shorter of the actual leasehold or the expected service life starting from the month when service begins.

(2) Rental charge is charged to account as per the actual amount incurred to be amortized averagely in the actual leasehold.

(3) The initial expenditure of branches and/or sub-branches is charged to account as per the actual amount incurred to be included into profit and loss in one lot in the month when operation begins.

(4) Other long-term deferred expenses should be amortized averagely during the beneficial period.

#### 20. Accounting method for wait-deal debt repayment assets

(1) For the debt repayment assets obtained by this Company, the value thereof charged to account is the principal of the loan actually repaid and the recognized interest in the balance sheet. In the meantime, the corresponding loan loss reserves are carried over to the depreciation reserves for debt repayment assets.

(2) The Company checks the debt repayment assets on an individual item basis at the end of a period for pricing as per the lower of the book value and the recoverable value and for withdrawal of the depreciation reserves for debt repayment assets as per the difference of the recoverable amount that is lower than the book value.

## 21. Accounting method for subordinated term debts

Subordinated term debts refer to the long-term debts issued by the Company that have a fixed term of 5 years or longer, are not intended to make up the losses of daily operations and have a claim that is after deposits and other debts, but before equity capital.

Subordinated term debts should be treated as debts as per the actual total issuing price. During the existence of subordinated term debts, interest is withdrawn on schedule and included into the current profit and loss.

## 22. Accounting method for long-term bonds payable

Long-term bonds payable are treated as debts as per the actual total issuing price. The difference between the total issuing price of a bond and its total par value is listed as bond premium or discount to be amortized when interest is withdrawn with the straight-line method during the existence of the bond.

## 23. Principles for recognition of income

### (1) Interest income

A. For loans, interest is calculated under the accrual system.

In accordance with the Circular of the Ministry of Finance on Shortening the Accounting Term of Interest Receivable of Financial Enterprises (CJ (2002) No. 5), starting from the settlement day of loan interest, the accrued interest overdue for less than 90 days (included) is included into current profit and loss; accrued loan interest overdue for more than 90 days (exclusive) is no longer included into current profit and loss and will be processed off the balance sheet irrespective of whether the principal of the loan is overdue; for accrued interest already included into profit and loss, the interest income should be reduced accordingly when the loan principal or interest receivable is overdue for more than 90 days (exclusive). When a loan is repaid after it is changed to non-accrual loan, the loan principal should be reduced first and only after all the principal has been recovered will the further repayment received be recognized as current interest income.

B. The accounting for interest income of bill business is based on the accrual system instead. To more accurately reflect its annual profit and loss, this Company changed the accounting of bill business income from the original cash basis system to accrual system in 2005.

### (2) Other income

Recognition is based on the accrual system.

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES ADOPTED BY THE COMPANY *continued*

#### 24. Principles for expenses recognition

##### (1) Interest expenditure

A. Interest expenditure for deposits is recognized on accrual basis.

B. For the interest expenditure of bill business, accounting is based on the accrual system instead. To more accurately reflect its annual profit and loss, this Company changed the accounting of bill business expenditure from the original cash basis system to accrual system in 2005.

##### (2) Other expenses

Recognition is based on the accrual system.

#### 25. Accounting method for income tax: tax effect accounting method

(1) The Company adopts the tax effect accounting method for the accounting of income tax. The deferred income tax is calculated at the current statutory rate and as per the timing difference between the base of taxation and the accounting base hereof. When there are adequate evidences showing that there will be sufficient taxable income in the future to set off the above timing difference, the debit of deferred tax is recognized.

(2) Timing difference caused by the difference between tax laws and accounting system in the time of recognizing income, expenses and losses exists in the credit asset loss reserves and the depreciation reserves for other assets withdrawn by this Company, the accrued interest moved outside the balance sheet for accounting in the adjustment of accounting policy to implement the relevant regulations of the Ministry of Finance and the amortization of initial expenses. The adoption of the tax effect accounting method makes it possible to reflect the income tax expenses undertaken in different report periods more accurately so that the amount of income tax in different periods is linked up to the current operating results, which is in more keeping with the matching principle. Because of the above reasons, this Company changed its accounting policy for the income tax accounting method and, accordingly, made retrospective adjustment to the change of accounting policy.

(3) This Company adopts the tax effect accounting method for the accounting of income tax and the major issues identified as likely to generate timing difference include:

A. Reserves for the loss of credit assets and the depreciation of other assets;

B. Accounting of accrued interest moved outside the balance sheet to implement the relevant regulations of the Ministry of Finance.

C. Amortization of pre-operating expenses.

The deferred tax assets are recognized by considering income tax amount affected by the above mentioned matters as well as the amount of future taxable profit available to offset the time difference.

(4) The specific method of recognizing the debit of deferred tax is adopted on the basis of the estimation made on the date of the respective balance sheet as to whether the following issues can bring tax income to this Company, including the reserves for the loss of credit assets and the depreciation of other assets of a year, the accrued interest moved outside the balance sheet for accounting to implement the relevant regulations of the Ministry of Finance and the amortization of initial expenses. For purpose of the estimation, consideration is given to the relevant provisions of existing tax laws and regulations.

(5) The reasons that the debit balance of deferred tax can bring tax income in the foreseeable future are as follows:

A. Debit of deferred tax of the reserves for the loss of credit assets and the depreciation of other assets;

a. In the case of formed losses of credit assets and other assets that are allowed to receive tax deduction with the approval of the taxation authorities and have been included into the current pre-tax profits, the debit of deferred tax related to the withdrawn loss reserves will adjust the current and the future income tax expenses.

b. If the risk of credit assets is lowered and its recoverable value increases thanks to the changes of the market economy, the debit of deferred tax related to the reduced part of the withdrawn loss reserves will adjust the current and the future income tax expenses.

B. The accrued interest moved outside the balance sheet in the adjustment of accounting policy to implement the relevant regulations of the Ministry of Finance can be deducted evenly before income tax in five years pursuant to the provisions of “Guo Shui Fa (2001) No. 69” of the State Administration of Taxation. If it is allowed to receive tax deduction with the approval of the taxation authorities and has been included into the current pre-tax profits, the related debit of deferred tax will adjust the current and the future income tax expenses.

C. Amortization of pre-operating expenses: In accordance with the relevant provisions of the Accounting System for Financial Enterprises, this Company includes the initial expenses into the current profit and loss in one lump at the end of the preparation period. According to the relevant provisions of tax laws, initial expenses are amortized in five years at the end of the preparation period, thus forming a timing difference that can be reduced and the related debit of deferred tax will adjust the current and the future income tax expenses.

(6) If part of the issues of reserves for the loss of credit assets and the depreciation of other assets, the accrued interest moved outside the balance sheet for accounting in the adjustment of accounting policy to implement the relevant regulations of the Ministry of Finance and the amortization of initial expenses cannot bring tax income to this Company in the future, assets depreciation reserves should be withdrawn for the related debit of deferred tax originally recognized and the current income tax expenses should be adjusted.

(7) According to the principles set out above, this Company will, in actual accounting, adjust the current income tax expenses to address the difference between the debit of deferred tax recognized on the date of the balance sheet during each accounting period and the debit of deferred tax recognized on the date of the previous balance sheet.

Impact on the net profits of this Company caused by adoption of the tax effect accounting method:

	2005	2004
Figure of Affected Net Profits	82,130	84,961

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES ADOPTED BY THE COMPANY *continued*

#### 26. Profit distribution policy

This Company distributes profits and withdraws statutory surplus reserve, statutory public welfare fund and general provisions in accordance with State laws and regulations as well as its own bylaw.

In accordance with the Circular on Printing and Distributing the Administrative Measures on Provision for Bad Debts of Financial Institutions [CJ (2005) No. 49] issued by the Ministry of Finance and the Circular on Issues Related to Provision for Bad Debts [CJ (2005) No. 90] issued by the Ministry of Finance, general provision refers to the provisions drawn by financial enterprises from net profits at a certain ratio to make up possible losses that have not yet been identified. General provision withdrawal is treated as profit distribution and it is part of shareholders' equity. General provision is withdrawn by a certain percentage based on risks undertaken and balance of assets with losses. In principle, balance of general provision shall not be lower than 1% of closing balance of assets with risks. If general provision cannot be in place in 2005, it can be made up by installments over years. In order to prevent unidentified risks, financial institutions shall withdraw adequate general provision within around 3 years but no longer than 5 years.

#### 27. Pricing method for derivative financial instruments

The Company makes transaction of derivative financial instruments for sales and assets/liabilities management. Sales include composing and marketing of its derivative financial instruments, so that clients can transfer, alter or reduce existing or predictable risks.

In order to minimize the market risks, the Company enters into back-to-back agreements with third parties, which effectively transferred away the market risk arising from the contracts.

The Company also uses derivative financial instruments in the management of assets and liabilities. When there are mismatches in interest rate or exchange rate of the Company's assets and liabilities, the Company will make corresponding transactions of derivative financial instruments to reduce effects resulting from fluctuation.

The Company's derivative financial instruments mainly include derivative financial instrument of exchange rate, derivative financial instrument of interest rate, derivative financial instrument of credit and derivative financial instrument of bonds.

Method of pricing derivative financial instruments: The nominal value is disclosed off the balance sheet when the contract is signed, while the profit and loss are recognized when actual delivery occurs.

### IV. CHANGES IN ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES AND CORRECTION OF ACCOUNTING MISTAKES.

#### 1. Changes in accounting policies

(1) Individually recognized provisions for impairment losses of due from banks and other financial institutions, Inter-bank placements and placement with non-bank financial institutions

The Company did not fully make provisions for above items in previous periods. At present the Company makes provisions for impairment losses of due from banks and other financial institutions, inter-bank placements and placement with non-bank financial institutions based on the past experience, the financial position and cash flow status of the debtors and other related information on an individual basis.

(2) Withdrawal of loan loss provision

In 2004, in pursuance of the Administrative Measures on Withdrawing Provisions for Bad Debts and Writing-off of Bad Debts of Financial Institutions [CJ (2001) No. 127] issued by the Ministry of Finance and the Circular on Printing and Distributing the Guidelines for Bank Loan Loss Provision [YF (2002) No. 98] issued by the PBOC, the Company classified provisions for loan losses into general provision and special provision. General provision was withdrawn for credit assets (including various loans <exclusive of designated loans>, overdraft of bank cards, bill discount, credit advances and import-export bill advance, etc.) at 1% of the balances at the end of the period, and special provision was withdrawn for newly added special losses based on risk degree of assets and possibility of recovery. Now in light of the Circular on Printing and Distributing the Administrative Measures on Provision for Bad Debts of Financial Institutions [CJ (2005) No. 49] issued by the Ministry of Finance, the Circular on Issues Related to Provision for Bad Debts [CJ (2005) No. 90] issued by the Ministry of Finance and related regulations in the Accounting System for Financial Institutions, the withdrawal method of provision for loan losses is altered. See III.10 [Accounting for Loan Loss Provision] for more information.

(3) Provisions for diminution in value of short-term investments and for impairment losses on long-term investments

The company hasn't withdrawn provisions for investments before. Now in accordance with the Accounting Regulations for Financial Enterprises, the short-term investments are valued at the lower of the cost and the market value at the end of reporting period and a provision for diminution in value is made when the market value is lower than the cost according to the category of investments; the long-term investments are valued at the lower of the book value and the recoverable amount at the end of reporting period and a provision for impairment loss is made when the recoverable amount is lower than the book value according to each single investment.

(4) Provision for impairment losses of fixed assets, provision for construction in progress and provision for impairment losses of intangible assets.

Initially, no provision was made for the above mentioned items. According to the requirement of Accounting System for Financial Institutions, the above mentioned assets were valued at lower of their carrying and recoverable amount. The difference by which the recoverable amount is lower than the carrying amount of the assets should be provided for on an individual basis.

(5) Provision for assets possessed from insolvent debtors pending disposal.

Initially, assets received from insolvent debtors to be disposed of were valued at the amount of loans to be offset and no provision was made for these assets. According to the requirement of Accounting System for Financial Institutions, the difference by which the recoverable amount is lower than the carrying amount of the assets was provided for.

#### IV. CHANGES IN ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES AND CORRECTION OF ACCOUNTING MISTAKES *continued*

##### 1. Changes in accounting policies *continued*

###### (6) Accounting method for interest receivable

From 2004 to present, the Company has recognized and measured interest receivable in accordance with 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 due 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). Meanwhile, according to the Circular on tax on interest receivables for financial institutions promulgated by State Tax Bureau [GSF (2001) No. 69], in the financial statements for the year 2004, the Company still transferred accrued interest receivable overdue for more than 90 days which was left over in the previous years and accounted for as loss & profit. The retrospective adjustments were made to the new version of financial statement in accordance with the requirement of Accounting System for Financial Institutions and other applicable regulations.

###### (7) Accounting method for disposal of fixed assets

Gains, losses and ruins of fixed assets being disposed of were reflected under the item of "Disposal of fixed assets" initially. At the present in light of related regulations in the Accounting Regulations for Financial Institutions, fixed assets being disposed of should be liquidated upon approval and recorded in corresponding P/L account.

###### (8) Accounting for income tax

The tax payable method for income tax accounting which was previously adopted by the Company has been changed to tax effect method for income tax accounting.

The opening balance of retained earnings in the beginning of 2004 has been adjusted retrospectively in accordance with the change of accounting policies shown on above (1) to (8) items. The cumulative effect due to the change of accounting policies totals -973,648,000 including the cumulative effect on provisions for impairment losses of loans and other assets amounts -1,658,516,000, the effect on interest receivable amounts -702,000, and the effect on income tax amounts 685,570,000.

(9) Interest income and expenditure for bills are recognized on accrual basis. In order to reflect the Company's financial position more accurately, the interest income and expenditure for discount bills which was previously recognized when the discounting took place has begun to be recognized on an accrual basis in 2005. The change have resulted in the reduction of 158,852,000 of net profit in 2005. In light of conservative principle, prospective application method is adopted for the change of this accounting policy.

## 2. Change in accounting estimate.

No changes in accounting estimates have occurred.

## 3. Correction of accounting mistakes.

Retroactive adjustment method has been adopted for the correction of accounting mistakes. The opening balance of retained earnings in the beginning of 2004 has been adjusted using this method. The cumulative effect due to the correction of accounting mistakes totals -3,672,000. The correction of accumulated depreciation of mansion of Shanghai branch amounts -39,770,000, the correction of income tax payable amounts to 74,191,000 and the correction of interest expense for repurchase agreement-bills amounts to -38,093,000.

## 4. Comparison between net profits before and after retroactive adjustment due to change in accounting policies and correction for mistakes.

Items	2004
<b>Net profit before adjustment</b>	<b>1,101,030</b>
Adjustment due to change in accounting policies	
Provision for impairment losses of loans and other assets	366,390
Interests receivable outstanding for 90 days	702
Deferred income tax	84,961
<b>Subtotal of adjustment due to changes of accounting polices</b>	<b>452,053</b>
Adjustments due to correction of accounting mistakes:	
Mistakes in interest charges of rediscount bills	38,093
Mistakes in calculating taxable profit	83,883
<b>Subtotal of adjustment due to correction of accounting mistakes</b>	<b>121,976</b>
<b>Net profit after adjustment</b>	<b>1,675,059</b>

## V. TAXATION

### 1. Major tax categories and tax rates:

Categories	Tax rate(%)	Calculation basis
Business tax	5	Taxable operating revenue
Income tax	15	Taxable income (Shenzhen city)
	33	Taxable income (excluding Shenzhen city)
City maintenance and construction tax	1	Business tax (Shenzhen city)
	7	Business tax (excluding Shenzhen city)
Educational surcharge	3	Business tax

2. According to Notification of Reducing the Business Tax Rate for Financial Institutions and Insurance Companies (CS (2001) No. 21) jointly issued by the Ministry of Finance and the National Administration of Taxation, the Company has adopted a business tax rate of 5% since 2003.

**V. TAXATION** *continued***3. Settlement and payment of income tax.**

In 2005, except Xiamen and Shenzhen branches, the Company and its affiliates made collective payment of corporate income tax in Fuzhou and the affiliates made advance payment at a rate of 60% of the income tax payable for the year at their local places.

In 2004, except Xiamen and Shenzhen branches, the Company and its affiliates made collective payment of corporate income tax in Fuzhou. The affiliates outside Fujian Province made advance payment at a rate of 60% of the income tax payable for the year at their local places, while the local advance payment did not apply to the affiliates inside Fujian Province temporarily in 2004.

**VI. SUBSIDIARIES AND JOINT VENTURES**

As at December 31, 2005, the Company has not made any equity investment on other enterprises, except the investment of RMB 50,000,000 in China Union Pay Co., Ltd. which was made in accordance with Proposal of Founding China Union Pay Co., Ltd [YF (2001) No.234] issued by the PBOC.

**VII. NOTES TO SIGNIFICANT ITEMS OF THE FINANCIAL STATEMENTS****1. Cash on hand and in bank**

Currency	2005-12-31			2004-12-31		
	Original Currency	Exchange Rate	RMB Equivalent	Original Currency	Exchange Rate	RMB Equivalent
RMB	922,270	1.00000	922,270	676,003	1.0000	676,003
USD	16,831	8.07020	135,830	17,642	8.2765	146,017
HKD	68,683	1.04090	71,493	41,992	1.0643	44,692
EUR	3,015	9.56400	28,835	980	11.2759	11,046
JPY	374,089	0.06849	25,621	986,576	0.0804	79,368
GPB	51	13.91260	710	8	15.9207	135
Others	280	-	1,470	7	-	43
<b>Total</b>			<b>1,186,229</b>			<b>957,304</b>

**2. Due from the central bank**

Items	2005-12-31	2004-12-31
Fiscal deposit	49,389	38,992
Deposit reserve	20,712,569	16,595,673
Demand deposit with the central bank	17,589,490	32,107,473
<b>Total</b>	<b>38,351,448</b>	<b>48,742,138</b>

Notes: (1) All fiscal deposits are deposited in the central bank. The fiscal deposits of the Industrial Bank include the funds for issuing national debts as agent (less: national debts issued as agent), funds for underwriting treasury bonds as agent (less: national debts undertaken as agent), budget deposits, settling fiscal funds as agent, collecting as agent the unit/individual funds for buying treasury bonds,

funds for collecting as agent other national securities, and funds for reducing and cashing the principal and interest of national bonds and debts.

- (2) Except for fiscal deposits, all the other deposits are ordinary deposits which include private savings deposit, corporate 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%. 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 3%.
- (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 such as statutory deposit reserve.

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

Items	2005-12-31	2004-12-31
Current deposit due from domestic banks and other institutions	7,840,411	9,848,730
Current deposit due from offshore banks and other institutions	858,425	223,721
Fixed deposit due from domestic banks and other institutions		
-within three months	4,904,514	953,583
-over three months	4,486,846	2,838,382
Fixed deposit due from offshore banks and other institutions		
-within three months	-	-
-over three months	416,713	402,536
Overdue deposit from domestic banks and other institutions	26,008	40,036
<b>Subtotal</b>	<b>18,532,917</b>	<b>14,306,988</b>
Less: provision for losses	26,008	34,772
<b>Net</b>	<b>18,506,909</b>	<b>14,272,216</b>

Note: The RMB 26,008 thousand of provision for losses are withdrawn on the basis of the amount expected to be recoverable in the future for all the RMB 9,635 thousand of overdue deposits in the financing centers in various places and all the RMB 16,373 thousand of overdue deposits in the Financial Company of Shenzhen Saige Group.

### 4. Inter-bank placements

Items	2005-12-31	2004-12-31
Due from domestic banks and other institutions	599,374	1,479,736
Due from offshore banks and other institutions	17,105	42,048
<b>Subtotal</b>	<b>616,479</b>	<b>1,521,784</b>
Less: provision for bad debts	49,111	49,000
<b>Net</b>	<b>567,368</b>	<b>1,472,784</b>

Note: The provision of RMB 49,111 thousand for bad debts at the end of the reporting period refers to the provision withdrawn for the overdue placements of RMB 40,000 thousand from Hainan Development Bank and RMB 9,111 thousand from Hainan Financing Center based on expected recoverable amount in the future.

VII. NOTES TO SIGNIFICANT ITEMS OF THE FINANCIAL STATEMENTS *continued*

## 5. Placement with non-bank financial institutions

Categories	2005-12-31	2004-12-31
Security companies	82,024	987,390
Trust and investment companies	130,000	-
Financial Institutions	-	144,011
<b>Subtotal</b>	<b>212,024</b>	<b>1,131,401</b>
Less: provision	82,024	142,717
<b>Net</b>	<b>130,000</b>	<b>988,684</b>

Note: RMB 82,024,000 of provision was withdrawn for overdue placements of RMB 82,024,000 from Fujian Minfa Securities Co., Ltd based on expected recoverable amount in the future.

## 6. Short term loans

Categories	2005-12-31	2004-12-31
Credit loans	25,626,534	18,992,792
Guaranteed loans	65,914,842	61,510,001
Secured by mortgage	34,771,974	25,271,669
Secured by other collaterals	21,786,867	24,401,027
<b>Total</b>	<b>148,100,217</b>	<b>130,175,489</b>

Notes: (1) As at December 31, 2005, RMB 70,000,000 among the short-term loans has been used for sales of repurchase credit assets.

(2) As at Dec.31, 2005, no short term loan was granted to shareholders holding 5% or more of the Company's shares.

## 7. Import &amp; export advances and negotiations

Categories	2005-12-31	2005-12-31
Import advances and negotiations	469,884	553,928
Export advances and negotiations	281,364	96,038
<b>Total</b>	<b>751,248</b>	<b>649,966</b>

## 8. Interest receivable

(1) On balance sheet interest receivable

Items	2005-12-31	2004-12-31
Interest on debentures	893,596	447,714
Interest on loans	374,335	16,017
Interest on placement and repurchase agreement	18,956	12,541
Interest due from banks	31,952	7,137
Other interests	2,765	2,153
<b>Total</b>	<b>1,321,604</b>	<b>485,562</b>

(2) The interest on loan receivable matures within 90 days, while other interests receivable matures with one year.

(3) As at Dec.31, 2005, there was no interest receivable from shareholders holding 5% or more of the Company's shares.

## 9. Other receivables

(1) By age and percentage

Age	2005-12-31		2004-12-31	
	Sum	Percentage(%)	Sum	Percentage(%)
Less than 1 year	409,956	59.26	465,121	92.63
1-2 years	255,223	36.89	19,200	3.82
2-3 years	10,571	1.53	4,582	0.91
Over 3 years	16,095	2.32	13,239	2.64
<b>Total</b>	<b>691,845</b>	<b>100.00</b>	<b>502,142</b>	<b>100.00</b>

(2) By nature

Categories	2005-12-31	2004-12-31
Transfer of credit assets	240,000	-
Legal fare	58,083	29,099
Accounts to be settled	44,403	81,054
Currency funds in float	20,422	-
Earnest money	22,318	18,658
Prepayment	14,576	10,131
Provision	5,260	6,476
Others	286,783	356,724
<b>Total</b>	<b>691,845</b>	<b>502,142</b>

(3) The accounts to be settled refer to the accounts of financial instruments exchange within the same city and transfer of bank draft funds.

(4) As at Dec.31, 2005, no other receivables was owned by shareholders holding 5% or more of the Company's shares.

## 10. Provision for bad debts

Items	2005	2004
Opening balance	52,513	31,689
Provisions charged for the year	27,967	15,833
Recoveries	-	4,991
Write off for the year	52	-
<b>Closing balance</b>	<b>80,428</b>	<b>52,513</b>

Note: As at Dec.31, 2005, other accounts receivable on which provision was made mainly include litigation fees, prepayments and payments on behalf of others.

VII. NOTES TO SIGNIFICANT ITEMS OF THE FINANCIAL STATEMENTS *continued*

11. Discounted bills

Items	2005-12-31	2004-12-31
Bank acceptance discounted	11,377,860	10,138,001
Commercial acceptance discounted	1,234,774	2,538,072
Notes in foreign currency discounted	6,218	6,628
<b>Total</b>	<b>12,618,852</b>	<b>12,682,701</b>

Note: As at December 31, 2005, RMB 1,273,605,000 of the discounted items has been used to sell the repurchase agreement bills.

12. Short-term investments

(1) By Categories

Categories	2005-12-31	2004-12-31
Investment in treasury bonds	19,655,198	762,130
Investment in financial bonds	36,485,658	16,954,112
Investment in corporate bonds	1,511,761	-
Investment in foreign currency bonds	553,154	1,151,923
<b>Total</b>	<b>58,205,771</b>	<b>18,868,165</b>

(2) Itemized account of the top five investments

Bond name	Yearly interest rate	Period	Sum
04 treasury bonds 05		15/06/2004 to 15/06/2006	4,105,182
05 central bank bill 112	Discounted zero	18/11/2005 to 17/02/2006	3,690,002
05 treasury bonds 10	coupon bond	15/09/2005 to 15/09/2006	3,526,341
05 central bank bill 115		25/11/2005 to 24/02/2006	2,033,951
05 import and export bank 03	1.61%	24/11/2005 to 24/11/2006	2,000,000
<b>Total</b>			<b>15,355,476</b>

(3) Itemized account of repurchase agreements

Bond names	Par value	Repurchase value
05 treasury bonds 10	1,700,000	1,560,000
04 treasury bonds 05	1,500,000	1,500,000
04 central bank bill 104	300,000	300,000
04 central bank bill 98	160,000	160,000
05 treasury bonds 01	100,000	100,000
04 central bank bill 94	50,000	50,000
<b>Total</b>	<b>3,810,000</b>	<b>3,670,000</b>

### 13. Reverse repurchase agreements

Items	2005-12-31	2004-12-31
Reverse repurchase agreements- securities		
-Treasury bonds	20,971,000	1,762,922
-Financial bonds	15,588,413	1,705,856
-Foreign currency bonds	-	132,281
Reverse repurchase agreements-bills		
-Bank acceptance	8,969,377	8,618,219
-Commercial acceptance	2,902,255	2,763,688
Reverse repurchase agreements-credit assets	2,083,000	2,715,300
<b>Total</b>	<b>50,514,045</b>	<b>17,698,266</b>

### 14. Deferred expenses

Items	2005-12-31	2004-12-31
Rental expenses	30,941	26,880
Others	5,096	3,548
<b>Total</b>	<b>36,037</b>	<b>30,428</b>

### 15. Long-term investments maturing within 1 year

(1) Itemized account

Name of bond	2005-12-31	2004-12-31
Treasury bond	2,857,299	3,192,397
Financial bond	60,010	-
Foreign currency bond	213,278	82,474
<b>Total</b>	<b>3,130,587</b>	<b>3,274,871</b>

(2) Breakdown of investment as at Dec.31, 2005

Items	Maturing	Yearly interest rate (%)	Par value	Premium discount	Accumulated interest accrued	Total
Treasury bonds	26/02/2006 to 15/12/2006	2.32-11.83	2,841,850	8,275	7,174	2,857,299
Financial bonds	27/07/2006 to 21/12/2006	3.06-3.81	60,000	10	-	60,010
Foreign currency bonds	27/03/2006 to 04/12/2006	2.50-9.00	211,789	1,489	-	213,278
<b>Total</b>			<b>3,113,639</b>	<b>9,774</b>	<b>7,174</b>	<b>3,130,587</b>

VII. NOTES TO SIGNIFICANT ITEMS OF THE FINANCIAL STATEMENTS *continued*15. Long-term investments maturing within 1 year *continued*

(3) Breakdown of investment as at Dec.31, 2004

Name of bond	Maturing	Yearly interest rate (%)	Par value	Premium discount	Accumulated interest accrued	Total
Treasury bond	01/03/2005 to 23/12/2005	2.07-6.8	3,166,976	71	25,350	3,192,397
Financial bond			-	-	-	-
Foreign currency bond	02/06/2005 to 18/07/2005	2.8-5.25	82,765	-291	-	82,474
<b>Total</b>			<b>3,249,741</b>	<b>-220</b>	<b>25,350</b>	<b>3,274,871</b>

(4) Breakdown of top five investments as at Dec.31, 2005

Name of bond	Opening and closing date	Yearly interest rate (%)	Par value	Premium discount	Accumulated interest accrued	Total
04 treasury bond 11	15/12/2004 to 15/12/2006	2.98	1,317,000	3,817	-	1,320,817
01 treasury bond 13	27/11/2001 to 27/11/2006	2.86	539,000	3,385	-	542,385
01 treasury bond 06	13/07/2001 to 13/07/2006	3.36	370,000	176	-	370,176
96 treasury bond 6	14/06/1996 to 14/06/2006	11.83	242,900	1,820	-	244,720
99 treasury bond 3	18/06/1999 to 18/06/2006	3.20	150,000	255	-	150,255
<b>Total</b>			<b>2,618,900</b>	<b>9,453</b>	<b>-</b>	<b>2,628,353</b>

(5) Breakdown of foreign currency bonds used as collateral in transactions of financial derivatives as at December 31, 2005

Unit: USD in thousands

Bond code	Currency	Par value
US3128X1DE45	USD	3,700

## 16. Mid and long-term loans

Items	2005-12-31		
	Total	1-5 years	Over 5 years
Credit loans	15,280,627	9,821,769	5,458,858
Guaranteed loans	18,657,192	13,163,437	5,493,755
Secured by Mortgage	34,192,974	10,354,837	23,838,137
Secured by other collaterals	7,726,175	3,138,643	4,587,532
<b>Total</b>	<b>75,856,968</b>	<b>36,478,686</b>	<b>39,378,282</b>
Percentage(%)	100.00	48.09	51.91

Items	2004-12-31		
	Total	1-5 years	Over 5 years
Credit loans	9,990,330	6,908,133	3,082,197
Guaranteed loans	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	7,403,629	3,670,285	3,733,344
<b>Total</b>	<b>55,048,964</b>	<b>29,299,303</b>	<b>25,749,661</b>
Percentage (%)	100.00	53.22	46.78

Note: (1) As at Dec. 31, 2005, RMB 593,780,000 of medium and long term loans were used for selling repurchase credit assets.

(2) As at Dec.31, 2005, no medium and long term loan was granted to shareholders holding 5% or more of the Company's shares.

## 17. Overdue loans

Categories	2005-12-31	2004-12-31
Credit loans	152,074	38
Guaranteed loans	214,781	293,340
Secured by mortgage	157,653	102,717
Secured by other collaterals	25,578	919
<b>Total</b>	<b>550,086</b>	<b>397,014</b>

Note: As at Dec.31, 2005, no overdue loan was owed by shareholders holding 5% or more of the Company's shares.

VII. NOTES TO SIGNIFICANT ITEMS OF THE FINANCIAL STATEMENTS *continued*

## 18. Non-accrual loans

Categories	2005-12-31						
	Total	Within 90 days	90~180 days	180 days ~1 year	1~2 years	2~3 years	Over 3 years
Credit loans	470,850	1,700	227,693	5,197	73,547	32,163	130,550
Guaranteed loans	2,660,387	408,922	214,794	423,576	797,087	317,064	498,944
Secured by mortgage	1,147,232	102,883	372,879	234,403	189,481	118,509	129,077
Secured by other collaterals	415,667	60,970	51,156	209,826	11,635	9,380	72,700
<b>Total</b>	<b>4,694,136</b>	<b>574,475</b>	<b>866,522</b>	<b>873,002</b>	<b>1,071,750</b>	<b>477,116</b>	<b>831,271</b>

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

Note: As at Dec.31, 2005, no non-accrual loan was granted to shareholders holding 5% or more of the Company's shares.

## 19. Provision for bad loans

(1) Changes of the provision for bad loans

Items	2005	2004
Opening balance	4,415,804	3,725,142
Provisions charged for the year	1,422,214	1,011,410
Transfer in for the year	-	12,261
Recoveries	1,958	15,026
Write off for the year	576,472	334,836
Transfer out for the year	151,952	13,199
<b>Closing balance</b>	<b>5,111,552</b>	<b>4,415,804</b>

Note: The transfer in for the year 2004 involves the provision for bad loans upon acquisition of Foshan City Commercial Bank; the transfer out is the provision for bad loans transferred out upon sale of loans or transfer of loans into the wait-deal assets for debt repayment.

## (2) Written offs

Items	2005	2004
Principal written off	576,472	334,836
Interest written off	431,492	179,838

Note: As the ages of the on-balance-sheet interests receivable are within 90 days and those over 90 days are shifted to off balance sheet, no provision is made for the on-balance-sheet interest and there exists no verification and writing-off of such interest.

## 20. Long-term bonds investments

## (1) Itemized account

Items	2005-12-31	2004-12-31
Treasury bonds	44,051,847	14,164,463
Financial bonds	10,480,705	11,627,037
Corporate bonds	49,558	-
Foreign currency bonds	4,433,635	3,492,532
<b>Total</b>	<b>59,015,745</b>	<b>29,284,032</b>

## (2) Breakdown of investment as at December 31, 2005

Items	Maturing	Yearly interest rate(%)	Par value	Premium discount	Accrued interest	Total
Treasury bonds	24/02/2007 to 24/05/2032	1.75-9.78	43,297,206	711,151	43,490	44,051,847
Financial bonds	14/05/2007 to 12/01/2032	2.1466-5.22	10,428,200	52,505	-	10,480,705
Corporate bonds	12/07/2015	4.980	50,000	-442	-	49,558
Foreign currency bonds	18/01/2007 to 28/10/2027	3.50-8.50	4,350,948	82,687	-	4,433,635
<b>Total</b>			<b>58,126,354</b>	<b>845,901</b>	<b>43,490</b>	<b>59,015,745</b>

## (3) Breakdown of investment as at December 31, 2004

Items	Maturing	Yearly interest rate(%)	Par value	Premium discount	Accrued interest	Total
Treasury bonds	26/02/2006 to 24/05/2032	2.0-11.83	14,034,983	105,548	23,932	14,164,463
Financial bonds	26/05/2006 to 12/01/2032	2.1466-5.10	11,555,900	71,137	-	11,627,037
Foreign currency bonds	27/03/2006 to 28/10/2027	2.50-9.00	3,465,702	26,830	-	3,492,532
<b>Total</b>			<b>29,056,585</b>	<b>203,515</b>	<b>23,932</b>	<b>29,284,032</b>

VII. NOTES TO SIGNIFICANT ITEMS OF THE FINANCIAL STATEMENTS *continued*20. Long-term bonds investments *continued*

(4) Breakdown of top five investments as at December 31, 2005

Name of bond	Opening and closing date	Yearly interest rate(%)	Par value	Premium discount	Accrued interest	Total
04 T-bond 03	20/04/2004 to 20/04/2009	4.42	6,658,400	160,887	-	6,819,287
05 T-bond 04	15/05/2005 to 15/05/2025	4.11	4,500,000	153,352	-	4,653,352
05 T-bond 03	26/04/2005 to 26/04/2010	3.30	4,153,000	17,998	-	4,170,998
01 T-bond 05	22/06/2001 to 22/06/2008	3.71	3,274,000	93,636	-	3,367,636
05 T-bond 14	15/12/2005 to 15/12/2007	1.75	2,510,000	-2,108	-	2,507,892
<b>Total</b>			<b>21,095,400</b>	<b>423,765</b>	<b>-</b>	<b>21,519,165</b>

(5) Breakdown of subordinated financial bonds as at December 31, 2005

Name of bond	Opening and closing date	Yearly interest rate(%)	Par value
04 China Mingsheng Banking Corp.01 fixed	02/11/2004 to 02/11/2014	5.100	1,000,000
04 Bank of China 02	16/11/2004 to 16/11/2014	4.940	716,000
04 Construction Bank of China 02	22/09/2004 to 22/09/2014	4.950	500,000
Subordinated bonds of NewChina Life Insurance Co.	30/12/2004 to 30/01/2010	1Y+2.6	330,000
05 China Mingsheng Banking Corp.01	23/12/2005 to 23/12/2015	3.680	20,000
05 Bank of Beijing 01	28/12/2005 to 28/12/2015	3.980	20,000
04 Construction Bank of China 01 fixed	02/08/2004 to 02/08/2014	4.870	10,000
04 Bank of China 01	20/07/2004 to 20/07/2014	4.870	10,000
05 Bank of China 01	04/03/2005 to 04/03/2015	4.830	10,000
<b>Total</b>			<b>2,616,000</b>

(6) Breakdown of repurchase in long-term investments

A. Bonds in RMB

Name of bond	Par value	Sum of repurchase
05 T-bond 04	3,070,000	3,070,000
04 T-bond 03	2,118,470	2,118,470
01 T-bond 05	2,032,450	2,032,450
05T-bond03	1,876,600	1,876,600
04T-bond10	1,430,000	1,430,000
04T-bond08	1,127,400	1,127,400
04T-bond04	541,400	541,400
01 China Development 21	310,000	310,000
03T-bond04	250,000	250,000
04T-bond07	223,000	223,000
00T-bond01	177,000	177,000
03T-bond11	160,000	160,000
<b>Total</b>	<b>13,316,320</b>	<b>13,316,320</b>

B. Foreign currency bonds

Code of bond	Par value(USD in thousands)	Sum of repurchase
US712219AJ30	25,000	199,346

(7) Breakdown of foreign currency bonds used as collateral in transactions of financial derivatives as at December 31, 2005

Unit: USD in thousands

Name of Bond	Currency	Par value
USG29039AA53	USD	3,000
XS0183865004	USD	2,000
US3133XAFD45	USD	1,400
<b>Total</b>		<b>6,400</b>

## 21. Long-term equity investments

In light of Approval of People's Bank of China on Founding China Union Pay Co., Ltd. [PBOC YF (2001) No. 124], the Company invested RMB 50,000,000 in China Union Pay Co., Ltd., which accounted for 3.03% of the registered capital of China Union Pay.

VII. NOTES TO SIGNIFICANT ITEMS OF THE FINANCIAL STATEMENTS *continued*

## 22. Original value, accumulated depreciation and provision for impairment of fixed assets

## (1) Original value of fixed assets

Categories	2004-12-31	Increase	Decrease	2005-12-31
Properties and buildings	2,684,933	14,582	8,907	2,690,608
Transportation facilities	145,483	27,640	8,296	164,827
Others	567,872	186,414	18,074	736,212
<b>Total</b>	<b>3,398,288</b>	<b>228,636</b>	<b>35,277</b>	<b>3,591,647</b>

Note: (1). The decrease of the fixed assets of the year mainly resulted from the disposal and retirement of fixed assets.

(2). There were no fixed assets guaranteed or secured by mortgage in the period.

(3). There was no sale and swap of fixed assets involving large-sum transaction in the period.

(4). There were no fixed assets for financing lease or for lease as a replacement of purchase in the period.

(5). As at Dec.31, 2005, the Company has not yet acquired the property right to properties and buildings with original worth of RMB 416,016,000.

## (2) Accumulated depreciation

Categories	2004-12-31	Increase	Decrease	2005-12-31
Properties and buildings	468,573	90,219	2,644	556,148
Transportation tools	58,453	17,953	5,407	70,999
Others	268,781	102,139	15,740	355,180
<b>Total</b>	<b>795,807</b>	<b>210,311</b>	<b>23,791</b>	<b>982,327</b>

## (3) Provision for impairment of fixed assets

Items	2005	2004
Opening balance	10,087	10,087
Provisions charged for the year	-	-
Transfer in for the year	-	-
Decrease	-	-
<b>Closing balance</b>	<b>10,087</b>	<b>10,087</b>

Note: Provisions for impairment refers to the provision for impairment losses of properties and buildings.

### 23. Construction in progress

Project names	Budget	2004-12-31	Addition	Disposal	2005-12-31	Progress
Mansion of Ningbo Branch	99,800	-	49,000	-	49,000	Not completed
Decoration project of Kunming Branch	5,800	-	5,551	-	5,551	Completed but not yet transferred
Decoration project of Beijing Branch	9,256	81	6,245	2,787	3,539	Partially completed
Mansion of Yuanhong of the Headquarter and other decoration project	18,323	1,316	11,237	9,448	3,105	Partially completed
Decoration project of Guangzhou Branch	40,376	866	38,298	37,410	1,754	Partially completed
Decoration project of Guangzhou Branch	5,026	2,050	258	938	1,370	Partially completed
Mansion of Xiamen and other decoration project	9,094	4,107	1,934	4,705	1,336	Partially completed
Decoration project of Shenyang Branch	2,488	500	2,356	1,791	1,065	Partially completed
Decoration project of Fuzhou Branch	8,202	98	4,239	3,286	1,051	Partially completed
Decoration project of Ji'nan Branch	3,187	1,592	1,376	2,018	950	Partially completed
Decoration project of Shanghai Branch	5,818	303	5,699	5,130	872	Partially completed
Decoration project of Tianjin Branch	6,401	1,244	5,054	5,436	862	Partially completed
Decoration project of Ningbo Branch	2,520	-	2,119	1,353	766	Partially completed
Decoration project of Wuhan Branch	1,858	379	1,177	916	640	Partially completed
Decoration project of Xi'an Branch	1,760	-	1,765	1,760	5	Partially completed
Decoration project of Changsha Branch	2,103	384	1,844	2,228	-	Completed
Decoration project of Nanjing Branch	12,372	1,220	11,156	12,376	-	Completed
<b>Total</b>	<b>234,384</b>	<b>14,140</b>	<b>149,308</b>	<b>91,582</b>	<b>71,866</b>	

VII. NOTES TO SIGNIFICANT ITEMS OF THE FINANCIAL STATEMENTS *continued*23. Construction in progress *continued*

Note: (1) RMB 91,582,000 was transferred out from construction in progress in the year, of which, RMB 5,252,000 was transferred into fixed assets and RMB 86,330,000 was transferred into long-term deferred expenses.

(2) The capital for the projects under construction derived from the self-possessed working capital of the Company. As at December 31, 2005, there was no capitalized interest involved in the projects under construction.

(3) There was no depreciation for construction in progress of the Company.

## 24. Intangible assets

Categories	Original cost	2004-12-31	Addition	Disposal	Amortization	Accumulated amortization	2005-12-31
Franchise	430,000	426,417	-	-	43,000	46,583	383,417
Title sponsorship	20,000	19,333	-	-	666	1,333	18,667
Software	38,335	17,709	14,246	-	5,733	12,113	26,222
Land use right	24,855	17,672	7,024	-	1,819	1,978	22,877
Business license	13,000	11,050	-	-	1,300	3,250	9,750
Seat charge	800	400	-	-	80	480	320
Others	5,200	4,591	-	-	506	1,115	4,085
<b>Total</b>	<b>532,190</b>	<b>497,172</b>	<b>21,270</b>	<b>-</b>	<b>53,104</b>	<b>66,852</b>	<b>465,338</b>

Note: Franchise refers to the intangible assets obtained by the Company in the acquisition of Foshan City Commercial Bank. Pursuant to the resolution approved 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. 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.

## 25. Provision for depreciation of intangible assets

Items	2005	2004
Opening balance	-	1,000
Provisions withdrawn for the year	-	-
Transfer in for the year	-	-
Decrease for the year	-	1,000
<b>Closing balance</b>	<b>-</b>	<b>-</b>

Note: The closing balance of provision for intangible assets depreciation was zero. Decrease in the year 2004 refers to the written-off provision for depreciation of land use rights.

## 26. Long-term deferred expenses

Categories	Original cost	2004-12-31	Addition	Disposal	Accumulated amortization	Closing balance	2005-12-31
Decoration expense of business buildings	542,920	242,605	107,876	-	95,712	288,151	254,769
Pre-operating	5,917	1,110	44,497	-	39,690	-	5,917
Others	30,337	18,755	12,369	-	7,058	6,271	24,066
<b>Total</b>	<b>579,174</b>	<b>262,470</b>	<b>164,742</b>	<b>-</b>	<b>142,460</b>	<b>294,422</b>	<b>284,752</b>

## 27. Wait-deal debt repayment assets

Categories	2005-12-31	2004-12-31
Properties and buildings	529,216	571,755
Land use right	92,404	95,242
Motor vehicles	2,055	955
Equity rights	32,880	450
<b>Total</b>	<b>656,555</b>	<b>668,402</b>

## 28. Provision for depreciation of wait-deal debt repayment assets

Items	2005	2004
Opening balance	85,567	83,749
Provisions charged for the year	41,153	-9,817
Transfer in for the year	2,740	13,199
Transfer out for the year	29,888	1,564
<b>Closing balance</b>	<b>99,572</b>	<b>85,567</b>

Notes: (1) Transfer in for the year referred to the corresponding depreciation provisions for debt repayment assets transferred in when relevant loans were transferred into debt repayment assets category.

(2) Transfer out for the year referred to the corresponding transferred-out depreciation provision for debt repayment assets when the debt repayment assets were treated.

VII. NOTES TO SIGNIFICANT ITEMS OF THE FINANCIAL STATEMENTS *continued*

## 29. Other long-term assets

Categories	2005-12-31	2004-12-31
Other long-term assets	69,722	71,907

Note: Other long-term assets refer to the fixed assets of Foshan City Commercial Bank which was purchased and consolidated in 2004 but whose property hasn't been transferred. The company has included these assets in the fixed assets management and accordingly withdrawn the depreciation in accordance with the regulations.

## 30. Deferred tax assets

Categories	2005-12-31	2004-12-31
Provisions for credit losses	733,920	636,224
Provisions for asset impairments	94,172	107,848
Pre-operating expenses	24,570	26,460
<b>Total</b>	<b>852,662</b>	<b>770,532</b>

Note: When there are adequate evidences showing that there will be sufficient taxable income in the future to set off the above timing difference, the debit of deferred tax is recognized.

## 31. Short-term deposits

Items	2005-12-31	2004-12-31
Corporate current deposit	136,674,217	121,529,539
Corporate term deposit maturing within one year	61,215,704	48,837,144
Corporate call deposit	26,878,883	19,295,473
Deposit of public accumulated fund	62,284	39,570
<b>Total</b>	<b>224,831,088</b>	<b>189,701,726</b>

## 32. Short-term savings deposits

Items	2005-12-31	2004-12-31
Current savings deposit	12,405,620	11,550,912
Term saving deposit maturing within one year	14,062,670	9,353,916
Individual call deposits	2,554,223	1,614,776
<b>Total</b>	<b>29,022,513</b>	<b>22,519,604</b>

### 33. Fiscal deposit

Items	2005-12-31	2004-12-31
Fiscal deposit	23,649	9,041

### 34. Amounts due to banks and other financial institutions

Institutions	2005-12-31	2004-12-31
Banks	35,798,004	11,084,218
Other non-bank institutions	14,508,139	9,735,282
Redeposit of securities companies	14,741,231	10,129,730
Funds operation companies	382,590	-
<b>Total</b>	<b>65,429,964</b>	<b>30,949,230</b>

Note: Redeposit of securities companies referred to the transaction settlement funds of securities companies' customers that was redeposited in the Company in line with relevant regulations.

### 35. Inter-bank borrowings

Institutions	2005-12-31	2004-12-31
Banks	403,510	903,503
Other non-bank institutions	-	-
<b>Total</b>	<b>403,510</b>	<b>903,503</b>

### 36. Selling of Repurchase agreements

Items	2005-12-31	2004-12-31
Repurchase agreements- securities		
-Treasury bonds	16,166,320	1,844,300
-Financial bonds	820,000	1,000,000
-Foreign currency bonds	199,346	-
Repurchase agreements-bills		
-Bank acceptance	1,273,605	1,359,944
-Commercial acceptance	-	567,266
Repurchase agreements-credit assets	663,780	754,260
<b>Total</b>	<b>19,123,051</b>	<b>5,525,770</b>

VII. NOTES TO SIGNIFICANT ITEMS OF THE FINANCIAL STATEMENTS *continued*

## 37. Trust funds

Items	2005-12-31	2004-12-31
Trust deposit	23,196,612	5,240,483
Less: trust loan	22,024,884	5,126,261
Trust funds	1,171,728	114,222

Note: The increase in trust deposit and trust loan mainly resulted from the newly added “Wanlibao” RMB wealth management products. As at Dec.31, 2005, the closing balance of “Trust deposit-trust financing” was RMB 12,021,683 thousand, and the closing balance of “trust loan-trust financing” was RMB 11,050,523 thousand.

## 38. Short-term guarantee deposits

Items	2005-12-31	2004-12-31
Deposit for bank acceptance draft	44,075,832	22,894,995
Deposit for loans and discount bills	5,525,699	2,250,900
Deposit for factoring derivatives	1,687,019	1,046,101
Deposit for L/C	1,048,194	1,091,615
Deposit for letter of guarantees	715,264	322,291
Deposit for sale of credit assets and bills	477,414	1,238,068
Deposit for foreign exchange	25,875	7,659
Deposit for credit card	861	-
Others	200,050	74,209
<b>Total</b>	<b>53,756,208</b>	<b>28,925,838</b>

## 39. Interest payable

(1) Itemized account

Items	2005-12-31	2004-12-31
Deposit interest due to insurance companies	511,195	313,014
Deposit interest due to other enterprises	546,424	209,685
Savings deposit interest	240,441	179,092
Interest of credit assets repurchase	212,422	17,784
Deposit interest of earnest money	180,303	53,575
Placement interest due to other banks	156,495	16,810
Interest of long-term bonds	36,431	-
Interest of subordinated bonds	4,316	-
Other interest payable	60	3,189
<b>Total</b>	<b>1,888,087</b>	<b>793,149</b>

(2) As at Dec.31, 2005, interest payable with maturity over 1 year is the interest payable to immature fixed deposit and agreement deposit.

#### 40. Taxes payable

Items	2005-12-31	2004-12-31
Income tax	401,217	506,360
Business tax	231,296	173,796
City maintenance and construction tax	15,486	9,793
Personal income tax	6,048	6,669
Real estate tax	1,355	1,591
Others	2,387	3,865
<b>Total</b>	<b>657,789</b>	<b>702,074</b>

#### 41. Other Payables

Items	2005-12-31	2004-12-31
Public reserve fund for housing payable	35,829	27,554
Basic endowment insurance fund payable	23,997	14,639
Educational surcharge payable	8,136	4,573
Unemployment premium payable	1,809	1,370
Stamp duty payable	3,487	2,028
<b>Total</b>	<b>73,258</b>	<b>50,164</b>

#### 42. Dividends payable

Items	2005-12-31	2004-12-31
Dividends payable	42,839	165,666

Note: As at Dec.31, 2005, no dividends payable to shareholders holding 5% or more of the Company's shares.

VII. NOTES TO SIGNIFICANT ITEMS OF THE FINANCIAL STATEMENTS *continued*

## 43. Other payables

Items	2005-12-31	2004-12-31
Promissory notes	671,184	319,329
On account debit documents of intra-city presentation	185,315	26,878
Payable for agency collection of trust loans	225,115	6,645
Payables for agency collection and payment	100,147	24,737
Educational and Trade union expenses payable	90,413	78,369
Aged payable pending for collection	26,829	11,299
Foreign exchange to be refunded and agency collection	14,970	20,122
Additional pension insurance fund payable	9,102	5,027
Other payables	384,960	284,557
<b>Total</b>	<b>1,708,035</b>	<b>776,963</b>

Note: As at Dec.31, 2005, no other accounts payable to shareholders holding 5% or more of the Company's shares.

## 44. Deferred gains

Items	2005-12-31	2004-12-31
Deferred gains:		
Interests of discount bills	216,042	-
Discount interest from transfer in from other banks	113,979	-
Interest from reverse repurchase agreements-bills	24,407	-
<b>Subtotal</b>	<b>354,428</b>	<b>-</b>
Less: deferred expenses		
Interests of rediscount and inter-bank discount	195,264	-
Interest of reverse repurchase agreements-bills	312	-
<b>Subtotal</b>	<b>195,576</b>	<b>-</b>
<b>Total</b>	<b>158,852</b>	<b>-</b>

Note: The Company changed the accounting of bill business income/expenditure from the original cash basis system to accrual system in 2005. The interest that has been actually collected and paid but whose profit/loss has not been confirmed on the accrual basis is calculated in this account. The effect of the change in the accounting policy is the decrease of RMB 158,852, 000 in the total profits for the year 2005. In accordance with prudence principle, the prospective application method were adopted to respond to the change in the accounting policy.

#### 45. Other current liabilities

Item	2005-12-31	2004-12-31
Other current liabilities	-	131,845

Note: The other current liabilities at the end of 2004 refer to the proceeds received from sale of the reverse repurchase agreements foreign currency bonds, and the par value of the bond is \$US16,000,000. This amount will be used to buy back the corresponding reverse repurchase agreements foreign currency bonds before they become mature.

#### 46. Long-term deposits

Items	2005-12-31	2004-12-31
Contract deposit	43,834,000	39,784,000
Other term deposits (over one year)	500,331	314,829
<b>Total</b>	<b>44,334,331</b>	<b>40,098,829</b>

#### 47. Long-term saving deposits

Items	2005-12-31	2004-12-31
Fixed amount and period (over one year)	1,504,341	1,317,594
Regular deposits (over one year)	2,116	1,807
Value-preserved deposit (over one year)	4,643	6,738
Regular withdrawal of interest savings (over one year)	497	763
Educational deposit (over one year)	599	572
<b>Total</b>	<b>1,512,196</b>	<b>1,327,474</b>

#### 48. Long-term guarantee deposits

Items	2005-12-31	2004-12-31
Deposits for letter of guarantee	13,066	7,000
Deposits for loans	5,492	150
Others	500	-
<b>Total</b>	<b>19,058</b>	<b>7,150</b>

VII. NOTES TO SIGNIFICANT ITEMS OF THE FINANCIAL STATEMENTS *continued*

## 49. The subordinated liabilities

Categories	Issue date	Term	2005-12-31		2004-12-31	
			Fixed interest rate	Floating interest rate	Fixed interest rate	Floating interest rate
Subordinated liabilities	17/12/2003 to 30/12/2003	61 months	-	3,000,000	-	3,000,000
Subordinated bonds	23/12/2004 to 29/12/2004	10 years	1,860,000	1,140,000	1,860,000	1,140,000
<b>Total</b>			<b>1,860,000</b>	<b>4,140,000</b>	<b>1,860,000</b>	<b>4,140,000</b>

Notes: 1. In Dec. 2003, the Company issued subordinated bonds totaling RMB 3,000,000,000 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 as stipulated by the People's Bank of China. The issuing of the subordinated bonds was ratified with the Reply of China Banking Regulatory Commission on Industrial Bank's Issuing of Subordinated Term Bonds to Replenish its Supplementary Capital [YJF (2003) No. 133].

2. In December 2004, the Company issued subordinated bonds totaling RMB 3,000,000,000 with a term of 10 years. The Company has an option to fully or partly redeem the debt 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 exercise the option, 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 with the Approval of China Banking Regulatory Commission on the Company's Issuing of Subordinated Term Bonds [YJF (2004) No. 209].

## 50. Long term bonds payable

In November 2005, the Company issued financial bonds totaling RMB 10 billion with a term of three years at a yearly interest rate of 2.15%. The bond is named "Bond of the Industrial Bank Co Ltd, 2005". The issuance was ratified with the Approval of the PBOC on the Industrial Bank's Issuing of Financial Bonds [YF (2005) No. 77] and China Banking Regulatory Commission on Industrial Bank's Issuing of Financial Bonds [YJF (2005) No. 253].

## 51. Paid-in capital

Items	2003-12-31	%	Movements	2004-12-31	%
Shares owned by state	1,212,103	40.40	-3,000	1,209,103	30.24
Shares owned by state-owned legal person	1,022,661	34.09	-38,194	984,467	24.62
Shares owned by domestic legal persons	765,236	25.51	41,194	806,430	20.16
Shares held by foreign legal person	-	-	999,000	999,000	24.98
<b>Total</b>	<b>3,000,000</b>	<b>100.00</b>	<b>999,000</b>	<b>3,999,000</b>	<b>100.00</b>

Items	2004-12-31	%	Movements	2005-12-31	%
Shares owned by state	1,209,103	30.24	-1,403	1,207,700	30.20
Shares owned by state-owned legal person	984,467	24.62	116,667	1,101,134	27.54
Shares owned by domestic legal persons	806,430	20.16	-115,264	691,166	17.28
Shares held by foreign legal person	999,000	24.98	-	999,000	24.98
<b>Total</b>	<b>3,999,000</b>	<b>100.00</b>	<b>-</b>	<b>3,999,000</b>	<b>100.00</b>

Notes: 1. The above shares are unlisted ordinary shares with par value of RMB 1 each.

2. Change of the Company' share capital:

- (1) Founded jointly by Fujian Fuxing Financial Company, Fujian Huaxing Investment Company and Fujian Investment Enterprise Company by public offering with approvals of [GH (1988) NO.58] by the State Council, [YF (1988) NO.347] by the PBOC and [MY(1988)No.164] by the PBOC Fujian Branch. the Company was registered in Fujian Administration of Industry and Commerce as a regional joint stock commercial bank at August 22, 1988. The initial paid-in capital is RMB 1500 million and the first installment RMB 500 million. The first installment of paid in capital has been verified by Fujian Huaxing Certified Public Accountants Ltd. with a verification report referenced "MHXS (88) YZ No. 038" and "MHXS (88) YZ No. 051".
- (2) In August 1996, the Company was allowed to increase its paid in capital within the RMB 1500 million limit and approved by the PBOC with the document [YF (1996) No. 275]. The increase in paid in capital has been verified by Fujian Huaxing Certified Public Accountants Ltd. with a verification report referenced "MHXS(1997) YZ No.G-020" and "MHXS(1997) YZ No.G-048".
- (3) In March 2000, the paid in capital of the Company has increased from RMB 1500 million to RMB 3000 million with the approval of PBOC [YBH (2000) No. 138]. The increase in paid in capital has been verified by Fujian Huaxing Certified Public Accountants Ltd. with a verification report referenced "MHXS(2000) YZ No.G-019" and "MHXS(2000) YZ No.G-026".

VII. NOTES TO SIGNIFICANT ITEMS OF THE FINANCIAL STATEMENTS *continued*51. Equity *continued*

(4) In 2004, with the approval of Fujian Provincial Government [MZW (2004) No.73] and China Banking Regulatory Commission [YJF(2004) No. 35], the Company issued another 999 million shares to attract investment from overseas strategic investors. Hang Seng Bank Limited subscribed 639.09 million shares, Government of Singapore Investment Corporation subscribed through Tetrad Venture Pte Lcd 199.95 million shares, and International Finance Corporation subscribed 159.96 million shares. The above three overseas strategic investors jointly held 24.9812% of the total shares of the Company. The subscription price per share was RMB 2.70 Yuan. The equity increased by RMB 999 million, with the capital reserve expanding by RMB 1.6983 billion and the Company's registered capital reached RMB 3.999 billion after the share expansion. The subscription has been verified by Fujian Huaxing Certified Public Accountants Ltd. with a verification report referenced "MHXS(2004) YZ No.G-003".

## 52. Capital reserves

Items	Equity premium over par value	Transferred in from other capital reserve items	Total
2003-12-31	1,106,583	34,331	1,140,914
Increase in current year	1,698,300	-	1,698,300
Decrease in current year	-	-	-
2004-12-31	2,804,883	34,331	2,839,214
Increase in current year	-	-	-
Decrease in current year	-	-	-
2005-12-31	2,804,883	34,331	2,839,214

Note: The increase of the capital reserve results from the equity premium with the overseas strategic investors becoming shareholders of the Company. For more information, refer to VII. 51 Paid-in Capital

## 53. Surplus reserves

Items	Statutory Surplus reserve	Reserve for welfare of employees	Discretionary surplus reserve	Total
2003-12-31	298,647	204,350	-	502,997
Increase in current year	167,506	83,753	-	251,259
Decrease in current year	-	-	-	-
2004-12-31	466,153	288,103	-	754,256
Increase in current year	245,499	-	-	245,499
Decrease in current year	-	-	-	-
2005-12-31	711,652	288,103	-	999,755

Note: According the new Corporate Law effective from 1 January 2006, the Company did not appropriate statutory welfare fund in 2005.

## 54. General reserve

In the general shareholders' meeting held on September 21, 2005, the Motion of Industrial Bank on Withdrawing General Provision from Retained Earnings was approved in the form of resolution, where RMB 900,000,000 was withdrawn as general reserve.

On March 18, 2006, the tenth session of the fifth Board of Directors approved 2005 Profit Distribution Proposal of Industrial Bank, where it was proposed to withdraw general provision of RMB 1,500,000,000. This proposal is to be submitted to general shareholders' meeting for approval.

## 55. Retained Earnings

Items	2005	2004
<b>Net profit for the year</b>	<b>2,454,989</b>	<b>1,675,059</b>
Add: Balance of retained earnings as at 1 Jan, 2004	2,471,482	1,377,682
Less: Appropriations to statutory surplus reserve	245,499	167,506
Appropriations to reserve for welfare of employees	-	83,753
Appropriations to general reserve	2,400,000	-
Appropriations to discretionary surplus reserve	-	-
Dividends declared for ordinary shares	404,053	330,000
<b>Balance of retained earnings as at 31 Dec, 2005</b>	<b>1,876,919</b>	<b>2,471,482</b>

Notes: (1) Dividends in an amount of RMB 330,000,000 have been declared for ordinary shares according to the 2003 Plan of Profit Distribution of Industrial Bank, which was approved in the 2003 Shareholders' Meeting held on June 28, 2004.

(2) Dividends in an amount of RMB 404,053,000 have been declared for ordinary shares according to the 2004 Plan of Profit Distribution of Industrial Bank, which was approved in the Shareholders' Meeting held on May 20, 2005.

(3) In the general shareholders' meeting held on September 21, 2005, the Motion of Industrial Bank on Withdrawing General Provision from Retained Earnings was approved in the form of resolution, where RMB 900,000,000 was withdrawn.

(4) On March 18, 2006, the tenth session of the fifth Board of Directors approved the resolution of 2005 Profit Distribution Proposal of Industrial Bank, where it was proposed to withdraw general provision of RMB 1,500,000,000. This proposal is subject to approval by shareholders in the submission to shareholders' meeting for approval.

VII. NOTES TO SIGNIFICANT ITEMS OF THE FINANCIAL STATEMENTS *continued*

## 56. Operating revenue by geographic region

Region	2005		2004	
	Amount	%	Amount	%
Fujian province	2,776,497	15.77	2,185,806	17.77
Shanghai	4,791,349	27.22	2,668,031	21.70
Guangdong province	2,068,036	11.75	1,826,897	14.86
Beijing	1,425,347	8.10	1,048,361	8.53
Zhejiang province	2,133,987	12.12	1,611,538	13.10
Other regions in China	4,405,531	25.04	2,956,816	24.04
<b>Total</b>	<b>17,600,747</b>	<b>100.00</b>	<b>12,297,449</b>	<b>100.00</b>

## 57. Interest income

Items	2005	2004
Short-term loans	8,128,313	6,256,905
Medium and long-term loans	3,465,682	2,464,819
Discount interest	695,011	701,293
Overdue loans and non-accrual loans	194,783	123,691
Import & export advances and negotiations	42,972	39,824
<b>Total</b>	<b>12,526,761</b>	<b>9,586,532</b>

## 58. Interest income from financial institutions

Items	2005	2004
Due from central bank	450,646	400,964
Placements with banks and other financial institutions	318,979	261,164
Inter-bank lendings	77,472	82,690
Reverse repurchase agreements-bills and rediscount	882,879	747,735
Reverse repurchase –bonds and credit assets	159,960	66,064
<b>Total</b>	<b>1,889,936</b>	<b>1,558,617</b>

## 59. Investment income

Items	2005	2004
Investment in short-term bonds	1,060,751	81,768
Investment in long-term bonds	1,703,725	729,363
<b>Total</b>	<b>2,764,476</b>	<b>811,131</b>

## 60. Interest expenditure

Items	2005	2004
Current saving deposit	88,523	39,455
Term saving deposit	273,816	158,754
Corporate current deposit	1,169,517	901,658
Corporate term deposit	1,041,568	679,314
Corporate call deposit	362,322	172,168
Deposit by insurance company	14,214	21,993
Contract deposit	1,735,121	1,337,742
Current guarantee deposit	63,628	37,237
Term guarantee deposit	631,694	309,347
Subordinated liabilities	279,985	118,598
Long term bonds	36,431	-
Other interest expenditure	8,602	5,293
<b>Total</b>	<b>5,705,421</b>	<b>3,781,559</b>

## 61. Interest expenditure on business with financial institutions

Items	2005	2004
Due to central bank and rediscount interest	-	407
Due to other banks and financial institutions	1,066,187	499,542
Inter-bank borrowings	25,685	48,179
Repurchase agreements-bills and rediscount	618,515	639,301
Repurchase agreements-securities and credit assets	525,085	136,576
<b>Total</b>	<b>2,235,472</b>	<b>1,324,005</b>

## 62. Operating expenses

Items	2005	2004
Salary, bonus and welfare	1,640,273	1,267,708
Depreciation of fixed assets and amortization of decoration expenses	308,164	276,211
Lease charge	242,653	202,254
Amortization of intangible assets	53,104	10,772
Taxes	47,678	30,648
Office expenses, advertising expenses and other management expenses	1,593,520	1,085,732
<b>Total</b>	<b>3,885,392</b>	<b>2,873,325</b>

VII. NOTES TO SIGNIFICANT ITEMS OF THE FINANCIAL STATEMENTS *continued*

## 63. Other operating expenses

Items	2005	2004
Provision for loan losses	1,422,214	1,011,410
Depreciation of inter-bank placements	-59,914	37,324
Bad debt provision	27,967	15,833
Depreciation of debt repayment assets	41,153	-9,817
Others	13,142	6,274
<b>Total</b>	<b>1,444,562</b>	<b>1,061,024</b>

## 64. Business taxes and surcharges

Items	2005	2004
Business taxes	668,964	497,829
City maintenance and construction tax	44,036	32,202
Education surcharge	23,544	17,258
Others	3,099	3,599
<b>Total</b>	<b>739,643</b>	<b>550,888</b>

## 65. Non-operating income

Items	2005	2004
Penalties and fines received	1,740	2,707
Gain on aged payable pending for collection	6,059	6,088
Gain on disposal of fixed assets	5,038	10,311
Others	21,856	7,494
<b>Total</b>	<b>34,693</b>	<b>26,600</b>

## 66. Non-operating expenses

Items	2005	2004
Expenses on repayment of aged payable pending for collection	1,616	1,074
Donation expenses	2,507	5,831
Penalties and fines paid	1,109	887
Loss on disposal of fixed assets	1,016	9,829
Loss on retirement of fixed assets	3	50
Others	11,980	14,150
<b>Total</b>	<b>18,231</b>	<b>31,821</b>

## 67. Income tax

(1) Items

Items	2005	2004
Income tax for current period	1,155,020	1,069,842
Deferred tax	-82,130	-84,961
<b>Total</b>	<b>1,072,890</b>	<b>984,881</b>

(2) The difference between the amount of income tax shown in the financial statements and the amount as calculated by the statutory tax rate of 33% is as follows

Items	2005	2004
Operating profit before tax	3,527,879	2,659,940
Income tax at statutory tax rate of 33%	1,164,200	877,780
Adjustments on income tax:		
Less: Non-assessable income and differing from the statutory rate	594,832	206,683
Add: Non-deductible expenses	567,351	372,174
Add: income tax for previous years	407	389
Less: Lower applicable tax rates in certain geographical area	64,236	58,779
<b>Income tax</b>	<b>1,072,890</b>	<b>984,881</b>

## 68. Cash and cash equivalents

Items	2005-12-31	2004-12-31
Cash and deposit	1,186,229	957,304
Cash equivalent:		
Prepaid reserve at central bank	17,589,490	32,107,473
Inter-bank placements maturing within 3 months	13,603,350	11,026,034
Inter-bank placements and placements with non-bank financial institutions maturing within 3 months	292,368	2,366,785
Investments in short-term bonds maturing within 3 months	12,080,740	646,815
Reverse repurchase agreements maturing within 3 months	45,918,876	7,076,097
<b>Sub-total</b>	<b>89,484,824</b>	<b>53,223,204</b>
<b>Total</b>	<b>90,671,053</b>	<b>54,180,508</b>

## VIII. RELATED PARTY RELATIONSHIP AND TRANSACTIONS

### (I) Related parties

The Company's related parties included: shareholders holding more than 5% (inclusive) of the Company's shares as well as their controlling shareholders; legal persons or other entities 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 other entities 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% (inclusive) of the Company's shares from 2004 to 2005

##### (1) General information

Related party	Economic nature	Domicile	Business scope	Legal representative	Remark
Finance Bureau of Fujian Province	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	Raymond OR Ching Fai	A.B
Tetrad Ventures Pte Ltd	Limited company	Singapore	Investment	Goh Yew Hong Ng koon Siong	A.B

Notes: A. Related Parties with remark "A" held more than 5% (including 5%) of the Company's shares on December 31, 2005.

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

B. Founded in Hong Kong in 1933, Hang Seng Bank is a principal member of the HSBC Group, which is one of the largest financial services organizations around the world. 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.

C. Tetrad Ventures Pte Ltd is wholly owned by GIC Special Investment 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 reserve. 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

Related party	2004-12-31	Increase	Decrease	2005-12-31
Finance Bureau of Fujian Province	-	-	-	-
Hang Seng Bank Limited	HKD 11 billion	-	-	HKD 11 billion
Tetrad Ventures Pte Ltd	SGD 2	-	-	SGD 2

(3) Number of shares held or equity and changes

Unit: RMB'0000

Related party	2004-12-31		Increase		Decrease		2005-12-31	
	Amount	%	Amount	%	Amount	%	Amount	%
Finance Bureau of Fujian Province	102,000	25.5064	-	-	-	-	102,000	25.5064
Hang Seng Bank Limited	63,909	15.9812	-	-	-	-	63,909	15.9812
Tetrad Ventures Pte Ltd	19,995	5.0000	-	-	-	-	19,995	5.0000

VIII. RELATED PARTY RELATIONSHIP AND TRANSACTIONS *continued*

(I) Related parties *continued*

2. General information of key management-related enterprises from 2004 to 2005

Unit: RMB'0000

Related party	Economic nature	Domicile	Registered capital	Business scope	Legal representative	Remark
China Electronic Information Industry Group Co., Ltd.	Wholly state-owned	Beijing	573,433.40	Investment in electronic industry, scientific research, development, design, manufacturing and selling of military and civil electronic products, etc.	Yang Xiaotang	A
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	B
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	B
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.	Yang Peisen	B
Shenzhen Union Developing Investment Co., Ltd.	Limited company	Shenzhen	6,320	Industry investment, technical consultation, technical cooperation and raw material adjustment	Dong Binggen	A.B
Union Developing Group of China	Limited company	Shenzhen	9,061	Operation and agency for products other than those imported and exported products as organized by the state, import and export of technology and process with supplied materials, etc.	Dong Binggen	A.B
China Union Holdings Ltd.	Limited company	Shenzhen	44,955.51	Investment in industries; producing various cloth materials, clothing fibre and textile machinery; domestic commerce and material supply and sales; self-owned property management	Dong Binggen	A.B
Zhejiang Hualian Sunshine Petro-chemical Co., Ltd.	Limited company	Shaoxing	50,000	Producing, processing and sale of chemical products and raw materials such as PTA, polyester chips and chemical fibre	Dong Binggen	A.B

Note: Related parties with remark "A" were key management-related enterprises on December 31, 2005.  
 Related parties with remark "B" were key management-related enterprises on December 31, 2004.

## (II) Related party transactions and balance during the accounting period from 2004 to 2005

Related party transactions mainly cover: loans, bank'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

Related party	2005-12-31		2004-12-31	
	Amount	%	Amount	%
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	-	-	-	-
C. Key management personnel and their close relatives	2,451	-	1,191	-
D. Key management-related enterprises				
a. Zhejiang Hualian Sunshine Petro-chemical Co., Ltd.	352,440	0.15	391,063	0.21
Sub-total of D	352,440	0.15	391,063	0.21
<b>Total</b>	<b>354,891</b>	<b>0.15</b>	<b>392,254</b>	<b>0.21</b>

Note: Loans = Loans of different categories + import and export advances and negotiations (exclude discounted bills).

### 2. Loan interest income

Related party	2005	2004
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	-	-
C. Key management personnel and their close relatives	101	37
D. Key management-related enterprises	22,058	28,202
<b>Total</b>	<b>22,159</b>	<b>28,239</b>

VIII. RELATED PARTY RELATIONSHIP AND TRANSACTIONS *continued*(II) Related party transactions and balance during the accounting period from 2004 to 2005  
*continued*

## 3. Discounted bills

Related party	2005-12-31		2004-12-31	
	Amount	%	Amount	%
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	-	-	-	-
C. Key management personnel and their close relatives	-	-	-	-
D. Key management-related enterprises				
a. Zhejiang Hualian Sunshine Petro-chemical Co., Ltd.	20,000	0.16	-	-
Sub-total of D	20,000	0.16	-	-
<b>Total</b>	<b>20,000</b>	<b>0.16</b>	<b>-</b>	<b>-</b>

## 4. Deposit

Related party	2005-12-31	2004-12-31
A. Shareholders holding more than 5% (including 5%) of the Company's shares	6,136,127	3,115,107
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	-	-
C. Key management personnel and their close relatives	13,192	15,247
D. Key management-related enterprises	14,938	471,476
<b>Total</b>	<b>6,164,257</b>	<b>3,601,830</b>

## 5. Guarantee deposit

Related party	2005-12-31	2004-12-31
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	-	-
C. Key management personnel and their close relatives	-	-
D. Key management-related enterprises	163,591	38,600
<b>Total</b>	<b>163,591</b>	<b>38,600</b>

## 6. Deposit interest expense

Related party	2005	2004
A. Shareholders holding more than 5% (including 5%) of the Company's shares	52,767	28,026
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	-	-
C. Key management personnel and their close relatives	187	121
D. Key management-related enterprises	808	6,343
<b>Total</b>	<b>53,762</b>	<b>34,490</b>

## 7. Other payables

Related party	2005-12-31	2004-12-31
The Finance Bureau of Fujian Province	-	144,015

## 8. Off-balance-sheet business

Related party	2005-12-31			2004-12-31		
	Letters of credit	Banker's acceptance bills	Letters of guarantee	Letters of credit	Banker's acceptance bills	Letters of guarantee
Zhejiang Hualian Sunshine Petrochemical Co., Ltd.	19,415	145,779	-	5,754	21,100	-
<b>Total</b>	<b>19,415</b>	<b>145,779</b>	<b>-</b>	<b>5,754</b>	<b>21,100</b>	<b>-</b>

## 9. 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 professionals to assist in the implementation of the cooperation project.

## IX. OTHER CATEGORIZED DATA

## 1. Loans in different areas

Regions	2005-12-31		2004-12-31	
	Amount	%	Amount	%
Fujian province	43,187,724	17.79	36,573,306	18.02
Guangdong province	37,758,883	15.57	33,152,409	16.33
Shanghai	26,677,557	11.00	27,241,299	13.42
Zhejiang province	33,615,412	13.86	26,591,471	13.10
Beijing	22,988,459	9.48	20,209,874	9.96
Other areas in China	78,343,472	32.30	59,242,458	29.17
<b>Total</b>	<b>242,571,507</b>	<b>100.00</b>	<b>203,010,817</b>	<b>100.00</b>
Less: bad loan provision	5,111,552		4,415,804	
<b>Net balance of loan</b>	<b>237,459,955</b>		<b>198,595,013</b>	

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

## 2. Loans in different sectors

Sectors	2005-12-31		2004-12-31	
	Amount	%	Amount	%
Agriculture, forestry and husbandry	1,169,737	0.48	1,594,702	0.79
Mining	4,007,733	1.65	2,122,599	1.05
Manufacturing	52,820,913	21.78	45,431,892	22.38
Producers and suppliers of electric power, gas and water	15,961,361	6.58	13,062,377	6.43
Construction	12,454,859	5.13	10,890,827	5.36
Communications and transportation, warehousing and post service	18,199,842	7.50	15,276,980	7.53
Information communication, computer service and software	4,732,405	1.95	4,871,755	2.40
Wholesale and retail	24,974,476	10.30	22,244,180	10.96
Hotel and catering	1,178,140	0.49	1,132,452	0.56
Finance	2,238,066	0.92	1,568,164	0.77
Real estate	25,690,727	10.59	19,818,122	9.76
Lease and business service	11,010,600	4.54	11,886,286	5.86
Research, technological service and geological investigation	1,202,155	0.50	1,075,826	0.53
Irrigation works, and environment and public facilities management	14,867,003	6.13	12,656,450	6.22
Resident-oriented service and other services	2,087,282	0.86	2,976,961	1.47

Sectors	2005-12-31		2004-12-31	
	Amount	%	Amount	%
Education	2,392,738	0.99	1,572,793	0.77
Health, social securities and social service	872,720	0.36	802,680	0.40
Art, sport and entertaining	1,398,751	0.58	1,351,665	0.67
Public management and social organization	2,117,306	0.87	2,587,480	1.27
Private loan	30,575,841	12.60	17,403,926	8.57
Discount	12,618,852	5.20	12,682,701	6.25
<b>Total</b>	<b>242,571,507</b>	<b>100.00</b>	<b>203,010,817</b>	<b>100.00</b>
Less: bad loan provision	5,111,552		4,415,804	
<b>Net balance of loan</b>	<b>237,459,955</b>		<b>198,595,013</b>	

Note: Loans include Import and export credit and negotiations, discounted bills, short-term loans, mid and long-term loans, overdue loans and non-accrual loans.

### 3. Top ten loan borrowers

(1) Top ten loan borrowers by Dec.31, 2005

Borrowers	Amount	Term of loan	Yearly interest rate(%)
State Grid Corp. of China	1,157,800	07/05/2003 to 29/12/2011	5.508
Northeast Grid Corp.	945,000	30/11/2005 to 30/11/2010	4.698 to 5.265
Fujian Telecom	930,000	20/07/2005 to 29/06/2006	4.698
Mingsheng Real Estate Crop. Guangzhou	760,000	14/12/2005 to 14/12/2014	6.900
Jiangsu Expressway Operation and Management Center	715,000	31 /10/2001to 24/06/2013	6.120
Fuzhou Luochang Expressway Co., Ltd.	710,000	16 /06/2000 to 04/02/2010	5.508
Grid Corp. of North of China Beijing electrical Co., Ltd.	710,000	27/05/2005 to 01/12/2006	5.508
Hangzhou Hangqian Expressway Co., Ltd.	680,000	18 /11/2005to 22/11/2010	4.300 to 5.850
Beijing Zhongwu Ideal Real Estate Development Co., Ltd.	658,000	23 /12/2004to 29/12/2014	5.850 to 6.120
Jiaxing Zhajiasu Expressway Co., Ltd.	650,000	30 /07/2002to 05/09/2007	5.022 to 5.508
<b>Total</b>	<b>7,915,800</b>		

IX. OTHER CATEGORIZED DATA *continued*3. Top ten loan borrowers *continued*

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

Borrowers	Amount	Term of loan	Yearly interest rate(%)
Jinan Land Reserve and Trade Center	1,050,000	29/03/2004 to 28/10/2005	5.249 to 5.492
Fujian Telecom	1,020,000	21/07/2004 to 28/06/2005	4.698
State Grid Corp. of China	880,000	07/05/2003 to 08/05/2011	5.184
Jiangsu Expressway Operation and Management Center	850,000	25/10/2001 to 24/06/2013	5.580 to 6.120
Fuzhou Luochang Expressway Co., Ltd.	750,000	16/06/2000 to 04/02/2010	5.184
Beijing Longhaiyuan Development Co., Ltd.	700,000	30/06/2003 to 29/06/2006	5.490 to 5.760
Beijing Zhongwu Ideal Real Estate Development Co., Ltd.	658,000	15/12/2004 to 29/12/2014	5.850 to 6.120
Guangdong Yuelong Power Generation Co., Ltd.	600,000	13/12/2002 to 06/09/2014	4.779 to 5.508
Hunan Hualing Steel Group Co., Ltd.	600,000	30/06/2002 to 27/12/2005	4.698 to 5.580
Nanjing City Construction Investment Holding (Group) Co., Ltd.	558,000	05/01/2004 to 29/12/2005	5.310 to 5.580
<b>Total</b>	<b>7,666,000</b>		

## 4. Deposits in different areas

Areas	2005-12-31		2004-12-31	
	Amount	%	Amount	%
Fujian province	66,369,637	18.68	57,812,133	20.41
Guangdong province	57,735,453	16.25	48,171,356	17.01
Shanghai	54,503,335	15.34	44,934,978	15.87
Zhejiang province	43,577,707	12.27	33,380,215	11.79
Beijing	39,238,352	11.05	29,506,225	10.42
Other areas in China	93,793,625	26.41	69,381,604	24.50
<b>Total</b>	<b>355,218,109</b>	<b>100.00</b>	<b>283,186,511</b>	<b>100.00</b>

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

## X. ASSETS AND LIABILITIES REPRESENTED BY LIQUIDITY DISTRIBUTION

### 1. Assets and liabilities represented by liquidity distribution at Dec.31, 2005

Items	Overdue demand	Due on 3 months	Within year	3 months-1 years	1-5 years	Over 5	Total
<b>Assets:</b>							
Cash on hand and in bank	-	1,186,229	-	-	-	-	1,186,229
Due from the central bank and other financial institutions	-	38,172,053	7,547,658	8,111,106	2,789,328	238,212	56,858,357
Placement with bank and other financial institutions	-	-	392,368	305,000	-	-	697,368
Reverse repurchase agreements	-	-	48,894,970	1,619,075	-	-	50,514,045
Loans (net)	2,656,444	-	44,341,902	124,646,876	32,929,686	32,885,047	237,459,955
Investments	-	491,490	13,235,227	33,458,136	49,536,753	23,680,497	120,402,103
Other assets	-	85,290	554,490	1,229,130	788,157	4,212,545	6,869,612
<b>Total assets</b>	<b>2,656,444</b>	<b>39,935,062</b>	<b>114,966,615</b>	<b>169,369,323</b>	<b>86,043,924</b>	<b>61,016,301</b>	<b>473,987,669</b>
<b>Liabilities:</b>							
Due to the central bank	-	-	-	-	-	-	-
Due to banks and other financial institutions	-	44,977,523	7,889,557	12,507,264	55,620	-	65,429,964
Inter-bank and other financial institutions borrowings	-	-	403,510	-	-	-	403,510
Repurchase agreements	-	-	6,390,351	12,732,700	-	-	19,123,051
Customer deposits	-	190,562,882	53,232,595	68,056,525	43,363,683	2,424	355,218,109
Subordinated bonds and long-term bonds	-	-	-	-	13,000,000	3,000,000	16,000,000
Other liabilities	-	2,182,416	2,470,582	765,336	279,797	16	5,698,147
<b>Total liabilities</b>	<b>-</b>	<b>237,722,821</b>	<b>70,386,595</b>	<b>94,061,825</b>	<b>56,699,100</b>	<b>3,002,440</b>	<b>461,872,781</b>
<b>Net exposure</b>	<b>2,656,444</b>	<b>-197,787,759</b>	<b>44,580,020</b>	<b>75,307,498</b>	<b>29,344,824</b>	<b>58,013,861</b>	<b>12,114,888</b>

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

X. ASSETS AND LIABILITIES REPRESENTED BY LIQUIDITY DISTRIBUTION *continued*

## 2. Assets and liabilities represented by liquidity distribution at Dec.31, 2004

Items	Overdue	Due on demand	Within 3 months	3 months-1 year	1-5 years	Over 5 years	Total
<b>Assets:</b>							
Cash on hand and in bank	-	957,304	-	-	-	-	957,304
Due from the central bank and other financial institutions	5,264	51,767,224	3,956,542	4,060,618	2,790,752	433,954	63,014,354
Placement with bank and other financial institutions	94,684	-	2,366,784	-	-	-	2,461,468
Reverse repurchase agreements	-	-	11,843,301	5,854,965	-	-	17,698,266
Loans(net)	2,102,162	-	40,372,109	110,169,551	24,533,044	21,418,147	198,595,013
Investments	-	-	2,971,341	15,475,139	18,792,035	14,238,553	51,477,068
Other assets	-	101,054	183,604	408,513	968,658	4,095,241	5,757,070
<b>Total assets</b>	<b>2,202,110</b>	<b>52,825,582</b>	<b>61,693,681</b>	<b>135,968,786</b>	<b>47,084,489</b>	<b>40,185,895</b>	<b>339,960,543</b>
<b>Liabilities:</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	-	-	5,073,070	452,700	-	-	5,525,700
Customer deposits	-	162,931,142	39,078,573	45,533,960	32,121,700	3,521,136	283,186,511
Subordinated bonds	-	-	-	-	3,000,000	3,000,000	6,000,000
Other liabilities	-	1,233,301	1,870,916	127,532	89,967	9,862	3,331,578
<b>Total liabilities</b>	<b>-</b>	<b>193,288,204</b>	<b>47,341,481</b>	<b>46,821,692</b>	<b>35,484,217</b>	<b>6,960,998</b>	<b>329,896,592</b>
<b>Net exposure</b>	<b>2,202,110</b>	<b>-140,462,622</b>	<b>14,352,200</b>	<b>89,147,094</b>	<b>11,600,272</b>	<b>33,224,897</b>	<b>10,063,951</b>

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

## XI. ASSETS AND LIABILITIES REPRESENTED BY ORIGINAL CURRENCIES

### 1. As at Dec.31, 2005

Items	RMB	USD(RMB equivalent)	Others (RMB equivalent)	Total
<b>Assets:</b>				
Cash on hand and in bank	922,270	135,830	128,129	1,186,229
Due from the central bank and other financial institutions	52,821,396	3,352,629	684,332	56,858,357
Placement with bank and other financial institutions	535,000	162,368	-	697,368
Reverse repurchase agreements	50,514,045	-	-	50,514,045
Loans (net)	232,639,660	4,572,819	247,476	237,459,955
Investments	115,202,036	5,081,887	118,180	120,402,103
Other assets	6,758,219	106,244	5,149	6,869,612
<b>Total assets</b>	<b>459,392,626</b>	<b>13,411,777</b>	<b>1,183,266</b>	<b>473,987,669</b>
<b>Liabilities:</b>				
Due to the central bank	-	-	-	-
Due to banks and other financial institutions	62,304,438	2,870,395	255,131	65,429,964
Inter-bank and other financial institutions borrowings	-	403,510	-	403,510
Repurchase agreements	18,923,704	199,347	-	19,123,051
Deposits	347,239,383	5,924,462	2,054,264	355,218,109
Subordinated bonds and long-term bonds	16,000,000	-	-	16,000,000
Other liabilities	5,612,204	81,347	4,596	5,698,147
<b>Total liabilities</b>	<b>450,079,729</b>	<b>9,479,061</b>	<b>2,313,991</b>	<b>461,872,781</b>
<b>Net exposure</b>	<b>9,312,897</b>	<b>3,932,716</b>	<b>-1,130,725</b>	<b>12,114,888</b>

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

XI. ASSETS AND LIABILITIES REPRESENTED BY ORIGINAL CURRENCIES *continued*

## 2. As at Dec.31, 2004

Items	RMB	USD(RMB equivalent)	Others (RMB equivalent)	Total
<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	58,298,439	3,045,408	1,670,507	63,014,354
Placement with bank and other financial institutions	1,486,678	924,981	49,809	2,461,468
Reverse repurchase agreements	17,565,985	132,281	-	17,698,266
Loans (net)	193,950,472	3,958,988	685,553	198,595,013
Investments	46,750,139	4,684,826	42,103	51,477,068
Other assets	5,671,613	64,480	20,977	5,757,070
<b>Total assets</b>	<b>324,399,329</b>	<b>12,956,981</b>	<b>2,604,233</b>	<b>339,960,543</b>
<b>Liabilities:</b>				
Due to the central bank	-	-	-	-
Due to banks and other financial institutions	28,191,731	2,330,104	427,395	30,949,230
Inter-bank and other financial institutions borrowings	200,000	703,503	-	903,503
Repurchase agreements	5,525,770	-	-	5,525,770
Customer deposits	274,090,057	7,586,497	1,509,957	283,186,511
Subordinated bonds	6,000,000	-	-	6,000,000
Other liabilities	3,148,591	172,749	10,238	3,331,578
<b>Total liabilities</b>	<b>317,156,149</b>	<b>10,792,853</b>	<b>1,947,590</b>	<b>329,896,592</b>
<b>Net exposure</b>	<b>7,243,180</b>	<b>2,164,128</b>	<b>656,643</b>	<b>10,063,951</b>

Note: Loans (net) = total loans + Import & export advances and negotiations + Discounted bills - Provision for bad loans

## XII. INTEREST RATE RISK ANALYSIS

The Company carries out its loan and deposit business at the interest rate set by the People's Bank of China. As stipulated by the People's Bank of China, since October 29, 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 regulation allows the decline of deposit interest rates within the range of fluctuations according to different benchmark deposit interest rates. The benchmark interest rates of deposits and loans of the People's Bank of China are as follows:

Unit: %

Customer business	From Oct.29,2004	Jan.1,2004 to Oct.28,2004	
Short-term loan and advances to be repaid	5.22-5.58	5.04-5.31	
Medium and long-term loan	5.76-6.12	5.49-5.76	
Overdue loan	The fine interest rate is 30-50% higher over the loan interest rate specified in the loan contract.		
Private and corporate current deposit	0.72	0.72	
Private and corporate term deposit	1.71-3.60	1.71-2.79	
Corporate on call loans (with a term of 1 or 7 days)	1.08-1.62	1.08-1.62	
Corporate contract deposit	1.44	1.44	

With central bank	From Mar. 17, 2005	Mar. 25, 2004 to Mar. 17, 2005	Dec. 21, 2003 to Mar. 24, 2004
Reserve deposit	1.89	1.89	1.89
Excess reserve deposit	0.99	1.62	1.62
Rediscount	3.24	3.24	2.97

The discount interest rate is fixed on the basis of the rediscount interest rate of the People's Bank of China by adding points which do not exceed the current loan rate (including floating rate).

The inter-bank lending and its rate are fixed by both parties through consultation and according to fund supply and demand on the market.

## XIII. KEY FINANCIAL INDICATORS

## 1. Return on assets (ROA)

Unit: %

Profit of reporting period	ROA			
	Fully diluted		Weighted average	
	2005	2004	2005	2004
Principal operating profit	28.98	26.48	31.76	31.38
Operating profit	28.98	26.48	31.76	31.38
Net profit	20.26	16.64	22.21	19.72
Net profit excluding extraordinary items	20.21	16.27	22.15	19.28

## 2. Earnings per share

Unit: RMB

Profit of reporting period	EPS			
	Fully diluted		Weighted average	
	2005	2004	2005	2004
Principal operating profit	0.88	0.67	0.88	0.73
Operating profit	0.88	0.67	0.88	0.73
Net profit	0.61	0.42	0.61	0.46
Net profit excluding extraordinary items	0.61	0.41	0.61	0.45

Extraordinary items include the followings:

Items	2005	2004
Non-operating income	34,693	26,600
Non-operating expense	18,231	31,821
Recovery of asset previously written of	1,958	20,018
Recovery of provision for impairment loss	-	38,621
Impact on income tax	12,095	15,384
Total of extraordinary item	6,325	38,035
Profit excluding extraordinary item	2,448,664	1,637,024

## XIV. POST BALANCE SHEET DATE EVENTS

The Company did not have any significant post balance sheet date event which should be adjusted or disclosed as at March 18, 2006.

## XV. CONTINGENCIES

As at Dec.31, 2005, the Company has involved in 76 unjudged loan dispute lawsuits with target money over RMB 10 million each, with the target money totaling RMB 2,711.35 million. The Company has deposits in the defenders of 1 unjudged lawsuits involving total target money of RMB 32.25 million. The Company also has deposits in the plaintiffs of 66 unjudged lawsuits and has involved in 9 unjudged lawsuit as applicant. The target money of these 75 lawsuits is RMB 2,679.10 million. All of such lawsuits or arbitrations are resulted from normal banking businesses of the Company. The Company holds that the undergoing lawsuits or arbitrations will not brings significantly adverse effects on the Company's property conditions or operation results.

## XVI. COMMITMENTS

### 1. Irrevocable loan commitment

(1) As at Dec.31, 2005, the balance of unused irrevocable loan commitments of the Company totaled RMB 150 million.

(2) As at Dec.31, 2005, the balance of unused irrevocable credit limit of credit card totaled RMB 2,929,519 thousand. The credit card business of the Company started from July 2004.

### 2. Capital expense commitment

Items	2005-12-31	2004-12-31
Ratified but not signed	140	102,180
Signed but not appropriated	65,531	6,829

The closing balance of "Ratified but not signed" at the end of the reporting period decreased by RMB 102,040 thousand. This was mainly because the amount of RMB 102,180 thousand for buying operating buildings of Ningbo Branch which has been approved but not signed last year has been signed in this year and has been transferred into "Signed but not appropriated".

The closing balance of "Signed but not appropriated" increased by RMB 58,702 thousand mainly due to the newly added purchase of operation premise by Ningbo branch. The total budget of this item is RMB 99,800 thousand, among which RMB 49,000 thousand has been included in the construction in progress and RMB 50,800 thousand in closing unpaid amounts.

## XVI. COMMITMENTS *continued*

### 3. Lease commitment

As at Dec.31, 2005, the lowest rent payable of the Company according to the irrevocable house lease agreements in the following terms is:

Term	2005-12-31	2004-12-31
Within 1 year	227,623	185,478
1 to 5 years	510,901	419,129
Over 5 years	130,895	120,939
<b>Total</b>	<b>869,419</b>	<b>725,546</b>

## XVII. OFF-BALANCE-SHEET BUSINESS

To correctly and comprehensively reflect various businesses, the company has set up the special accounting items for accounting and disclosure of relevant businesses.

### 1. Based on risk classification, the off-balance-sheet businesses can be classified into the following two categories:

(1) The off-balance-sheet business without risks, which mainly includes settlement and agency business (acting as agent for collection and payment, insurance, issuing bonds, cashing and underwriting government bonds).

(2) The off-balance-sheet business with contingent risks, which mainly includes the derivative financial instrument and the business of providing guarantee for customer's solvency and customer default risk (mainly including various letters of guarantee, letters of credit and bank acceptance drafts).

#### A. Derivative financial instruments

Nominal value of derivative financial instrument is the value of nominal asset or reference rate. It is a benchmark for the measurement of fluctuating in value of derivative financial instrument. It is also an indicator for measuring transaction volumes of derivative financial instruments and it cannot be used to estimate risk.

The fair value of derivative financial instrument is the sum of asset exchange or debt settlement made by both parties, who are willing and know each other well, on the basis of fair trade.

a. Nominal value of derivative financial instruments

Categories	2005-12-31	2004-12-31
Derivative financial instrument-exchange rate	5,131,161	1,292,607
Derivative financial instruments-interest rate	2,032,277	1,340,043
Derivative financial instruments-credit contracts	484,212	413,825
Derivative financial instruments-bonds	6,215,000	-
<b>Total</b>	<b>13,862,650</b>	<b>3,046,475</b>

Note: As at December 31, 2005, RMB 3.056 billion among the derivative financial instrument-exchange rate is fully hedged reverse trading; RMB 1.871 billion among the derivative financial instrument-interest rate is fully hedged reverse trading and the Company does not need to bear the risks of interest rate.

b. Fair value of derivative financial instruments

Categories	2005-12-31		
	Fair value	Fair value of assets	Fair value of liabilities
Derivative financial instrument-exchange rate	7,735	12,804	5,069
Derivative financial instruments-interest rate	-7,905	25,604	33,509
Derivative financial instruments-credit contracts	-9,253	946	10,199
Derivative financial instruments-bonds	75,602	129,242	53,640
<b>Total</b>	<b>66,179</b>	<b>168,596</b>	<b>102,417</b>

Categories	2004-12-31		
	Fair value	Fair value of assets	Fair value of liabilities
Derivative financial instrument-exchange rate	-3,245	4,531	7,776
Derivative financial instruments-interest rate	-7,819	660	8,479
Derivative financial instruments-credit contracts	493	1,408	915
Derivative financial instruments-bonds	-	-	-
<b>Total</b>	<b>-10,571</b>	<b>6,599</b>	<b>17,170</b>

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

Items	2005-12-31	2004-12-31
Letters of guarantee	3,586,177	3,013,569
L/C	6,454,035	5,229,449
Bank acceptance drafts	81,257,416	58,659,623

**XVII. OFF-BALANCE-SHEET BUSINESS** *continued***2. Contingent income**

The contingent income of the company is mainly the accrued interest receivable which refers to the interest income that should be collected but has not been received. Such income is confirmed and calculated in accordance with the regulations of the Circular of the Ministry of Finance on Shortening the Time Limit for Accrued Interest Receivable Accounting of Financial Enterprises [CJ (2002) No. 5]. From the interest settlement day, if the loan interest is overdue for 90 or less than 90 days, its accrued interest receivable is recognized as profit/loss in the relevant period; if the loan interest is overdue for more than 90 days, whether the principal of the said loan is overdue, the accrued interest receivable is no longer recognized as profit/loss in the relevant period but calculated off balance sheet and it is recognized again as profit/loss when actually received. If the loan principal or the interest receivable is overdue for more than 90 days, the interest receivable recognized as profit/loss is accordingly used to reduce the interest income. The balance of off-balance-sheet accrued interest receivable of the company is as follows:

Item	2005-12-31	2004-12-31
Off-balance-sheet interest receivable	1,622,258	1,644,970

**XVIII. OTHER MATERIAL EVENTS****1. Issuance of long-term bonds**

At the first extraordinary general shareholders' meeting of 2005, the Proposal on Issuing Financial Bonds was reviewed and approved. In light of the resolution, the Bank made reporting for approval and issuance. Upon the approval with the Reply of the People's Bank of China on Industrial Bank's Issuing of Financial Bonds (YF [2005] No.77) and the Reply of China Banking Regulatory Commission on Industrial Bank's Issuing of Financial Bonds (YJF [2005] No.253), the Bank issued RMB 10 billion three-year financial bonds at the interest rate of 2.15% in the way of bookkeeping filing in the national inter-bank bond market during the period from October 25, 2005 to December 1, 2005, with the name of "Industrial Bank Co., Ltd Bonds 2005". Another batch of RMB 5 billion financial bonds was issued at the interest rate of 2.98% in the way of bookkeeping filing in the national inter-bank bond market during the period from March 31, 2006 to April 6, 2006, with the name of "Industrial Bank Co., Ltd Bonds 2006".

**2. Issuance of hybrid capital bonds.**

According to the resolutions of the general shareholders' meeting held on Sept. 21, 2005, and with the approval of China Banking Regulatory Commission with the document [YJF (2005) No. 324], the Company plans to issue RMB 4 billion of hybrid capital bonds to replenish its supplementary capital.

### 3. Proposal for setting up branches

According to the branch development plan in 2006, the Company plans set up new branches in three central cities, namely, Nanchang, Hefei and Urumchi. The founding proposal for Nanchang and Hefei branches has been approved by China Banking Regulatory Commission, while the construction of Urumchi Branch is under examination and approval.

### 4. Distribution plan of accumulated retained earnings

On March 18, 2006, the tenth session of the fifth Board of Directors approved the resolution of Distribution Plan of Industrial Bank for Accumulated Retained Profit before Public Offering and for the Year When Public Offering Is Made. If the Company successfully makes public offering in 2006, the accumulated retained earnings after distribution of 2005 and the net profits of 2006 shall be shared jointly by the new and existing shareholders. This plan still needs to be submitted to the general shareholders' meeting for approval.

## XIX. REASONS FOR SIGNIFICANT CHANGES IN MAJOR ITEMS IN THE FINANCIAL STATEMENT.

During the reporting period, there were significant changes in major accounting items, mainly due to the following reasons:

1. The number of branches and operating outlets was increased, and they started to develop, so that more deposits are attracted and more loans are granted;
2. Product range were enriched to attract deposits and investment;
3. With rapid development of businesses, operating income and expenditure also increased accordingly.

## XX. MAJOR FINANCIAL DATA PREPARED UNDER CAS AND IFRS AND DIFFERENCES HEREIN

### 1. Net profit difference

Items	2005	2004
<b>Amount based on Chinese GAAP</b>	<b>2,454,989</b>	<b>1,675,059</b>
Adjustments		
1. Interest income and expense of bills	225,390	-63,426
2. Profit of short term investment	-34,443	134,007
3. Market value of salable investment	-	-
4. Market value of transactional investment	-12,542	12,542
5. Amortization of pre-operating expenses	-2,352	-3,565
6. Fair value of derivative instruments	66,179	-
7. Deferred tax and impact on income tax of above matters	-81,243	-25,755
<b>Amount based on IFRS</b>	<b>2,615,980</b>	<b>1,728,862</b>

## XX. MAJOR FINANCIAL DATA PREPARED UNDER CAS AND IFRS AND DIFFERENCES HEREIN

*continued*

## 2. Net asset difference

Items	2005	2004
Amount based on Chinese GAAP	12,114,888	10,063,951
Adjustment based on IFRS		
1. Interest income and expense of bills	-	-225,390
2. Profit of short term investment	210,115	244,557
3. Market value of investment available-for-sale	731,880	-224,492
4. Market value of transactional investment	-	12,542
5. Amortization of re-operating expenses	-5,917	-3,565
6. Fair value of derivative instruments	66,179	-
7. Impact on deferred tax and income tax of above matters	-331,759	65,284
Amount based on IFRS	12,785,385	9,932,887

## 3. Reasons for the differences

## (1) Interest income and expense of bills

The difference results from different accounting standards. According to the Accounting regulations of financial institutions issued by Ministry of Finance, interest revenue on discounted bills is recognized as the difference between maturity value and the discounted value of the bill actually paid to the applicant. However, according to the criteria of IFRS for income and expenditure recognition and the requirements of International Accounting Standard No. 39 –Financial instrument: recognition and measurement, the interest revenue and expenditure shall adopt real interest rate method and be recognized in proportion to time, i.e., to amortize interest revenue or expenditure over related period of time. That means interest income and expenditure is recognized over related period. The Company has recognized the interest revenue and expenditure on accrue accrual basis at the end of 2005. Therefore the difference shows on the 2005 financial statement is the impact of previous year's difference on income and expenditure of 2005.

## (2) Profit of short-term investment

The difference results from the different accounting standards. According to the Accounting standard of financial institutions, interest of short-term investment should reduce its book value upon its actual receive. When short-term investment is disposed of, the difference between the amount received and its book value should be recognized as gain or loss in current reporting period. However, according to the requirements of IFRS and International accounting standard No. 18-Revenue, interest revenue should adopt real interest rate method and be recognized in proportion to time, and any discount or premium of investments shall be amortized.

## (3) Investment available-for-sale measured by market price

The difference results from the different accounting standards. According to the International Accounting Standard No. 39 – Financial Instruments: Recognition and Measurement, investments available-for-sale should be measured by fair value. Changes of their fair values should be recorded on shareholders' equity if there is no

evidence that investments were impaired in value. However, according to Accounting Standards for Business Enterprises and Accounting Regulations for Financial Institutions, there is no such classification for investment in long-term bonds.

(4) Transactional investment measured by market price

The difference results from the different accounting standards. According to the International Accounting Standards No. 39 – Financial Instrument: Recognition and Measurement, transactional investment should be measured by fair value, and all realized and unrealized gains/losses should be included in the income statement of current reporting period. However, according to Accounting Standards for Business Enterprises and Accounting Regulations for Financial Institutions, there is no such classification for investment in long-term bonds.

(5) Amortization of pre-operating expense

The difference results from the different accounting standards. According to the Accounting System for Financial Institutions, starting up expense should be recognized in the income statement immediately when the branch or sub-branch starts operation. However, the International accounting standard No. 38- intangible assets requires that the starting up expenses to be recognized when the costs are actually incurred.

(6) Fair value of derivative instruments

The difference results from the difference in accounting standards. According to the International Accounting Standards No. 39 – Financial Instrument: Recognition and Measurement, derivative instruments are recognized by fair value on the date of contracting, and subsequently measured by their fair value. Derivative financial products with positive current fair value are treated as assets and those with negative fair value are treated as liabilities. Also, any change of fair value should be entered into income statement of current reporting period. However, there is no such provision in either Accounting Standards for Business Enterprises or Accounting Regulations for Financial Institutions.

(7) Impact on deferred tax and income tax

The difference is the deferred tax and income tax effects resulting from the above adjustments.



March 18, 2006

Chairman:

President:

Financial Director:



*Harmony: The Key to Everything.*

*We grow together with you.*

## Appendix 2: International Auditors' Report

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## INDEPENDENT AUDITORS' REPORT

To the board of directors  
Industrial Bank Co.,Ltd.

We have audited the accompanying balance sheet of Industrial Bank Co.,Ltd. (the "Company") as of 31 December 2005 and the related statements of income, and cash flows for the year then ended. These financial statements are the responsibility of the management of the Company. Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to the management of the Company in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance 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 2005 and of the results of its operations and its cash flows for the year then ended 31 December 2005 in accordance with International Financial Reporting Standards.



Hong Kong  
Certified Public Accountants

18 March 2006

**INCOME STATEMENT**  
For the year ended December 31, 2005  
(In RMB'000)

	Notes	2005	2004 (Restated)
Interest income	3	17,377,211	12,376,863
Interest expense	3	(7,858,909)	(5,119,383)
<b>Net interest income</b>	<b>3</b>	<b>9,518,302</b>	<b>7,257,480</b>
Net fee and commission income	4	237,228	193,066
Other income/(expense), net	5	222,915	(88,979)
<b>OPERATING INCOME</b>		<b>9,978,445</b>	<b>7,361,567</b>
Staff expenses	6	(1,640,273)	(1,267,708)
General and administrative expenses	7	(1,939,086)	(1,332,817)
Depreciation		(308,385)	(276,367)
Business tax and surcharges		(739,643)	(550,888)
Provision for loan losses	14(c)	(1,571,739)	(1,150,951)
Provision for impairment of other assets	8	(9,206)	(43,339)
<b>PROFIT BEFORE INCOME TAX</b>		<b>3,770,113</b>	<b>2,739,497</b>
Income tax	9	(1,154,133)	(1,010,635)
<b>NET PROFIT</b>		<b>2,615,980</b>	<b>1,728,862</b>
<b>EARNINGS PER SHARE</b>			
- Basic (in RMB)	10	0.65	0.47
- Diluted (in RMB)	10	0.65	0.47

The accompanying notes form an integral part of the financial statements.

**BALANCE SHEET**

December 31, 2005

(In RMB'000)

	Notes	2005-12-31	2004-12-31 (Restated)
<b>ASSETS</b>			
Cash and balances with the central bank	11	39,537,677	49,699,442
Due from and placements with banks and other financial institutions	12	19,204,277	16,733,684
Reverse repurchase agreements	13	50,514,045	17,698,266
Loans	14	237,459,955	198,595,014
Investments	15	120,701,629	51,206,196
Fixed assets	16	2,948,745	2,866,811
Intangible assets	17	442,461	479,500
Other assets	18	3,952,107	2,783,201
<b>TOTAL ASSETS</b>		<b>474,760,896</b>	<b>340,062,114</b>
<b>LIABILITIES</b>			
Due to and placements from banks and other financial institutions	19	65,833,474	31,852,733
Repurchase agreements	20	19,123,052	5,525,770
Customer deposits	21	355,218,109	283,186,511
Subordinated liabilities	22	6,000,000	6,000,000
Long term debt securities issued	23	10,000,000	-
Other liabilities	24	5,800,877	3,564,213
<b>TOTAL LIABILITIES</b>		<b>461,975,512</b>	<b>330,129,227</b>
<b>EQUITY</b>			
Paid-in capital	26	3,999,000	3,999,000
Capital surplus		2,839,214	2,839,214
Surplus reserves	27	999,755	384,317
General reserve	28	2,400,000	-
Retained earnings	30	2,057,274	2,860,785
Unrealised gain/(loss) on available-for-sale investments, net of tax		490,141	(150,429)
<b>TOTAL EQUITY</b>		<b>12,785,384</b>	<b>9,932,887</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>474,760,896</b>	<b>340,062,114</b>

The accompanying notes form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2005

(In RMB'000)

	Paid-in capital	Capital surplus	Surplus reserves	General reserve	Retained earnings	Unrealised gain/(loss) on available- for-sale investments, net of tax	Total equity
<b>As at 1 January 2004</b>							
As previously reported	3,000,000	1,140,914	219,162	-	1,576,034	(35,860)	5,900,250
Prior period adjustment (note 2.1) :							
Reversal of over provision for tax in prior periods	-	-	-	-	51,044	-	51,044
<b>As restated</b>	<b>3,000,000</b>	<b>1,140,914</b>	<b>219,162</b>	<b>-</b>	<b>1,627,078</b>	<b>(35,860)</b>	<b>5,951,294</b>
Changes in equity during the year:							
Net profit for the year (as restated)	-	-	-	-	1,728,862	-	1,728,862
Additional paid-in capital	999,000	1,698,300	-	-	-	-	2,697,300
Dividend	-	-	-	-	(330,000)	-	(330,000)
Unrealised gain/(loss) on available-for- sale investments, net of tax							
-Net changes in fair value	-	-	-	-	-	(139,645)	(139,645)
-Reserve realised on disposal	-	-	-	-	-	25,076	25,076
Appropriations for the year	-	-	165,155	-	(165,155)	-	-
<b>As at 31 December 2004 (as restated)</b>	<b>3,999,000</b>	<b>2,839,214</b>	<b>384,317</b>	<b>-</b>	<b>2,860,785</b>	<b>(150,429)</b>	<b>9,932,887</b>
<b>As at 1 January 2005</b>							
As previously reported	3,999,000	2,839,214	384,317	-	2,757,249	(150,429)	9,829,351
Prior period adjustment (note 2.1):							
Reversal of over provision for tax in prior periods	-	-	-	-	103,536	-	103,536
<b>As restated</b>	<b>3,999,000</b>	<b>2,839,214</b>	<b>384,317</b>	<b>-</b>	<b>2,860,785</b>	<b>(150,429)</b>	<b>9,932,887</b>
Changes in equity during the year:							
Net profit for the year	-	-	-	-	2,615,980	-	2,615,980
General reserve (note 28)	-	-	-	2,400,000	(2,400,000)	-	-
Dividend (note 29)	-	-	-	-	(404,053)	-	(404,053)
Unrealised gain/(loss) on available-for- sale investments, net of tax							
-Net changes in fair value	-	-	-	-	-	556,416	556,416
-Reserve realised on disposal	-	-	-	-	-	84,154	84,154
Appropriations:							
-Appropriations for the year	-	-	245,499	-	(245,499)	-	-
-Statutory adjustment (note 27)	-	-	369,939	-	(369,939)	-	-
<b>As at 31 December 2005</b>	<b>3,999,000</b>	<b>2,839,214</b>	<b>999,755</b>	<b>2,400,000</b>	<b>2,057,274</b>	<b>490,141</b>	<b>12,785,384</b>

The accompanying notes form an integral part of the financial statements.

### CASH FLOW STATEMENT

For the year ended December 31, 2005

(In RMB'000)

	Note	2005	2004 (Restated)
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	31	82,989,527	13,585,776
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Cash received from maturity or disposal of investments		179,394,272	104,970,765
Interest received from debt securities		2,354,720	922,476
Net cash and cash equivalents inflow from acquisition of a financial institution		-	2,018,707
Cash received from disposal of fixed assets		14,966	64,770
Cash received from disposal of intangible assets		-	1,043
Cash paid for acquisition of fixed assets		(401,263)	(302,324)
Cash paid for acquisition of intangible assets		(14,246)	(12,336)
Cash paid for acquisition of investments		(236,921,507)	(127,101,045)
<b>NET CASH OUTFLOWS USED FROM INVESTING ACTIVITIES</b>		<b>(55,573,058)</b>	<b>(19,437,944)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Cash received from issuance of subordinated debts		-	3,000,000
Cash received from issuance of long term debt securities		10,000,000	-
Cash received from issuance of shares		-	2,697,300
Interest paid for subordinated debts		(275,670)	(118,598)
Cash paid for distribution of dividends		(526,879)	(231,831)
<b>NET CASH INFLOW FROM FINANCING ACTIVITIES</b>		<b>9,197,451</b>	<b>5,346,871</b>
<b>EFFECT OF CHANGES IN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS</b>		<b>(123,375)</b>	<b>4,510</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>36,490,545</b>	<b>(500,787)</b>
Cash and cash equivalents at beginning of year		54,180,508	54,681,295
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>90,671,053</b>	<b>54,180,508</b>
<b>ANALYSIS OF CASH AND CASH EQUIVALENTS</b>			
Cash on hand and non-restricted deposits with the central bank		18,775,719	33,064,777
Due from banks and other financial institutions with original maturity less than three months		13,603,350	11,026,034
Reverse repurchase agreements with original maturity less than three months		45,918,876	7,076,097
Placements with banks and other financial institutions with original maturity less than three months		292,368	2,366,785
Investments with original maturity less than three months		12,080,740	646,815
		<b>90,671,053</b>	<b>54,180,508</b>

The accompanying notes form an integral part of the financial statements.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2005

(In RMB'000)

### 1. CORPORATE INFORMATION

Industrial Bank Co.,Ltd. (formerly known as Fujian Industrial Bank Co.,Ltd., the "Company") was established on 20 July 1988 with the approval of the State Council and the People's Bank of China ("PBOC") as a joint-stock commercial bank. The Company's registered address is No. 154 Hudong Road, Fuzhou, Fujian Province, People's Republic of China ("PRC"). The legal representative of the Company is Mr. Gao Jianping.

The principal activity of the Company is banking business approved by the PBOC. The scope of the banking business as listed on its business license includes: customer deposit-taking; provision of short term, medium term and long term loans; provision of payment and settlement services; provision of bill discounting services; provision of agency services in the underwriting of bonds issued by financial institutions; provision of agency services in the underwriting, sale and cashing of government bonds; inter-bank placements and borrowings; provision of letter of credit-related services and guarantee facilities; agency collection and payment services; agency sales services for insurance; provision of safe deposit box services; accepting foreign currency deposits; foreign currency lending; remittance of foreign currencies; borrowings in foreign currencies; issuance of foreign currency securities (except stocks) itself or on behalf of clients; bill acceptance and discounting facilities in foreign currencies; proprietary trading and agency trading of foreign securities excluding stocks; proprietary trading and agency trading of foreign currencies; exchange of foreign currencies; foreign currency guarantees; settlements of trade and non-trade nature; credit reference, consultation and certification services and other banking activities approved by the PBOC.

### 2.1 BASIS OF PRESENTATION

Pursuant to the document No. 18 "Special regulations on the information disclosures for commercial banks" of the "Regulations on presentation and disclosures of publicly listed companies" issued by the China Securities Regulatory Commission ("CSRC"), commercial banks seeking for a listing are required to prepare the statutory financial statements based on the relevant PRC accounting standards and regulations, and to prepare the supplementary financial statements based on the accounting standards and disclosure requirements generally accepted internationally.

The financial statements have been prepared in accordance with the above requirements, but they are not the formal supplementary financial statements for listing purpose. The financial statements have been prepared in accordance with the judgements and estimates set out in note 2.2 and the accounting policies set out in note 2.3, which comply with International Financial Reporting Standards ("IFRSs"). IFRSs comprise standards and interpretations approved by the International Accounting Standards Board ("IASB"), and International Accounting Standards and Standing Interpretations Committee's interpretations approved by the International Accounting Standards Committee ("IASC") that remain in effect. The disclosures in the financial statements have been made, in all material respects, in accordance with the IFRSs with taking into account to the business environment of the Company and the PRC.

## 2.1 BASIS OF PRESENTATION *continued*

The financial statements have been prepared on a historical cost basis, except for derivatives, financial assets and liabilities at fair value through profit or loss and available-for-sale financial assets that have been measured at fair value.

The Company maintains its books and prepares its statutory financial statements in accordance with the relevant financial regulations and the accounting principles applicable to financial institutions, as established by the Ministry of Finance ("MOF") of the PRC. The accounting policies and basis adopted in the preparation of the statutory financial statements differ in certain aspects from the IFRSs. Certain adjustments have been made to restate the results and net assets of the Company in the preparation of the financial statements, but those adjustments have not been taken up in the accounting records of the Company.

The Company made a retrospective adjustment of over-accrual of tax provision for the prior years when preparing the financial statements. The adjustment resulted in an increase of net assets by RMB104 million as at 31 December 2004 (RMB 51 million as at 31 December 2003) and an increase of net profit by RMB 52 million for the year 2004.

The Company adopted the following relevant revised and effective International Accounting Standards ("IASs") since 2005.

IAS 1	Presentation of Financial Statements
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events after the Balance Sheet Date
IAS 16	Property, Plant and Equipment
IAS 17	Leases
IAS 24	Related Party Disclosures
IAS 27	Consolidated and Separate Financial Statements
IAS 32	Financial instruments: Disclosure and Presentation
IAS 33	Earnings Per Share
IAS 36	Impairment of Assets
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement

The adoption of the above-mentioned IASs had no material impact on the accounting principles of the Company and the method of computation in the Company's financial statements.

The IASB has issued and amended various IFRSs, collectively referred to as the "New IFRSs", which are effective for financial periods beginning on or after 1 January 2006 or 1 January 2007. The Company has not early adopted the New IFRSs in the preparation of the financial statements for the year ended 31 December 2005. The Company has assessed the impact on the financial statements on the adoption of the New IFRSs. Amongst the New IFRSs, IFRS 7 requires more detailed qualitative and quantitative disclosures of financial instruments primarily of fair value information and risk management. The Company considers that IFRS 7, which is effective for financial periods beginning on or after 1 January 2007, will only affect the level of details in the disclosures of the financial information and will not have any significant financial impact nor will it result in a change in the Company's accounting policies.

## 2.2 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

### Judgements

In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimations, which have significant effect on the financial statements.

#### *Classification of investments*

In evaluating the classification of investments, it requires significant management judgements. Different classifications of investments result in different accounting treatments and hence different financial position of the Company. If the Company fails to correctly classify the investments, the Company may need to reclassify the whole investment portfolio.

#### Uncertainties on estimation

Management of the Company has stated below the key assumptions and uncertainties on significant estimations which might result in a material adjustment in the next accounting period.

#### Impairment losses of loans

The Company determines periodically whether there is any objective evidence that an impairment loss on loans and advances has been incurred. If any such evidence exists, the Company assesses the amount of impairment losses. The amount of impairment losses is measured as the difference between the carrying amount and the present value of estimated future cash flows. In assessing the amount of impairment losses, it requires significant judgements on whether objective evidence for impairment exists and also significant estimates on the present value of expected future cash flows.

#### *Income tax*

Determining income tax provisions requires the Company to make judgements on the future tax treatment of certain transactions. The Company carefully evaluates the tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly.

In addition, deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilised. This requires significant judgements on the tax treatments of certain transactions and also significant assessment on the probability that adequate future taxable profits will be also available for the deferred tax assets to be recovered.

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Foreign currency transactions

The Company maintains separate financial records for assets and liabilities and transactions denominated in foreign currencies. The functional and presentation currency of the Company is Renminbi ("RMB").

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the applicable exchange rates ruling at the balance sheet date. Foreign currency transactions are translated into the functional currency using the average exchange rates of the year. Exchange differences are recognised in the income statement.

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

### Financial assets

The Company classifies its financial assets into four categories: financial assets at fair value through profit or loss; held-to-maturity investments; loans and receivables; and available-for-sale financial assets. The Company determines the classification of its financial assets after initial recognition and re-evaluates this designation at each financial year end. When financial assets are recognised initially, they are measured at fair value. For financial assets which are not measured at fair value through profit or loss, any transaction costs that are directly attributable to the acquisition of the financial assets can be recognized.

#### 1) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets which are either classified as held for trading or they are designated by the Company as at fair value through profit or loss upon initial recognition. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. After initial recognition, these financial assets are measured at fair value. All related realised and unrealised gains or losses are included in the income statement.

#### 2) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company has the positive intention and ability to hold to maturity. These investments are carried at amortised cost using the effective interest method, less provision for impairment in value. Gains and losses are recognised in the income statement when the held-to-maturity investments are derecognised or impaired as well as through the amortisation process. The Company shall reclassify any remaining held-to-maturity investments as available-for-sale if it has, during the current period or during the two preceding financial years, sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity.

#### 3) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Company has no intention of trading the assets immediately or in the near term. Such assets are carried at amortised cost using the effective interest method, less provision for impairment in value.

#### 4) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value. Premiums and discounts on available-for-sale financial assets are amortised using the effective interest method and taken to interest income.

Fair value changes of available-for-sale financial assets are reported as a separate component of equity until the financial asset is derecognised or the financial asset is determined to be impaired at which time the cumulative gains or losses previously reported in equity are included in the income statement.

## Impairment of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence of impairment of financial assets as a result of one or more events that occur after the initial recognition of those assets (“loss event”) and whether the loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

### 1) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced through the use of an impairment provision account and the amount of the loss is recognised in the income statement.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. The Company classifies the financial assets into different groups with similar credit risk characteristics and then collectively assesses the impairment of such financial assets. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is then included in a group of financial assets with similar credit risk characteristics and that group of financial assets is to be collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not to be assessed collectively for impairment.

Future cash flows of a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the impact of current conditions that did not affect the period on which the historical loss experience is based and to eliminate the impact of historical conditions that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be attributed objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Subsequent recovery of the amounts previously written off decreases the amount of provision for loan impairment in the income statement.

### 2) Financial assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of impairment loss is measured as the difference between the carrying amount of that financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

### Impairment of financial assets *continued*

#### 3) Available-for-sale financial assets

If an available-for-sale asset is impaired, any cumulative gain/loss that had been recognised directly in equity is removed from equity and recognised in the income statement even though the financial asset has not been derecognised. The amount of cumulative loss that is removed from equity and recognised in the income statement is the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement.

Reversals of impairment losses in respect of equity instruments classified as available-for-sale are not recognised in the income statement. Reversals of impairment losses on debt instruments classified as available-for-sale are reversed through the income statement, if the increase in the fair value of the debt instruments can be objectively related to an event occurring after the impairment losses have been recognised in the income statement.

### Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss, or deposits, debt securities issued and other liabilities.

#### 1) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are financial liabilities which are either classified as held for trading or designated by the Company as at fair value through profit or loss upon initial recognition. Gains and losses from changes in fair value are recognised in the income statement.

#### 2) Deposits, debt securities issued and other liabilities

Deposits, debt securities issued other than those designated as trading liabilities or at fair value through profit or loss, and other financial liabilities are carried at amortised cost.

### Derivative financial instruments

Derivatives are initially measured at fair value on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when fair value is positive and as liabilities when the fair value is negative. Fair values are obtained from quoted market prices in an active market, including recent market transactions, and valuation techniques, including discounting cash flow models and option pricing models, as appropriate.

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

### Settlement date accounting

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

## Offsetting

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

## Repurchase and reverse repurchase transactions

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

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are recognised as interest income and interest expense, respectively, on a time proportion basis.

## Fixed assets

Fixed assets are initially stated at cost. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalized as an additional cost of the asset. The carrying amounts of fixed assets are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and if their carrying values exceed the recoverable amounts, the assets are written down. Reductions to recoverable amounts are charged to the current year's income statement.

Depreciation is calculated, using the straight-line method over the estimated useful life and zero residual value of the fixed assets at the following rates per annum:

	Estimated useful life	Depreciation rate
Properties and buildings	20-30 years	3.33% - 5.00%
Fixed assets improvements	5 years	20.00%
Leasehold improvements	Shorter of 5 years and the lease terms	
Office equipment and computers	5-10 years	10.00% - 20.00%
Motor vehicles	6-8 years	12.50% - 16.67%

No depreciation is provided for construction in progress.

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

### Intangible assets

Intangible assets acquired separately are capitalized at cost and those obtained from a business acquisition are capitalized at fair value as at the date of acquisition. Following initial recognition, intangible assets are stated at cost less accumulated amortization. Amortisation is charged on intangible assets with finite lives using the straight-line method over their estimated economic useful lives. Intangible assets are assessed for impairment annually. A write-down is made if the carrying value exceeds the recoverable amount. The reduction of the carrying value to the recoverable amount is charged to the current year's income statement.

### Impairment of assets

The Company assesses at each reporting date whether there is any objective evidence that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use, and it is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the income statement under those expense categories consistent with the function of the impaired assets.

### Cash and cash equivalents

Cash and cash equivalents comprise cash, amounts due from the central bank with original maturity of three months or less, amounts due from banks and other financial institutions with original maturity of three months or less, placements with banks and other financial institutions with original maturity of three months or less, reverse repurchase agreements with other banks with original maturity of three months or less, and short term highly liquid investments which are readily convertible into known amounts of cash, subject to an insignificant risk of conversion in value and which are within three months of maturity when acquired.

### Operating leases

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

### Related parties

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

### Revenue recognition

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

- a) Interest income is recognised on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- b) fee and commission income is recognised when the service has been rendered and proceeds can be reasonably estimated; and
- c) dividend income is recognised when the shareholders' right to receive payment has been established.

### Income Tax

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

Deferred tax is provided, using the liability method, on all temporary differences between the tax bases of assets and liabilities and their carrying values for statutory financial reporting purposes. Currently enacted tax rates are used to determine deferred tax. The Company's management makes provision for deferred tax assets based on their recoverability.

### Employee retirement benefits

According to the statutory requirements in the PRC, the Company is required to provide certain staff retirement and pension benefits. The Company is obligated to contribute a fixed percentage of staff salaries to a fixed contribution employee retirement benefits scheme, governed by the relevant government authority. The contributions are charged to the income statement.

### Acceptances

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

### Fiduciary activities

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

### Provision

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations and a reliable estimate can be made of the amount of the obligation.

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

### Provision *continued*

Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset. Only when the reimbursement is virtually certain are the expenses relating to any provision presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

### Contingent liabilities

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

Contingent liabilities are not recognised but are disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

## 3. NET INTEREST INCOME

	2005	2004
<b>Interest income:</b>		
Interest income on loans	11,981,275	9,024,780
Interest income on discounted bills	845,660	673,154
Interest income on amounts due from the central bank	450,646	400,964
Interest income on amounts due from and placements with banks and other financial institutions	1,432,047	1,136,184
Interest income on bonds	2,667,583	1,141,781
	<b>17,377,211</b>	<b>12,376,863</b>
<b>Interest expense:</b>		
Interest on savings deposits	(2,378,741)	(1,472,853)
Interest on time deposits	(3,010,264)	(2,190,108)
Interest on amounts due to the central bank	-	(407)
Interest on amounts due to and placements from banks and other financial institutions	(2,153,487)	(1,337,417)
Interest on subordinated liabilities	(279,986)	(118,598)
Interest on long term debt securities issued	(36,431)	-
	<b>(7,858,909)</b>	<b>(5,119,383)</b>
	<b>9,518,302</b>	<b>7,257,480</b>

Included in interest income for the year 2005 is RMB150 million (for the year 2004: RMB127 million) with respect to the unwinding of discounted impairment provision.

#### 4. NET FEE AND COMMISSION INCOME

	2005	2004
Fee and commission income	316,068	234,554
Fee and commission expense	(78,840)	(41,488)
	<b>237,228</b>	<b>193,066</b>

#### 5. OTHER INCOME/(EXPENSE), NET

	2005	2004
Gain/(loss) on disposal of investment securities, net	49,909	(184,101)
Foreign exchange gain, net	53,911	66,678
Unrealised gain on financial derivatives at fair value through profit or loss, net	66,179	-
Others	52,916	28,444
	<b>222,915</b>	<b>(88,979)</b>

#### 6. STAFF EXPENSES

	2005	2004
Salaries and bonuses	1,270,906	979,328
Staff welfare	369,367	283,529
Others	-	4,851
	<b>1,640,273</b>	<b>1,267,708</b>

#### 7. GENERAL AND ADMINISTRATIVE EXPENSES

	2005	2004
Office expenses	638,219	407,481
Rental	242,653	202,254
Entertainment	154,185	131,397
Promotion	226,221	125,538
Telecommunications and postage	65,723	43,363
Travelling	105,418	70,399
Repairs and maintenance	35,684	32,130
Utilities	37,029	30,014
Taxes	47,678	30,647
Professional fee	68,053	60,083
Supervision fee	71,304	54,400
Fuel	82,933	48,259
Amortisation of intangible assets (note 17)	51,285	10,571
Others	112,701	86,281
	<b>1,939,086</b>	<b>1,332,817</b>

## 8. PROVISION FOR IMPAIRMENT OF OTHER ASSETS

	2005	2004
Due from and placements with banks and other financial institutions (note12(a))	(59,915)	37,324
Other assets (note18(a))	69,121	6,015
	9,206	43,339

## 9. INCOME TAX

	2005	2004 (Restated)
Current income tax	1,155,020	1,069,842
Deferred tax	(887)	(59,207)
	1,154,133	1,010,635

A reconciliation of income tax expense disclosed in the income statement to the amount calculated at the statutory rate of 33% is as follows:

	2005	2004 (Restated)
<b>Profit before income tax</b>	3,770,113	2,739,497
Income tax at statutory rate of 33%	1,244,137	904,034
Add/(Deduct) :		
Tax exempted income	(594,832)	(206,683)
Non-deductible expenses	568,657	371,674
Under provision in respect of the prior year	407	389
Effect of lower tax rates in certain regions	(64,236)	(58,779)
<b>Income tax</b>	1,154,133	1,010,635

Deferred income tax assets and liabilities are as follows:

	2005-12-31	2004-12-31 (Restated)
<b>Deferred income tax assets</b>		
-Provisions for loan losses	733,920	636,223
-Provisions for impairment of other assets	94,172	104,790
-Pre-operating expenses	26,327	30,577
-Unrealised gain on available-for-sale investments	-	74,063
	854,419	845,653
<b>Deferred income tax liabilities</b>		
-Unrealised loss on available-for-sale investments	(241,739)	-
-Change in fair values of derivatives	(21,839)	-
-Others	(69,939)	(9,836)
	(333,517)	(9,836)
<b>Net deferred income tax (note18)</b>	520,902	835,817

Deferred income tax included in equity:

	2005-12-31	2004-12-31
Unrealised gain/(loss) on available-for-sale investments	315,802	(56,743)

## 10. EARNINGS PER SHARE

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

	2005 (Restated)	2004
<b>Earnings per share calculation:</b>		
Net profit attributable to shareholders (in RMB'000)	2,615,980	1,728,862
Number of common shares outstanding (in thousand shares)	3,999,000	3,999,000
Weighted average number of common shares (in thousand shares)	3,999,000	3,673,205
Earnings per share, basic (in RMB)	0.65	0.47
Earnings per share, diluted (in RMB)	0.65	0.47

## 11. CASH AND BALANCES WITH THE CENTRAL BANK

	2005-12-31	2004-12-31
Cash on hand	1,186,229	957,304
Balances with the central bank other than restricted deposits	17,589,490	32,107,473
	<b>18,775,719</b>	<b>33,064,777</b>
Restricted deposits with the central bank	20,761,958	16,634,665
<b>Total</b>	<b>39,537,677</b>	<b>49,699,442</b>

Restricted deposits represent a statutory reserve, which are calculated based on a certain percentage of the Company's customer deposits, and fiduciary deposits placed in the central bank. These deposits are not available for use in the Company's day-to-day operations.

## 12. DUE FROM AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2005-12-31	2004-12-31
<b>Deposits:</b>		
Domestic banks and financial institutions	17,257,779	13,680,731
Foreign banks and financial institutions	1,275,138	626,257
	<b>18,532,917</b>	<b>14,306,988</b>
Less: Provisions for impairment (note12(a))	(26,008)	(34,772)
	<b>18,506,909</b>	<b>14,272,216</b>
<b>Placements:</b>		
Domestic banks and financial institutions	801,398	2,467,125
Foreign banks and financial institutions	27,105	186,060
	<b>828,503</b>	<b>2,653,185</b>
Less: Provisions for impairment (note12(a))	(131,135)	(191,717)
	<b>697,368</b>	<b>2,461,468</b>
<b>Total</b>	<b>19,204,277</b>	<b>16,733,684</b>

(a) Movements of provisions for impairment

	Deposits	Placements	Total
<b>2004</b>			
At 1 January 2004	39,355	149,810	189,165
Charge for the year/(transfer out) (note 8)	(4,583)	41,907	37,324
At 31 December 2004	34,772	191,717	226,489
<b>2005</b>			
At 1 January 2005	34,772	191,717	226,489
Charge for the year/(transfer out) (note 8)	667	(60,582)	(59,915)
Write-offs	(9,431)	-	(9,431)
At 31 December 2005	26,008	131,135	157,143

## 13. REVERSE REPURCHASE AGREEMENTS

	2005-12-31	2004-12-31
<b>Analysed by counterparty:</b>		
Banks	42,685,623	12,682,733
Other financial institutions	7,828,422	5,015,533
	<b>50,514,045</b>	<b>17,698,266</b>
<b>Analysed by collateral:</b>		
Bills	11,871,632	11,381,907
Securities	36,559,413	3,601,059
Loans	2,083,000	2,715,300
	<b>50,514,045</b>	<b>17,698,266</b>

## 14. LOANS

	2005-12-31	2004-12-31
Loans to corporate entities	199,376,814	172,924,191
Discounted bills	12,618,852	12,682,701
Loans to individuals	30,575,841	17,403,926
	<b>242,571,507</b>	<b>203,010,818</b>
Less: Provisions for loan losses	(5,111,552)	(4,415,804)
	<b>237,459,955</b>	<b>198,595,014</b>

(a) The composition of corporate loans to customers by industry is as follows:

	2005-12-31	%	2004-12-31	%
Agriculture, forestry, animals farming and fishing	1,169,737	1	1,594,702	1
Mining	4,007,733	2	2,122,599	1
Manufacturing	52,820,913	26	45,431,892	26
Electricity, gas and water supply	15,961,361	8	13,062,377	8
Construction	12,454,859	6	10,890,827	6
Transport, storage, post and courier activities	18,199,842	9	15,276,980	9
Telecommunications, computer and software related activities	4,732,405	2	4,871,755	3
Wholesale and retail trade	24,974,476	13	22,244,180	13
Hotels and restaurants	1,178,140	1	1,132,452	1
Financial intermediation	2,238,066	1	1,568,164	1
Real estate	25,690,727	13	19,818,122	11
Renting and business activities	11,010,600	6	11,886,286	7
Scientific research, technical services and geologic perambulation	1,202,155	1	1,075,826	1
Water conservancy, environment and public facilities administration	14,867,003	7	12,656,450	7
Residential services and other related activities	2,087,282	1	2,976,961	2
Education	2,392,738	1	1,572,793	1
Sanitation, social security and other community services	872,720	0	802,680	0
Cultural, sporting and entertainment	1,398,751	1	1,351,665	1
Public administration and social organization activities	2,117,306	1	2,587,480	1
<b>Total</b>	<b>199,376,814</b>	<b>100</b>	<b>172,924,191</b>	<b>100</b>

(b) For the composition of corporate loans to customers by geographical region, please refer to note 38 to the financial statements.

#### 14. LOANS *continued*

##### (c) Provisions for loan losses

	2005-12-31	2004-12-31
Balance at beginning of year	4,415,804	3,725,142
Charge for the year	1,571,739	1,150,951
Notional interest on impaired loans(note 3)	(149,525)	(127,280)
Recovery	1,958	15,026
Transfer out	(151,952)	(13,199)
Write-offs	(576,472)	(334,836)
<b>Balance at end of year</b>	<b>5,111,552</b>	<b>4,415,804</b>

The balance of provision transferred out includes the provision of RMB150 million for the non-performing loans transferred out in 2005.

The notional interest on impaired loans and provision to credit loss are separately disclosed in the financial statements, and the relevant reclassification adjustments have been made for comparative amounts.

(d) As at 31 December 2005, the Company sold out loans amounting to RMB1,664 million (31 December 2004: RMB 2,441 million), of which RMB 564 million (31 December 2004: RMB 1,598 million) are guaranteed by the Company. The Company considers that the credit risk of the RMB 564 million remains in the Company and therefore does not derecognize them in the loan portfolio.

#### 15. INVESTMENTS

	2005-12-31	2004-12-31
<b>Held-for-trading securities, measured at fair value:</b>		
Mutual fund	652,894	789,869
<b>Available-for-sale investments:</b>		
Debt securities, measured at fair value:		
Government bonds	68,717,946	18,455,282
Financial bonds issued by policy banks	43,824,883	28,246,873
Bank and other financial institution bonds	5,826,624	3,164,774
Corporate bonds	1,629,282	499,398
	<b>119,998,735</b>	<b>50,366,327</b>
Equity investments, measured at cost (note 15(a))	50,000	50,000
<b>Available-for-sale investments</b>	<b>120,048,735</b>	<b>50,416,327</b>
<b>Total</b>	<b>120,701,629</b>	<b>51,206,196</b>

##### (a) Equity investments

The Company's long term equity investments included an investment in China Unionpay Co., Ltd., at a cost of RMB 50 million (31 December 2004: RMB 50 million), which represents 3.03% of the registered capital of China Unionpay Co., Ltd.. Equity investments that do not have any quoted market prices and whose fair values cannot be measured reliably are stated at cost.

(b) Others

As at 31 December 2005, bonds amounting to RMB 82 million (31 December 2004: RMB 43 million) have been pledged for the derivatives transactions and bonds amounting to RMB 17,186 million (31 December 2004: RMB 2,844 million) have been pledged for securities repurchase agreements.

The Company has classified its investments in accordance with IAS39 while held-to-maturity classification will be adopted in 2006.

## 16. FIXED ASSETS

	Properties and buildings	Fixed assets and leasehold improvements	Office equipments and computers	Motor vehicles	Construction in progress	Total
<b>Cost, less provisions for impairment losses:</b>						
At 1 January 2005	2,692,677	455,681	567,872	145,483	14,140	3,875,853
Additions	20,045	22,576	182,723	27,641	148,278	401,263
Transfer in/(transfer out)	1,561	85,300	3,691	-	(90,552)	-
Disposals	(8,908)	(20,637)	(18,074)	(8,296)	-	(55,915)
<b>At 31 December 2005</b>	<b>2,705,375</b>	<b>542,920</b>	<b>736,212</b>	<b>164,828</b>	<b>71,866</b>	<b>4,221,201</b>
<b>Accumulated depreciation:</b>						
At 1 January 2005	468,731	213,076	268,782	58,453	-	1,009,042
Charge for the year	92,580	95,712	102,139	17,954	-	308,385
Disposals	(3,185)	(20,637)	(15,742)	(5,407)	-	(44,971)
<b>At 31 December 2005</b>	<b>558,126</b>	<b>288,151</b>	<b>355,179</b>	<b>71,000</b>	<b>-</b>	<b>1,272,456</b>
Net book value						
<b>At 31 December 2005</b>	<b>2,147,249</b>	<b>254,769</b>	<b>381,033</b>	<b>93,828</b>	<b>71,866</b>	<b>2,948,745</b>
<b>At 31 December 2004</b>	<b>2,223,946</b>	<b>242,605</b>	<b>299,090</b>	<b>87,030</b>	<b>14,140</b>	<b>2,866,811</b>

Fixed assets are stated at cost less provision for impairment losses as at 31 December 2005. After comparing with the market value of nearby properties, management considers that the provisions for impairment losses on properties and buildings as at 31 December 2005 is RMB 10 million (31 December 2004: RMB 10 million).

All the properties and buildings of the Company are located in the PRC. Properties and buildings amounting to RMB 416 million (31 December 2004: RMB 573 million) are in use but the legal ownership registration procedures were still in process as at 31 December 2005.

## 17. INTANGIBLE ASSETS

	Operation rights and customer relationships	Other individually purchased intangible assets	Total
<b>Cost:</b>			
At 1 January 2005	430,000	63,438	493,438
Additions	-	14,246	14,246
Disposals	-	(349)	(349)
<b>At 31 December 2005</b>	<b>430,000</b>	<b>77,335</b>	<b>507,335</b>
<b>Accumulated amortisation:</b>			
At 1 January 2005	3,583	10,355	13,938
Amortisation (note 7)	43,000	8,285	51,285
Disposals	-	(349)	(349)
<b>At 31 December 2005</b>	<b>46,583</b>	<b>18,291</b>	<b>64,874</b>
<b>Net book value:</b>			
<b>At 31 December 2005</b>	<b>383,417</b>	<b>59,044</b>	<b>442,461</b>
<b>At 31 December 2004</b>	<b>426,417</b>	<b>53,083</b>	<b>479,500</b>

## 18. OTHER ASSETS

	2005-12-31	2004-12-31 (Restated)
Interest receivable from debt securities	1,536,064	751,194
Loan interest and other interest receivable	428,008	37,848
Net deferred income tax assets (note 9)	520,902	835,817
Repossessed assets	656,555	668,402
Remittance pending clearance	44,403	81,054
Positive fair value of financial derivatives	168,597	-
Others	777,578	546,965
	<b>4,132,107</b>	<b>2,921,280</b>
Less: Provisions for other assets (note 18(a))	(180,000)	(138,079)
	<b>3,952,107</b>	<b>2,783,201</b>

(a) Provisions for other assets

	Provision for repossessed assets	Provision for other receivables	Total
Balance at beginning of year	85,566	52,513	138,079
Charge for the year (note 8)	41,154	27,967	69,121
Write-offs	(29,888)	(52)	(29,940)
Transfer in	2,740	-	2,740
<b>Balance at end of year</b>	<b>99,572</b>	<b>80,428</b>	<b>180,000</b>

## 19. DUE TO AND PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2005-12-31	2004-12-31
Due to banks and other financial institutions	65,429,964	30,949,230
Placements from banks and other financial institutions	403,510	903,503
	<b>65,833,474</b>	<b>31,852,733</b>

## 20. REPURCHASE AGREEMENTS

	2005-12-31	2004-12-31
<b>Analysed by counterparty:</b>		
Banks	5,074,500	4,279,774
Other financial institutions	14,048,552	1,245,996
	<b>19,123,052</b>	<b>5,525,770</b>
<b>Analysed by collateral:</b>		
Bills	1,273,605	1,927,210
Securities	17,185,667	2,844,300
Loans	663,780	754,260
	<b>19,123,052</b>	<b>5,525,770</b>

## 21. CUSTOMER DEPOSITS

	2005-12-31	2004-12-31
Corporate and personal savings deposits	151,362,575	134,651,697
Corporate and personal time deposits	149,509,280	119,110,158
Deposits pledged as collateral	53,775,266	28,932,987
Fiduciary deposits	23,649	9,041
Remittances	547,339	482,628
	<b>355,218,109</b>	<b>283,186,511</b>

## 22. SUBORDINATED LIABILITIES

	Issuing Period	Interest Starting Date	Term	2005-12-31	2004-12-31
Floating rate note <sup>1</sup>	17/12/2003 ~ 30/12/2003	26/12/2003 ~ 31/12/2003	61 months	3,000,000	3,000,000
Callable fixed rate note <sup>2</sup>	23/12/2004 ~ 29/12/2004	30/12/2004	10 years	1,860,000	1,860,000
Callable floating rate note <sup>3</sup>	23/12/2004 ~ 29/12/2004	30/12/2004	10 years	1,140,000	1,140,000
				<b>6,000,000</b>	<b>6,000,000</b>

## 22. SUBORDINATED LIABILITIES *continued*

<sup>1</sup> The note bears floating interest at one-year fixed deposit rate plus 2.01%.

<sup>2</sup> The coupon rate of the note is 5.1% per annum. The Company has an option to fully or partly redeem the note on 30 December 2009, and if the Company does not exercise the option, the coupon rate will be increased to 8.1% per annum for the remaining period.

<sup>3</sup> The note bears floating interest at one-year fixed deposit rate plus 2.4%. The Company has an option to fully or partly redeem the note on 30 December 2009, and if the Company does not exercise the option, the interest rate will be reset to one year fixed deposit rate plus 2.9% for the remaining period.

## 23. LONG TERM DEBT SECURITIES ISSUED

In November 2005, the Company issued RMB 10 billion financial bonds with 3-year term at interest rate of 2.15% per annum. The issuance of the bonds was approved by PBOC and China Banking Regulatory Commission ("CBRC") according to "PBOC approval on Industrial Bank Co., Ltd.'s issuance of financial bonds" (Yinfu [2005] No. 77) and "CBRC approval on Industrial Bank Co., Ltd.'s issuance of financial bonds" (Yinjianfu [2005] No. 253).

## 24. OTHER LIABILITIES

	2005-12-31	2004-12-31 (Restated)
Interest payable	1,888,088	793,149
Tax payables	657,789	702,074
Salaries and staff welfare payables	1,169,287	711,718
Outstanding remittance fund	671,184	319,329
Unearned income on bill discounting	159,163	232,634
Dividend payable	42,839	165,666
Clearance account of intra-city presentation	185,315	26,878
Negative fair value of financial derivatives	102,418	-
Other payables	924,794	612,765
	<b>5,800,877</b>	<b>3,564,213</b>

## 25. EMPLOYEE RETIREMENT BENEFITS SCHEME

The Company participates in a PRC government employee retirement benefits scheme which is administrated by the relevant Social Security Bureau. The bureau centrally manages retirement fund contributions and distributions. The scheme requires contributions to be made at a certain percentage of the salaries of the staff. The percentage is determined in accordance with the regulations of the local government. Other than the above-mentioned employee retirement benefits scheme, the Company has no other obligation in employee retirement benefits.

## 26. PAID-IN CAPITAL

	2005-12-31	2004-12-31
Authorised (par value: RMB 1)	3,999,000	3,999,000
Issued and fully paid (par value: RMB 1)	3,999,000	3,999,000

## 27. SURPLUS RESERVES

	Statutory surplus reserve	Statutory public welfare fund	Total
As at 1 January 2004	146,109	73,053	219,162
Appropriation	110,103	55,052	165,155
<b>As at 31 December 2004</b>	<b>256,212</b>	<b>128,105</b>	<b>384,317</b>
Appropriation	245,499	-	245,499
Statutory adjustment	209,941	159,998	369,939
<b>As at 31 December 2005</b>	<b>711,652</b>	<b>288,103</b>	<b>999,755</b>

Pursuant to the Company's articles of association and the relevant accounting standards and regulations in the PRC, the Company shall make appropriations to the surplus reserves, including statutory public welfare fund, statutory surplus reserve and discretionary surplus reserve, at a certain percentage of the Company's net profit.

Statutory public welfare fund should be made at 5% to 10% on the Company's net profit arrived at under the PRC accounting standards and relevant regulations. The purpose of the statutory public welfare fund is to provide for staff's facilities and other benefits. Statutory public welfare fund cannot be distributed unless the Company's operation is terminated for liquidation. Statutory surplus reserve should be made at a minimum of 10% on the net profit arrived at under the PRC accounting standards and relevant regulations, until its balance reaches 50% of the registered or paid-in capital. Discretionary surplus reserve can be determined by the shareholders. Discretionary surplus reserve can be used to compensate the accumulated losses or transfer to paid-in capital upon approval by shareholders.

From 1 January 2005 onwards, the Company adopts the "Accounting System for Financial Enterprises" issued by Ministry of Finance in 2001 to prepare its statutory financial statements; therefore, changes have been made to the accounting policies of provision for assets and the recognition of interest and expenses of bills business etc., and the Company has made retrospective adjustments to the statutory financial statements of 2004. These retrospective adjustments have affected the net profit after tax of the statutory financial statements. Pursuant to the PRC Company Law, the Company is required to appropriate a certain percentage of its net profit, calculated based on the relevant PRC accounting standards, to the statutory surplus reserve and statutory public welfare fund. The retrospective adjustments increase prior years' net profit after tax; as a result, the above-mentioned reserves are increased accordingly. In this regard, the Company has made respective adjustments in the statutory financial statements.

According to the newly revised PRC Company Law, effective 1 January 2006, the Company does not make appropriation to the statutory public welfare fund for the year ended 31 December 2005.

## 28. GENERAL RESERVE

According to the relevant regulations of MOF, the Company should set aside general reserve through profit appropriation. At a meeting of the board of directors held on 21 June 2005, the directors resolved to appropriate RMB 900 million into general reserve in the first quarter of 2005. In addition, at a meeting of the board of directors held on 18 March 2006, the directors resolved to further appropriate RMB 1,500 million to general reserve for the year ended 31 December 2005. The resolution is subject to approval by shareholders in the forthcoming annual general meeting.

## 29. DIVIDEND

At a meeting of board of directors held on 18 March 2006, the directors resolved not to propose any final dividend for the year ended 31 December 2005. The resolution is subject to approval by shareholders in the forthcoming annual general meeting.

Pursuant to a resolution passed by the annual general meeting of shareholders on 20 May 2005, a dividend of RMB 1.1 per 10 shares calculated in accordance with weighted average number of common shares outstanding during 2004, totaling RMB 404 million was approved for the financial year of 2004.

## 30. RETAINED EARNINGS

According to the Company's articles of association, profit recognised under the PRC accounting standards, after (1) fulfilling all tax liabilities, (2) compensating any accumulated losses, (3) making provisions for doubtful debts, and (4) making appropriation to statutory surplus reserve, statutory public welfare fund and discretionary surplus reserve, can be distributed to shareholders. The percentages on provisions for doubtful debts and surplus reserves are decided by the Company's board of directors with reference to the relevant regulations.

As stated in note 2.1, these financial statements are prepared under the IFRSs. These are not the statutory financial statements of the Company and are prepared for supplementary purpose. According to the PRC Company Law and the Company's articles of association, the profits distributable to shareholders are based on the statutory financial statements prepared under the PRC accounting standards and regulations, and not on these financial statements prepared under the IFRSs.

Profit distribution is decided by the board of directors of the Company, with reference to the operating results, financial status and other relevant factors.

### 31. NET CASH INFLOW FROM OPERATING ACTIVITIES

	2005	2004 (Restated)
Profit before income tax	3,770,113	2,739,497
Interest income	(17,377,211)	(12,376,863)
Interest expense	7,858,909	5,119,383
Foreign exchange difference	123,375	(4,510)
Depreciation	308,385	276,367
Amortisation of intangible assets	51,285	10,571
Provisions for loan losses and provisions for impairment of assets	1,580,945	1,194,290
Unrealised gain on derivative financial instruments	(66,179)	-
Gain on disposal of fixed assets	(4,022)	(532)
Loss on disposal of intangible assets	-	793
Gain/(loss) on disposal of investments	(49,909)	184,101
Net (increase)/decrease in operating assets:		
Restricted deposits with the central bank	(4,127,293)	(5,479,334)
Due from and placements with banks and other financial institutions	(1,907,779)	(1,860,027)
Reverse repurchase agreements	6,027,000	(5,554,174)
Loans	(40,320,914)	(45,996,715)
Other assets	(175,555)	(259,590)
Net increase/(decrease) in operating liabilities:		
Due to the central bank	-	(1,150,558)
Due to and placements from banks and other financial institutions	33,980,741	2,322,646
Repurchase agreements	13,597,282	(3,837,256)
Customer deposits	72,031,598	72,231,019
Other liabilities	1,299,989	611,867
Net cash inflow from operating activities before interests and income tax	76,600,760	8,170,975
Cash inflow from interest received	14,096,472	11,090,109
Cash outflow from interest paid	(6,447,553)	(4,785,072)
Income tax paid	(1,260,152)	(890,236)
Net cash inflow from operating activities	82,989,527	13,585,776

### 32. DERIVATIVE FINANCIAL INSTRUMENTS

The Company enters into financial derivative transactions for banking activities and also for asset/liability management purposes. Banking activities include the structuring and marketing of derivative products to customers to enable them to transfer, modify or reduce current or expected risks.

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

The Company uses financial derivatives to manage its assets and liabilities. When there are significant interest rate mismatches of the assets and liabilities of the Company, for example, the Company acquires an asset on fixed interest rate while its funding is at floating rate, the fluctuation of the market rate may incur risks on the fair value of the assets and liabilities. In order to minimise the effect of interest rate fluctuation, the Company converts the interest rate of assets from fixed to floating through interest rate swaps.

The Company entered into the following types of derivative financial instruments during the year:

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

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

The notional amount of a derivative represents the amount of the underlying asset upon which the value of the derivatives is based. It provides an indication of the volume of business transacted by the Company, but does not provide any measures of risk.

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

The notional amount and fair value of the Company's derivative financial instruments are shown below.

	2005-12-31		
	Notional amount	Fair value	
		Assets	Liabilities
<b>Derivative financial instruments for trading purpose:</b>			
Foreign exchange derivative contracts	5,131,161	12,804	5,070
Bond derivative contracts	6,215,000	129,242	53,640
Interest rate derivative contracts	2,032,277	25,605	33,509
Credit derivative contracts	484,212	946	10,199
	<b>13,862,650</b>	<b>168,597</b>	<b>102,418</b>

	2004-12-31		
	Notional amount	Fair Value	
		Assets	Liabilities
Derivative financial instruments held for trading purpose:			
Foreign exchange derivative contracts	1,292,607	4,531	7,776
Interest rate derivative contracts	1,340,043	660	8,479
Credit derivative contracts	413,825	1,408	916
	<b>3,046,475</b>	<b>6,599</b>	<b>17,171</b>

As at 31 December 2005, foreign exchange derivative contracts of RMB 3,060 million (31 December 2004: RMB 210 million) were squared-off with third parties and the Company did not undertake the currency risk.

As at 31 December 2005, interest rate derivative contracts of RMB 1,870 million (31 December 2004: RMB 1,190 million) were squared-off with third parties and the Company did not undertake the interest rate risk.

As the fair value of derivative financial instruments as at 31 December 2004 was immaterial, the Company did not recognize the relevant positive and negative value on the balance sheet.

### 33. COMMITMENTS

#### (a) Capital commitments

	2005-12-31	2004-12-31
Approved, but not contracted for	140	102,180
Contracted, but not provided for	65,531	6,829
	<b>65,671</b>	<b>109,009</b>

#### (b) Operating lease commitments

At balance sheet date, the Company has total future minimum lease payments in respect of non-cancellable operating leases falling due as follows:

	2005-12-31	2004-12-31
Within one year	227,623	185,478
In the second to fifth years, inclusive	510,901	419,129
After five years	130,895	120,939
	<b>869,419</b>	<b>725,546</b>

#### 34. LOAN COMMITMENTS AND CONTINGENT LIABILITIES

	2005-12-31	2004-12-31
Bank acceptance	81,257,416	58,659,623
Irrevocable letters of credit issued	6,454,035	5,229,449
Guarantees issued	3,586,177	3,013,569
Irrevocable loan commitments	150,000	-
Undrawn credit limits of credit card facilities	2,929,519	559,404

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

#### 35. FIDUCIARY TRANSACTIONS

	2005-12-31	2004-12-31
Entrusted deposits	10,974,361	5,126,262
Entrusted loans	10,974,361	5,126,262
RMB fiduciary wealth management assets	11,050,523	-
RMB fiduciary wealth management funds	11,050,523	-

Entrusted deposits represent funds which depositors have instructed the Company to use to make loans to third parties designated by them. The credit risk remains with the depositors.

RMB fiduciary wealth management business means that the Company acts in a fiduciary capacity as a custodian or an agent for customers and is responsible for running and managing of customers' assets. Fiduciary wealth management funds represent the funding that the Company obtained from customers while fiduciary wealth management assets represent the investment sum that the Company invests using entrusted funding from its customers.

#### 36. CONTINGENT LIABILITIES

##### (a) Legal proceedings

As at 31 December 2005, the pending legal proceedings against the Company or its branches involved claims amounting to RMB 32 million. In the opinion of management of the Company, these legal proceedings cases would not have significant adverse impact on the Company's financial position and its operating result.

##### (b) Redemption commitments of government bonds with certificates

As an underwriting agent of the PRC government, the Company underwrites PRC government bonds and sells the bonds to the general public. The Company is obliged to redeem the bonds at the discretion of the holders. The redemption price for the bonds is based on the nominal value of the bonds plus any interest accrued up to the redemption date. As at 31 December 2005, the Company has sold bonds with an accumulated amount of RMB 4,218 million (as at 31 December 2004, RMB 3,220 million) to the general public that have not yet matured and have not been redeemed. Management expects that the early redemption amount of government bonds through the Company before maturity will not be material.

### 37. RELATED PARTY TRANSACTIONS

#### (a) Shareholders and related companies

The Company does not have a controlling shareholder. Shareholders and related companies mentioned below refer to those holding over 5% of the Company's shares.

Related party transactions with shareholders and their related companies holding over 5% of the Company's shares are as follows:

	2005	2004
Deposits	6,136,127	3,115,107
Other payable	-	144,015
Interest expense	52,767	28,026

(b) Related transactions with other companies upon which the key executives have controlling or significant influence are as follows:

	2005	2004
Deposits	14,938	471,476
Loans	352,440	391,063
Guarantee deposits	163,591	38,600
Discounted bills	20,000	-
Irrevocable letters of credit issued	19,415	5,754
Bank acceptance	145,779	21,100
Interest income	22,058	28,202
Interest expense	808	6,343

(c) Significant transactions between the Company and its key executives and their relatives are as follows:

	2005	2004
Deposits	13,192	15,247
Loans	2,451	1,191
Interest income	101	37
Interest expense	187	121

Related party borrowings are negotiated on commercial terms. Borrowers are requested to provide guarantee and collateral according to their financial conditions. Loan interests should be calculated based on the market interest rate set by the PBOC.

#### (d) Compensation of the key management personnel

The key management personnel are those persons who have the authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including directors, supervisors and other officers.

	2005	2004
Short term employee benefits	7,442	4,061

**38. SEGMENT INFORMATION**

The Company's main business activities are commercial lending and accepting customer deposits. Accordingly, no business segmental information has been presented.

The major geographical segments of the Company include the following five major business regions:

	Total assets			
	2005-12-31		2004-12-31	
	RMB million	%	RMB million (Restated)	%
Shanghai	207,860	44	98,623	29
Fuzhou	40,821	8	56,999	17
Beijing	28,550	6	24,076	7
Guangzhou	23,829	5	20,632	6
Shenzhen	22,005	5	18,717	6
Others	151,696	32	121,015	35
<b>Total</b>	<b>474,761</b>	<b>100</b>	<b>340,062</b>	<b>100</b>

	Loans			
	2005-12-31		2004-12-31	
	RMB million	%	RMB million	%
Shanghai	26,678	11	27,241	13
Fuzhou	13,944	6	13,208	7
Beijing	22,988	10	20,209	10
Guangzhou	22,123	9	18,371	9
Shenzhen	15,636	6	14,782	7
Others	141,203	58	109,200	54
<b>Total</b>	<b>242,572</b>	<b>100</b>	<b>203,011</b>	<b>100</b>

	Customer deposits			
	2005-12-31		2004-12-31	
	RMB million	%	RMB million	%
Shanghai	54,503	15	44,935	16
Fuzhou	27,320	8	25,309	9
Beijing	39,238	11	29,506	10
Guangzhou	31,862	9	24,389	9
Shenzhen	25,874	7	23,782	8
Others	176,421	50	135,266	48
<b>Total</b>	<b>355,218</b>	<b>100</b>	<b>283,187</b>	<b>100</b>

	Interest income			
	2005-12-31		2004-12-31	
	RMB million	%	RMB million	%
Shanghai	4,708	27	2,951	24
Fuzhou	1,156	7	1,032	8
Beijing	1,419	8	1,044	8
Guangzhou	1,187	7	977	8
Shenzhen	881	5	866	7
Others	8,026	46	5,507	45
<b>Total</b>	<b>17,377</b>	<b>100</b>	<b>12,377</b>	<b>100</b>

	Interest expense			
	2005-12-31		2004-12-31	
	RMB million	%	RMB million	%
Shanghai	1,733	22	1,048	21
Fuzhou	800	10	563	11
Beijing	631	8	378	7
Guangzhou	595	8	459	9
Shenzhen	468	6	507	10
Others	3,632	46	2,164	42
<b>Total</b>	<b>7,859</b>	<b>100</b>	<b>5,119</b>	<b>100</b>

	Capital expenditure			
	2005-12-31		2004-12-31	
	RMB million	%	RMB million	%
Shanghai	22	5	32	4
Fuzhou	125	30	493	65
Beijing	13	3	15	2
Guangzhou	63	15	11	1
Shenzhen	4	1	33	4
Others	189	46	181	24
<b>Total</b>	<b>416</b>	<b>100</b>	<b>765</b>	<b>100</b>

### 39. FINANCIAL INSTRUMENTS RISK POSITION

The Company accepts deposits of various terms at fixed or floating rates. It uses the funds obtained for investments or granting loans to earn profit. In these processes, the Company encounters different types of risk. A description and analysis of the major risks faced by the Company is as follows:

### 39. FINANCIAL INSTRUMENTS RISK POSITION *continued*

#### (a) Credit risk

Credit risk is the risk of loss from default by an obligor or counterparty when payments fall due.

Credit risk is often greater when counterparties are concentrated in a single industry or geographical location or have comparable economic characteristics. A group of otherwise unrelated counterparties could be adversely affected in their ability to meet their obligations due to economic development affecting their common industry or location.

The Company operates the lending business in the PRC only. Major off-balance-sheet items such as bank drafts and acceptance are due from domestic enterprises. However, there are different economic development characteristics in the different region in China, and credit risks are also different. For the geographical concentration of the loan portfolio and major off-balance-sheet items, please refer to note 38 for details. Loan customers of the Company are classified into different industries. Please refer to note 14(a) for an analysis of concentration of loans by industry.

#### (b) Liquidity risk

A maturity analysis of assets and liabilities of the Company at the balance sheet date is as follows:

	2005-12-31(in RMB million)						Total
	Overdue	On demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	
<b>Assets:</b>							
Cash and balances with the central bank	-	29,914	3,111	3,978	2,535	-	39,538
Due from and placements with banks and other financial institutions	-	9,445	4,828	4,438	255	238	19,204
Reverse repurchase agreements	-	-	48,896	1,618	-	-	50,514
Loans	2,656	-	44,342	124,646	32,931	32,885	237,460
Investments	-	491	13,199	33,519	49,497	23,996	120,702
Other assets	-	253	930	1,163	790	4,207	7,343
<b>Total assets</b>	<b>2,656</b>	<b>40,103</b>	<b>115,306</b>	<b>169,362</b>	<b>86,008</b>	<b>61,326</b>	<b>474,761</b>
<b>Liabilities:</b>							
Due to and placements from banks and other financial institutions	-	44,977	8,294	12,507	56	-	65,834
Repurchase agreements	-	-	6,390	12,733	-	-	19,123
Customer deposits	-	190,562	53,233	68,057	43,364	2	355,218
Subordinated liabilities	-	-	-	-	3,000	3,000	6,000
Long term debt securities issued	-	-	-	-	10,000	-	10,000
Other liabilities	-	2,284	2,472	765	280	-	5,801
<b>Total liabilities</b>	<b>-</b>	<b>237,823</b>	<b>70,389</b>	<b>94,062</b>	<b>56,700</b>	<b>3,002</b>	<b>461,976</b>
<b>Net liquidity gap</b>	<b>2,656</b>	<b>(197,720)</b>	<b>44,917</b>	<b>75,300</b>	<b>29,308</b>	<b>58,324</b>	<b>12,785</b>

	2004-12-31(in RMB million) (Restated)						
	Overdue	On demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
<b>Assets:</b>							
Cash and balances with the central bank	-	42,653	2,290	2,668	1,882	206	49,699
Due from and placements with banks and other financial institutions	100	10,073	4,033	1,392	908	228	16,734
Reverse repurchase agreements	-	-	11,843	5,855	-	-	17,698
Loans	2,102	-	40,372	110,170	24,533	21,418	198,595
Investments	-	-	3,266	15,394	18,636	13,910	51,206
Other assets	-	104	385	631	881	4,129	6,130
<b>Total assets</b>	<b>2,202</b>	<b>52,830</b>	<b>62,189</b>	<b>136,110</b>	<b>46,840</b>	<b>39,891</b>	<b>340,062</b>
<b>Liabilities:</b>							
Due to and placements from banks and other financial institutions	-	29,123	1,318	708	273	430	31,852
Repurchase agreements	-	-	5,073	453	-	-	5,526
Customer deposits	-	162,930	39,080	45,534	32,122	3,521	283,187
Subordinated liabilities	-	-	-	-	3,000	3,000	6,000
Other liabilities	-	1,128	1,981	255	180	20	3,564
<b>Total liabilities</b>	<b>-</b>	<b>193,181</b>	<b>47,452</b>	<b>46,950</b>	<b>35,575</b>	<b>6,971</b>	<b>330,129</b>
<b>Net liquidity gap</b>	<b>2,202</b>	<b>(140,351)</b>	<b>14,737</b>	<b>89,160</b>	<b>11,265</b>	<b>32,920</b>	<b>9,933</b>

**39. FINANCIAL INSTRUMENTS RISK POSITION** *continued*

## (c) Currency risk

The Company is incorporated in the PRC and the majority of the Company's operations are also conducted in the PRC, with RMB as its reporting and functional currency. The major foreign currency in which the Company transacts is US dollars ("USD").

A breakdown of relevant assets and liabilities by currency is as follows:

	2005-12-31(inRMBmillion)				2004-12-31(inRMBmillion) (Restated)			
	RMB	USD	Others	Total	RMB	USD	Others	Total
<b>Assets:</b>								
Cash and balances with the central bank	38,574	751	213	39,538	48,501	410	788	49,699
Due from and placements with banks and other financial institutions	15,705	2,900	599	19,204	11,960	3,706	1,068	16,734
Reverse repurchase agreements	50,514	-	-	50,514	17,566	132	-	17,698
Loans	232,640	4,573	247	237,460	193,950	3,959	686	198,595
Investments	115,642	4,942	118	120,702	46,459	4,705	42	51,206
Other assets	7,191	143	9	7,343	6,043	68	19	6,130
<b>Total assets</b>	<b>460,266</b>	<b>13,309</b>	<b>1,186</b>	<b>474,761</b>	<b>324,479</b>	<b>12,980</b>	<b>2,603</b>	<b>340,062</b>
<b>Liabilities:</b>								
Due to and placements from banks and other financial institutions	62,305	3,274	255	65,834	28,392	3,033	427	31,852
Repurchase agreements	18,924	199	-	19,123	5,526	-	-	5,526
Customer deposits	347,240	5,924	2,054	355,218	274,091	7,586	1,510	283,187
Subordinated liabilities	6,000	-	-	6,000	6,000	-	-	6,000
Long term debt securities issued	10,000	-	-	10,000	-	-	-	-
Other liabilities	5,667	122	12	5,801	3,379	174	11	3,564
<b>Total liabilities</b>	<b>450,136</b>	<b>9,519</b>	<b>2,321</b>	<b>461,976</b>	<b>317,388</b>	<b>10,793</b>	<b>1,948</b>	<b>330,129</b>
<b>Net position</b>	<b>10,130</b>	<b>3,790</b>	<b>(1,135)</b>	<b>12,785</b>	<b>7,091</b>	<b>2,187</b>	<b>655</b>	<b>9,933</b>

(d) Interest rate risk

The following tables indicate the effective interest rates for the relevant periods and the expected next repricing dates or maturity dates, whichever is earlier, for the assets and liabilities at 31 December 2005:

	2005-12-31(in RMB million)						Overdue/ Non- interest- bearing	Total
	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years		
<b>Assets:</b>								
Cash and balances with the central bank	33,978	3,879	91	156	248	-	1,186	39,538
Due from and placements with banks and other financial institutions	14,739	4,405	-	60	-	-	-	19,204
Reverse repurchase agreements	48,895	1,619	-	-	-	-	-	50,514
Loans	99,928	130,338	1,472	1,103	1,381	373	2,865	237,460
Investments	42,733	33,754	6,864	7,152	16,667	13,482	50	120,702
Other assets	169	-	-	-	214	-	6,960	7,343
<b>Total assets</b>	<b>240,442</b>	<b>173,995</b>	<b>8,427</b>	<b>8,471</b>	<b>18,510</b>	<b>13,855</b>	<b>11,061</b>	<b>474,761</b>
<b>Liabilities:</b>								
Due to and placements from banks and other financial institutions	53,271	12,507	36	20	-	-	-	65,834
Repurchase agreements	6,390	12,733	-	-	-	-	-	19,123
Customer deposits	281,474	66,373	1,551	2,667	3,151	2	-	355,218
Subordinated liabilities	4,140	-	-	-	-	1,860	-	6,000
Long term debt securities issued	-	-	-	10,000	-	-	-	10,000
Other liabilities	102	-	-	-	-	-	5,699	5,801
<b>Total liabilities</b>	<b>345,377</b>	<b>91,613</b>	<b>1,587</b>	<b>12,687</b>	<b>3,151</b>	<b>1,862</b>	<b>5,699</b>	<b>461,976</b>
<b>Net assets</b>	<b>(104,935)</b>	<b>82,382</b>	<b>6,840</b>	<b>(4,216)</b>	<b>15,359</b>	<b>11,993</b>	<b>5,362</b>	<b>12,785</b>

### 39. FINANCIAL INSTRUMENTS RISK POSITION *continued*

#### (d) Interest rate risk *continued*

The following tables indicate the effective interest rates for the relevant periods and the expected next repricing dates or maturity dates, whichever is earlier, for the assets and liabilities at 31 December 2004:

	2004-12-31 (in RMB million) (Restated)							Total
	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Overdue/ Non-interest-bearing	
<b>Assets:</b>								
Cash and balances with the central bank	45,767	2,616	77	74	179	29	957	49,699
Due from and placements with banks and other financial institutions	14,592	1,392	650	-	-	-	100	16,734
Reverse repurchase agreements	11,843	5,855	-	-	-	-	-	17,698
Loans	71,618	122,964	522	709	488	62	2,232	198,595
Investments	18,270	10,379	4,551	2,945	6,905	8,106	50	51,206
Other assets	-	-	-	-	260	-	5,870	6,130
<b>Total assets</b>	<b>162,090</b>	<b>143,206</b>	<b>5,800</b>	<b>3,728</b>	<b>7,832</b>	<b>8,197</b>	<b>9,209</b>	<b>340,062</b>
<b>Liabilities:</b>								
Due to and placements from banks and other financial institutions	30,441	708	130	100	43	430	-	31,852
Repurchase agreements	5,073	453	-	-	-	-	-	5,526
Customer deposits	232,653	44,525	1,555	983	2,971	500	-	283,187
Subordinated liabilities	4,140	-	-	-	-	1,860	-	6,000
Other liabilities	-	-	-	-	-	-	3,564	3,564
<b>Total liabilities</b>	<b>272,307</b>	<b>45,686</b>	<b>1,685</b>	<b>1,083</b>	<b>3,014</b>	<b>2,790</b>	<b>3,564</b>	<b>330,129</b>
<b>Net assets</b>	<b>(110,217)</b>	<b>97,520</b>	<b>4,115</b>	<b>2,645</b>	<b>4,818</b>	<b>5,407</b>	<b>5,645</b>	<b>9,933</b>

#### (e) Fair value of financial instruments

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

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

(i) Financial assets at fair value through profit or loss and available-for-sale investments are measured at fair value by reference to the quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or discounted cash flows. Fair value is the carrying amount of these items.

(ii) The fair value of liquid assets and assets maturing within 12 months is assumed to be approximately equal to their carrying amount. This assumption is applicable to liquid assets and the short term elements of all other financial assets and financial liabilities.

(iii) The fair value of fixed rate loans is estimated by comparing the market interest rates when the loans are granted with the current market rates offered on similar loans. The applicable interest rate of most loans are repriced once every year for any changes in market interest rate and accordingly their fair values approximate to their carrying amounts. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values as the impact of credit risk is recognised separately by deducting the amount of the impairment provision from the carrying amount.

(iv) The interest rates of deposits from customers, floating or fixed, depend on the types of products. The fair values of demand deposits and savings deposits without specific maturity date represent the amounts payable to customers at any moment. Due to the short term nature of most fixed deposits, the fair values of the fixed deposits approximate to their carrying values.

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

Loans, investments and customer deposits are the major assets and liabilities of Company. In the opinion of management, the difference between the fair value and the carrying amount of loans, investments and customer deposits arising from changes in interest rates and other factors is not material at the end of each balance sheet date.

#### **40. POST BALANCE SHEET EVENTS**

As at the approval date of these financial statements, there is no material post balance sheet event which is required to be disclosed.

#### **41. COMPARATIVE FIGURES**

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

#### **42. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorized for issue by the board of directors on 18 March 2006.



## NETWORK INFORMATION

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### ◆ Ningde Branch

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◆ Zhengzhou Branch

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◆ Wuhan Branch

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◆ Changsha Branch

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◆ Guangzhou Branch

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◆ Chongqing Branch

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