The following discussion and analysis should be read in conjunction with our consolidated financial statements included in the Accountants' Report in Appendix I, unaudited supplementary financial information in Appendix II and the selected financial data, in each case together with the accompanying notes, included elsewhere in this prospectus. The consolidated financial statements have been prepared in accordance with IFRS. For further details on the basis of presentation of our financial information, see "Summary — Summary Financial Information — Basis of Presentation of Our Financial Information." Capital adequacy ratios discussed in this section are calculated in accordance with applicable CBRC guidelines and based on PRC GAAP. The capital adequacy ratios are not part of the Accountants' Report and have not been audited. We publish our financial statements in the PRC in accordance with PRC GAAP.

FINANCIAL IMPACT OF OUR RESTRUCTURING

In 2003, our predecessor, China Construction Bank, initiated a restructuring which has had and is expected to have a significant impact on our results of operations and financial condition, some aspects of which are summarized below.

Our financial statements reflect a large disposal and a large write-off of non-performing loans undertaken as part of our restructuring. With a special approval from the PRC government, as of December 31, 2003, China Construction Bank disposed of non-performing loans with an aggregate principal amount of RMB 128.9 billion on a non-recourse basis at 50% of the principal amount, and recorded a receivable in the amount of RMB 64.5 billion. Cinda settled the receivable in full on June 30, 2004. On the same day, we used RMB 63.4 billion of the proceeds to purchase a bill with a face value of RMB 63.4 billion issued by the PBOC. In addition, with the special approval of the PRC government, China Construction Bank wrote off RMB 56.9 billion in non-performing loans as of December 31, 2003. In the following discussion in this section, we generally refer to the RMB 128.9 billion of non-performing loans disposed of and RMB 56.9 billion of non-performing loans written off as the "amounts for the restructuring-related disposal and write-off."

Our restructuring had a significant impact on our shareholders' equity in 2003. The table below sets forth the changes in our shareholders' equity in 2003 resulting from our restructuring.

	(in millions of RMB or RMB equivalent)
Capital injection by Huijin (or "Huijin equity contribution")	186,230
Equity contribution from the disposal of non-performing loans	35,818
Surplus on valuation	14,160
Replenishment of accumulated losses (or "government receivable")	65,499
Total	301,707

China Construction Bank received a capital injection of US$22.5 billion, equivalent to RMB 186,230 million, as contribution to equity from Huijin on December 30, 2003, which we generally refer to as the "Huijin equity contribution." In addition, as of December 31, 2003, China Construction Bank (i) recognized as an increase in shareholders' equity the amount of RMB 35.8 billion, representing the difference between (x) the disposal proceeds, and (y) the carrying value which represents the principal amount net of the allowance for impairment losses, of the RMB 128.9 billion in non-performing loans disposed of; and (ii) recognized an increase in shareholders' equity reflecting a surplus of RMB 14.2 billion from a restructuring-related revaluation of certain assets as determined by independent valuers. China Construction Bank eliminated its capital and reserves outstanding as of December 31, 2003, including all net profit for 2003, but excluding the Huijin equity contribution, against the accumulated losses as of December 31, 2003. The PRC government also agreed to replenish China Construction Bank's remaining accumulated losses of RMB 65.5 billion, and accordingly, as of December 31, 2003, China Construction Bank recognized a government receivable for the same amount. As of December 31, 2004, RMB 41.7 billion of the government receivable was settled through our profit distribution in 2004. The remaining balance of the government receivable was settled through a distribution of profit attributable to the six months ended June 30, 2005.

GENERAL FACTORS AFFECTING OUR RESULTS OF OPERATIONS

China's Economic Condition

Our results of operations and financial condition are significantly affected by China's economic conditions and the economic measures undertaken by the PRC government. China has experienced rapid economic growth over the past two decades largely as a result of the PRC government's extensive economic reforms, which have focused on transforming China's centrally planned economy to a more market-based economy. China's GDP grew at a compound annual growth rate of 11.2% between 2000 and 2004, according to National Bureau of Statistics of China. In addition, total RMB-denominated loans increased at a compound annual growth rate of 15.6% from 2000 to 2004, according to the PBOC Quarterly Statistical Reports. During the same period, fixed asset investments increased at a compound annual growth rate of 21.0%, according to the National Bureau of Statistics of China. The growth of China's overall economy has led to increased corporate activities. China's economic growth has also led to significant increases in personal wealth, with per capita annual disposable income in urban areas increasing at a compound annual growth rate of 10.7% from 2000 to 2004. Increased levels of personal wealth have led to a rapid growth in our personal banking business, including residential mortgage lending. Beginning in the second half of 2003, the PRC government implemented a series of macroeconomic policies, which included raising the benchmark interest rates, increasing the PBOC statutory deposit reserve ratio applicable to banks and imposing commercial bank lending guidelines that had the effect of restricting loans to certain industries. Certain of these macroeconomic policies affected the growth in our loan portfolio in 2004.

Interest Rate Environment

Historically, interest rates on deposits and loans were set by, and subject to restrictions established by, the PBOC. In recent years, as part of the overall reform of the banking system, the PBOC has implemented a series of initiatives designed to gradually liberalize interest rates and move towards a more market-based interest rate regime. Currently, RMB-denominated loans are subject to minimum rates based on the PBOC benchmark rates, but generally are not subject to maximum rates. RMB-denominated deposits are subject to maximum rates set by the PBOC, but generally are not subject to minimum rates. Adjustments to benchmark rates have significantly affected the average rates of our loans and deposits, which in turn have had an impact on our net interest income. The PBOC adjusted the overall benchmark rates for loans and deposits in February 2002 and October 2004 and benchmark mortgage rates in March 2005. In addition, we expect competition to continue to play an increasingly important role in determining interest rates as the PRC government continues its policy of liberalization of interest rates on loans and deposits.

RESULTS OF OPERATIONS

Our profit before tax increased by 29.4% to RMB 31.7 billion for the six months ended June 30, 2005 compared to RMB 24.5 billion for the six months ended June 30, 2004, primarily due to (i) an increase in interest income; (ii) an increase in non-interest income; and (iii) a decrease in general and administrative expenses; partially offset by (iv) an increase in provisions for impairment losses on loans and advances to customers.

Our profit before tax increased by 35.8% to RMB 51.2 billion in 2004 compared to RMB 37.7 billion in 2003, which increased by 68.3% compared to RMB 22.4 billion in 2002.

Our profit before tax from 2002 through 2004 increased primarily because:

- our net interest income increased at a compound annual growth rate of 13.4% from 2002 to 2004, primarily as a result of an increase in our interest-earning assets;
- our non-interest income increased at a compound annual growth rate of 40.4%, primarily due to (i) an increase in net fee and commission income at a compound annual growth rate of 32.9%; and (ii) net gains from certain non-recurring items in 2004;
- our general and administrative expenses, which increased at a compound annual growth rate of 11.8% from 2002 through 2004, grew at a slower rate than our operating income; and
- our provisions for impairment losses decreased by a compound annual rate of 31.8% from 2002 through 2004.

Net Interest Income

Net interest income historically has been the largest component of our operating income, representing 90.1%, 89.0%, 92.2% and 92.6% of our operating income for the six months ended June 30, 2005 and for the years ended December 31, 2004, 2003 and 2002, respectively.

The following table sets forth, for the periods indicated, our interest income, interest expense and net interest income.

	For the year ended December 31,			For the six months ended June 30,	
	2002	2003	2004	2004	2005
				(unaudited)	
	(in millions of RMB)				
Interest income	116,554	132,471	147,196	71,096	82,655
Interest expense	(37,688)	(41,532)	(45,708)	(21,625)	(25,952)
Net interest income	78,866	90,939	101,488	49,471	56,703

Our net interest income increased by 14.5% to RMB 56.7 billion for the six months ended June 30, 2005 compared to RMB 49.5 billion for the six months ended June 30, 2004. This increase reflects both an increase in interest income, which grew by 16.3% compared to the six months ended June 30, 2004, and an increase in interest expense, which grew by 20.0% compared to the same period.

Our net interest income increased by 11.7% to RMB 101.5 billion in 2004 compared to RMB 90.9 billion in 2003, which increased by 15.2% in 2003 compared to RMB 78.9 billion in 2002. The lower growth rate in 2004 compared with the growth rate in 2003 reflects a lower growth rate in interest income in 2004, while the growth rate in interest expense remained stable at 10.1% from 2003 to 2004 and 10.2% from 2002 to 2003.

The table below sets forth, for the periods indicated, the average balances of our assets and liabilities and the related interest income or expense and average rates. The average balance of interest-earning assets and interest-bearing liabilities is the average of the daily balances. The average balance of non-interest-earning assets, non-interest-bearing liabilities and the allowance for impairment losses are the average of the balance as of January 1 and December 31 for the years ended December 31, 2002, 2003 and 2004, and as of January 1 and June 30 for the six months ended June 30, 2004 and 2005.

	For the year ended December 31,									For the six months ended June 30,					
	2002			2003			2004			2004			2005		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate	Average balance	Interest	Average rate	Average balance	Interest	Average rate(1)	Average balance	Interest	Average rate(1)
										(unaudited)					
	(in millions of RMB, except percentages)														
Assets															
Loans to customers, total	1,625,824	85,767	5.28%	2,017,445(2)	101,555	5.03%	2,137,002	110,603	5.18%	2,125,088	54,313	5.11%	2,311,755	61,104	5.29%
Investments	653,280	21,428	3.28	739,091	22,793	3.08	991,627	28,196	2.84	929,097	12,866	2.77	1,176,728	17,178	2.92
Balances with central banks	343,037	6,542	1.91	289,676	5,409	1.87	339,378	6,119	1.80	318,940	2,815	1.77	383,106	3,221	1.68
Amounts due from banks and other financial institutions	134,709	2,169	1.61	134,738	2,235	1.66	123,361	2,027	1.64	125,176	851	1.36	105,930	1,152	2.18
Others(3)	16,200	648	4.00	15,206	479	3.15	7,958	251	3.15	15,935	251	3.15	—	—	—
Total interest-earning assets	2,773,050	116,554	4.20	3,196,156	132,471	4.14	3,599,326	147,196	4.09	3,514,236	71,096	4.05	3,977,519	82,655	4.16
Total allowance for impairment losses	(209,834)	—	—	(214,782)(4)	—	—	(57,379)	—	—	(58,676)	—	—	(59,023)	—	—
Non-interest-earning assets(5)	173,488	—	—	157,661	—	—	240,745	—	—	250,415	—	—	151,468	—	—
Total assets	2,736,704	116,554	4.26	3,139,035	132,471	4.22	3,782,692	147,196	3.89	3,705,975	71,096	3.84	4,069,964	82,655	4.06
Liabilities															
Deposits from customers	2,637,875	34,511	1.31%	3,062,719	39,103	1.28%	3,332,966	43,051	1.29%	3,240,554	20,547	1.27	3,650,669	23,869	1.31
Amounts due to banks and other financial institutions	148,588	3,002	2.02	115,882	2,045	1.76	110,748	1,805	1.63	113,294	863	1.52	117,175	1,067	1.82
Others(6)	4,080	175	4.29	6,024	384	6.37	14,894	852	5.72	6,174	215	6.96	46,111	1,016	4.41
Total interest-bearing liabilities	2,790,543	37,688	1.35	3,184,625	41,532	1.30	3,458,608	45,708	1.32	3,360,022	21,625	1.29	3,813,955	25,952	1.36
Non-interest-bearing liabilities(7)	58,411	—	—	56,386	—	—	58,698	—	—	58,311	—	—	67,881	—	—
Total liabilities	2,848,954	37,688	1.32	3,241,011	41,532	1.28	3,517,306	45,708	1.30	3,418,333	21,625	1.27	3,881,836	25,952	1.34
Net interest income	—	78,866	—	—	90,939	—	—	101,488	—	—	49,471	—	—	56,703	—
Net interest spread(8)	—	—	2.85%	—	—	2.84%	—	—	2.77%	—	—	2.76%	—	—	2.80%
Net interest margin(9)	—	—	2.84%	—	—	2.85%	—	—	2.82%	—	—	2.82%	—	—	2.85%

(1) The average rates for the six months ended June 30, 2004 and June 30, 2005 are annualized.

(2) The amounts for the restructuring-related disposal and write-off were included in the average balance for the entire period of 2003 for the purpose of calculating the average balance of our loans and advances to customers for 2003. For details on the financial impact of the restructuring-related disposal and write-off, see "— Financial Impact of Our Restructuring."

(3) Represents amounts due from the PBOC for expenses incurred in connection with the liquidation of a trust and investment company. See "Assets and Liabilities — Assets — Investments — Receivables — PBOC bills."

(4) The allowance for impairment losses related to the restructuring-related disposal and the write-off is included in the average balance for the year ended December 31, 2003.

(5) Includes cash, available-for-sale equity investments, property and equipment, deferred tax assets and other assets.

(6) Consists of amounts due to central banks, certificates of deposit and subordinated bonds.

(7) Consists of current and deferred tax liabilities and other liabilities and provisions.

(8) Calculated as the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities.

(9) Calculated by dividing net interest income by the average balance of total interest-earning assets.

The following table sets forth, for the periods indicated, the allocation of changes in our interest income and interest expense due to changes in volume and changes in rate. Changes in volume are measured by changes in the average balances and changes in rate are measured by changes in the average rates. Changes caused by both volume and rate have been allocated to changes in the volume.

	For the year ended December 31,						For the six months ended June 30,		
	2003 vs. 2002			2004 vs. 2003			2005 vs. 2004		
	Increase/ (decrease) due to		Net increase/ (decrease)	Increase/ (decrease) due to		Net increase/ (decrease)	Increase/ (decrease) due to		Net increase/ (decrease)
	Volume	Rate		Volume	Rate		Volume	Rate	
	(in millions of RMB)								
Assets									
Loans to customers	19,853	(4,065)	15,788	6,022	3,026	9,048	4,878	1,913	6,791
Investments	2,672	(1,307)	1,365	7,177	(1,774)	5,403	3,615	697	4,312
Balances with central banks	(996)	(137)	(1,133)	913	(203)	710	550	(144)	406
Amounts due from banks and other financial institutions	(1)	67	66	(181)	(27)	(208)	(212)	513	301
Others	(31)	(138)	(169)	(228)	—	(228)	(251)	—	(251)
Change in interest income	21,497	(5,580)	15,917	13,703	1,022	14,725	8,580	2,979	11,559
Liabilities									
Deposits from customers	5,383	(791)	4,592	3,642	306	3,948	2,674	648	3,322
Amounts due to banks and other financial institutions	(571)	(386)	(957)	(89)	(151)	(240)	34	170	204
Others	200	9	209	472	(4)	468	803	(2)	801
Change in interest expense	5,012	(1,168)	3,844	4,025	151	4,176	3,511	816	4,327
Change in net interest income	16,485	(4,412)	12,073	9,678	871	10,549	5,069	2,163	7,232

Interest Income

Interest income increased by 16.3% to RMB 82.7 billion for the six months ended June 30, 2005 compared to RMB 71.1 billion for the six months ended June 30, 2004, primarily due to an increase in the average balance of interest-earning assets, coupled with an increase in the average yield to 4.16% from 4.05%. Interest income increased by 11.1% to RMB 147.2 billion in 2004, compared to RMB 132.5 billion in 2003, which increased by 13.6% compared to RMB 116.6 billion in 2002, primarily due to an increase in the average balances of interest-earning assets, particularly loans to customers and investments. The average yield on interest-earning assets was 4.09%, 4.14% and 4.20% in 2004, 2003 and 2002, respectively.

Interest Income from Loans and Advances to Customers

Interest income from loans to customers has been the largest component of our interest income, representing 73.9%, 75.1%, 76.7% and 73.6% of our total interest income for the six months ended June 30, 2005, and the years ended December 31, 2004, 2003 and 2002, respectively.

The following table sets forth, for the periods indicated, the average balance, interest income and average yield for each component of our loans to customers.

	For the year ended December 31,									For the six months ended June 30,					
	2002			2003			2004			2004			2005		
	Average balance	Interest income	Average yield	Average balance(1)	Interest income	Average yield	Average balance	Interest income	Average yield	Average balance	Interest income	Average yield(2)	Average balance	Interest income	Average yield(2)
										(unaudited)					
	(in millions of RMB, except percentages)														
Corporate loans	1,351,633	71,857	5.32%	1,573,333	82,294	5.23%	1,578,513	85,669	5.43%	1,599,635	42,284	5.29%	1,697,369	46,483	5.48%
Discounted bills	25,347	839	3.31	91,707	2,624	2.86	132,270	4,839	3.66	115,189	2,124	3.69	162,078	2,662	3.28
Personal loans	229,907	12,532	5.45	324,646	15,854	4.88	394,363	19,222	4.87	379,141	9,482	5.00	419,185	11,380	5.43
Overseas operations	18,937	539	2.85	27,759	783	2.82	31,856	873	2.74	31,123	423	2.72	33,123	579	3.50
Total loans to customers	1,625,824	85,767	5.28%	2,017,445	101,555	5.03%	2,137,002	110,603	5.18%	2,125,088	54,313	5.11%	2,311,755	61,104	5.29%

(1) The amounts for the restructuring-related disposal and the write-off were included in the daily balances for the entire period of 2003 for the purpose of calculating the average balance of our loans to customers for 2003.

(2) The average yields for the six months ended June 30, 2004 and June 30, 2005 are annualized.

Interest income from loans increased by 12.5% to RMB 61.1 billion for the six months ended June 30, 2005 compared to RMB 54.3 billion for the six months ended June 30, 2004, primarily due to an increase in the average balance, coupled with an increase in the average yield to 5.29% from 5.11%. Interest income from loans increased by 8.9% to RMB 110.6 billion in 2004 compared to RMB 101.6 billion in 2003, primarily due to an increase in the average balance, coupled with an increase in the average yield on loans to 5.18% from 5.03%. Interest income from loans increased by 18.4% to RMB 101.6 billion in 2003 from RMB 85.8 billion in 2002 primarily due to an increase in the average balance, which was partially offset by a decrease in the average yield on loans to 5.03% from 5.28%.

The largest component of our interest income from loans has been interest income from corporate loans, representing 76.1%, 77.5%, 81.0% and 83.8% of our total interest income from loans to customers for the six months ended June 30, 2005, and the years ended December 31, 2004, 2003 and 2002, respectively. Interest income from corporate loans, as a percentage of interest income from total loans to customers, decreased from 2002 through the six months ended June 30, 2005, primarily due to a higher growth rate in interest income from discounted bills and personal loans, as we continued to expand our business in these products.

Six Months Ended June 30, 2005 Compared to Six Months Ended June 30, 2004. Interest income from corporate loans increased by 9.9% to RMB 46.5 billion for the six months ended June 30, 2005 compared to RMB 42.3 billion for the six months ended June 30, 2004, primarily due to an increase in the average balance, coupled with an increase in the average yield to 5.48% from 5.29%. The average balance of corporate loans increased by 6.1% for the six months ended June 30, 2005 compared to the six months ended June 30, 2004, primarily due to the continued growth in the overall economy, which in turn positively affected corporate activities. The average yield on corporate loans increased primarily as a result of an increase in the PBOC benchmark rates in October 2004.

Interest income from discounted bills increased by 28.6% to RMB 2.7 billion for the six months ended June 30, 2005 compared to RMB 2.1 billion for the six months ended June 30, 2004, primarily due to an increase of 40.7% in the average balance, which was partially offset by a decrease in the average yield to 3.28% from 3.69%. The average balance increased primarily due to our continued focus on expanding this product. The average yield decreased primarily due to a decline in market rates as a result of increased competition.

Interest income from personal loans increased by 20% to RMB 11.4 billion for the six months ended June 30, 2005 compared to RMB 9.5 billion for the six months ended June 30, 2004, primarily due to an increase in the average balance, coupled with an increase in the average yield to 5.43% from 5.00%. The average yield on personal loans increased primarily due to an increase in the PBOC benchmark rates in October 2004 and, to a lesser extent, an increase in the PBOC benchmark mortgage rates in March 2005. The average balance of personal loans increased primarily due to an increase in the average balance of residential mortgage loans, which grew at a slower rate compared to earlier periods as a result of a combination of the PRC government's macroeconomic measures and increased interest rates.

2004 Compared to 2003. Interest income from corporate loans increased by 4.1% to RMB 85.7 billion in 2004 compared to RMB 82.3 billion in 2003, primarily due to an increase in the average yield on corporate loans to 5.43% from 5.23%. The average balance of corporate loans remained stable as the growth in corporate loans was largely offset by the restructuring-related disposal and write-off. The average yield on corporate loans in 2004 increased primarily due to the positive effect of the restructuring-related disposal and write-off, as the loans underlying such disposal and write-off had lower yields.

Interest income from discounted bills increased by 84.6% to RMB 4.8 billion in 2004 compared to RMB 2.6 billion in 2003, primarily due to an increase in the average balance, coupled with an increase in the average yield to 3.66% from 2.86%. The average balance of discounted bills increased by 44.2% primarily due to our continued focus on expanding the product, particularly bank acceptance bills. The average yield on discounted bills increased primarily due to an increase in the PBOC benchmark rediscount rate in March 2004.

Interest income from personal loans increased by 20.8% to RMB 19.2 billion in 2004 compared to RMB 15.9 billion in 2003, primarily due to an increase in the average balance. The average balance of personal loans increased by 21.5% primarily due to an increase in residential mortgage loans. Residential mortgage loans increased primarily due to increased demand for this product, coupled with our continued marketing efforts, which included focusing our corporate real estate lending efforts on residential property development projects in order to gain better access to home buyers. The average yield on personal loans remained effectively stable in 2004 compared to 2003.

2003 Compared to 2002. Interest income from corporate loans increased by 14.5% to RMB 82.3 billion in 2003 compared to RMB 71.9 billion in 2002, primarily due to an increase in the average balance, which was partially offset by a decrease in the average yield to 5.23% from 5.32%. The average balance of corporate loans increased by 16.4% in 2003 compared to 2002, primarily due to the continued growth in the overall economy, which in turn positively affected corporate activities. The average yield on corporate loans decreased primarily due to the resetting of interest rates on certain loans following the reduction in the PBOC benchmark rates in February 2002.

Interest income from discounted bills increased by 225.0% to RMB 2.6 billion in 2003 compared to RMB 0.8 billion in 2002, primarily due to a significant increase in the average balance, which was partially offset by a decrease in the average yield to 2.86% from 3.31%. The average yield decreased primarily due to a decline in market rates as a result of increasing liquidity in the market.

Interest income from personal loans increased by 27.2% to RMB 15.9 billion in 2003 compared to RMB 12.5 billion in 2002, primarily due to an increase of 41.2% in the average balance, which was partially offset by a decrease in the average yield to 4.88% from 5.45%. The increase in the average balance of personal loans was primarily due to the increase in residential mortgage loans, which increased for the same reason as the increase in 2004 compared to 2003. The average yield on personal loans decreased primarily due to the resetting of interest rates on our residential mortgage loans as a result of the reduction in the PBOC benchmark rates in February 2002.

Interest Income from Investments

Interest income from investments has been the second largest component of our interest income, representing 20.8%, 19.2%, 17.2% and 18.4% of our interest income for the six months ended June 30, 2005, and the years ended December 31, 2004, 2003 and 2002, respectively.

Interest income from investments increased by 33.3% to RMB 17.2 billion for the six months ended June 30, 2005 compared to RMB 12.9 billion for the six months ended June 30, 2004, primarily due to an increase of 26.7% in the average balance, coupled with an increase in the average yield to 2.92% from 2.77%. The average balance of investments increased for the six months ended June 30, 2005 compared to the six months ended June 30, 2004, primarily due to an increase in investments in debt instruments. This increase resulted from a combination of an increase in overall funding from customer deposits and an increased allocation of such funding to investments compared to loans, consistent with the tightening of our credit policies partially in response to the PRC government's macroeconomic measures. The average yield on investments increased primarily due to an increase in the average yield on our U.S. dollar-denominated short-term investment portfolio, as a result of interest rate increases in the United States. This increase was partially offset by a decrease in the average yield on our RMB-denominated investment portfolio, reflecting a combination of (i) a decrease in the yield on RMB-denominated debt securities generally; and (ii) our increased investments in PBOC bills with terms of one year or less, as the PBOC ceased issuing bills with longer terms.

Interest income from investments increased by 23.7% to RMB 28.2 billion in 2004 compared to RMB 22.8 billion in 2003, primarily due to an increase in the average balance of investments, which was partially offset by a decrease in the average yield on investments to 2.84% in 2004 from 3.08% in 2003. The average balance of investments increased by 34.2% in 2004 compared to 2003, primarily because (i) we increased our investment in foreign currency-denominated debt securities consistent with an increase in our foreign currency funding, primarily as a result of the Huijin equity contribution; (ii) we experienced an increase in funding from customer deposits; (iii) we purchased a RMB 63.4 billion PBOC bill with an interest rate of 1.89% in June 2004 with the proceeds from our restructuring-related disposal; and (iv) we received a RMB 21.0 billion PBOC bill with an interest rate of 1.89% in June 2004 as consideration for the settlement of a receivable in connection with the liquidation of a trust and investment company, in which we acted as the receiver. See "— Financial Impact of Our Restructuring," "Assets and Liabilities — Assets — Investments — Debt Instruments" and "Assets and Liabilities — Assets — Investments — Receivables — PBOC Bills." The average yield on investments decreased primarily because (i) we shortened the duration of our investment portfolio in anticipation of an increase in market interest rates; (ii) we increased our investment in lower-yielding foreign sovereign debt instruments and other highly-rated and liquid money market instruments; and (iii) we invested in the RMB 63.4 billion and RMB 21.0 billion PBOC bills described above, which had lower yields than the overall investment portfolio.

Interest income from investments increased by 6.5% to RMB 22.8 billion in 2003 compared to RMB 21.4 billion in 2002, primarily due to an increase in the average balance, which was partially offset by a decrease in the average yield to 3.08% from 3.28%. The average balance increased by 13.1% in 2003 primarily due to a combination of an increase in funding from deposits from customers and the reinvestment of funds from balances with central banks into investments. The average yield on investments decreased primarily because we shortened the duration of our investment portfolio.

Interest Income from Balances with Central Banks

Our interest-earning balances with central banks primarily consist of statutory deposit reserves and surplus deposit reserves. Statutory deposit reserves represent the minimum level of cash deposits, calculated as a percentage of total deposits from customers, that we are required to maintain at the PBOC. Surplus deposit reserves are deposits with the PBOC, in excess of statutory deposit reserves, part of which we maintain for settlement purposes.

Interest income from balances with central banks increased by 14.3% to RMB 3.2 billion for the six months ended June 30, 2005 compared to RMB 2.8 billion for the six months ended June 30, 2004, primarily due to an increase of 20.1% in the average balance, which was partially offset by a decrease in the average yield to 1.68% from 1.77%. The average balance increased for the six months ended June 30, 2005 primarily due to an increase in the amount of statutory deposit reserves, which reflected primarily an increase in deposits from customers. The average yield decreased primarily due to a reduction of the interest rate on surplus deposit reserves from 1.62% to 0.99% in March 2005.

Interest income from balances with central banks increased by 13.0% to RMB 6.1 billion in 2004 compared to RMB 5.4 billion in 2003, primarily due to an increase in the average balance, which was partially offset by a decrease in the average yield to 1.80% from 1.87%. The average balance increased by 17.2% in 2004 primarily due to an increase in the amount of statutory deposit reserves, which reflected primarily an increase in deposits from customers and secondarily an increase in the minimum deposit reserve ratio to 7.5% in April 2004 from 7.0%. The average yield decreased primarily due to a reduction of the interest rates on the surplus deposit reserves by the PBOC in December 2003.

Interest income from balances with central banks decreased by 16.9% to RMB 5.4 billion in 2003 compared to RMB 6.5 billion in 2002, primarily due to a decrease in the average balance. The average balance decreased by 15.6% in 2003 primarily because we reinvested a large portion of our surplus deposit reserves to fund higher-yielding investments and lending activities. The decrease was partially offset by an increase in deposits from customers and an increase in the minimum deposit reserve ratio to 7.0% in September 2003 from 6.0%. The average yield on balances with central banks was 1.87% in 2003 and 1.91% in 2002.

Interest Income from Amounts Due from Banks and Other Financial Institutions

Amounts due from banks and other financial institutions primarily consist of inter-bank placements and balances under resale agreements.

Interest income from amounts due from banks and other financial institutions increased by 33.3% to RMB 1.2 billion for the six months ended June 30, 2005 compared to RMB 0.9 billion for the six months ended June 30, 2004, primarily due to an increase in the average yield to 2.18% from 1.36%, which was partially offset by a decrease in the average balance. The average yield increased primarily due to an increase in the average yield on U.S. dollar-denominated inter-bank deposits as a result of increased interest rates in the United States. The average balance decreased primarily due to a reallocation of a portion of our U.S. dollar-denominated inter-bank deposits into U.S. dollar-denominated investments, especially debt securities. Interest income decreased by 9.1% to RMB 2.0 billion in 2004 compared to RMB 2.2 billion in 2003, primarily due to a decrease in the average balance. The average balance decreased by 8.4% primarily because we reinvested a portion of our funds into higher-yielding investments and lending activities. The average yield was 1.64% in 2004 and 1.66% in 2003. Interest income increased slightly to RMB 2.24 billion in 2003 compared to RMB 2.17 billion in 2002, primarily due to an increase in the average yield to 1.66% from 1.61%, while the average balance remained stable. The decrease in average yield in 2004 compared to 2003 and the increase in average yield in 2003 compared to 2002 were consistent with the overall trend in inter-bank market rates.

Interest Expense

Interest expense increased by 20.0% to RMB 26.0 billion for the six months ended June 30, 2005 compared to RMB 21.6 billion for the six months ended June 30, 2004, primarily due to an increase in the average balance of interest-bearing liabilities, coupled with an increase in the average cost of interest-bearing liabilities to 1.36% from 1.29%. Interest expense increased by 10.1% to RMB 45.7 billion in 2004 compared to RMB 41.5 billion in 2003, which increased by 10.2% from RMB 37.7 billion in 2002. The increase in interest expense from 2002 through 2004 was primarily due to an increase in the average balance of interest-bearing liabilities, particularly deposits from customers. The average cost was 1.32%, 1.30% and 1.35% in 2004, 2003 and 2002, respectively.

Interest Expense on Deposits from Customers

Deposits from customers historically have been our primary source of funding. Interest expense on deposits from customers represented 92.0%, 94.2%, 94.2% and 91.6% of our total interest expense for the six months ended June 30, 2005, and the years ended December 31, 2004, 2003 and 2002, respectively.

Interest expense on deposits from customers increased by 16.6% to RMB 23.9 billion for the six months ended June 30, 2005 compared to RMB 20.5 billion for the six months ended June 30, 2004, primarily due to an increase of 12.7% in the average balance, coupled with an increase in the average cost to 1.31% from 1.27%. Interest expense on deposits from customers increased by 10.2% to RMB 43.1 billion in 2004 compared to RMB 39.1 billion in 2003, primarily due to an increase of 8.8% in the average balance. Interest expense on deposits from customers increased by 13.3% to RMB 39.1 billion in 2003 compared to RMB 34.5 billion in 2002, primarily due to a 16.1% increase in the average balance, which was partially offset by a decrease in the average cost to 1.28% in 2003 compared to 1.31% in 2002.

The following table sets forth, for the periods indicated, the average balance, interest expense and average cost for corporate and personal deposits by product type.

	For the year ended December 31,									For the six months ended June 30,					
	2002			2003			2004			2004			2005		
	Average balance	Interest expense	Average cost	Average balance	Interest expense	Average cost	Average balance	Interest expense	Average cost	Average balance	Interest expense	Average cost[(1)]	Average balance	Interest expense	Average cost[(1)]
											(unaudited)				
	(in millions of RMB, except percentages)														
Corporate deposits															
Demand	1,109,806	10,010	0.90%	1,253,862	11,598	0.92%	1,313,305	12,119	0.92%	1,291,396	5,888	0.91%	1,368,831	5,990	0.88%
Time	308,624	5,975	1.94	367,077	6,833	1.86	408,982	7,573	1.85	377,758	3,460	1.83	505,933	4,682	1.85
Subtotal	1,418,430	15,985	1.13	1,620,939	18,431	1.14	1,722,287	19,692	1.14	1,669,154	9,348	1.12	1,874,764	10,672	1.14
Personal deposits															
Demand	448,727	3,381	0.75	558,056	4,072	0.73	630,855	4,594	0.73	625,253	2,201	0.70	669,168	2,401	0.72
Time	759,240	14,928	1.97	873,339	16,474	1.89	969,178	18,611	1.92	938,476	8,938	1.90	1,092,718	10,633	1.95
Subtotal	1,207,967	18,309	1.52	1,431,395	20,546	1.44	1,600,033	23,205	1.45	1,563,729	11,139	1.42	1,761,886	13,034	1.48
Overseas operations	11,478	217	1.89	10,385	126	1.21	10,646	154	1.45	7,671	60	1.56	14,019	163	2.33
Total deposits from customers	2,637,875	34,511	1.31%	3,062,719	39,103	1.28%	3,332,966	43,051	1.29%	3,240,554	20,547	1.27%	3,650,669	23,869	1.31%

(1) The average costs for the six months ended June 30, 2004 and June 30, 2005 are annualized.

Although the average balance of corporate deposits is generally higher than personal deposits, interest expense on corporate deposits is generally lower than interest expense on personal deposits. The percentage of interest expense from personal deposits has generally been higher than the percentage of interest expense on corporate deposits primarily because a greater proportion of personal deposits consists of time deposits, which generally bear higher interest rates than demand deposits. A greater proportion of our corporate deposits consists of demand deposits primarily because our corporate customers often maintain demand deposit accounts to meet their potential liquidity requirements.

Six Months Ended June 30, 2005 Compared to Six Months Ended June 30, 2004. Interest expense on corporate deposits increased by 15.1% to RMB 10.7 billion for the six months ended June 30, 2005 compared to RMB 9.3 billion for the six months ended June 30, 2004, primarily due to an increase in the interest expense on corporate time deposits. Interest expense on corporate time deposits increased primarily due to an increase in the average balance, coupled with an increase in the average cost to 1.85% from 1.83%. The average cost on corporate time deposits increased primarily as a result of an increase in the PBOC benchmark rates in October 2004. Interest expense on corporate demand deposits increased by only 1.7% primarily because the increase in the average balance was largely offset by a decrease in the average cost to 0.88% from 0.91%. The average cost decreased primarily due to a decrease in the interest rate on demand provident housing fund deposits. The decrease was attributable to a reduction from 1.62% to 0.99% in March 2005 of the interest rate on surplus deposit reserves, which serves as the benchmark interest rate for demand provident housing fund deposits.

Interest expense on personal deposits increased by 17.1% to RMB 13.0 billion for the six months ended June 30, 2005 compared to RMB 11.1 billion for the six months ended June 30, 2004, primarily due to an increase in the interest expense on personal time deposits and secondarily due to an increase in the interest expense on personal demand deposits. Interest expense on personal time deposits increased primarily due to an increase in the average balance. The average balance of personal time deposits increased primarily due to the increase in PBOC benchmark rates in October 2004, which resulted in customers switching from demand deposits to time deposits. The increase in the average cost of personal time deposits was primarily due to the above-mentioned interest rate increase. Interest expense on personal demand deposits increased primarily due to an increase in the average balance, reflecting the increasing levels of disposable income in China. The increase in interest expense on personal demand deposits was also attributable to an increase in the average cost, primarily due to an increase in the PBOC benchmark rates in October 2004.

2004 Compared to 2003. Interest expense on corporate deposits increased by 7.1% to RMB 19.7 billion in 2004 compared to RMB 18.4 billion in 2003, due to an increase in the average balances of both corporate demand and time deposits. The increase in the average balance of our corporate time deposits had the greater impact on our interest expense, as the average cost on corporate time deposits was higher than the average cost on corporate demand deposits. The average cost on corporate deposits remained stable at 1.14% in 2004 and 2003, primarily because the average cost on corporate demand deposits remained stable at 0.92% in both years. The average cost on corporate time deposits decreased slightly to 1.85% from 1.86% primarily because our corporate customers invested in more short-term time deposits, partially offset by the impact of the increase in the PBOC benchmark rates in October 2004 on our six-month and longer time deposit rates. Interest expense on personal deposits increased by 13.2% to RMB 23.2 billion in 2004 compared to RMB 20.5 billion in 2003 primarily due to the continued increase in the average balance of deposits consistent with the increasing levels of disposable income in China. The average cost on personal deposits remained effectively stable.

2003 Compared to 2002. Interest expense on corporate deposits increased by 15.0% to RMB 18.4 billion in 2003 compared to RMB 16.0 billion in 2002, primarily due to an increase in the average balance and, to a lesser extent, a slight increase in the average cost on corporate deposits to 1.14% from 1.13%. The average cost on total corporate deposits increased primarily due to an increase in the average cost on corporate demand deposits to 0.92% from 0.90% due to competitive pressure, which was partially offset by a decrease in the average cost on corporate time deposits to 1.86% from 1.94%. The average cost on corporate time deposits decreased primarily due to the reduction in the PBOC benchmark rates in February 2002. Interest expense on personal deposits increased by 12.0% to RMB 20.5 billion in 2003 compared to RMB 18.3 billion in 2002, primarily due to an increase in the average balance, which was partially offset by a decrease in the average cost to 1.44% from 1.52%. The average cost decreased primarily due to the reduction in the PBOC benchmark rates in February 2002.

Amounts Due to Banks and Other Financial Institutions; Subordinated Bonds

The largest component of amounts due to banks and other financial institutions consists of demand deposits from non-bank financial institutions, such as securities firms.

Interest expense on amounts due to banks and other financial institutions increased by 22.2% to RMB 1.1 billion for the six months ended June 30, 2005 compared to RMB 0.9 billion for the six months ended June 30, 2004, primarily due to an increase in the average cost to 1.82% from 1.52%, coupled with an increase in the average balance. The average cost increased primarily due to (i) an increase in the average cost of our RMB-denominated inter-bank deposits as a result of the deregulation of interest rates payable on such deposits; and (ii) an increase in the average balance of U.S. dollar-denominated repurchase transactions, which generally bore a higher average rate than other forms of short-term inter-bank borrowings, in order to fund our increased U.S. dollar-denominated investments.

Interest expense on amounts due to banks and other financial institutions decreased by 10.0% to RMB 1.8 billion in 2004 compared to RMB 2.0 billion in 2003 primarily due to a decrease in the average balance, coupled with a decrease in the average cost to 1.63% from 1.76%. The average balance decreased by 4.5% to RMB 110.7 billion in 2004 compared to RMB 115.9 billion in 2003 primarily due to a decrease in deposits from securities firms. The average cost on amounts due to banks and other financial institutions decreased primarily due to the reduction of the surplus deposit reserve interest rate by the PBOC in December 2003, which serves as a leading indicator for interest rates for inter-bank deposits.

Interest expense on amounts due to banks and other financial institutions decreased by 33.3% to RMB 2.0 billion in 2003 compared to RMB 3.0 billion in 2002 due to a decrease in the average balance, coupled with a decrease in the average cost to 1.76% from 2.02%. The average balance decreased by 22.0% to RMB 115.9 billion in 2003 from RMB 148.6 billion in 2002 primarily due to a decrease in deposits from securities firms. The average cost on amounts due to banks and other financial institutions decreased primarily due to the reduction of the surplus deposit reserve interest rate by the PBOC in both December 2003 and February 2002.

The increase in interest expense of other interest-bearing liabilities in 2004 compared to 2003 is attributable to our issuance of RMB 40.0 billion in subordinated bonds in five tranches in the second half of 2004.

Net Interest Margin and Net Interest Spread

Net interest margin is the ratio of net interest income to the average balance of interest-earning assets. Our net interest income increased by 14.5% to RMB 56.7 billion for the six months ended June 30, 2005 compared to RMB 49.5 billion for the six months ended June 30, 2004. Our net interest income increased at a higher rate than the average balance of our interest-earning assets. As a result, our net interest margin increased to 2.85% for the six months ended June 30, 2005 from 2.82% for the six months ended June 30,

2004. Our net interest income increased by 11.7% to RMB 101.5 billion in 2004 compared to RMB 90.9 billion in 2003, and increased by 15.2% in 2003 compared to RMB 78.9 billion in 2002. The average balance of our interest-earning assets increased at a higher rate than our net interest income in 2004 compared to 2003 and at an effectively similar rate in 2003 compared to 2002. As a result, our net interest margin decreased to 2.82% in 2004 compared to 2.85% in 2003, which remained effectively stable compared to 2.84% in 2002.

Net interest spread is the difference between the average yield on interest-earning assets and the average cost on interest-bearing liabilities. Our net interest spread increased to 2.80% for the six months ended June 30, 2005 compared to 2.76% for the six months ended June 30, 2004, primarily because the yield on our interest-earning assets increased at a higher rate than the cost on our interest-bearing liabilities. Our net interest spread decreased to 2.77% in 2004 compared to 2.84% in 2003, which had decreased compared to 2.85% in 2002. The decrease in net interest spread in 2004 compared to 2003 was due to the combination of a decrease in the yield on our interest-earning assets and an increase in the cost on our interest-bearing liabilities. The decrease in net interest spread in 2003 compared to 2002 was due to a larger decrease in the yield on our interest-earning assets than in the cost on our interest-bearing liabilities.

Non-interest Income

Non-interest income represented 9.9%, 11.0%, 7.8% and 7.4% of our operating income for the six months ended June 30, 2005, and the years ended December 31, 2004, 2003 and 2002, respectively. The following table sets forth, for the periods indicated, the principal components of our non-interest income.

	For the year ended December 31,			For the six months ended June 30,	
	2002	2003	2004	2004	2005
				(unaudited)	
	(in millions of RMB)				
Net fee and commission income	3,662	4,581	6,471	2,986	3,906
Dividend income	1,049	952	777	160	217
Gains on investments, foreign exchange and securities trading					
Net gain arising from disposal of investment securities	320	479	2,701	222	709
Net gain arising from foreign currency dealings	301	392	509	217	582
Net gain/(loss) arising from dealing securities	71	300	306	(121)	67
Subtotal	692	1,171	3,516	318	1,358
Other income	930	961	1,724	650	738
Total non-interest income	6,333	7,665	12,488	4,114	6,219

Our non-interest income increased by 51.2% to RMB 6.2 billion for the six months ended June 30, 2005 compared to RMB 4.1 billion for the six months ended June 30, 2004, primarily due to an increase in net fee and commission income, as well as increases in all three components of gains on investments, foreign exchange and securities trading. Our non-interest income increased by 62.3% to RMB 12.5 billion in 2004 compared to RMB 7.7 billion in 2003, primarily due to increases in all components of non-interest income except dividend income. Our non-interest income increased by 22.2% to RMB 7.7 billion in 2003 compared to RMB 6.3 billion in 2002, primarily due to an increase in net fee and commission income and net gain arising from dealing securities.

Net Fee and Commission Income

Net fee and commission income is the largest component of our non-interest income. The following table sets forth, for the periods indicated, the principal components of our net fee and commission income.

	For the year ended December 31,			For the six months ended June 30,	
	2002	2003	2004	2004	2005
				(unaudited)	
	(in millions of RMB)				
Fee and commission income					
Bank card fees	665	1,023	2,316	857	1,333
Remittance and settlement fees	1,009	1,204	1,486	705	776
Agency fee for securities, foreign currency dealing and insurance services fees	660	1,003	1,472	593	880
Consultancy and advisory fees	456	548	732	322	528
Commissions on trust business	844	850	702	417	432
Guarantee fees	126	180	233	117	166
Payment and collection services fees	127	161	192	72	100
Others	242	190	219	147	100
Subtotal	4,129	5,159	7,352	3,230	4,315
Fee and commission expenses	(467)	(578)	(881)	(244)	(409)
Net fee and commission income	3,662	4,581	6,471	2,986	3,906

Our net fee and commission income increased by 30.0% to RMB 3.9 billion for the six months ended June 30, 2005 compared to RMB 3.0 billion for the six months ended June 30, 2004. Our net fee and commission income increased by 41.3% to RMB 6.5 billion in 2004 compared to RMB 4.6 billion in 2003, and increased by 24.3% in 2003 compared to RMB 3.7 billion in 2002. These increases reflect the results of our strategy to increase our fee- and commission-based business.

Bank card fee income consists primarily of annual fees, cash advance fees, transaction fees and commissions from merchants. As permitted by a new CBRC regulation, we began charging annual fees on our debit cards at certain branches in 2003 and had extended this practice to most of our branches by the end of 2004. Bank card fee income increased by 44.4% to RMB 1.3 billion for the six months ended June 30, 2005 compared to RMB 0.9 billion for the six months ended June 30, 2004, primarily due to an increase in fees from our debit cards and increased transaction volumes.

Bank card fee income increased to RMB 2.3 billion in 2004 compared to RMB 1.0 billion in 2003 primarily due to (i) the extension of our practice in charging annual fees on debit cards; (ii) increased transaction volumes as a result of our increased marketing efforts; and (iii) the issuance of our dual currency credit cards from August 2003. Bank card fee income increased to RMB 1.0 billion in 2003 compared to RMB 0.7 billion in 2002 primarily due to increased transaction volumes.

Remittance and settlement fee income consists primarily of fees earned on money transfers. Remittance and settlement fees increased by 10.1% to RMB 776 million for the six months ended June 30, 2005 compared to RMB 705 million for the six months ended June 30, 2004. Remittance and settlement fees increased by 25.0% to RMB 1.5 billion in 2004 compared to RMB 1.2 billion in 2003, which increased by 20.0% compared to RMB 1.0 billion in 2002. The increase in remittance and settlement fee income from 2002 to June 30, 2005 was primarily due to an increase in transaction volumes, particularly from retail customers.

Agency fees consist of fees from the distribution of insurance products, securities and currency trading on behalf of customers, derivatives transactions on behalf of customers and fees from the distribution of mutual funds. Agency fees increased by 50.0% to RMB 0.9 billion for the six months ended June 30, 2005 compared to RMB 0.6 billion for the six months ended June 30, 2004. This was primarily due to increased transaction volumes of currency trading on behalf of customers, attributable to the expected appreciation of the Renminbi against the U.S. dollar. The increase in agency fees was also attributable to an increase in fees from the distribution of insurance products. Agency fees increased by 50.0% to RMB 1.5 billion in 2004 compared to RMB 1.0 billion in 2003, which increased by 42.9% compared to RMB 0.7 billion in 2002. The increase in agency fees from 2002 to 2004 was primarily due to an increase in transaction volumes across product types.

Consultancy and advisory fees consist primarily of project cost evaluation services and financial advisory services. We are the only commercial bank in China licensed to provide project cost evaluation services. Consultancy and advisory fees increased by 64.0% for the six months ended June 30, 2005 compared to the six months ended June 30, 2004. Consultancy and advisory fees increased by 33.6% in 2004 compared to 2003, which increased by 20.2% in 2003 compared to 2002. The increase from 2002 through June 30, 2005 was primarily due to the increase in fees from project cost evaluation services.

Of the remaining components of our fee and commission income, the most significant is commissions on our trust business. Commissions on our trust business consist of commissions on our entrusted lending business and fees from custody services. Commissions on our trust business increased by 3.6% to RMB 432 million for the six months ended June 30, 2005 compared to RMB 417 million for the six months ended June 30, 2004. This was primarily due to an increase in fees from our custody services, while commissions on our entrusted lending business remained effectively stable. Commissions on our trust business decreased by 17.4% in 2004 compared to 2003, which increased by 0.7% compared to 2002. The decrease from 2003 to 2004 was primarily due to a decrease in commissions on our entrusted lending business, which was partially offset by an increase in fees from custody services. Commissions on our entrusted lending business decreased because of the transfer to Jianyin of a substantial portion of the entrusted lending business. See "Our Restructuring and Operational Reform — Separation of China Construction Bank."

Our fee and commission expense from 2002 to June 30, 2005 increased primarily due to the increase in transaction fees charged by other banks.

Dividend Income

We earn dividend income from our equity holdings, which consist primarily of equity holdings obtained through debt-to-equity swaps and, to a lesser extent, equity investments in other financial institutions. Our dividend income increased by 35.6% to RMB 217 million for the six months ended June 30, 2005 compared to RMB 160 million for the six months ended June 30, 2004. Our dividend income decreased by 18.4% to RMB 777 million in 2004 compared to RMB 952 million in 2003, which decreased by 4.8% compared to RMB 1.0 billion in 2002. Dividend income decreased from 2002 to 2004 primarily because we disposed of certain of our equity holdings obtained through debt-to-equity swaps.

Net Gains Arising from Disposal of Investment Securities, Foreign Currency Dealings and Dealing Securities

Net gain arising from the disposal of investment securities consists of net realized gains or losses from the disposal of securities not held for trading purposes. Net gain arising from the disposal of investment securities increased to RMB 709 million for the six months ended June 30, 2005 compared to

RMB 222 million for the six months ended June 30, 2004, primarily due to the disposal of U.S. dollar-denominated debt securities following the recent interest rate increases in the United States. This increase was also attributable to a gain of RMB 78 million on our disposal of debt-to-equity swap investments with an aggregate net book value of RMB 1.2 billion. Net gain arising from the disposal of investment securities increased to RMB 2.7 billion in 2004 compared to RMB 479 million in 2003, which increased by 49.7% from RMB 320 million in 2002. The increase in 2004 compared to 2003 was primarily due to (i) a net gain of approximately RMB 1.5 billion on the disposal of one of our equity holdings which we had obtained through a debt-to-equity swap; and (ii) an increased level of disposals of available-for-sale securities as we shortened the duration of our investment portfolio. The increase in 2003 compared to 2002 was primarily due to an increase in revaluation gains realized on the disposal of investment securities.

Net gain arising from foreign currency dealings consists primarily of net realized and unrealized gains or losses on foreign exchange dealing activities. Our foreign currency dealing activities are largely attributable to managing our foreign currency positions resulting from foreign exchange transactions for customers. Net gain arising from foreign currency dealings increased to RMB 582 million for the six months ended June 30, 2005 compared to RMB 217 million for the six months ended June 30, 2004. Net gain arising from foreign currency dealings increased by 29.8% to RMB 509 million in 2004 compared to RMB 392 million in 2003, which increased by 30.2% compared to RMB 301 million in 2002.

Net gain arising from dealing securities primarily represents realized and unrealized gains or losses on our securities held for trading purposes. Net gain arising from dealing securities increased to RMB 67 million for the six months ended June 30, 2005 compared to a net loss of RMB 121 million for the six months ended June 30, 2004, primarily due to gains in RMB-denominated debt securities. Net gain arising from dealing securities increased to RMB 306 million in 2004 compared to RMB 300 million in 2003, which increased from RMB 71 million in 2002. The increase from 2002 through 2004 was primarily due to an increased level of trading activities.

Other Income

Other income increased by 13.5% to RMB 738 million for the six months ended June 30, 2005 compared to RMB 650 million for the six months ended June 30, 2004, primarily due to an increase in various miscellaneous items.

Other income increased by 76.9% to RMB 1.7 billion in 2004 compared to RMB 961 million in 2003 and increased by 3.3% in 2003 compared to RMB 930 million in 2002. The increase in other income in 2004 compared to 2003 was primarily due to (i) net income of RMB 276 million resulting from a gain of RMB 495 million in unfunded supplementary retirement benefit obligations due to changes in actuarial assumptions, net of an interest cost of RMB 219 million relating to such obligations (in the event of net expenses in supplementary retirement benefit obligations, such net expenses are accounted for under staff costs); and (ii) a RMB 199 million increase in the net gain on disposals of certain assets.

General and Administrative Expenses

The following table sets forth, for the periods indicated, the principal components of our general and administrative expenses.

	For the year ended December 31,			For the six months ended June 30,	
	2002	2003	2004	2004	2005
				(unaudited)	
	(in millions of RMB, except percentages)				
Staff costs	17,100	23,205	22,171	11,048	11,098
Property and equipment expense	10,479	10,682	12,094	6,143	4,861
Other general and administrative expenses(1)	9,787	11,337	12,695	5,634	4,953
Business tax and surcharges	5,334	5,516	6,459	3,131	3,581
Total general and administrative expenses	42,700	50,740	53,419	25,956	24,493
Adjusted cost-to-income ratio(2)	49.36%	47.68%	45.59%	47.47%	38.79%

(1) Consists of amortization expense, net loss on disposals of fixed assets and related assets (consisting of property and equipment, land use rights and other assets) and certain other expenses, including communication and traveling expenses, advertising and meeting expenses, professional and legal fees and annual supervision fees.

(2) Calculated by dividing (i) total general and administrative expenses minus staff termination costs, by (ii) operating income.

Our general and administrative expenses decreased by 5.8% to RMB 24.5 billion for the six months ended June 30, 2005 compared to RMB 26.0 billion for the six months ended June 30, 2004, primarily due to decreases in property and equipment expense as well as other general and administrative expenses. Our general and administrative expenses increased by 5.3% to RMB 53.4 billion in 2004 compared to RMB 50.7 billion in 2003. This was primarily due to increases in property and equipment expense, certain other general and administrative expenses, and business tax and surcharges; which were partially offset by a decrease in staff costs. Our general and administrative expenses increased by 18.7% to RMB 50.7 billion in 2003 compared to RMB 42.7 billion in 2002 primarily due to an increase in staff costs. Our general and administrative expenses excluding staff termination costs, as a percentage of our operating income, which we refer to as our adjusted cost-to-income ratio, showed a continued improvement, decreasing to 38.79% for the six months ended June 30, 2005 compared to 47.47% for the six months ended June 30, 2004. Our adjusted cost-to-income ratio decreased to 45.59% in 2004 compared to 47.68% in 2003, which decreased compared to 49.36% in 2002.

Staff Costs

Staff costs are the largest component of our general and administrative expenses, representing 45.3%, 41.5%, 45.7% and 40.0% of our general and administrative expenses for the six months ended June 30, 2005, and the years ended December 31, 2004, 2003 and 2002, respectively.

The following table sets forth, for the periods indicated, the components of our staff costs.

	For the year ended December 31,			For the six months ended June 30,	
	2002	2003	2004	2004	2005
				(unaudited)	
	(in millions of RMB)				
Salaries, bonuses and staff welfare expenses	12,815	14,991	16,091	8,146	8,254
Contributions to defined contribution retirement schemes	1,362	1,792	1,700	959	1,005
Supplementary retirement benefits	227	150	—	15	119
Staff termination costs	649	3,726	1,457	517	87
Housing allowances	445	444	455	207	217
Others[1]	1,602	2,102	2,468	1,204	1,416
Total staff costs	17,100	23,205	22,171	11,048	11,098

(1) Primarily consists of contribution to provident housing fund, unemployment fund, staff education fees, union fees and other staff benefits.

Staff costs increased by 0.9% to RMB 11.1 billion for the six months ended June 30, 2005 compared to RMB 11.0 billion for the six months ended June 30, 2004. Staff costs decreased by 4.3% to RMB 22.2 billion in 2004 compared to RMB 23.2 billion in 2003, which increased by 35.7% in 2003 compared to RMB 17.1 billion in 2002. The changes in staff costs from 2002 through June 30, 2005 were primarily due to staff termination costs. Excluding staff termination costs, staff costs increased by 4.6% for the six months ended June 30, 2005 compared to the six months ended June 30, 2004, by 6.3% in 2004 compared to 2003 and by 18.4% in 2003 compared to 2002.

Staff costs consist primarily of salaries, bonuses and staff welfare expenses, and staff termination costs. Salaries, bonuses and staff welfare expenses increased from 2002 through the six months ended June 30, 2005 primarily because the performance-based portion of our salaries, bonuses and staff welfare expenses increased in line with the improvements in our financial results. We incurred significant staff termination costs in 2004 and 2003 as a result of large-scale employee rationalization efforts in both years. Our staff termination costs decreased in 2004 compared to 2003 primarily due to the decrease in the number of employees terminated and the decrease in termination cost per employee, which is primarily related to seniority and length of service of the employee. The remaining components of staff costs consist primarily of contributions to defined retirement schemes and other employee benefit expenses which increased in line with employee compensation levels and the rate of mandatory contributions.

Property and Equipment Expense

Property and equipment expense decreased by 19.7% to RMB 4.9 billion for the six months ended June 30, 2005 compared to RMB 6.1 billion for the six months ended June 30, 2004. This was primarily due to a decrease in depreciation expense, which resulted from the diminished impact of a surplus from an asset revaluation of our property and equipment in connection with our restructuring. Property and equipment expense increased by 13.1% to RMB 12.1 billion in 2004 compared to RMB 10.7 billion in 2003, which increased by 1.9% compared to RMB 10.5 billion in 2002. The increase in property and equipment expense in 2004 compared to 2003 was primarily due to an increase in depreciation expense, which in turn was attributable to (i) a surplus from an asset revaluation of our property and equipment in connection with our restructuring; and (ii) additional investments in computer equipment. Property and equipment expense in 2003 compared to 2002 remained stable.

Other General and Administrative Expenses

Other general and administrative expenses consist primarily of amortization expense, net loss on disposals of fixed assets and related assets and such other expenses as communication and traveling, advertising and meetings, printing and stationery, professional and legal fees, and annual supervision fees. These other general and administrative expenses decreased by 10.7% to RMB 5.0 billion for the six months ended June 30, 2005 compared to RMB 5.6 billion for the six months ended June 30, 2004, primarily due to a decrease in printing and stationery expenses, advertising and meeting expenses, legal fees, and communication and traveling expenses. These other general and administrative expenses increased by RMB 1.4 billion, or 12.4%, to RMB 12.7 billion in 2004 compared to RMB 11.3 billion in 2003, primarily because we began to pay the CBRC our annual supervision fees, which amounted to RMB 832 million for 2004. The increase in 2004 compared to 2003 was also due to increases in advertising and meeting expenses, professional and consulting fees, and amortization expenses, which were partially offset by decreases in the loss on disposals of fixed assets and related assets, and legal fees. These expenses increased by RMB 1.5 billion, or 15.3% to RMB 11.3 billion in 2003 compared to RMB 9.8 billion in 2002, primarily due to an increase in the loss on disposals of fixed assets and related assets.

Business Tax and Surcharges

Business tax is levied primarily on interest income from loans and advances to customers, and fee and commission income. The business tax rate was 6% in 2002 and was reduced to 5% in 2003 and for subsequent years. In addition, certain surcharges are levied at an aggregate rate ranging from 4% to 10% of the amount of our business tax paid. Business tax and surcharges increased for the six months ended June 30, 2005 compared to the six months ended June 30, 2004 and in 2004 compared to 2003 due to an increase in revenues subject to these taxes. Business tax and surcharges remained relatively stable in 2003 compared to 2002 because the increase in the revenues subject to these taxes was offset by the decrease in the business tax rate in 2003.

Provisions for Impairment Losses

Provisions for impairment losses consist primarily of provisions on loans and other assets. Provisions for impairment losses increased to RMB 6.7 billion for the six months ended June 30, 2005 compared to RMB 3.1 billion for the six months ended June 30, 2004. Provisions for impairment losses decreased by 7.8% to RMB 9.4 billion in 2004 compared to RMB 10.2 billion in 2003, which decreased by 49.3% in 2003 compared to RMB 20.1 billion in 2002.

The following table sets forth, for the periods indicated, the principal components of our provisions for impairment losses.

	For the year ended December 31,			For the six months ended June 30,	
	2002	2003	2004	2004	2005
				(unaudited)	
	(in millions of RMB)				
Loans and advances to customers	19,602	9,662	6,109	1,820	6,064
Available-for-sale securities	74	126	1,876	975	331
Property and equipment	146	86	406	—	177
Others	275	288	967	348	114
Total provisions for impairment losses	20,097	10,162	9,358	3,143	6,686

The largest component of our provisions for impairment losses consists of provisions on loans and advances to customers. Provisions for impairment losses on loans and advances to customers increased to RMB 6.1 billion for the six months ended June 30, 2005 compared to RMB 1.8 billion for the six months ended June 30, 2004. Provisions for impairment losses on loans and advances to customers decreased by 37.1% to RMB 6.1 billion in 2004 compared to RMB 9.7 billion in 2003, which decreased by 50.5% compared to RMB 19.6 billion in 2002. For details on changes in our allowance for loan loss, including provisions for impairment losses, see "Assets and Liabilities — Assets — Asset Quality of Our Loan Portfolio — Allowance for Impairment Losses on Loans and Advances to Customers."

Our provisions for impairment losses on available-for-sale securities are taken primarily on our equity holdings obtained through debt-to-equity swaps, which are not publicly traded. Provisions for impairment losses on available-for-sale securities decreased for the six months ended June 30, 2005 compared to the six months ended June 30, 2004, primarily due to disposals of certain holdings. Provisions for impairment losses on available-for-sale securities increased in 2004 primarily due to the additional provisions for impairment losses we made on certain equity holdings obtained through debt-to-equity swaps to reflect the decrease in the estimated recoverable amounts.

Our provisions for impairment losses on property and equipment primarily reflect provisions on our bank premises. Provisions for impairment losses on property and equipment increased for the six months ended June 30, 2005 compared to the six months ended June 30, 2004. No such provisions were made for the six months ended June 30, 2004 because we had completed a comprehensive revaluation of our property and equipment assets at the end of 2003 as part of our restructuring. The provisions on property and equipment for the six months ended June 30, 2005 and the increase in provisions on property and equipment in 2004 compared to 2003 resulted primarily from the decrease in the estimated recoverable amounts as a result of our decision to close more branch outlets as part of the rationalization of our branch network.

Provisions for impairment losses in the "others" category decreased for the six months ended June 30, 2005 compared to the six months ended June 30, 2004. The increase in provisions for impairment losses in 2004 compared to 2003 in the "others" category was primarily due to an increase of RMB 408 million of provisions related to repossessed assets and RMB 260 million of impairment losses related to certain money market placements to a non-bank financial institution. Provisions for the six months ended June 30, 2005 decreased because no further provisions on the previously mentioned money market placements were made.

Income Tax Expense

Our income tax expense increased to RMB 3.4 billion for the six months ended June 30, 2005 compared to RMB 209 million for the six months ended June 30, 2004. This increase was due primarily to an increase in our profit before tax, which led to a RMB 2.4 billion increase in tax expense at the PRC statutory tax rate, and secondarily to a RMB 831 million decrease in the amount of a tax exemption granted by the PRC government as part of our restructuring. Our non-deductible expenses and our non-taxable income decreased by RMB 1,140 million and RMB 1,099 million, respectively, the net effect of which was a negligible decrease in tax expense of RMB 41 million. Our effective tax rate in the six months ended June 30, 2005 was 10.7%, as we continued to benefit from the above-mentioned tax exemption. Had we not benefited from this tax exemption for the six months ended June 30, 2005, our tax expense would have been RMB 11.2 billion and our effective tax rate would have been 35.4%. Since the tax exemption related to the distributable profits for the settlement of the RMB 65.5 billion government receivable, which was settled in full as of June 30, 2005, this exemption has expired and will not apply to profits earned in future periods.

Our income tax expense decreased by 85.5% to RMB 2.2 billion in 2004 compared to RMB 15.2 billion in 2003, which increased by 36.9% in 2003 compared to RMB 11.1 billion in 2002. Our income tax expense decreased substantially in 2004 compared to 2003 primarily because we benefited from the tax exemption referred to above. As a result of this tax exemption, our income tax expense was RMB 2.2 billion in 2004, representing an effective tax rate of 4.3%. Had we not benefited from this tax exemption in 2004, our tax expense would have been RMB 17.6 billion and our effective tax rate in 2004 would have been 34.4%. Our effective tax rate was 40.3% in 2003 and 49.6% in 2002. The decrease in our effective tax rate in 2003 compared to 2002 was primarily due to the decrease in our provisions for impairment losses, which are not deductible for PRC income tax purposes. The statutory corporate income tax rate applicable to us is 33%.

Net Profit

As a result of all the foregoing factors, our net profit increased by 16.5% to RMB 28.3 billion for the six months ended June 30, 2005 compared to RMB 24.3 billion for the six months ended June 30, 2004, increased to RMB 49.0 billion in 2004 compared to RMB 22.5 billion in 2003, and increased from RMB 11.3 billion in 2002.

SUMMARY SEGMENT OPERATING RESULTS

Historically, we managed our business primarily along geographical lines based on our branch structure. In recent years, we have begun to reorganize our management structure with a view to managing our business primarily through business segments. We intend to complete this reorganization by 2007.

Summary Business Segment Information

Our principal business segments are corporate banking, personal banking and treasury operations. The financial results of our business segments for the six months ended June 30, 2005 and 2004 and for the years ended December 31, 2004, 2003 and 2002 in this subsection are presented as if we had managed our business in such segments throughout these periods. For a description of products and services included in these segments, see "Business — Our Principal Business Activities."

We use an intersegment fund transfer system as a tool to assess the performance of our business segments. These funds are borrowed and lent between our business segments at market rates that are meant to reflect the cost of funds had they been funded through external sources. Intersegment interest expense and interest income recognized through the fund transfer system are eliminated in our consolidated results of operations. However, the intersegment net interest income of each segment accounts for both the interest income generated from funds lent to other segments and the interest expense paid on funds borrowed from other segments.

The following table sets forth, for the period indicated, our operating income for each of our principal business segments.

	For the year ended December 31,						For the six months ended June 30,			
	2002		2003		2004		2004		2005	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
							(unaudited)			
	(in millions of RMB, except percentages)									
Corporate banking	56,998	66.9%	64,793	65.7%	65,412	57.4%	30,361	56.7%	36,638	58.2%
Personal banking(1)	16,106	18.9	20,785	21.1	31,237	27.4	15,382	28.7	15,952	25.4
Treasury operations	12,974	15.2	13,522	13.7	15,147	13.3	7,987	14.9	10,300	16.4
Others and unallocated(2)	(879)	(1.0)	(496)	(0.5)	2,180	1.9	(145)	(0.3)	32	0.0
Total operating income	85,199	100.0%	98,604	100.0%	113,976	100.0%	53,585	100.0%	62,922	100.0%

(1) As shown in Note 34 to the consolidated financial statements included in the Accountants' Report in Appendix I to this prospectus, our personal banking segment generally incurs a net interest expense with respect to external third parties. This is because the personal banking segment's interest expense on personal deposits is generally greater than its interest income from personal loans, which in turn reflects the fact that the average balance of personal deposits is generally several times higher than the average balance of personal loans. See also "Financial Information — Results of Operations — Net Interest Income — Interest Income" and "— Interest Expense."

(2) Includes overseas operations.

Summary Geographical Segment Information

In presenting information on the basis of geographical segments, operating income is allocated based on the location of the branch that generated the revenue. For purposes of presentation, we categorize this information into regions. The following table sets forth, for the periods indicated, the operating income attributable to each of these geographical regions. For a description of our geographical regions, see "Definitions and Conventions."

	For the year ended December 31,						For the six months ended June 30,			
	2002		2003		2004		2004		2005	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
							(unaudited)			
	(in millions of RMB, except percentages)									
Yangtze River Delta	16,268	19.1%	21,119	21.4%	24,582	21.6%	12,036	22.5%	13,905	22.0%
Pearl River Delta	12,280	14.4	14,685	14.9	15,283	13.4	8,209	15.3	8,340	13.3
Bohai Rim	15,177	17.8	18,762	19.0	21,348	18.7	10,676	19.9	11,528	18.3
Central	11,642	13.7	15,612	15.8	16,866	14.8	8,898	16.6	9,853	15.7
Western	13,831	16.2	17,016	17.3	18,289	16.1	9,097	17.0	9,761	15.5
Northeastern	4,702	5.5	6,185	6.3	6,618	5.8	3,309	6.2	3,872	6.2
Head office	10,799	12.7	4,310	4.4	10,024	8.8	915	1.7	5,341	8.5
Overseas operations	500	0.6	915	0.9	966	0.8	445	0.8	322	0.5
Total operating income	85,199	100.0%	98,604	100.0%	113,976	100.0%	53,585	100.0%	62,922	100.0%

LIQUIDITY

We fund our loan and investment portfolios principally through our customer deposits. Although a majority of deposits from customers have been short-term deposits, deposits from customers have been, and we believe will continue to be, a stable source of our funding. Customer deposits with remaining maturities of less than one year represented 92.4%, 92.7%, 92.2% and 93.2% of total deposits from customers for the six months ended June 30, 2005, and the years ended December 31, 2004, 2003 and 2002, respectively. For additional information about our short-term liabilities and sources of funds, see "Assets and Liabilities — Liabilities and Sources of Funds."

We manage liquidity primarily by monitoring the maturities of our assets and liabilities in an effort to ensure that we have sufficient funds to meet obligations as they become due. In addition, we invest in a significant amount of liquid assets such as PBOC bills and PRC government bonds, which give us the flexibility to meet potential liquidity requirements. If further liquidity requirements arise, we have access to the inter-bank money market, where we have historically been a net lender.

The following table sets forth, as of June 30, 2005, the remaining maturities of our assets and liabilities.

	As of June 30, 2005						
	Overdue/ Repayable on demand	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Undated	Total
	(in millions of RMB)						
Assets							
Loans and advances to customers, net	81,157[1]	316,680	809,900	604,642	503,109	—	2,315,488
Investments	—	120,821	146,134	740,185	253,755	14,883	1,275,778
Cash and balances with central banks	134,000	16,290	—	—	—	268,734	419,024
Amounts due from banks and other financial institutions, net	7,046	101,669	3,096	315	—	—	112,126
Other assets[2]	8,142	17,269	6,960	969	—	68,332	101,672
Total assets	230,345	572,729	966,090	1,346,111	756,864	351,949	4,224,088
Liabilities							
Deposits from customers	2,115,636	555,342	824,241	268,168	17,908	—	3,781,295
Amounts due to banks and other financial institutions	96,594	26,799	1,671	—	—	—	125,064
Other liabilities[3]	26,871	19,100	15,734	11,001	44,083	—	116,789
Total liabilities	2,239,101	601,241	841,646	279,169	61,991	—	4,023,148
Liquidity gap	(2,008,756)	(28,512)	124,444	1,066,942	694,873	351,949	200,940
Cumulative liquidity gap	(2,008,756)	(2,037,268)	(1,912,824)	(845,882)	(151,009)	200,940	—

(1) Includes RMB 79.0 billion of net loans on which principal is overdue, but excludes net loans on which interest but not principal is overdue.

(2) Consists of property and equipment and certain other assets.

(3) Consists of amounts due to central banks, subordinated bonds, certificates of deposit, and certain other liabilities.

CAPITAL RESOURCES

Shareholders' Equity

Our total equity increased to RMB 200.9 billion as of June 30, 2005 from RMB 195.6 billion as of December 31, 2004, RMB 187.2 billion as of December 31, 2003 and negative RMB 133.2 billion as of December 31, 2002. The accumulated deficit of RMB 133.2 billion as of December 31, 2002 reflects our accumulated net losses for the period prior to that date as calculated in accordance with IFRS. These net losses were primarily due to impairment losses incurred on loans and advances, investments and other assets. The following table sets forth, for the periods indicated, the components of the changes in our total equity.

	Shareholders' equity	Minority interests	Total equity
		(in millions of RMB)	
As of December 31, 2002	(133,206)	—	(133,206)
Net profit for 2003	22,533	—	22,533
Net change in fair value of available-for-sale investments	(53)	—	(53)
Realized on disposal of available-for-sale investments	(271)	—	(271)
Impact of restructuring	301,707	—	301,707
Acquisition of minority interest	—	37	37
Profit distribution(1)	(3,542)	—	(3,542)
As of December 31, 2003	187,168	37	187,205
Net profit for 2004	49,042	(2)	49,040
Net change in fair value of available-for-sale investments	(642)	—	(642)
Realized on disposal of available-for-sale investments	(178)	—	(178)
Shares issued to promoters	8,000	—	8,000
Profit distribution	(47,874)	—	(47,874)
As of December 31, 2004	195,516	35	195,551
Net profit for the six months ended June 30, 2005	28,351	(2)	28,349
Net change in fair value of available-for-sale investments	621	—	621
Realized on disposal of available-for-sale investments	200	—	200
Profit distribution	(23,781)	—	(23,781)
As of June 30, 2005	200,907	33	200,940

(1) The PRC statutory financial statements prepared in accordance with PRC GAAP for the year ended December 31, 2002 of our predecessor, China Construction Bank, showed that there were no retained earnings as of December 31, 2002. However, these statutory financial statements did not reflect (i) the interest income of RMB 3.5 billion from a RMB 49.2 billion special government bond issued by the MOF in 1998 (see "Assets and Liabilities — Assets — Investments — Receivables — PRC government bonds"); and (ii) a profit distribution in the same amount to the MOF. China Construction Bank was required to settle the interest income from the bond against a profit distribution to the MOF. Both the interest income and the profit distribution are included in our consolidated financial statements prepared in accordance with IFRS for the year ended December 31, 2002, which are included in the Accountants' Report in Appendix I to this prospectus.

Restructuring. The changes in shareholders' equity from December 31, 2002 to December 31, 2003 were primarily attributable to certain transactions related to our restructuring. For a detailed description of our restructuring, see "Our Restructuring and Operational Reform — Our Restructuring" and "— Financial Impact of Our Restructuring."

Shares Issued to Promoters. In September 2004, in conjunction with our incorporation as a joint-stock limited liability company, State Grid, Shanghai Baosteel and Yangtze Power became our promoters by way of capital contributions in an aggregate amount of RMB 8.0 billion. See "Our Restructuring and Operational Reform — Establishment of Our Bank as a Joint-stock Limited Company."

Profit Distribution. We made a profit distribution in the amount of RMB 23.8 billion in respect of the six months ended June 30, 2005 in connection with the settlement of the remaining portion of the government receivable in the original amount of RMB 65.5 billion, which we recognized as part of our restructuring. For a description of the government receivable, see "— Financial Impact of Our Restructuring." We made a profit distribution in the aggregate amount of RMB 47.9 billion in respect of the year ended December 31, 2004. This profit distribution represented all of our distributable net profit under PRC GAAP after the appropriation to statutory surplus reserve and statutory public welfare fund as required by relevant regulations. The profit distribution included (i) a RMB 2.9 billion dividend to our shareholders; (ii) a RMB 3.2 billion distribution used for the settlement of interest on our RMB 49.2 billion special government bond; and (iii) a RMB 41.7 billion distribution in connection with the partial settlement of the above-mentioned government receivable.

Minority Interests. Our minority interests represent the 24.9% interest in the net asset value of our majority-owned subsidiary, Sino-German Bausparkasse Corporation Limited, held by Bausparkasse Schwaebisch Hall.

Capital Adequacy

We are subject to capital adequacy requirements as promulgated by the CBRC, which require commercial banks in China to maintain a minimum core capital adequacy ratio of 4% and a capital adequacy ratio of 8%. In March 2004, the CBRC introduced new guidelines which amended the method by which capital adequacy ratios are calculated. See "Regulation and Supervision — PRC Regulation and Supervision — Regulations Regarding Capital Adequacy." Our core capital, supplementary capital and risk-weighted assets are calculated based on PRC GAAP.

The following table sets forth, as of the dates indicated, certain information relating to our capital adequacy.

	As of December 31, 2004	As of June 30, 2005
	(in millions of RMB, except percentages)	
Core capital:		
Paid up ordinary share capital	194,230	194,230
Reserves	514	3,891
Total core capital	194,744	198,121
Supplementary capital:		
General provisions for doubtful debts	22,256	23,722
Term subordinated bonds(1)	40,000	40,000
Gross value of supplementary capital	62,256	63,722
Eligible value of supplementary capital	62,256	63,722
Total capital base before deductions	257,000	261,843
Deductions:		
Investments in unconsolidated subsidiaries	(1,012)	(1,077)
Total capital base after deductions(2)	255,988	260,766
Risk-weighted assets(3)	2,267,467	2,435,627
Core capital adequacy ratio	8.57%	8.11%
Capital adequacy ratio	11.29%	10.71%

(1) Represents the RMB 40.0 billion of subordinated bonds we issued in the second half of 2004. See "Our Restructuring and Operational Reform — Our Restructuring — Issuance of Subordinated Bonds."

(2) Also referred to in this prospectus as "regulatory capital."

(3) For details on the calculation of risk-weighted assets, see "Regulation and Supervision — PRC Regulation and Supervision — Regulations Regarding Capital Adequacy — Capital Adequacy Guidelines — Risk-weighted Assets."

Our capital adequacy ratio was 6.51% and 6.91% as of December 31, 2003 and 2002, respectively, and our core capital adequacy ratio was 5.88% and 5.78% as of December 31, 2003 and 2002, respectively, as reported to the relevant PRC banking regulatory authority. The ratios as of December 31, 2003 and 2002 are not comparable to those as of December 31, 2004 and subsequent dates because (i) they were based on the financial information of our predecessor, China Construction Bank, which was prepared in accordance with a previous version of PRC GAAP, and (ii) they were calculated in accordance with PBOC guidelines which were replaced by new guidelines issued by the CBRC in March 2004.

Although our capital adequacy ratio as of December 31, 2003 and 2002 was below the minimum requirement of 8%, numerous PRC banks were in similar circumstances and no sanctions were imposed on us for our failure to meet this requirement. As part of a government pilot reform program, under guidelines issued by the CBRC in March 2004, we and the Bank of China were required to meet the minimum capital adequacy ratio requirement of 8% by December 31, 2004. See "Regulation and Supervision — PRC Regulation and Supervision — Operating Requirements — Specific Operating Targets Applicable to Us and the Bank of China." As of June 30, 2005 and December 31, 2004, our capital adequacy ratio was 10.71% and 11.29%, respectively, and thus we were in compliance with that requirement.

OFF-BALANCE SHEET COMMITMENTS

Our off-balance sheet commitments consist primarily of loan commitments, guarantees, letters of credit and acceptances. Loan commitments are our commitments to extend credit. We issue guarantees and letters of credit to guarantee the performance of our customers to third parties. Acceptances comprise undertakings by us to pay bills of exchange issued by our customers. The following table sets forth the contractual amounts of our off-balance sheet commitments as of the dates indicated.

	As of December 31,			As of June 30,
	2002	2003	2004	2005
	(in millions of RMB)			
Loan commitments	159,141	158,426	164,868	168,282
Guarantees and letters of credit	67,039	108,503	136,481	158,265
Acceptances	89,679	127,711	113,073	133,545
Credit card commitments	7,883	15,567	25,044	32,268
Others	1,876	482	771	4,789
Total off-balance sheet commitments	325,618	410,689	440,237	497,149

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table sets forth our known contractual obligations by remaining maturity classified into the categories specified below as of June 30, 2005. This table is based on disclosure requirements applicable to domestic and foreign issuers in the United States and is presented for the convenience of our international investors.

	As of June 30, 2005			
	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
	(in millions of RMB)			
On-balance sheet:				
Subordinated debt obligations	—	—	39,902	39,902
Certificates of deposits issued[1]	1,109	3,119	—	4,228
Off-balance sheet:				
Capital commitments authorized and contracted for	540	—	—	540
Operating lease commitments	938	2,276	874	4,088
Redemption obligations[2]	44,154	60,244	—	104,398
Total	46,741	65,639	40,776	153,156

(1) Represents certificates of deposits issued by our Hong Kong branch.

(2) Represents our obligations to redeem PRC government bonds sold by us as an underwriting agent prior to the maturity date of such bonds. At maturity, we would be entitled to redeem such bonds from the PRC government.

QUANTITATIVE AND QUALITATIVE ANALYSIS OF MARKET RISK

Market risk is the risk of financial loss arising from changes in the value of a financial instrument as a result of changes in interest rates, foreign currency exchange rates, equity prices and commodity prices and other market changes that affect market risk-sensitive instruments.

Interest Rate Risk

The primary source of our interest rate risk arises from mismatches in the maturity or repricing periods of our banking portfolio. Maturity mismatches may cause net interest income to be affected by changes in the prevailing level of interest rates. Currently, we primarily use gap analysis to assess our exposure to interest rate risk. In addition, different pricing bases for different products may also lead to interest rate risk for our assets and liabilities within the same repricing period. We manage our interest rate risk exposure primarily by adjusting the maturity profile of our banking portfolio based on our assessment of potential changes in the interest rate environment.

The following table sets forth, as of June 30, 2005, the results of our gap analysis based on the earlier of (i) the next expected repricing dates and (ii) the final maturity dates for our assets and liabilities.

	As of June 30, 2005						
	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Interest-bearing total	Non-interest bearing/paying	Total
	(in millions of RMB)						
Assets							
Loans and advances to customers, net	575,263[1]	1,698,896	26,388	14,835	2,315,382	106	2,315,488
Investments	265,830	184,165	619,598	191,302	1,260,895	14,883	1,275,778
Cash and balances with central banks	392,904	—	—	—	392,904	26,120	419,024
Amounts due from banks and other financial institutions	108,784	3,188	154	—	112,126	—	112,126
Others[2]	—	—	—	—	—	101,672	101,672
Total assets	1,342,781	1,886,249	646,140	206,137	4,081,307	142,781	4,224,088
Liabilities							
Deposits from customers	2,647,829	825,726	267,895	15,003	3,756,453	24,842	3,781,295
Amounts due to banks and other financial institutions	123,393	1,671	—	—	125,064	—	125,064
Others[3]	9,044	6,948	30,360	—	46,352	70,437	116,789
Total liabilities	2,780,266	834,345	298,255	15,003	3,927,869	95,279	4,023,148
Pricing gap	(1,437,485)	1,051,904	347,885	191,134	153,438	—	N/A
Cumulative pricing gap	(1,437,485)	(385,581)	(37,696)	153,438	153,438	—	N/A
Sensitivity analysis[4]							
100 basis points increase	(14,375)	10,519	3,479	1,911	1,534	—	N/A
100 basis points decrease	14,375	(10,519)	(3,479)	(1,911)	(1,534)	—	N/A

(1) Includes RMB 84.6 billion of overdue net loans. Overdue net loans are net loans on which either principal is overdue, or interest is overdue by more than 90 days, but on which there has been no acceleration of the loan maturity date.

(2) Consists of property and equipment, deferred tax assets and other assets.

(3) Consists of amounts due to central banks, certificates of deposit issued and subordinated bonds issued.

(4) The sensitivity analysis above sets forth, for the repricing period indicated, the impact of changes in interest rates on the net interest income from our total portfolio on an annualized basis. For example, if interest rates increased by 100 basis points, we expect that the net interest income from the portion of our portfolio as of June 30, 2005 that reprices or is due within three months would, if we immediately repriced this portfolio, decrease by RMB 14,375 million. This sensitivity analysis is for risk management purposes and assumes that no other changes were made to the portfolio. Actual changes in net interest income may vary from the model.

Interest rate risk also arises from our investment portfolio. Changes in the prevailing level of interest rates may affect the value of the debt instruments in our investment portfolio. For our trading portfolio, we primarily use stress tests to measure our interest rate exposure. Stress tests are intended to show the hypothetical behavior of our portfolio and the impact on our financial results in the event of extreme market movements. Our stress tests are based on a variety of scenarios that primarily involve the parallel shifting or the flattening or steepening of the yield curve.

Solely with respect to the foreign currency-denominated portion of our trading portfolio, we also use Value-at-Risk, or VaR, analysis. VaR analysis is a statistical technique that produces an estimate of the maximum potential loss in a portfolio over a specified holding period at a specific level of statistical confidence. Our VaR model is based on historical movements in market rates and prices in the last 365 days, a 1-day holding period and a 99% confidence level. VaR models have certain limitations: they are more reliable during normal market conditions, and historical data may fail to predict the future. VaR results cannot, therefore, guarantee that actual risk will follow the statistical estimate.

The following table sets forth, for the six months ended June 30, 2005, the results of our VaR analysis on our foreign currency-denominated trading portfolio.

	For the six months ended June 30, 2005			
	Period end	Average	High	Low
	(in millions of RMB)			
Interest rate risk	194.84	138.49	218.69	106.13
Foreign exchange risk	0.15	0.25	0.29	0.15
Diversification effect	0.19	0.37	0.45	0.33
Total VaR	194.8	138.4	218.5	106.0

Exchange Rate Risk

The primary source of our exchange rate risk arises from currency mismatches in our assets and liabilities. We primarily monitor our net currency positions to assess our exposure to exchange rate risk. We manage our exchange rate risk primarily by seeking to match the assets and liabilities on a currency-by-currency basis.

The following table sets forth, as of June 30, 2005, our assets and liabilities by currency.

	As of June 30, 2005			
	RMB	USD	Others	Total
	(in millions of RMB equivalent)			
Assets				
Loans and advances to customers, net	2,195,991	81,302	38,195	2,315,488
Investments	1,066,491	192,815	16,472	1,275,778
Cash and balance with central banks	412,579	4,338	2,107	419,024
Amounts due from banks and other financial institutions, net	42,063	60,829	9,234	112,126
Others[(1)]	98,318	2,012	1,342	101,672
Total assets	3,815,442	341,296	67,350	4,224,088
Liabilities				
Deposits from customers	3,634,669	111,561	35,065	3,781,295
Amounts due to banks and other financial institutions	95,095	21,188	8,781	125,064
Others[(2)]	107,212	3,166	6,411	116,789
Total liabilities	3,836,976	135,915	50,257	4,023,148
Net position	(21,534)	205,381	17,093	200,940
Off-balance sheet credit commitments	417,344	59,683	20,122	497,149
Notional amount of hedging currency options	186,230	(186,230)	—	—

(1) Consists of property and equipment, deferred tax assets and other assets.

(2) Consists of amounts due to central banks, certificates of deposit issued, subordinated bonds issued, current and deferred tax liabilities, and other liabilities and provisions.

The US$22.5 billion equity contribution we received from Huijin on December 30, 2003 was recognized as an increase in shareholders' equity in the amount of RMB 186,230 million in the form of U.S. dollars. This equity contribution significantly increased our foreign currency assets. As a result, any appreciation of the Renminbi against the U.S. dollar or any other foreign currencies may result in the decrease in the value of our foreign currency-denominated assets. See "Risk Factors — Risks Relating to the PRC — We are subject to PRC government controls on currency conversion and future movements in exchange rates."

To hedge the exchange rate risk relating to such foreign currency assets, we entered into an agreement with Huijin on January 12, 2005, pursuant to which we purchased from Huijin an option to sell to Huijin a maximum of US$22.5 billion in U.S. dollars for Renminbi at a fixed exchange rate of US$1 to RMB 8.2769. This option can be exercised in 2007 in twelve equal monthly installments. We will pay Huijin a total of approximately RMB 5,587 million in twelve equal monthly installments as consideration for this option in 2007. We believe that, through this arrangement, we can substantially reduce our exposure to exchange rate risk arising from the fluctuation of the Renminbi-U.S. dollar exchange rate.

Huijin entered into the above-mentioned option with us pursuant to PRC government policy directly related to Huijin's capital injection in various entities as directed by the PRC government. The option agreement was approved by the PBOC.

The following table sets forth our U.S. dollar-denominated investments by category of issuer as of June 30, 2005.

	As of June 30, 2005	
	Amount	% of total
	(in millions of RMB equivalent)	
Banks and other financial institutions	81,772	42.4%
Public sector entities	53,952	28.0
Governments	29,066	15.1
Overseas operations	21,225	11.0
Policy banks	6,800	3.5
Total	192,815	100.0%

CAPITAL EXPENDITURES

Our capital expenditures from 2002 through June 30, 2005 were primarily made to upgrade front-office equipment and establish or improve our information systems. For the six months ended June 30, 2005, our capital expenditures totaled RMB 1.3 billion, a decrease of 45.8% compared to RMB 2.4 billion for the six months ended June 30, 2004. Our capital expenditures decreased by 12.3% to RMB 6.4 billion in 2004 compared to RMB 7.3 billion in 2003, which increased by 12.3% compared to RMB 6.5 billion in 2002. The level of capital expenditures in 2003 was higher than that in 2002 and 2004 as a result of the implementation of the Data Consolidation Center (DCC) project. As of June 30, 2005, we had authorized capital commitments of RMB 2.1 billion, of which RMB 540 million were contracted for, and RMB 1.6 billion were not contracted for. However, we have no commitments to make the balance of the authorized commitments not contracted for and the foregoing amounts and purposes may change depending on business conditions.

CRITICAL ACCOUNTING POLICIES

We have identified certain accounting policies that are significant to the preparation of our financial statements. These significant accounting policies, which are important for the understanding of our financial condition and results of operations, are set forth in detail in Section V of the Accountants' Report in Appendix I to this prospectus. These accounting policies usually involve subjective assumptions and estimates, and complex judgements relating to accounting items such as asset values and impairment losses. In each case, the determination of these items requires management judgment based on information and financial data that may change in future periods. We set out below the accounting policies used in the preparation of our financial statements that we believe involve the most significant estimates and judgments.

Allowance for Impairment Losses on Loans and Advances

PRC GAAP requires financial institutions in China to make appropriate loan loss provisions based on their own risk assessment of the borrowers and the expected recovery on loans. Although this accounting principle for assessing impairment losses on loans and advances is similar to that under IFRS, IFRS has set out detailed application guidelines for assessing impairment losses, whereas PRC GAAP does not provide explicit guidance on estimation methodology.

In 2003, we began to assess our loans for impairment, determine a level of allowance for impairment losses, and recognize any related provisions made in a period, using the concept of impairment under IAS 39. For purposes of the consolidated financial statements included in the Accountants' Report in Appendix I to this prospectus, the allowance for impairment losses and provisions for impairment losses are presented as if we had assessed our loans for impairment under IAS 39 on a consistent basis for all the periods presented.

Our loans and advances are reported on the balance sheet net of the allowance for impairment losses.

Loans and advances are assessed at each balance sheet date to determine whether there is any objective evidence that impairment of a loan or portfolio of loans has occurred. A loan or portfolio of loans is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that event (or events) has an impact on the estimated future cash flows of the loan or portfolio of loans that can be reliably estimated.

Losses expected as a result of future events, no matter how likely, are not recognized because the necessary loss event has not yet occurred.

We use two methods of assessing impairment losses: on an individual basis and on a collective basis.

Individually Assessed Loans

Loans and advances that are considered individually significant are assessed individually for impairment. All of our corporate loans are considered to be individually significant.

If there is objective evidence that an impairment loss on a loan or advance has been incurred on an individual basis, 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 asset's original effective interest rate. Under our five-category loan classification system, individually impaired loans are classified as doubtful or loss. The carrying amount of the asset is reduced through the use of the allowance for impairment losses. The amount of the impairment loss is recognized in the consolidated income statement.

Loans and advances which are assessed individually for impairment are assessed in light of objective evidence of loss events, such as:

- significant financial difficulties for the borrower;
- a breach of contract by the borrower, such as a default or delinquency in making principal or interest payments;
- a concession to the borrower by us that we would not consider making other than for economic or legal reasons relating to the borrower's financial difficulties; or
- the likelihood that the borrower will enter into bankruptcy proceedings or other forms of financial reorganization.

It may not be possible to identify a single, discrete event that caused the impairment, but it may be possible to identify impairment through the combined effect of several events.

Cash flows relating to short-term loans are not discounted if the effect of discounting is immaterial.

The calculation of the present value of the estimated future cash flows of a collateralized loan reflects the cash flows that may result from foreclosure less the costs of obtaining and selling the collateral, whether or not foreclosure is probable.

Collectively Assessed Loans

Loans and advances that are assessed for impairment losses on a collective basis include the following:

- homogeneous groups of loans that are considered individually insignificant, including all of our personal loans; and
- all loans that are individually significant and which therefore have been individually assessed, but for which no impairment can be identified individually, either due to the absence of any loss events or due to an inability to measure reliably the impact of potential loss events on future cash flows (see "— Individually Assessed Loans" above). These include all of our corporate loans that are classified as normal, special mention or substandard under our five-category loan classification system.

For the purpose of collective assessment, assets are grouped on the basis of historical loss experience for similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms.

Objective evidence of impairment losses on a collective basis consists of observable data indicating a measurable decrease in the estimated future cash flows from a group of loans since the initial recognition of those loans, including:

- adverse changes in the payment status of borrowers in the group of loans; and
- national or local economic conditions that correlate with defaults on assets in the group of loans.

Homogeneous Groups of Loans Not Considered Individually Significant

For homogeneous groups of loans that are not considered individually significant, we adopt a flow rate methodology to assess impairment losses on a collective basis. This methodology utilizes a statistical analysis of historical trends of probability of default and amount of consequential loss, as well as an evaluation of current economic conditions that may have a consequential impact on inherent losses in the portfolio.

Individually Assessed Loans with No Objective Evidence of Impairment

Where loans are individually significant and therefore have been individually assessed but for which no impairment can be identified individually, either due to the absence of any loss events or due to an inability to measure reliably the impact of potential loss events on future cash flows, these loans are grouped together in portfolios of similar credit risk characteristics for the purpose of assessing a collective impairment loss. This loss covers those loans that were impaired at the balance sheet date but which will not be individually identified as impaired until some time in the future. The collective impairment loss is assessed after taking into account:

- historical loss experience in portfolios of similar risk characteristics;
- the emergence period between a loss occurring and that loss being identified; and
- the current economic and credit environments and whether in management's experience these indicate that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

The emergence period between a loss occurring and its identification is determined by management based on the historical experience of the market in which we operate.

Impairment losses recognized on a collective basis represent an interim step pending the identification of impairment losses on individual assets (which are subject to individual assessment) in the pool of financial assets that are collectively assessed for impairment.

As soon as information is available that specifically identifies objective evidence of impairment on individual assets in a pool, those assets are removed from the pool of financial assets. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment for impairment.

Valuation of Investments

We classify investments on our balance sheet into (i) receivables, (ii) held-to-maturity assets, (iii) available-for-sale assets and (iv) assets at fair value through profit or loss.

- Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market, other than those that we intend to sell immediately or in the near term, and those that are designated as available for sale upon initial recognition.
- Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that we have the positive intent and ability to hold to maturity.
- Available-for-sale assets are non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, receivables or held-to-maturity assets.
- Assets at fair value through profit or loss are financial assets held principally for short-term profit-taking purposes or financial assets that are designated by us upon recognition as at fair value through profit or loss.

At initial recognition, all investments are measured at fair value plus, in the case of an asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include observable market data.

Subsequent to initial recognition, investments are measured at fair value, without any deduction for transaction costs that may occur on sale or other disposal except for receivables and held-to-maturity assets, which are measured at amortized cost using the effective interest rate method.

Gains or losses from changes in the fair value of the assets at fair value through profit or loss are included in the income statement as they arise. Gains or losses arising from a change in the fair value of available-for-sale assets are recognized directly in equity, except for impairment losses and foreign exchange gains and losses, until the asset is derecognized, at which time the cumulative gains or losses previously recognized in equity will be recognized in the income statement. For investments carried at amortized cost, a gain or loss is recognized in the income statement when the investment is derecognized or impaired, and through the amortization process.

The fair value of investments is based on their quoted market price at the valuation date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the investments is estimated using pricing models or discounted cash flow techniques.

When discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the valuation date for an instrument with similar terms and conditions. When pricing models are used, inputs are based on observable market data.

Derivatives

Derivatives include foreign exchange contracts, currency and interest rate swaps, and options. At initial recognition, they are stated in the balance sheet at fair value at the inception date and subsequently re-measured at fair value at the valuation date. Fair values are based on quoted market prices, discounted cash flow models and pricing models as appropriate. Fair value of a derivative is included in "Other assets" when it is positive, or "Other liabilities and provisions" when it is negative. Changes in the fair value of derivatives are included in net gain arising from dealing securities.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their risks and economic characteristics are not closely related to those of the host contract and the host contract is not carried at fair value.

We hold derivatives primarily as a result of our being an intermediary for customers who purchase derivative instruments from us to manage their risks. We also use derivatives (principally interest rate swaps) in the management of our own asset and liability portfolios and structural positions. We do not have significant proprietary positions. However, no derivatives held by us, except for the option purchased from Huijin as described in "Financial Information — Quantitative and Qualitative Disclosure of Market Risk — Exchange Rate Risk," qualify for hedge accounting under IFRS. This option is qualified as a fair value hedge against a separately managed fund of US$22.5 billion arising from the capital injection from Huijin in 2003. This option, as is the case for other derivatives, is stated at fair value, with fair value changes recognized in the consolidated income statement. The changes in the fair value of the assets in the above-mentioned fund (i.e., the hedged item) which are attributable to the risks hedged with the option are reflected as adjustments to the carrying value of those assets. The adjustment is recognized in the consolidated income statement to offset the effect of the gain or loss on the option.

Valuation of Property and Equipment

We record property and equipment at cost, or deemed cost, less accumulated depreciation and allowance for impairment losses.

As required by the relevant PRC rules and regulations with respect to our restructuring, we engaged independent professional valuers registered in the PRC to conduct a valuation of each asset class of property and equipment as of December 31, 2003 on a depreciated replacement cost basis or fair market valuation, as appropriate. This valuation is considered as a one-time, non-recurring revaluation upon the restructuring, and the amount is considered as the deemed cost of property and equipment as of December 31, 2003. The surplus on the valuation was credited to equity as of December 31, 2003.

RECENT ACCOUNTING PRONOUNCEMENTS

In preparing our consolidated financial statements, we have adopted all IFRS in issue which are relevant to us for the six months ended June 30, 2005 and the years ended December 31, 2002, 2003 and 2004, except for IFRS 7 Financial Instruments: Disclosures, or IFRS 7, which was issued in August 2005 and is effective for the period beginning January 1, 2007. IFRS 7 requires more detailed qualitative and quantitative disclosures, primarily on fair value information and risk management. We have assessed the impact of IFRS 7 and concluded that IFRS 7 would only affect the level of detail in the disclosure of our financial information, but would not have any financial impact or result in a change in our accounting policies.

INDEBTEDNESS

As of September 30, 2005, we had the following indebtedness:

(a) RMB 40.0 billion of subordinated bonds, which will become due between August 2014 and December 2014;

(b) borrowings from central banks, deposits and money market takings from customers and other banks, balances under repurchase agreements, and certificates of deposits that arose from the normal course of our banking business carried out by us; and

(c) direct credit substitutes, transaction-related contingencies, trade-related contingencies and other commitments that arose from the normal course of banking business carried out by us.

Except as otherwise disclosed in this prospectus, we did not have, as of September 30, 2005, any outstanding mortgages, charges, debentures or other loan capital (issued or agreed to be issued), bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase and finance lease commitments or any guarantees or other material contingent liabilities.

RULES 13.11 TO 13.19 OF THE HONG KONG LISTING RULES

We confirm that we are not aware of any circumstances which will trigger disclosure requirements under Rule 13.11 to Rule 13.19 of the Hong Kong Listing Rules.

PROFIT FORECAST FOR THE YEAR ENDING DECEMBER 31, 2005[1]

Forecast consolidated net profit attributable to shareholders[2]	not less than RMB 42 billion
Forecast earnings per share	
(a) pro forma fully diluted[3]	RMB 0.19 (HK$0.18)
(b) weighted average[4]	RMB 0.21 (HK$0.20)

(1) All statistics in this table are based on the assumption that the over-allotment option is not exercised.

(2) The forecast consolidated net profit attributable to shareholders for the year ending December 31, 2005 is extracted from the section headed "Financial Information — Profit Forecast for the Year Ending December 31, 2005." The bases and assumptions on which the profit forecast has been prepared are set out in Appendix IV to this prospectus.

(3) The calculation of the forecast earnings per share on a pro forma fully diluted basis is based on the forecast consolidated net profit attributable to our shareholders for the year ending December 31, 2005 assuming that we had been listed since January 1, 2005 and a total of 220,716,194,000 shares were issued and outstanding during the entire year. This calculation assumes that the 26,485,944,000 H shares to be issued pursuant to the Global Offering were issued on January 1, 2005 (assuming the over-allotment option is not exercised). The forecast consolidated net profit attributable to shareholders for the year ending December 31, 2005 is based on the audited consolidated financial statements for the six months ended June 30, 2005 and a forecast of the consolidated results for the six months ending December 31, 2005.

(4) The calculation of the forecast earnings per share on a weighted average basis is based on the forecast consolidated net profit attributable to our shareholders for the year ending December 31, 2005 and a weighted average number of 199,019,489,189 shares (assuming due completion of the Global Offering) in issue during the year. This calculation assumes that the over-allotment option is not exercised and the 26,485,944,000 H shares to be issued pursuant to the Global Offering were issued on October 27, 2005.

DIVIDEND POLICY

Our board of directors decides whether to pay any dividend and in what amount based on our results of operations, cash flow, financial condition, capital adequacy ratios, future prospects, statutory and regulatory restrictions on the payment of dividends by us and other factors that our board of directors deems relevant. Under the PRC Company Law and our articles of association, all of our shareholders have equal rights to dividends and distributions. We will pay dividends out of our net profit only after we have made good our accumulated losses, if any, and have made the following appropriations:

- appropriations to the statutory surplus reserve equivalent to 10% of our net profit available for appropriation, as determined under PRC GAAP; no further appropriations to the statutory surplus reserve are required once this reserve reaches an amount equal to 50% of our registered capital;
- appropriations to the statutory public welfare fund equivalent to between 5% and 10% of our net profit available for appropriation, as determined under PRC GAAP; and
- appropriations to a discretionary surplus reserve as approved by the shareholders in an annual general meeting.

In addition, according to recent MOF regulations, in principle, we are required to maintain a general reserve not less than 1% of our assets on which we bear risk prior to making a profit distribution. This general reserve will constitute part of our reserves. Financial institutions that did not meet this general reserve requirement as of July 1, 2005 are required to take necessary steps to meet this requirement in approximately three years, but not later than five years, from July 1, 2005. See Section VI(c) of the consolidated financial statements included in the Accountants' Report in Appendix I to this prospectus.

Under PRC law, dividends may be paid only out of distributable profits. Distributable profits means our net profit as determined under PRC GAAP or IFRS, whichever is lower, less any accumulated losses and appropriations to the statutory surplus reserve, statutory public welfare fund and general reserve which we are required to make. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years. However, ordinarily we will not pay any dividends in a year in which we do not have any distributable profits in respect of that year. The payment of any dividend by us must also be approved at a general meeting of shareholders. Holders of our H shares will be entitled to receive dividends in proportion to their shareholdings.

The CBRC has the discretionary authority to prohibit any bank that has a capital adequacy ratio below 8% or a core capital adequacy ratio below 4%, or has violated certain other PRC banking regulations, from paying dividends and other forms of distributions. See "Regulation and Supervision — PRC Regulation and Supervision — Regulations Regarding Capital Adequacy — CBRC Supervision of Capital Adequacy" and "— Principal Regulators — The CBRC." As of June 30, 2005, we had a capital adequacy ratio of 10.71% and a core capital adequacy ratio of 8.11%.

At an extraordinary general meeting of shareholders on August 27, 2005, our board of directors recommended, and our shareholders approved, the following profit appropriations and dividend declarations:

- in respect of the six months ended June 30, 2005, the declaration of a cash dividend to our promoters in an aggregate amount equal to 35% of RMB 480 million, representing our retained profit as of June 30, 2005 under PRC GAAP, and an appropriation to the general reserve in an amount equal to the remaining 65% of RMB 480 million;
- in respect of the period beginning on July 1, 2005 and ending on the date immediately preceding the Global Offering, the declaration of a cash dividend, or the special dividend, to holders of our shares as of the date immediately preceding the Global Offering (consisting of our promoters, Bank of America and AFH) in an aggregate amount of RMB 3.1 billion, or approximately RMB 0.016 per share. On the basis that our forecast net profit attributable to shareholders (before appropriations to the statutory surplus reserve, statutory public welfare fund and general reserve) for the year ending December 31, 2005 is not less than RMB 42 billion and the amount of the special dividend is RMB 3.1 billion, we believe that there will be sufficient distributable profits (as defined under PRC law and described above) in respect of the period beginning on July 1, 2005 and ending on the date immediately preceding the Global Offering available for distribution of the special dividend; and
- in respect of the period beginning on the date of completion of the Global Offering and ending on December 31, 2005, the declaration of a cash dividend to holders of our shares as of the relevant record date in an aggregate amount equal to 35% of our net profit as determined under PRC GAAP or IFRS, whichever is lower, for the period beginning on July 1, 2005 and ending on December 31, 2005, less the amount of the special dividend.

For a description of dividend apportionment arrangements Huijin has entered into with Bank of America and AFH, see "Our Strategic Investors — Our Strategic Relationship with Bank of America — Other Arrangements — Apportionment of Dividends" and "— Our Strategic Relationship with Temasek — Apportionment of Dividends."

In respect of each of the years ending December 31, 2006 and 2007, our board currently contemplates a dividend distribution in an amount between 35% and 45% of our net profit for the relevant year.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following statement of our unaudited pro forma adjusted consolidated net tangible assets is prepared based on our audited consolidated net tangible assets as of June 30, 2005, as shown in the Accountants' Report, the text of which is set forth in Appendix I to this prospectus, adjusted as described below.

The statement of unaudited pro forma adjusted consolidated net tangible assets has been prepared to show the effect on our audited consolidated net tangible assets as of June 30, 2005 as if our distribution of dividend RMB 168 million to our shareholders in respect of the net profit for the six months ended June 30, 2005 on the date immediately preceding the date of the Global Offering and as if the Global Offering had occurred on June 30, 2005.

The statement of our unaudited pro forma adjusted consolidated net tangible assets has been prepared for illustrative purposes only and, as a result, may not be an accurate reflection of our financial position.

	Audited consolidated net tangible assets as of June 30, 2005	Dividend declared(1)	Estimated net proceeds from the Global Offering(2)	Unaudited pro forma adjusted consolidated net tangible assets(3)	Unaudited pro forma adjusted consolidated net tangible asset value per share(4)	
		(in millions of RMB)			(RMB)	(HKD)
Based on the offer price of HK$1.90 per Offer Share	200,040	(168)	50,817	250,689	1.14	1.09
Based on the offer price of HK$2.40 per Offer Share	200,040	(168)	64,293	264,165	1.20	1.15

(1) On August 27, 2005, a dividend of RMB168 million for the six months ended June 30, 2005 was declared to be paid to the shareholders as of June 30, 2005.

(2) The estimated net proceeds from the Global Offering are based on the offer price of HK$1.90, or RMB 1.98, per share to HK$2.40, or RMB 2.50, per share, after deduction of the underwriting fees and other related expenses payable by us and takes no account of any shares which may be issued upon the exercise of the over-allotment option.

(3) The unaudited pro forma adjusted net tangible assets do not take into account the effect of the net profit for the period from and including July 1, 2005 to the date immediately preceding the date of the Global Offering and the distribution of the special dividend described in "— Dividend Policy."

(4) The unaudited pro forma adjusted consolidated net tangible asset value per share is arrived at after the adjustments referred to in notes 1 and 2 above and on the basis that 220,716,194,000 H shares are issued and outstanding and that the over-allotment option is not exercised. If the over-allotment option is exercised, the unaudited pro forma adjusted consolidated net tangible asset value per share will increase.

(5) Details of the valuation of our properties as of August 31, 2005 are set forth in Appendix V to this prospectus. The unaudited net book value of properties as of August 31, 2005 was not substantially different from the valuation of our properties as included in Appendix V to this prospectus.

(6) The translation of Renminbi into Hong Kong dollars has been made at the rate of RMB 1.0412 to HK$1.00, the exchange rate set by the PBOC prevailing on September 1, 2005. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi, or vice versa, at that rate, or at any other rate or at all.

NO MATERIAL ADVERSE CHANGE

Our directors confirm that, other than as disclosed in this prospectus, there has been no material adverse change in our financial or trading position since June 30, 2005.