



Add: No.22 Jianguomennei Street,
Dongcheng District, Beijing, P.R.China
Tel: (8601) - 85238000
Fax: (8601) - 85239000
Http: www.hxb.com.cn

地址：中国北京市东城区建国门内大街22号
电话：(8601) - 85238000
传真：(8601) - 85239000
网址：www.hxb.com.cn

2005 ANNUAL REPORT

HUA XIA BANK CO., Limited.

IMPORTANT NOTICE

The Board of Directors of Hua Xia Bank Co., Ltd. (the Company hereinafter), Board of Supervisors, directors, supervisors, and senior managements guarantee that the information presented in this report is free from any false record, misreading statement or material omission, and accepts, individually and collectively, liability for its truthfulness, accuracy and completeness.

On February 15 2006 the 10th meeting of the 4th Board of Directors of the Company examined and approved the "2005 Annual Report" and its related abstract. 16 directors presented in the meeting except Mr. Zhao Jian, a director, who authorized Mr. Geng Liuqi, a director, to vote on his behalf. Eight supervisors of the Company presented in the meeting. No director, supervisor, or senior management refuses to guarantee or dissents to the truthfulness, accuracy and completeness of this report.

The annual financial statements of the Company for 2005 were audited by Beijing Jing Du Certified Public Accountants Co., Ltd. and Ernst and Young, respectively in accordance with PRC Generally Accepted Accounting Principles (GAAP) and International Accounting Standards (IAS), and have obtained standard auditor's report without any reserved opinions.

The Chairman of the Board, Mr. Liu Haiyan, the President, Mr. Wu Jian, the Financial Controller, Ms. Liu Xifeng and the Head of the Treasury and Finance Department Mr. Han Yunfu and Mr. Sun Liguoguo guarantee the truthfulness and completeness of the financial statements in the annual report.



Chairman: Mr. Liu Haiyan

President: Mr. Wu Jian



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CHAPTER I BRIEF INTRODUCTION TO THE COMPANY

- I. **Registered Company Name in Chinese: 华夏银行股份有限公司**
(Abbreviation: Hua Xia Bank, hereinafter referred as "the Company")
Registered Company Name in English: Hua Xia Bank Co., Limited
- II. **Legal Representative: Mr. Liu Haiyan**
- III. **Corporate Secretary: Mr. Zhao Junxue (alias: Zhao Jingxue)**
Representative of Securities Affair: Mr. Zhang Taiqi
Address: Hua Xia Bank Mansion, 22 Jianguomen Nei Avenue, Dongcheng District, Beijing
P.C.: 100005
Tel: 010-85239938, 85238570
Fax: 010-85239605
E-mail: zhdb@hxb.com.cn
- IV. **Registered Address: 22 Jianguomen Nei Avenue, Dongcheng District, Beijing**
Business Address: Hua Xia Bank Mansion, 22 Jianguomen Nei Avenue, Dongcheng District, Beijing
P.C.: 100005
Internet website: <http://www.hxb.com.cn>, <http://www.95577.com.cn>
E-mail: zhdb@hxb.com.cn
- V. **Designated newspaper for information disclosure: "China Securities Daily", "Shanghai Securities News", and "Securities Times"**
Internet website designated by China Securities Regulatory Commission for the publication of the Company's annual report: <http://www.sse.com.cn>
Copies of the Annual Report are available at: General Office to the Board, Hua Xia Bank
- VI. **Venue of shares listed: Shanghai Stock Exchange**
Ticker: Hua Xia Bank
SSE Code: 600015
- VII. **Other Relevant Information**
Date of Initial Registration: March 18, 1998
Place of Initial Registration: State Administration for Industry and Commerce
Date of Registration Modification: April 20, 2005
Place of registration Modification: State Administration for Industry and Commerce
Registered Number of Business License of the Corporate Legal Entity: 000001002967
Registered Number for Taxation: JGSXZ No. 11010210112001X, DSJZ No. 11010410112001X000
Name of the Trustee for the non-free-floating shares: China Securities Depository and Clearing Co., Ltd. Shanghai Branch
Name of the domestic auditor appointed: Beijing Jing Du Public Certified Accountants Co., Ltd.
Office Address: 5/F, Scitech Plaza, 22 Jianguomen Nei Avenue, Chaoyang District, Beijing
Name of the international auditor appointed: Ernst & Young
Office Address: Hutchison House, 10 Harcourt Road, Central, Hong Kong
- VIII. **The report is prepared in both Chinese and English. Should there exist any inconsistency between the two versions, the Chinese version shall prevail.**

CHAPTER II SUMMARY OF KEY FINANCIAL AND PERFORMANCE INDICATORS

I. Key Profitability Indicators for the Year

(Unit: ' 000 RMB)

Items	PRC GAAP	IAS
Total profit	2,002,729	2,177,611
Net profit	1,288,675	1,401,079
Net profit excl. extraordinary items	1,446,474	1,401,079
Profit from core business	2,184,273	2,177,611
Profit from other business	0	0
Operating profit	2,184,273	2,177,611
Investment income	1,692,650	1,692,650
Allowance income	0	0
Net income from non-operating activities	-181,544	0
Net cash flow from operating activities	-6,586,159	-5,390,163
Net increase in cash and cash equivalents	-26,251,622	-26,251,622

Note:

The extraordinary profit and loss is determined and calculated according to "Q&A for Information Disclosure Regulation for Companies Issuing Securities Publicly No.1: Extraordinary Profit and Loss" (revised version 2004) in the [2004] No.4 document of China Securities Regulatory Commission.

The extraordinary profit and loss items deducted are as follows: (Unit: ' 000 RMB)

Extraordinary profit and loss items	Amount
Non-operating income and expense exclusive of provision for depreciation	-181,544
Recovery of write-off asset in previous years	3,215
Reverse of asset depreciation provision in previous years	3,967
Income tax relating to extraordinary profit and loss	16,563
Total	-157,799

II. Key Financial and Performance Indicators for the last three years prior to the end of the reporting period

(' 000RMB)

Items	2005		2004		2003	
	PRC GAAP	IAS	PRC GAAP	IAS	PRC GAAP	IAS
Income from core business	13,794,473	14,149,981	10,826,804	10,768,179	8,478,817	8,287,524
Gross profit	2,002,729	2,177,611	1,660,677	1,640,319	1,375,195	1,231,814
Net profit	1,288,675	1,401,079	1,016,918	1,030,333	801,588	679,801
Net profit excluding extraordinary items	1,446,474	1,401,079	1,119,501	1,030,333	945,822	679,801
Total asset	356,128,420	356,488,060	304,325,736	304,121,563	246,828,787	242,882,286
Shareholder's equity (excl. minority interest)	10,453,009	10,812,649	9,608,995	9,220,696	8,627,077	8,512,346
Net cash flow generated by operating activities	-6,586,159	-5,390,163	16,602,408	17,459,785	-8,230,448	-7,308,167
Fully diluted earnings per share (RMB)	0.31	0.33	0.24	0.25	0.23	0.19
Weighted average earnings per share (RMB)	0.31	0.33	0.24	0.25	0.29	0.24
Earnings per share excluding extraordinary items (RMB)	0.34	0.33	0.27	0.25	0.27	0.19
Net asset per share (RMB)	2.49	2.57	2.29	2.20	2.46	2.43
Net asset per share after adjustment (RMB)	2.36	2.51	2.16	2.15	2.32	2.38

CHAPTER II SUMMARY OF KEY FINANCIAL AND PERFORMANCE INDICATORS

Items	2005		2004		2003	
	PRC GAAP	IAS	PRC GAAP	IAS	PRC GAAP	IAS
Net cash flow generated by operating activities per share (RMB)	-1.57	-1.28	3.95	4.16	-2.35	-2.09
Return on equity (%)	12.33%	12.96%	10.58%	11.17%	9.29%	7.99%
Fully diluted return on equity excluding extraordinary items (%)	13.84%	12.96%	11.65%	11.17%	10.96%	7.99%
Weighted average return on equity excluding extraordinary items (%)	14.40%	14.43%	12.28%	11.44%	18.33%	13.37%

Note:

- Indicators are based on the 21st Articles of "Content and Format of Annual Report, the 2nd Publication of Content and Format Regulation of Information Disclosure by Company Issuing Securities Publicly" (revised in 2003) and "Calculation and Disclosure of Return on Equity and Earning Per Share, the 9th publication of Content and Format Regulation of Information Disclosure by Company Issuing Securities Publicly".
- Earnings per share (IAS) is calculated based on 33rd publication of International Accounting Standard.

III. Key financial data and their discrepancies between PRC GAAP and IAS

	(' 000 RMB)			
	Net profit in 2005	Net asset in the end of 2005	Net profit in 2004	Net asset in the end of 2004
Based on PRC GAAP	1,288,675	10,453,009	1,016,918	9,608,995
Adjustment under IAS:				
Housing system reform amortization	24,633	0	18,585	-24,633
Interest income of bill discount and rediscount	113,107	0	-1,845	-113,107
Income from short-term investment	-9,081	14,438	5,081	23,519
Write-off of organization cost	8,406	0	-8,406	-8,406
Cumulative translation adjustments	-24,661	0	0	0
Unrealized profit of the investment under available for sale	0	345,202	0	-265,672
Subtotal of adjustment	112,404	359,640	13,415	-388,299
Complementary financial statement under IAS	1,401,079	10,812,649	1,030,333	9,220,696

Note:

- Conforming to the PRC GAAP, after the termination of the housing revolving funds, the debit balance of the housing revolving funds as of December 31st, 2000 should be amortized in no more than five years. However, under IAS, the expense should be charged into the current period once for all.
- In the financial statements of year 2005 prepared under PRC GAAP or IAS, discounted bill and interest

CHAPTER II SUMMARY OF KEY FINANCIAL AND PERFORMANCE INDICATORS

of bills rediscounted are prepared on an accrual basis. The discrepancy of net profit herein is the accumulated discrepancy in the financial statements prepared under PRC GAAP or IAS before year 2004.

3. Under PRC GAAP, no interest income is withdrawn before the recovery of the capital of short-term investment. Under IAS, interest of short-term investment shall be on basis of accrual.
4. Under the PRC GAAP, organization cost should be recorded as the profit and loss in the month of the establishment of the entity, and should be charged into the profit and loss on the date of the establishment of the entity under IAS.
5. Under the PRC GAAP, cumulative translation adjustments should be recorded as ownership interest. Under IAS, cumulative translation adjustments shall be charged into the profit and loss of the current period.

IV. Information of provision for loan losses under both PRC GAAP and IAS

	(' 000 RMB)	
	PRC GAAP	IAS
Opening balance	4,408,978	4,408,978
Provision in the reporting period	1,337,285	1,575,730
Offset against interest of depreciated loan	0	238,445
Replenished in the reporting period	0	0
Recovery in the reporting period	3,216	3,216
Write-off in the reporting period	799,997	799,997
Reverse in the reporting period	17,166	17,166
Closing balance	4,932,316	4,932,316

Note: "Reverse in the reporting period" refers to such loans for which the loss provision had already been, and it will be shifted in "repossessed assets". The corresponding loss provision will transfer in "provision for repossessed assets".

V. Complementary accounting data three years before the end of the reporting period

	(' 000 RMB)					
	2005		2004		2003	
Item	PRC GAAP	IAS	PRC GAAP	IAS	PRC GAAP	IAS
Total liabilities	345,675,411	345,675,411	294,716,741	294,900,867	238,201,710	234,369,940
Borrowing from banks	16,763	16,763	520,000	520,000	680,000	680,000
Total deposit	310,503,499	312,129,404	267,842,372	269,668,392	209,313,760	210,221,323
Incl: long-term deposit	58,040,346	58,040,346	55,370,859	55,370,859	38,163,203	38,163,203
Total loan	233,687,524	233,687,524	181,112,202	181,112,202	150,755,759	150,755,759
Incl: Short-term loan	123,902,483	123,902,483	107,015,852	107,015,852	86,184,436	86,184,436
Import and export trade finance	1,337,866	1,337,866	1,212,047	1,212,047	1,117,176	1,117,176
Discount	40,488,436	40,488,436	18,206,993	18,206,993	21,890,618	21,890,618
Medium-and-long-term loan	60,960,804	60,960,804	48,645,423	48,645,423	36,113,517	36,113,517
Over-due loan	6,997,935	6,997,935	6,031,887	6,031,887	5,450,012	5,450,012

Note:

Total deposit includes short-term deposit, short-term saving deposit, amounts payable on wire transfers received and temporary deposit, short-term deposits received, long-term deposit, long-term saving deposit, long-term deposits received; Under IAS it also includes outward remittance, netting of the trusted fund.

CHAPTER II SUMMARY OF KEY FINANCIAL AND PERFORMANCE INDICATORS

Long-term deposit includes long-term deposit, long-term saving deposit, and long-term deposits of margin.

Total loan includes short-term loan, import and export trade finance, discount, medium-and-long-term loan, over-due loan.

VI. Appendix to the income statement

Conforming to the rules of "Calculation and Disclosure of Return on Equity and Earning Per Share, the 9th publication of Content and Format Regulation of Information Disclosure by Company Issuing Securities Publicly", the consolidated return on equity and earning per share in 2005 are calculated as following:

(I) PRC GAAP

Items	Profit in reporting period ('000 RMB)	Return on equity		Profit /per share	
		Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from core business	2,184,273	20.90%	21.75%	0.52	0.52
Operating profit	2,184,273	20.90%	21.75%	0.52	0.52
Net profit	1,288,675	12.33%	12.83%	0.31	0.31
Net profit excluding extraordinary items	1,446,474	13.84%	14.40%	0.34	0.34

(II) International Accounting Standards

Items	Profit in reporting period ('000 RMB)	Return on equity		Profit /per share	
		Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from core business	2,177,611	20.14%	22.42%	0.52	0.52
Operating profit	2,177,611	20.14%	22.42%	0.52	0.52
Net profit	1,401,079	12.96%	14.43%	0.33	0.33
Net profit excluding extraordinary items	1,401,079	12.96%	14.43%	0.33	0.33

VII. Complementary financial indicators in the last three years prior to the end of the reporting period

Indicators (%)	Benchmark ratio	2005		2004		2003	
		End	Average	End	Average	End	Average
Capital adequacy ratio	≥ 8%	8.23	8.31	8.61	7.87	10.32	9.28
Non-performing loan ratio	≤ 15%	3.04	3.34	3.96	3.89	4.23	4.79
Deposit to loan ratio	RMB	62.26	66.71	62.05	67.20	61.19	67.38
	Foreign currencies	≤ 85%	54.71	56.80	59.36	68.56	70.71
	RMB equivalents	≤ 75%	62.22	66.36	60.82	67.25	61.57
Asset liquidity ratio	RMB	≥ 25%	51.79	51.11	57.21	53.76	54.52
	Foreign currencies	≥ 60%	87.19	77.98	69.56	71.86	50.95
Money market ratio	RMB borrowing	≤ 4%	0.00	0.08	0.20	0.35	0.34
	RMB lending	≤ 8%	0.02	0.08	0.20	0.18	0.39
Borrowing from overseas	≤ 100%	0	0	0	0	0	
Interest collection ratio		95.92	96.08	97.82	95.43	95.69	
Lending ratio to the top borrower	≤ 10%	6.18	5.66	5.31	6.20	6.37	
Lending ratio to the top-10 borrowers	≤ 50%	38.20	34.80	31.81	35.02	30.87	

Note:

Non-performing loan ratio is based on CBRC 5 categories of loan classification, NPL ratio= (substandard loan+ doubtful loan + loss loan) ÷ total loan outstanding × 100%.

CHAPTER II SUMMARY OF KEY FINANCIAL AND PERFORMANCE INDICATORS

VIII. Changes in shareholder's equity in the reporting period

(I) PRC GAAP

(' 000 RMB)

Items	Equity capital	Capital reserve	General Provision	Surplus reserve	Incl.:statutory welfare reserves	Undistributed profit	Cumulative translation adjustments	Total of shareholder's equity
Opening balance	4,200,000	3,759,620	100,000	548,952	145,993	1,000,423	0	9,608,995
Increase	0	0	800,000	193,302	64,434	1,288,675	-24,661	2,257,316
Decrease	0	0	0	0	0	1,413,302	0	1,413,302
Closing balance	4,200,000	3,759,620	900,000	742,254	210,427	875,796	-24,661	10,453,009

The main reasons for the changes in shareholder's equity:

1. The reason for the increased general provision: the net profit transferred to general provision.
2. The reason for the increased surplus reserves: the net profit transferred to surplus reserves and statutory welfare reserves.
3. The reason for the increased undistributed profit: 2004 dividend distribution, and transference to 2005 surplus reserves and statutory welfare reserves and general provision.

(II) IAS

(' 000 RMB))

Items	Equity capital	Capital reserve	General provision	Surplus reserve	Retained profit	Unrealized gain on available-for-sale securities (after tax)	Total of shareholder's equity
Opening balance	4,200,000	3,759,620	100,000	548,952	877,796	-265,672	9,220,696
Increase	0	0	800,000	193,302	1,401,079	610,874	3,005,255
Decrease	0	0	0	0	1,413,302		1,413,302
Closing balance	4,200,000	3,759,620	900,000	742,254	865,573	345,202	10,812,649

The reasons for changes in the shareholder's equity are same as under PRC GAAP.

CHAPTER III CHANGES IN EQUITY AND SHAREHOLDERS

I. Statement of changes in shares

(Shares)

	Opening balance		Increase / Decrease (+, -)					Closing balance	
	Quantity	Rate (%)	New issuance	Bonus issue	Capital surplus converted into equity	Other	Subtotal	Quantity	Rate (%)
I. Unlisted shares									
1. Sponsors' shares	3,000,000,000	71.43						3,000,000,000	71.43
Including:									
State owned shares									
Domestic legal entity shares	3,000,000,000	71.43						3,000,000,000	71.43
Overseas legal entity shares									
Others									
2. Legal entity shares placed									
3. Employees' shares									
4. Preferred shares and others									
Total of unlisted shares	3,000,000,000	71.43						3,000,000,000	71.43
II. Listed shares									
1. RMB common shares	1,200,000,000	28.57						1,200,000,000	28.57
2. Foreign invested shares listed in Mainland China									
3. Foreign invested shares listed out of Mainland China									
4. Others									
Total of listed shares	1,200,000,000	28.57						1,200,000,000	28.57
III. Total shares	4,200,000,000	100						4,200,000,000	100

II. General Situation of share listing

(I) Equity issuance in the last three years prior to the end of the reporting period

Approved by the (2003) 83rd file from the China Securities Regulatory Commission (CSRC), the Company issued an initial public offering of RMB1 billion through internet pricing in common shares, from August 26 to September 3, 2003, including 450 million shares publicly offered with fixed price, and 550 million shares offered to investors at secondary market at RMB 5.60 per share. The RMB 1 billion common shares that had been issued publicly were listed at Shanghai Stock Exchange on September 12th, 2003.

(II) Changes in the total share and shareholding structure within the reporting period.

Within the reporting period, there is no share merger reform, bonus issue, capital surplus converted into equity, rights issue, new issue or other reason caused any change in the total shares or shareholding structure.

CHAPTER III CHANGES IN EQUITY AND SHAREHOLDERS

(III) During the reporting period, there is no employees share.

III. Information of Shareholders

(I) Shareholder quantity and shareholding

(10,000 shares)

Shareholder quantity at end of the reporting period: 242,389

Shareholding of top 10 shareholders

Shareholders	Share type	Holding rate (%)	quantity of total share	Quantity of non-tradable share	Quantity of share pledged or frozen
Shougang Group Corporation HQ	State-owned legal entity share	14.29	60,000.96	60,000.	0
Shandong Power Corporation	State-owned legal entity share	11.43	48,000	48,000	0
Yuxi Hongta Tobacco (Group)Co.,Ltd.	State-owned legal entity share	10	42,000	42,000	0
Luen Tai Group Co., Ltd.	State-owned legal entity share	8.57	36,000	36,000	36,000
Beijing San Ji Li Energy Co., Ltd.	State-owned legal entity share	4.29	18,000	18,000	9,000
Shanghai Giant Biotech Co, Ltd.	Common legal entity share	4	16,800	16,800	6,710
Xinyuan Industry Holding Group Co., Ltd.	Common legal entity share	3.52	14,800	14,800	12,600
Baotou Huazi Industry Co., Ltd.	State-owned legal entity share	2.86	12,000	12,000	6,000
Shanghai Construction (Group) Corporation	State-owned legal entity share	2.14	9,000	9,000	0
China Trading Center for Automobile Import	State-owned legal entity share	2.14	9,000	9,000	0

Shareholding of top 10 shareholders of tradable share

Shareholder	Quantity of tradable share	Share type
SSE 50 Index Securities Investment Fund	30,214,697	A share
CITIC Classic Portfolio Securities Investment Fund	24,989,053	A share
E Fund 50 Index Securities Investment Fund	19,929,790	A share
Jiu Jia Securities Investment Fund	10,000,000	A share
SYWG BNP PARIBAS Shenli Selected Securities Investment Fund	9,975,616	A share
China Gaoxin Investment Group Corp.	8,970,343	A share
Social Security Fund 111 Portfolio	8,190,000	A share
Bank of Communications Schroders Selected Share Securities Investment Fund	7,999,943	A share
CITIGROUP GLOBAL MARKETS LIMITED	7,327,011	A share
Labor Union of CIMC Tianjin Bei Yang Container Co., Ltd.	7,080,000	A share

Explain to the association relation or acting in concert of the above shareholders

(1) Among the above 10 shareholder, except 9600 shares in the 60009600 shares held by Shougang Group Corporation is of tradable share, the other shares held are of nontradable share.

(2) There has no association relation among the above 10 shareholders.

(3) The Company has no knowledge whether there is any inter-relationship between any two of the above 10 tradable-share shareholders, or between any two of the above 10 tradable-share shareholders and the above 10 shareholders.

(II) Share assignment

During the reporting period, Xin Yuan Industry Holding Group Co., Ltd., a Company's shareholder of unlisted share acquired the Company's 10 million legal person shares held by Zhu Hai Zhen Hua (Group) Company through legal auction procedures and relevant share assignment procedures were dealt.

(III) Shareholder holding over 5% shares of the Company

The Company has no controlling shareholder or actual controller. During the reporting period, the largest shareholder of the Company has not been changed.

1. Shougang Group Corporation HQ

Shougang Group Corporation HQ was founded on October 15th, 1992. It was used to be Shi Jingshan Iron & Steel Plant in 1919, and then was restructured into Shougang Iron & Steel Group in September, 1996. Shougang Corp. HQ is the parent company of the group, and manages the assets on the group's behalf. Approved by the State Economic and Trade Commission and the Beijing municipal government, Shougang Corp. HQ was restructured into a solely state-owned company that manages the state-owned asset under the authorization of Beijing Municipal Government with a registered capital as RMB72,639,940,000, and Mr. Zhu Jimin as the legal representative. The Company is a conglomerate that covers different business domains, regions and countries. Its core business includes manufacturing, architecture, geologic exploration, transportation, foreign trade, telecommunication, finance, science and technology service, domestic trade, restaurants, material supply, warehouse, real estates, residential service, consultation, leasing, agriculture, forest, herd, fishing (other than those need to be specifically licensed), and state-owned assets management etc.

The relationship between the biggest shareholder and the Company:



2. Shandong Power Corporation

Shandong Power Corporation, which was formerly Electric Power Industry Bureau of Shandong Province established in Jan., 1958, was founded as Electric Power Company of Shandong Province in 1989, and was reorganized as Shandong Power Corporation in July 1997, with a registered capital of RMB 9,860,000,000, and Mr. Zhu Changfu as legal representative. Its main business includes electricity grid management, power supply, electricity engineering, designing, construction, repair, and maintenance, construction project contracting, electricity trading, power investment, construction project supervision, trading of raw materials, supporting materials fuel, and facilities for electricity power projects (excluding those need to be specially licensed), technology development, training, and consultation.

CHAPTER III CHANGES IN EQUITY AND SHAREHOLDERS

3. Yuxi Hongta Tobacco (Group) Co.,Ltd.

Yuxi Hongta Tobacco (Group) Co.,Ltd. is an affiliate fully owned by the State Tobacco Monopoly Bureau, restructured from the former Yuxi Cigarette Plant on September 15th, 1995 with a registered capital of RMB 680,000,000, and Mr. Liu Wandong as legal representative. Its core business includes tobacco manufacturing, tobacco distribution, manufacturing of tobacco machinery, tobacco raw materials and supporting materials trading, and also involves energy, transportation, chemical, machinery, construction materials, and technology through investment.

4. Luen Tai Group Co., Ltd.

Luen Tai Group Co., Ltd. was found in May 1995, with a registered capital of RMB50,870,000 , and with Mr. Wu Xiaomeng as the legal representative. It was authorized to manage state-owned assets by Economic and Trade Commission of Shandong Province, Planning Commission of Shandong Province, Restructuring Commission of Shandong Province, Bureau of Finance of Shandong Province and State-owned Assets Administration and Regulation Bureau of Shandong Province on basis of Shandong Economic Dossier [1995] 120th Document. Its core business includes industrial materials trading (excluding those need to be specifically licensed), general merchandise, mental and machinery products, computers and appliances, ordinary machinery, chemicals (excluding dangerous chemicals), construction materials, household electric appliance, science and technology development, technology service; information consultation (excluding brokerage).

CHAPTER IV DIRECTOR, SUPERVISOR, SENIOR MANAGEMENT AND EMPLOYEES

I. Director, Supervisor and Senior Management

(I) Change in shareholding and remuneration of director, supervisor and senior management

Name	Post	Gender	Date of birth	Office tenure	Share held at year begin	Share held at year end	Remuneration in the reporting period (RMB 10,000)
Liu Haiyan	Chairman	Male	1941.11	2004.6.29—2007.6.29	0	0	69
Fang Jianyi	Vice Chairman	Male	1953.07	2004.6.29—2007.6.29	0	0	2.3
Geng Liuqi	Director	Male	1951.01	2005.5.19—2007.6.29	0	0	0.6
Sun Weiwei	Director	Female	1955.06	2004.6.29—2007.6.29	0	0	1.3
Zhao Jian	Director	Male	1961.12	2004.6.29—2007.6.29	0	0	1.0
Zhang Meng	Director	Female	1958.10	2004.6.29—2007.6.29	0	0	0
Yu Jianping	Director	Male	1956.07	2004.6.29—2007.6.29	0	0	1.6
Wu Jian	Director, President	Male	1954.03	2004.6.29—2007.6.29	0	0	69
Liu Xifeng	Director, Vice President, Financial Controller	Female	1950.11	2004.6.29—2007.6.29	0	0	51.3
Zhao Junxue	Director, Corporate Secretary	Male	1958.04	2004.6.29—2007.6.29	0	0	51.3
Jiang Peiwei	Independent Director	Male	1963.08	2004.6.29—2007.6.29	0	0	7.0
Zhang Liguo	Independent Director	Male	1965.02	2004.6.29—2007.6.29	0	0	7.3
Gao Peiyong	Independent Director	Male	1959.01	2004.6.29—2007.6.29	0	0	7.3
Qi Yudong	Independent Director	Male	1966.09	2004.6.29—2007.6.29	0	0	7.3
Xu Tieliang	Independent Director	Male	1963.09	2004.6.29—2007.6.29	0	0	7.0
Mu Xinming	Independent Director	Male	1957.05	2004.6.29—2007.6.29	0	0	6.0
Zhang Mingyuan	Independent Director	Male	1956.10	2004.6.29—2007.6.29	0	0	7.3
Cheng Yanhong	Chairman of Supervisor Board	Female	1958.02	2004.6.29—2007.6.29	0	0	69
Song Bin	Supervisor	Male	1965.04	2004.6.29—2007.6.29	0	0	1.3
Guo Jianrong	Supervisor	Male	1962.08	2004.6.29—2007.6.29	0	0	1.6
Liu Guolin	Supervisor	Male	1951.03	2004.6.29—2007.6.29	0	0	0.7
Niu Hesheng	Supervisor	Female	1946.07	2004.6.29—2007.6.29	0	0	1.9
He Dexu	External Supervisor	Male	1962.09	2004.6.29—2007.6.29	0	0	6.9
Chen Yulu	External Supervisor	Male	1966.11	2004.6.29—2007.6.29	0	0	6.0
Dai Gang	Employee Supervisor	Male	1957.08	2004.6.29—2007.6.29	0	0	29.1
Li Qi	Employee Supervisor	Male	1958.08	2004.6.29—2007.6.29	0	0	28.4
Zeng Beichuan	Employee Supervisor	Male	1963.03	2004.6.29—2007.6.29	0	0	30.6
Qiao Rui	Vice President	Male	1954.08	2004.6.29—2007.6.29	0	0	51.3
Li Guopeng	Vice President	Male	1955.02	2004.6.29—2007.6.29	0	0	51.3
Total					0	0	574.7

1. Director and supervisor remuneration deciding procedure and defining basis: According to " Allowance Policy of Director and Supervisor" passed in the general meeting of 2004 held on may 19. 2005, any director or supervisors collecting salary from the Company shall not collect allowance under the Policy. Director or supervisor 's allowance consists of service compensation, committee post allowance and meeting allowance. Service allowance is the basic remuneration of independent director and outer supervisor carrying out work in board of directors or board of supervisors and standard is annual RMB 50000 per person. Committee post allowance is the post allowance of independent director and outer supervisor carrying out work in board of directors or board of supervisors and standard is monthly RMB 1000 per person (equal to annual RMB 12000 per person). Committee post allowance for director or supervisors that works in more than one special committee is based on the quantity of their post in committee. Meeting allowance is the subsidy of independent director and outer supervisor attending meetings of board of directors or board of supervisors and standard is RMB 3000 per meeting. Director

CHAPTER IV DIRECTOR, SUPERVISOR, SENIOR MANAGEMENT AND EMPLOYEES

or supervisors that doesn't collect salary from the Company collected committee post allowance and meeting allowance according to the Policy during May 19, 2005 and December 31, 2005. independent director and outer supervisor collected service allowance during January 1, 2005 and December 31, 2005.

2. Senior management remuneration deciding procedure and defining basis: Salary of senior management is audited and paid according to "Rules on the Salary of Headquarters-level Senior Management of Hua Xia Bank".
3. The remuneration of chairman, president, chief supervisors, vice president and corporate secretary and employee supervisor is recorded in amount before tax and the remuneration of other director and supervisor for amount after tax.

(II) Post held by the Company's director and supervisors in shareholders

Name	Shareholders	Post	Tenure term
Fang Jianyi	Shougang Group Corporation HQ	Chief Accountant	From June 1998 to present
Geng Liuqi	Yingda International Trust & Investment Co.	Chairman	From February 2003 to present
Sun Weiwei	Shougang Group Corporation HQ	Deputy General Manager	From November 2003 to present
Zhao Jian	Shandong Luneng Real Estate Co., Ltd.	General Manager	From June 2004 to present
Zhang Meng	Yuxi Hongta Tobacco (Group)Co.,Ltd.	Vice Chief Accountant	From June 1999 to present
Yu Jianping	Beijing San Ji Li Energy Co., Ltd.	General Manager	December 1999 to present
Song Bin	Xinyuan Industry Holding Group Co., Ltd.	Vice Chairman	From August 2004 to present
Guo Jianrong	Baotou Huazi Industry Co., Ltd.	Assistant to President	From February 2002 to present
Liu Guolin	Shanghai Construction (Group) Corporation HQ	Director, Chief Accountant	From January 1994 to present
Niu Hesheng	China Trading Center for Automobile Import	Executive Deputy General Manager	From October 2000 to present

(III) Main Work Experience and Post in Other Companies of Director, Supervisor and Senior Management

Name	Main Experience	Posts in Other Companies
Liu Haiyan	Once he was the manager of Beijing Dongfanghong Refinery Plant, General Manager, Secretary of the Party Committee and Chairman of the Board of Beijing Yanshan Petroleum Chemical Group LTD, Vice Chairman of the board of Taikang Life Insurance Co., Ltd., Alternate Member of the 15th Central Committee of the China Communist Party of China, Member of the 8th Beijing Committee of the China Communist Party, Vice Mayor of Beijing, Vice-Chairman, Chinese Federation for Enterprises and China Entrepreneurs Association, Part-time professor of Tsinghua University, People's University of China and Beijing University of Petroleum. Now he is a member of the 10th of The Chinese People Politics Consultation Conference, Secretary of the Party Committee and Chairman of the Board of the Company.	None
Fang Jianyi	He once was the assistant to general manager of ShouGang NEC Electronics CO., LTD. and manager of Financial Department, Deputy head of the Financial Section of the Economic and Trade Department of Shougang International, Deputy head of the Financial Section of ShouGang Zhongshou Company, assistant to general manager of ShouGang Zhongshou Company, deputy general manager of ShouGang Shipping Company, Head of Funding Division of Financial Department and deputy director of Financial Department of ShouGang Company Overseas HQ, Deputy director of Development department, financial assistant general manager, general manager's financial assistant of ShouGang Corporation. Now he is the Chief Accountant of ShouGang Corporation HQ.	Chairman of the Board of Xin Bang Investment Co., LTD and BoDi Investment Co., LTD

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Name	Main Experience	Posts in Other Companies
Geng Liuqi	Once acted as general manager of Qingdao Power Industry Corporation, assistant and vice director of Qingdao Electric Power Bureau, vice general manager of Beijing Yingda Industrial Development Co., Ltd., general manager of Shandong Luneng Investment Corporation, chairman of Shandong Luneng Jin Sui Futures Brokage Company, vice chairman and general manager of Yingda International Trust & Investment Co. Now he is the chairman and secretary of the Party committee of Yingda International Trust & Investment Co.	None
Sun Weiwei	He once was deputy director, director, deputy general manager, and executive general manager of TaiYuan Heavy Industry CO., LTD, assistant to general manager of Shougang Corporation, director of Group Management Department. Now he is the deputy general manager of Shougang Corporation HQ.	Chairman of the Board of ShouGang Machinery CO., LTD., chairman of the Board of Beijing Siman SPV CO., LTD.
Zhao Jian	He once was manager of business department of the Material Supply Company Of the Power Supply Bureau of Shandong, deputy director of the Power Supply Group Company, General manager, Member of Party Committee of Luneng Yingda Group Company. Now he is the general manager of Luneng Estate Group.	None
Zhang Meng	He was the deputy chief and chief of the industrial finance section of Yuxi Hongta Tobacco Group Co., LTD. Now he is the deputy Chief Accountant of Yuxi Hongta Tobacco Group Co., LTD	Director Of China Pacific Insurance Company Limited, Supervisor of Hongta Securities Company, Director of Huatai Insurance Company
Yu Jianping	He once was an engineer of Information Section of Water-Electric Department, an Engineer of Plan Section, the deputy director of the Plan Section of State Energy Investment Corporation, general manager of Beijing Sanjili energy Company. Now he is the general manager of Beijing Sanjili energy Co., Ltd	Chairman of the Board of Beijing Guoli Energy Investment Co., Ltd.
Wu Jian	He once was the deputy chief of Equipment Credit Division of Industrial & Commercial Bank of China Beijing Branch, deputy manager, manager of Chaoyang District sub-branch of Industrial & Commercial Bank of China Beijing Branch. deputy general manager, member of the China Communist Party Committee, general manager, Secretary of the China Communist Party of Bank of Communications Beijing Branch, member of the Party committee and Secretary of Discipline, vice president of Bank of Communications. He is now a director, President and vice Secretary of the Party committee of the Company.	None
Liu Xifeng	He was once the deputy director of finance bureau of the Construction company of Shougang Corporation, director of the audit office of Hua Xia Bank, assistant to president, vice secretary of the Party Committee, and vice president of HR, vice President of Hua Xia Bank, vice Secretary of the Party committee of Hua Xia Bank. Now, he is a director of the Company, vice President of the Bank, chief of finance, member of the Party Committee.	None

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Name	Main Experience	Posts in Other Companies
Zhao Junxue	He was once the assistant to president in NanFang Branch of China National Packaging Corporation, vice President, President of AoHai Finance Holding Co, Ltd, Party Committee Secretary, and President of Hua Xia Bank ShenZhen Branch. He is now a Director and Corporate Secretary of the Company.	None
Jiang Peiwei	He was once a deputy director of the finance department of Kunming Tri-poly Phosphate Sodium Factory affiliated to the Ministry of Light Industry, assistant to general manager, vice president of HuaQiang Science & Technology Development Company affiliated to Industrial & Commercial Bank of China. He is GM of XinHua Accountant Office Co, Led.	Independent Director of Yantai WanHua Polyurethane Products Co, Ltd.
Zhang Liguo	He was a lawyer, the partner of Beijing KaiYuan Law Firm, a partner of Beijing GuoFang Law Firm. Now, he is a partner of GuoFeng Law Firm in Beijing.	Independent Director of Xinjiang Zhongji Industry Co., Ltd, Independent Director of Guangdong Rongtai Industry Co., Ltd.,
Gao Peiyong	He was once a lecturer, associate professor in the Finance Department of Tianjin University of Finance and Economics, the assistant to the president, professor of China People's University. He is the deputy dean, professor of Finance and Trade Institute of China Academy of Social Science.	Independent Director of Shanghai Industrial Development Co., Ltd
Qi Yudong	He once was the assistant lecturer, lecturer, associate professor in Finance Department of Capital University of Economics and Business, deputy standing editor, editor, and director of Journal of Capital University of Economics and Business. Now, he is deputy standing director in Industry Economic Research Center of the university, deputy dean of the Business Administration School, deputy director of Business Management Department, deputy standing director in the MBA Education Center.	Independent Director of LUCKY FILM CO., LTD
Xu Tieliang	He once was a procurator of the Shengli Oil Field Branch of Shandong Procuratorate, director of Anti-Corruption and Bribery Bureau, officer of Anti-Corruption and Bribery Bureau in Supreme People's Procuratorate, discipline inspection supervisor in the CPC Central Discipline Inspection Commission and Ministry of Inspection, vice general manager, general manager and vice chairman in China Legal Service (Hong Kong) Co., Ltd.. Now he is the president of China International Legal Affairs Center in Hong Kong, member of the Hong Kong BAR, executive chairman of Exchange Association of 1 Country – 2 Systems in Hong Kong, senior accountant of Jinye CPA Firm.	Independent Director of Shandong Shengli Limited Company, Independent Director of Hong Kong Sing Pao Newspaper Co., Ltd.
Mu Xinming	He once served as an investment advisor at the Infrastructure Bureau of The World bank in Washington DC UAS, International Development Organization of The United Nations, and U.S. Agency for International Development, project official of The Asian Development Bank in Phillipine, professor of America Texas State University, vice president of Salomon Brothers in Asia-Pacific. Now he is a director of Bank of Morgenstern Merchant Bank, CEO of Kang Qiao Investment Foundation, and president of the America Dongying Investment Co.	None

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Name	Main Experience	Posts in Other Companies
Zhang Mingyuan	He once was a vice president of J.P. MORGAN CHASE & CO. corporate finance at New York, vice president of J.P. MORGAN CHASE & CO. global debt capital market at Hong Kong, general manager of the Capital Market in China International Capital Co., Ltd, general manager, managing director of IBD of BOC International Holding Limited. Now he is the vice president of Fubon Bank (Hong Kong).	None
Cheng Yanhong	He once was a vice director of The Department of General Affairs, vice director, director, member of the Party Committee and vice chief of Debt Department in Beijing Bureau of Finance; general manager and secretary of the Party Committee of Beijing Securities Co., Ltd.; deputy secretary and secretary of Financial Working Committee of the Party Committee of Beijing municipality; the ninth committee member of the Beijing Committee of China Communist Party. Now he is the Chief Supervisor, deputy secretary of the Party Committee and secretary of Discipline Inspection Committee in the Company.	None
Song Bin	He once was a journalist of People's Daily, general manager of Beijing Xinyuan Industrial Investment company, president of Xinyuan Industrial holdings Group Co. Ltd.. Now he is the vice chairman of the Board of Xinyuan Industrial holdings Group Co. Ltd.	President of Hunan Xinyuan Wisapon Real Estate Co., Ltd., director of Bairui Trust Investment Co. Ltd.
Guo Jianrong	He once was a vice director, director of Bank of Communications Baotou Branch. Now he is the assistant president of Baotou Huazi Industry Co., LTD	None
Liu Guolin	He once was a vice director and director of Finance Department in Shanghai Construction Engineering Bureau. Now he is a director and Chief Accountant of Shanghai Construction Group	None
Niu Hesheng	He once was a vice director, director and vice chief of the Industrial and Communication Financial Department of the Ministry of Finance, assistant to general manager and chief of financial department of China Imported Automobile Trading Center. Now he is the executive deputy general manager of China Imported Automobile Trading Center.	None
He Dexu	He once was an associate professor of Institute of Commerce and Finance of China Academy of Social Science, director of Science Research Supporting Department of China Academy of Social Science. Now he is the deputy director of Research Center of Finance in China Academy of Social Science, professor of Institute of Commerce and Finance, professor of Graduate School of China Academy of Sciences.	None
Chen Yulu	He once served as vice director and associate professor of finance department, vice president and professor of finance Institute in The People's University of China. Now he serves as president and professor of finance Institute in The People's University of China.	Independent Director of Mingliu Real Estate Holdings Co., Ltd., Independent Director of Baoying Fund Management Co., Ltd.

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Name	Main Experience	Posts in Other Companies
Dai Gang	He once was a vice Secretary of the Youth League Committee and deputy director of Training Department of the University of Shougang Corporation, deputy director of the Dual-exam committee in Shougang Corporation. Now he is the director of Office Of Party Committee and President of Labor Union of Shougang Corporation.	None
Li Qi	He once was an educator of the Department of Law in Shandong University, vice general manager of the Rural Credit Cooperative of China in Shandong, Vice Chairman of Shandong Yingtai Group Co., Director of Audit and Compliance Department in Hua Xia Bank Jinan Branch. Now he is a Member of the Party 's Committee of Discipline, general manager of Law Affairs Department & NPA Management Department of the Company.	None
Zeng Beichuan	He once was an engineer of the Real Estate Credit Department of China Construction Bank, vice director of the General Affairs Section of the International Finance Department of China Development Bank, deputy secretary of the Party Committee and deputy general manager of the Corporate Banking Department in Hua Xia Bank. Now he is the general manager of the Audit Department of the Company.	None
Qiao Rui	He once was the deputy director of the Institute of Finance, deputy director of the Foreign Debt Information Section, director of the Foreign Debt Management Section, deputy chief of the Foreign Debt Management Department, Chief of the Administration and Investigation Department at State Administration Bureau of Foreign Exchange; deputy manager, member of the Party Committee, director of the Board, vice president, chief of finance of China Construction Bank Beijing Branch. Now he is the vice president and member of the Party Committee of the Company.	None
Li Guopeng	He once was a deputy director of Financial Research Institute of the People's Bank of China Shandong Branch, deputy director of the Office of The Financial System Reform, Director of the Information Department of Survey and Study, President & Secretary of the Party Committee of People's Bank of China Taian Branch, and Director of the State Administration Bureau of Foreign Exchange Taian branch, Secretary of the Party Committee and president of Hua Xia Bank Ji'nan branch, assistant to president, member of the Party Committee, vice president of Hua Xia Bank, Secretary of the Party Committee and general manager of the Banking Department of Head Office. Now he is the vice president, member of the Party Committee of the Company.	None

(IV) Changes in the Company 's directors, supervisors and senior management

In the Company 's general meeting of 2004, Geng Liuqi was elected as director and Li Ruge resigned his director and vice chairman posts in the Company.

II. Employees

By the end of the reporting period, the Company had 7761 permanent employees, including 1317 at managerial levels, 6006 business staff, and 438 supporting staff. 7217 employees have acquired a college degree or above, accounting for 92.99% of the total staff. There are 29 retired employees in the Company.

CHAPTER V CORPORATE GOVERNANCE STRUCTURE

I. Overview of Corporate Governance

Since 2005, the Company has been perfecting constantly the corporate Governance structure to allow independent operation and effective coordination of general meeting, board of directors, board of supervisors and senior managers. The key goal is to pursue long-term maximization of shareholder's interests, on the premise of respecting and protecting depositor's interests. During the reporting period, the following sections provide a brief introduction to the Company's corporate governance:

(I) Strengthen basic corporate governance system

While perfecting the governance structure of the Company, according to relevant policy issued by regulatory department and actual development status of the Company, the Board of director modified Articles of Association for two times to reinforce the systematic basis of corporate governance. Procedures rule for general meeting, meeting of board of directors and meeting of board of supervisors were correspondingly modified according to the modified Articles of Association and supporting system was perfected. At present, on the basis of Articles of Association, Procedures Rule for General Meeting, Procedures Rule Meeting for Board of Directors, Procedures Rule for Meeting of Board of Supervisors, the Company has set up basis corporate governance system consisting of Working Instruction of President, working Instruction of Special Committee, Working Policy of Independent Director, Allowance Policy of Director and Supervisor, Information Disclosure Implementation Regulation, Inner Report Policy of Significant Information, and Investor Relationship Management Methods, providing systematic guarantee to the perfecting of the Company's corporate governance.

(II) Shareholder and General Meeting

1. Holding of general meeting

The Company held 2 general meetings in 2005 in accordance with the requirements of Regulations on General Meeting of Listed Company, Articles of Association and Rules on General Meeting Procedures. The Company has set up an effective communication channel between the company and its shareholders, provided network voting means to enlarge the rate of social public shareholder participating general meeting, so as to ensure that all shareholders, in particular the minority shareholders are of equal status, and guarantee all shareholders' information rights, participation rights and voting rights, to major affairs.

2. Transactions with associated parties

Standardizing associated transaction is the main content in optimizing structure of corporate governance. Whether associated transaction is fair or doesn't not betray benefit of the enterprise or whole shareholder is the main field that regulatory department administrates listed companies. According to Measures on Administration of Connected Transactions Between Commercial Banks and Interior Personnel and Shareholders issued by China Banking Regulatory Commission and executed from May 1, 2005, the Company's audit department performs special audit to the Company's associated transaction at least one time per year and reports the result to the Board of Directors and Board of Supervisors. Every year the Risk Management Department will submit special report on the execution of associated transaction management policy and details of associated transactions to the Board of Directors.

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With respect to management of associated transaction, the Company defines corporate governance structure clearly. Senior management, Associated Transaction Control Committee and Board of Director of the Company manage and approve associated transaction according to respective rights and responsibility in associated transaction and perform information disclosure liability according to relevant regulation. The Company's independent directors will regularly issue independent opinion on major associated transaction to the Board of Directors or general meeting. The Company's Board of Supervisors will diligently supervise the duty fulfillment of the Board of Directors and senior management in approving associated transaction. Along with China Banking Regulatory Commission intensifying the administration on the post qualification of director and supervisor in commercial bank, the Company closely combines daily associated transaction management with the post qualification of director and supervisor to ensure director and supervisor bear condition for performing rights and responsibility legally and dependably.

(III) Directors and Board of Directors

1. Composition of board of directors and working status

The Company's Board of Directors is made up of 17 directors, among which 7 are independent directors and 4 are of senior management. In terms of decision procedure, authorization procedure, voting procedure, the board of directors strictly follows regulations of the laws, regulations and Articles of Association. In 2005, the company held 5 meetings of board of directors altogether in accordance with relevant regulations of Articles of Association and Board of Directors Procedure Rules. All directors attended the meetings, reviewed every proposal carefully, exercise their rights and fulfill their liabilities, an effective decision and supervision mechanism has come into being.

2. Operation of special committee of board of directors

During the reporting period, the 4 special committees under the Board of Directors held 8 meetings. In the meetings, daily operation and procedure rule of each committee were deepened according to respective working instruction and candidate director qualification, check and appraisal of working of director and senior management, significant associated transaction, adjusting bad asset write-off plan, risk management, self-appraisal of inner control and related correction and other matters were examined and researched, enhancing quality and efficiency of the Board of Director's decision. The independent directors have performed their roles of convener in Associated Transaction Control Committee, Nomination Committee and Salary Management and Examination Committee and issued letter of independent opinion.

(IV) Supervisor and Board of Supervisors

1. Composition of board of supervisors and working status

The Company's board of supervisors is made up of 10 supervisors, among which 2 are external supervisors and 4 are employee's representative supervisors, satisfying requirements of relevant laws and regulations. In 2005, the board of supervisors held 4 meetings of board of supervisors altogether in accordance with relevant regulations of Articles of Association and Board of Supervisors Procedure Rules. All directors attended the meetings in accordance with regulations, exercised their supervision rights empowered by laws and the Articles of Association. They have organized and attended special examinations, and fulfilled their responsibilities.

CHAPTER V CORPORATE GOVERNANCE STRUCTURE

2. Special committees of board of supervisors

In the reporting period, The nomination committee and auditing committees under the board, in accordance with their respective working rules, further regulated their operations, performed their duties in due diligence, and exercised their expected roles. The nomination committee convened three meetings, considering the proposal on adjusting the supervisors, organizing the examination on the compliance of the directors, supervisors, and senior management in their performance of duties. The auditing committee convened five meetings, organizing the site examination on the board of supervisors and hearing the examination report by the audit department, and submitting its opinions on correction and improvement to the operation management after such opinions were passed by the board of supervisors.

3. Outside supervisor system

By the end of the reporting period, there were two outside supervisors in the board of supervisors. In accordance with relevant laws and regulations and Articles of Association and in the spirit of safeguarding the interests of the depositors and the company as a whole, they acted in due diligence to discharge their various duties, independently expressed their opinions on relevant proposals, and performed their function as the convener of the special committees.

V. Information Disclosure and Investors Relation Management

Information Disclosure System has been overhauled in accordance with Rules on listing of Stocks in Shanghai Stock Exchange (Revised in 2004) to further regulate the day-to-day information disclosure. Internal Reporting System on Significant Information has been formulated to ensure the speedy and smooth communication and collection of internal significant information as well as effective management on such information, thus laying a sound foundation for the information disclosure duty.

While attaching importance and improvement to information disclosure, the Company endeavored to conduct investor relation management. By handling the enquiries from the investors, analysts and the media, the company has gradually established active and interactive information communication mechanism between the company and general investors, which is oriented by the market, based on good faith, and encourages rational investment. In accordance with relevant requirements of regulatory bodies, Measures Governing Investors Relation Management has been revised to fully reflect the principle of equity, fairness and openness, to ensure that all investors have the equal right to know and safeguard their legitimate rights and interests.

II. Performance of Independent Director

During the end of the reporting period, the Company has 7 independent directors, occupying more than 1/3 of the number of board of directors. The independent directors have displayed their significant function in independence and specialty. Following laws and regulations and Articles of Association of the Company, they, keeping the interests of depositors and minority shareholders in mind, fulfill their responsibilities, participate in relevant meetings and review every proposal carefully and seriously performed the convener role of associated transaction control committee, nomination committee, salary management and examination committee. They have provided valuable professional suggestions on the operation and management of the Company.

CHAPTER V CORPORATE GOVERNANCE STRUCTURE

(I) Attendance of Independent Directors at Meeting of Board of Directors

Independent Director	Required attendance		By		Absence	Note
	times	By person	authorized representative			
Jiang Peiwei	5	4	1			Authorized Director Zhang Ligu to vote on his behalf in the 8 th meeting of the 4 th Board of Directors
Zhang Ligu	5	5				
Xu Tieliang	5	4	1			Authorized Director Zhang Ligu to vote on his behalf in the 8 th meeting of the 4 th Board of Directors
Gao Peiyong	5	5				
Qi Yudong	5	5				
Zhang Mingyuan	5	5				
Mu Xinming	5	3	2			Authorized Director Zhang Ligu to vote on his behalf in the 6 th meeting of the 4 th Board of Directors and authorized Director Zhang Mingyuan to vote on his behalf in the 8 th meeting of the 4 th Board of Directors

(II) Dissidence Proposed by Independent Directors In Terms of Company Affairs

During the reporting period, the Company's independent directors didn't bring forward any dissidence to any proposal of the Board of Directors or other proposal.

III Operational Decision-making System

The supreme authority of the Company is general meeting that performs management and supervision through board of directors and board of supervisors. President of the bank is engaged by board of directors and is fully responsible for carrying out management of daily operation under leadership of board of directors. The Company adopts one-level juridical person and vertical management system. Branch is a non-independent accounting unit, business subject to instruction of the headquarters bank.

The Company has no controlling shareholder and gets listed as a whole. It's fully independent to shareholders in personal, asset, finance, institution and business. It has independent business and capability of carrying out business on its own. The board of directors, board of supervisors and internal departments are able to operate independently.

IV. Performance Evaluation and Incentive Mechanism for Senior Executives

The Company employs senior executive mainly in two ways, external recruitment and internal selection. The senior executives are engaged by the board of directors, subject to examination of China Banking Regulatory Commission on his/her qualifications. . The Company's Board of Supervisors will carry out

CHAPTER V CORPORATE GOVERNANCE STRUCTURE

resign/dismission audit on senior executives and monitor senior executives' behaviors violating laws and regulations, or harming interests of Company, and request them to correct, and report to general meeting or national relevant authorities if necessary.

In the reporting period, the Salary Management and Examination Committee carries out examinations on senior executive's performance. The examination is mainly based on compliance of main operation targets proposed by the Company, performance of supervision indicators proposed by China Banking Regulatory Commission, and appraisal by directors. The examination focuses on benefits and efficiency, taking cost control and risk control as main theme, emphasizing high-quality development, reflecting principle of objectivity and matching responsibility with right and rewards with punishment. In addition, the special committee of board of supervisors evaluates legality of senior executives' performance. The examination result of Salary Management and Examination Committee and appraisal advice of the board of supervisors will be taken as basis of defining senior executives' salary and other rewards.

CHAPTER VI GENERAL MEETING

During the reporting period, the Company held 2 general meetings as follows:

I. Annual general meeting of 2004

May 19, 2005, the Company held annual general meeting of 2004. Relevant resolutions are published on China Securities Journal, Shanghai Securities News, Securities Times and website of Shanghai Stock Exchange on May 20, 2005.

II. First temporary general meeting in 2005

November 17, 2005, the Company held its first temporary general meeting in 2005. Relevant resolutions are published on China Securities Journal, Shanghai Securities News, Securities Times and website of Shanghai Stock Exchange on November 18, 2005.

CHAPTER VII REPORT OF BOARD OF DIRECTORS

I. Discuss and analysis of management

(I) Review of business operation during the reporting period

The Company's core business scope: taking public RMB deposits; granting loans of short-term, mid-term and long-term natures; performing settlements; discounting bills and notes; issuing financial debentures; issuing, underwriting and cashing securities on behalf of governmental authorities; trading of governmental bonds and debentures; inter-bank loans and deposits; services relating to letters of credit and letters of guarantee; factoring and assignment of receivables and payables; safe deposit services; accepting deposit in foreign currencies; granting loans in foreign currencies; remittance of foreign currencies; lending in foreign currencies; accepting and discounting of bills and notes expressed in foreign currencies; purchase and sale of foreign currencies, either for itself or on behalf of clients; purchase and sale of marketable securities expressed in foreign currencies(excluding stocks), either for itself or on behalf of clients; issuance of marketable securities expressed in foreign currencies(excluding stocks), either for itself or on behalf of clients; exchange of foreign currencies; guarantees in foreign currencies; lease of foreign currencies; Offshore banking credit investigation, consultancy and testimonial services and other services as approved by CBRC.

1. Overview of the Company's overall operation

In 2005, we implemented the nation's macroeconomic control policies and measures and the requirements of the regulatory authorities. We strived to coordinate development of quality, profit, speed and structure and gained sound achievement.

(1) Sound operation

By end of 2005, the Company's total assets hit RMB356.128 billion, increasing RMB 51.802 billion, 17.02% higher than the same period of the previous year. The balance of deposit increases RMB 42.661 billion to RMB 310.503 billion, 15.93% more than the same period of the previous year. The balance of loan reaches RMB 233.688 billion by increasing RMB 52.576 billion, 29.03% more than that of end of last year. Total profits rise to RMB2.003 billion, increasing RMB 0.342 billion, 20.6% increase over that of end of last year. Net profits rise to RMB 1.289 billion by increasing RMB 0.272 billion, 26.72% more than that of end of last year.

(2) Asset-liability management strengthened, business structure further improved

Under the overall requirements of adapting to limited capital and expeditiously improving operation level, the company improved the control and management of asset-liability ratio, the control of the aggregate risk assets and day-to-day monitoring, delivering better asset utilization efficiency and effectiveness. The company strengthened its credit extension to the industries to which priority given by the state and credit risk control on such industries, with higher percentages of loans to major industries and of mortgage and pledge loans. The company increased its efforts to invest in bonds with a growth rate of 50.79% and the percentage of bond investment grew by 3.69%. The company also actively carried out intermediate businesses, and the revenue generated by such businesses recorded a percentage growth of 0.3% over last year.

(3) Internationalization restructuring deepened, phase results achieved in terms of introduction of overseas strategic investors and process restructuring

CHAPTER VII REPORT OF BOARD OF DIRECTORS

The company has successfully entered into with Deutsche Bank such agreements as share transfer agreement, agreement on overall long-term strategic cooperation, agreement on overall technology support and credit card business cooperation, creating new opportunities for it to improve internationalization level and operation and management abilities. New fund system and credit system has formally operating, indicating process restructuring in line with international practices has achieved phase results.

- (4) Overall risk management implemented, internal control improved

The company has established overall risk management structure covering credit risk, market risk, operation risk, operating risk, product risk, and policy risk. It has put in place vertical internal audit system and improved the route for reporting risk issues. It has improved such monitoring systems as the enterprise credit rating and quantitative risk indicators, risk warning for the whole process and dynamic monitoring management have been implemented, and all the staff has increased risk awareness. In accordance with the requirements of the Chinese Banking Regulatory Commission, the company has also diligently carried out special rectification on certain cases, improved its audit and check on major businesses, with the result of further enhancement of internal control.

- (5) Standardized management earnestly improved, internal management somewhat improved

With the main objective of strengthening system enforceability and operability in mind, the company has combed through its regulations and systems, set up the system restructuring standard, and initiated the restructuring efforts. It has strengthened basic management, conducting the accounting system ISO 9001 quality authentication and examination and acceptance of scandalized accounting management. The software development has obtained the evaluation and acceptance of software engineering management at international CMM2 level in a smooth manner. The company has also established the emergency management system, playing an active role in safeguarding the safe operation of the bank.

- (6). Acceleration of construction

At end of the reporting period, we had set up 22 branches and 5 cross-city sub-branches in 27 cities. The number of business branches has increased to 266, increasing 23 against that at end of last year.

2. Composition of Income and Profits from Core business

In the reporting period, the Company's income from core business reached RMB 13,794,473,000 and profits from core business reached RMB2,184,273,000.

1. As per business category

Category	Business Income
Loan	9,800,502
Inter-bank loan and deposit	1,170,492
Bond investment	1,692,650
Other business	1,130,829
Total	13,794,473

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(2) As per geographic region

Region	Income from Core business	Profits from Core business
East China	5,841,210	1,139,875
North China and Northeast China	3,852,817	314,060
South China and Middle China	2,006,229	232,889
Southwest China and Northwest China	2,094,217	497,449
Total	13,794,473	2,184,273

(' 000 RMB)

(3) Core businesses and structure in the reporting period and the comparison with that of the last reporting period

We developed businesses within the scope approved by the People's Bank of China and the China Banking Regulatory Commission. The services of loan and deposit, securities investment, due to/from inter-bank, settlement are the company's main income sources. In the reporting period, there is no other business that has important influence on the company's profit.

3. Financial Status and Operation Performance

(1) Changes of main financial indicators and related reasons

Main Financial Indicators	At end of 2005	Increase/decrease	Main reason
Total assets	356,128,420	17.02%	Growth in loan and investment
Total debts	345,675,411	17.29%	Growth in deposit
Incl: Long-term debt	62,391,656	4.57%	Growth in long-term deposit
Shareholder equity	10,453,009	8.78%	Growth in undistributed profit
Profit from core business	2,184,273	20.18%	Growth in business scale
Net profit	1,288,675	26.72%	Growth in business scale
Increase in cash and cash equivalent	-26,251,622	-304.29%	Growth in loan and investment

(' 000 RMB)

(2) Items in financial statement with change over 30%

Accounting items	End of reporting period	Increase/ decrease	Main reason
Due from central bank	35,809,928	-39.42%	Decrease in due from central bank
Due from other banks	7,254,872	60.41%	Increase in due from other bank
Placement with other banks	109,709	-91.15%	Decrease in placement with other banks
Placement with financial institutions	0	-100.00%	Decrease in placement with financial institutions
Interest receivable	792,554	35.36%	Increase in interest receivable from bond
Other receivables	582,268	33.74%	Increase in other receivables
Discount	40,488,436	122.38%	Increase in discounting business
Short-term investment	6,746,730	189.30%	Increase in short-term investment
Long-term bond investment	51,768,706	42.00%	Increase in long-term bond investment
Project in progress	36,865	-45.31%	Transferred to fixed assets

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Accounting items	End of reporting period	Increase/decrease	Main reason
Disposal of fixed asset	0	-100.00%	Disposal of fixed assets
Collateral to be disposed	368,936	45.41%	Increase in collateral to be disposed
Notes financing	1,326,996	-47.01%	Decrease in notes financing business
Deposit of banks	21,426,952	61.54%	Increase in deposit of banks
Placement of banks	16,763	-96.78%	Decrease in placement of banks
Sold repurchased securities	0	-100.00%	Decrease in sold repurchase business
Fund trusted	0	-100.00%	Issuance of fund trusted
Deposit of short-term guarantee	61,086,386	80.16%	Increase in deposit of short-term guarantee
Interest payable	1,478,241	41.46%	Increase in interest payable for undue deposit
Wage payable	144,474	104.43%	Increase in wage payable
Public welfare fund payable	49,296	48.29%	Increase in public welfare fund payable
Dividend payable	3,850	2466.67%	Increase in dividend payable
Deferred revenue	284,761	100.00%	Newly supplemented accounting item
Long-term debt due in 1 year	0	-100.00%	Decrease in long-term debt due in 1 year
Other current debt	2,039,566	100.00%	Increase in other current debt
Deposit of long-term margin	0	-100.00%	Decrease in deposit of long-term margin
Sub-loan fund	101,310	120.31%	Increase in sub-loan fund
Cumulative translation adjustment	-24,661	-100.00%	Changes in exchange rate
Commission income	297,200	32.97%	Increase in intermediary business
Exchange gain	114,975	41.71%	Increase in foreign exchange settlement and sale
Other operating income	42,401	107.96%	Increase in other operating income
Interest expenses	4,987,221	38.00%	Increase in scale of deposit
Commission expenses	98,775	53.40%	Increase in settlement business

4. Analysis of the Cash Flow

The Company's net cash and cash equivalents flow in 2005 was a net cash outflow of RMB 26.252 billion Yuan. The net cash flow from operating activities was a net cash outflow of RMB 6.586 billion Yuan, which is mainly caused by the increase in loans. The Company had a net cash outflow of RMB 55.546 billion from loans in 2005). The net cash flow from investment activities was a net cash outflow of RMB 19.257 billion, which is mainly caused by the increase in bond investment. The Company had a net cash outflow of RMB 19.993 billion from bond investment in 2005. The net cash flow from financing activities was a net cash outflow of RMB 0.416 billion, mainly attributable to the cash dividend for 2004.

5. Discussion and Analysis of Non-financial Information

Adhering to the center of quality and benefit, the company endeavored to realize growth potential, efficiently employed limited resources, and vigorously promoted marketing efforts and product innovation. All these efforts played important roles in achieving good operating results.

The company has made progress in centralized marketing. It has established and implemented the system of centralized marketing, further defined the standards for such marketing, with initial outcomes in respects of strengthening key clients management and service, improving the management and delegation of client managers, and promoting team marketing.

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The company has actively promoted client development. As to corporate businesses, the company has initially structured the service management framework for the systematic group clients, improved the industry analysis and guidance for client development, established assessment system for corporate clients, consolidated and expanded quality clients, established business relations or signed cooperation agreements with a number of mega-sized enterprises or enterprise groups, and pushed its marketing to a new level. As to individual businesses, the company expanded its business by “access to communities, campuses and markets”, consistently improved the functions and varieties of Huaxia Card, with the result that foreign exchange card business experienced rapid development, and such businesses as savings deposit, individual credit and Huaxia Card generated good results.

The company actively promoted product innovation, launching a series of market-oriented products, including direct link between bank and enterprise systems, instant foreign exchange remittance, “guaranteed profit” series for RMB finance, agreed foreign exchange savings deposit, performance bond, and foreign trade package arrangement. The company successfully held a new product announcement and promotion meeting titled “co-win wealth by technology innovation” in Shanghai in November 2005, grandly launching five new varieties of product, including group clearing center, mobile phone banking, “guaranteed” cash gain program, all of which received good response in the market.

In addition, the company was the leading underwriter and custodian of the Great Wall Monetary Market Fund and Desheng Selected Share Fund under GTJA Allianz Funds, and its short-term securities financing has experienced substantial development.

6. Operation and Business Achievement of the Main Holding Companies and Sharing Companies.

In accordance with the Approval of Establishment of China UnionPay (CUP) Ltd. released by the People’s Bank of China ([2001] No.234), Hua Xia invested RMB50 millions in CUP, accounting for 3.03% of CUP registered capital. Since its foundation in March 2002, CUP developed rapidly.

(II) Prospects for the Future Development

1. Development Trend of the Industry and the Market Competition Pattern

Fundamentally, the development trend for the banking industry in China is the gradual integration with international practices with the development of financial globalization, and the Chinese commercial banks are undergoing operation transition under capital restraint. On the one hand, the implementation of rigorous capital regulatory system and the rigidity of capital restraint will impose significant and far-reaching impact on the operation and development of the Chinese banking industry, bringing substantial change for the domestic banking industry in terms of both theory and practice. On the other hand, strengthening capital restraint has important practical implications for the development of the domestic commercial banks, which will be beneficial to improving the soundness of the domestic banking system, to transforming the growth modes of the domestic commercial banks, namely, transforming to the mode of focusing on the perfection of legal person governance structure and the improvement of internal control mechanism, of improving the assets quality, profitability and service level of financial enterprises. In addition, in respect of financial and accounting standards, the company has, under the requirements of the Ministry of Finance, implemented Interim Provisions for the Recognition and Measurement of Financial Instruments (Tentative) (2005 No. 14) from 1 January,

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2006, which will close the gap between domestic and overseas accounting standards, and basically have no impact on the company's financial position and operating results.

The market competition pattern faced by the company: Such pattern is mainly caused by the reform and development of the domestic banking industry and the opening up of the financial industry. The domestic banking industry will be fully open to the outside world from 11 December 2006, when foreign-funded banks will speed up their business expansion by virtue of their advanced operation philosophy and advantages in terms of service, product, technology and talents; state-owned commercial bank shareholding reform has achieved phase results, these banks have made significant progress in such aspects as governance structure, risk control, market expansion, profitability through capital injection, mechanism reform, restructuring and listing, thus obviously improving their competitiveness; other shareholding commercial banks speed up development race one after another, also experiencing continually improved strength and compositeness; such other financial institutions as rural credit cooperatives and city commercial banks have steadily pushed ahead their reform process, they have relatively stable client base in economically advanced areas and key cities, have close ties with regional economic development, and occupy a considerable market share. The above-mentioned competition pattern means not only challenge, also development opportunities for the company to develop. Through development in recent years, the company has continually consolidated its foundation, undergone significant progress in operation philosophy, development objective, reform and innovation, profitability, internal control and talent training, which lays a solid foundation for it to face competition and promote development.

2. Operation plan for the coming year and future development strategies and opportunities

(1) Operation plan for the coming year

-- The total capital should be no less than RMB390 billion.

--The rate of bad loan should be limited to 3%.

(2) Development strategies

The company will earnestly implement the spirit of the Sixteenth Central Committee of the CPC and the Fifth Plenary Session of the Sixteenth Central Committee of the CPC and the spirit of the Central Economic Work Conference, fully implement the scientific development outlook. We will make development as theme, deepening structural adjustment as main line, improving self-innovation ability and operating benefit and quality as focus, strengthening incentive-restraint mechanism and regulating operational behavior as safeguard. By so doing, we can achieve coordinated development in terms of quality, benefit, speed and structure; make better and faster progress in the process of high-quality development. To complete the annual operation objective on an overall basis, the company will give priority to the following areas:

① further deepen structural adjustment, and earnestly transform operational modes and growth means

The company will actively adjust asset structure, vigorously develop assets business with low risk weighting and high profitability, improving the efficiency and effectiveness of capital use; we will adjust liability structure, vigorously lower liability cost; we will adjust revenue structure, developing

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agency business and expanding settlement business; we will enhance the percentage of non-capital business in the revenue; we will also adjust client structure, earnestly developing quality clients, energetically developing clients operating within the industries supported by the state, actively promoting the development of quality small and middle-sized clients, expanding the growth of individual financial business, and promoting consumption growth.

- ② push ahead internationalization restructuring, continuously improve the bank's operation and management level and self-innovation ability

The company will speed up the transformation, promotion and application of the results achieved in the front-end process restructuring, actively promote the development and construction of such subsequent systems as human resources system and customers relation system, earnestly quicken the implementation of data centralization project, structuring a technology support platform for the smooth implementation of process restructuring. The company will also further enhance electronic construction, reasonably schedule and integrate the bank's IT resources, bring electronic construction into full play in its technology support and promotion roles for implementing process restructuring and improving operation level.

- ③ further deepen system and mechanism reform, and forcefully promote high-quality development

The company will implement the reform of credit extension approval mechanism, and adopt the vertical management mode for regional approval centers, establishing an approval center directly under the administration of the head office. On the condition of effectively controlling risk, we will improve quality and efficiency through reducing links. We will actively promote the reform of asset preservation system. In the principle of legality and compliance and gradual risk reduction, we will classify assets based on three standards of possible non-performing, ongoing non-performing and already non-performing in order to shift forward the preservation work. We will strengthen professional management, improve management organizations, implement management responsibilities, reduce losses, and lower risk. We will further improve management mechanism, perfect professional management system and process under the principle of client-centered and market-oriented; we will also further enhance information communication mechanism, improving the timeliness and quality of information communication; we will further strengthen incentive-restraint mechanism.

- ④ further regulate management, consistently improve internal control

We will strengthen basic management, establish applicable and effective regulations and systems, focus on the system restructuring, smooth out the bank's system framework, earnestly improve the timeliness and operability of the bank's systems; we will earnestly improve day-to-day audit and special audit, strengthen site audit in order to regulate operation and management and promote further improvement of our internal control ability; we will improve risk management on an overall basis to better internal control.

- (3) Development opportunities

In recent years, the company consistently explores and practices the growth modes under the rigid capital restraint, strives to transform operation philosophy and operation modes, actively promotes structural adjustment, internationalization restructuring and internal control construction so as to

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achieve healthy development under limited capital. Because these practices are in line with the development rules of commercial banks and the actual situations of the company, we have achieved relatively significant operational results. To speed up operation transformation, we will further promote the transformation of growth modes, quicken structural adjustment, product innovation and the development of intermediate businesses, thus contributing to the growth of operational results, which will not only lay a solid foundation for our future development, also create favorable development opportunities for our future development.

Meanwhile, with the economic growth in China, investment push and increasing expansion of domestic demand, commercial banks will maintain high growth rate in corporate credit business. In addition, the economic structure adjustment in China, the establishment of a new financial regulatory system, the rapid development of the financial market and the change of customer demand will bring development opportunities in terms of the following three aspects.

Firstly, retail banking business will constitute a new pillar business for commercial banks. GDP per capita has exceeded USD 1000 in China, small and middle-sized enterprises expand rapidly, individual income increases steadily and stably, and savings deposit will maintain high growth margin. In particular, the gradual urbanization process, the upgrade of consumption structure and the change of consumption habit will not only bring the change of investment structure and production structure, also contribute to high growth rate for the retail banking of commercial banks, which will further promote the development of individual retail business.

Secondly, intermediate businesses will maintain prosperous prospects. With the stable economic growth in China, the banking sector has entered into a new development era, and various types of client demand will provide development opportunities for commercial banks to conduct intermediate businesses and expand comprehensive operation. Intermediate business demand of corporate clients (including such financial services as cash management, enterprise financial consultant), the expansion of individual class with middle and high income, and the accumulation of personal wealth have provided significant opportunities for commercial banks to conduct diversified and one-stop financial services. The development of the financial market will bring more space for commercial banks to expand business, and commercial banks will become a sales platform for such various financial products as clearing, custody and insurance.

Thirdly, financial innovation will become the driving force for the development of commercial banks. The rate reform on a commercial basis will push ahead the innovation of inter-bank products. While operating pursuant to laws and regulations and maintaining stable development momentum, commercial banks will also pick up financial innovation to face challenges and improve strength and competitiveness.

3. Capital requirement necessary for future strategic development, capital use plan and capital source

Capital restraint is not only the rigid requirement for banking regulatory purpose, also an inherent requirement for a commercial bank to achieve sustainable and healthy development. To ensure its future business growth, the company will gradually enrich capital replenishment channels to continue improving its capital strength and enhance its ability to prevent risk and develop business. On the condition that the capital adequacy ratio meets the regulatory requirement, the company will reasonably expand business scale. Firstly, it will consistently improve capital strength through internal accumulation; secondly, it will push ahead additional issue of share to replenish core capital; thirdly,

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under the Notice of the Chinese Banking Regulatory Commission on the Relevant Issues of Issuance of Mixed Capital Bond by Commercial Banks to Replenish Supplementary Capital ([2005] No. 79) and other relevant regulations, the company will actively make research in the use of such obligation instruments as mixed capital bonds to replenish supplementary capital.

4. Risks and countermeasures

In the reporting period, the company adhered to sound operation when faced with credit, market, operation risks. It established overall risk management system based on four functions of risk identification, evaluation, warning and control, and implemented overall risk management, which contributed to the growth of business and profit. The detailed countermeasures are as follows:

- (1) Countermeasures against credit risk: improve credit rating system, enhance the ability to identify and evaluate the risk of the transaction counterparties; establish overall reporting system for significant risks, implement risk monitoring and warning for the whole process; strengthen industry policy research, prevent industry systematic risk; strengthen the adjustment of asset structure, optimize the structures of industry, client and guarantee; implement responsibility for credit operation management, and accountability for credit extension.
- (2) Countermeasures against market risk: implement Market Risk Management Guidelines for Commercial Banks, and make research in establishing market risk management systems; promote the use of fund transaction system, and enhance the ability to manage market risk by electronic means; improve research in economic policy and financial market, and master the movement trends for market rate and exchange rate; strengthen rate sensitivity analysis, and gradually improve the reasonable matching mechanism between capital and risk; improve authorization to handle foreign exchange business, the management for exposure limit and process monitoring, and the like.
- (3) Countermeasures against operational risk: adhere to the mechanism of maintaining only the head office as a legal person, and improve the authorizations to branches; implement the requirements of the China Banking Regulatory Commission to establish the monitoring system for operational risk quantitative indicators; strengthen the combing of business systems to gradually achieve the standardization of operational processes; improve the supervision and examination on system implementation to enhance professional management expertise; improve the training for operational staff to prevent man-caused operational risk.
- (4) Countermeasures against information technology risk: plan the technology system, management system and safeguard system for information security under the Hua Xia Bank Safeguard System Framework for Information Security; improve the centralized management of information system security and enhance the ability to deal with information technology risk on a centralized basis; promote the use of new business systems to upgrade information technology level.

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II. Data of Bank Operation

(I) Basic information of branches

Branch	Location	QTY of Sub-branch	QTY of Staff	Capital scale (10,000 RMB)
Headquarter	22 Jianguomen Nei Avenue, Dongcheng District, Beijing City		516	6,869,269
Business Division in Headquarter	International Financial Centre, 11 Financial Venue, Xicheng District, Beijing City	33	940	6,868,552
Nanjing Branch	81 Zhongshan Road, Gulou District, Nanjing City	31	776	3,647,136
Hangzhou Branch	73 Qingchun Road, Shangcheng Gulou District, Hangzhou City	16	397	1,960,068
Shanghai Branch	256 Pudong Road S., Pudong New District, Shanghai City	18	500	2,030,787
Jinan Branch	139 Weier Road, Shizhong District, Jinan City	24	645	1,830,373
Kunming Branch	Hua Xia Building, 98 Weiyuan Road, Wuhua District, Kunming City	19	442	1,187,408
Shenzhen Branch	Nanguang Jiejia Building, 3037 Shennan Road M., Futian District, Shenzhen City	14	370	1,166,347
Shenyang Branch	112 Zhongshan Road, Heping District, Shenyang City	9	251	738,542
Guangzhou Branch	111-115 Wuyang Xincheng Plaza, Si You Xin Road, Yuexiu District, Guangzhou City	7	248	931,498
Wuhan Branch	Hua Yin Building, 786 Minzhu Road, Wuchang District, Wuhan City	14	339	932,057
Chongqing Branch	6 Shang Qing Shi Road, Yuzhong District, Chongqing City	13	314	993,046
Chengdu Branch	48 Renmin Road E., Jinjiang District, Chengdu City	6	206	619,890
Xian Branch	Heping Yinzuo building, 118 Heping Road, Beilin District, Xian City	6	167	433,996
Urumchi Branch	8 Dongfeng Road, Tianshan District, Urumchi City	5	138	296,826
Dalian Branch	25 Tongxing Street, Zhongshan District, Dalian City	9	219	845,955
Qingdao Branch	Yinhe Building, 29 Shandong Road, Shinan District, Qingdao City	10	255	885,542
Taiyuan Branch	113 Yingze Street, Yingze District, Taiyuan City	10	291	1,471,677
Wenzhou Branch	Hua Xia Bank Building, Chezhan Avenue, Lucheng District, Wenzhou City	9	226	518,708
Fuzhou Branch	92 Dongda Road, Gulou District, Fuzhou City	1	89	154,655
Huhhot Branch	Capital Plaza, 1 Zhongshan Road W., Huimin District, Huhhot City	1	74	112,308
Tianjin Branch	Mansion E, Pan-Bohai Development Centre, 9 Bin Shui Dao Zeng, Hexi District, Tianjin City	1	93	207,553
Shijiazhuang Branch	48 Zhongshan Road W., Qiaoxi District, Shijiazhuang City	10	265	910,649
Total		266	7761	35,612,842

(II) Capital Composition and Changes

(100 million RMB)

Item	December 31, 2005	December 31, 2004	December 31, 2003
Net amount of capital	161.77	150.78	125.51
Core capital	99.91	91.89	86.27
Affiliate capital	61.86	58.89	43.08
Deduction	0	0	3.84
Weighted risk asset	1965.63	1751.77	1215.75
Core capital adequacy ratio	5.08%	5.25%	6.94%
Capital adequacy ratio	8.23%	8.61%	10.32%

Note:

Calculation of capital adequacy after December 31, 2004 (including on December 31, 2004) is based on Management Method on Capital Adequacy of Commercial Bank (2004, No.2) issued by China Banking Regulatory Commission. Calculation of capital adequacy before December 31, 2003 is based on Notification on Printing and Issuing of Explaining to Fill Non-field Regulatory Indicator Sheet of Commercial Bank and Non-field Regulatory Sheet Report of Commercial Bank (YF[1997]549) issued by the People's Bank of China.

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(III) Five Classifications of Loan and Reserve for Loan Loss

1. Five classifications of loans and provision ratio for loss from loan at each classification

(' 000 RMB)

	Loan	Rate	Withdrawal ratio
Pass	212,158,277	90.79%	1%
Special mention	14,416,487	6.17%	2%
Sub-standard	5,299,597	2.27%	25%(± 20%)
Doubtful	1,396,943	0.60%	50%(± 20%)
Loss	416,220	0.17%	100%
Total loan	233,687,524	100.00%	

The Company analyzed the recall possibility of each loan at the end of the each period, and withdrew loan loss reserve according to estimated loan loss. Loan loss reserve is withdrawn by loss ratio estimated according to classification of asset risk, on the basis of repay capability of debtor, reasonable value of guaranty, compensation ability of warrantor and internal management. By end of the reporting period, the Company's balance of loan loss reserve was RMB 4.932 billion.

2. During the reporting period, the changes of bad loan are as follows:

(' 000 RMB)

Classification	December 31, 2003		Changes in the period		December 31, 2004	
	Balance	Rate in total loan	Balance	Rate in total loan	Balance	Rate in total loan
Sub-standard	5,401,217	2.98%	-101,620	-0.71%	5,299,597	2.27%
Doubtful	1,424,305	0.79%	-27,362	-0.19%	1,396,943	0.60%
Loss	347,889	0.19%	68,331	-0.02%	416,220	0.17%

(IV) Overview of loan distribution

1. Loan distribution as per sector

At end of the reporting period, industry, construction, material sale & supply, energy and transport, and commerce were the top 5 sectors of getting loans provided by the Company to enterprise.

(' 000 RMB)

Sector	Balance of loan	Rate in total loan
Industry	61,516,476	26.32%
Construction	29,831,028	12.77%
Material sale & supply	24,553,500	10.51%
Energy and transport	22,439,454	9.60%
Commerce	15,293,324	6.54%

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2. Loan distribution as per geographic region

(' 000 RMB)		
Geographic region	Loan Balance	Proportion in total loan
Beijing	43,246,141	18.51%
Shanghai	15,070,699	6.45%
Jiangsu	26,896,343	11.51%
Zhejiang	23,583,695	10.09%
Hubei	8,703,459	3.72%
Shanxi	13,656,103	5.84%
Hebei	8,810,400	3.77%
Guangdong	19,099,115	8.17%
Shandong	26,148,262	11.19%
Yunan	10,530,818	4.51%
Liaoning	12,922,022	5.53%
Sichuan	5,565,643	2.38%
Shannxi	3,459,380	1.48%
Xinjiang	3,238,923	1.39%
Chongqing	8,923,233	3.82%
Inner Mongolia	994,215	0.43%
Fujian	1,680,565	0.72%
Tianjin	1,158,508	0.49%

(V) Overview of top ten loan customers

By the end of the reporting period, the Company's top ten borrowers included Jinan Land Reserve & Exchange Centre, Changchun Urban Development (Group) Co., Ltd., Shanxi Communication Construction Development & Investment Corporation, Fushan Road and Bridge Construction Co., Ltd., Qingdao Economy & Technology Development Zone Urban Development & Investment Co., Ltd., Hubei Qingjiang Hydraulic Power Development Co., Ltd., Dali Bai Autonomous Prefecture State-owned Asset Operating & Investment Co., Ltd., Zhuhai Municipal Facilities Investment & Development Co., Ltd., Department of Communication of Shanxi Province and Minmetals Steel Co., Ltd., with loan balance adding up to RMB 6.18 billion, accounting for 2.64% of total loan balance at the end of the reporting period.

(VI) Discount loan occupying over 20% (including 20%) of total loan at end of the year

During the reporting period, the Company has not issued discount loan.

(VII) Balance of restructured loan at end of year and over-due loan

At the end of the reporting period, the balance of regrouped loan provided by the Company was RMB 1.117 billion including over-due loan of RMB 235 million.

(VIII) Main loan category, monthly average balance and annual average loan interest rates (' 000 RMB)

Average loan interest rate (%)	5.22%
Short-term loan	142,374,171
Medium-and-long-term loan	50,801,777

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(IX) Large government bond held at end of the year

(RMB 10,000)

Bond type	Par value	Maturity	Coupon rate
1996 registered treasury note	1,000	2006.06	11.83
1997 registered treasury note	5,700	2007.09	9.78
1999 registered treasury note	22,000	2006.02-2009.04	3.28-4.88
2000 registered treasury note	40,000	2007.02-2010.09	2.45-3.5
2001 registered treasury note	509,000	2006.07-2021.10	2.5-4.69
2002 registered treasury note	380,800	2007.04-2032.05	2-2.93
2003 registered treasury note	704,900	2006.06-2018.08	2.32-4.18
2004 registered treasury note	1,182,000	2006.06-2011.11	2.98-4.89
2005 voucher treasury note	873,000	2007.07-2025.05	1.75-4.44
2001 voucher treasury note	8,736	2005.11-2006.11	3.14
2002 voucher treasury note	43,492	2007.05-2007.11	2.07-2.48
2003 voucher treasury note	62,398	2006.03-2008.11	2.32-2.63
2004 voucher treasury note	59,141	2007.03-2009.11	2.52-3.81
2005 voucher treasury note	6,008	2008.03-2010.11	3.24-3.81
Oversea bond issued by China government	5,169	2006.05	5.25
Total	3,903,344	—	—

(X) Provisions for interest receivable and other receivables

(' 000 RMB)

Item	Amount	Reserve	Provision basis
Other receivable	582,268	222,183	case-by-case identification

(XI) Main deposit type, monthly average balance and annual average deposit interest rates

(' 000 RMB)

Item	Amount
Average balance of various deposits	265,086,442
Including: Enterprise deposit	138,813,744
Saving deposit	28,199,161
Other deposit	98,073,538
Yearly average deposit interest rate (%)	1.88%

(XII) Unrecalled over-due debt

At the end of the reporting period, the Company has no unrecalled over-due debt.

(XIII) Balance and details of off-balance sheet items that might cause major influence to financial status and operation performance

CHAPTER VII REPORT OF BOARD OF DIRECTORS

In light of its businesses, OBSI business and OBSI interest receivable might cause major influence to financial status and operation result of the Company.

(' 000 RMB)

Item	December 31, 2005	December 31, 2004
Bank acceptance	96,428,190	57,555,842
Issuance of letter of warranty	2,569,887	2,549,975
Issuance of letter of credit	5,665,724	6,551,416
forward foreign exchange contract	--	37,571
Spot foreign exchange contract	112,732	--
Off-balance sheet interest receivable	1,964,493	1,549,905
Irrevocable loan commitment	924,830	1,719,800

(XIV) Overview of collateral

1. Balance

At the end of the reporting period, the Company's balance of collaterals was RMB 458,006,856.28, against RMB 352,021,490.98 at the beginning of the period.

2. Provisions for loan impairment

At the end of the reporting period, the Company's depreciation reserve for collateral was RMB 89,070,908.26, against RMB 98,294,540.96 at the beginning of the period.

3. Classification of collateral

Among the RMB 458,006,856.28 collaterals, RMB 365,388,087.79 was real estate, occupying 79.78%, RMB 7,000,000.00 was land use right, occupying 1.52%, RMB 26,317,434.22 was equity, occupying 5.75%, RMB3,903,528.67 was vehicles, occupying 0.85% and RMB 55,397,805.60 was other assets, occupying 12.10%.

(XV) Group corporation clients credit business risk management

During the reporting period, the Company has actively intensified the risk management of credit business for group corporation clients and the competence of the risk management has been improved increasingly. In accordance with Guidelines on Risk Management of Credit Business for Group Corporation Clients issued by China Banking Regulatory Commission, the Company worked out Measures for Managing Credit Business for Group Corporation Clients to strengthen uniform management of group client definition, credit approval and line approval. Clients are managed according to classification of enterprise scale and asset capability. The Company strictly carries out guarantee condition for group client and performed all-procedure risk alarming and dynamic supervision to strengthen risk management of group client. The Company also performed research and practice of group client risk treatment model to enhance the capability and efficiency of treating risk of group client.

CHAPTER VII REPORT OF BOARD OF DIRECTORS

(XVI) Conditions of bad loans and corresponding measures adopted

At the end of the reporting period, the rate of bad loans in the five categories classified was 3.04%, reducing 0.92% compared with that of beginning of the year.

During the reporting period, in order to settle the bad loans, the Company had adopted the following measures: 1. to carry out the risk management system in an all-round way and gradually establish risk management system featured by "Two Management Position Readies, Three Vertical Management and Four Concentrated Managements", which is position ready of loan operation management and overall risk management, vertical management of loan approval, risk management and audit inner control, and concentrated management of loan marketing, asset protection, accounting management and IT data; 2. to perfect credit assess level and enhance the capability in determining risk of customers; 3. to establish overall major risk report system and carry out all-procedures risk supervision and alarming; 4. to strengthen research of bad loan disposal method and enhance capability in disposing bad loan; 5. to carry out and define the line of duty of each loan business; 6. to strengthen system execution, enhance professional management capability and prevent against operation risk; 7. to promote application of new loan management information system and enhance information concentrated management level; 8. to timely write-off loan in loss and withdraw enough provision for credit loss, so as to enhance financial strength and anti-risk capability.

(XVII) Completeness, reasonability, and effectiveness of inner control system

The Company all always regards inner control system construction as the setout of inner control and enhancing management capability and regularly carries out inner control system discuss and assessment and timely modify various system according to business development, new product promotion and risk management requirement to further strengthen integrality, reasonability and effectiveness of inner control systems. During the reporting period, the Company has discussed 592 systems and modified and established 162 new systems, involving management structure, accounting management, authorization and loan management, intermediate business, law matter, audit management, information disclosure, information management, fund management, safety-guard and human resource management. On the basis of these, in order to strengthen the practicability of system, simplify system structure and enhance applicability of system, the Company additionally performed re-arrangement of system, which enhances the effectiveness and execution of system.

As audited by Both Beijing Jing Du Certified Public Accountants Co., Ltd. and Ernst & Young Accounting Co., Ltd, no significant defeat in respects of the integrality, reasonability and effectiveness of the Company's inner control systems was found.

III. Investment during Reporting period

(I) Usage of funds raised during the reporting period

The Company issued one billion RMB common shares to the public (A shares) of at Shanghai Stock Exchange during August 26 and September 3, 2003, using systems of Shanghai Stock Exchange through combination of secondary market investor pricing & directional offering and internet pricing, with a par value of RMB1.00 per share and the issue price of RMB5.60 per share. Minus listing and issuing fees and plus interest income, the net amount of raised funds was RMB5.46 billion. And the

CHAPTER VII REPORT OF BOARD OF DIRECTORS

funds raised, following instruction of the People's Bank of China and share offer commitment, were used to increase the Company's capital, which enhanced the Company's capital adequacy ratio and improved capability of anti-risk considerably. Sticking to the commitment on usage of the funds, the Company uses the funds raised in a rational way, details as follows.

1. Construction of organizational networks: planning to invest an amount of RMB1.65 billion. At the end of the reporting period, the Company has allocated operation funds of RMB1.329 billion to branches.
2. Electronic construction: planning to invest an amount of RMB1 billion. At the end of the reporting period, the Company has invested RMB 0.77 billion.
3. Personnel training: planning to invest an amount of RMB 200 million. At the end of the reporting period, the Company has invested RMB 200 million.
4. Procurement of fixed assets: planning to invest an amount of RMB 850 million. At the end of the reporting period, the Company has invested RMB 850 million.

The rest has been used for the Company's daily operation.

The actual use of funds raised at the previous time complied with the commitment made at share offer in terms of schedule and amount. And the funds raised at the previous time supplemented core capital, improved and optimized operation environment, intensified profit-making capability, and promoted all kinds of business in a stable and rapid way. The un-used funds of RMB 551 million, accounting for 10% of funds raised at the previous time, will be used for organizational networks and electronic construction. The Company will use the funds according to the schedule as promised.

- (II) Major projects invested with non-financing funds and relevant schedule during the reporting period

During the reporting period, the Company has not invested in projects with non-financing funds.

IV. Daily Work of Board of Directors

- (I) Meetings of Board of Directors during the Reporting Period

1. On April 15, 2005, the Company held the 5th meeting of the 4th Board of Directors in Beijing. The announcement was respectively published on China Securities Journal, Shanghai Securities News, Securities Times and website of Shanghai Stock Exchange by the Company on April 19, 2005.
2. On August 19, 2005, the Company held the 6th meeting of the 4th Board of Directors in Beijing. The announcement was respectively published on China Securities Journal, Shanghai Securities News, Securities Times and website of Shanghai Stock Exchange by the Company on August 23, 2005.
3. On October 14, 2005, the Company held the 7th meeting of the 4th Board of Directors in Beijing. The announcement was respectively published on China Securities Journal, Shanghai Securities News, Securities Times and website of Shanghai Stock Exchange by the Company on October 17, 2005.
4. On October 27, 2005, the Company held the 8th meeting of the 4th Board of Directors in Beijing. The announcement was respectively published on China Securities Journal, Shanghai Securities News,

CHAPTER VII REPORT OF BOARD OF DIRECTORS

Securities Times and website of Shanghai Stock Exchange by the Company on October 31, 2005.

5. On December 29, 2005, the Company held the 8th meeting of the 4th Board of Directors in Beijing. The announcement was respectively published on China Securities Journal, Shanghai Securities News, Securities Times and website of Shanghai Stock Exchange by the Company on December 30, 2005.

(II) Implementation of Resolutions of General Meeting by Board of Directors

The Board of Directors executed 2004 profit distribution plan examined and passed in 2004 annual general meeting of the Company. Taking total capital stock at the end of 2004 that is 4.2 billion shares as basis, the company distributed cash dividend RMB 1.00 per 10 shares to all shareholders (tax included), totaling RMB 0.42 billion. The announcement was published on China Securities Journal, Shanghai Securities News and Securities Times by the Company within the reporting period on May 27, 2005. The cash dividend distribution plan was executed on June 8, 2005.

V. 2005 Profit Distribution Plan

Both Beijing Jing Du Certified Public Accountants Co., Ltd. and Ernst & Young Accounting Co., Ltd. employed by the Company have issued standard auditing report. According to audit report of the domestic accounting firm, the net profit of the Company in 2005 is RMB 1,288,675,100.58 and audit report of the international accounting firm shows the net profit of the Company in 2004 is RMB 1,401,079,000.00.

According to Domestic and International Auditing Difference and Profit Distribution Standard of Financial Company, 4th publication of Q&A of Information Disclosure of Company Issuing Securities Publicly (ZJKJZ[2001]No.58) issued by China Securities Regulatory Commission and Accounting System of Financial Company issued by Ministry of Treasury, the Company withdrawn statutory earnings surplus and statutory public welfare on the basis of net profit audited by domestic accounting firm, and withdrawn general reserve, free earning surplus and dividend to shareholder of common share on the basis of distributable profit audited by international accounting firm according to principle of 'the less applies'. Now, it carried out 2005 profit distribution plan as follows:

1. Withdrawing statutory earnings surplus RMB 128,867,510.06 and statutory public welfare RMB 64,433,755.03, accounting for 10% and 5% respectively of 2005 net profit RMB 1,288,675,100.58 audited by domestic accounting firm.
2. Withdrawing provision for general risk of RMB 800,000,000.00 in 2005 according to the "Administrative Measures for the Withdrawal of Reserves for Non-performing Debts of Financial Enterprises" [CJ (2005)No.49] issued by the Ministry of Finance of the People's Republic of China.
3. Distributing dividend of common share to shareholders: Taking total capital stock 4.2 billion shares as basis, distributing dividend RMB 1.10 per 10 shares (including tax), total amount adding up to RMB 0.462 billion. After execution of 2005 profit distribution plan, the retained profit is to be distributed in the coming years.

The above profit distribution plan is to be executed within 2 months from approval at 2005 annual general meeting.

CHAPTER VIII REPORT OF BOARD OF SUPERVISORS

I. Meetings of Board of Supervisors

- (I) On April 14, 2005 the 3rd meeting of the 4th Board of Supervisors was held in Beijing, which examined and passed the following resolutions: "2004 Work Report of Board of Supervisors and 2004 Working Schedule", "Report on the Supervisors Assess by Board of Supervisors and Outer Supervisors Mutual Assess in 2004", "2004 Financial Final Settlement Report", "2005 Financial Budget Report", "2004 Profit Distribution Plan", "Plan of Adjusting Supervisors" and "2004 Annual Report". The above resolutions were published on China Securities Journal, Shanghai Securities News, Securities Times and website of Shanghai Stock Exchange on April 19, 2005.
- (II) On June 20, 2005 the 4th meeting of the 4th Board of Supervisors was held through communication voting, which examined and passed the following resolution: "2005 Audit Working Plan of Board of Supervisors". The above resolution was published on China Securities Journal, Shanghai Securities News, Securities Times and website of Shanghai Stock Exchange on June 22, 2005.
- (III) On August 19, 2005 the 5th meeting of the 4th Board of Supervisors was held in Beijing, which examined and passed the following resolutions: "Assessment of the Company's Director, Senior Management Duty Performance", and "Procedures Rule of Board of Supervisors". The above resolutions were published on China Securities Journal, Shanghai Securities News, Securities Times and website of Shanghai Stock Exchange on August 23, 2005.
- (IV) On October 27, 2005 the 6th meeting of the 4th Board of Supervisors was held in Beijing, which examined and passed the following resolutions: "Audit Report on the Special Examination on the Financial Management of Business Division of the Headquarters, Nanjing Branch, Hangzhou Branch of Hua Xia Bank", "Audit Report on the Special Examination on the Financial Management of Kunming Branch of Hua Xia Bank", "Opinion on the Audit Report of the Management of Seal, Authentication, Voucher and Destroying Policy of Jinnan Branch, Shenyang Branch, and Guangzhou Branch of Hua Xia Bank", and "Proposal on Supplementing Supervisors". The above resolutions were published on China Securities Journal, Shanghai Securities News, Securities Times and website of Shanghai Stock Exchange on October 31, 2005.

II. Special Examination of Board of Supervisors

- (I) In July 2005 the Board of Supervisors carried out special examination on the performance of directors and senior managers of Hua Xia Bank in 2004 and developed Appraisal on Performance of Director and Senior Manager of Hua Xia Bank .
- (II) In Kunming August 2005 the Board of Supervisors listened the report of the Audit Department of the headquarters on the field check of account management of the business division of the headquarters, and file management of Nanjing Branch and Hangzhou Branch, and developed "Audit Report on the Special Examination on the Financial Management of Business Division of the Headquarters, Nanjing Branch, Hangzhou Branch of Hua Xia Bank", performed field check to the financial management of Kunming Branch and developed "Audit Report on the Special Examination on the Financial Management of Kunming Branch of Hua Xia Bank
- (III) In Beijing September 2005 the Board of Supervisors listened the report of the Audit Department of the headquarters on the field check of the management of seal, authentication, voucher and destroying Policy of Jinnan Branch, Shenyang Branch, and Guangzhou Branch and developed "Opinion on the Audit Report of the Management of Seal, Authentication, Voucher and Destroying Policy of Jinnan Branch, Shenyang Branch, and Guangzhou Branch of Hua Xia Bank".

CHAPTER VIII REPORT OF BOARD OF SUPERVISORS

- (IV) In Guangzhou November 2005 the Board of Supervisors listened the check report of the Audit Department of the headquarters on the credit business of the whole bank and developed the "Opinion on the Report of Checking Credit Business of the Whole Bank" and performed field check to the asset quality condition of Guangzhou Branch through combination of listening report and sample check and developed "Report of the Field Check on Assset Quality of Guangzhou Branch of Hua Xia Bank".

The results of above examinations were checked and passed by meeting of Board of Supervisors and reported to Chairman of Board of Directors and management level in written.

III. Independent Opinions from Board of Supervisors

During the reporting period, the Company had held 2 general meeting and 5 meetings of board of directors. Supervisors attended each meeting of board of supervisors and supervised the performance of directors and senior managers of the Company.

- (I) Operation in accordance with regulations

During the reporting period, the Company operated in accordance with all governing laws and regulations. The decision-making procedures were all legal and valid. The directors and senior Manager did not violet any law or regulation in the process of business operation and management, nor have them been found to conduct any behavior that caused any damage to shareholders' interests.

- (II) Authenticity of the financial statement

The Company's financial report accurately reflects the Company's financial status and performance during the reporting period. The auditors, Beijing Jing Du Certified Public Accountants Co., Ltd. and Ernst & Young Accounting Co., Ltd. both issued an auditor's report in accordance with GAAP and IAS without any reserved opinions .

- (III) The Company's utilization of the funds raised

The actual projects invested with these funds and the uses of the funds comply with commitment madeat share offer.

- (IV) Acquisition and sales of assets

During the reporting period, the company neither sold any assets nor acquired or merged any assets.

- (V) Transactions with related parties

Within the reporting period, the Company's associated transactions were fair and reasonable, and such related transactions haven't been discovered to cause any damage to shareholders' interests or the Company's interests.

- (VI) Internal control system

The Company had established a comprehensive, rational and effective internal control system.

- (VII) Execution of resolutions made at the General Meeting

The Board of Supervisors had no objections to the contents of the reports and proposals submitted by the Company's Board of Directors to the General Meeting for examination and approval. The Company's Board of Supervisors supervised the execution of resolutions made at the general meetings and deemed that the Board of Directors had implemented relevant resolutions.

CHAPTER IX IMPORTANT ISSUES

I. Major lawsuit and arbitration affairs

Within the reporting period, the Company had no lawsuits or arbitration that resulted in a major impact on its business. By the end of the reporting period, there were 70 major lawsuits concerning the Company with each case amount exceeding RMB 10 million that had not been verdict and involved RMB 2,440,304,300, including 9 lawsuits in which the Company was the defendant and involving RMB 182,260,000. The par value of state bond held by the Company but frozen by court was RMB 96,542,300. In terms of losses may caused by unsettled lawsuits, the Company had withdrawn reserve.

II. Assets Procurement, Sale, Absorption and Merger

During the reporting period, the Company had no major matter concerning procurement, sale, absorption and merger of assets.

III. Important Associated Transactions

During the reporting period, the Company's important associated transactions are of loans to shareholders holding 5% or above shares of the Company and their affiliates. During handling associated transactions, the Company strictly abided by relevant law, rule and business management policies of the Company and carried out such transaction on the condition not more favorable than similar transactions without associated, which complied with credit and fair principle and didn't exert negative influence on the operation results and financial condition of the Company. In 2005 according to "The Administrative Measures for The Connected Transactions between The Commercial Banks and their Insiders or Shareholders" issued by China Banking Regulatory Commission, the Company formulated "Temporary Method on the Management of Connected Transactions between Hua Xia Bank Co., Ltd. and its Insiders or Shareholders" to standard definition of associated parties, approval of associated transaction and risk control of associated transaction and to further improve management of associated transaction and more effectively control risk of associated transactions.

(I) Loan provided to shareholder holding 5% of the total shares

The company has no related party that holds controlling stakes of the company.

The loans provided to shareholder holding 5% of the Company's total shares are as follows:

	Shares	Loan balance at	Loan balance at
Shareholders	(10,000 shares)	end of 2005	end of 2004
Shougang Group Coropration	60000.96	249,000	249,000
Luen Tai Group Co., Ltd.	36000.00	199,000	199,000

Note: Loan to associated party doesn't excess its investment in the Company.

CHAPTER IX IMPORTANT ISSUES

- (II) At the end of the reporting period, over RMB 30 million loans provided to shareholder holding over 5% of the total shares or its associated enterprises or other enterprises with same key executives are as follows:

(' 000 RMB)

Associated enterprise	Loan balance at en of 2005	Rate in total loan
Shougang Group General Corporation	249,000	0.11%
Beijing Shougang Construction Group Co., Ltd.	96,179	0.04%
Beijing Shougang New Steel Co., Ltd.	137,440	0.06%
Beijing Shougang Special Steel Co., Ltd.	118,000	0.05%
Beijing Shougang Machine-electricity Co.,Ltd.	138,780	0.06%
Shougang International Trade & Engineering Co., Ltd.	40,000	0.02%
Luen Tai Group Co., Ltd.	199,000	0.09%
Shandong Economy & Technology Research Centre	99,940	0.04%
Shandong Jinan Investment Co., Ltd.	88,300	0.04%
Beijing Zhongguancun Network Development Co., Ltd.	65,206	0.03%
Beijing Guo Li Energy Investment Co., Ltd.	280,000	0.12%

Since the Company has no controlling shareholder, transaction with related parties is of normal banking deposit and loan and no condition exists that the Company's fund is used by controlling shareholders or its affiliates for non-operating purpose.

IV. Major contracts and related implementation

- (I) Major trusteeship, lease and contract issues

No major trusteeship, lease or contract issue was involved during the reporting period.

- (II) Major guarantees

Apart from the financial guarantee business which falls within the Company's business scope as approved by the People's Bank of China within the reporting period, the Company had no other major guarantee issues requiring disclosure.

- (III) Assets management entrusted to other parties

During the reporting period, the Company did not entrusted any party to manage any of its assets.

- (IV) Other major contracts and implementation

The Company's various business contracts were implemented normally during the reporting period, and no disputes over any major contracts occurred.

V. Commitment of company and shareholder holding 5% of the total shares

The Company plans to perform split-share reform in March 2006.

CHAPTER IX IMPORTANT ISSUES

VI. Appointment of Accounting Firms

During the reporting period, the Company appointed Beijing Jing Du Certified Public Accountants Co., Ltd. and Ernst & Young Certified Public Accountants Co., Ltd. as the Company's auditors for its statutory financial statements and supplemental financial reports of 2005. During the reporting period, the company paid Beijing Jing Du Certified Public Accountants Co., Ltd. RMB 2.7 million for auditing and RMB 2.7 million to Ernst & Young Certified Public Accountants Co., Ltd.

Both Beijing Jing Du Certified Public Accountants Co., Ltd. and Ernst & Young Certified Public Accountants Co., Ltd. have been engaged by the company for 5 consecutive years respectively.

VII. Penalty of the Company, Board of Directors and Director

During the reporting period, the Company, Board of Director, directors and senior managers have not been investigated, penalized or circularly criticized by China Securities Regulatory Commission and publicly condemned by stock exchanges and not penalized by other regulatory department and judicial authorities.

VIII. Other Significant Matter

- (I) on March 3, 2005, the Company published the approval of carrying out securities investment fund trust business. The Company obtained "Notification of Approval of Qualification of Securities Investment Trust of Hua Xia Bank" jointly issued by China Securities Regulatory Commission and China Banking Regulatory Commission with the document of ZJJZ[2002] No.25. The publication is detailed in China Securities Journal, Shanghai Securities News, Securities Times and website of Shanghai Stock Exchange on March 3, 2005.
- (II) On July 26, 2005, the Company published the announcement for being approved to access open securities investment fund agent business in accordance with Approval on Hua Xia Bank Co., Ltd. to Operate Open Securities Investment Fund Agent Business" (YJF [2005] No.190) issued by China Banking Regulatory Commission, on China Securities Journal, Shanghai Securities News, Securities Times and website of Shanghai Stock Exchange on July 26, 2005. .
- (III) On October 17, 2005, the Company published the agreement with foreign investors. According to the resolution passed at the 7th meeting of the 4th Board of Directors, joint with 18 shareholders of the Company, the Company signed "Agreement of Share Assignment", "Agreement of Investor's Equity", "Agreement of Entrustment", "Agreement of Overall technology Support and Assistance", "Agreement of Credit Card Cooperation" and "Memorandum of Overall Long-term Strategic Cooperation" with Deutsche Bank AG, Deutsche Bank Luxemburg S.A., and Sal.Oppenheimer jr. & Cie. KgaA on October 17, 2005. The publication is detailed in China Securities Journal, Shanghai Securities News, Securities Times and website of Shanghai Stock Exchange on October 17, 2005.

The Company officially signed "Agreement of Overall Long-term Strategic Cooperation" with Deutsche Bank AG in Berlin, German on November 10, 2005 (local time). The publication is detailed in China Securities Journal, Shanghai Securities News, Securities Times and website of Shanghai Stock Exchange on November 12, 2005.

CHAPTER X REFERENTIAL DOCUMENTS

CHAPTER X FINANCIAL REPORT

The financial statement for 2005 of the Company was audited by Beijing Jing Du Public Certified Accountants Co., Ltd. and signed by CPA Wei Qiaobin and Ji Mei with "BJJDSZ(2006) No. 0133" standard auditing report with reservation opinions. Ernst and Young Accounting Co., Ltd. audited supplemental financial report of 2005 compiled by the Company according to international accounting standards and issued standard auditing report with reservation opinions. (See Appendix I and II for details)

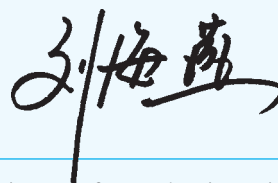
CHAPTER XI REFERENTIAL DOCUMENTS

1. Financial statements endorsed with the signatures and seals of the Company's legal representative, president and finance controller.
2. The original auditor's report endorsed with the stamp of the accounting firm and the signatures and stamp of certified public accountants.
3. The original Annual Report endorsed with the signature of the Company's Chairman of the Board.
4. The texts and original copies of all documents and announcements released in "China Securities Journal", "Shanghai Securities News" and "Securities Times" by the Company within the reporting period.
5. "Articles of Association of Hua Xia Bank Co., Ltd."

CHAPTER XII APPENDIX

Appendix I: Domestic Auditing Report

Appendix II: International Auditing Report



Chairman of Board: Liu Haiyan

Board of Directors of Hua Xia Bank Co., Ltd.

15 February 2006

WRITTEN OPINION OF THE DIRECTORS AND SENIOR MANagements

Written Opinion of the Directors and Senior Managements of Hua Xia Bank Co., Ltd. on 2005 Annual Report

Conforming to the rules in "Law of Securities" and "Content and Format of Annual Report, the 2nd Publication of Content and Format Regulation of Information Disclosure by Company Issuing Securities Publicly" (revised in 2005)", as directors and senior managements of Hua Xia Bank Co., Ltd, we, after overall understand and audit the Company's 2005 Annual Report and its Abstract, deem:

1. The Company operates complying with "Accounting Standard for Business Enterprises", "Accounting System for Business Enterprises", and "Accounting System for Financial Enterprises", and the Company's 2005 Annual Report and its Abstract present fairly, in all material respects, the financial position of Hua Xia Bank Company and of the results of its operations for the year then ended.
2. "2005 Annual Report of Hua Xia Bank Co., Ltd." respectively issued by Beijing Jingdu Certified Public Accountants Co., Ltd. and Ernst & Young Certified Public Accountants is true, objective and fair.

We guarantee that the information presented in the Company's 2005 Annual Report and its Abstract is free from any false record, misleading statement or material omission, and accepts, individually and collectively, liability for its truthfulness, accuracy and completeness.

15 February 2006

WRITTEN OPINION OF THE DIRECTORS AND SENIOR MANagements

Name	Post	Siganture
Liu Haiyan	Chairman	
Fang Jianyi	Vice Chairman	
Geng Liuqi	Director	
Sun Weiwei	Director	
Zhao Jian	Director	
Zhang Meng	Director	
Yu Jianping	Director	
Wu Jian	Director, President	
Liu Xifeng	Director, Vice President, Financial Controller	
Zhao Junxue	Director, Corporate Secretary	
Jiang Peiwei	Independent Director	
Zhang Liguo	Independent Director	
Gao Peiyong	Independent Director	
Qi Yudong	Independent Director	
Xu Tieliang	Independent Director	
Mu Xinming	Independent Director	
Zhang Mingyuan	Independent Director	
Qiao Rui	Vice President	
Li Guopeng	Vice President	

CHAPTER XI APPENDIX

Appendix I : Domestic Auditing Report

REPORT OF THE AUDITORS

Beijing JDSZ(2006)No.0133

To the Shareholders of Hua Xia Bank Co., Ltd.

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

We planned and conducted our audit in accordance with the Independent Auditing Standards for Chinese Certified Public Accountants to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examination, on a test basis of, evidence relevant to the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting policies adopted and significant accounting estimates made by the management in the preparation of the financial statements, as well as an evaluation of the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying financial statements have been prepared in accordance with the requirement of the "Accounting Standard for Business Enterprises" and "Accounting System for Business Enterprises", and present fairly, in all material respects, the financial position of Hua Xia Bank Company as of December 31, 2005 and of the results of its operations and its cash flows for the year then ended.



Chinese CPA:  

Chinese CPA:  

15 February 2006

Balance Sheet

Prepared by: Hua Xia Bank Co., Ltd.		Unit: RMB yuan	
Items	Notes	December 31, 2005	December 31, 2004
Current Assets			
Cash on hand and cash at bank	V.1	1,049,244,797.96	972,863,036.46
Due from the Central Bank	V.2	35,809,927,996.86	59,115,531,007.85
Due from banks	V.3	7,254,872,077.40	4,522,699,248.52
Placemnt with banks	V.4	109,709,140.00	1,239,128,000.00
Placement with other financial institutions	V.5		430,000,000.00
Short-term loans	V.6	123,902,482,663.10	107,015,852,217.20
Import & export advances and negotiation	V.7	1,337,866,408.65	1,212,047,290.39
Interest receivable	V.8	792,553,968.66	585,502,938.28
Other receivables	V.9	582,268,005.27	435,381,839.67
Less: Provision for doubtful debts	V.10	222,183,366.48	248,988,436.82
Net amount of receivables		1,152,638,607.45	771,896,341.13
Discounted bills	V.11	40,488,435,875.75	18,206,992,436.66
Short-term investments	V.12	6,746,730,469.04	2,332,122,194.73
Amounts receivables under reverse repurchase agreements	V.13	12,364,883,342.47	11,056,523,176.80
Long-term bond investments manturing in one year	V.14	5,772,285,901.12	5,490,262,699.74
Total current assets		235,989,077,279.80	212,365,917,649.48
Long-term assets:			
Medium to long-term loan	V.15	60,960,803,905.24	48,645,423,391.29
Overdue loans	V.16	6,997,934,966.26	6,031,887,076.79
Less: Provision for credit losses	V.17	4,932,315,726.33	4,408,978,163.73
Long-term bond investments	V.18	51,768,705,602.88	36,456,353,171.15
Long-term equity investment	V.19	50,000,000.00	50,000,000.00
Less: Provision for long-term investments			
Net amount of long-term investments		51,818,705,602.88	36,506,353,171.15
Fixed assets, at cost	V.20	4,954,465,290.57	4,644,469,733.73
Less: Acumulated depreciation	V.20	1,267,388,066.66	1,055,970,066.59
Fixed assets, net book value		3,687,077,223.91	3,588,499,667.14
Construction in progress	V.21	36,864,999.50	67,412,391.74
Fixed assets pending for disposal			18,180,516.97
Total long-term assets		118,569,070,971.46	90,448,778,051.35
Intangible assets and other assets			
Long-term deferred expenses	V.22	505,061,419.85	522,649,293.25
Repossessed assets	V.23	368,935,948.02	253,726,950.02
Total intangible assets and other assets		873,997,367.87	776,376,243.27
Deferred tax			
Deferred tax assets	V.24	696,275,204.16	734,664,115.92
Total assets		356,128,420,823.29	304,325,736,060.02

Legal representative: **Liu Haiyan**President: **Wu Jian**Financial controller: **Liu Xifeng**

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Balance Sheet (continued)

Prepared by: Hua Xia Bank Co., Ltd.		Unit: RMB yuan	
Item	Notes	December 31, 2005	December 31, 2004
Current liabilities:			
Short-term deposits	V.25	173,104,823,234.85	162,874,183,753.45
Short-term saving deposits	V.26	18,017,406,103.32	15,416,384,182.67
Discounted bills refinancing	V.27	1,326,996,470.99	2,504,367,276.00
Due to banks	V.28	21,426,952,248.09	13,264,115,113.12
Borrowing from banks	V.29	16,762,921.02	520,000,000.00
Amounts payable under reverse purchase agreements	V.30		1,280,000,000.00
Outward remittances		1,625,905,379.49	1,825,519,264.44
Inward remittance		254,536,437.44	273,615,492.90
Designated depositss	V.31		500,000.00
Short-term guaranteed deposits	V.32	61,086,386,470.47	33,907,329,822.63
Interest payable	V.33	1,478,240,890.25	1,045,008,717.54
Salaries payable		144,473,689.03	70,670,000.00
Welfare payable		49,295,932.55	33,243,485.99
Taxes payable	V.34	675,227,594.81	532,383,606.34
Dividend payable	V.35	3,850,000.00	150,000.00
Other payables	V.36	1,748,571,037.55	1,488,032,021.86
Deferred revenue	V.37	284,761,323.74	
Long-term liabilities due in one year	V.38		14,393,730.60
Other current liabilities	V.39	2,039,565,758.81	
Total current liabilities		283,283,755,492.41	235,049,896,467.54
Long-term liabilities:			
Long-term deposits	V.40	42,005,447,193.26	42,741,997,485.56
Long-term saving deposits	V.41	16,034,899,242.21	12,620,906,913.14
Long-term guaranteed deposits			7,954,600.00
International finance loans	V.42	101,309,805.15	45,985,604.10
Subordinated debts	V.43	4,250,000,000.00	4,250,000,000.00
Total long-term liabilities		62,391,656,240.62	59,666,844,602.80
Deferred tax			
Deferred tax liabilities			
Total liabilities		345,675,411,733.03	294,716,741,070.34
Shareholder's equity:			
Issued capital	V.44	4,200,000,000.00	4,200,000,000.00
Capital reserve	V.45	3,759,619,618.71	3,759,619,618.71
Surplus reserve	V.46	742,253,570.75	548,952,305.66
Including: public welfare reserve	V.46	210,427,523.58	145,993,768.55
General provisions	V.47	900,000,000.00	100,000,000.00
Retained profit	V.48	875,796,900.80	1,000,423,065.31
Including: cash dividend to be distributed		462,000,000.00	420,000,000.00
Cumulative translation adjustments		(24,661,000.00)	
Total shareholder equity		10,453,009,090.26	9,608,994,989.68
Total liabilities & shareholder's equity		356,128,420,823.29	304,325,736,060.02

Legal representative: **Liu Haiyan**

President: **Wu Jian**

Financial controller: **Liu Xifeng**

Income Statement

Prepared by: Hua Xia Bank Co., Ltd.

Unit: RMB yuan

Items	Notes	Year of 2005	Year of 2004
I. Operating income		13,794,472,809.37	10,826,803,821.89
Interest income	V.49	10,476,754,854.27	8,271,464,149.39
Interest income on amounts due from financial institutions	V.50	1,170,492,305.95	902,793,968.41
Fee and commission income		297,200,326.71	223,507,786.95
Exchange gain		114,975,009.22	81,135,596.66
Investment gain	V.51	1,692,649,801.57	1,327,513,548.67
Other operating income		42,400,511.65	20,388,771.81
II. Operating cost		11,005,321,346.02	8,534,795,506.04
Interest expense	V.52	4,987,220,680.35	3,613,970,185.48
Interest on amounts due to financial institutions	V.53	992,901,876.96	856,890,682.33
Fee and commission expenses		98,775,443.17	64,391,338.81
Operating expenses		3,488,928,185.17	2,734,316,938.26
Other operating expenses	V.54	1,437,495,160.37	1,265,226,361.16
III. Business tax and surcharges	V.55	604,878,453.58	474,567,809.77
IV. Operating profit		2,184,273,009.77	1,817,440,506.08
Add: non-operating income	V.56	21,716,054.27	17,526,744.77
Less: non-operating expenses	V.57	203,260,486.35	174,290,519.29
V. Gross profit		2,002,728,577.69	1,660,676,731.56
Less: Corporate income tax	V.58	714,053,477.11	643,759,160.00
VI. Net profit		1,288,675,100.58	1,016,917,571.56

Legal representative: Liu Haiyan

President: Wu Jian

Financial controller: Liu Xifeng

Appropriation Statement

Prepared by: Hua Xia Bank Co., Ltd.

Unit: RMB yuan

Items	Notes	Year of 2005	Year of 2004
I. Net profit		1,288,675,100.58	1,016,917,571.56
Add: Retained profits at beginning of year		1,000,423,065.31	171,043,129.49
II. Distributable profit		2,289,098,165.89	1,187,960,701.05
Less: Statutory surplus reserve		128,867,510.06	101,691,757.16
Statutory public welfare reserve		64,433,755.03	50,845,878.58
General provisions		800,000,000.00	
III. Distributable profit for shareholders		1,295,796,900.80	1,035,423,065.31
Less: Dividend		420,000,000.00	35,000,000.00
IV. Retained profit		875,796,900.80	1,000,423,065.31

Legal representative: Liu Haiyan

President: Wu Jian

Financial controller: Liu Xifeng

CHAPTER XI APPENDIX

Cash Flow Statement

Prepared by: Hua Xia Bank Co., Ltd.

Unit: RMB yuan

Items	Notes	Year of 2005	Year of 2004
I. Cash flow from operating activities:			
Cash received from recoveries of medium to long-term loans		9,599,000,492.61	11,240,817,191.60
Savings deposits accepted, net		(963,599,021.13)	16,366,423,500.28
Other deposits accepted		814,516,956,996.90	704,908,998,346.84
Net change in placement with other banks		8,162,837,134.97	1,646,885,317.00
Net change in borrowing from other financial institutions		(2,960,607,883.99)	(5,669,326,672.25)
Interest received		11,929,381,570.12	9,176,196,248.43
Fee and commission received		297,200,326.71	223,507,786.95
Cash received from recoveries of loans previously written off		3,215,638.01	7,592,121.72
Net change in designated loans		1,862,080,803.75	1,535,791,994.74
Other cash inflow from operating activities		2,217,367,247.67	1,439,884,403.89
Subtotal of cash inflows		844,663,833,305.62	740,876,770,239.20
Drawdown of medium to long-term loans		23,286,411,779.80	25,403,300,962.35
Drawdown of short-term loans, net		41,862,103,168.92	23,039,335,393.77
Drawdown of designated loans, net		1,821,650,333.30	1,474,912,660.04
Other deposits withdrawn		770,892,231,544.57	662,746,809,193.90
Net change in amounts due from banks		4,195,155,185.86	3,867,111,546.62
Net change in placement with other financial institutions		(763,817,187.03)	3,133,878.81
Interest paid		5,546,890,384.60	4,138,131,644.33
Fee and commission paid		98,775,443.17	64,391,338.81
Cash paid to and on behalf of employees		1,238,949,250.29	1,041,088,673.98
Income tax paid		619,823,313.94	617,947,884.44
Tax paid other than corporate income tax		560,743,556.59	521,745,893.30
Other cash outflow for operating activities		1,891,075,082.35	1,356,452,883.26
Subtotal of cash outflows		851,249,991,856.36	724,274,361,953.61
Net cash flow from operating activities		(6,586,158,550.74)	16,602,408,285.59
II. Cash flow from/(used in) investing activities			
Proceeds from maturity of investments		129,928,223,620.03	13,092,303,971.29
Interest received from bond investment		1,470,958,030.88	1,102,450,058.21
Proceeds from disposal of fixed assets, intangible assets and other long-term assets		6,016,916.20	15,293,039.93
Subtotal of cash inflows		131,405,198,567.11	14,210,047,069.43
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		740,847,525.12	891,981,052.34
Payment for bond investments		149,921,189,873.30	21,256,429,351.16
Subtotal of cash outflows		150,662,037,398.42	22,148,410,403.50
Net cash flow from/(used in) investing activities		(19,256,838,831.31)	(7,938,363,334.07)
III. Cash flow from financing activities:			
Cash received from issue of subordinated debts			4,250,000,000.00
Subtotal of cash inflows			4,250,000,000.00
Payment of dividend or profit distribution		416,300,000.00	62,825,367.92
Subtotal of cash outflows		416,300,000.00	62,825,367.92
Net cash flow from financing activities		(416,300,000.00)	4,187,174,632.08
IV. Effect of exchange rates changes on cash		7,674,915.58	(1,082,034.87)
V. Net increase/(decrease) in cash and cash equivalents		(26,251,622,466.47)	12,850,137,548.73

Legal representative: **Liu Haiyan**

President: **Wu Jian**

Financial controller: **Liu Xifeng**

Cash Flow Statement (Supplementary Information)

Prepared by: Hua Xia Bank Co., Ltd.

Unit: RMB yuan

Items	Notes	Year of 2005	Year of 2004
1. Non-cash investing and financing activities			
Settlement of debts by fixed assets			
Settlement of debts by investments			
Purchase investment by fixed asset			
Settlement of debts by other tangible assets			
Finance lease			
Accepted donation of non-monetary assets			
Transfer of loans by investment			
2. Reconciliation of net profit to cash flow of operating activities			
Net profit		1,288,675,100.58	1,016,917,571.56
Add: Charge/write back of provision for doubtful debts and other assets		25,430,294.63	441,508.99
Charge of provision for credit losses		1,337,285,193.06	1,253,142,981.36
Depreciation		300,287,035.80	254,076,464.75
Amortization of long-term deferred expenses		362,117,900.55	318,204,230.98
Net loss on disposals of fixed assets, intangible assets and other long-term assets		22,773,947.93	17,870,043.22
Investment gain		(1,692,649,801.57)	(1,327,513,548.67)
Net increase in operating receivables		(60,996,234,528.63)	(42,609,581,170.69)
Net increase in operating liabilities		52,766,156,306.91	57,678,850,204.09
Net cash from operating activities		(6,586,158,550.74)	16,602,408,285.59
3. Net increase in cash and cash equivalents			
Cash on hand and cash at bank at end of the period		1,049,244,797.96	972,863,036.46
Less: Cash on hand and cash at bank at beginning of year		972,863,036.46	764,663,063.38
Add: Cash and cash equivalent at end of the year		24,098,728,921.04	50,426,733,149.01
Less: Cash and cash equivalents at beginning of the year		50,426,733,149.01	37,784,795,573.36
Net increase in cash and cash equivalents		(26,251,622,466.47)	12,850,137,548.73

Legal representative: **Liu Haiyan**

President: **Wu Jian**

Financial controller: **Liu Xifeng**

Statement for Provisions for Assets Impairment Year of 2005

Prepared: Hua Xia Bank Co., Ltd.

Unit: RMB yuan

Items	Balance at beginning of the year	Charge for the year	Transferred-in during the year	Recoveries of previous write-offs	Transferred-out during the year	Written-offs	Balance at end of the year
I. Provision for due from banks	5,500,000.00						5,500,000.00
II. Provision for placements with banks	11,000,000.00						11,000,000.00
III. Provisions for placements with other financial institutions	180,229,665.24	(3,967,187.03)					176,262,478.21
IV. Provision for doubtful debts	248,988,436.82	6,841,007.55				33,646,077.89	222,183,366.48
Including: Interest receivable							
Other receivables	248,988,436.82	6,841,007.55				33,646,077.89	222,183,366.48
V. Provision for short-term investments							
VI. Provision for long-term investments							
VII. Provision for credit losses	4,408,978,163.73	1,337,285,193.06		3,215,638.01	17,165,750.00	799,997,518.47	4,932,315,726.33
VIII. Provision for fixed assets							
IX. Provision for intangible assets							
X. Provision for construction in progress							
XI. Provision for designated loans and investments							
XII. Provision for repossessed assets	98,294,540.96	20,606,474.11	17,165,750.00			46,995,856.81	89,070,908.26
XIII. Contingent liabilities	33,791,900.00	1,950,000.00					35,741,900.00

Legal representative: **Liu Haiyan**

President: **Wu Jian**

Financial controller: **Liu Xifeng**

I. Background

Hua Xia Bank Co., Ltd. ("the Company"), of which its predecessor was Hua Xia Bank, is a nationwide commercial bank approved by the People's Bank of China, which issued document YF [1992] No.391. The Company was founded by Shougang Group General Corporation on October 14 1992. On April 10, 1996 the People's Bank of China issued the YF (1996) No.109 document, "Approval on Hua Xia Bank to Change its Registered Capital and Approval of Articles of Association of Hua Xia Bank Co., Ltd." which approved the Hua Xia Bank to conduct reformation to a joint stock company. The enterprise Business License (Registration No. 1000001002967) was issued on March 18, 1998 by the State Administration of Industry and Commerce. The Company also obtained "Financial Institution Qualification License" (No. B10811000H0001). The Company was established jointly by 33 enterprises with registered capital of RMB 2.5 billion, which was verified by Jian Yin Certified Public Accountants on March 13, 1996, which issued JYYZ(96) No.2 capital verification report.

On July 21, 2003, as approved by ZJFXZ(2003) No.83 document issued by the China Securities Regulatory Commission, the Company issued 1 billion Renminbi common shares A share with par value RMB 1.00 at issuing price of RMB 5.60 per share to the general public. After deduction of listing and issuing cost including the interest from fund raised, the Company raised a net amount of RMB 5.460 billion in total. The above shares were listed in Shanghai Stock Exchange on September 12, 2003. After the listing, the registered capital of the Company was increased to RMB 3.5 billion, which was verified by Beijing Jing Du Certified Public Accountants Co., Ltd. on September 5, 2003, which issued Beijing JDYZ (2003) No.0036 capital verification report.

According to the resolution passed at the 2003 annual general meeting of the Company which was held on April 28, 2004 and after the amendment of the Article of Association of the Company, the Company transferred capital surplus of RMB 0.7 billion to issued capital at a ratio of 2 for 10 on the basis of 3.5 billion issued shares. After the change, the registered capital of the Company is RMB 4.2 billion, which was verified by Beijing Jing Du Certified Public Accountants Co., Ltd. on May 26, 2004, which issued Beijing JDYZ (2004) No.0017 capital verification report.

As specified in the Company's "Enterprise Business License", the business scope of the Company includes: taking RMB customer deposits; granting loans of short-term, mid-term and long-term nature; performing settlements; discounting bills and notes; issuing financial debentures; issuing, underwriting and cashing securities on behalf of governmental authorities; trading of governmental bonds and debentures; inter-bank loans and deposits; services relating to letters of credit and letters of guarantee; factoring and assignment of receivables and payables; safe deposit services; accepting deposit in foreign currencies; granting loans in foreign currencies; remittance of foreign currencies; lending in foreign currencies; accepting and discounting of bills and notes expressed in foreign currencies; purchase and sale of foreign currencies, either for itself or on behalf of clients; purchase and sale of marketable securities expressed in foreign currencies(excluding stocks), either for itself or on behalf of clients; issuance of marketable securities expressed in foreign currencies(excluding stocks), either for itself or on behalf of clients; exchange of foreign currencies; guarantees in foreign currencies; lease of foreign currencies; Offshore banking credit investigation, consultancy and testimonial services.

As of December 31, 2005, the Company has the following divisions: Headquarters-base office, Headquarters-business division, Nanjing Branch, Hangzhou Branch, Shanghai Branch, Jinan Branch, Kunming Branch, Shenzhen Branch, Shenyang Branch, Guangzhou Branch, Wuhan Branch, Chongqing Branch, Chengdu

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Branch, Xian Branch, Urumchi Branch, Taiyuan Branch, Dalian Branch, Qingdao Branch, Wenzhou Branch, Shijiazhuang Branch, Tianjin Branch, Huhhot Branch and Fuzhou Branch. In addition, the Company also established cross-city sub-branches in Suzhou, Wuxi, Yantai, Liaocheng, and Yuxi. The Company has 266 business units in total.

II. Significant Accounting Policies and Accounting Estimation

1. Accounting policies

The Company adopts the "Accounting Standards for Business Enterprises", the "Accounting System for Business Enterprises", the "Accounting System for Financial Institutions" and related regulations.

2. Fiscal year

The fiscal year of the Company is from January 1 to December 31 of each calendar year.

3. Reporting currency

The reporting current of the Company is Renminbi ("RMB").

4. Recording basis and valuation principle

The Company's books and ledgers have been prepared on an accrual basis and under the historical cost convention.

5. Foreign currency transactions

This company maintains a multi-currency ledger for asset and liabilities and transactions denominated in foreign currencies. At the end of the year, asset and liabilities expressed in foreign currency are translated into USD at the exchange rate ruling at the balance sheet date, then further translated into RMB and compiled with RMB assets and liabilities. All balance sheet items denominated in foreign currencies are translated into RMB at the exchange rate ruling at the end of theyear. Except retained profit item, shareholders' equity items are translated into RMB at the exchange rate ruling at the transaction date. Retained profit items are expressed in the appropriation statements with the translated amount. Foreign currency differences are dealt with cumulative translation adjustments account. Profit statements are translated into RMB at the exchange rates ruling at the end of the year.

6. Basis of preparation

The financial statements of the Company are compiled with the financial statement and other information of headquarter-base office, headquarter-business division, branches and sub-branches. Transactions and balances between units are eliminated.

7. Cash and cash equivalents

Cash equivalents comprises of cash at banks, non-statutory deposits with the Central Bank, due from banks and placements with banks both maturing in less than three months, and short-term highly liquid

investments which are readily convertible into known amount of cash, subject to an insignificant risk of changes in value, and have a short maturity term of generally within three months when acquired.

8. Loans and provision for credit Loss

(1) Classifications of Loans

A. Short-term and Medium to Long-term Loans: Loans are classified as short-term loans and medium to long-term loans in accordance with their terms. Loan with term within 1 year (including 1 year) are classified as short-term loans; Loan with terms above 1 year are classified as Medium to Long-term loans

B. Overdue loans: Overdue loans are loans (including loan extensions) that have passed their due date for repayment, but the borrower have not honored their obligation due to various reasons. These include past due discounted bills not paid by the counter-parties or bank acceptances letter of credit and guarantees issued by the Company that converted into compulsory advances due to inadequate collaterals by the counter-parties.

(2) Loans are recorded when they are granted.

(3) The Company makes provision for credit loss of short-term loans, medium to long-term loans, overdue loans, idle loans, bad loans, discounted bills(commercial acceptance)and import & export advances and negotiation.

A. The Company makes provision to loans based on the requirements set in “the Guidelines over Provisions of Banks’ Loan Loss” [YF(2002)No.98] promulgated by the People’s Bank of China, “Administrative Measures for the Withdrawal of Reserves for Non-performing Debts of Financial Enterprises” [CJ(2005)No.49] and Circular of on Relevant Issues Concerning Banking Reserve for Bad Debts [CJ(2005)No.90]issued by the Ministry of Finance of the People’s Republic of China respectively, and Accounting Systems of Financial Institutions.

B. The Company classifies its credit assets as pass, special-mentioned, substandard, doubtful and loss pursuant to “The Guidelines of Risk-based Classification of Loans” promulgated by the People’s Bank of China [YF(2001) No. 416]. Pass Loans are loans where borrowers are current in meeting commitments and full repayment of interest and principal is not in doubt. Special-mentioned Loans are loans where borrowers are experiencing difficulties which may threaten the Company’s position. Ultimate loss is not expected at this stage, but could occur if adverse conditions persist. Substandard Loans are loans where borrowers are displaying a definable weakness which is likely to jeopardise repayment. The Company is relying heavily on available security and some loss is possible. Doubtful Loans are loans that their collection in full is improbable and the Company expects to sustain a loss of principal and/or interest, taking into account of the market value of collateral. Loss Loans are loans which are considered uncollectible, or only an insignificant portion is recovered, after exhausting all collection efforts such as realization of collaterals and legal proceedings etc. The Company regularly reviews the recoverability of all risk assets covering loans, with consideration of the borrower’s repayment capability, the repayment of principal and interest, valuation of collaterals, financial status of guarantors, and estimates the probable losses and the related provisions.

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Provision for credit losses is written off with the loans written off. Upon the recoveries of impaired loans previously written off, the amount of provision of credit losses written off shall be reversed.

9. Discounted bill

Discounted bills represent bill discounted by other financial institution or customers. The Company also enters into transaction of re-discounted bills with recourse with the People's Bank of China or other financial institutions. Discounted bills are recorded at their face value.

10. Provision for doubtful debts

- (1) The Company regularly reviews the recoverability of receivables and estimates the probable losses. Provision for doubtful debts are made when losses are probable.
- (2) In any of the following circumstances, the Company recognizes the accounts receivable as bad debts.
 - A. When the debtor is declared to be bankrupt or dead by law, the accounts receivable that are unable to be recovered after the liquidation of the debtor's bankrupt estate or legacy.
 - B. The accounts receivable aged over 3 years that are proved to be unrecoverable, the Company shall write down the provision. When the written-off receivables are recovered subsequently, the provision shall be written back at the amount written-off.

11. Designated loans and deposits

Designated loans are that funded by entrusting parties (designated deposits). According to the instruction of the entrusting parties, such as the requirement on the borrower, purpose, amount, duration and interest rate of loans, the Company acts as an agent to grant loans to borrowers and monitor the usage and repayment of the loan. The credit risk remains with the entrusting parties. The Company only receives arrangement fees. The difference between designated loans and the designated deposit is reported in net on the balance sheet.

12. Repurchase and reverse repurchase agreements

Securities under repurchase and reverse repurchase agreements are stated at cost. Interest earned on reverse repurchase agreement and interest incurred on repurchase agreements are recognized as interest income and expense respectively on a time proportion basis.

13. Investments

(1) Short-term investments

- A. Short-term investments are initially recognized at cost of acquisition.
- B. Upon disposal of an investment, the difference between the carrying amount and the sale proceeds received is recognized as investment income or loss for the year.
- C. Short-term investments are stated at the lower of cost of market value at the balance sheet date. The

amount of cost exceeds the market value is charged to the profit and loss account of the year.

- (2) Long-term bond investments
 - A. Long-term bond investments acquired by cash are initially recognized at cost of acquisition (including tax, handling charges, and related expenses) less any interest due but not yet received. Bond premiums or discount are amortized, using straight-line method, over the duration of the bonds.
 - B. Interest income is recognized on an accrual basis.
 - C. Upon disposal of an investment, the difference between the carrying amount and the sale proceeds received is recognized as investment income or loss for the year.
 - D. If the recoverable amount of any investment is lower than the carrying amount as a result of a continued decline in market value or changes in operating condition of the investee enterprise, the difference between the recoverable amount and the carrying amount of the investment is recognized as provisions for investment in the income statement of the year.

14. Fixed assets

- (1) Fixed assets are properties and buildings, office equipment and motor vehicles with respectively high unit values held for the purpose of providing services, leasing or business operation with useful lives over 1 year.
- (2) Fixed assets are recognized at cost of acquisition.
- (3) Any directly or indirectly attributable costs incurred for bringing the asset to its present working condition and location for its intended use shall be capitalized and accounted for as the cost of the asset.
- (4) Subsequent expenditure relating to an item of fixed assets are added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Company. The carrying amount of the asset after the addition shall not exceed its recoverable amount. Other expenditure shall be charged to the income statement of the year.
- (5) Depreciations is calculated on the straight-line basis to write off the costs after deduction of the residence values over their estimated useful lives, at the following rates per annual:

Categories of fixed assets	Estimated useful life	Annual depreciation rate
Properties and buildings	5-40 years	19.40%-2.43%
Office equipment	3-12 years	32.33%-8.08%
Motor vehicles	5-10 years	19.40%-9.70%

- (6) The carrying amount of fixed assets are reviewed at each balance sheet date to assess whether their recoverable amount has fallen below the carrying amount. Provisions for fixed assets are made when the carrying amount exceeds the recoverable amount and are charged to the income statement of the year. Provisions are determined on an individual basis.

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15. Construction in progress

- (1) Construction in progress includes all costs incurred before the assets are ready for its tended use when the assets under construction are ready for its intended use. It is transferred to fixed asset at the estimated cost based on the construction budget, quotation or the actual cost.
- (2) The carrying amount of construction in progress are individually reviewed at each balance sheet date. When a construction in progress has been suspended for a long period and is not expected to resume construction within 3 years, a provision for impairment will be made against the carrying values of the construction in progress in the income statement of the year. The provisions for construction in progress are determined on an individual asset basis.

16. Long-term deferred expenses

- (1) Long-term deferred expenses includes leasehold improvements of operating leases and the other capitalized expenditures that are amortized over 1 years.
- (2) Leasehold improvement are amortization over the expected useful lives; prepaid rental expense is amortized over the lease term; other expenditures are amortized over the beneficiary period.
- (3) Long-term deferred expenses that cannot benefit the subsequent periods, the amortized expenses will be totally amortized and charged to the income statement of the year.
- (4)The expenditures for the newly-established branches occurred before the branches operate shall be collected in long-term deferred expenses and charged to the income statement when the branches commerce operation.

17. Repossessed assets

- (1) Repossessed assets are recognized at the carrying amount of principal of the loan and the recognized interest receivable which are settled by such repossessed assets. The provisions previous accounted for the loan is transferred to the provision for repossessed assets upon the recognition of the repossessed assets.
- (2) Upon disposal of a repossessed asset, if the proceeds received exceed the carrying amount, the difference is recognized as a non-operating income; If the proceeds received are less than the carrying amount, the difference is charged to non-operating expense. Expenditures incurred before the repossessed asset is disposed are charged as non-operating expenses. Expenses incurred in the process of disposal are offset with the proceeds received.
- (3) The carrying amount of repossessed assets are reviewed as each balance sheet date on an individual asset basis. Provision for impairment is made with reference to the difference between the carrying amount and the recoverable amount.

18. Revenue recognition

- (1) Interest income

A. Loans interest: The accrued interest income of loan of which principal or interest has been overdue and remains uncollected for more than 90 days shall cease to be recognized as interest income for the year and is recorded as an off balance sheet item. In case that the principal or interest of such loans are overdue for more than 90 days, interest previously accrued should be written off against the interest income already recorded in the income statement.

B. Other interest: Recognized on an accrual basis.

(2) Other revenues

Other revenues are recognized on an accrual basis.

19. Expenditure recognition

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

20. Derivative financial instruments

The Company enters into derivative transactions including spot contract, forward contracts and foreign currency swap contracts. A forward foreign exchange contract is a contractual obligation to buy or sell a foreign currency on a future date at a specified price. A foreign currency swap contract is a committed to exchange one set of cash flows for another for a predetermined period. Profits and losses of all derivative instruments are recognized on the settlement date.

21. Income taxes

(1) The Company adopts "Tax Effect Accounting Method".

(2) The timing difference between the carrying value of assets and liabilities on the taxation basis and their book values is subject to the calculation of deferred tax at the prevailing tax rate. When there is sufficient evidence to prove that there is enough taxable income to offset against such timing difference, deferred tax is then recognized. Provision for deferred tax is recognized at each year end if the deferred tax cannot be recovered.

(3) The Company adopts "Tax Effect Accounting Method". Major items that may cause timing difference include: provision for credit losses, provision for other asset impairment and amortization of pre-operating expenses.

Deferred tax asset is recognized on individual basis after taking into account of the above timing difference and the recoveries.

(4) When assessing the deferred tax asset, the management considers if the expected tax benefit from the provision for credit losses and impairment of other assets and the amortization of pre-operating expenses cannot be flown to the Company in the future. The Manager also considers the prevailing tax rate and regulations when assessing the deferred tax asset.

(5) The Company analyses the deferred tax asset at each year end and estimates the write-back amount

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based on the following expected future tax benefit:

- A. Provision for credit losses and provision for asset impairment
 - a. For impairment losses recognized in the current year profit statement which have been allowed by tax bureau for tax deduction, the income tax expense of the current year is adjusted for the deferred tax asset.
 - b. Decrease in credit risk due to the changes in economy and the higher expected recovery is resulted, the income tax expense of the current year is adjusted for the provision for credit losses written back.
- B. Amortization of pre-operating expenses

In accordance with Accounting System for Business Enterprises, pre-operating expenses are charged to the income statement once the business unit commences its operation. However, according to the prevailing tax rules, the pre-operating expenses are amortized over a period of 5 years. The income tax expense of the current year is adjusted for the deferred tax asset recognized in the abovementioned timing difference.

- (6) If certain provisions for credit losses, provisions for asset impairment and amortization of pre-operating expenses cannot bring future tax benefit to the Company, the management makes provision for deferred tax assets and the income tax of the current year is adjusted.
- (7) Based on the abovementioned principles, the Company changes the difference between the deferred tax recognized at the balance sheet date and that of the previous one to the income statement.

III. Changes in Accounting Policies, Accounting Estimations and Adjustments of Fundamental Accounting Errors

- 1. Change in accounting policies and accounting estimates

The Company does not have change in Accounting Policies and Accounting Estimations.

- 2. Adjustments of fundamental accounting errors

The Company does not have adjustment of fundamental accounting errors.

IV. Taxes

- 1. Major types of tax and tax rates

Categories	Tax Rate	Basis of calculation
Business Tax	5%	taxable operating income
Corporate Income Tax	15%	Taxable income(Shenzhen Area)
	33%	Taxable income(Other than Shenzhen Area)
City Construction Tax	1%	5% of Business Tax(Shenzhen Area)
	7%	5% of Business Tax(Other than Shenzhen Area)

2. Pursuant to GSH (2004) No.1390 "Reply by State Tax Bureau on Settlement of Corporate Income Tax of Hua Xia Bank" issued on Dec. 27, 2004, the Company settles and clears tax liabilities with Beijing Tax Bureau. Each branch shall prepay 60% of the assessable profit to local tax bureau with effective from 2004.

V. Notes to the Financial Statements

1. Cash on hand and at bank

Currency	December 31, 2005			December 31, 2004		
	In Original	Exchange	RMB	In Original	Exchange	RMB
	Currency	Rate	Equivalent	Currency	Rate	Equivalent
RMB	845,267,372.66	--	845,267,372.66	817,593,895.81	--	817,593,895.81
USD	14,333,522.28	8.0702	115,674,391.51	9,981,625.46	8.2765	82,612,923.15
HKD	42,054,372.30	1.0406	43,761,779.82	37,445,103.10	1.0637	39,830,356.17
JPY	297,015,607.00	0.068569	20,366,063.16	163,825,107.00	0.079701	13,057,024.87
EUR	2,488,130.05	9.5539	23,771,345.68	1,686,276.81	11.2627	18,992,029.82
GBP	23,045.00	13.9029	320,392.33	48,795.00	15.9198	776,806.64
RMB	12,000.00	6.9544	83,452.80	--	--	--
			1,049,244,797.96			972,863,036.46

2. Due from the Central Bank

Items	December 31, 2005	December 31, 2004
Statutory deposit	18,864,545,093.22	14,674,378,432.98
Non-statutory deposit	16,945,382,903.64	44,441,152,574.87
	35,809,927,996.86	59,115,531,007.85

- (1) Statutory deposits are calculated based on the following percentages on deposits by government department and organizations, extra-budgetary deposits, deposits held by enterprises and individuals, and other deposits.

Categories	December 31, 2005	December 31, 2004
RMB	7.5%	7.5%
Foreign Currency	3%	3%

- (2) Non-statutory deposits represent funds deposited in the Central Bank that are not subject to specific purpose or are not statutory deposits.

3. Due from banks

Categories	December 31, 2005	December 31, 2004
Domestic Banks	5,796,844,689.79	2,941,475,994.55
Foreign Banks	1,463,527,387.61	1,586,723,253.97
	7,260,372,077.40	4,528,199,248.52
Less: Provisions for losses	5,500,000.00	5,500,000.00
	7,254,872,077.40	4,522,699,248.52

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4. Placements with banks

Categories	December 31, 2005	December 31, 2004
Domestic Banks	11,000,000.00	41,000,000.00
Foreign Banks	109,709,140.00	1,209,128,000.00
	120,709,140.00	1,250,128,000.00
Less: Provisions for losses	11,000,000.00	11,000,000.00
	109,709,140.00	1,239,128,000.00

5. Placements with other financial institutions

Categories	December 31, 2005	December 31, 2004
Leasing companies	15,310,916.27	15,702,312.03
Finance companies.	70,351,000.00	71,382,500.00
Investment & trust companies	88,956,561.94	91,500,853.21
Securities companies	1,644,000.00	431,644,000.00
	176,262,478.21	610,229,665.24
Less: Provisions for losses	176,262,478.21	180,229,665.24
	--	430,000,000.00

6. Short-term loans

Categories	December 31, 2005	December 31, 2004
Guaranteed	66,675,595,169.37	62,469,676,473.64
Secured by mortgage	36,943,508,075.51	24,916,594,240.48
Unsecured	2,259,500,000.00	3,021,988,400.00
Secured by other collaterals	18,023,879,418.22	16,607,593,103.08
	123,902,482,663.10	107,015,852,217.20

As at December 31, 2005, balance of short-term loans granted to shareholders holding 5% or more of the Company's shares amounts to RMB448 million.

7. Import & export advances and negotiation:

Categories	December 31, 2005	December 31, 2004
Import	885,849,020.30	784,853,345.58
Export	452,017,388.35	427,193,944.81
	1,337,866,408.65	1,212,047,290.39

8. Interest receivable

(1) Analysis by aging

Aging	December 31, 2005		December 31, 2004	
	Balance	Percentage	Balance	Percentage
Within 1 year	792,553,968.66	100.00%	585,502,938.28	100.00%
1-2 years	--	--	--	--
2-3 years	--	--	--	--
Above 3 years	--	--	--	--
	792,553,968.66	100.00%	585,502,938.28	100.00%

(2) Analysis by nature

Categories	December 31, 2005	December 31, 2004
Loans interest	25,190,761.09	23,088,664.42
Interest on placements with banks	1,111,576.39	1,577,300.41
Bonds interest	765,728,891.45	560,054,774.91
Interest on securities under reverse repurchase agreements	522,739.73	782,198.54
	792,553,968.66	585,502,938.28

(3) As at December 31, 2005, there is no other interests receivable from shareholders holding 5% or more of the Company's shares.

9. Other receivables

(1) Analysis by aging

Aging	December 31, 2005		December 31, 2004	
	Balance	Percentage	Balance	Percentage
Within 1 year	274,590,243.17	47.15%	167,774,116.88	38.54%
1-2 years	72,991,503.32	12.54%	122,163,146.63	28.06%
2-3 years	98,516,294.50	16.92%	14,603,049.41	3.35%
Above 3 years	136,169,964.28	23.39%	130,841,526.75	30.05%
	582,268,005.27	100.00%	435,381,839.67	100.00%

(2) Analysis by nature

Categories	December 31, 2005	December 31, 2004
Funds retained by courts	185,522,029.85	214,507,541.43
Legal fee receivable	87,543,208.02	61,318,424.17
Operating funds	13,460,677.44	22,158,900.20
Others	295,742,089.96	137,396,973.87
	582,268,005.27	435,381,839.67

(3) As at December 31, 2005, there is no other receivables from shareholders holding 5% or more of the Company's shares.

10. Provision for doubtful debts

Balance as at December 31, 2004	Charge for the year	Transfer-in during the year	Transfer- out during the year	Written off during the year	Balance as at
					December 31, 2005
248,988,436.82	6,841,007.55	--	--	33,646,077.89	222,183,366.48

As at December 31, 2005, the Company mainly provides provision for doubtful funds retained by courts and legal fee receivable.

11. Discounted bills

Categories	December 31, 2005	December 31, 2004
Banker's acceptance	40,088,981,337.47	16,022,679,882.37
Trader's acceptance	399,454,538.28	2,184,312,554.29
	40,488,435,875.75	18,206,992,436.66

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12. Short-term investment

Categories	December 31, 2005	December 31, 2004
Government bonds	3,071,152,320.74	816,360,800.00
Financial bonds	1,821,272,292.68	685,590,953.47
Bonds issued by the Central Bank	1,708,558,000.00	507,072,000.00
Others	145,747,855.62	323,098,441.26
	6,746,730,469.04	2,332,122,194.73

- (1) Government bonds, financial bonds, and bonds issued by the Central Bank are stated at the cost of acquisition. Taking into account of the unaccrued interest receivables, the management of the Company considers there is no impairment on short-term investment as at December 31, 2005.
- (2) As at December 2005, among the bond held by the Company, bonds amounting to RMB 206.227 million are of No.1 and 2 Financing & Wining Trust sold by the Company.

13. Account receivable under reverse repurchase agreements

Categories	December 31, 2005	December 31, 2004
Securities	4,000,000,000.00	4,759,850,000.00
Including: Government bond	4,000,000,000.00	4,759,850,000.00
Bond issued by the Central Bank	--	--
Financial bonds	--	--
Loans	--	3,000,000,000.00
Bills	8,364,883,342.47	3,296,673,176.80
Including: Banker's acceptance	5,730,317,342.47	2,519,913,176.80
Trader's acceptance	2,634,566,000.00	776,760,000.00
	12,364,883,342.47	11,056,523,176.80

14. Long-term bond investment maturing in one year

(1) By category

Categories	December 31, 2005	December 31, 2004
Government bonds	3,978,660,398.21	5,440,669,684.65
Financial bonds	1,793,625,502.91	49,593,015.09
	5,772,285,901.12	5,490,262,699.74

(2) By details

Categories	Maturity date	Annual interest rate	Face value	Premium (discount)	Interest receivable	Balance as at December 31, 2005
Government bonds	2006.2.26-2006.12.15	2.32%~11.83%	3,972,140,300.00	(19,190,070.24)	25,710,168.45	3,978,660,398.21
Financial bonds	2006.3.15-2006.12.21	2%~9%	1,790,613,500.00	3,012,002.91	--	1,793,625,502.91
			5,762,753,800.00	(16,178,067.33)	25,710,168.45	5,772,285,901.12

15. Medium to long-term loans

December 31, 2005				
Categories	1-2 years	2-3 years	above 3 years	Total
Guaranteed	10,106,617,062.40	10,011,494,672.57	4,007,467,576.28	24,125,579,311.25
Secured by mortgages	7,814,957,762.05	5,921,717,480.05	14,644,038,710.00	28,380,713,952.10
Unsecured	990,000,000.00	2,496,404,000.00	526,100,000.00	4,012,504,000.00
Secured by other collaterals	932,162,504.19	1,421,042,373.25	2,088,801,764.45	4,442,006,641.89
	19,843,737,328.64	19,850,658,525.87	21,266,408,050.73	60,960,803,905.24

December 31, 2004				
Categories	1-2 years	2-3 years	above 3 years	Total
Guaranteed	6,232,537,120.04	4,935,573,451.27	7,825,659,674.04	18,993,770,245.35
Secured by mortgages	5,302,740,834.01	2,896,395,823.36	13,179,382,732.83	21,378,519,390.20
Unsecured	1,352,500,000.00	1,641,200,000.00	1,197,255,000.00	4,190,955,000.00
Secured by other collaterals	1,061,639,640.88	836,408,721.18	2,184,130,393.68	4,082,178,755.74
	13,949,417,594.93	10,309,577,995.81	24,386,427,800.55	48,645,423,391.29

As at December 31, 2005, there is no medium to long-term loans granted to shareholders holding 5% or more of the Company's shares.

16. Overdue loans

Categories	December 31, 2005	December 31, 2004
Guaranteed	4,272,503,155.04	3,298,457,813.23
Secured by mortgages	1,830,830,208.55	1,540,584,112.78
Unsecured	44,102,287.12	55,688,798.64
Secured by other collaterals	850,499,315.55	1,137,156,352.14
	6,997,934,966.26	6,031,887,076.79

17. Provision for credit losses

(1) Changes of provision for credit loss

	Balance as at December 31, 2004	Charge for the year	Transferred- in during the year	Recoveries of previous write-off
Provision for credit loss	4,408,978,163.73	1,337,285,193.06	--	3,215,638.01
	Written off during the year	Transferred-out during the year	Balance as at December 31, 2005	
	799,997,518.47	17,165,750.00	4,932,315,726.33	

(2) The provisions accrued for loans which are transferred to repossessed assets are transferred to provisions for repossessed asset at the recognition of respective repossessed assets.

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- (3) Approved by the Board of Directors and Asset and Liability Committee of the Company, loans amounted to RMB 799,997,518.47 are written off during the year.

18. Long-term bond investments

- (1) By category

Categories	December 31, 2005	December 31, 2004
Government bonds	35,358,259,866.52	26,512,245,226.04
Financial bonds	14,917,578,140.43	9,843,048,485.11
Bonds issued by the Central Bank	1,069,983,449.63	--
Others	422,884,146.30	101,059,460.00
	51,768,705,602.88	36,456,353,171.15

- (2) By details

Categories	Maturity date	Annual interest rate	Face value	Premium (discount)	Interest receivable	Balance as at December 31, 2005
Government bonds	2007.2.24-2032.5.24	1.58%-9.78%	35,090,686,600.00	184,693,897.86	82,879,368.66	35,358,259,866.52
Financial bonds	2007.2.3-2035.10.11	2.05%-5.75%	14,828,370,400.00	89,207,740.43	--	14,917,578,140.43
Bonds issued by the Central Bank	2007.12.10-2008.3.4	3.80%-4.15%	1,070,000,000.00	(16,550.37)	--	1,069,983,449.63
Others	2007.5.22-2015.9.1	3.98%-5.23%	425,574,000.00	(2,689,853.70)	--	422,884,146.30
			51,414,631,000.00	271,195,234.22	82,879,368.66	51,768,705,602.88

- (3) As at December 31, 2005, a lien on bonds amounting to RMB 96.5423 million was granted by the court due to litigation.

- (4) Provision for long-term investment

In the opinion of the Company's management, no provision for long-term investments is necessary as at December 31, 2005.

19. Long-term equity investment

Categories	December 31, 2005	December 31, 2004
China Union Pay Limited	50,000,000.00	50,000,000.00

In the opinion of the Company's management, no provision for long-term equity investment is necessary as at December 31, 2005.

20. Fixed assets and accumulated depreciations

(1) Fixed assets, at cost

Categories	Balance as at	Transferred-in		Decrease during the year	Balance as at December 31, 2005
	December 31, 2004	from construction in progress	other additions		
Properties and buildings	3,155,560,828.67	6,286,692.90	178,818,829.61	423,409.60	3,340,242,941.58
Office equipment	1,272,538,106.68	31,754,412.81	177,946,181.24	84,877,761.87	1,397,360,938.86
Motor vehicles	216,370,798.38	--	12,129,731.65	11,639,119.90	216,861,410.13
	4,644,469,733.73	38,041,105.71	368,894,742.50	96,940,291.37	4,954,465,290.57

A. The decrease of fixed assets during the year is mainly due to the write-off of fully depreciated office equipment.

B. No Fixed assets is pledged by the Company during the year.

C. Properties and building amounting to RMB 352,245,853.23 are in use but the legal ownership registration procedures are still in process as at December 31, 2005.

(2) Accumulated depreciation

Categories	Balance as at	Transferred-in during the year	Decrease during the year	Balance as at December 31, 2005
	December 31, 2004			
Properties and buildings	197,692,747.02	88,385,698.21	--	286,078,445.23
Office equipment	749,831,151.02	193,207,256.10	--	863,114,465.70
Motor vehicles	108,446,168.55	18,694,081.49	--	118,195,155.73
	1,055,970,066.59	300,287,035.80	--	1,267,388,066.66

(3) As at December 31, 2005, the management of the Company considers no provision for fixed assets is necessary.

21. Construction in progress

(1) Details of construction in progress

Name of construction projects	Budget	Balance as	Additions	Transferred	Other	Balance as	Status
		at December 31, 2004	during the year	to Fixed Assets	transfer-out	at December 31, 2005	
Network project - first phase	54,294,000.00	48,864,600.00	--	24,800,400.00	--	24,064,200.00	90.00%
Others		18,547,791.74	17,458,234.47	13,240,705.71	9,964,521.00	12,800,799.50	
		67,412,391.74	17,458,234.47	38,041,105.71	9,964,521.00	36,864,999.50	

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- (2) The funding of construction in progress is from fund raised in public offering and self-fund. As at December 31, 2005, no interest is capitalized in construction in progress.
- (3) As at December 31, 2005, no provision for construction in progress is necessary in the opinion of the Company's management.

22. Long-term expenses

Items	Cost	Balance as at December 31, 2004	Addition during the year	Amortization during the year	Balance as at December 31, 2005
Leasehold improvements	471,996,954.79	334,225,814.88	91,146,443.53	92,421,896.45	332,950,361.96
Prepaid rental	535,395,259.54	117,069,540.19	235,442,321.04	221,604,996.04	130,906,865.19
System and Software development fee	57,052,597.00	42,585,693.98	3,088,235.91	18,954,829.64	26,719,100.25
Pre-operating expenditure	12,546,796.78	12,546,796.78	--	12,546,796.78	--
Others	28,856,085.13	16,221,447.42	14,853,026.67	16,589,381.64	14,485,092.45
	1,105,847,693.24	522,649,293.25	344,530,027.15	362,117,900.55	505,061,419.85

23. Repossessed assets

Items	December 31, 2005	December 31, 2004
Repossessed assets	458,006,856.28	352,021,490.98
Less: Provisions for repossessed assets	89,070,908.26	98,294,540.96
	368,935,948.02	253,726,950.02

24. Deferred tax

Items	December 31, 2005	December 31, 2004
Provision for credit losses	557,463,138.60	586,634,091.15
Provisions of other asset impairment	138,812,065.56	148,030,024.77
	696,275,204.16	734,664,115.92

25. Short-term deposit

Categories	December 31, 2005	December 31, 2004
Current deposits	94,353,362,752.01	96,955,125,265.18
Time deposits within 1 year	78,751,460,482.84	65,919,058,488.27
	173,104,823,234.85	162,874,183,753.45

26. Short-term savings deposit

Categories	December 31, 2005	December 31, 2004
Saving deposits	11,588,977,384.62	10,021,784,639.48
Time deposits within 1 year	6,046,122,671.34	5,032,545,123.23
Cashable GIC	268,295,238.35	319,014,357.85
Specific savings deposit	114,010,809.01	43,040,062.11
	18,017,406,103.32	15,416,384,182.67

27. Discounted bill refinancing

Categories	December 31, 2005	December 31, 2004
Bills rediscounted to other banks	1,326,996,470.99	2,477,260,000.00
Bill-rediscounted to the Central Bank	--	27,107,276.00
	1,326,996,470.99	2,504,367,276.00

28. Due to banks

Category	December 31, 2005	December 31, 2004
Domestic banks	21,426,952,248.09	13,264,115,113.12

29. Borrowing from banks

Categories	December 31, 2005	December 31, 2004
Domestic banks	--	520,000,000.00
Foreign Bank	16,762,921.02	--
	16,762,921.02	520,000,000.00

30. Amount payable under repurchase agreements

Category	December 31, 2005	December 31, 2004
Bonds	--	1,280,000,000.00

31. Designated deposits

Category	December 31, 2005	December 31, 2004
Designated deposits	--	500,000.00

32. Short-term guaranteed deposits

Categories	December 31, 2005	December 31, 2004
Drafts acceptance	56,504,055,284.31	29,813,305,749.59
Letters of credit issued	1,998,150,149.08	1,899,196,771.38
Letters of guarantee issued	928,813,761.02	812,505,984.41
Others	1,655,367,276.06	1,382,321,317.25
	61,086,386,470.47	33,907,329,822.63

33. Interest payable

(1) By aging

Aging	December 31, 2005		December 31, 2004	
	Balance	Percentage	Balance	Percentage
Within 1 year	1,389,601,483.62	94.00%	954,726,234.90	91.36%
1-2 years	50,942,109.37	3.45%	45,652,152.53	4.37%
2-3 years	18,071,494.66	1.22%	19,430,244.36	1.86%
Above 3 years	19,625,802.60	1.33%	25,200,085.75	2.41%
	1,478,240,890.25	100.00%	1,045,008,717.54	100.00%

(2) Interest payable aged more than 3 years as at December 31, 2005 is the interest payable to time deposit not yet matured.

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34. Taxes payable

Categories	December 31, 2005	December 31, 2004
Corporate Income Tax	404,688,141.97	348,846,890.56
Business Tax	220,921,045.31	162,259,307.78
Property Tax	931,292.07	321,547.06
City Construction Tax	11,930,257.91	10,852,198.72
Income Tax Withheld for Public Shareholders	23,391,823.34	--
Others	13,365,034.21	10,103,662.22
	675,227,594.81	532,383,606.34

35. Dividend payable

Name of Shareholders	December 31, 2005	December 31, 2004
Hebei Chang'an Shengli Automobile Group Co., Ltd.	1,200,000.00	--
Beijing Sanjili Energy Co.,Ltd	1,000,000.00	--
Zhu Hai Zhen Hua (Group) Company	1,650,000.00	150,000.00
	3,850,000.00	150,000.00

36. Other payable

(1) By aging

Aging	December 31, 2005		December 31, 2004	
	Balance	Percentage	Balance	Percentage
Within 1 year	1,565,307,701.23	89.52%	1,292,135,232.64	86.84%
1-2 years	37,592,154.94	2.15%	52,830,653.93	3.55%
2-3 years	8,038,126.45	0.46%	126,872,475.34	8.53%
Above 3 years	137,633,054.93	7.87%	16,193,659.95	1.08%
	1,748,571,037.55	100.00%	1,488,032,021.86	100.00%

(2) By nature

Categories	December 31, 2005	December 31, 2004
Funds payable to transfers of credit assets	366,871,941.96	420,521,533.66
Funds for bonds settlement	65,018,652.85	44,187,226.28
Handling charge payable for syndicated loans	--	2,178,102.17
Promissory notes of variable amount	992,024,671.24	663,262,563.24
Others	324,655,771.50	357,882,596.51
	1,748,571,037.55	1,488,032,021.86

(3) As at December 31, 2005, the Company has received funds from transfers of credit asset amounted to RMB 366,871,941.96.

(4) As at December 31, 2005, There is no other payable to Shareholders holding 5% or more of the Company's shares.

37. Deferred income

Categoroes	December 31, 2005	December 31, 2004
Discount	158,400,222.31	--
Bill-rediscouted to the Central Bank	126,361,101.43	--
	284,761,323.74	--

38. Long-term liabilities due in one year

Category	December 31, 2005	December 31, 2004
International finance loans	--	14,393,730.60

39. Other current liabilities

Items	December 31, 2005	December 31, 2004
Financing product	2,037,212,800.00	--
Agency	2,352,958.81	--
	2,039,565,758.81	--

40. Long-term deposits

Currency	December 31, 2005	December 31, 2004
RMB	42,005,269,514.97	42,691,130,039.83
Foreign currencies (RMB equivalent)	177,678.29	50,867,445.73
	42,005,447,193.26	42,741,997,485.56

41. Long-term saving deposits

Currency	December 31, 2005	December 31, 2004
RMB	14,718,585,005.77	11,412,678,324.84
Foreign currencies (RMB equivalent)	1,316,314,236.44	1,208,228,588.30
	16,034,899,242.21	12,620,906,913.14

42. International finance loans

Category	December 31, 2005	December 31, 2004
International finance loans	101,309,805.15	45,985,604.10

43. Subordinated debts

Category	December 31, 2005	December 31, 2004
Subordinated debts	4,250,000,000.00	4,250,000,000.00

44. Issued capital

Categories	Balance as at December 31, 2004	Transfer of capital reserve to issued capital	Balance as at December 31, 2005
I. Unlisted shares			
Founder 's shares	3,000,000,000.00	--	3,000,000,000.00
Including: Shares held by domestic legal persons	3,000,000,000.00	--	3,000,000,000.00
Total unlisted shares	3,000,000,000.00	--	3,000,000,000.00
II. Listed shares			
RMB common shares	1,200,000,000.00	--	1,200,000,000.00
Total listed shares	1,200,000,000.00	--	1,200,000,000.00
Total shares	4,200,000,000.00	--	4,200,000,000.00

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45. Capital reserve

Item	Balance as at December 31, 2004	Additions during the year	Decrease during the year	Balance as at December 31, 2005
Share premium	3,759,619,618.71	--	--	3,759,619,618.71

46. Surplus reserve

Item	Balance as at December 31, 2004	Additions during the year	Decrease during the year	Balance as at December 31, 2005
Statutory surplus reserve	291,987,537.11	128,867,510.06	--	420,855,047.17
Statutory public welfare fund	145,993,768.55	64,433,755.03	--	210,427,523.58
Discretionary surplus reserve	110,971,000.00	--	--	110,971,000.00
	548,952,305.66	193,301,265.09	--	742,253,570.75

The Company proposes to make accruals for statutory surplus reserve and statutory public welfare fund, which are respectively based on 10% and 5% of 2005 net profit audited by a firm of PRC certified public accountants, which is detailed in XI Post Balance Sheet Events.

47. Reserve for general risk

Item	Balance as at December 31, 2004	Additions during the year	Decrease during the year	Balance as at December 31, 2005
Reserve for general risk	100,000,000.00	800,000,000.00	--	900,000,000.00

The Company proposes to make accruals for reserve for general risk from 2005 after-tax net profit audited by a firm of PRC certified public accountants, which is detailed in XI Post Balance Sheet Events.

48. Retained profits

(1) Details of retained profits

Items	Year of 2005	Year of 2004
Profit for the year	1,288,675,100.58	1,016,917,571.56
Plus: Retained profit at beginning of the year	1,000,423,065.31	171,043,129.49
Other transfer-in	--	--
Distributable profit	2,289,098,165.89	1,187,960,701.05
Less: Statutory surplus reserve	128,867,510.06	101,691,757.16
Statutory public welfare reserve	64,433,755.03	50,845,878.58
Reserve for general risk	800,000,000.00	--
Distributable profit for shareholders	1,295,796,900.80	1,035,423,065.31
Less: Discretionary surplus reserve	--	--
Dividend	420,000,000.00	35,000,000.00
Retained profits at end of year	875,796,900.80	1,000,423,065.31

- (2) According to the resolution passed at the 5th meeting of the 4rd Board of Directors held on April 15, 2005, and the annual general meeting on May 19, 2005, the Company made accruals for statutory surplus reserve of RMB 101,691,757.16 and statutory public welfare of RMB 50,845,878.56 at 10% and 5% based on 2004 net profit of RMB 1,016,917,571.56, which was audited by a firm of PRC certified public accountants, respectively. Final dividend of 2004 totally RMB 420 million was distributed at RMB1.00 (including tax) for each 10 shares on the basis of 4.2 billion of issued shares.
- (3) According to the resolution passed at the 10th meeting of the 4th Board of Directors held on February 15, 2006, the Company proposes to make accruals for statutory surplus reserve of RMB 128,867,510.06 and statutory public welfare fund of RMB 64,433,755.03, which are respectively based on 10% and 5% of 2005 net profit audited by a firm of PRC certified public accountants of RMB 1,288,675,100.58, and to make accrual for provisions for general risk of RMB 800,000,000.00. Proposed dividend of 2005 totally RMB 462 million is calculated at RMB 1.10(including tax) for each 10 shares on the basis of 4.2 billion of issued shares. The profit distribution plan is subject to the approval of 2005 annual general meeting.

49. Interest income

Items	Year of 2005	Year of 2004
Interest income on loans	9,800,502,467.81	7,391,145,797.24
Other interest income	676,252,386.46	880,318,352.15
	10,476,754,854.27	8,271,464,149.39

50. Interest income on amount due from financial institutions

Items	Year of 2005	Year of 2004
Interest income from the Central Bank	479,958,280.70	455,001,388.82
Interest from banks	128,559,019.31	68,642,317.69
Interest income of bills rediscounted to other banks	522,704,653.84	378,870,179.90
Interest income from other financial institutions	39,270,352.10	280,082.00
	1,170,492,305.95	902,793,968.41

51. Investment income

Items	Year of 2005	Year of 2004
Income of short-term investment	80,787,659.37	66,469,367.66
Income of long-term bond investment	1,611,862,142.20	1,261,044,181.01
	1,692,649,801.57	1,327,513,548.67

52. Interest expense

Items	Year of 2005	Year of 2004
Interest expense of saving deposits	857,649,673.41	724,375,290.60
Interest expense of time deposits	4,129,571,006.94	2,889,594,894.88
	4,987,220,680.35	3,613,970,185.48

53. Interest on amounts due to financial institutions

Items	Year of 2005	Year of 2004
Interest expense to the Central Bank	1,240,740.00	7,086,493.13
Interest expense to banks	133,829,852.73	133,135,585.79
Interest expense to holder of subordinated debts	215,375,652.78	80,940,555.56
Interest expense on bill rediscounted to other banks	530,633,966.55	546,300,320.39
Interest expense to other financial institutions	111,821,664.90	89,427,727.46
	992,901,876.96	856,890,682.33

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54.	Other operating expenses		
	Items	Year of 2005	Year of 2004
	Provisions for assets impairment	1,360,765,487.69	1,259,084,490.35
	Interest expenses for financing	71,133,345.57	--
	Others	5,596,327.11	6,141,870.81
		1,437,495,160.37	1,265,226,361.16
55.	Business tax and surcharges		
	Categories	Year of 2005	Year of 2004
	Business Tax	547,608,787.04	429,879,180.01
	City Construction Tax	36,831,956.28	28,852,742.47
	Education Surcharges	18,825,338.41	14,286,156.33
	Others	1,612,371.85	1,549,730.96
		604,878,453.58	474,567,809.77
56.	Non-operating income		
	Items	Year of 2005	Year of 2004
	Settlement penalty	1,834,651.82	3,590,790.21
	Gain on disposals of fixed assets	1,269,545.76	4,627,718.71
	Gain on disposals of repossessed assets	7,103,747.66	--
	Others	11,508,109.03	9,308,235.85
		21,716,054.27	17,526,744.77
57.	Non-operating expenses		
	Items	Year of 2005	Year of 2004
	Donations	2,035,000.00	1,597,050.00
	Loss on disposals of fixed assets	3,323,885.20	1,069,967.99
	Loss on disposals of staff quarters	--	740,114.37
	Housing allowance	146,268,792.19	136,727,228.04
	Amortization of housing reform expenditures	18,180,516.97	19,553,196.43
	Compensation	17,166,315.70	1,886,640.54
	Loss on disposals of repossessed assets	951,603.50	1,134,483.14
	Others	15,334,372.79	11,581,838.78
		203,260,486.35	174,290,519.29
	Please refer to Note 10.1 "Other significant issues - Staff Quarters" for details.		
58.	Corporate income tax		
	Items	Year of 2005	Year of 2004
	Areas other than Shenzhen (taxes rate 33%)	664,455,559.76	613,033,567.03
	Shenzhen area(taxes rate15%)	11,209,005.59	12,598,742.12
	Deferred tax	38,388,911.76	18,126,850.85
		714,053,477.11	643,759,160.00

VI. Off-Balance Sheet Items

The Company sets up separate off-balance sheet memorandum accounts, and accounts for the respective transaction of the off-balance sheet items.

1. Off-balance sheet items can be divided into two categories from the perspective of risk encountered:

- (1) Off-balance sheet items with no risk, which mainly include settlement and agency business
- (2) Off-balance sheet items with credit risk and customer's default risk, which includes letters of guarantee, letters of credit, drafts acceptance and irrevocable loan commitments. The balances are as follows:

Items	December 31, 2005	December 31, 2004
Drafts acceptance	96,428,189,529.16	57,555,842,168.99
Letters of credit issued	5,665,723,606.45	6,551,415,743.29
Letters of guarantee issued	2,569,887,256.89	2,549,975,256.32
Irrevocable loan commitments	924,830,000.00	1,719,800,000.00

2. The balance of off-balance sheet interest receivable is as follows:

	December 31, 2005	December 31, 2004
Off-balance sheet interests receivable	1,964,492,764.58	1,549,904,997.35

3. Designated loans and deposits

	December 31, 2005	December 31, 2004
Designated loans	7,296,716,842.14	5,475,066,508.84
Designated deposits	7,296,716,842.14	5,475,566,508.84

4. Derivative financial instrument

Nominal amount of derivative financial instruments is as follows:

	December 31, 2005	December 31, 2004
Forward foreign exchange contract	--	37,571,195.92
Spot foreign exchange contract	112,731,507.70	--

VII. Related Parties and Related Party Transactions

1. Related parties

Related parties of the Company are referred to: legal persons or other organizations which hold or control, directly, indirectly or commonly, over 5% of the Company's shares or which hold voting rights; legal persons or other organization which are directly or indirectly, under the common control of a third party; directors, members of the Board of Supervisors or senior executives of the Company or their close relatives, who can directly or indirectly or commonly, control or exert major effect to the Company. As of December 31, 2005, major shareholders of the Company are as follows:

(Unit: 1000 shares)

Name of Shareholders	shares	Holding Percentage
Shougang Group Corporation	60,000.96	14.29%
Shandong Electric Power Corporation	48,000.00	11.43%
Yuxi Hongta Tobacco (Group)Co., Ltd	42,000.00	10.00%
Luen Tai Group Co., Ltd.	36,000.00	8.57%

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Profile of the related parties.

(1) Overview of the related parties

Names of the related Parties	Economic nature	Registration place	Principal activities	Legal representative
Shougang Group Corporation.	State-owned	Beijing City	Industrial, construction, soil survey and transportation etc.	Zhu Jimin
Shandong Electric Power Corporation	State-owned	Jinan city	Electricity network operations, electric power productions, electric power engineering survey etc.	Zhu Changfu
Yuxi Hongta Tobacco (Group) Co., Ltd	State-owned	Yuxi city	Processing and manufacturing and sales of tobacco; manufacturing and sales etc. of special equipment for tobacco	Liu Wandong
Luen Tai Group Co., Ltd.	Limited Liability	Jinan city	Industrial production material, daily use goods, hardware, computer and components sales; common mechanical, chemical products, construction material, production and sales of family electric appliance	Wu Xiaomen

(2) Registered capital of the related parties is as follows: (Unit: RMB 10,000)

Names of the related Parties	December 31, 2004	Additions during the year	Decrease during the year	December 31, 2005
Shougang Group Corporation	726,394	--	--	726,394
Shandong Electric Power Corporation	986,000	--	--	986,000
Yuxi Hongta Tobacco (Group) Co., Ltd	68,000	--	--	68,000
Luen Tai Group Co., Ltd.	5,087	--	--	5,087

2. Related party transactions (Unit: RMB 10,000)

Related party transactions of the Company are according to similar business terms and condition offered to other customers.

(1) Balance of credit assets (including loans, discounted bills, import & export advances and negotiation, acceptances, letters of credit, letters of guarantee)

A. Shareholders and their related companies

Name of the related parties	December 31, 2005	December 31, 2004
Shougang Group Corporation	115,879.00	135,591.66
	(Loan balance after deduction of RMB 398.71 million deposit certificate and government securities)	
Shandong Electric Power Corporation	6,152.80	4,389.20
Yuxi Hongta Tobacco (Group) Co., Ltd	--	--
Luen Tai Group Co., Ltd.	45,244.56	46,724.00

B. Other enterprises with the same key executives

Name of the related parties	December 31, 2005	December 31, 2004
Beijing Guoli Energy Investment Co., Ltd.	28,000.00	28,000.00

(2) Interest income

Name of the related parties	Year of 2005	Year of 2004
Shareholders and their related companies	6,494.26	7,119.25
Other enterprises with the same key executives	1,626.29	1,108.24

VIII. Contingent liabilities

As at December 31, 2005, there are 9 unsettled cases with individual claim over RMB 10 million per case against the Company involving an amount of RMB 182.26 million. The Company's management has estimated the potential loss and made adequate provisions.

VIII. Commitments

Operating lease commitments

Operating lease commitments represent rental expense payable to the lessors according to the signed rental agreements. As at December 31, 2005, the future lease payment is falling due as follows:

Within One Year	One to Two Years	Two to Three Years	Three to Four Years	Four to Five Years	Above Five Years	Total
305,110,436.08	274,361,869.66	242,042,668.50	203,935,300.63	167,086,665.93	629,220,441.46	1,821,757,382.26

X. Other Significant Issues

1. Staff quarters

The Company grants loans to assist its employees to purchase residential properties.

As at December 31, 2005, the Company has signed loan agreement with the employees. The Company estimates that RMB 1,230,913,471.46 will be borne by the Company, of which RMB521,612,771.46 has already been charged to the income statements.

According to "Proposal on Modifying Method of Housing Allowance" passed at the 8th meeting of the 4th Board of Directors, the Company agreed to formulate standard method of housing allowance by continuously following the decision of the Board of Directors in executing reform of housing distribution monetization. The method of housing allowance is formulated by the Company's management and is to be executed from January 1, 2006.

2. Changes in the company's shareholding structure

- (1) According to the judgment of No.1 Intermediate People's Court of Shanghai in 2001, Xuhui Branch of China Construction Bank obtained the disposal and occupation rights of 3 million shares of Shanghai Jindu Industrial Group Co., Ltd. Since the final transfer of the shares has not been confirmed (sub-branches and branches of commercial banks cannot invest in financial institutions), therefore the shares are entrusted to the Shanghai Branch of China Securities Depository of Clearing Corporation Limited.

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- (2) According to "Confirmation of Transaction" signed between Pangaea Capital Management Singapore LTD and Shandong Yinxing Auction Co., Ltd., Pangaea Capital Management Singapore LTD acquired the 289 million shares of the Company held by Lianda Group Co., Ltd. through auction by the cost of RMB 1,011,500,000. The qualification of Pangaea Capital Management Singapore LTD's investing in financial institute is subject to the audit based on "Measures for The Administration of The Investment And Shareholding in Chinese-funded Financial Institutions by Overseas Financial Institutions" issued by China Banking Regulatory Commission. After approval by the commission, relevant legal and share assignment procedures shall be dealt.
- (3) According to the resolution passed at the 7th meeting of the 4th Board of Directors, 18 shareholders of the Company signed "Agreement of Share Assignment" with Deutsche Bank AG, Deutsche Bank Luxemburg S.A., and Sal.Oppenheim jr. & Cie.KgaA on October 17, 2005. As per the Agreement, 18 shareholders including Shougang Group Corporation planned to assign their 587.2 million unlisted legal person shares to three overseas financial institutes, Deutsche Bank AG, Deutsche Bank Luxemburg S.A., and Sal.Oppenheim jr. & Cie.KgaA, by the price of RMB 4.5 for each share. The assignment is subject to the approval of "Agreement of Share Assignment" and share assignment procedures by relevant regulatory government.
- (4) Xin Yuan Industry Holding Group Co., Ltd., a Company's shareholder of unlisted share acquired the Company's 10 million legal person shares held by Zhu Hai Zhen Hua (Group) Company through legal auction procedures and relevant share assignment procedures were dealt.
- (5) As at December 31, 2005, there are unlisted legal person shares frozen amounting to 765 million shares. This includes 333 million shares pledged as collaterals and 432 million shares where a lien had been put on by the court.
3. According to the resolution passed at the 7th meeting of the 4th Board of Directors, the Company officially signed "Agreement of Overall Long-term Strategic Cooperation" with Deutsche Bank AG in Berlin, German on November 10, 2005 (local time), which is detailed as follows: The both parties agreed to set up Cooperation Commission that audit the performance of the Agreement, negotiate and settle any dispute arising from the performance of the Agreement, and research and discuss the possibility of cooperating in other potential business field. The both parties will carry out cooperation in technology support and assistance, credit card cooperation and corporate client, international settlement and trade financing, home currency and foreign currency business, consortium loan, domestic settlement, bad asset disposal, internet banking and electronic commerce, cash management, marketing research, insurance agent, sale proxy of capital, fund-related business, retail banking (such as fortune management).
4. According to the "Proposal on Setting up Enterprise Pension" passed at the 8th meeting of the 4th Board of Director, the Company agreed to set up enterprise pension system according to relevant state rules and to finish operation task. The detail execution method is formulated by the management of the Company and is to be executed from January 1, 2006 after being approved employee delegation meeting.
5. According to the resolution passed at the 8th meeting of the 4th Board of Director, the Company planned to set up Ningbo Branch of the Company.

6. According to the “Circular of Temporary Regulation on Financial Tool Confirmation & Measurement (for Trial Implementation)” (CK 2005 No.14) issued by Ministry of Finance, as of January 1, 2006, the Temporary Regulation on Financial Tool Confirmation & Measurement (for Trial Implementation)” is to be trially implemented in commercial banks being listed and to be listed.

7. A breakdown of the relevant assets and liabilities by currency as at December 31, 2005 is as follows:
(Currency Unit: RMB 1 million)

Items	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Total
Cash on hand and cash at banks	844	116	44	45	1,049
Due from the Central Bank and banks	38,629	3,236	335	865	43,065
Loans	224,200	3,999	356	200	228,755
Placement with banks	--	6	104	--	110
Bond investment	61,289	2,465	383	151	64,288
Other assets	18,751	91	17	2	18,861
Total Assets	343,713	9,913	1,239	1,263	356,128
Deposits	301,680	7,087	1,084	652	310,503
Due to the Central Bank	--	--	--	--	--
Due to banks and borrowing from banks	18,939	1,842	162	501	21,444
Other liabilities	13,437	181	8	102	13,728
Total liabilities	334,056	9,110	1,254	1,255	345,675
Net long (short) position	9,657	803	(15)	8	10,453

8. A maturity analysis of the assets and liabilities of the Company as at December 31, 2005 is as follows:
(Currency Unit: RMB 1 million)

Items	Overdue	On demand	Due less	Due between	Due between	Due over 5 years	Total
			than 3 months	3 months and 1 year	1 and 5 years		
Assets:							
Cash on hand and cash at banks	--	1,049	--	--	--	--	1,049
Due from the Central Bank and banks	--	42,718	136	171	40	--	43,065
Loans	4,629	--	55,564	124,055	28,145	16,362	228,755
Placement with banks	--	--	110	--	--	--	110
Bond investment	--	--	4,271	7,117	30,922	21,978	64,288
Other assets	--	10	10,956	2,370	2,421	3,104	18,861
Total Assets	4,629	43,777	71,037	133,713	61,528	41,444	356,128
Liabilities:							
Deposits	--	106,312	81,660	81,251	41,275	5	310,503
Due to the Central Bank	--	--	--	--	--	--	--
Due to banks and borrowings from banks	--	20,182	394	868	--	--	21,444
Other liabilities	--	1,673	5,587	2,039	4,383	46	13,728
Total liabilities	--	128,167	87,641	84,158	45,658	51	345,675
Net Liquidity Gap	4,629	(84,390)	(16,604)	49,555	15,870	41,393	10,453

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9. Segment information of credit assets

(1) By industries

Industries	December 31, 2005	December 31, 2004
Industrial Enterprises	61,516,475,979.21	47,122,934,157.79
Commercial Enterprises	15,293,324,204.77	12,033,573,503.72
Construction Enterprises	29,831,028,142.50	25,086,299,504.43
Trading Enterprises	22,439,453,552.46	19,755,949,504.02
Foreign Affairs and Foreign Trade enterprises	6,707,703,257.28	5,623,671,948.26
High-tech enterprises	4,952,386,996.10	5,588,597,178.32
Cultural and Public Health Enterprises	6,369,401,163.41	6,770,857,037.98
Energy and Transportation Enterprises	24,553,499,940.79	19,619,507,470.69
Personal loans	19,129,838,271.32	14,497,040,028.58
Others	42,894,412,311.16	25,013,772,078.54
Less: Provision for credit losses	4,932,315,726.33	4,408,978,163.73
	228,755,208,092.67	176,703,224,248.60

(2) By Region

Region	December 31, 2005	December 31, 2004
Beijing	43,246,140,906.48	33,303,122,184.24
Shanghai	15,070,699,010.64	15,545,659,168.18
Jiangsu	26,896,342,515.01	21,751,885,287.39
Zhejiang	23,583,695,271.78	17,056,555,522.00
Hubei	8,703,459,160.98	8,346,048,009.58
Shanxi	13,656,103,191.71	7,882,425,239.53
Hebei	8,810,400,485.28	6,285,610,470.65
Guangdong	19,099,114,920.97	17,087,716,207.55
Shandong	26,148,261,863.16	17,543,698,134.33
Yunnan	10,530,817,792.72	8,435,339,541.69
Liaoning	12,922,021,645.51	11,073,840,625.45
Sichuan	5,565,642,711.16	4,309,750,687.86
Shaanxi	3,459,379,959.84	2,413,965,458.52
Xinjiang	3,238,922,957.87	1,243,952,829.07
Chongqing	8,923,232,605.14	8,832,633,046.29
Inner Monglia	994,215,445.65	--
Fujian	1,680,565,067.39	--
Tianjin	1,158,508,307.71	--
Less: Provisions for credit losses	4,932,315,726.33	4,408,978,163.73
	228,755,208,092.67	176,703,224,248.60

Credit assets include import & export advances and negotiation, discounted bills, short-term loans, medium to long-term loans and overdue loans.

10. Segment information of deposits

Region	December 31, 2005	December 31, 2004
Beijing	74,493,513,774.35	68,465,182,114.67
Shanghai	21,312,000,120.97	21,197,303,566.41
Jiangsu	40,529,406,345.54	31,297,647,317.39
Zhejiang	27,994,889,043.88	22,120,960,922.15
Hubei	10,480,146,749.04	10,472,864,826.36
Shanxi	16,592,031,827.23	15,332,991,537.81
Hebei	9,420,349,175.70	8,305,200,647.91
Guangdong	24,345,935,568.63	22,147,085,904.43
Shandong	27,667,891,969.10	24,250,561,042.22
Yunnan	12,509,441,476.89	11,167,561,153.05
Liaoning	15,186,313,240.55	13,166,992,772.25
Sichuan	7,177,966,714.59	5,928,988,343.32
Shaanxi	4,507,258,964.42	2,914,613,535.21
Xinjiang	2,464,517,099.96	1,541,849,914.68
Chongqing	10,785,071,964.02	9,532,568,652.49
Inner Mongolia	1,085,648,409.98	--
Fujian	1,566,050,974.10	--
Tianjin	2,385,065,262.60	--
	310,503,498,681.55	267,842,372,250.35

Deposits include short-term deposits, short-term saving deposits, long-term deposits, long-term saving deposits, inward and outward remittances, short-term guaranteed deposits and long-term guaranteed deposits.

11. Concentration of loans

As at December 31, 2005, the balance of loans of top ten borrowers aggregates to RMB6,179,591,621.62, representing 2.64% of total credit assets.

XI. Post Balance Sheet Events

According to the resolution passed at the 10th meeting of the 4th Board of Directors held on February 15, 2006, the Company proposes to make accruals for statutory surplus reserve of RMB 128,867,510.06 and statutory public welfare fund of RMB 64,433,755.03, which are respectively based on 10% and 5% of 2005 net profit audited by a firm of PRC certified public accountants of RMB 1,288,675,100.58, and to make accrual for provisions for general risk of RMB 800,000,000.00. Proposed dividend of 2005 totally RMB 0.462 billion is calculated at RMB 1.10 (including tax) for each 10 shares on the basis of 4.2 billion of issued shares. The profit distribution plan is subject to the approval of 2005 annual general meeting.

Up to February 15, 2006, there is no significant undisclosed post balance sheet event other than the abovementioned.

XII. Fluctuation of the Financial Statements

Comparing the balance as at December 31, 2005 with that of December 31, 2004, balance sheet items with fluctuation over 30% include due from the Central Bank, due from banks, placements with banks, placement

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with other financial institutions, interest receivable, other receivables, discounted bills, short-term investments, long-term bond investments, construction in progress, fixed assets pending for disposal, repossessed assets, discounted bill refinancing, due to banks, borrowing from banks, designated deposits, amount payable under repurchase agreement, short-term guaranteed deposits, interest payable, wage payable, public welfare fund payable, dividend payable, deferred revenue, long-term liabilities due in one year, other current liability, long-term guaranteed deposits, and international finance loans. 2005 income statement items with fluctuation over 30% compared with that of 2004 include commission income, other operating revenue, interest expenses, and commission expense. The fluctuations are mainly attributable to the expansion of the Company's operation.

XIII. Reconciliation of the Financial Statements Reported under PRC Accounting Standards with Those prepared under International Accounting Standards

1. Net Profit

	Year of 2005	Year of 2004
Net profit as reported in the audited financial statements under PRC Accounting Standards	1,288,675,100.58	1,016,917,571.56
Adjustments:		
(1) Amortization of housing reform expenditures	24,633,071.80	18,585,313.20
(2) Amortization of interest of discounted bills and re-discounted bills	113,106,630.55	(1,844,407.16)
(3) Interest income on short-term investments	(9,081,018.37)	5,080,989.83
(4) Write-off of pre-operating expenses	8,406,353.84	(8,406,353.84)
(5) Cumulative translation adjustments	(24,661,000.00)	--
Net assets as reported in the audited financial statements under International Accounting Standards	1,401,079,138.40	1,030,333,113.59

2. Net Assets

	December 31, 2005	December 31, 2004
Net assets as reported in the audited financial statements under PRC Accounting Standards	10,453,009,090.26	9,608,994,989.68
Adjustments:		
(1) Amortization of housing reform expenditures	--	(24,633,071.79)
(2) Amortization of interest of discounted bills and re-discounted bills	--	(113,106,630.55)
(3) Interest receivable on short-term investments	14,437,843.99	23,518,862.36
(4) Unrealized gain/loss on available-for-sale investments	345,201,581.99	(265,671,729.36)
(5) Write-off of pre-operating expenses	--	(8,406,353.84)
Net assets as reported in the audited financial statements under International Accounting Standards	10,812,648,516.24	9,220,696,066.50

XIV. Return on Equity and Earnings Per Share

Profits in the Report Period	Return on Equity				Earnings Per Share(Yuan)			
	Diluted		Weighted Average		Diluted		Weighted Average	
	Year of 2005	Year of 2004	Year of 2005	Year of 2004	Year of 2005	Year of 2004	Year of 2005	Year of 2004
Operating profit on principal activities	20.90%	18.91%	21.75%	19.94%	0.5201	0.4327	0.5201	0.4327
Operating profit	20.90%	18.91%	21.75%	19.94%	0.5201	0.4327	0.5201	0.4327
Net profit	12.33%	10.58%	12.83%	11.16%	0.3068	0.2421	0.3068	0.2421
Profit after extraordinary items	13.84%	11.65%	14.40%	12.28%	0.3444	0.2665	0.3444	0.2665

Extraordinary items of 2005 are as follows:

Items	Amount
Operating profit or loss after proportion for asset impairments	(181,544,432.08)
Recovery of assets written off in the previous years	3,215,638.01
Write back of provisions for asset impairments	3,967,187.03
Tax effect	16,562,812.40
	(157,798,794.64)

XV. Approval of the Financial Statements

The 2005 financial statements and the explanatory notes are prepared by the company's management, which have been approved by the 10th meeting of the 4th Board of Directors on February 15, 2006.

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Appendix II: International Auditing Report

REPORT OF INDEPENDENT ACCOUNTANTS

To the members of Hua Xia Bank Co., Ltd.

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

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

Ernst & Young



Certified Public Accountants

Hong Kong

15 February 2006

HUAXIA BANK CO., LTD.
 INCOME STATEMENT
 YEAR ENDED 31 DECEMBER 2005
 (Unit:in RMB 1 thousand)

	Note	2005	2004
Interest income	3	13,762,467	10,676,905
Interest expense	3	(6,064,836)	(4,476,512)
Net interest income	3	7,697,631	6,200,393
Net fee and commission income	4	198,425	159,116
Other income, net	5	108,293	111,422
OPERATING INCOME		8,004,349	6,470,931
Personnel expenses	6	(1,188,092)	(814,592)
Business & management cost	7	(2,052,979)	(1,728,592)
Depreciation	16	(381,579)	(340,406)
Business tax and surcharges		(604,878)	(474,568)
Provisions for credit losses	14c	(1,575,730)	(1,466,512)
Other provision for asset loss	8	(23,480)	(5,942)
PROFIT BEFORE TAX		2,177,611	1,640,319
Income tax	9	(776,532)	(609,986)
NET PROFIT FOR THE YEAR		1,401,079	1,030,333
EARNINGS PER SHARE			
BASIC (IN RENMINBI - "RMB")	10	0.33	0.25

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

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HUAXIA BANK CO., LTD.
BALANCE SHEET
31 DECEMBER 2005
(Unit:in RMB 1 thousand)

	Note	December 31	
		2005	2004
ASSETS			
Cash on hand and due from the Central Bank	11	36,859,173	60,088,394
Due from banks and placements with banks and other financial institutions	12	7,364,581	6,191,827
Reverse repurchase agreements	13	12,364,883	11,056,523
Loans and advances	14	228,755,208	176,703,224
Investments	15	64,742,922	43,839,641
Fixed assets	16	4,029,322	3,990,138
Other assets	17	2,371,971	2,251,816
TOTAL ASSETS		356,488,060	304,121,563
LIABILITIES			
Due to the Central Bank	-		27,107
Due to banks and borrowings from banks		21,443,715	13,784,115
Repurchase agreements	18	1,326,996	3,757,260
Customer deposits	19	312,129,404	269,668,392
Subordinated debts	20	4,250,000	4,250,000
Other liabilities	21	6,525,296	3,413,993
TOTAL LIABILITIES		345,675,411	294,900,867
EQUITY			
Issued capital	22a	4,200,000	4,200,000
Capital reserve	22b	3,759,620	3,759,620
Statutory surplus reserve	22c	420,856	291,988
Statutory public welfare fund	22c	210,427	145,993
Discretionary surplus reserve	22c	110,971	110,971
Reserve for general risks		900,000	100,000
Retained earnings	22e	865,573	877,796
Unrealised gain/(loss) on available-for-sale investments, net of tax		345,202	(265,672)
TOTAL EQUITY		10,812,649	9,220,696
TOTAL LIABILITIES AND EQUITY		356,488,060	304,121,563

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



Director:Liu haiyan



Director:Wu Jian



Director:Liu Xifeng



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

HUAXIA BANK CO., LTD.
STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31 DECEMBER 2005
(Unit:in RMB 1 thousand)

	Issued capital	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Discretionary surplus	Reserve for general risks	Retained earnings	Unrealised gain/(loss) on available-for-sale investments, net of tax	Total
2004-1-1	3,500,000	4,459,620	190,296	95,147	110,971	100,000	35,001	21,311	8,512,346
Shares issued during the year	700,000 (700,000)	-	-	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	-	1,030,333	-	1,030,333
Transfer to surplus reserve	-	-	101,692	50,846	-	-	(152,538)	-	-
Dividends	-	-	-	-	-	-	(35,000)	-	(35,000)
Unrealised gain on available-for-sale investments, net of tax									
Unrealised gain on changes of fair value	-	-	-	-	-	-	-	(314,770)	(314,770)
Realised gain on sale	-	-	-	-	-	-	-	27,787	27,787
2004-12-31	4,200,000	3,759,620	291,988	145,993	110,971	100,000	877,796	(265,672)	9,220,696
Profit for the year	-	-	-	-	-	-	1,401,079	-	1,401,079
Transfer to surplus reserve	-	-	128,868	64,434	-	-	(193,302)	-	-
Provisions for general risk	-	-	-	-	-	800,000	(800,000)	-	-
Dividends (note 22d)	-	-	-	-	-	-	(420,000)	-	(420,000)
Unrealised gain on available-for-sale investments, net of tax									
Unrealised gain on changes of fair value	-	-	-	-	-	-	-	602,453	602,453
Realised gain on sale	-	-	-	-	-	-	-	8,421	8,421
2005-12-31	4,200,000	3,759,620	420,856	210,427	110,971	900,000	865,573	345,202	10,812,649

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

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HUAXIA BANK CO., LTD.
STATEMENT OF CASH FLOWS
YEAR ENDED 31 DECEMBER 2005
(Unit:in RMB 1 thousand)

	Note	2005	2004
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	23	(5,390,163)	17,459,441
INVESTING ACTIVITIES			
Proceeds from maturity of financial investments		31,406,696	13,092,647
Proceeds from disposals of fixed assets		40,698	15,293
Purchases of fixed assets		(485,317)	(646,907)
Payment for increase in financial investments		(51,399,513)	(21,256,429)
NET CASH FLOW USED IN INVESTING ACTIVITIES		(20,437,436)	(8,795,396)
FINANCING ACTIVITIES:			
Dividends paid		(416,300)	(62,825)
Proceeds from issue of subordinated debts		-	4,250,000
Net cash inflow from financing activities		(416,300)	4,187,175
Effect of exchange rates changes on cash and cash equivalents		(7,723)	(1,082)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(26,251,622)	12,850,138
Cash and cash equivalents at beginning of year		51,399,596	38,549,458
CASH AND CASH EQUIVALENTS AT END OF YEAR	23a	25,147,974	51,399,596
Supplemental information			
Interest received		13,299,516	10,241,682
Interest paid		(5,631,605)	(4,143,782)

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

HUAXIA BANK CO., LTD.
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2005
(Unit:in RMB 1 thousand)

1. CORPORATE INFORMATION

Hua Xia Bank Co., Ltd. (the "Company"), of which its predecessor was Hua Xia Bank, is a nationwide commercial bank incorporated on 14 October 1992 and was founded by Shougang Corporation with the approval of the People's Bank of China. On 10 April 1996, the People's Bank of China approved Huaxia Bank to initiate the establishment of a joint stock company through reformation in accordance with the document of YF[1996] No.109. As a result, the Company was renamed Huaxia Bank Co., Ltd. and was changed to a joint stock company. On 21 July 2003, as approved by the General Office of the China Securities Regulatory Commission (the "CSRC"), the Company was approved to be listed and to issue A-shares. The shares were listed for trading on 12 September 2003.

On 21 May 2004, the Company transferred the capital surplus of RMB700,000,000 to share capital at a ratio of 2 for 10 on the basis of 3.5 billion of issued shares. Upon the transfer, the registered capital was increased to RMB4,200,000,000. The newly issued capital was verified by Beijing Jingdu Certified Public Accountants. The capital verification report (BJJDYZ[2004] No.0017) was issued on 26 May 2004.

The Company operates as a commercial bank. The Company's business scope include: Renminbi customer deposits taking; provision of short term, medium term and long term loans; provision of settlement services; bills discounting; issuing treasury bonds; provision of agency services in underwriting, sale and cashing of government bonds; proprietary trading of government bonds; inter-bank placements and borrowings; providing letters of credit related services and guarantee facilities; provision of agency collection and payment services; provision of safe box custodian services; foreign currency customer deposits taking, loans, remittances, borrowings and bills acceptance and discounting facilities; proprietary trading and agency trading of foreign exchange; proprietary trading and agency trading of foreign securities excluding stocks; provision of underwriting and agency underwriting services of foreign currency securities excluding stocks; provision of foreign exchange services; provision of guarantee facilities in foreign currencies; provision of leasing services in foreign currencies; provision of international trade and non-trade settlement; provision of investigation, consultation and certification services.

The registered address of the Company is No.22, Jianguomen Neidajie, Dongcheng District, Beijing, the People's Republic of China (the "PRC"). The Company carries out its business within the territory of the PRC.

2.1 BASIS OF PREPARATION

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"), promulgated by the International Accounting Standards Committee.

The financial statements have been prepared on a historical cost basis except for the remeasurement at fair value of derivatives, and available-for-sale financial assets. The financial statements are presented in Reminbi. Unless otherwise stated, all amounts in the financial statements are denominated in RMB 1000.

The Company maintains its books and prepares its statutory financial statements in accordance with the relevant financial regulations and accounting principles applicable to financial institutions promulgated by the Ministry of Finance of the PRC. The accounting policies and bases adopted in the preparation of the statutory financial statements differ in certain respects from IFRS. Accordingly, the financial statements differ from statutory financial statements. The accounting measurement adjustments arising from restating the results and net assets of the Company to comply with IFRS have been made in the preparation of these financial statements, but will not be taken up in the accounting records of the Company. The impact of IFRS adjustments is disclosed in note 33 to the financial statements.

2.2 SIGNIFICANT JUDGEMENTS AND ESTIMATES

(a) Judgments

During executing the Company's accounting policies, besides estimates, the management performed the following judgments that might exert significant influence to the financial statement.

Category of investment

The Company's management needs employ many estimates to define category of investment. Different category of investment may affect accounting audit and financial status of the Company. After the reporting period, in case of founding wrong estimate in category of investment that might affect overall investment, the Company may re-classify the category.

(b) Uncertain Estimates

The following main assumes and other main uncertain estimates employed by the Company's management at end of year could cause significant risk that the Company performs major adjustment to its assets and liabilities items in the next fiscal year.

Credit loss

The Company regularly judges whether it's evidenced that certain loan is in loss. If so, the Company will estimate the amount of loss. The amount of loss is the difference between carrying value and present value of expected future cash flow. During estimating loss, the Company needs to employ many judgments to define whether there have objective evidence showing the happening of loss and needs to make significant estimates to present value of future cash flow.

Income tax

The Company needs to make judgment to the taxation of some future transactions to define provision for income tax. In accordance with tax law and regulation of the People's Republic of China, the Company prudently judges the influence of income tax on transaction and accordingly makes provisions for income tax.

Deferred tax assets only be defined whether profit to be taxed could be used for offset certain deferred tax asset in the future. For this, it's required to make significant judgment to the taxation of certain transaction and make significant estimate that whether profit to be taxed is enough for offsetting deferred tax assets in the future.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Foreign currency transactions

The Company's account books and financial statements are presented in RMB.

All foreign currency transactions are presented in RMB by market rate at the transaction happening date. At the balance sheet date, the balance sheet and income statement amounts denominated in foreign currencies are translated into RMB at the year end rate, respectively. Foreign currency translation differences are dealt with in the income statement.

Non-currency items in foreign currency measured at historical cost are booked after being translated into RMB according to exchange rate at the initial transaction date. Non-currency items in foreign currency measured at fair value are booked after being translated into RMB according to exchange rate at the fair value recognition date.

(b) Financial assets

The Company classified its financial assets into four categories: financial assets that are measured at fair value and changes in the value are charged to current gain and loss; held to maturity financial assets; loans and receivables; and available for sale financial assets. Upon the initial recognition, all financial assets shall be measured as their fair value plus, in the case of financial asset that is not measured at fair value and changes in the value are not charged into current gain and loss, transaction cost that are directly attributable to the acquisition.

1) Financial assets that are measured at fair value and changes in the value are charged to current gain and loss

Financial assets that are measured at fair value and changes in the value are charged to current gain and loss comprise of financial asset classified as held for trading or by the initial recognition defined by the Company's management as financial assets that are measured at fair value and changes in the value are charged to current gain and loss. The Company classified those financial assets that are to be sold within short term and derivative financial instruments excluding those being defined as effective derivative instrument as financial assets held for trading. Such financial assets held for trading are measured at fair value in subsequent measurement. All realized or un-realised gain are charged to current gain and loss.

2) Held to maturity investments

Held to maturity investments refer to the non-derivative financial assets that the Company's management has specific intention and is capable of holding to maturity and have fixed or confirmable payment amount and fixed term. The investment's carrying value is measured at amortised cost applying effective interest method and reduced by provisions for loss. A gain or loss arising shall be recognized in profit or loss when the investment is derecognized, impaired and during amortization process. If the Company, during the current fiscal year or two fiscal years, sold or re-class held to maturity investments exceeding non-significant amount prior to the maturity date, the rest held to maturity investments will be reclassified to held for sale financial assets.

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3) Loans and receivables

Loans and receivables refer to non-derivative financial asset that have fixed or confirmable payment amount and have less active market and financial asset that the Company's management has no intention to sell immediately or within short term. The value of loans and receivables are determined by the amortized cost applying effective interest method and deducted by provisions for loss.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial asset (continued)

4) Available-for-sale financial assets

Available-for-sale financial assets refer to available-for-sale non-derivative financial assets and other financial assets not classified as loans and receivables, held to maturity investments or financial assets that are measured at fair value and changes in the value are charged to current gain and loss. During the subsequent measurement, such financial assets are measured at fair value. The discount and premium is amortized by applying effective interest method and is recognized as interest income.

Prior to available-for-sale financial assets are derecognised or impaired, the unrealised gain on change their fair value is solely presented in equity. Upon the available-for-sale financial assets are derecognised or impaired, accumulated changes in their fair value presented in the equity are charged into current net gain and loss.

(c) Impairment of financial assets

The Company assesses at each balance sheet date whether there is any objective evidence that one or more financial assets are impaired after the initial recognition of the assets and such impairment could cause measurable loss in expected cash flow of the financial asset or the asset group.

1) Financial asset measured at amortised cost

When there exists any objective evidence that loan and receivables or held to maturity investments measured at amortised cost are impaired, the amount of loss is recognised at the difference between carrying value of the asset and discounted expected cash flow by applying initially effective interest rate of the assets. The carrying value of asset is reduced to the expected recoverable amount through provision for loss and the amount of loss shall be charged into current gain and loss.

The Company assesses financial asset with high unit price to determine whether there exists any objective evidence that any impairment is happened. Also, the Company assesses asset with low price from one or combined aspects to determine whether there exists any objective evidence that any impairment is happened. The Company classes the assets according to credit risk features and assesses the assets from combined aspects to determine whether there exists any objective evidence that any impairment is happened. Even there exists objective evidence that a single financial asset is not impaired, the asset and those with same credit risk features constitute a combination to be assessed. Any financial assets that is solely assessed and loss has been or continues to be recognized is beyond the scope of combined assess.

With respect to combined assess of impairment of financial assets, the estimate of expected cash flow is determined according to the Company's historical experience. The Company will modify such referencing experience according to actual current condition, which includes adding those factors that only exists in current period and didn't not effect historical reference loss period, and eliminating those factors that only effected on historical reference loss period and are not applicable in current period. The Company will regularly audit and adjust methods and assumes used for estimating expected cash flows.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Impairment of financial asset (continued)

1) Financial asset measured at amortised cost (continued)

During the subsequent measurement, if the amount of loan loss decreases, and there exists any objective relation between the decrease and matter happened after withdrawing provision for loss, the reversal amount of the asset shall be directly deducted by provisions for loan loss and charged into current gain and loss. Any subsequent impairment released shall be charged into current gain and loss. The recognition of released amount shall ensure carrying value of the asset on the releasing date doesn't exceed the amortised cost.

When the loan is not recoverable, it shall be written-off according to the withdrawn provision for loan loss deducted by amount of loss determined. If the written-off loan is recovered, it shall be charged into current gain and loss for deducting the provision for loan loss to be withdrawn in the current period.

2) Financial cost measured at cost

If there exists any evidence that shows equity financial instrument can't be measured fair value due to no market price, the provision for loss the difference between its book balance and present value of expected cash flow of the asset in the future.

3) Available-for-sale financial assets

If available-for-sale financial assets are impaired, no matter the assets are not derecognised, any accumulated gain and loss directly recognised in equity will be transferred out from equity and be recognised in income statement. The amount of accumulated gain and loss transferred out from equity and recognized in income statement is equal to deducting all provision for loss of the asset previously recognized in the income statement from the difference between acquisition cost (deducted by any capital repayment and amortisation) and current fair value.

With respect to available-for-sale equity financial instrument, its loss recognised in gain and loss can't be released through income statement. But for available-for-sale debt financial instrument, if its value increases in the subsequent measurement, and such value increase may be objectively attributed to the matter happened after the recognition of impairment of the asset, the loss may be released through income statement.

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(d) Financial liabilities

The financial liabilities held by the Company comprise of financial liabilities that are measured at fair value and changes in the value are charged into current gain and loss, deposits, issued bonds and other liabilities.

1) Financial liabilities that are measured at fair value and changes in the value are charged into current gain and loss

Financial liabilities that are measured at fair value and changes in the value are charged to current gain and loss comprise of financial liabilities classified as held for trading or by the initial recognition defined by the Company's management as financial liabilities that are measured at fair value and changes in the value are charged to current gain and loss. All changes in fair value are charged to current gain and loss.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial liabilities (continued)

2) Deposits, issued bonds and other liabilities

Deposits, issued bonds excluding the bonds defined as held for trading or the bonds that are measured at fair value and changes in the value are charged into current gain and loss, and other financial liabilities are measured at amortised cost.

(e) Derivative financial instruments

Derivative financial products are initially recognised at the fair value upon the date of signing the derivative transaction agreement and their fair values are subsequently measured. The derivative financial products with positive fair value in the current period are deemed as asset and those with negative fair value for liability. If the exist active market, the fair value is determined according to market quotations, such as recent market transaction. If no such market exists, the fair value is determined by applying estimating methods, such as cash flow discounting method and option pricing model.

With respect to derivative financial product embedded into other financial product, if its economic feature and risk have no close relation with the main contract, and the main contract is not a financial product that is measured at fair value and change in the value are charged into current gain and loss, the Company solely measures the embedded derivative products at fair value and changes in the value are charged into current gain and loss.

(f) Transaction date accounting

Acquisition and sale of financial assets in regular method are recognised at transaction date that the Company is liable for purchasing the assets. The acquisition and sale in regular method refers to the delivery of financial assets is done on the date according to market rule or practice.

(g) Offsetting

Assets and liabilities are offset only when the Company has the legal right to offset amounts with the same counterparty and transactions are expected to be settled on a net basis.

(h) Repurchase and reverse repurchase agreements

Repurchase and reverse repurchase agreements that the Company enters into include securities, bill and loan. The Company enters into purchase of securities/bills/loans under agreements to resell at a future date and sales of securities/bills/loans under agreements to repurchase at a future date. Securities/bills/loans purchased subject to commitments to resell at a future date are treated as placements collateralised by the securities/bills/loans and are included in reverse repurchase agreements. Securities/bills/loans which have been sold subject to repurchase agreements continue to be recognised in the balance sheet. The proceeds from the sale of these securities/bills/loans are treated as liabilities and included in repurchase agreements.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are recognised as interest income and interest expense respectively over the life of each agreement.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Fixed asset

Fixed assets are stated at actual cost of determined value. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset. At end of the period, the Company performed check to fixed assets one-by-one. The difference of recoverable amount and carrying value is recognized as provision for fixed asset impairment and charged into current gain and loss.

Depreciation is provided using the straight-line method. The depreciation is determined based on the cost of the asset, the estimated useful lives and the estimated residual value (at 3% on the cost). The estimated useful life and depreciation rate of each category of fixed assets are as follows:

	Estimated useful life	Depreciation rate
Properties and buildings	5 - 40 years	2.4%-19.4%
Leasehold improvements	5 - 10 years	9.7%-19.4%
Office equipment and computer	3 - 12 years	8.1%-32.3%
Motor vehicles	5 - 10 years	9.7%-19.4%

The estimated residual value, depreciation rate and the method of depreciation of the Company's investment property are adopted with reference to the depreciation policy of properties and buildings.

No provision for depreciation is made on construction in progress.

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(j) Impairment of assets

The Company, at each balance sheet date, assess whether there exists any objective evidence that a asset impairment is happened. If such evidence exists or there has need for performing annual impairment examination, the Company will estimate the recoverable amount of each asset. The recoverable amount is the higher of the asset's fair value deducted by disposal fee and the asset's value in use. The recoverable amount is determined against one asset, unless cash flows generated by the asset is basically dependent on the cash flows generated by other asset or asset group. If the carrying value of certain asset is more than its recoverable amount, it's deemed that the asset is impaired and its carrying value is adjusted to the recoverable value. In assessing asset's value in use, the present value of future cash flow is calculated according to discounting rate before tax reflecting the currency time value of current market and actual risk of the asset. Loss happened in continuous operation is charged into current gain and loss and fee items of impaired assets with same purpose.

(k) Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand, due from the Central Banks, due from banks, placement with banks and other financial institutions both maturing in less than three months, short term highly liquid bond investments which are readily convertible into known amounts of cash, subject to an insignificant risk of changes in value, and have a short maturity term of generally within three months when acquired.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Operating leases

Leases where substantially all the rewards and risks of ownership of the assets remain with the lessor are accounted for as operating leases. Rental payments applicable to such operating leases are charged to the current gain and loss on the straight-line basis over the lease terms.

(m) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

(n) Revenue recognition

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

- 1) Interest income is recognised by applying effective interest method upon the generation, which the discounted expected future cash inflow generated within financial instrument's expected duration is recognised in financial statement. When single financial asset or similar asset group is impaired, the interest income is recognised at discounting rate to measure loss.

- 2) Fee and commission income is recognised when the service is provided and the proceeds can be reasonably estimated;

(o) Income tax

Income tax is calculated at rates applicable to enterprises in the PRC on the income, adjusted for income and expense items which are not assessable or deductible for income tax purposes based on existing PRC income tax legislation, practices and interpretations thereof.

Deferred tax is calculated by liability method on all temporary differences between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred tax.

(p) Retirement benefits scheme

According to the statutory requirements in the PRC, the Company is required to provide certain staff retirement and pension benefits. The Company is obligated to contribute a fixed percentage of staff salaries to a fixed contribution employee retirement benefits scheme, governed by the Labour Department of the Provincial People's Government. The contributions are charged to the income statement.

(q) Drafts acceptance

Drafts acceptance is the payment promise of the Company on the bill issued by customers. The Company estimates that most draft acceptance businesses will be repaid by the customer while performing payment liability. Drafts acceptance is the major off balance sheet item and disclosed as contingent liabilities and promise.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Designated transactions

Asset generated from the business activities that the Company is appointed, designated or agent and guarantee of repaying the asset to customer are not included in the financial statements.

The Company issue designated loan on behalf of third party loaner. As an agency the Company issue designated loan to borrower according to instruction of fund designator. The Company signs agreement with these third party loaner and management the use and recovery of loan on behalf of them. The standard and condition for issuing designated loan, including loan purpose, amount, interest rate and repayment arrangement, are determined by the third party loaner. The Company collect handle fee against the management activities relating to the designated loans and such fee is recognised as revenue of the period. The loss risk of designated loan is undertaken by third party loaner.

(s) Provision

If the Company needs to undertake legal or presumptive liability against any matter happened, and performing such liabilities is expected to cause source outflow containing economic benefit and the

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economic amount involved with the liability can be reliably estimated, provision is withdrawn and recognized in financial statements.

If the Company estimates that certain provision can be partly or fully compensated, such as compensation under insurance agreement, the compensation will be recognized as a single asset. Only amount of the compensation is very definitive, net value that provision deducted by relating fee can be recognized in income statement. If the effect of currency time value is significant, provision is estimated by applying discounting rate before tax and expected cash flow. The discounting rate shall reflect the currency time value of current market and the special risk assessment of the liability. In applying discounting, along with time, the carrying value of provision will increase, the increased amount is recognized as borrow cost.

(t) CONTINGENT LIABILITIES

Contingent liabilities refer to the liability to be performed and arising from past transaction or matter. The existence of contingent liabilities is determined by one or more future matters that are beyond the control of the Company. Contingent liabilities also may be of fact liability arising from past matter. However due to outflow of economic benefit is caused or outflow of economic benefit can be reliably measured, such liabilities are not recognized.

The Company doesn't recognise contingent liabilities and only discloses them in notes to the financial statements. In case of condition changes that outflow of economic benefit is mostly caused by the matter, such contingent liabilities is recognized as provision.

3. NET INTEREST INCOME

	2005	2004
Interest income:		
Interest earned on loans and advances to customers	10,038,946	7,604,515
Interest earned on discounted bills and import and export advances and negotiation	1,300,157	1,248,358
Interest income on amounts due from the Central Bank	479,958	455,001
Interest income on amounts due from banks and other financial institutions	250,756	64,011
Interest income on bond investment	1,692,650	1,305,020
Interest expense:		
Interest on savings account and call deposits	(857,650)	(724,375)
Interest on time deposits	(4,129,571)	(2,889,595)
Interest on amounts due to the Central Bank	(1,241)	(7,086)
Interest on amounts due to banks and other financial institutions	(789,550)	(774,515)
Other interest expense	(286,824)	(80,941)
	(6,064,836)	(4,476,512)
Net interest income	7,697,631	6,200,393

The interest income of 2005 includes total interest on impaired loan discount written back of RMB 238.445 million (2004, for RMB 213,369 million)

4. NET FEE AND COMMISSION INCOME

	2005	2004
Service fee and commission income	297,200	223,508
Service fee and commission expense	(98,775)	(64,392)
Net fee and commission income	198,425	159,116

5. OTHER INCOME, NET

	2005	2004
Foreign exchange gains, net	90,314	81,135
Gain and loss from disposal of fixed asset, net	(2,054)	3,557
Gain and loss from sale of bond investment, net	(1,288)	344
Other income/(expense), net	21,321	26,386
Total	108,293	111,422

6. Personnel expenses:

	2005	2004
Salaries and bonuses	844,762	546,225
Staff benefits and welfare expenses	343,330	268,367
Total	1,188,092	814,592

7. Business & management cost

	2005	2004
Printing and stationery fee	449,721	327,937
Rental expenses	359,771	335,697
Traveling	211,540	159,532
Promotion	157,031	128,935
Entertainment	147,873	136,200
Asset amortization	73,436	85,445
Telecommunications and postage	67,810	56,154
Supervision	64,225	50,280
Water and electricity	48,542	39,282
Tax	42,868	22,063
Repairs and maintenance	40,913	36,584
Other	389,249	350,483
Total	2,052,979	1,728,592

8. Other provisions for asset impairments

	2005	2004
Provision for due from bank and placement with bank and other financial institutions/ (reverse) (Note 12)	(3,967)	23,801
Other provisions for asset impairments	27,447	(17,859)
Total	23,480	5,942

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9. INCOME TAX

Including:

	2005	2004
Current income tax	675,665	625,632
Deferred tax		
Temporary generated difference and reverse	100,867	(15,646)
Total	776,532	609,986
Deferred income tax of current year charged into current owner's equity items		
	2005	2004
Unrealised gain and loss on available-for-sale investments	(300,878)	122,981

9. Income tax (continued)

The reconciliation of income tax expense disclosed above to the amount calculated at the statutory rate of 33% is as follows:

	2005	2004
Profit before tax	2,177,611	1,640,319
Income tax at the statutory rate of 33%	718,612	541,305
Non-deductible expenses	446,845	400,527
Tax exempted income and tax rate adjustments	(388,925)	(331,846)
Income tax	776,532	609,986

Deferred income tax

Deferred income tax assets and liabilities are detailed as follows:

	December 31	
	2005	2004
Deferred income tax assets		
— Provisions for asset impairment	682,207	734,664
— Unrealised gain and loss on available-for-sale investment	-	130,853
— Other	14,069	66,873
	696,276	932,390
Deferred income tax liabilities		
— Unrealised gain and loss on available-for-sale investment	170,025	-
— Other	7,111	11,505
	177,136	11,505
Net deferred income tax (note 17)	519,140	920,885

10. EARNINGS PER SHARE

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

	December 31	
	2005	2004
Earnings per share calculation:		
Net profit attributable to shareholders (in RMB' 000)	1,401,079	1,030,333
Number of common shares outstanding (in thousand shares)	4,200,000	4,200,000
Weighted average number of common shares (in thousand shares)	4,200,000	4,200,000
Basic earnings per share (in RMB)	0.33	0.25

11. CASH ON HAND AND DUE FROM THE CENTRAL BANK

	December 31	
	2005	2004
Cash on hand	1,049,245	972,863
Non-statutory deposits in the Central Bank	16,945,383	44,441,153
Cash and cash equivalents	17,994,628	45,414,016
Statutory deposits in the Central Bank	18,864,545	14,674,378
Total	36,859,173	60,088,394

The Company's statutory deposits are deposited to the People's Bank of China according to applicable rules and such provision shall not be used for daily business.

12. DUE FROM AND PLACEMENT WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	December 31	
	2005	2004
DUE FROM BANKS		
Domestic banks	5,796,845	2,941,476
Foreign banks	1,463,527	1,586,723
	7,260,372	4,528,199
Less: Provisions for losses (Note 12a)	(5,500)	(5,500)
	7,254,872	4,522,699
Placement with banks and other financial institutions		
Domestic banks and other financial institutions	11,000	41,000
Foreign banks	109,709	1,209,128
Domestic financial institutions	176,262	610,229
	296,971	1,860,357
Less: Provisions for losses (Note 12a)	(187,262)	(191,229)
	109,709	1,669,128
Total	7,364,581	6,191,827

12a. CHANGES IN PROVISIONS FOR LOSS

	Due from banks	Placemnt	Total
2004			
At beginning of year	4,400	250,091	254,491
Transferred out of the year	-	(18,873)	(18,873)
Additions(note 8)	1,100	22,701	23,801
Write-off of the year	-	(62,690)	(62,690)
At end of year	5,500	191,229	196,729
2005			
At beginning of year	5,500	191,229	196,729
Reverse of the year (note 8)	-	(3,967)	(3,967)
At end of year	5,500	187,262	192,762

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13. REVERSE REPURCHASE AGREEMENTS

	December 31	
	2005	2004
Classified by counter party:		
Banks	12,100,997	9,855,075
Other financial institutions	263,886	1,201,448
Total	12,364,883	11,056,523
Classified by guarantee		
Bond	4,000,000	4,759,850
Bill	8,364,883	3,296,673
Loan	-	3,000,000
Total	12,364,883	11,056,523

14. LOAN

Loan composition and provisions for loss at end of year are detailed as follows:

	December 31	
	2005	2004
Corporate loan	174,069,250	148,408,170
Discounted bills	40,488,436	18,206,992
Individual loan	19,129,838	14,497,040
Total	233,687,524	181,112,202
Less: Provisions for credit losses (Note 14C)	(4,932,316)	(4,408,978)
Total	228,755,208	176,703,224

14. LOAN (continued)

14a. The composition of loans and advances to customers is as follows:

	December 31	
	2005	2004
Guaranteed	67,155,052	47,835,698
Secured by mortgages	65,142,689	41,245,967
Secured by other collaterals	95,073,677	84,761,905
Unsecured	6,316,106	7,268,632
	233,687,524	181,112,202

14b. The composition of loans and advances to customers by industry is as follows (in RMB 1 million):

	December 31			
	2005	%	2004	%
Manufacturing	71,370	31	54,197	30
Conglomerate	37,061	16	34,710	19
Trading	36,278	15	29,809	17
Real estate	28,680	12	24,053	13
Other	60,299	26	38,343	21
Total	233,688	100	181,112	100

14. LOAN (continued)

14c. PROVISIONS FOR CREDIT LOSSES

	2005	2004
At beginning of year	4,408,978	3,640,457
Charge for the year	1,575,730	1,466,512
Offsetting with interest on impaired loan	(238,445)	(213,369)
Transfer out	-	18,409
Recovery of write-off	3,216	7,592
Transfer out	(17,166)	(29,307)
Write-off during the year	(799,997)	(481,316)
At end of year	4,932,316	4,408,978

Transfer out of the year includes provision for loss transferred out to repossessed assets.

The Company individually lists offsetting with interest on impaired loan and provision for loss in financial statements of the year. Relevant comparing data are re-classified.

14d. OFF BALANCE INTEREST RECEIVABLES

	December 31	
	2005	2004
Off balance interest receivables	1,964,493	1,549,905

14e. The Company signed agreements with other financial institutions and enterprises to transfer certain loans and advances to customers and their respective guarantees to these financial institutions and enterprises.

Due to the repurchase terms included in these agreements, or due to the validity of legal conditions of these agreements, the Company may bear the credit risks of these transferred loans and advances. These transferred loans and advances were then accounted for in the Company's loan portfolio as of end of year 2005

As at 31 December 2005, loans and advances transferred to other financial institutions or enterprises according to the abovementioned agreements amounted to RMB366.872 million (2003: RMB420.522 million).The respective proceeds received were accounted for in other liabilities (please refer to note 21).

14. LOAN (CONTINUED)

14f. As of December 31, 2005, the bills of RMB 1,326.996 million held by the Company were delivered to the counter party as per the repurchase agreements (2003, for RMB 2,477.260 million).

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15. INVESTMENTS

Available-for-sale investments

	December 31	
	2005	2004
Debt securities, at fair value		
– Government bonds	42,897,361	32,370,584
– Financial bonds	18,479,267	10,432,777
– Centralbank's note	2,821,235	506,807
– Corporate bonds and others	495,059	479,473
Subtotal	64,692,922	43,789,641
Equity investment, at cost (note)		
– China Unionpay Co., Ltd.	50,000	50,000
Subtotal	50,000	50,000
Total	64,742,922	43,839,641
Listed	64,692,922	43,789,641
Non-listed	50,000	50,000
Total available-for-sale investments	64,742,922	43,839,641

As at 31 December 2005, the above bonds are not pledged for repurchase agreements – securities (for 2004, RMB1,280 million)

As at 31 December 2005, a lien on bonds amounting to RMB96.542 million (2004: RMB96.542 million) was granted by the court due to litigation, all of which were related to unsettled litigation cases (please refer to note 28a to the financial statements). The Company has made adequate provision on the outstanding litigation cases.

Note: The Company's unquoted equity investment is measured cost as there is lack of quoted market prices and the fair value of the equity investment cannot be reasonably estimated.

16. FIXED ASSETS

	Properties		Office equipment		Motor vehicles	Construction in progress	Investment property	Total
	and buildings	Leasehold improvements	and computer	and				
Cost								
2005-1-1	2,849,561	632,239	1,272,539	216,371	67,412	306,000	5,344,122	
Additions	178,819	87,127	177,946	12,130	17,458	-	473,480	
Transferred in /(out)	6,287	-	31,754	-	(48,006)	-	(9,965)	
Disposals	(423)	(115,498)	(84,878)	(11,639)	-	-	(212,438)	
2005-12-31	3,034,244	603,868	1,397,361	216,862	36,864	306,000	5,595,199	
Accumulated depreciation:								
2005-1-1	185,679	298,014	749,831	108,446	-	12,014	1,353,984	
Charge for the year	79,905	81,292	193,207	18,694	-	8,481	381,579	
Disposals	-	(80,817)	(79,924)	(8,945)	-	-	(169,686)	
2005-12-31	265,584	298,489	863,114	118,195	-	20,495	1,565,877	
Net carrying value:								
2005-12-31	2,768,660	305,379	534,247	98,667	36,864	285,505	4,029,322	
2004-12-31	2,663,882	334,225	522,708	107,925	67,412	293,986	3,990,138	

All the Company's properties and buildings are located in the PRC. Properties and buildings amounting to RMB352.246 million were in use but the legal ownership registration procedures were still in process as at 31 December 2005 (2004: RMB457.600 million).

In the opinion of the Company's management, there was no impairment of properties and buildings at the balance sheet date.

The Company's investment property refers to the units of the new head office building rented out or to be rented out. The rental income arising from the investment property in 2005 was RMB31.743 million (2004 for RMB 11.857 million). As at 31 December 2005, there was no material difference between the carrying value of the investment property and its fair value with reference to the values of nearby properties. As such, no provision for impairment has been made.

17. OTHER ASSETS

	December 31	
	2005	2004
Interest receivable		
Bond interest receivable	897,304	674,175
Loan interest receivable	26,825	25,448
	924,129	699,623
Net deferred income tax (note 9)	519,140	920,885
Repossessed assets (note 17a)	368,936	253,727
Other	559,766	377,581
	2,371,971	2,251,816

17a. REPOSSESSED ASSETS

	December 31	
	2005	2004
Repossessed assets	458,007	352,022
Less: Provisions for repossessed assets	(89,071)	(98,295)
Net value	368,936	253,727
Changes of provision for repossessed assets:		
	2005	2004
At beginning of year	98,295	140,058
Additions / (reverse) of the year	20,606	(26,625)
Transfer-in of the year	17,165	41,795
Disposal/ write-off of the year	(46,995)	(56,933)
At end of year	89,071	98,295

18. REPURCHASE AGREEMENTS

	December 31	
	2005	2004
Classified by counter party:		
Banks	1,326,996	2,750,560
Other financial institutions	-	1,006,700
Total	1,326,996	3,757,260
Classified by guarantee		
Bonds under repurchase agreements	-	1,280,000
Bills under repurchase agreements	1,326,996	2,477,260
Total	1,326,996	3,757,260

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19. CUSTOMER DEPOSITS

	December 31	
	2005	2004
Corporate and personal savings deposits	106,324,646	107,339,465
Corporate and personal time deposits	142,837,930	126,314,508
Deposits pledged as collaterals	61,086,386	33,915,284
Inward remittances	1,880,442	2,099,135
Total	312,129,404	269,668,392

20. SUBORDINATED DEBTS

The Company issued subordinated debts totalling RMB4.25 billion throughout July and August 2004. These debts have a period of 6 years, which bear an interest rate of 1 year fixed deposit benchmark rate, which is set by the People's Bank of China, plus 2.72% to 2.82%. The issuing of these subordinated debts was approved by the China Banking Regulatory Commission in accordance with the document "Official reply from the China Banking Regulatory Commission on the application for issuing of fixed term subordinated debts of Hua Xia Bank" (YJF[2004] No.84).

21. OTHER LIABILITIES

	December 31	
	2005	2004
Interest payable	1,478,241	1,045,010
Cashier's check	992,025	672,301
Income tax payable	404,689	348,847
Other taxes payables	270,539	183,537
Salaries and staff welfare payables	193,770	103,913
Payable for transferred loans and advances (note14e)	366,872	420,522
Dividend payable	3,850	150
Others	2,815,310	639,713
Total	6,525,296	3,413,993

22. SHAREHOLDERS EQUITY

22a. ISSUED CAPITAL

	December 31	
	2005	2004
Registered capital (par value: RMB1)	4,200,000	4,200,000
Issued capital (par value: RMB1)	4,200,000	4,200,000

The Company was approved by the CSRC to issue 1 billion A shares on 21 July 2003. The Company was listed on 12 September 2003 and its issued capital was increased to RMB3,500,000,000. In April 2004, on the basis of total 3.5 billion shares at end of 2003 the Company transferred the capital surplus to issued capital at a ratio of 2 for 10 and the issued capital was increased by 700,000,000 shares. The increase of issued capital had been approved by the shareholders' meeting and verified by Beijing Jingdu Certified Public Accountants who issued the capital verification report.

22b. CAPITAL RESERVE

Capital reserve is the premium of shares issued in the public offering of 2003 less the transfer of RMB700,000,000 to issued capital.

22c. SURPLUS RESERVES

Pursuant to the Company's articles of association and according to the accounting standards and relevant regulations in the PRC, the Company should make accruals for surplus reserves, including the statutory public welfare fund, statutory surplus reserve and discretionary surplus reserve, at a certain percentage of the Company's net profit. Accruals for the statutory public welfare fund should be made at 5% to 10% on the Company's net profit arrived at under PRC accounting standards and relevant regulations. The purpose of the statutory public welfare fund is to provide for staff's facilities and other benefits. The statutory public welfare fund cannot be distributed unless the Company's operation is terminated and liquidation is in progress. Accruals for the statutory surplus reserve should be made at a minimum of 10% on the net profit arrived at under PRC accounting standards and relevant regulations, until its balance reaches 50% of the registered or issued capital. Accruals for the discretionary surplus reserve can be determined by the shareholders. Surplus reserves can be used to compensate the accumulated losses or can be transferred to issued capital with the approval of shareholders.

22d. DIVIDENDS

The final dividend of 2004 totalling RMB 420 million was distributed at RMB1.00 (including tax) for each 10 shares on the basis of 4.2 billion of issued shares. These dividends were approved at the 2004 annual general meeting of the Company held on May 19, 2005.

22e. RETAINED EARNINGS

In accordance with the articles of association of the Company, the profit recognised under PRC accounting standards can be distributed to shareholders after the obligations are satisfied for (1) all tax liabilities; (2) the accumulated losses of prior years; and (3) accruals for the statutory surplus reserve, statutory public welfare fund and discretionary surplus reserve, and reserve for general risks.

As stated in note 2(1) to the financial statements, these financial statements are prepared under International Financial Reporting Standards and are not the statutory financial statements of the Company. The statutory surplus reserve and statutory public welfare fund are derived from the net profit recognised under PRC accounting standards audited by the PRC auditors according to the laws and regulations governing listed financial institutions in the PRC. However, the provision of discretionary surplus reserve and distribution of dividend should be based on the lower of net profit attributable to shareholders audited by the PRC auditors or international auditors.

Profit distribution decision is made at the shareholders' meeting with reference to the operating results, financial status and other relevant factors.

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23. NET CASH FLOWS GENERATED FROM OPERATING ACTIVITIES

	2005	2004
Profit before tax	2,177,611	1,640,319
Adjustments to reconcile net profit to cash inflow/ (outflow) from operating activities		
Non-cash items included in profit before tax and other adjustments:		
Depreciation	381,579	340,406
Provision for asset impairment	1,599,210	1,472,454
Net gain on sale and disposal of fixed assets	2,054	(3,557)
Net gain on sale of bond investments	1,288	(344)
Net (increase)/decrease in operating assets:		
Statutory deposits with the Central Bank	(4,190,167)	(3,660,864)
Due from banks and placements with banks and other financial institutions	37,134	(186,773)
Loans and advances to customers	(1,308,360)	(5,317,044)
Other assets	(53,642,600)	(31,961,450)
Other assets	(442,224)	(204,583)
Net increase/(decrease) in operating liabilities:		
Due to the Central Bank	(27,107)	(1,784,995)
Borrowing from bank and other financial institutions	7,659,600	1,486,885
Repurchase agreements	(2,430,264)	(3,724,332)
Customer deposit	42,461,012	59,447,069
Other liabilities	2,950,894	522,352
Net cash inflow/(outflow) from operating activities before income tax paid	(4,770,340)	18,065,543
Income tax paid	(619,823)	(606,102)
Net cash inflow/(outflow) from operating activities	(5,390,163)	17,459,441

23a. CASH AND CASH EQUIVALENTS

	December 31	
	2005	2004
Cash	1,049,245	972,863
Cash equivalents:		
Mature within 3 months		
-Due from the Central Bank	16,945,383	44,441,153
- Due from banks and placements with banks and other financial institutions	7,153,346	5,985,580
Total	25,147,974	51,399,596

24. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instrument refers to a kind of financial product, of which its value is dependent on the other "basic" financial product index or other changeable value. Generally, such "basic" financial product includes share, large sum of commodity, bond market price, index market price, exchange rate or interest rate.

The notional amount of a derivative represents the amount of underlying asset upon which the value of the derivative is based. The amount presents the transaction amount of the Company, but doesn't reflect its risk. Fair value is the value of exchanging an asset or the amount of repaying a liability on basis of fairness between understanding and willing transactors.

The notional amount of the Company's derivative financial instruments is shown as follows:

	December 31	
	2005	2004
Derivative financial instruments held for trading:		
Spot foreign exchange contract	112,732	-
Forward foreign exchange contract	-	37,571

The fair value of the above derivative financial instruments is not significant.

25. CAPITAL COMMITMENTS AND OPERATING LEASE COMMITMENTS

25a. Capital commitments

As at balance sheet date, the Company's major capital commitments are detailed as follows:

	December 31	
	2005	2004
Contracted, but not provided for	-	9,109
Total	-	9,109

25b. Operating lease commitments

As at balance sheet date, the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	December 31	
	2005	2004
Within one year	305,110	294,764
In the second to fifth years, inclusive	887,427	832,527
After five years	629,220	631,846
Total	1,821,757	1,759,137

26. OFF BALANCE SHEET ITEMS

	December 31	
	2005	2004
Irrevocable letters of credit issued	5,665,723	6,551,416
Drafts acceptance	2,569,887	2,549,975
Letters of guarantee issued	96,428,190	57,555,842

The Company grants credit facilities to certain customers. However, in the opinion of the Company's management, the Company is not committed to the undrawn credit facilities and they are all revocable at the discretion of the Company.

27. DESIGNATED DEPOSITS & LOANS

	December 31	
	2005	2004
Designated deposits	7,296,717	5,475,067
Designated loans	7,296,717	5,475,067

Designated deposits refer to saving deposited by depositor and used by the Company to issue loan to third party specified by the depositor. Loan risk connecting to the loan is undertaken by the depositor.

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28. CONTINGENT LIABILITIES

28a. Unsettled litigation case

As at 31 December 2005, there were still some unsettled litigation cases against the Company involving an amount of RMB240 million (RMB 173 million as at December 31, 2004). There were government bonds of RMB97 million where a lien has been put on by the court relating to cases which involved RMB23 million. Such cases are in the process of third hearing. As at the date of the Report, with the winding-up of some cases, some government bonds are to be released by court after the current year. The Company's management estimates the potential loss and made adequate provisions.

28b. Acceptance commitment of voucher government bonds

The Company issues voucher government bonds as designated agent of the Ministry of Finance. The holder of voucher government bond may demand for cash in on the bond in advance and the Company is liable for performing acceptance. The amount of acceptance is the capital of voucher government bond plus interest payable up to the acceptance date. As at December 31, 2005, the accumulated capital of un-mature and unaccepted voucher government bond issued by the Company was RMB 1.798 billion (2004: RMB 2.051 billion). The Company's management deems, prior to the mature date of such voucher government bonds, the amount of voucher government bonds to be accepted by the Company is not significant.

29. RELATED PARTY & TRANSACTIONS

29a. Shareholders and related companies

The related party transactions with the shareholders and their related companies holding over 5% of the Company's shares are as follows:

	December 31	
	2005	2004
Loans	1,319,445	1,462,697
Deposits	1,303,114	1,841,398
Off balance sheet items	752,023	404,353
	2005	2004
Interest income	66,455	71,193
Interest expense	9,387	14,433

29b. Related transactions with other companies managed by the same key executives are as follows:

	December 31	
	2005	2004
Loans	280,000	280,000
Deposits	3,910	-
	2005	2004
Interest income	16,263	11,082
Interest expense	101	-

Loans and advances to shareholders, other related companies, minority shareholders (holding shares of less than 5%) and other companies managed by the same key executives are granted according to similar terms and conditions offered to other customers.

29. RELATED PARTY & TRANSACTIONS (Continued)

29c. Key executives

Key executives are the personnel that have rights to and are liable for directly or indirectly plan, instruct and control and activities of the Company, such as supervisors, directors and senior managements.

The salary of remuneration of supervisors, directors and senior managements collected the Company are as follows:

	2005	2004
Salary of remuneration	5,747	4,598

The Company deals with the deposit and loan of key executives according to general business policies and normal procedures.

30. SEGMENT INFORMATION

The Company's main business activities are commercial lending and accepting customer deposits. Accordingly, no business segment report has been prepared.

The Company's geographical segment report consists of the financial data of the following major business regions:

	Total assets (in RMB 1 million)			
	2005-12-31	%	2004-12-31	%
Beijing	137,676	39	126,515	42
Jiangsu	36,485	10	26,492	9
Shandong	27,172	8	22,019	7
Zhejiang	24,802	7	18,905	6
Shanghai	20,317	6	19,057	6
Others	110,036	30	91,134	30
Total	356,488	100	304,122	100

30. SEGMENT INFORMATION (Continued)

	Loans and advances (in RMB 1 million)			
	2005-12-31	%	2004-12-31	%
Beijing	41,815	18	30,966	18
Jiangsu	26,531	12	21,470	12
Shandong	25,768	11	17,260	10
Zhejiang	23,262	10	16,844	10
Shanghai	14,630	7	15,313	8
Others	96,749	42	74,850	42
Total	228,755	100	176,703	100

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Loan comprises of loans and advances to corporate and individual, and discounted bills.

	Customer deposits (in RMB 1 million)			
	2005-12-31	%	2004-12-31	%
Beijing	74,553	24	69,165	26
Jiangsu	40,612	13	31,345	12
Shandong	27,885	9	24,412	9
Zhejiang	28,160	9	22,606	8
Shanghai	21,322	7	21,210	8
Others	119,597	38	100,930	37
Total	312,129	100	269,668	100

Deposit comprises of savings deposits and time deposits, deposits pledged as collaterals, inward remittances and outward remittances.

30. SEGMENT INFORMATION (Continued)

	Interest income (in RMB 1 million)			
	2005	%	2004	%
Beijing	3,968	29	3,365	31
Jiangsu	1,241	9	949	9
Shandong	1,254	9	974	9
Zhejiang	1,156	8	823	8
Shanghai	612	5	624	6
Others	5,531	40	3,942	37
Total	13,762	100	10,677	100

Interest income comprises of interest earned on loans and advances to customers, interest earned on discounted bills, interest income on amounts due from the Central Bank, interest income on amounts due from banks and other financial institutions, and interest income from debt securities investments.

	Interest expense (in RMB 1 million)			
	2005	%	2004	%
Beijing	2,610	43	1,767	39
Jiangsu	428	7	308	7
Shandong	443	7	244	6
Zhejiang	351	6	287	6
Shanghai	251	4	230	5
Others	1,982	33	1,641	37
Total	6,065	100	4,477	100

Interest expense comprise of interest on savings account and time deposits, interest on amounts due to the Central Bank, and interest on amounts due to banks and other financial institutions

30. SEGMENT INFORMATION (Continued)

	Off balance sheet items(in RMB 1 million)			
	2005-12-31	%	2004-12-31	%
Beijing	9,932	9	9,091	14
Jiangsu	20,242	19	12,328	18
Shandong	14,292	14	8,954	13
Zhejiang	3,773	4	2,854	4
Shanghai	12,930	12	6,352	10
Others	43,495	42	27,078	41
Total	104,664	100	66,657	100

Off balance sheet items comprises of irrevocable letters of credit issued, letters of guarantee issued and drafts acceptance and.

	Capital commitments (in RMB 1 million)			
	2005	%	2004	%
Beijing	117	25	314	49
Jiangsu	21	4	33	5
Shandong	28	6	40	6
Zhejiang	24	5	20	3
Shanghai	25	5	66	10
Others	258	55	174	27
Total	473	100	647	100

31. RISKS OF FINANCIAL DERIVATIVE INSTRUMENTS

A description and analysis of the major risks faced by the Company are as follows:

31a. Credit risk

Credit risk is the risk of loss from the default by an obligor or counter party when payments fall due. Credit risk is often greater when counter parties are concentrated in a single industry or geographic location or have comparable economic characteristics.

The Company's loans and advances to customers are all domestic loans. Major off balance sheet items such as bank drafts acceptance are also related to domestic enterprises. However, due to the uniqueness of the development and economy of each region, the risk faced by the Company varies. For the geographical concentration of the loan portfolio and major off balance sheet items, please refer to note 30 for details. Loan customers of the Company are classified into different industries. Please refer to note 14b for the analysis of concentration of loans by industry.

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31b. Liquidity risks

A analysis of the Company's assets and liabilities items as at balance sheet date is as follows:

	December 31, 2005 (in RMB 1 million)						Total
	Overdue	On demand	Due within 3 months	Due between 3 month and 1 year	Due between 1 and 5 years	Due over 5 years	
Asset:							
Cash on hand and due from the Central Bank	-	36,859	-	-	-	-	36,859
Due from banks and placements with banks and other financial institutions	-	6,908	246	171	40	-	7,365
Reverse repurchase agreements	-	-	11,033	1,332	-	-	12,365
Loans and advances to customers	4,629	-	55,564	124,055	28,145	16,362	228,755
Investments	-	165	4,086	7,121	30,903	22,468	64,743
Fixed assets	-	-	-	13	962	3,054	4,029
Other assets	-	33	207	780	833	519	2,372
Total assets	4,629	43,965	71,136	133,472	60,883	42,403	356,488
Liabilities:							
Borrowings from banks and placement with banks	-	20,182	394	868	-	-	21,444
Repurchase agreements	-	-	1,128	199	-	-	1,327
Customers deposits	-	107,937	81,661	81,251	41,275	5	312,129
Subordinated debts	-	-	-	-	4,250	-	4,250
Other liabilities	-	57	4,475	1,814	133	46	6,525
Total liabilities	-	128,176	87,658	84,132	45,658	51	345,675
Net liquidity gap	4,629	(84,211)	(16,522)	49,340	15,225	42,352	10,813

31. RISKS OF FINANCIAL DERIVATIVE INSTRUMENTS (continued)

31b. Liquidity risks (continued)

	December 31, 2004 (in RMB 1 million)						Total
	Overdue	On demand	Due within 3 months	Due between 3 month and 1 year	Due between 1 and 5 years	Due over 5 years	
Asset:							
Cash on hand and due from the Central Bank	-	60,088	-	-	-	-	60,088
Due from banks and placements with banks and other financial institutions	-	4,315	1,671	165	41	-	6,192
Reverse repurchase agreements	-	-	7,218	3,839	-	-	11,057
Loans and advances to customers	2,505	-	38,672	105,189	27,988	2,349	176,703
Investments	-	224	2,789	5,746	18,255	16,826	43,840
Fixed assets	-	-	-	-	1,203	2,787	3,990
Other assets	-	-	214	725	1,313	-	2,252
Total assets	2,505	64,627	50,564	115,664	48,800	21,962	304,122
Liabilities:							
Due to the Central bank	-	-	27	-	-	-	27
Borrowings from banks and placement with banks	-	13,105	593	86	-	-	13,784
Repurchase agreements	-	-	2,720	1,037	-	-	3,757
Customers deposits	-	110,262	57,686	56,445	43,272	2,003	269,668
Subordinated debts	-	-	-	-	-	4,250	4,250
Other liabilities	-	-	1,627	1,183	605	-	3,415
Total liabilities	-	123,367	62,653	58,751	43,877	6,253	294,901
Net liquidity gap	2,505	(58,740)	(12,089)	56,913	4,923	15,709	9,221

31. RISKS OF FINANCIAL DERIVATIVE INSTRUMENTS (continued)

31c. Currency risk

The Company is incorporated and operates in the PRC, with RMB as its reporting currency. The other major foreign currency in which the Company transacts is USD.

Financial assets and liabilities are detailed as follows:

	December 31, 2005 (in RMB 1 million)			
	RMB	USD	Others	Total
Asset:				
Cash on hand and due from the Central Bank	35,962	753	144	36,859
Due from banks and placements with banks and other financial institutions	3,513	2,605	1,247	7,365
Reverse repurchase agreements	12,365	-	-	12,365
Loans and advances to customers	224,200	3,999	556	228,755
Investments	61,773	2,440	530	64,743
Fixed assets	4,029	-	-	4,029
Other assets	2,258	94	20	2,372
Total assets	344,100	9,891	2,497	356,488
Liabilities:				
Borrowings from banks and placement with banks	18,939	1,842	663	21,444
Repurchase agreements	1,327	-	-	1,327
Customers deposits	303,339	7,194	1,596	312,129
Subordinated debts	4,250	-	-	4,250
Other liabilities	6,271	149	105	6,525
Total liabilities	334,126	9,185	2,364	345,675
Net long/(short) position	9,974	706	133	10,813

31. RISKS OF FINANCIAL DERIVATIVE INSTRUMENTS (continued)

31c. Currency risk (continued)

	December 31, 2004 (in RMB 1 million)			
	RMB	USD	Others	Total
Asset:				
Cash on hand and due from the Central Bank	59,356	533	199	60,088
Due from banks and placements with banks and other financial institutions	2,647	2,651	894	6,192
Reverse repurchase agreements	11,057	-	-	11,057
Loans and advances to customers	171,549	4,348	806	176,703
Investments	41,186	2,127	527	43,840
Fixed assets	3,990	-	-	3,990
Other assets	2,129	123	-	2,252
Total assets	291,914	9,782	2,426	304,122
Liabilities:				
Borrowing from the Central Bank	27	-	-	27
Borrowings from banks and placement with banks	12,702	902	180	13,784
Repurchase agreements	3,757	-	-	3,757
Customers deposits	259,538	7,946	2,184	269,668
Subordinated debts	4,250	-	-	4,250
Other liabilities	3,244	163	8	3,415
Total liabilities	283,518	9,011	2,372	294,901
Net long/(short) position	8,396	771	54	9,221

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31. RISKS OF FINANCIAL DERIVATIVE INSTRUMENTS (continued)

31d. Interest rate risk

According to applicable rules of the People's Republic of China, commercial bank shall define RMB loan and deposit interest rate within the floating of benchmark interest rate set by the People's Bank of China. From January 1, 2004, PBOC adjusted to the central bank benchmark rates for deposit and lending effective from October 29, 2004. On March 17, 2005, PBOC raised the benchmark interest rates for housing mortgage loan rate. Currently effective and applicable PBOC Renminbi benchmark rates are as follows:

	Loan and deposit interest benchmark rate of PBOC	
	From October 29, 2004	Between January 1, 2004 and October 28, 2004
	(% per year)	
Loans		
Within 6 months	5.22	5.04
Between 6 months and 1 year	5.58	5.31
Between 1 and 3 years	5.76	5.49
Between 3 and 5 years	5.85	5.58
Over 5 years	6.12	5.76
Housing mortgage loan:(1)		
not more than 5 years	4.95	4.77
Over 5 years	5.31	5.04
Savings deposits	0.72	0.72
Time deposits:		
3 months	1.71	1.71
6 months	2.07	1.89
1 year	2.25	1.98
2 years	2.70	2.25
3 years	3.24	2.52
5 years	3.60	2.79

- (1) Effective from March 17, 2005, housing mortgage loan benchmark interest rate of PBOC is equal to that of loans with same term.

31. RISKS OF FINANCIAL DERIVATIVE INSTRUMENTS (continued)

31d. Interest rate risk (continued)

Since the government further released the administration of interest rates and broadened the floating ranges of RMB loan and deposit rates. Allowable floating ranges of Renminbi loan and deposit rates at different term are as follows:

	Loan		Deposit	
	Between January 1, 2004 and October 28, 2004	From October 29, 2004	Between January 1, 2004 and October 28, 2004	From October 29, 2004
Top limit	170% of benchmark rate (rural financial cooperatives for 200%)	No limit (urban and rural financial cooperatives for 230% of benchmark rate)	As per benchmark rate, excluding deposit agreement	As per benchmark rate, excluding deposit agreement
Bottom limit	Not less than 90% of benchmark rate	Not less than 90% of benchmark rate	As per benchmark rate, excluding deposit agreement	None

Commercial bank may, according to re-discounting rate of PBOC, independently define discounting rate on the basis of not exceeding loan benchmark rate of same term. The re-discounting rate of PBOC between September 11, 2001 and March 24, 2004 is 2.97% and for the rate of 3.24% from March 25, 2004.

Loan and deposit interest rates among banks are beyond the administration of the People's Bank of China, but shall be defined according to market rules or practices.

32. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. If there exists market with active transaction (such as authorized stock exchange), market price is the best present of the fair value of financial products. Since part of financial assets and liabilities held by or issued by the Company is lack of market price, thus, with respect to such financial instruments without quotation, their fair value is determined by applying following present value or other estimating methods. However, the value on the basis of such method is subject to the amount of future cash flows, timely assumption and discounting rate applied.

Methods and assumes applied for estimating fair value are as follows:

- (a) The fair value of available-for-sale financial assets is measured according to market price quoted. If no market price is quoted, their fair value is measured by applying pricing model or present value of discounted cash flows. Such carrying value is the fair value of the assets.
- (b) With respect to current assets and other assets to be mature within 12 months, their fair value is deemed as equal to the carrying value of such assets. This assume is applicable to current asset and other short-term financial assets and liabilities.
- (c) The fair value of fixed interest rate loans is measured through comparing the market interest rate upon the issuance of such loans and the current market interest rate for similar loans. The Company audits most loans one time per year to determine whether market interest changes. So the carrying value of fixed interest rate loans is mostly equal to their fair value. Quality changes happened in some loans of a loan portfolio are not considered in measuring total fair value of the loan portfolio. The effect of loan risk is presented by independent provision for loan loss and is deducted from its carrying value.
- (d) Customer deposits interest rate is subject to different product and might be floating or fixed rate. The fair value of savings deposits and saving account without defined mature term is the amount to be paid

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to customer at any time. Since most time deposits are of short term, their fair value is mostly equal to their carrying value.

The above assumes and methods provide uniform basis for measuring fair value of the Company's assets and liabilities. However, since other organization might apply different methods and assumes, the fair values disclosed by different financial organizations are not soundly comparable.

Loan, investment and customer deposit are the main assets and liabilities of the Company. Management estimates that as at each balance sheet date, due to the fluctuation of interest rates, the difference between the fair values and carrying values of loans and advances to customers and customer deposits was not material.

33. IMPACT OF IFRS ADJUSTMENTS ON NET PROFIT AND NET ASSETS AND RECONCILIATION WITH THOSE REPORTED UNDER PRC ACCOUNTING STANDARDS

(a) Reconciliation to the net profit

	2005	2004
Net profit as reported in the audited financial statements under PRC accounting standards	1,288,675	1,016,918
Amortisation of the housing reform expenditures	24,633	18,585
Interest income on investments	(9,081)	5,081
Amortisation of interest income and expense of discounted bills and others	113,107	(1,845)
Write off of pre-operating expenses	8,406	(8,406)
Cumulative translation adjustments	(24,661)	-
Net profit as reported in the financial statements under IFRS	1,401,079	1,030,333

(b) Reconciliation to the net assets

	December 31	
	2005年	2004年
Net assets as reported in the audited financial statements under PRC accounting standards	10,453,009	9,608,995
Amortisation of the housing reform expenditures	-	(24,633)
Interest income on investments	14,438	23,519
Amortisation of interest income and expense of discounted bills and others	-	(113,107)
Unrealised gain/(loss) on available-for-sale investments	345,202	(265,672)
Write off of pre-operating expenses	-	(8,406)
Net assets as reported in the financial statements under IFRS	10,812,649	9,220,696

Being differences in the measurement and recognition of items under IFRS and relevant financial regulations and accounting principles in the PRC.

34. COMPARATIVE FIGURES

Certain amounts have been reclassified to conform to the current year's presentation.

35. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements are approved and authorised for issue by the Board of Directors of the Company on 15 February 2006.