

CCB ANNUAL REPORT 2002

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1 Financial highlights

1.1 Current year financial highlights

(Expressed in millions of RMB)

	2002	2001
Operating results		
Operating profit before tax and provisions against loans and other assets	30,738	24,723
Operating profit	15,243	5,796
Profit before tax	4,337	5,191
Profit after tax	4,304	5,167
Balance sheet		
Total assets	3,083,195	2,752,372
Total liabilities	2,975,959	2,644,805
Owners' equity	107,236	107,567
Performance indicators		
Profit before tax/ Owners' equity	4.04%	4.67%
Profit before tax/ Total assets	0.15%	0.20%
Cost to income ratio	53.16%	56.07%
Non-performing loans ratio	15.17%	19.21%
Net interest margin	2.67%	2.48%
Capital adequacy		
Tier 1 capital ratio	5.78%	6.59%
Total capital ratio	6.91%	6.88%
Risk-weighted assets	1,856,513	1,610,019

Notes: 1. Risk-weighted assets include balance sheet and off-balance sheet risk-weighted assets.

2. The non-performing loans ratio, which is calculated in accordance with the five grades credit system, includes both domestic and overseas operations.

1.2 Five-year comparison

(Expressed in millions of RMB)

	2002	2001	2000	1999	1998
Operating results					
Net interest income	64,972	55,325	50,115	51,176	58,846
Non-interest income	8,964	8,113	4,467	4,562	1,946
Operating profit before tax and provisions against loans and other assets	30,738	24,723	15,631	18,709	22,174
Provisions against loans and other assets	15,495	18,927	5,435	10,985	20,060
Operating profit	15,243	5,796	10,196	7,724	2,114
Profit before tax	4,337	5,191	8,483	7,366	1,644
Profit after tax	4,304	5,167	7,540	4,958	1,087
Balance sheet					
Total assets	3,083,195	2,752,372	2,531,695	2,201,065	1,923,646
Loans	1,766,388	1,505,906	1,386,386	1,200,945	1,257,943
Total liabilities	2,975,959	2,644,805	2,416,845	2,094,196	1,823,170
Customer accounts	2,599,652	2,265,536	2,010,284	1,764,433	1,551,956
Owners' equity	107,236	107,567	114,850	106,869	100,476
Paid-in capital	85,115	85,115	85,115	85,119	85,094
Reserves	22,121	20,867	20,729	16,792	13,184
Retained earnings	0	1,585	9,006	4,958	2,198
Performance indicators					
Profit before tax/ Owners' equity	4.04%	4.67%	7.39%	6.89%	2.19%
Profit before tax/ Total assets	0.15%	0.20%	0.34%	0.33%	0.09%
Loan to deposit ratio	67.95%	66.47%	68.96%	68.06%	81.06%
Liquidity ratio	25.41%	23.95%	25.84%	34.05%	38.32%
Cost to income ratio	53.16%	56.07%	66.63%	60.38%	55.07%

Note: The liquidity ratio only accounts for domestic operations in China.

2 Statement of the President



In 2002, China was the one major economy in the world that demonstrated continuing strong growth and this, coupled with membership of the WTO, made China one of the most attractive markets for investment and business opportunities. The aim of the Chinese government to build a prosperous and balanced society in the first 20 years of this century includes encouraging the development of a modern market economy, providing a favourable environment for CCB's ongoing reforms and development.

In the 2001 annual report, I identified priorities for the bank and I am pleased to report that we are now beginning to see the effects of the reform process that we have embarked on. These effects are clearly demonstrated by our improving market position and the growing strength of our brand and products. This strong market position, allied with improved risk management, has resulted in increased earnings, decreasing non-performing loans ratios and a stronger capital position.

We have reported operating profit of RMB 15,243 million, a growth of 163.0% over last year, in which the proportion of income generated by non-interest income items increased, reflecting the increased diversity of our products and services. Operating costs have been controlled within the budgets set, resulting in an improvement to the cost to income ratio, which decreased to 53.16%.

In 2002, we completed the implementation of the five grades credit system. In line with our stated objectives to effectively manage the historical legacy of poorly performing assets, we allocated earnings of RMB15,495 million as provisions against those assets. These provisions, together with improved risk management and a growing portfolio of sound new loans, have resulted in the overall quality of our portfolio improving markedly and our non-performing loans ratio (covering domestic and overseas branches and subsidiaries) now stands at 15.17%, a reduction of 4.04 percentage points. However, our plans do not stop there, and we intend to further develop our credit grading processes and enhance our credit risk management policies to meet international best practice.

Improvements to our risk management policies are not our sole focus. In 2002, we also concentrated on improving our services and marketing efforts. Even several members of senior management, including myself, are now Customer Managers, with responsibility for ensuring that we provide an excellent service to our largest clients. This service is supported by our investment in new IT systems. The growing success of our VIP Service System and Securities Service System are examples of the application of technology to delivering the products and services through the distribution channels that help our corporate customers conduct their business efficiently.

During 2002, we started the "Happy Home" brand to market all of our home mortgage products. We believe that this will provide our customers with the best possible financial service for their home

purchases and allow us to build on our dominant market position in home mortgages, our most successful business in recent years. To complement this, we are rapidly improving the range of services and products available to our personal banking customers. During the year we launched our first credit card, set up new personal wealth management centres and automobile finance service centres in some of our major city branches and upgraded our Internet banking service to provide a competitive and comprehensive banking service to these customers.

In pursuing a market-oriented and customer-focused strategy, it is crucial to be able to react rapidly and effectively to market changes. To achieve this, we are reorganising our head office's management structure, and centralising decision making at head office, in order to be able to respond to market conditions quickly and efficiently across the bank.

These developments and initiatives are part of our overall long-term reform plans, which the government requires of us as part of their reform of the financial sector. Over the past year we have undertaken a number of in-depth research projects in order to complete a comprehensive implementation plan for these reforms and we have explicitly set out CCB's reform targets for the next 3 to 5 years.

We recognise that the success of our reform programme ultimately depends on our staff's ability and active involvement and that in a competitive market we need to be able to attract and retain the best. Consequently, our first major step has been to introduce a comprehensive performance assessment system to allow us to reward our staff for contributions to CCB's values and objectives. This is supported by our efforts to create a unique CCB culture, in which all of our staff can achieve their aspirations in a competitive yet friendly and motivating environment.

We have now formulated our strategies for implementing reform and established our operating objectives and operating parameters. In the coming year, we intend to seize the window of opportunity to accelerate the implementation of our reform plans and determine the most appropriate way in which CCB can change to a shareholding structure in line with government policies. We have already identified the following key strategic success factors in sustaining stable and healthy development:

1 Effective marketing Strengthening our brand quality through effective marketing will allow us to expand our customer base and gain market share. This will be achieved by emphasising our strengths in three primary business segments: developing our lending products to both corporate and retail customers; expanding the range of deposit products and cards business; and growing intermediary services, including settlements, investment management and agency services.

2 Customer focus Optimising operating processes through reorganisation and investment in new information technology systems will create an efficient customer-focused operating environment in which we deliver our products and services to clients based on three major distribution channels: branches; e-banking; and direct contact with our Customer Managers.

3 Strengthening corporate governance and risk management Reorganising our management structure so that our organisational structure more closely matches our business plans. In addition, we recognise that improving corporate governance is vital to ensuring that our reform objectives and the means to control risks and measure performance against those objectives are fully implemented. This will be achieved by enhancing accountability, building a comprehensive risk management system and increasing transparency in information disclosures to match international standards.

Achievement of these key strategic initiatives will increase profitability by allowing us to effectively manage the historical legacy of non-performing assets and consistently improve asset quality, placing us in a position to continue our reform programme and to undertake an initial public offering when the time is right.

Looking back over the past year, I am pleased to note that in many areas, we have achieved more than we planned. In particular, I feel that the changes in corporate culture and the awareness among our staff of the need to act in a market environment and succeed by being the best is testament to the great efforts that they have all made and I would like to express my personal appreciation for all their hard work.

Lastly, I would like to thank all our customers and international friends for their support and encouragement over the past year: I trust that we will be able to rely on your continued support for the future.



Zhang Enzhao
President and Chief Executive Officer

3 Corporate information

3.1 Senior executives and Chairman of the Supervisory Board



Zhang Enzhao President and Chief Executive Officer (middle)
Mr Zhang Enzhao is also the Director of Human Resources Management Committee and currently in charge of the Human Resources Department and other departments. He is also Chairman of China International Capital Corporation, CPC Secretary of Cinda Asset Management Company, and Deputy President of the China Banks Association.

Liu Shulan Deputy President (third from the right)
Ms Liu Shulan is also the Director of General Management Committee and currently in charge of the Executive Office and the Logistics Centre.

Zhao Lin Deputy President and Chief Auditor (third from the left)
Mr Zhao Lin is also the Director of Asset and Liability Management Committee and currently in charge of the Asset and Liability Management Department, the Planning and Financial Department, the Accounting Department, the Treasury Department, the Supervision and Inspection Department and the Corporate Culture Department.

Luo Zhefu Deputy President (second from the right)
Mr Luo Zhefu is also the Director of IT Development and Operation Management Committee and currently in charge of

the Information Technology Management Department, the Electronic Banking Department, the Information Centre and the Processing Centre.

Zheng Zhijie Deputy President (second from the left)
Mr Zheng Zhijie is also the Director of Risk Management and Internal Control Committee and currently in charge of the Risk Management Department, the Audit Department, the Credit Approval Department, the Legal Department and the Security Department.

Chen Zuofu Assistant President (first from the right)
Mr Chen Zuofu is also the Director of Personal Banking Management Committee and currently in charge of the Personal Banking Department, the Credit Card Centre and the Real Estate Finance Department.

Fan Yifei Assistant President (first from the left)
Mr Fan Yifei is also the Director of Corporate and Institutional Banking Management Committee and currently in charge of the Corporate Banking Department, the International Business Department, the Institutional Banking Department, the Fund Custody Department, the Investment Banking Department, the Special Assets Resolution Department, the Banking Department and the Second Banking Department.



Ding Xianjue
Chairman of the Supervisory Board

The Supervisory Board (Chairman of the Supervisory Board: Mr Ding Xianjue), which was formed in August 2000 and is appointed by and reports to the State Council, monitors the performance of the bank, in particular the quality of the bank's assets, thus safeguarding the government's investment.

3.2 Head office address

No. 25, Finance Street, Beijing, China

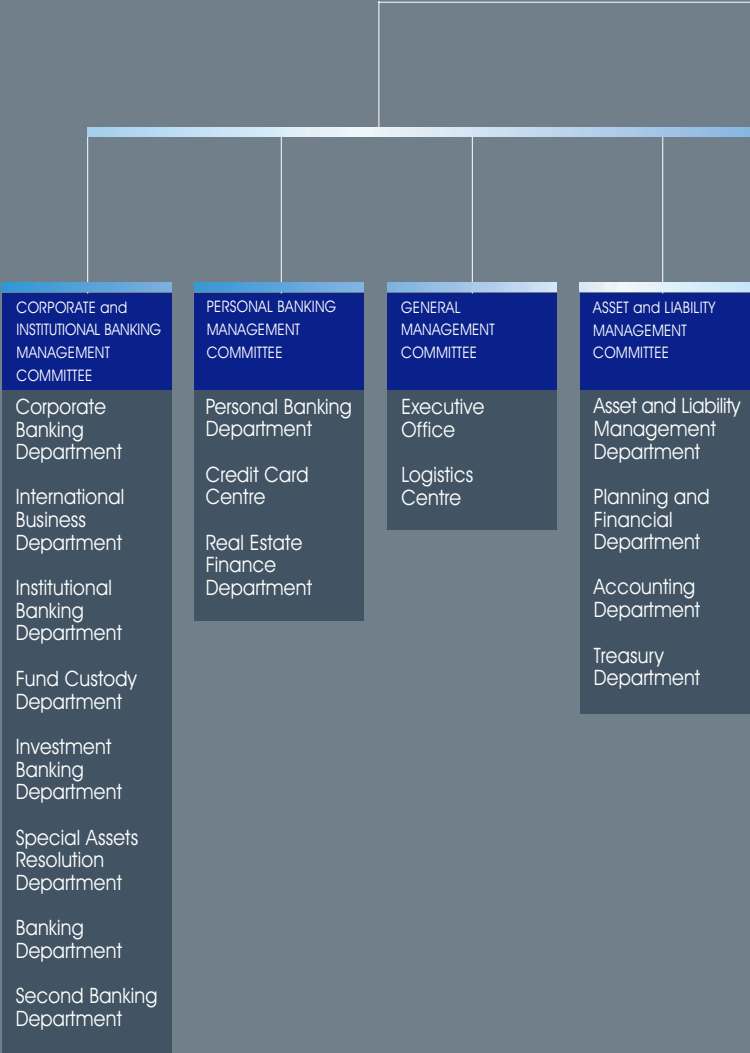
Telephone: 86-10-67597114

Telex: 222971 PCBC CN

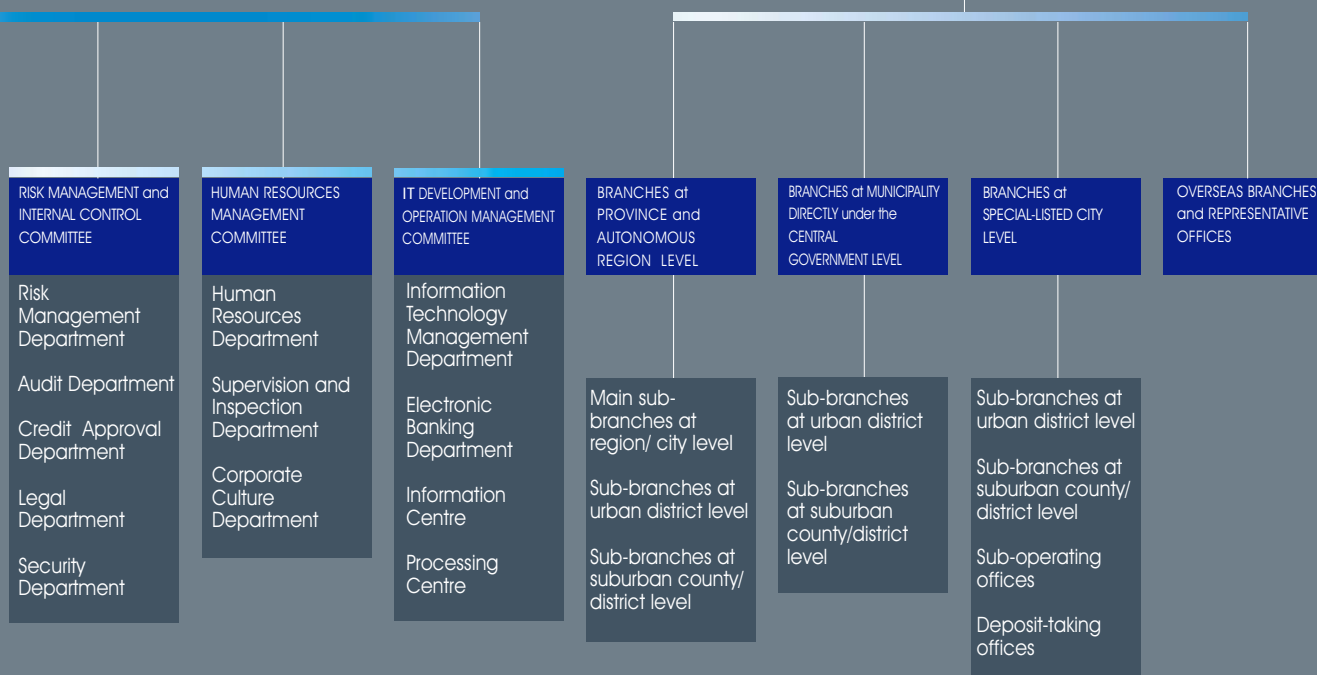
Postcode: 100032

Website: www.ccb.com.cn

3.3 Organisation structure



HEAD OFFICE



Notes:

1. CCB has 38 branches in the capitals of 31 provinces, autonomous regions and municipalities directly under the central government as well as in Dalian, Qingdao, Ningbo, Xiamen, Shenzhen, Suzhou, and Three Gorges, and has sub-branches and outlets under those 38 branches.
2. CCB has branches in Hong Kong, Singapore, Frankfurt, Johannesburg and Tokyo. CCB also has overseas representative offices in London, Seoul and New York.
3. The head office manages two training centres of the bank: Harbin Specialised Investment College and Changzhou School of Finance and Economics.
4. The Audit Department has 8 regional offices in Beijing, Dalian, Shanghai, Nanjing, Wuhan, Guangzhou, Chengdu and Xi'an.
5. At the end of 2002, CCB had 21,608 branches and operating outlets with 306,809 full-time employees.

4 Corporate governance

Corporate governance is the system by which business organisations are directed and controlled. The corporate governance structure specifies the rights and responsibilities of the different participants in the corporation, such as the executive management, operational managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs.

CCB is committed to business integrity and achieving the highest standards of corporate governance in order to ensure that we continue to deliver value to our customers and stakeholders.

We consider that implementing corporate governance best practice is central to achieving our objectives of becoming an internationally competitive commercial bank.

Executive Management

The Executive Management consists of the President, the Deputy Presidents, the Assistant Presidents and the Chief Auditor, whose roles and responsibilities are set out in Section 3.1. As CCB is a state-owned commercial bank, Executive Management members are appointed directly by the government.



The Executive Management has overall responsibility for making and implementing strategic decisions and managing and controlling the bank. The Executive Management is also accountable to various departments of the government for financial and operational performance.

The Executive Management holds regular meetings to discuss the bank's strategy, its significant business policies, and the appointments of senior managers of business and operations departments. Depending on the type of matters to be discussed, decisions are based either on a majority vote or on the opinion of the President.

In accordance with the *Guidelines on Internal Controls of Commercial Banks* issued by the People's Bank of China ("PBOC") on 7 September 2002, the Executive Management has implemented measures to manage and control the risks that the bank is exposed to. These are discussed in Section 7 "Risk management overview".

Supervisory Board

The Supervisory Board, which is appointed by and reports to the State Council, carries out the non-executive supervisory function of monitoring the performance of the bank, in particular the quality of the bank's assets, thus safeguarding the government's investment. The Supervisory Board is authorised to attend the Executive Management meetings and business operations meetings. It also has the authority to conduct audits to examine aspects of the financial statements and asset quality.

The Supervisory Board meets with the Executive Management periodically to discuss issues arising from the supervisory work.

Organisational reform

The Executive Management has undertaken a comprehensive reform initiative with the objective of changing CCB into a modern commercial bank. This initiative has far-reaching consequences for the corporate governance of the bank and certain key features of this reform programme are set out below.

During the first half of 2002, five teams were formed to conduct in-depth research on specific issues affecting the bank's future development plan. The issues are: human resources management and performance assessment system; core competencies; risk management and internal controls frameworks; organisation structure reform and information technology applications.

Based on the research, a plan for the bank's development strategy and reform objectives has been prepared. The overall goals of the reform are to transform the bank into a well-managed competitive institution, significantly improving its potential to increase profitability, and enabling the bank to effectively resolve the historical legacy of non-performing assets within three to five years. In line with the government policy of reform in the financial sector, CCB intends to change its legal ownership structure, becoming a shareholding entity, with a view to achieving an initial public offering within a minimum timeframe. Within the context of these objectives the bank has set its overall development strategy: to strengthen core competencies through product innovation and quality service; and to build up advanced management based on high quality personnel and effective technology applications.

During this reform process, the Executive Management and Supervisory Board will assess the changes needed to the corporate governance structure within the bank, ensuring that any required changes are made in a timely and effective manner.

5 Operating report

5.1 Financial results

In 2002, our core operating focus was maximising value, and using this initiative the bank has succeeded in growing all areas of business operations, strengthening the quality of credit portfolios, improving the assets and liabilities structure and broadening the operating income mix. This has resulted in considerably improved operating profitability while at the same time reducing the overall risks that the bank is exposed to.

In 2002, the operating profit amounted to RMB 15,243 million, an increase of RMB 9,447 million or 163.0% over the previous year. Profit before tax amounted to RMB 4,337 million, a slight decrease. This was attributable to the disposal of non-performing assets and other historic legacy issues. This is a key part of the management process over the historic legacy of poor quality assets and greatly reduces the overall financial risk that the bank was exposed to.

Expenses increased largely as a result of the implementation of the human resources management and performance assessment system and other operational restructuring, providing a better structure of expenditure for sustaining growth and development.

Improving asset quality is a key determinant of our success and continued improvement is reflected in the reduction of the non-performing loans ratio to 15.17% (measured using the PBOC's five grades credit system), a decrease of 4.04 percentage points over the previous year. At the same time, with an increase of supplementary capital, our capital adequacy stood at 6.91% at the end of the year.



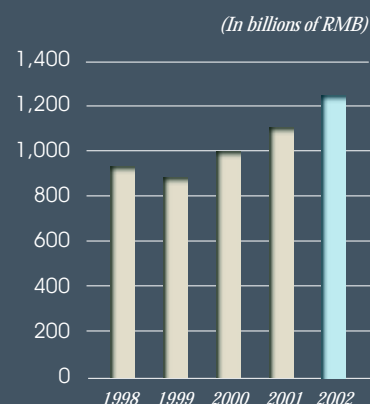
5.2 Business performance and developments

Corporate banking

The performance of our corporate banking business in 2002 was exceptional. This was attributable to a strengthened marketing and sales strategy, improved integration of our services and the development of new markets. At the same time we controlled the quality of new lending, adjusted the loan portfolio mix and introduced new products. In 2002, domestic lending to corporate customers increased by RMB 138,248 million, or RMB 139,767 million taking into account debt-for-equity swaps, an increase of 12.8% over the previous year. Corporate deposits (including those from government and institutions) increased by RMB 125,773 million or 10.7%. In addition, income derived from intermediary services for corporate customers amounted to RMB 947 million.

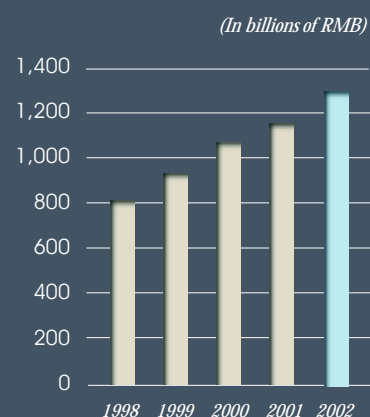
In 2002, we enhanced our services to key customers and set up customer evaluation centres in the head office and certain branches, including Sichuan and Guangxi, to enhance our ability to identify key regions and customers. We also prepared marketing guidance for industries such as petroleum, natural gas, petrochemicals, electricity, logistics, steel, education, telecommunications, tobacco and water supply, and continued to identify key corporate customers. By the end of 2002, we had identified 1,210 key corporate customers. We are now providing tailor-made services to these key corporate customers, have appointed our President and general managers at provincial and other major branches as chief customer officers and have established group customer services teams to actively manage our relationship with these customers and improve our service to them.

Domestic corporate loans



Note: Corporate loans are stated before debt-for-equity swaps are taken into account.

Domestic corporate deposits



In 2002, we also completed a number of projects, including signing strategic cooperation agreements and financial service cooperation agreements with large corporates such as the First Auto Works Group and China Netcom. We were also successfully involved in the financing of infrastructure projects such as West-East Natural Gas Transmission Project and the South-to-North Water Diversion Project.

We have not only formulated marketing plans for domestic key customers, but also for multinational customers, small and medium-sized enterprises, and key development projects. This, in conjunction with our product and service innovation, is winning us a competitive edge in the market.

We continually strive to improve the quality of our financial services to multinational customers and in 2002 we set up a separate customer service division to identify key marketing targets. We have so far established business relationships with over 200 multinational companies with investments in China and were successful in winning, over 8 other domestic and foreign banks, the tender to provide cash management services

to the GE group in China, which comprises over 30 entities.

We are involved with and support the development of private enterprises and small and medium sized enterprises ("SMEs"). In 2002, we established the SME management centre at the head office and SME servicing centres in the provincial branches in Shanghai, Zhejiang, Jiangsu, Fujian, and Guangdong, where SMEs and private enterprises enjoyed rapid development. Some branches have pioneered their own products and services for SMEs. For example, Guangdong branch has launched the "Road of Growth" brand to provide comprehensive services to SMEs at different stages of their development.

We have strengthened marketing initiatives for the nation's "Go West" project and are providing long-term and high-quality financial services and credit facilities for major infrastructure projects in that region; for example, we have signed a cooperation agreement with the Sichuan provincial government to provide a range of financial services.

Continuous product innovation and improvements in service quality are essential to sustain the bank's growth and development. In 2002, we actively promoted our VIP Service System ("VSS") launched in 2001 to 48 large corporate customers, including Wuhan Iron and Steel (Group) Co, 12 of which are now active users of the system. New services launched during 2002 include overdraft facilities for corporate customers and domestic factoring services. We obtained the PBOC's approval during the year to provide these services.

In addition, we have strengthened management and marketing initiatives in our bills business. We have set up a bills processing centre in our head office to manage and direct the establishment and operation of the bills processing centres at



branches. During 2002, bills processing centres were set up in several branches, including Beijing, Henan, Guangxi, Shenzhen, Hubei and Jiangsu. In 2002, the total transaction volume of bills discounting amounted to RMB 120,783 million, an increase of 172.0% over the previous year.

Our marketing strategies in 2002 resulted in an excellent growth and performance in our corporate business. Going forward, we intend to build on this and enhance our marketing capability to grow our market share.

Personal banking

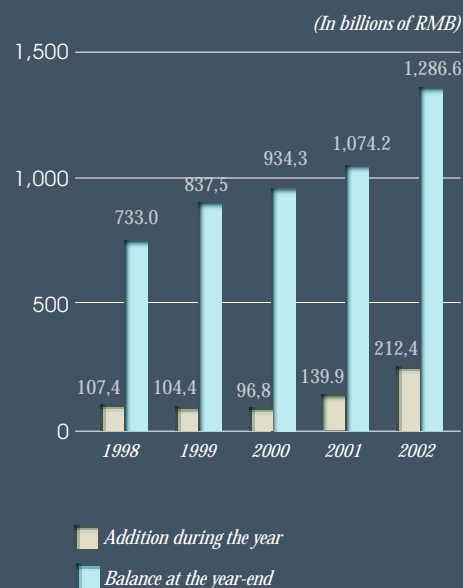
2002 was a good year for our personal banking business, a direct consequence of new, high-quality products and services combined with customer-focused and market-driven strategies.

Retail deposits

In 2002, retail deposits grew rapidly. At the end of 2002, retail deposits (RMB and foreign currencies) reached RMB 1,286,600 million, with an average daily balance of RMB 1,207,933 million, an increase of RMB 212,362 million over the beginning of the year. The year-end balance accounted for 20.4% of total deposits among the four state-owned commercial banks while new deposits amounted to 24.3%, an increase of 0.6 percentage points and 2 percentage points respectively, demonstrating our increased market share.

Retail deposits benefited from the wider choice of products and improved service quality. In 2002, we introduced a number of new products and services including: multi-currency term deposit consolidated accounts, automatic rollover for term deposits on maturity, automatic transfers from savings accounts to term deposits based on account balance limits, and deposit and withdrawal without form filling by customers. These

Balance and addition of retail deposits



products provide our customers with more efficient services and enhance the efficiency of our business process.

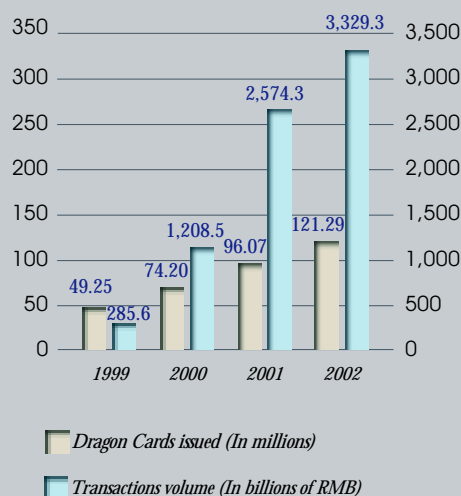
Card business

In 2002, we continued to market the Dragon Card (Long Card) as a convenient payment instrument by launching various marketing campaigns, including the "Happy Holidays with Dragon Card" campaign. We also issued co-branded cards with selected companies and merchants to serve customers' needs and raise the Dragon Card profile. As a result, the Dragon Card business grew rapidly. We had issued over 121.29 million Dragon Cards by the end of the year, 25.22 million of these in 2002, making us the market leader.

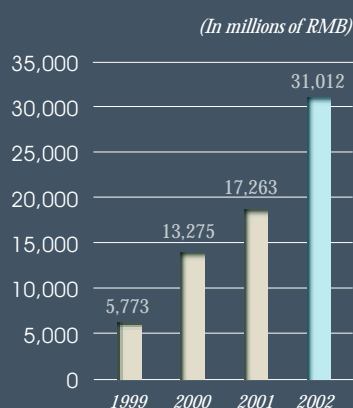
We widened the Dragon Card network and improved its operating efficiency and service quality by continuous system enhancements in 2002, and now have one of the largest network coverages in the industry. By the end of 2002, our Dragon Card network covered 38 provincial branches and their 329 city branches. In 2002, the total amount transacted was RMB 3,329.3 billion, an increase of 29.3% over the previous year; income from the Dragon Card business rose by a remarkable 69.2%.

In the second quarter of 2002, we started issuing Dragon International Debit Cards in branches in Beijing, Shanghai and Guangdong and in December, we began issuing Dragon International Credit Cards at branches in Beijing, Shanghai, Guangzhou and Shenzhen. Our credit cards offer global financial services using both the VISA and MasterCard networks.

Dragon Cards issued and transactions volume



■ Balance of personal lending



Personal lending

In 2002, we continued to expand our range of personal lending products: these now include auto loans; consumer loans; consumer durables loans; home refurbishment loans; secured loans and education loans. Personal loans grew to RMB 31,012 million (excluding credit card balances), an increase of RMB 13,749 million or 79.6% over the previous year.

In 2002, we put considerable effort into developing our auto loan business and intend to provide the most competitive service in the industry. Through the establishment of Auto Financing Centres and direct customer services (customers do not have to apply for loans through dealers), we improved customer efficiency. Certain branches launched combined home mortgage and auto loans, which save the customers administrative fees, such as credit investigation fees and insurance premiums. Auto loans reached RMB 14,366 million at the end of 2002, an increase of RMB 8,294 million or 136.6 % over the previous year.

In 2002, education loans also increased substantially. We have signed National Education Loans agreements with nearly 300 colleges and granted more than 66,000 education loans totalling RMB 330 million, an increase of RMB 206 million or 166.1% over the previous year, helping over 30,000 students and significantly supporting the development of the nation's education.

Securities agency service

In 2002, we focused in particular on rapidly developing the range of investment products and services available to personal customers, resulting in remarkable growth in our securities agency services. In 2002, we underwrote non-tradeable treasury bonds amounting to RMB 18 billion (12.2% of the total market share) and redeemed treasury bonds on behalf of the government to personal customers of RMB 25.5 billion. In addition,

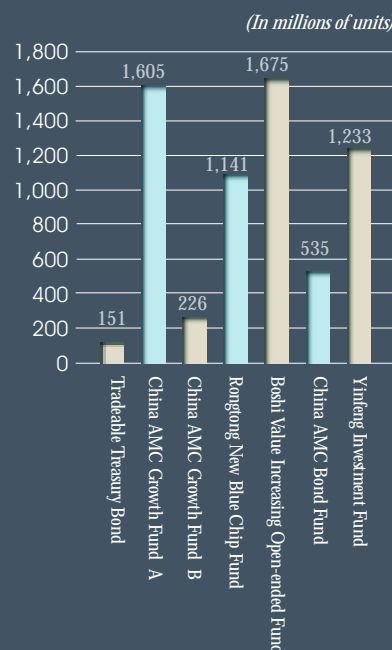
customers can now purchase tradeable treasury bonds, and invest in funds such as China AMC Growth Fund, Rongtong New Blue Chip Fund, Boshi Value Increasing Open-ended Fund, China AMC Bond Fund and other open-ended investment funds for which we act as agent through our over 6,000 operation outlets across the country with the newly implemented CCB Securities Service System ("CCBSS"). The total sales volume of the investment funds and tradeable treasury bonds amounted to 5 billion units and RMB 151 million, bringing us total commission fees of RMB 202 million.

We have also extended our securities settlement business services to cover more securities companies. Personal customers can now transfer funds to settle A-share and B-share trading directly between their personal accounts and their client money accounts held by the securities companies in most branches. In addition, personal customers can settle their A-share and B-share transactions directly between their personal accounts and the securities companies' bank accounts in an increasing number of branches.

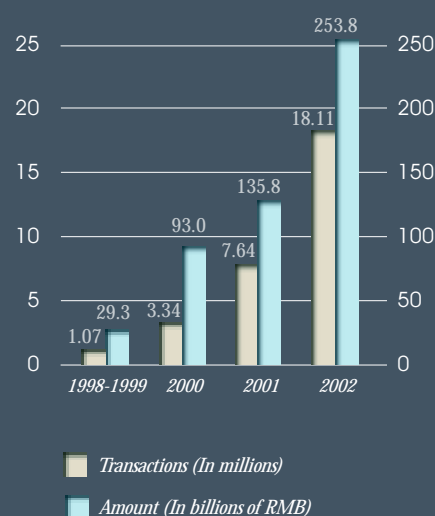
Swift Remit

Swift Remit ("Suhuitong") has become a key personal banking service after several years of development. In 2002 we significantly improved the speed of our service and transmission, and receipt of funds for domestic remittances are now completed within 2 hours even on public holidays. Customers can choose to remit funds from their saving books, debit cards, credit cards, or in cash. Swift Remit also allows customers to attach messages for remitees or to make remittances in batches. These services have been well received by customers because of their convenience, efficiency and security and the business volumes have increased markedly. In 2002, the total number of transactions was 18.11 million and the total amount was RMB 253,800 million, which approximates the total value of remittances from 1998 to 2001.

Agency sales volume of investment products through the CCBSS system



Swift Remit transactions volume



Personal wealth management services

As a value-added service, personal financial services were introduced in 2002 to serve the needs of customers with middle to high incomes by providing convenient, efficient, high-quality, comprehensive and tailor-made financial services. We have improved the availability of this service by upgrading our wealth management centres. To standardise the centres nationwide, we applied international best practice criteria for selecting customer managers and setting standards of service quality. The range of products and the IT system for use in all wealth management centres have been enhanced. We plan to set up over 100 personal wealth management centres across the country, focusing initially on Shanghai and Beijing, to best serve our high-net-worth customers nationwide.

Self-service banks

We significantly expanded our self-service banking services during 2002. We increased the number of self-service banks from 66 last year to 260 this year, enabling our customers to enjoy

convenient and standardised services 24 hours a day. We are continuing to enlarge our ATM network and now have more than 9,000 ATMs (2001: 7,291). At the same time, system enhancements in our network are allowing us to considerably improve the quality of new financial services to customers.

Personal payment and collection service

2002 saw significant developments in our payment and collection services. We now offer a wide range of services which include: services to corporates and government organisations for payroll and pension disbursement; bill and fee collection, for example, for water, electricity, telephone, property management and tuition; and tax payments for individual tax payers. We also act as agent for sales of public transport tickets, telephone cards, internet cards and sports events tickets. In 2002, commission fees from the payment collection services amounted to RMB 63.34 million, an increase of 180% over the previous year.



Electronic banking

Electronic banking has very rapidly become one of the bank's main service channels and on 12 September 2002 we set up the Electronic Banking Department to bring together all the different products and services in order to speed up development and provide a consistent service platform. This department is responsible for the



management and marketing of customer self-service initiatives via public networks.

Internet banking

The past three years have seen major progress in our Internet banking business, which now covers most provincial branches. In October 2002, the system was updated, enabling it to provide a wide range of new services over the network, including All-in-one Card, Swift Remit, investment in bonds and funds, electronic bill payments, B2B payments, funds transfer services, international settlement

services, and transaction completion messages. Concurrently, we introduced electronic funds transfer services within group companies, through the Group Settlement Centre, which has been well received by large corporate customers.

By the end of 2002, the number of Internet banking customers, both retail and corporate, had increased by 190,000, and the number and volume of transactions had reached 3.24 million and RMB 316.95 million respectively, increases of 378% and 2,592%. In 2002, our marketing efforts focused on identified large corporate customers. CCB has won the confidence of these customers through its quality products and services. Many large enterprises and institutions, including the Ministry of Finance, China Aerospace Science and Technology Corporation, China Mobile Communications Corporation, First Auto Works Group, South Securities Co. Ltd., Nokia and China Aerospace Science and Industry Group Corp., are now key Internet banking customers.

Telephone banking

The "95533" call centre (the telephone number of CCB Customer Service Centre) is now available across the country, providing customers with high-quality and standardised telephone banking services 24 hours a day. We recognise it is imperative to regularly improve our telephone banking services. As well as the more traditional functions such as enquiries and complaints, additional functions, including funds transfer, payment services, foreign exchange trading, and investment are now available at 26 provincial branches.

Mobile phone banking

We envisage a bright future for our mobile phone banking service. The number of mobile phone subscribers has exceeded 100 million in China and continues to rise. We have launched this service in four branches and funds transfer, foreign exchange trading, and payment transactions can all now be done using mobile phones.

We are constantly exploring new service distribution channels to provide customers with better services and easier access. Following the development of our Internet banking, telephone banking and mobile phone banking, we continue to explore "Home Banking", which uses television as a transaction platform.

Real estate finance

In 2002, we capitalised on our traditional market strength in real estate finance and built on CCB's brand to push the marketing of real estate financial products resulting in sustainable, stable and healthy business growth. At the end of 2002, corporate and personal real estate lending (excluding entrusted housing loans) amounted to RMB 475,091 million, an increase of RMB 98,374 million (26.9% of the total lending business of CCB) (2001: 25.0%).

In addition, we continually look for our product and service innovation in real estate finance. For instance, CCB has been the leader in exploring the securitisation of home mortgage loan.

Home mortgage loans

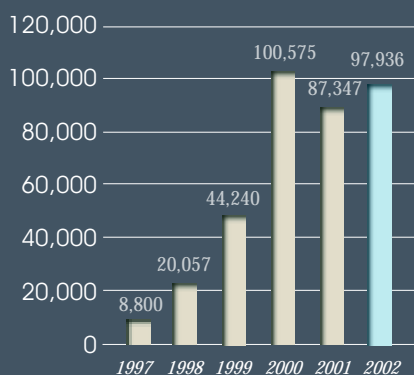
Home mortgage lending, traditionally one of our key strengths, is growing rapidly and enjoys the highest quality products and the highest return among all our businesses. In 2002, we introduced "Happy Home" ("乐得家"), our brand for home mortgages. The brand launch was supported by a series of promotional campaigns, including "Happy Home, in lucky May" campaign and television advertisements. We aim to create a real estate finance supermarket under the brand "Happy Home" to provide high quality and comprehensive services to our customers.



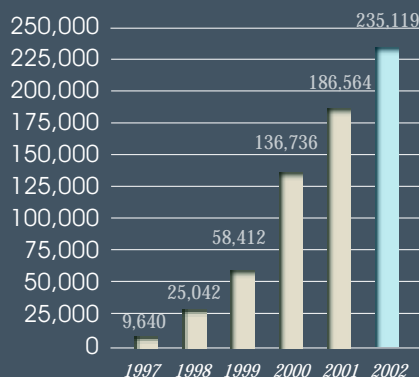


Home mortgage loans and personal commercial property loans

Loans issued during the year (In millions of RMB)



Balance at the year-end (In millions of RMB)



New home mortgage loans and personal commercial property loans granted during 2002 amounted to RMB 97,936 million. The year-end balance reached RMB 235,119 million, accounting for 13.3% of total lending and representing an increase of RMB 48,555 million. Of this, home mortgage lending granted in 2002 amounted to RMB 84,929 million with a year-end balance of RMB 212,502 million, a rise of RMB 41,420 million over the previous year. New commercial mortgage loans during the year totalled RMB 13,007 million and the year-end balance stood at RMB 22,617 million, a rise of RMB 7,135 million. As the secondary market for residential properties grows, home mortgage loans for this market are steadily developing and the year-end balance was RMB 7,120 million, an increase of RMB 3,812 million. Business development is not our only focus: the timely modification of our strategies in target markets and regions is equally important. In 2002, we expanded our key business areas from 11 branches in the better-developed regions and 60 major cities to 110 major cities. We established over 50 home mortgage centres across the country with a view to improving our compliance in internal procedures and operating efficiency and providing customers with better services.

Entrusted housing fund deposits and residential property lending

In 2002, we were able to maintain our leadership in the entrusted housing fund deposits and entrusted residential property lending which is mainly on behalf of government organisations, despite intense competition from other domestic banks. At the end of the year, total entrusted housing fund deposits amounted to RMB 250,925 million, an increase of RMB 16,475 million or 7.0% over the previous year. Total entrusted residential property lending was RMB 110,403 million, an increase of RMB 5,082 million or 4.8% over the previous year.

In particular, we strengthened marketing efforts during 2002 for the Provident Fund Centre's deposits and entrusted home mortgages and maintained our leading position in the market amid fierce competition. At the end of 2002, total Provident Fund Centre deposits amounted to RMB 87,240 million, an increase of RMB 22,319 million or 34.4% over the previous year; and 56.8% of the market share. Correspondingly, the total amount of entrusted home mortgages was RMB 73,422 million, an increase of RMB 16,777 million or 29.6% over the previous year; and 67.7% of the market share.

Property and construction industry lending

In 2002, in the face of rapid growth in the residential property market, we adjusted our credit portfolio mix and increased our exposure to property developers and construction companies. As a result, our commercial loans to property developers and construction companies continued to grow. At the end of the year, total loans outstanding to the construction and real estate industry were RMB 239,972 million, a rise of RMB 49,819 million over the previous year.

We firmly believe that product and service innovation is central to sustaining growth in lending to property developers and construction companies. National reform of the land use

system, and the establishment of land reserve bureaus by provincial governments presented us with the opportunity to launch a new credit product "Land Reserve Loans" for the land reserve bureaus.

While making great efforts to grow our business, we constantly assess credit quality to ensure that growth is not at the expense of higher risk. We have adjusted our credit policies and given priority to customers with better risk profiles. In 2002, we started to identify key customers in real estate and have now selected 300 key customers whose track record justifies that we provide them with preferential services.

Home savings bank

In 2002, with State Council approval, CCB and Bausparkasse Schwabisch Hall jointly set up the first Home Savings Bank in China, to provide combined products for deposits and housing loans. CCB has a 75.1% majority shareholding. Currently we are making preparations for the new bank and expect to commence business, initially in Tianjin, in 2003.



Intermediary services

Intermediary services constitute an increasingly important part of our business and grew strongly during 2002. The gross income arising from intermediary services amounted to RMB 7,506 million and net income was RMB 4,475 million, an increase of 35.0% over the previous year. In addition, we narrowed the gap with international banks in terms of the proportion of non-interest income to total income. As at the end of 2002, the increased percentage of non-interest income to operating income reflects our success in the diversification of banking products and services.

Fund transfers and settlements

In order to further improve our funds clearing services, we initiated an advanced payment system to provide customers with faster services and as a result, the RMB funds clearing business maintained steady growth. We processed 63.72 million remittance transactions, an increase of 32.3%

over the previous year. In 2002, we processed 131.28 million RMB settlement transactions, amounting to RMB 25,326.6 billion. International settlement transactions amounted to USD 62.8 billion, an increase of USD 6.5 billion over the previous year. To further meet the financing needs of domestic trading activities, we will introduce domestic letter of credit services in 2003.

Agency business for the government and other entities

Our agency business for the government and other entities remained strong in 2002. In particular, we provided funds transfer and disbursement services for the Three Gorges Dam Resettlement Programme amounting to RMB 8,416 million (2001: RMB 6,436 million). In addition, our VIP Service System has been adopted by 20 ministries and 596 other government entities for processing the payment of State Treasury funds, making us the market leader.



We also continued to develop policy bank agency services, lottery funds settlement services, and railway construction funds settlement services. We provided entrusted loans of RMB 21,283 million for the State Development Bank and the Export-Import Bank of China. In addition, we won two thirds of the market share of the lottery funds settlement business and cleared lottery funds amounting to RMB 26,827 million, an increase of 77.8% over the previous year. We also gained the fund clearing agency rights to provide funds settlement services for the major railway construction projects including the Yiwan Railway Bridge Project and the Lanwu Second Railway Construction Project. The total amount of funds cleared for railway construction projects was RMB 18.2 billion in 2002 (2001: RMB 16.4 billion).

In 2002, new entrusted lending on behalf of the government and other entities amounted to RMB 12,242 million, resulting in commission fees of RMB 20.5 million, an increase of 15.2% over the previous year. The entrusted loans balance stood at RMB 14,097 million at the end of 2002.

Pricing advisory services

Active marketing efforts paid significant dividends in our pricing advisory services in 2002. We were appointed by the Ministry of Finance to provide advisory services on its investment in 17 railway construction projects (including the

Zhejiang-Jiangxi Second Railway). We also provided pricing advisory services for the rebuilding of the PRC General Consulate in New York and the Embassy in Brazil. In 2002, we provided pricing advisory services and construction monitoring services on contracts amounting to RMB 218,809 million and RMB 11,661 million respectively, resulting in net consulting fees of RMB 294 million, an increase of 78.2% over the previous year.

Financial advisory services

Our customers are constantly demanding more of us, and to fulfill their demands, we have launched new advisory services, including credit investigation, credit upgrading, structured finance, and asset management. In 2002, we acted as the financial advisor to the West-East Natural Gas Transmission Project, providing credit investigation and credit rating advisory services. Financial advisory services income amounted to RMB 42.42 million in 2002, an increase of 317.6% over the previous year.

Services for financial institutions

In 2002, we strengthened our cooperation with domestic financial institutions, achieving strong growth in business.

Agency business for insurance companies

In 2002, we signed two additional comprehensive business cooperation agreements with New China Life Insurance Company and Tai Kang Life Insurance Company, bringing to twelve the number of agreements, under which we offer property insurance and life insurance policies written by insurance companies.

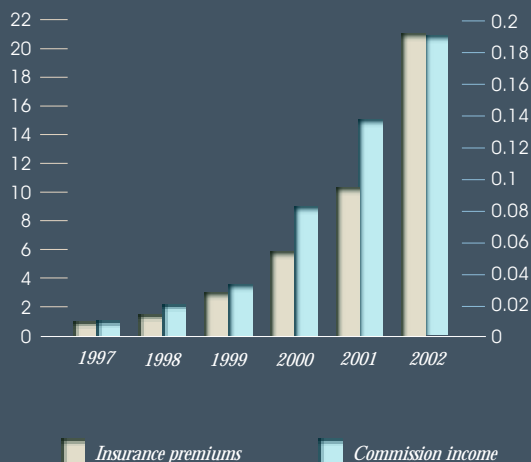
As at the end of 2002, more than 10,000 CCB employees covering more than 15,000 of our offices were qualified to provide insurance agency services. The total value of insurance premiums collected was over RMB 21 billion in 2002, an increase of 110%, resulting in commission fees of RMB 185 million.

Fund custody services

Our services to investment funds grew strongly. At the end of 2002, we provided custodial and other services for eleven closed-ended and three open-ended securities investment funds. In total, these funds have 26,341 million units, an increase of 48.8% over the previous year. Income from these services amounted to RMB 49.1 million in 2002, an increase of 31.1% over the previous year. We have actively promoted custodial services to corporates for their investment funds, resulting in total funds under custody amounting to RMB 7,475 million since the launch of this service.

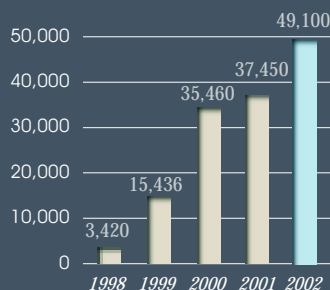
Insurance premiums and commission income

(In billions of RMB)



Fund custody fee income

(In thousands of RMB)



Services to securities companies

Services provided to securities companies also grew significantly; they include funds clearing, stock collateralised loans, agency sale of treasury bonds and investment funds. As at the end of 2002, we have signed clearing agreements with nearly 100 securities companies. In addition, over 60% of these securities companies (which have registered capital exceeding RMB 500 million) selected CCB as the custodian bank for client money accounts. At the same time, stock collateralised lending has been expanding rapidly. By the end of 2002, we provided credit facilities to 16 securities companies, 7 more than 2001. Total stock collateralised lending granted during 2002 amounted to RMB 5,563 million, an increase of 80.4% over the previous year. As a result of vigorous risk management, the non-performing loans ratio of stock collateralised lending has been maintained at zero.

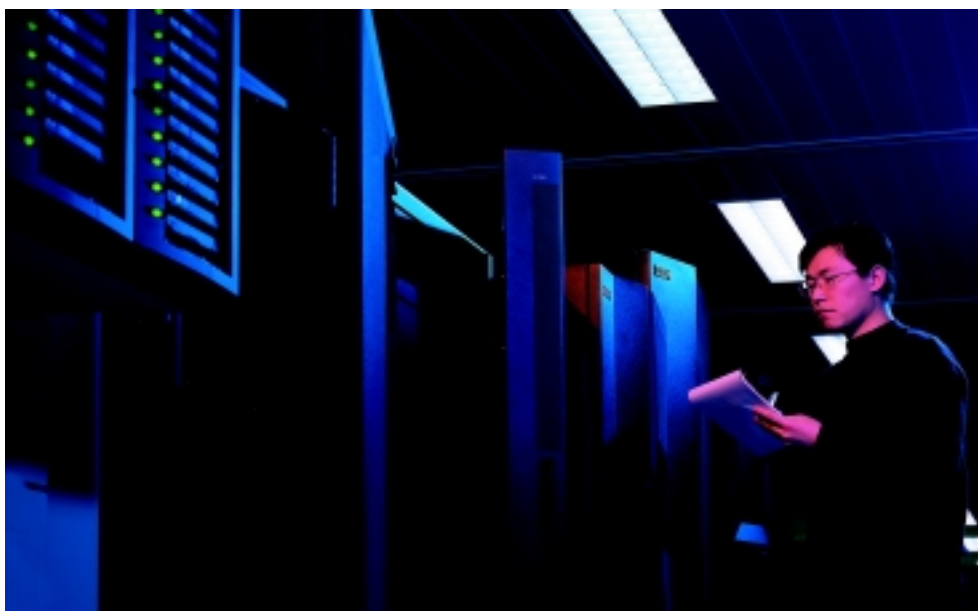
Following the successful implementation of the China Construction Bank Securities Service System on 28 November 2001 (in 12 branches, including Shanghai and Beijing), the system has been rolled out in 37 branches covering over 6,000 operating outlets by the end of 2002. In

2002, we used this system to handle the agency sales of a larger variety of investment products, including the No. 6 tradeable treasury bonds (RMB 67 million), No. 15 non-tradeable treasury bonds (RMB 84 million) and securities investment funds (over 5,000 million units). Agency sales of investment products through CCBSS increased by 260.3%.

Services to domestic financial institutions

Capitalising on our sophisticated network and advanced fund clearing system, we deepened our cooperation with domestic financial institutions; actively pursued product innovation, boosted our marketing strategies, and expanded our range of services.

On 16 May 2002, we signed a comprehensive cooperation agreement with Agricultural Bank of China, establishing a good business relationship. In addition, we strengthened our relationships with small and medium-sized banks principally by providing inter-province funds clearing services for them. For a total of 72 small and medium-sized banks, these services generated a total transaction volume of RMB 50 billion.



By the end of 2002, we had established comprehensive cooperation arrangements with the largest 16 futures brokerage companies. 69 futures brokerage companies have opened accounts with our bank for settlement services and we now enjoy a 15% market share of this business. In addition, we now offer funds payment and collection services for investment trust companies. In 2002, the transactions volume of these services amounted to RMB 340 million during the year, making us the market leader.

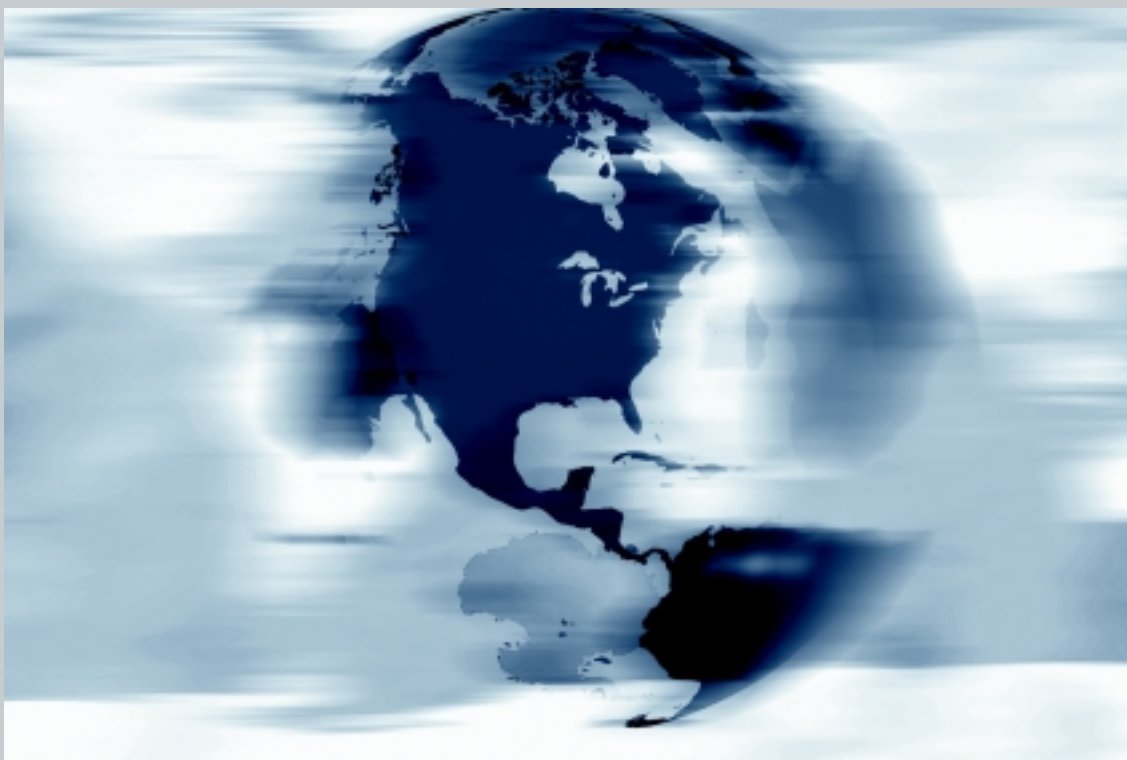
International business

With the increasing pace of economic development in China and the opening up of its markets, our customers increasingly need more sophisticated international financial services. We have responded by continuing to strengthen our global correspondent banking network and developing new products and services for our customers.

Cross-border finance

In 2002, we maintained our leading position in foreign currency cross-border on-lending to domestic entities: new cross-border financing transactions amounted to US\$ 50 million. In addition, we grasped the market opportunity presented and became actively involved in restructuring overseas loans. With product combination and innovation, we conducted various forms of debt restructuring for over 14 projects, reducing the interest expenses of our customers by RMB 200 million, which was beneficial to our country, our customers and CCB.

To fulfill the increasing demand, we are actively supporting domestic enterprises exporting large-scale mechanical and electrical equipment by providing credit facilities which include export



credit for the overseas buyers, and have increased our market share. In addition, we have launched services such as discounting of drafts drawn under usance letters of credit, factoring and forfeiting. We have joined Factors Chain International ("FCI") and are actively developing our international factoring business.

Overseas branches

In 2002, we steadily expanded our overseas operations. We obtained a licence in December 2002 allowing us to open a branch in Tokyo which will commence business in February 2003. We have obtained approval from the PBOC to upgrade our representative office in Seoul to branch status and we expect to commence business there in 2003. We have acquired 100% of Jian Sing Bank Limited in Hong Kong and are integrating our resources there. In addition, our branches in Hong Kong, Singapore, Frankfurt and Johannesburg are developing well. We also have representative offices in London and New York.

The financial highlights and extent of growth of the four branches are set below.

Cooperation with overseas financial institutions

Our correspondent bank network continued to expand in 2002 and we have built up a global network covering China's major trading partners and major international banks. At the end of 2002, CCB had 712 correspondent banks (2001: 619) in 83 countries and regions. We have also established remittance arrangements with nearly 30 local banks in Taiwan, forming a solid foundation for future business development there.

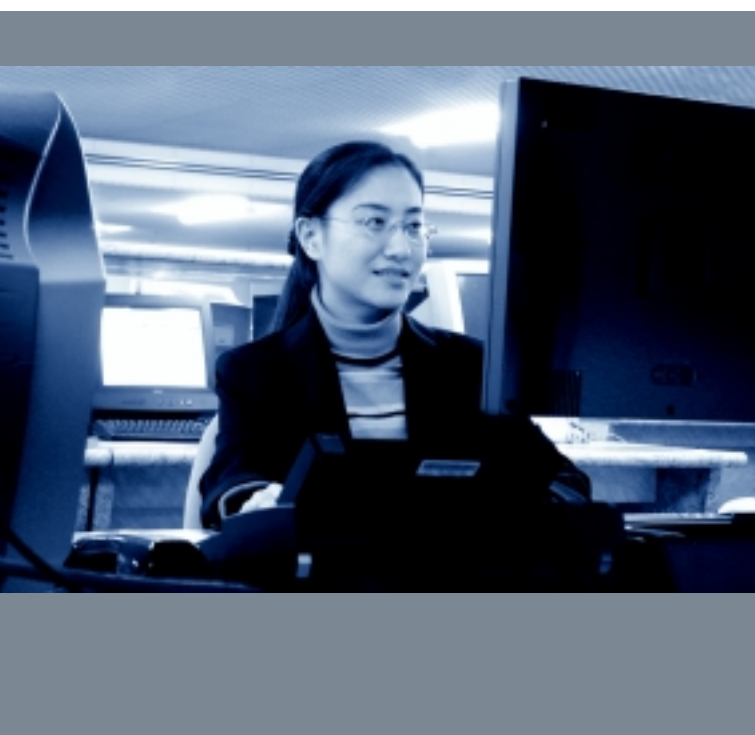
2002 also saw significant achievements in our cooperation with overseas financial institutions. In particular, the year-end balance of regulatory capital deposits for foreign banks' branches amounted to USD 201 million, the transactions volume of the RMB clearing services for foreign banks' branches amounted to RMB 7,403 million, the RMB loans against standby letters of credit amounted to RMB 5,974 million, and lending in RMB to foreign banks' branches amounted to RMB 696 million. In addition, we signed comprehensive cooperation and designated business agreements with international financial institutions, including HSBC and Citibank, further extending our cooperation with them. We have also signed border trade agreements with 10 overseas banks, including ones in North Korea, Russia and Vietnam in a bid to facilitate the development of border trade.

(Expressed in millions of RMB)

Branch	Total assets 2002	Change over the previous year	Profit before tax 2002	Change over the previous year
Hong Kong Branch	34,147	40.4%	139	-6.5%
Singapore Branch	2,945	22.8%	21	-16.4%
Frankfurt Branch	2,236	35.8%	2	42.1%
Johannesburg Branch	1,384	116.1%	15	108.3%

Treasury business

In 2002, interest rates in both domestic and overseas markets decreased, which increased pressure on the deployment of surplus funds. While maintaining effective risk management, we actively deployed the mounting commercial surplus from our fast growing deposit base to improve returns to the bank. Our foreign currency treasury business grew significantly, partly due to the use of extensive local business experience and the market skills gained in Hong Kong from the successful operation of our foreign currency dealing room there. The outstanding performance of our treasury business is also attributable to the effective marketing of new products and services. By the end of 2002, total assets managed by the treasury amounted to RMB 1,155,927 million, an increase of 9.3% over the previous year and accounting for 37.5% of CCB's total assets.



RMB business

In 2002, our RMB commercial surplus continued to grow and we used a variety of financial products, including money market transactions, reverse repos, and investments in government and other bond markets, to maximize returns on the funds deployed. One measure of the effectiveness of our strategy was a reduction in the bank's PBOC deposit reserve ratio (for the 5-day moving average ratio) from 9.4% at the beginning of the year to 6.4% at the year-end. In 2002, we made placements of RMB 136,500 million (2001: RMB 65,100 million) in the money market. Securities repurchase and reverse repurchase transactions in 2002 amounted to RMB 1,456,200 million, an increase of 298.3% over the previous year. In 2002, we underwrote RMB 85,000 million of government and quasi-government bond issues, making us the market leader. At the end of the year our investments in bonds amounted to RMB 621,086 million, 20.2% of the bank's total assets. The income from bonds amounted to RMB 15,367 million, a slight increase over the previous year.

In June 2002, the PBOC conducted a pilot programme to sell tradeable treasury bonds to retail customers over the counter of the four state-owned commercial banks. The trading volume of the treasury bonds of CCB amounted to RMB 188 million.

After over a year's development and planning, we successfully obtained several licences for conducting gold transactions. For example, the bank is one of the custodian and clearing banks for the Shanghai Gold Exchange. We were also actively involved in proprietary trading and agency transactions as well as providing custodian and clearing services for the Exchange and a large number of enterprises involved in the gold industry.

Foreign currency business

In 2002, the income from our foreign currency business reached RMB 3,025 million. Since moving our foreign exchange dealing operations to Hong Kong in 2001, we have been learning from the experience of market participants and strengthening our expertise in deploying foreign currency funds. At the end of 2002, we had foreign currency denominated bonds of USD 4,800 million, a substantial increase over the previous year. The volume of foreign currency money market transactions during the year amounted to USD 292,000 million, an increase of 90.9% over the previous year.

During 2002, our foreign currency exchange business and trade-related foreign currency exchange and settlement for customers grew rapidly. The transactions volumes for foreign currency exchange and trade-related foreign currency exchange and settlement were USD 15,200 million and USD 33,300 million respectively, an increase of 39.9% and 8.1% respectively over the previous year. CCB is one of the most active banks in developing and marketing financial instruments to customers for their risk management requirements. Derivative financial instruments transactions, conducted on behalf of our clients, amounted to USD 1,270 million, an increase of 44.3% over the previous year.

During 2002, we increased our marketing efforts for derivative financial instruments (including options and forwards) to help our customers manage interest rate risk and foreign exchange risk. During 2002, we launched two new products: forward rate agreements and bond options, transactions volumes of which amounted to USD 5,500 million and USD 1,500 million respectively.



China International Capital Corporation Limited

China International Capital Corporation Limited (CICC) is the first Sino-foreign joint venture bank in China. Headquartered in Beijing, CICC has branches in Hong Kong and Shanghai and has a registered capital of USD 100 million. CCB has a shareholding of 43.35%, and Morgan Stanley International Incorporated, China National Investment and Guaranty Corporation, the Government of Singapore Investment Corporation and the Mingly Corporation Limited have shareholdings of 34.3%, 7.65%, 7.35% and 7.35% respectively.

Using both its in-depth knowledge of China and the Chinese economy, and its experience in international capital markets, CICC is building a reputation for high quality service. CICC's major businesses include investment banking, proprietary and agency trading of equities and debt, asset management, economic analysis, and sector and corporate research.

CICC has been actively involved in helping large and medium sized state-owned enterprises raise capital in domestic and overseas markets. By the end of 2002, CICC had completed USD 34,000 million of equity finance projects, USD 5,000 million of debt finance projects and USD 50,000 million of merger and acquisition transactions.

In 2002, CICC completed the following major projects:

Equity finance projects:

- ◆ Lead underwriter and joint sponsor in China Merchants Bank's A-share IPO of RMB 10,950 million in March 2002, the third largest domestic equity issue.

- ◆ Lead underwriter and joint sponsor in China Unicom's A-share IPO of RMB 11,500 million in September 2002, the second largest domestic equity issue.

- ◆ Joint global coordinator, joint bookrunner, joint sponsor and joint lead manager for China Telecom's global IPO of USD 1,430 million in October 2002.

Debt finance projects:

- ◆ Lead underwriter, sponsor and financial advisor in China Mobile Communications Corporation's RMB Corporate Bond Issuance of RMB 8,000 million in October 2002, the largest corporate bond issue in China.

Merger and acquisition transactions:

- ◆ Financial advisor for China Mobile (Hong Kong) Limited's acquisition from its parent of mobile assets in 8 provinces, amounting to USD 10,200 million in May 2002.

- ◆ Financial advisor in a joint venture between DongFeng Motor Corporation and Nissan Motor Co., Ltd in September 2002.

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Information technology

The overall objective of the bank's information technology development is to support product and business innovation and improve business efficiency and the effectiveness of management through the development of quality information technology applications and management systems, and as a result, to strengthen our profit earning capability.

In 2002, our marketing efforts focussed on the promotion of our VIP Service System and CCB Securities Service System, as well as the optimisation and improvement of existing systems. VIP Service System has now been successfully implemented in all provincial branches, while CCBSS is available in 37 provincial branches, a substantial increase over 12 branches last year. Other systems have been optimised and improved: Dragon Card users can now conduct transactions on other banks' ATMs and the Internet and telephone banking systems provide more comprehensive functionalities. In addition, we have purchased CardLink, an operating system, for the new international credit cards business.

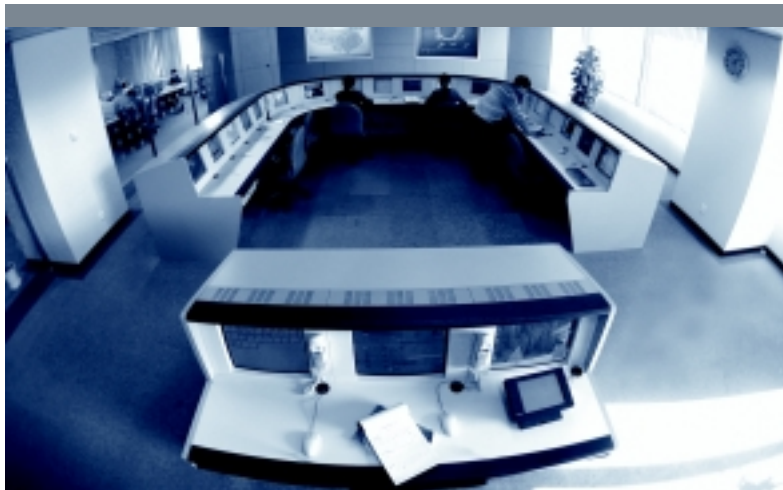
The bank's backbone network restructuring was completed in 2001 and we had connected all

provincial branches and certain city branches to support transmission of data, voice, and video by the end of the year. During 2002, the network was expanded to cover all branches and all operating outlets, improving the network communication capability. In addition, we have developed several management information systems for internal use, including systems for credit management, off-site internal audit and human resources.

In 2002, we implemented our anti-virus system across the bank to avoid large scale virus attacks. In addition, we have backup systems and disaster recovery plans to support all operations, especially the back office, in the event of an unforeseen interruption.

In order to speed up technological innovation and product development, we are building a Management Information System and data warehouse to speed up data consolidation. In 2003 we plan to establish a workforce of more than 300 for IT development, based in Beijing and Shanghai.

In 2002, we maintained our significant investment in IT infrastructure, as we recognise the importance of information technology to product development and strengthening the efficiency and competitiveness of the bank.



Human resources management

Employees are CCB's most important assets. In 2002 we attempted to attract and retain the most talented people through implementing a comprehensive performance assessment and incentive system and improving professional training programmes for our staff. Our new assessment system has created an environment in which our staff can explore their potential, create value for the bank and achieve their goals.

Our new performance assessment system mainly focuses on work performance and contributions to the bank's success in determining promotion, transfers and appointments. We are striving to create a unique CCB culture that is people-oriented and promotes team spirit, loyalty and innovation. This gives our staff equal opportunities to achieve their aspirations in a competitive yet friendly and motivating environment.

In addition to professional training programmes and intranet long-distance training, we have strengthened training for middle and high-level managers and professional staff through cooperation with leading universities, including Tsinghua University and Fudan University. The training covers many areas, including modern commercial bank management, risk management, and international finance. We have also selected a few senior managers to attend the Tsinghua-Harvard Training for senior managers and participated in the "Chevening" scholarship sponsored by the British Council. We are also cooperating with other overseas institutions so that we can send our best staff to study abroad.



Community involvement

We support a variety of community activities, primarily those promoting education and good corporate citizenship. We gained recognition as a "Star Organisation in Community Involvement" on the China Children's Charity Day, which was sponsored by the China Children and Youth Foundation and the China Charity Federation. CCB's name has been inscribed on the China Children's Charity Monument, which stands at the foot of the Great Wall.

The CCB Caring Foundation established with employee donations in 1996 had donated over RMB 22 million to various charities by the end of 2002. In 2002, we donated a total of RMB 3 million, including RMB 0.5 million to the China Foundation

of Courageous Behaviour; RMB 0.5 million to the China Youth Development Foundation to build two Hope Primary Schools in Jiangxi Province and Gansu Province and to improve primary schools in the less-developed areas; and RMB 2 million to help 1,460 poor students in 86 universities complete their studies.

In 2002, for the "Pocket Money Charity" activity organised by the China Children and Youth Foundation, we took the lead by donating RMB 1 million to install charity boxes in over 5,000 CCB operating outlets in major cities across the country. The aim was to provide the public with a convenient and direct channel for donations to help more dropouts return to school.



Financial Review

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6 Financial review

6.1 Profit and loss

(Expressed in millions of RMB)

	2002	2001
Net interest income	64,972	55,325
Average interest-earning assets	2,751,964	2,456,023
Net interest margin	2.67%	2.48%
Non-interest income	8,964	8,113
Provisions	15,495	18,927
Operating expenses	30,198	27,455
Operating profit	15,243	5,796
Profit before tax	4,337	5,191

Profit before tax for 2002 was RMB 4,337 million, a slight decrease from 2001. This is mainly due to provisions and write-offs of the history legacy of non-performing assets. The operating profit of the year reached RMB15,243 million, a significant increase of RMB 9,447 million or 163.0% over the previous year. The increase in operating profit is the result of a combination of significant business growth, higher interest margins and effective control on operating costs.

Net interest income

Net interest income increased to RMB 64,972 million. This increase was achieved in the organic growth of deposits, loans and bond investments, and reflected a rise in interest margin and a better portfolio mix of assets and liabilities. Average interest-earning assets rose by RMB 295,941 million or 12.1% to RMB 2,751,964 million driven by strong growth in loans and increased government bond investments. The net interest margin increased by 0.19 percentage points to 2.67%.

Non-interest income

Growing non-interest based business was a key focus for CCB in 2002, and we were successful in converting this focus into strong revenue growth. The net fee-based income, including net fees and commission income and net foreign exchange gains, increased by RMB 1,161 million or 35.0% to RMB 4,475 million. The greater proportion of non-interest income in the total operating income reflects our success in diversification and an improved income structure.

Provisions

The total amounts provided against non-performing assets and other assets was RMB15,495 million. However, this significant level of charge is not an indication of any deterioration in our assets quality. On the contrary, these significant amounts demonstrate that the bank is fully committed to managing, within the medium

term, the historical legacy of non-performing loans. The overall non-performing loans ratio is improving due to our continuous efforts on credit risk management, a risk conscious business approach and enhanced bad debts recovery. The bank has managed to improve overall asset quality and reduce the non-performing loans ratio from 19.21% in 2001 to 15.17% in 2002 according to the five grades credit system.

Operating expenses

In 2002, the bank's total expenses were RMB 30,198 million, a rise of RMB 2,743 million from the previous year, which primarily reflects increased staff salary and welfare costs and marketing expenses. In order to attract and retain the best human resources and strengthen our market competitiveness, the bank introduced a comprehensive performance assessment system. This has necessarily affected staff costs, which is to be expected while our overall business continues to develop rapidly. Our consistent focus on cost control and expenses structure resulted in a better cost structure, higher efficiency and improved cost to income ratio. The cost to income ratio dropped to 53.16% in 2002 from 56.07% in 2001.

Extraordinary items

Due to our management of historical legacy issues there was a direct write-off of certain items in non-operating expenses, which has resulted in a relatively large increase in non-operating expenses and accordingly reduced our profit before provisions. This large write-off carries the nature of a provision, and clearly demonstrates our commitment to resolve any remaining historical problems.

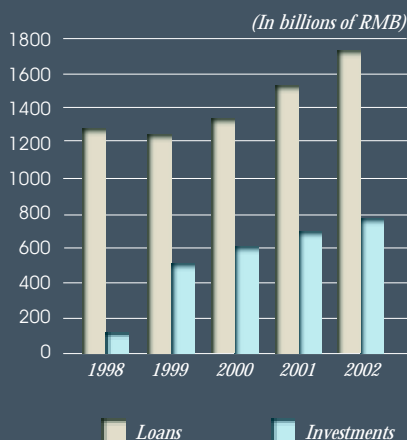
6.2 Balance sheet

As of 31 December 2002, total assets of CCB amounted to RMB 3,083,195 million, an increase of RMB 330,823 million or 12.0% over the previous year. Total liabilities amounted to RMB 2,975,959 million, an increase of RMB 331,154 million or 12.5% over the previous year. Total owners' equity was RMB 107,236 million, a decrease of RMB 331 million over the previous year, the reason for which is discussed in the notes on the accounts.

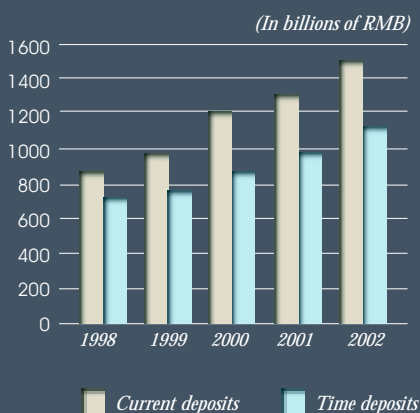
Assets

Loans to customers increased by RMB 260,482 million or 17.3% to RMB 1,766,388 million, of which: corporate loans increased by RMB 148,358 million or 13.3%; personal loans increased by RMB 13,750 million or 77.4%; and home mortgage loans increased by RMB 41,420 million or 24.2%. Investments increased by RMB 55,876 million or 8.2% to RMB 735,705 million, and the securities purchased under resale agreements amounted to RMB 101,950 million, an increase of RMB 73,497 million or 258.3% over the previous year. The rapid growth of these assets is being managed in a controlled manner and is based on our analysis of the domestic and international banking sectors. The growth of each category of asset is carefully planned and monitored against this plan, for

Loans and investments trend



Current deposits and time deposits trend



example, during 2002 we developed and implemented a new credit plan and adopted the Chief Customer Manager system to allow the bank to rapidly increase the total portfolio. In addition, we reformed the internal funds management system, thereby achieving more efficient funds deployment and building up bank-wide awareness of profit. The bank adopted a more flexible investment strategy based upon the analysis of interest rate trends thus improving the efficiency of the deployment of our commercial surplus.

Customer accounts

In 2002, our customer deposits maintained the momentum of rapid development. As at the end of 2002, customer accounts grew by RMB 334,116 million or 14.8% to RMB 2,599,652 million, of which personal deposits significantly increased by RMB 212,362 million or 19.8%. The stability of deposits has improved and personal accounts represent 49.5% of the total deposits. The continued rapid growth of deposits business is attributable to the bank's improved marketing awareness, bank wide efforts to expand our business and the strong growth of the domestic economy.

Capital adequacy

As at the end of 2002, the bank's total capital was RMB 128,323 million. Core capital amounted to RMB 107,236 million and supplementary capital amounted to RMB 45,388 million. Total risk-weighted assets were RMB 1,856,513 million. In accordance with the PBOC regulations, the capital adequacy ratio is defined as total capital/ risk assets and core capital adequacy ratio is equal to core capital/ risk assets. As at the end of 2002, the capital adequacy ratio increased slightly to 6.91% respectively while tier 1 ratio declined slightly to 5.78%.

Risk Management
Overview

739870.00	5638273.00	4877903.52	762209.89	2738089.66	432718.08	359902.05	2669.12	2733908.50	355486.12	906712.76	637832.53	983276.88	365182.37	3726490.67	78923435.02	5694
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7 Risk management overview

CCB manages a variety of risks in the ordinary course of business. These risks are identified, measured and monitored through various control mechanisms across the bank. The overall responsibility of decision making in managing risk lies with the Risk Management and Internal Control Committee ("RMICC"), which is comprised of executive management. The RMICC is responsible for analysing and monitoring risk and determining the level of risk acceptable for the area.

The RMICC is a comprehensive institution that is responsible for risk management and internal control throughout the whole bank. The Special Assets Resolution Approval Committee, a committee under the RMICC, is responsible for approving the non-performing assets resolution within its authorisation parameters. There are five departments under the RMICC: the Risk Management Department, the Audit Department, the Credit Approval Department, the Legal Department and the Security Department. The Risk Management Department is responsible for risk management and internal control, credit risk assessment and supervision, and credit operation management. It prepares risk management policies and procedures, sets out standards for risk assessment and risk management and sets authorisation limits across the bank. The Credit Approval Department is responsible for overseeing the independent credit approvals

process, customer credit ratings and ensuring that credits are properly approved in an independent and professional manner within the authorised limits of individual branches. The Audit Department is in charge of checking, monitoring and assessing the completeness of internal controls and effectiveness of operations across the bank.

Our major risks (credit, market, liquidity and operational risks) are monitored and controlled by each respective department under the risk management policies set by the RMICC.



7.1 Credit risk management

Credit risk is the risk that a customer or counter party will be unable or unwilling to meet their contractual obligations or commitments entered into with CCB, which may result in a financial loss to the bank. It arises from the extension of credit in all forms, including lending, trade finance and other activities undertaken by CCB. CCB is focused on improving standards, policies and procedures to control and monitor all such risks. Credit risk is monitored and controlled by the Risk Management Department. Credit operations, credit approval and credit administration work together but are independent of each other to ensure that risk control and segregation of duties are fully effective.

In 2002, we fully implemented the five grades credit system for asset quality control and drew from international best practice, thus further strengthening our credit risk management. In addition, we have speeded up information and data systems development in this field. For instance, we have improved the Credit Management Information System ("CMIS"), commenced developing the Credit Risk Early Warning System and completed the linkage with the credit registration consulting system of the PBOC, which effectively improving our competence in controlling credit risk and making necessary preparation for moving towards the new internal rating method introduced by the New Basle Agreement. Moreover, through further improving the authorisation and credit approval system, we enhanced our capability in credit risk control.

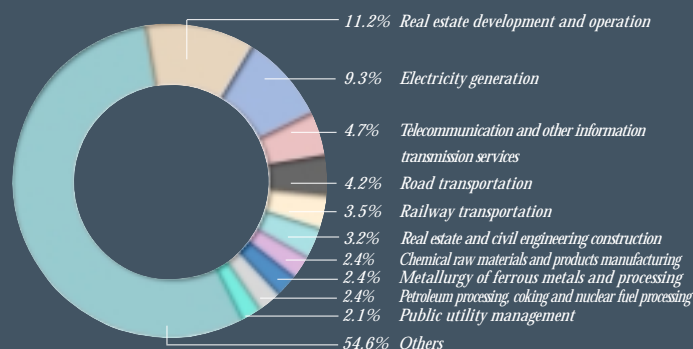


Loan portfolios

Loan portfolios management has always been one of the key areas of management focus. In recent years, we have ensured diversification and rationalisation of credit portfolios by spreading loans to customers across various new industries, products and regions.

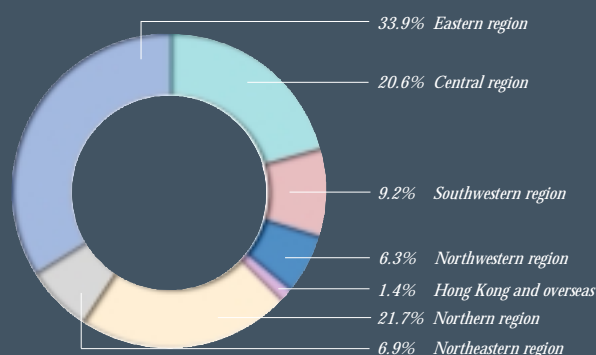
In 2002, our loans to customers substantially grew by 17.3% or RMB 260,482 million, of which corporate loans rapidly grew by 13.3% or RMB 148,358 million, real estate loans grew by 26.1% or RMB 98,374 million and home mortgage loans grew by 24.2% or RMB 41,420 million.

Loan balance in different industries, 2002



Note: Others includes loading, portage and other transportation services, telecommunication equipments, computer and other electronic equipment manufacturing, other wholesale, banking, education, retails, textiles, metallurgy of non-ferrous metals and processing, other services, petroleum and natural gas extraction and personal lending.

Loan balance in different regions, 2002



Loan quality

In 2002, we placed great importance on improving our loan quality and reducing non-performing loans. We strengthened the loan approval process, enhanced subsequent risk monitoring and accelerated recovery and disposal processes for non-performing loans. All these efforts resulted in the reduction of non-performing loans. In accordance with the five grades credit system, the non-performing loans at the end of 2002 decreased to RMB 267.8 billion, a reduction of RMB 21.0 billion over the previous year; the

non-performing loans ratio was 15.36%, a decrease of 3.99 percentage points over the previous year. If we take into consideration the overseas loan portfolios, the non-performing loans ratio was 15.17%, a decrease of 4.04 percentage points over the prior year. Industries that enjoy a lower non-performing loans ratio include telecommunications, petroleum and natural gas extraction, power supply and railway transportation. The non-performing loans ratio of new loans was controlled below 1% during 2002.

Loans grading profile (group level)

(In millions of RMB)

31 December 2002	
Balance of loan	1,766,388
Normal	1,167,113
Special mention	331,243
Non-performing	268,032
Including: Substandard	82,189
Doubtful	128,921
Loss	56,922
Non-performing loans ratio	15.17%

Special assets resolution

Loans are transferred to a separate department, the Special Assets Resolution Department, as soon as they are classified as doubtful or loss. Using a separate department to manage the recovery and disposal of these non-performing assets has allowed us to build up considerable experience and expertise, consequently recovery rates have improved. In 2002 we successfully disposed of non-performing assets totaling RMB 65,434 million, and recovered non-performing loans of RMB 33,503 million, of which cash received amounted to RMB 28,992 million.

In 2003, we will continue to seek improvements in operational efficiency and assets quality, reducing the amount and ratio of non-performing assets with a particular focus on reducing the amount of non-performing loans. We will continue to attach importance to key branches and projects, strengthen cooperation with domestic and international strategic investors, and actively seek for innovative methods to dispose of non-performing assets via bulk sales.



7.2 Market risk management

Market risk is the risk of financial loss arising from adverse movements in market prices which can occur in interest, foreign exchange or commodity markets. Market risk arises on financial instruments which are valued at current market prices (mark to market) as well as those that are valued at cost plus accrued interest (accrual basis). The Asset and Liability Management Department is responsible for managing market risk of the bank. Market risk arising from treasury business is monitored and controlled by the Treasury Department.

CCB operates in an environment where RMB interest rates for both deposits and loans are set by the PBOC. Individual banks are only allowed to undertake business within a limited spread of these set rates. In addition, the foreign exchange rates of RMB are also set by the PBOC and again CCB is only able to quote for business within a limited spread of these rates.



Within this context, CCB makes markets for exchange rates and interest rates and is also a market maker for government bonds in the secondary market. We perform analysis of macroeconomic trends and RMB interest rates movements, as well as assessments of the bank's liquidity requirements, and we have adjusted the maturity structure of our investment portfolios and money market books to reduce exposure to interest rate risks.

Foreign currency trading and investing activities require further analysis of global economic trends and prediction of foreign currency exchange rate movements. We seek to adjust our maturity profiles to ensure that the best returns are earned for the minimum risk involved. Last year as global economic conditions deteriorated, we expanded our foreign currency bonds investment portfolio, seeking to reduce the risks in a declining interest rate environment.

We have a strict authorisation limit structure in place to monitor and control these risks. The limits include, for example, daily and overnight position limits, maximum exposure holding periods, stop loss limits and single transaction limits.

In analysing and measuring exposure to market risk, CCB uses Value at Risk (VaR) and sensitivity analysis as the primary mechanism within the risk management process. VaR is a technique that estimates the potential losses that could occur on risk positions taken due to movements in market rates and prices over a specified time horizon and to a given level of confidence.

As at 31 December 2002, CCB used "RiskManager" to analyse the risks of foreign currency assets including bond investments and placements overseas. With a historical simulation approach, trading VaR for the following 10 trading days was USD 114 million by using a 95% confidence level and 0.94 Decay Factor, which mainly indicated the VaR of the bonds portfolio as the VaR of overseas placements was negligible. However, if the confidence level was raised to 99%, the VaR would rise to USD 129 million accordingly.

7.3 Liquidity risk management

The Asset and Liability Management Department is responsible for managing the liquidity structure of CCB's assets, liabilities and commitments in order to ensure that cash flows are appropriately balanced and all financial obligations are met when they fall due.

Liquidity is managed on a daily basis by projecting cash flows and assessing the level of liquid assets needed to protect against unforeseen interruptions to cash flow. Regulatory liquidity requirements are also taken into account. The sources and maturities of assets and liabilities are closely monitored and diversified to avoid any undue concentration. We have improved the mix of deposits to increase stability. In general, we have been able to maintain a healthy growth rate in our deposit base. For example, personal accounts which have increased by 2.1 percentage points over the previous year accounted for 49.5% of our deposits base. Personal accounts have traditionally formed a stable deposit base. Another important factor in assuring liquidity is the ability to keep depositors' confidence in a bank's reputation. CCB's good reputation is based on strength of earnings and a robust financial position.

7.4 Operational risk management

Operational risk, which is inherent in all business transactions, is the potential for financial loss arising through fraud, unauthorised transactions, error, omission, negligence, inefficiency, systems failure and from external events.

CCB is committed to maintaining an internal control conscious culture across all areas of operation. This is communicated to all employees by way of the periodically renewed procedures manuals and regular management briefings to foster awareness and ensure compliance among the employees. Key internal controls include:

Delegation of the authority to operate various business activities to branches within set limits according to their respective business scope, risk management capabilities and credit approval procedures. Authorisations are revised on a timely basis to reflect changes in market conditions and the needs of business development and risk management;

Systems and procedures which are in place to identify, control and report on the major risks: credit, market, liquidity and operational;

The creation of risk management positions, drawing from experience of international best practice, and the recruitment of qualified personnel in risk management to better identify and control risks;

The setting up of an anti-money laundering division under the Legal Department to strengthen cash management and account management in compliance with the relevant regulations, to improve training on anti-money laundering to ensure our staff are well-equipped with necessary knowledge and basic skills to combat money laundering;

The preparation of comprehensive financial and operating plans by branches and the review and approval of the plans by senior management;

The assessment of individual branches' financial performance against the comprehensive financial and operating plan. Limits are also delegated to line management in the branches for capital expenditure and credit exposures.

In addition, CCB maintains contingency facilities (including backup systems and disaster recovery schemes) to support all operations, especially back office operations in the event of an unforeseen interruption. In addition, insurance cover is arranged to mitigate potential losses associated with certain operational events.

7.5 Internal audit

The internal audit department's objective is to promote an effective internal control environment and it is responsible for auditing, supervising and evaluating the business operations, internal controls and risk profiles of the whole bank. In 2002, the department conducted audit assessments on internal controls of the smallest operating outlets, audits on credit facilities, overseas branches audits, audits on foreclosed assets, IT audits and assessments of overseas branches' senior executives during their tenure. During the year, we have improved the reporting lines for internal audit, making them completely independent of the branch management. In addition, we have improved internal audit procedures, and developed an off-site internal audit system, further strengthening our internal control framework.

Accounts

9870.00	5638273.00	4877903.52	762209.89	2738089.66	432718.02	359902.05	2669.12	2733908.50	355486.12	905712.76	637832.53	983276.88	365182.37	3726490.67	78923435.02	56940.
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8 Accounts

8.1 Auditors' Report

Zhong Tian Yin Shen Zi (2003) No. 016

China Construction Bank:

We accepted the appointment and have audited the Bank's balance sheet as at 31 December 2002 and the profit and loss account for the year then ended. The accounts on pages 56 to 76 are the responsibility of the Bank. Our responsibility is to express an audit opinion on these accounts based on our audit. We conducted our audit in accordance with the *Independent Auditing Standards for Chinese Certified Public Accountants*. In the course of our audit, we considered the circumstances of the Bank, and carried out such audit procedures as we deemed necessary.

In our opinion, the above-mentioned accounts comply with the relevant requirements of the *Accounting Standards for Business Enterprises*, *Accounting Regulations for Financial Institutions* and any other related financial and accounting regulations of the People's Republic of China, and present fairly, in all material respects, the financial position of the Bank as at 31 December 2002 and the results of operations of the Bank for the year then ended, and the accounting policies have been consistently applied.

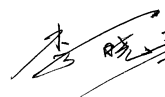

Certified Public Accountants Registered
in the People's Republic of China



Fu Pingnan

Li Xiaoyong

20 March 2003

8.2 Profit and loss account

Profit and loss account

	Note	2002	2001
Interest income			
Loans		75,097	72,316
Balances at the Central Bank		6,552	5,035
Balances at banks and other financial institutions		354	976
Placements with banks and other financial institutions		2,715	3,977
Discounted bills		767	593
Securities held for investment		17,607	16,365
Sub-total		103,092	99,262
Interest expense			
Customer accounts		(31,674)	(36,582)
Borrowings from the Central Bank		(47)	(55)
Balances due to banks and other financial institutions		(5,089)	(5,562)
Borrowings from banks and other financial institutions		(367)	(404)
Bonds		(95)	(187)
Re-discounted bills		(13)	(91)
Long-term borrowings		(835)	(1,056)
Sub-total		(38,120)	(43,937)
Net interest income		64,972	55,325

For the year ended 31 December 2002
(Expressed in millions of RMB)

	Note	2002	2001
Non-interest income			
Investment income		1,010	1,257
Fee and commission income		3,964	3,256
Exchange gain		3,057	1,313
Other income		933	2,287
Sub-total		8,964	8,113
Non-interest expenses			
Operating expenses	4	(30,198)	(27,455)
Depreciation		(4,692)	(4,094)
Fee and commission expenses		(465)	(336)
Exchange loss		(2,447)	(1,103)
Business tax and surcharges		(5,278)	(5,681)
Other expenses		(118)	(46)
Sub-total		(43,198)	(38,715)
Operating profit before tax and provisions against loans and other assets		30,738	24,723
Provisions against loans and other assets		(15,495)	(18,927)
Operating profit		15,243	5,796
Extraordinary items	5	(10,906)	(605)
Profit before tax		4,337	5,191
Income tax		(33)	(24)
Profit after tax		4,304	5,167

8.3 Balance sheet

Balance sheet

	Note	2002	2001
Assets			
Cash		25,028	23,440
Balances at the Central Bank	6	254,922	294,792
Balances at banks and other financial institutions	7	13,099	11,737
Placements with banks and other financial institutions	8	84,386	76,925
Other receivables		28,484	42,852
Loans	9	1,766,388	1,505,906
Interest receivable	10	8,658	14,947
Securities purchased under resale agreements		101,950	28,453
Investments	11	735,705	679,829
Fixed assets	12	64,935	60,356
Other assets	13	44,975	48,699
Provisions against loans and other assets	14	(27,189)	(22,976)
Provisions for loss of disposal of non-performing assets	15	(18,146)	(12,588)
Total assets		3,083,195	2,752,372

As at 31 December 2002
(Expressed in millions of RMB)

	Note	2002	2001
Liabilities			
Customer accounts	16	2,599,652	2,265,536
Balances due to banks and other financial institutions	17	229,314	233,713
Borrowings from banks and other financial institutions	18	15,611	10,823
Borrowings from the Central Bank		3,671	4,120
Interest payable	19	20,626	22,669
Other payables		14,184	16,804
Long-term borrowings	20	32,748	35,546
Other liabilities	21	60,153	55,594
Total liabilities		2,975,959	2,644,805
Owners' equity			
Paid-in capital		85,115	85,115
Reserves		22,121	20,867
Retained earnings		0	1,585
Total owners' equity		107,236	107,567
Total liabilities and owners' equity		3,083,195	2,752,372

8.4 Reconciliation of movements in owners' equity

Reconciliation of movements in owners' equity

*For the year ended 31 December 2002
(Expressed in millions of RMB)*

	Note	As at 1 January	Increase/ (Decrease)	As at 31 December
Paid-in capital		85,115	0	85,115
Capital reserve		12,600	1,087	13,687
Surplus reserve		8,267	167	8,434
Retained earnings	22	1,585	(1,585)	0
Total		107,567	(331)	107,236

8.5 Notes on the accounts

*For the year ended 31 December 2002
(Expressed in millions of RMB, unless otherwise stated)*

1 Company status

China Construction Bank ("the Bank") is a state-owned commercial bank and was established on 9 September 1954. With the approval from the People's Bank of China, the Bank obtained the financial services certificate B10411000001 and the business licence 1000001000444 (4-2).

The Bank's scope of business covers:

Taking RMB deposits; offering short-term, medium-term and long-term loans; offering settlement services; offering bills discounting services; issuing financial bonds; agency service for issuing, settling and underwriting government bonds; purchasing and selling government bonds; participating in RMB money markets with banks and other financial institutions; providing letter of credit and guarantee services; agency services for receipts and payments; agency insurance business; and safety-deposit boxes.

Taking foreign currency deposits; offering foreign currency loans; offering foreign currency remittances; offering foreign currency exchange; international payments settlement; participating in money markets denominated in foreign currency; acceptance and discounting of bills denominated in foreign currency; foreign currency borrowings; offering guarantees in foreign currency; settlement and sales of foreign currency from trade finance; issuing and arranging the issue of debt securities denominated in foreign currency; purchasing, selling and arranging the purchase and sales of debt securities

denominated in foreign currency; purchasing and selling foreign currency for the Bank and on behalf of customers; credit cards (denominated in foreign currency) issuing , agency services for the issue and payment of credit cards for foreign banks; credit rating investigation; advisory services and notary services.

The Bank also conducts other agency business (including pricing advisory services on construction projects) approved by the People's Bank of China.

2 Basis of preparation

a Statement of compliance

The accounts have been prepared in accordance with the applicable laws and regulations in China, which include standards and regulations of the *Accounting Law*, *Financial Regulations for Business Enterprises*, *Accounting Standards for Business Enterprises*, *Financial Regulations for Financial and Insurance Institutions*, and *Accounting Regulations for Financial Institutions*.

b Accounting period

The accounting period is from 1 January to 31 December of each calendar year.

c Basis of consolidation

The bank's reporting and principal transacting currency is Renminbi ("RMB"). The accounts are expressed in millions of Renminbi unless stated otherwise.

The accounts, including the profit and loss account, the balance sheet and the reconciliation of movements in owners' equity, comprise the accounts of the Bank's head office, domestic branches, and branches in Hong Kong, Singapore, Frankfurt and Johannesburg made up to 31 December. All material inter-branch balances have been eliminated during consolidation.

d Accounting basis

The accounts have been prepared under the historical cost convention.

3 Principal accounting policies

a Foreign currency translation

The Bank's reporting currency is RMB. Transactions denominated in foreign currency are accounted for using separate multi-currency ledgers. Monetary assets and liabilities denominated in foreign currency are translated into RMB at the exchange rates (the average of the bid and offer rate of exchange) quoted by the PBOC at the balance sheet date. Non-monetary assets, liabilities and owners' equity denominated in foreign currency are translated into RMB at the historical exchange rates. Exchange gains and losses on foreign currency translation are recognised in the profit and loss account. Accounts denominated in foreign currency are translated into RMB and consolidated into the Bank's accounts denominated in RMB. The exchange rates for the US dollar at the end of 2002 and 2001 were:

31 December 2002: USD 1 = RMB 8.2773

31 December 2001: USD 1 = RMB 8.2766

b Income recognition

(i) Interest income

Interest income is recognised in the profit and loss account as it accrues, except in the case of non-accrual interest. Accruals of interest income cease when interest receivable or principal repayments are overdue more than 90 days: any accrued interest receivable, which has earlier been recognised in the profit and loss account, is reversed through interest income of the current year. Any subsequent recovery of non-accrual interest is recognised into the current year's profit and loss account. Non-accrual interest is recorded in memorandum accounts.

(ii) Fee and commission income

Fee and commission income is recognised in the period when the services are provided to customers.

c Interests payable

Interest payable is recorded on an accrual basis. Interest payable on term deposits and personal current accounts is accrued quarterly but credited to customers accounts on maturity, withdrawal, or annually in the case of personal current accounts. Interest payable on corporate current accounts is accrued and credited to customers accounts on a quarterly basis.

Interest on term deposits is calculated at the rate prevailing on the date on which the deposit is accepted, while interest on current accounts is calculated at the rate prevailing on the date on which the interest is paid.

d Provisions against loans and other assets

Provisions are made against all risk assets (including loans, investments, balances at and placements with banks and other financial institutions, and other credit risk assets), with the exception of PRC government bonds. The amount of provision made against each type of risk asset depends on its level of perceived risk. Provisions made during the year are accounted for in the profit and loss

account. The write-off of non-recoverable assets is booked against the accrued provision account on the balance sheet.

e Investment securities

Income from short-term investment securities is recognised when the investment is disposed of or matures.

Interest income from long-term debt securities is accounted for on an accrual basis. Where long-term debt securities have been purchased at a premium or discount, those premiums or discounts are amortised through the profit and loss account over the period from the date of purchase to the date of maturity.

Long term equity investments and debt-for-equity swaps are accounted for at cost.

f Fixed assets and depreciation

Fixed assets are stated at historical cost less depreciation calculated using the straight-line method to write off the cost of the assets, less their estimated residual value (3% of cost) over their estimated useful lives. The estimated useful lives are as follows:

Fixed assets	Estimated useful lives
Buildings	30 - 35 years
Motor vehicles	4 - 6 years
Electronic equipment	3 - 8 years
Others	5 - 11 years

g Intangible assets

Intangible assets mainly include land use rights, software licences and patents. These assets are amortised over their estimated useful lives but not less than five years. The net book value of intangible assets at the end of the year is included in "Other Assets".

h Long-term deferred expenses

The Bank's long-term deferred expenses include pre-operating expenses, refurbishment expenses of leased operating outlets, expenses of self-owned operating outlets which are fully depreciated, network construction expenses and expenses on long-term lease. The long-term deferred expenses after amortisation are included in "Other Assets".

Long-term deferred expenses are amortised equally on a monthly basis over the period of contractual agreements or the economic life of such assets, whichever is shorter. Long-term deferred expenses are amortised and charged to the appropriate expenditure item according to its nature. The amortised balance of a particular item needs to be fully written off to the profit and loss account when it is no longer beneficial to the Bank.

i Discounted bills

The Bank provides bill discounting facilities for customers. Discounted bills are accounted for at face value on the balance sheet and interest income is recognised in the profit and loss account as it accrues.

j Entrusted loans and investments

The Bank conducts entrusted lending on behalf of government bodies, corporations and financial institutions. The Bank acts as agent for this business and all entrusted loans and investments are funded by entrusted deposits. Any surplus funds arising from entrusted deposits exceeding entrusted loans and investments are included in "Other Liabilities". The Bank does not take on any credit risk in relation to these transactions and income from the entrusted business is included in the profit and loss account as fee income.

k Taxation

(i) Income tax

The Bank has provided for income tax at the rate of 33% on the profit assessable in China. Interest income from PRC government bonds and bonds issued by Cinda Asset Management Company is not subject to tax and is excluded from assessable profit. The Bank's head office is responsible for income tax payments. Overseas branches provide for tax in accordance with the relevant local regulations. The PRC income tax charge is adjusted in accordance with the PRC tax regulations to take into account any income tax paid by overseas branches to local tax authorities.

(ii) Other taxes

Other taxes, such as business tax for financial and insurance institutions (6% for year 2002) and business tax surcharges, property tax, vehicle and ship usage tax are all accrued at the appropriate tax rates.

l Profit appropriation

In accordance with the regulations issued by the Ministry of Finance, the Bank has fully provided for the interest income arising from bonds issued by the asset management company. The provision is recorded in the balance sheet as "provision for loss of disposal of non-performing assets". Retained earnings after tax net of this provision are included in owners' equity.

m Derivative financial instruments

The Bank provides corporate customers with interest and currency swap services and earns commission income from such services.

The Bank's financial derivative instruments include forward rate contracts, currency swaps, interest rate swaps, currency options and interest rate options. The Bank arranges offset transactions to hedge any interest rate and foreign currency risk exposures back to the market by making offsetting swap agreements with foreign banks.

4 Operating expenses

	2002	2001
Salaries and employees benefits	12,551	10,556
Premises rental and refurbishment expenses	1,543	1,919
Equipment rental and maintenance costs	2,176	2,732
Insurance premiums	167	231
Amortisation of intangible assets and long-term deferred expenses	1,671	2,862
Others	12,090	9,155
Total	30,198	27,455

5 Extraordinary items

	2002	2001
Extraordinary income	939	911
Extraordinary expenses:	(11,845)	(1,516)
Loss on disposal of fixed assets	(4,637)	(605)
Extraordinary losses	(2,619)	(276)
Others	(4,589)	(635)
Extraordinary loss (net)	(10,906)	(605)

6 Balances at the Central Bank

The Bank places statutory reserves with the PBOC calculated at 6% of its RMB deposits and at 2% of its foreign currency deposits. The Bank's statutory reserve at the PBOC was RMB 149,251 million and RMB 129,574 million as at 31 December 2002 and 2001 respectively.

7 Balances at banks and other financial institutions

a Analysed by financial institutions:

	2002	2001
Balances at banks	10,074	10,572
Balances at other financial institutions	3,025	1,165
Total	13,099	11,737

b Analysed by domestic or overseas financial institutions:

	2002	2001
Balances at domestic financial institutions	11,691	10,582
Balances at overseas financial institutions	1,408	1,155
Total	13,099	11,737

8 Placements with banks and other financial institutions

a Analysed by financial institutions:

	2002	2001
Placements with banks	69,253	47,963
Placements with other financial institutions	15,133	28,962
Total	84,386	76,925

b Analysed by domestic or overseas financial institutions:

	2002	2001
Placements with domestic financial institutions	20,795	31,193
Placements with overseas financial institutions	63,591	45,732
Total	84,386	76,925

9 Loans

a Loans

	2002	2001
Loans to customers	1,687,341	1,459,566
Deposit backed lending	31,112	35,090
Discounted bills	47,935	11,250
Total	1,766,388	1,505,906

Deposit backed lending includes loans where deposits have been received from overseas governments, overseas banks, overseas financial institutions and bond issues, specifically for the purpose of funding these loans.

b Analysis of loans

(i) Analysed by original maturity:

	2002	2001
Within one year	627,980	439,318
Over one year	1,138,408	1,066,588
Total	1,766,388	1,505,906

(ii) Analysed by currency

	2002	2001
RMB	1,679,865	1,415,927
Foreign currency	86,523	89,979
Total	1,766,388	1,505,906

(iii) Analysed by customer:

	2002	2001
Corporate	1,259,777	1,111,419
Personal	31,520	17,770
Property	475,091	376,717
Including: home mortgage loans	212,502	171,082
Total	1,766,388	1,505,906

(iv) Analysed by region:

	2002	2001
Northeastern region	121,496	112,186
Northern region	383,707	351,006
Eastern region	599,238	484,250
Central region	364,799	310,430
Northwestern region	111,992	98,561
Southwestern region	162,066	137,842
Hong Kong	20,916	10,461
Overseas	2,174	1,170
Total	1,766,388	1,505,906

10 Interest receivable

	2002	2001
Interest receivable from loans and advances	5,666	11,945
Interest receivable from debt securities	2,992	3,002
Total	8,658	14,947

11 Investments

a Analysis of investments:

	2002	2001
Equity securities	7,242	7,338
Debt-for-equity swaps	51,921	50,223
Debt securities	676,542	622,268
Including: Treasury bonds	224,643	220,760
Quasi government bonds	157,464	124,898
Corporate bonds	294,435	276,610
Total	735,705	679,829

b Investments in subsidiaries and associated companies

The subsidiaries and associated companies of the Bank as at 31 December 2002 were:

Name	Place of Incorporation	Principal activities	The Bank's interest in equity capital 2002	The Bank's interest in equity capital 2001
Jian Sing Bank Limited	Hong Kong SAR	Banking	100%	70%
China International Capital Corporation Limited	PRC	Investment banking	43.35%	43.35%
CITIC Ka Wah Bank Limited	Hong Kong SAR	Banking	5.19%	5.19%

The balance sheet of Jian Sing Bank Limited and China International Capital Corporation Limited as at 31 December 2002 and their results for the year then ended have not been consolidated into the Bank's accounts in view of their immateriality to the Bank as a whole. Below are the main items from the balance sheet and the profit and loss account of Jian Sing Bank Limited.

Jian Sing Bank Limited:

	2002	2001
Profit before tax	15	3
Profit after tax	13	3
Total assets	2,914	2,712
Total liabilities	2,529	2,342
Shareholders' fund	385	370

12 Fixed assets

	2002	2001
Fixed assets at cost	83,831	73,803
Including: Buildings	59,645	53,493
Motor vehicles	5,018	4,743
Electronic equipment	12,215	10,589
Others	6,953	4,978
Less: Accumulated depreciation	(23,525)	(19,974)
Sub-total	60,306	53,829
Construction in progress	4,629	6,527
Net book value	64,935	60,356

13 Other assets

	2002	2001
Intangible assets	2,884	3,233
Long-term deferred expenses	3,875	5,187
Foreclosed assets	17,892	16,295
Others	20,324	23,984
Total	44,975	48,699

14 Provisions against loans and other assets

	2002	2001
At 1 January	22,976	11,360
Amounts written off	(11,282)	(7,378)
Recoveries of loans written off in previous years	0	67
Charge to profit and loss account	15,495	18,927
At 31 December	27,189	22,976

15 Provisions for loss of disposal of non-performing assets

In accordance with the related regulations of the Ministry of Finance, the interest income receivables from the bonds issued by the asset management company should be fully provided as "Provisions for loss of disposal of non-performing assets" in the balance sheet. By the end of 2002, the interest of RMB 18,146 million had been transferred from both the opening and closing balances of the retained earnings of 2002.

16 Customer accounts

a Analysed by customer:

	2002	2001
Corporate deposits	1,313,052	1,191,298
Personal deposits	1,286,600	1,074,238
Total	2,599,652	2,265,536

b Analysed by maturity:

	2002	2001
Current and savings accounts	1,484,989	1,297,908
Term deposits	1,114,663	967,628
Total	2,599,652	2,265,536

c Analysed by currency:

	2002	2001
RMB	2,498,905	2,158,027
Foreign currency	100,747	107,509
Total	2,599,652	2,265,536

d Analysed by region:

	2002	2001
Northeastern region	216,043	197,586
Northern region	474,687	426,028
Eastern region	816,195	684,893
Central region	668,916	580,549
Northwestern region	169,917	155,163
Southwestern region	245,880	210,197
Hong Kong	7,783	10,814
Overseas	231	306
Total	2,599,652	2,265,536

17 Balances due to banks and other financial institutions

a Analysed by financial institutions:

	2002	2001
Balances due to banks	8,316	25,258
Balances due to other financial institutions	220,998	208,455
Total	229,314	233,713

b Analysed by domestic or overseas financial institutions:

	2002	2001
Balances due to domestic financial institutions	227,858	232,216
Balances due to overseas financial institutions	1,456	1,497
Total	229,314	233,713

18 Borrowings from banks and other financial institutions

a Analysed by financial institutions:

	2002	2001
Borrowings from banks	15,579	10,715
Borrowings from other financial institutions	32	108
Total	15,611	10,823

b Analysed by domestic or overseas financial institutions:

	2002	2001
Borrowings from domestic financial institutions	110	204
Borrowings from overseas financial institutions	15,501	10,619
Total	15,611	10,823

19 Interest payable to customer accounts

	2002	2001
Balance as at 1 January	21,819	24,224
Accruals	29,707	34,286
Amount paid	(31,624)	(36,691)
Balance at 31 December	19,902	21,819

20 Long-term borrowings

	2002	2001
Deposits for on-lending:		
Overseas governments	8,037	7,467
International financial organisations	3	0
Overseas banks	18,462	20,268
Overseas financial institutions	1,609	2,223
Debt securities	4,637	5,588
Total	32,748	35,546

21 Other liabilities

	2002	2001
Inward remittances	6,689	4,319
Outward remittances	29,749	26,418
Others	23,715	24,857
Total	60,153	55,594

22 Retained earnings

Movements in the retained earnings:

At 1 January 2002	1,585
Less: Provisions for loss of disposal of non-performing assets	5,558
Income tax for 2001	387
Transfer to reserves	3,592
Add: Profit for 2002	4,304
Recoveries from Cinda Trust and Investment Company	377
Transfer from surplus reserve	3,271
At 31 December 2002	0

In accordance with the regulations issued by the Ministry of Finance in 2002 on interest income arising from bonds issued by asset management companies, the Bank has fully provided for such interest income and recorded the amount in the balance sheet as "Provisions for loss of disposal of non-performing assets". The Bank has made a prior year adjustment to deduct RMB 12,588 million interest income arising from prior years from the closing balance of the retained earnings of 2001. The Bank charged the provisions for interest income of 2002 to the retained earnings of 2002.

23 Significant off-balance sheet items

	2002	2001
Entrusted loans and investments:		
Entrusted investments for government	36,927	42,510
Entrusted loans	145,882	157,114
Total	182,809	199,624
Others:		
Acceptances	89,679	57,084
Guarantees and standby letters of credit	39,320	30,868
Issuance of letters of credit	27,486	18,000
Loan commitment	40,456	21,167

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