

Shanghai Pudong Development Bank Co., Ltd.

Annual Report 2003

Chapter 1 Important Notice

The Board of Directors of the company guarantees that the information presented in this report is free from any false record, misleading statement or material omission, and accepts, individually and collectively, liability for its truthfulness, accuracy and completeness.

Directors of the company Wang YiYi, Cheng XiYuan did not attend the meeting, and authorized other directors in writing to vote on their behalf.

The financial statements of the Company for the year ended 31 December 2003 were audited by Da Hua Certified Public Accountants Co., Ltd. and Ernst and Young Accounting Firm, respectively in accordance with PRC generally accepted accounting principles (GAAP) and international accounting standards (IAS), and have obtained standard auditor's report without any reserved opinions.

The Board of Shanghai Pudong Development Bank Co., Ltd.

The Chairman of the Board ZHANG Guangsheng, President JIN Yun, Financial Controller HUANG Jianping and Head of the Treasury and Finance Department FU Neng guarantee the truthfulness and completeness of the financial statements in the annual report.

Chapter 2 Brief Introduction to the Company

1. Registered Company Name in English: SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD. (Abbreviation: SPDB)
2. Legal Representative: Mr. ZHANG Guangsheng
3. Corporate Secretary: Mr. SHEN Si
Representatives for Securities Affairs of the Board: Mr. YANG Guoping, Mr. WANG Jingbin
Address: General Office to the Board, Shanghai Pudong Development Bank Co., Ltd., No. 12, Zhongshan Dong Yi Road, Shanghai, China 200002
Tel: 021-63611226 021-63296188 –General Office to the Board
Fax: 021-63230807
E-mail address: shens2@spdb.com.cn
yanggp@spdb.com.cn
wangjb@spdb.com.cn
4. Registered Address and Business Address
Registered Address: No. 500 Pudong Nan Road, Pudong New Area, Shanghai, China
Office Address: No 12, Zhongshan Dong Yi Road, Shanghai, China
Post Code: 200002
Website Address: <http://www.spdb.com.cn>
E-mail Address: bdo@spdb.com.cn
5. Designated newspaper for information disclosure: “China Securities Daily”, “Shanghai Securities News”, “Securities Times”
Internet website designated by China Securities Regulatory Commission for the publication of the Company's annual report: <http://www.sse.com.cn>
Copies of the Annual Report are available at: General Office to the Board, SPDB

6. Place of Stock Listing: Shanghai Stock Exchange
 Stock Abbreviation: Pu Fa Bank
 Stock Code: 600000
7. Other Relevant Information
 Date of Initial Registration: October 19th, 1992
 Date of Registration Change:
 Registered Number of Business License of the Corporate Legal Entity: 3100001001236
 Registered Number for Taxation: Guo Shui Hu Zi: 31004413221158X
 Di Shui Hu Zi: 31004413221158X
 Name of the Trustee for the non-marketable Stock: China Securities Depository and Clearing Co., Ltd. Shanghai Branch
 Name of the Domestic Accounting Firm appointed: Da Hua Certified Public Accountants Co., Ltd.
 Office Address: No. 146, Kunshan Road, Shanghai, China
 Name of the International Accounting Firm appointed: Ernst & Young Accounting Firm
 Office Address: 15th Floor, **Hutchison House, 10 Harcourt Road, Central, Hong Kong**
8. The report is prepared in both Chinese and English. Should there exist any inconsistency between the two versions, the Chinese version shall prevail.

Chapter 3 Summary of Key Financial and Performance Indicators

1. Key Profit Indicators for the Year

	(Unit: RMB ' 000 yuan)	
	Domestic Audit (PRC GAAP)	Int'l Audit (IAS)
Total profit	2,343,774	2,363,181
Net profit	1,566,088	1,579,091
Net profit excl. extraordinary items	1,535,690	1,579,091
Principal operating profit	5,183,725	2,363,181
Operating profit	5,199,097	2,363,181
Investment income	15,373	-
Subsidy income	-	-
Net income from non-operating activities	-8,830	-
Net cash flow from operating activities	4,000,780	6,520,103
Net increase in cash and cash equivalents	3,934,064	3,934,063

Note: According to "Q&A for Information Disclosure Regulation for Companies Issuing Securities Publicly No.1: Extraordinary Profit and Loss"(revised version 2004), the extraordinary profit and loss deducted is the net income of non-operating activities, which amounts to RMB 45,371,000 yuan.

2. 3-year Key Financial and Performance Indicator Comparison

Item	2003		2002		(Unit: RMB ' 000 Yuan)	
	2003 Domestic Audit (PRC GAAP)	2003 Int'l Audit (IAS)	2002 Domestic Audit (PRC GAAP) (post-adjust ments)	2002 Int'l Audit (IAS)	2000 Domestic Audit (PRC GAAP) (post-adjust ments)	2001 Int'l Audit (IAS) (post-adjust ments)

Principal operating income	12,027,237	13,523,200	8,156,459	9,340,715	6,092,818	7,125,329
Net profit	1,566,088	1,579,091	1,285,309	1,242,012	1,061,878	1,018,084
Total assets	371,056,698	370,833,489	279,300,719	279,740,753	173,690,683	173,918,513
Outstanding balance of deposits	322,114,094	322,114,094	243,913,237		148,271,288	
Outstanding balance of loans	255,111,339	255,847,958	174,377,477		97,153,749	
Shareholders' Equity (excl. minority interests)	12,010,923	12,104,365	8,351,976	8,432,415	7,548,668	7,672,403
EPS (yuan) (fully diluted)	0.400	0.403	0.356	0.344	0.441	0.422
EPS (yuan) (average weighted)	0.403	0.406	0.356	0.344	0.441	0.422
EPS (yuan) (excl. extraordinary items)	0.392	0.406	0.353	0.344	0.442	0.422
Net assets per share (yuan)	3.068	3.092	2.310	2.333	3.132	3.184
Net assets per share (yuan) (adjusted)	3.065	3.089	2.308	2.330	3.125	2.991
Net cash flow per share from operating activities (yuan)	1.022	1.665	0.858	5.450	0.775	4.553
ROE (%)	13.04	13.05	15.39	14.73	14.07	13.27
ROE (excl. extraordinary) (%) (fully diluted)	12.79	13.05	15.33	14.73	14.12	13.27
ROE (excl. extraordinary) (%) (average weighted)	14.19	14.05	15.94	15.27	15.19	14.21

Note: 1. The indicators are calculated according to the 21 Clause of “Standards for Content and Format of Information Disclosure of Companies Issuing Securities Publicly No. 2: Content and Format of Annual Report”(amended in 2003) and “Standards for Content and Format of Information Disclosure of Companies Issuing Securities Publicly No. 9: Calculation and Disclosure of ROE and EPS”.

2. The company issued 300 million new A-shares in January 2003. Accordingly, its total share capital increased to 3.915 billion from 3.615 billion at the year-end of 2002.

3. Key Financial Indicators and Variances between the Financial Statements Audited by Domestic and International auditors

	Net profit 2003	Net assets 2003	Total assets 2003	Total Liabilities 2003
Based on PRC GAAP	1,566,088	12,010,923	371,056,698	359,045,775
Add: net interest income from	113,506	-	-	-

(Unit: RMB ' 000 yuan)

inter-bank borrowings, bills discounting, etc., calculated on accrual basis				
Add: income from transactions of securities on market value basis	-99,824	138,663	178,844	40,181
Add: net income from derivative transactions	5,727	802	91,283	90,481
Add: deferred taxes resulted from above adjustments	-6,405	-46,023	-46,023	-
Add: reversal of proposed dividends attributable	-	-	-	-
Other re-classification adjustments	-	-	-447,313	-447,313
Total variance	13,004	93,442	-223,209	-316,651
IAS supplemental financial statement	1,579,092	12,104,365	370,833,489	358,729,124

The variances are mainly due to the following facts:

1. that PRC GAAP is on cash basis, while IAS is on accrual basis;
2. that PRC GAAP is based on the lower of the cost and market price, while IAS is on market price basis;
3. that PRC GAAP is on cash basis, while IAS is on fair value basis;
4. that the above-mentioned accounting adjustments result in income tax adjustments.

4. Loan Provisions in Financial Statements Audited by Domestic and International Auditor

(Unit: RMB '000 yuan)

	Domestic Audit (PRC GAAP)	Int'l Audit (IAS)
At 1 st January,2003	4,945,005	4,945,006
Provisions	2,086,999	2,098,281
Amounts recovered	57,667	57,661
Amounts carried forward	141,747	-141,747
Amounts written off	679,719	-679,719
At 31 st December,2003	6,268,205	6,279,482

5. 3-year Supplemental Financial Data

(Unit: RMB '000 yuan)

Item	2003 Domestic Audit (PRC GAAP)	2003 Int'l Audit (IAS)	2002 Domestic Au dit (PRC GAAP)	2001 Domestic Audit (PRC GAAP)
Total liabilities	359,045,775	358,729,124	271,340,243	166,624,016
Total deposits	322,114,094	322,114,094	243,913,237	148,271,288
Incl. Long-term deposits	116,562,950	116,562,950	85,065,572	58,407,550
Inter-bank borrowing	3,055,379	3,055,379	4,870,264	1,174,403
Total loans	255,111,339	255,847,958	174,377,477	97,151,469
Incl. Short-term loan	164,873,841	164,873,841	107,986,036	68,372,185
Import & export	1,887,661	1,887,661	756,392	216,560

advances and negotiation				
Bills discounted	27,835,302	27,835,302	31,715,814	7,369,147
Mid and long-term loans	55,568,354	55,568,355	27,860,111	13,866,865
Overdue loans	437,102	437,101	504,650	1,222,051
Bad loans	4,205,360	4,205,360	5,120,518	5,760,079
Loan losses	15,775	15,775	260,510	107,696

Note: Calculation method for relevant financial indicators:

1. Total deposits include short-term deposits, short-term saving deposits, remittance payable as well as temporary deposits, long-term deposits, long-term saving deposits, long-term guarantee deposits and entrusted funds;
2. Long-term deposits and inter-bank borrowing include long-term deposits, long-term savings deposits, long-term guarantee deposits and inter-bank borrowing;
3. Total loans include short-term loans, import & export advances and negotiation, bills discounted, mid and long-term loans, overdue loans, bad loans and loan losses, overdrafts, advances and factoring;
4. PRC GAAP defines overdue loans as those overdue for more than 1 year, while IAS defines overdue loans as those overdue for more than 90 days.

6. Supplemental Income Statement

(1) Domestic Audit (PRC GAAP):

Item	Profit in the Reporting Period (RMB '000 yuan)	ROE (%)		EPS (%)	
		Fully Diluted	Average Weighted	Fully Diluted	Average Weighted
Principal operating profit	5,183,725	43.16	47.89	1.324	1.333
Operating profit	5,199,097	43.29	48.03	1.328	1.337
Net profit	1,566,088	13.04	14.47	0.400	0.403
Net profit excluding extraordinary items	1,535,690	12.79	14.19	0.392	0.395

(2) Int'l Audit (IAS):

Item	Profit in the reporting period (RMB '000 Yuan)	ROE (%)		EPS (%)	
		Fully diluted	Weighted average	Fully diluted	Weighted average
Principal operating profit	2,363,181	19.52	21.03	0.60	0.61
Operating profit	2,363,181	19.52	21.03	0.60	0.61
Net profit	1,579,091	13.05	14.05	0.40	0.41
Net profit excluding extraordinary items	1,579,091	13.05	14.05	0.40	0.41

7. 3-year Supplemental Financial Indicators

Item	Standard	2003		2002		2001	
		Year end	Average	Year end	Average	Year end	Average
Tier I capital (RMB '000,000)	12301	10762	8761	8373	8329	8495	12301

Tier II capital(RMB ¥ 000,000)		6739	5867	5074	4222	3098	2268	6739
Capital adequacy ratio%		8.64	8.90	8.54	9.20	11.27	11.99	8.64
Liquidity ratio%	34.39	44.07	39.34	41.42	47.49	47.02	34.39	43.6
	62.78	66.34	90.24	91.65	115.77	139.27	62.78	37.3
Loans to deposits %	71.42	65.24	58.95	65.41	62.03	67.83	71.42	71.0
	59.65	64.07	51.67	43.49	42.03	39.59	59.65	38.7
Inter-bank lending and borrowing ratio %	1.36	0.65	0.00	0.51	0.29	0.21	1.36	0.3
	2.44	2.03	1.65	1.47	1.09	1.48	2.44	1.6
International commercial loans to total loans %		0	0.92	0.00	0.00	0.0	0.00	0
Non-performing loan ratio %		1.92	2.70	3.38	5.53	7.57	8.11	1.92
Interests collected to total interests accrued %		101.65	99.07	96.96	95.33	94.99	93.8	101.65
Single largest customer lending to total loans %		5.26	6.00	7.36	8.19	9.56	9.98	5.26
Top 10 customers' loans to Total loans		36.69	39.91	43.25	53.68	60.62	63.04	36.69

8. Changes in Shareholders' Equity in the Reporting Period

(1) Domestic Audit (PRC GAAP)

(Unit: RMB ¥ 000 yuan)

Item	Share Capital	Contributed Capital Surplus	Retained Earnings	Including: Statutory welfare reserve	General reserve	Undistributed profit	Total shareholders' equity
At 1 st January, 2003	3,615,000	2,685,037	1,122,775	316,989	500,000	429,164	8,351,976
Increase	300,000	2,184,359	469,826	156,609	650,000	1,566,089	5,170,274
Decrease						1,511,327	1,511,327
At 31 st December, 2003	3,915,000	4,869,396	1,592,601	473,598	1,150,000	483,926	12,010,923

Reasons for changes:

The changes are mainly due to issuance of new shares at premium, increase in profits and withdrawal of retained earnings and distribution of profits.

(2) Int'l Audit (IAS)

(Unit: RMB ¥ 000 yuan)

Item	Share Capital	Contributed Capital Surplus	Reserve	Including: Statutory welfare reserve	Undistributed profit	Total shareholders' equity
At 1 st January, 2003	3,615,000	2,685,037	1,292,459	284,438	839,919	8,432,415
Increase	300,000	2,184,359	1,091,749	156,609	1,579,091	5,155,199
Decrease	-	-	-	-	-1,483,249	-1,483,249
At 31 st December, 2003	3,915,000	4,869,396	2,384,208	441,047	935,761	12,104,365

Note: The changes in shareholders' equity are generally due to the same reasons mentioned above.

Chapter 4 Share Capital Changes and Shareholders' Status

1. Share Capital Changes

(1) Changes in share capital

(Unit: ' 000 shares)

	Before-Change	Changes in shares (+/-)					After change
		Allotted Shares	Dividend Stock	Dividend Stock from Contributed Capital Surplus	New Shares Issued	Other	
a. Non-marketable Shares							
(a) Founders' shares Including:	1,183,500						1,111
State-owned shares							
Shares held by domestic legal entity	789,000				- 72,300	- 72,300	1,111
Shares held by foreign legal entity							
Others							
(b) Shares placed by legal entity including:	1,831,500						1,903
State-owned shares	388,110				-108,450	-108,450	279
Shares held by domestic legal entities	1,443,390						1,443
Shares held by foreign legal entities					+180,750	+180,750	180
(c) Employee stocks							
(d) Preferred stock and others							
Including: Shares placed for funds							
Non-marketable shares subtotal	3,015,000						3,015
b. Listed marketable shares							
(a) Common stock (RMB denominated)	600,00				+300,000	+300,000	900
(b) Domestically-listed shares held by foreign investors							-
(c) Overseas-listed shares held by foreign investors							-
(d) Others							-
Listed marketable shares subtotal	600,000				+300,000	+300,000	900

c.	Total outstanding shares	3,615,000	+300,000	3,915,
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(2) Stock Issuance and Public Listing

With the approval from the People's Bank of China and China Securities Regulatory Commission, the Company launched its Initial Public Offering of 400 million shares at an offer price of 10 yuan each on September 23rd, 1999. 320 million shares of the IPO were listed at the Shanghai Stock Exchange on November 10th, 1999. The remaining 80 million shares placed with mutual funds were approved for listing on January 12th, 2000.

During the reporting period, pursuant to the Notice for Approving Shanghai Pudong Development Bank Co., Ltd. To Issue New Shares given by the China Securities Regulatory Commission encoded as CSRC Zheng Jian Fa Xing Zi [2002] No. 135, the company is allowed to issue no more than 300 million new A-shares. On January 8, 2003, the subscription for the new issuance was completed and the issue price was set at RMB 8.45 yuan per share. On January 20, 2003, the new shares were listed in Shanghai Stock Exchange.

2. Shareholders' Information

(1) At the end of the reporting period, the total number of shareholders was 262,324, including 210 domestic legal-entity shareholders of non-marketable shares.

(2) Shareholding situation of major shareholders as at the end of the reporting period is illustrated as follows:

No.	Shareholder's name	Shares held (unit: '000 shares)	Percentage (%)
1	Shanghai International Trust & Investment Co., Ltd.	252,000	6.44
2	Shanghai Industrial Investment (Holdings) Co., Ltd.	190,500	4.87
3	Shanghai State-owned Assets Operation Co.	190,050	4.85
4	Citibank Overseas Investment Co.	180,750	4.62
5	Shanghai Jiushi Corp.	157,200	4.02
6	Shenergy Co., Ltd.	75,000	1.92
7	Oriental International Trade (Group) Co., Ltd.	75,000	1.92
8	Shanghai Industry Development Co., Ltd.	61,500	1.57
9	SIC International Trade (Group) Co.,	60,000	1.53
10	Shanghai Jinqiao Export Processing Zone Development Co., Ltd.	60,000	1.53

Note:

- The shares held by the top 10 shareholders are all non-marketable shares.
- Shanghai State-owned Assets Operation Co., Ltd. holds the shares on behalf of the Chinese Government.
- The affiliation among the top ten shareholders is that Shanghai Industrial Investment (Holdings) Co., Ltd. is the holding shareholder of SITIC International Trade (Group) Co., Ltd and Shanghai Industry Development Co., Ltd.

(3) The shares pledged by the top ten shareholders as collateral:
The 144.6 million shares held by Shanghai State-owned Assets Operation Co., Ltd and

the 108.45 million shares held by Shanghai Jiushi Co. have been frozen by China Securities Registration and Clearance Co., Ltd Shanghai Branch on account of the share transfer agreements entered into by the above two parties with Citibank Overseas Investment Co. until April 30, 2008.

Apart from this, no shares held by any Top Ten shareholders have been placed as collateral or frozen.

- (4) Changes in the shares held by the top ten shareholders during the reporting period are as following:
- a) According to a share transfer agreement, 108,450,000 non-marketable legal-entity shares held by Shanghai State-owned Assets Operation Co., Ltd. have been transferred to Citibank Overseas Investment Corporation.
 - b) According to a share transfer agreement, 72,300,000 non-marketable legal-entity shares held by Shanghai Jiushi Corporation have been transferred to Citibank Overseas Investment Corporation.
 - c) Citibank Overseas Investment Co. has completed the relevant share transfer formalities for the above shares on September 30, 2003. Consequently, Citibank Overseas Investment Corporation holds 180,750,000 shares of the Company, or, 5% of the total share capital.
 - d) Shanghai Jinjiang (Group) Co. signed a share transfer agreement with Shanghai International Trust and Investment Co., Ltd. to transfer 2,250,000 non-marketable legal entity shares it held to the latter.
 - e) According to a share transfer agreement, 60,000,000 non-marketable legal-entity shares (including 30,000,000 state-owned legal entity shares and 30,000,000 social legal entity shares), previously held by Shanghai Jinqiao Export Processing Zone Development Co., Ltd. were transferred to Shanghai International Group Co., Ltd.
 - f) According to a share transfer agreement, 57,000,000 non-marketable legal-entity shares, previously held by Shanghai Urban Construction Investment & Development Co., Ltd were transferred to Shanghai International Group Co., Ltd.

Among the above, item (d)(e)(f) have been approved by the State-owned Assets Management and Supervision Committee of the State Council. By January, 2004, the relevant share transfer formalities have been completed.

(5) An overview of Top 10 holders of marketable shares

No.	Shareholder's name	Marketable shares held at year-end	Type (A-share, B-share, H-share or else)
1	Shenyin Wanguo Securities Co., Ltd.	50054600	A-share
2	Tongsheng Securities Investment Fund	23421231	A-share
3	Penghua Industry Growth Securities Investment Fund	22307993	A-share
4	UBS LIMITED	7616205	A-share
5	Jinxin Securities Investment Fund	7550324	A-share
6	Shiji Securities Co., Ltd.	6882195	A-share
7	Hanxing Securities Investment Fund	5921727	A-share
8	Taihe Securities Investment Fund	4534267	A-share
9	Boshi Yufu Securities Investment Fund	4197332	A-share
10	Tongzhi Securities Investment Fund	3880427	A-share

Explanation on the affiliation between the top 10 shareholders The company is unaware of any affiliation between them.

(6) Information on shareholders holding a 5% stake or even more

Shanghai International Trust & Investment Co., Ltd.

Established in 1981, Shanghai International Trust & Investment Co., Ltd. holds a 6.97% stake in the Company. It is a wholly state-owned enterprise with a registered capital of RMB 2 billion yuan. Shanghai International Trust & Investment Co., Ltd. is a regional financial institution running financial trust & investment, real-estate investment, international consultation, tendering and import & export. Its financial businesses include local currency loans and deposits, foreign currency loans and deposits, international settlement, security brokerage, investment banking and fund management.

Chapter 5 Overview of the Company's Directors, Supervisors, Senior Management and Staff

1. Information about the Company's Directors, Supervisors, Senior Management and Staff

(1) General Information

Title	Name	Sex	Age	Tenure	Shares held
Chairman of the Board	ZHANG Guangsheng	Male	61	2002.6.28-2005.6.27	--
Vice Chairman & President	JIN Yun	Male	58	2002.6.28-2005.6.27	--
Vice Chairman of the Board	ZHU Shiyin	Male	54	2002.6.28-2005.6.27	--
Director	Stephen Long	Male	61	2002.6.28-2005.6.27	--
Director	ZHANG Jianwei	Male	50	2002.6.28-2005.6.27	--
Director	CHEN Weishu	Male	58	2002.6.28-2005.6.27	--
Director and Executive Vice President	CHEN Xin	Male	49	2002.6.28-2005.6.27	--
Director	WANG Yiyi	Male	59	2002.6.28-2005.6.27	--
Director	YANG Xianghai	Male	52	2002.6.28-2005.6.27	--
Director	ZHOU Youdao	Male	66	2002.6.28-2005.6.27	--
Director	XU Jianxin	Male	49	2002.6.28-2005.6.27	--
Director, Executive Vice President & Financial Controller	HUANG Jianping	Male	54	2002.6.28-2005.6.27	--
Director	Cheng Xiyuan	Male	60	2002.6.28-2005.6.27	--
Independent Director	MA Jinming	Male	61	2002.6.28-2005.6.27	--
Independent Director	QIAO Xianzhi	Male	64	2002.6.28-2005.6.27	--

Independent Director	Fred Hu	Male	41	2002.6.28-2005.6.27	--
Independent Director	JIANG Boke	Male	50	2002.6.28-2005.6.27	--
Independent Director	XIA Dawei	Male	51	2002.6.28-2005.6.27	--
Independent Director	PAN Hongxuan	Male	69	2002.6.28-2005.6.27	--
Chairman of the Supervisory Board	LI Guanliang	Male	60	2002.6.28-2005.6.27	--
Supervisor	SHI Xianjun	Male	37	2002.6.28-2005.6.27	--
Supervisor	ZHU Guozhen	Male	58	2002.6.28-2005.6.27	--
Supervisor	LU Yong	Male	47	2002.6.28-2005.6.27	--
Supervisor	DU Qifa	Male	51	2002.6.28-2005.6.27	--
Supervisor	WU Shunbao	Male	57	2002.6.28-2005.6.27	--
Supervisor	WAN Xiaofeng	Male	55	2002.6.28-2005.6.27	--
Supervisor	WANG Anhai	Male	59	2002.6.28-2005.6.27	--
Supervisor	YANG Shaohong	Male	55	2002.6.28-2005.6.27	--
Executive Vice President	Vice SHANG Hongbo	Male	45	2002.6.28-2005.6.27	--
Executive Vice President	Vice ZHANG Yaolin	Male	46	2002.6.28-2005.6.27	--
Corporate Secretary	SHEN Si	Male	51	2002.6.28-2005.6.27	--

(2) Post held by the Company's Directors and Supervisors

Name	Shareholder Entity	Post
ZHU Shiyin	Shanghai State-owned Assets Operation Co., Ltd.	President, Secretary of Party Committee
ZHANG Jianwei	Shanghai Jiushi Corp.	Deputy General Manager
WANG Yiyi	China Tobacco Co., Ltd. Jiangsu Branch	General Manager, Secretary of Party Committee
CHEN Weishu	Shanghai Industrial Investment (Holdings) Co., Ltd.	Chairman of the Board
YANG Xianghai	Shenergy Co., Ltd.	Chairman of the Board
ZHOU Youdao	Shanghai International Trust & Investment Co., Ltd.	Chairman of the Board, Secretary of Party Committee
XU Jianxin	Oriental International Trade (Group) Co., Ltd.	Financial Controller
CHENG Xiyuan	Shanghai Telecom Corporation	General Manager, Secretary of Party Committee
XIONG Yihua	Shanghai Jiushi Corporation	Deputy General Manager
SHI Xianjun	Shanghai Waigaoqiao Free Trade Zone Development Co., Ltd.	Director, General Manager
ZHU Guozhen	Eastern China Electric Group Co., Ltd.	General Manager, Secretary of Party Committee
LU Yong	Shanghai First Department Store Group Co., Ltd.	Chief Financial Officer
DU Qifa	Shanghai Urban Construction Investment & Development Co., Ltd.	Deputy General Manager

(3) Annual Compensation of Directors and Supervisors:

Total annual compensation

Total annual compensation for the three highest-paid directors

Total annual compensation for the three highest-paid senior managers

Allowance for independent directors

Other benefits for independent directors

Number of people receiving an annual compensation ranging from 300,000 to 410,000 yuan

Number of people receiving an annual compensation ranging from 410,000 to 520,000 yuan

Number of people receiving an annual compensation ranging from 520,000 to 620,000 yuan

Note: the Company has not yet implemented an annual benefit package system for senior executives; the salary and welfare of senior management are established and implemented with reference to the rules of the Finance Industry Salary Administration.

2. Changes in the Company's Directors, Supervisors and Senior Management during the Reporting Period:

On April 29th, 2003, the 2002 Annual General Meeting of Shareholders agreed the resignation of Mr. Wang Zukang and Mr. Xiong Yihua as directors of the company. Meanwhile, the meeting elected Mr. Stephen Long, Mr. XU Jianxin and Mr. ZHANG Jianwei to be members of the second board and Mr. MA Jinming, Mr. QIAO Xianzhi, Mr. Fred Hu and Mr. PAN Hongxuan to be independent directors. By then, the second board of the company had 19 members, as many as required. Among them, 6 were independent directors.

2. An Overview of the Staff: Total Number, Classification by Professional Occupation and Academic Background:

By December 31st, 2003, the Company had 7,811 registered staff, including 908 managerial staff, accounting for 11.62% of the total; 5,933 bank clerks, or, 75.96% of the total; 306 technical staffs, or, 3.91% of the total; 197 internal accounting and finance staff, or, 2.52% of the total; and 467 administrative staff, or, 5.98% of the total. 5.27% of staff members held a doctor's or master's degree. 80.07% of the staff were college graduates or held a bachelor's degree. Technical secondary school graduates and below accounted for 14.68% of the total. Retired staff from the Company numbered 12 persons.

Chapter 6 Corporate Governance Structure**1. Corporate Governance**

During the reporting period, pursuant to the stipulations of *the Company Law*, *the Securities Law*,

the Code of Corporate Governance for Listed Companies as well as the *Guidelines for Corporate Governance of Joint-stock Commercial Banks* and *Guidelines for Independent Director and External Supervisor System for Joint-stock Commercial Banks* issued by the People's Bank of China, SPDB formulated the Financial Accounting System, the Regulation on the Integrity of Directors, Supervisors and Senior Executives, the Rules on Investor Relationship Management etc. to strengthen and detailize the corporate governance. The corporation governance during the reporting period is as follows:

(1) Shareholders and General Meeting of Shareholders: The company formulated the Rules for the General Meeting of Shareholders to Discuss Issues. It was able to strictly follow the stipulations of Norms for General Meetings of Shareholders and convene shareholders' meetings accordingly so as to ensure all shareholders, especially medium and small shareholders, were given equal and fair treatment and that all shareholders may fully exert their rights. The company has established and improved effective channels to communicate with shareholders and listened to shareholders' opinions and suggestion and ensure shareholders' right of awareness, right of participation and right of voting on any major event of the company.

(2) Relationship between shareholders and the listed company: as shares of SPDB are dispersed so widely that there are no controlling shareholders, and the top 5 shareholders haven't bypassed the General Meeting of Shareholders and intervened in the company's decision-making and business activities directly or indirectly. The corporation was listed as a whole and is completely independent of the top 5 shareholders in terms of personnel, assets, finance, organization and business operation. The board of directors, the supervisory board and the various internal institutions have operated independently.

(3) Directors and Board of Directors: SPDB elected directors by strictly complying with the stipulations on procedures of director election in Articles of Association. The board of directors is made up of 19 members. During the reporting period, the number of independent directors increased from 2 to 6. All members conform to the qualification requirements. And directors were able to fulfill their duties and safeguard the interests of the company and all shareholders.

(4) Supervisors and the Supervisory Board: The board of supervisors is made up of 9 members, among whom 3 are staff representatives. The make-up of the members conform to the relevant stipulations and laws. During the reporting period, the board of supervisors newly set up the Nomination Committee and the Audit Committee. Being responsible for shareholders, the supervisors fulfilled their duties staidly and supervised on the compliance and performance of the company's financial accounting practice and the directors, the president and other senior management.

(5) Information Disclosure and Transparency: The company established complete information disclosure rules, and authorized the General Office to the Board to disclose information, receiving visits and providing consultation. The company has been able to strictly comply with the relevant stipulations of laws, regulations, Articles of Association, and the information disclosure regulations and the company has disclosed the relevant information

truthfully, accurately, completely and in a timely manner, and has ensured equal access to information for all shareholders.

2. Independent Directors and their Performance

The board of directors established rules of independent director and relevant bylaws as required by *Guidelines for Introducing Independent Directors into Listed Companies* issued by China Securities Regulatory Commission and *Guidelines for Independent Director and External Supervisor in Joint-stock Commercial Banks* issued by the People's Bank of China, etc. At the General Meeting of Shareholders held on April 28th, 2003, four independent directors were elected. Up to now, there are 6 independent directors in the board, accounting for one third of the total. These independent directors have different professional backgrounds, such as accounting, finance, legal science and so on. Consequently, the structure of the board has been further rationalized, thus setting a solid foundation for the board to make decisions in a scientific and rational way. During the reporting period, independent directors have fulfilled their duties earnestly, have attended meetings of board of directors diligently and have played a positive role in safeguarding the overall interests of the company and the legal interests and rights of medium and small shareholders as well as in ensuring the board making decisions in a scientific and objective way.

3. Five-separations from the Holding Shareholder

As shares of SPDB are dispersed so widely that there are no controlling shareholders, and the top 5 shareholders haven't bypassed the General Meeting of Shareholders and intervened in the company's decision-making and business activities directly or indirectly. The corporation was listed as a whole and is completely independent of the top 5 shareholders in terms of personnel, assets, finance, organization and business operation. The board of directors, the supervisory board and the various internal institutions have operated independently.

4. The Performance Appraisal and Incentive & Disciplinary System for Senior Management

In accordance with *Articles of Association*, the board of directors established a *Long-term Incentive System for Managers and Backbone Staff* as well standards for appraising senior managers' performance. Based on a scientific performance indicator system and precise evaluation methods, all appraisals put emphases on performance appraisal, in combination with evaluations on comprehensive abilities so as to connect the compensations of directors and senior managers closely with their managerial abilities and business performances.

Chapter 7 General Meeting of Shareholders

During the report period, the general meeting of shareholders was held twice. The details are as follows.

1. Notification, Summoning and Holding of the Annual General Meeting of Shareholders

On March 29th and April 11th, 2003, on *China Securities Journal*, *Shanghai Securities News* and *Securities Times*, the company published the announcement of the General Meeting of Shareholders, including such details as the venue, time, agenda and so on.

On April 29th, 2002, the company held the annual general meeting of shareholders for 2002 in the Shanghai Yunfeng Theatre as scheduled. 113 shareholders, who represent 2,030,484,023 shares and over 50% of total registered shares, attended the meeting. This is in compliance with the *Company Law* of the People's Republic of China and *Articles of Association* of the company.

The Annual General Meeting of Shareholders for 2002 discussed and passed the following resolutions by nominal ballots:

- (1) Report of the board for 2002;
- (2) Report of the supervisory board for 2002;
- (3) Final Accounting Report for 2002;
- (4) Budget for 2003;
- (5) Profit Distribution Proposal for 2002;
- (6) Motion on Continuing to Appoint Ernst & Young Accounting as the International Auditor and Da Hua Certified Public Accountants Co. as the Domestic Auditor of the Company in 2003;
- (7) Motion on Electing Directors and Independent Directors;
- (8) Motion on Changing Some Directors;
- (9) Motion on SPDB Signing Agreements with Citibank Overseas Investment Co. on Strategic Partnership;
- (10) Motion on SPDB Signing Agreements with Citibank Overseas Investment Co. on Credit Card Businesses;
- (11) Motion on Special Authorization to the Company for Introducing International Strategic Investors and Conducting Business Cooperation.

The resolutions were published in *China Securities Journal*, *Shanghai Securities News* and *Securities Times* on April 30th, 2003.

2. Notification, Summoning and Holding of the Provisionary General Meeting of Shareholders

On November 12th and 26th, 2003, the company respectively published the announcement of the first provisional general meeting of shareholders in *China Securities Journal*, *Shanghai Securities News* and *Securities Times*, including details on the time, venue and agenda as well as resolutions of the board meeting.

On December 12th, 2003, the company held the first provisional general meeting of shareholders for 2003 in Shanghai Yunfeng Theatre on schedule. 118 shareholders, who represent 2,376,732,090 shares and over 50% of total registered shares of meeting, attended the meeting. This is in accordance with the relevant stipulations of *Company Law* of the People's Republic of China and *Articles of Association* of the company.

The first provisional general meeting of shareholders for 2003 discussed and passed the following motions by nominative ballots:

- (1) Motion on the Utilization of Funds Raised Previously;
- (2) Motion on the Company Being Qualified for Issuing Convertible Bonds;
- (3) Motion on Issuing Convertible Bonds;
- (4) Motion on Feasibility Analyses for the Company to Raise Funds by Issuing Convertible Bonds.

The resolutions were published on December 13st, 2003 in *China Securities Journal*, *Shanghai Securities News* and *Securities Times*.

3. Election and Change of Directors and Appointment of Senior Management

In the morning on April 29th, 2003, the Annual General Meeting of Shareholders 2002 elected some new members of the second board. Stephen Long, XU Jianxin and ZHANG Jianwei were elected members of the second board. MA Jinming, QIAO Xianzhi, Fred Hu and PAN Hongxuan were elected independent directors. And the meeting approved the resignation of WANG Zukang and XIONG Yihua as directors of the board.

Chapter 8: Report by the Board of Directors

1. Business Operation

(1). Scope of principal operating activities and general situation of operation

a. Scope of principal operating activities

The Company's principal operating activities, as approved by the People's Bank of China, include: absorbing deposits from the public in RMB and foreign exchange; extending short, mid and long-term loans in RMB and foreign exchange; handling domestic and international settlements; discounting bills and notes in RMB and foreign exchange; issuing financial bonds; acting as agent

for the issuing, encashment, underwriting and trading of state bonds; conducting interbank lending and borrowing in RMB and foreign exchange; providing L/C services and guarantee services; providing collection and agent payment services; working as an agent for insurance products; providing safe box services; proprietary trading in foreign exchange, and acting as an agent for deals in foreign exchange; proprietary trading and acting as an agent for deals in foreign exchange securities except stocks; credit standing investigation and verification services, offshore banking businesses and other businesses approved by the People's Bank of China.

b. An overview of the company's business operation

The Company earnestly implemented and materialized the 5-Year Development Plan formulated by the Board of Directors and the various goals for business operation set at the beginning of the year. According to the relevant resolutions passed by the General Meeting of Shareholders, and under the leadership of the senior management, SPDB adhered to the vision of "speeding up the process of adapting ourselves to international common practices and accelerating the company's growth". We broadened our mindset, seized the opportunities, strengthened management and took the initiatives to move forward. Consequently, SPDB has satisfactorily fulfilled the various tasks and maintained the momentum of healthy growth against severe market competitions. The general business operation of the Company as at December 31st, 2003 is summarized as follows:

-- Key performance indicators: the Company's total assets rose to RMB 371.057 billion, up RMB 91.756 billion or 32.85 % on a year-on-year basis. By the year-end, the bank's total outstanding balance of RMB and foreign currency loans stood at RMB 255.111 billion, an increase of RMB 80.734 billion or 46.30% on a year-on-year basis. The total outstanding deposits at year-end was RMB 322.114 billion, a net increase of RMB 78.201 billion or 32.06% from the beginning of the year. Operating income totaled RMB 12.027 billion, and before-tax profits stood at RMB 2.344 billion, an increase of RMB 477 million or 25.55% on the adjusted before-tax net profits for 2002. The company's after-tax profits reached RMB 1.566 billion, up RMB 281 million from the adjusted after-tax profit of the year 2002. Shareholders' equity reached RMB 12.011 billion. Earnings per share (EPS) was RMB 0.400 yuan, The company's net assets per share was RMB 3.068 yuan and the return on equity (ROE) stood at 13.04%.

-- Risk management and mitigation: the Company made active efforts to establish an effective risk management mechanism. By taking effective precautions, enhancing supervision and taking measures to adjust stock assets, the proportion of non-performing loans (according to the 5-category classification of loans) decreased significantly from 4.43% at the beginning of the year to 2.53% by the end of the year. Through the establishment of such systems as "authorization and credit management", "risk pre-warning", "credit assessment by professionals" and "post-loan review", a complete system of whole- process risk control and management has taken shape. By making enhanced efforts to resolve, recover and write off non-performing loans, the Company recovered altogether RMB 1.301 billion yuan in cash during the year and effectively restructured assets worth RMB 10.5 million.

-- Network expansion and capital operations: With the strong support from the People's Bank of China and China Banking Regulatory Committee, SPDB opened new branches in Qingdao. So far, the Company has set up 21 directly-subordinate branches and sub-branches, bringing the total number of business outlets (excluding self-service banks) to 305 nationwide. The organizational network in line with the principle "being based in Shanghai and oriented to the whole nation" has taken shape. Meanwhile, the Company will use its Hong Kong Representative Office as a window to further promote its strategy of globalization.

-- IT construction: Project 628 (namely, the core-banking system) has gone online in all branches, thus establishing an integrated, comprehensive and open platform for the bank's core banking system. The project covers the various aspects of banking businesses, such as card, savings, credit, bills, settlement, foreign exchange businesses, foreign exchange dealing, open-end funds and so on. Meanwhile, the Company introduced and implemented SAP system. FI/CO system, key for the SAP treasury system has been completed. The information platform for

financial accounting and logistics management realized bank-wide integration, thus setting a solid foundation for gradually realizing the informatization and network of financial management.

-- Further enhancement of the Company's status: the Company was cited as the "Top 50 Listed Companies" (No. 7) of 2002 by the magazine "Listed Company" co-sponsored by People's Daily and Shanghai Stock Exchange. Based on Tier I capital ranking at the end of 2002, the Company was ranked the 308th among the Top 1,000 World Banks by the British magazine "Bankers". In addition, the company was cited by Asian Banker magazine as the 15th Strongest Bank in Asia and the 1st among the various Chinese banks.

c. Principal operating revenues by line of product and by region during the reporting period
(Unit: RMB ' 000 yuan)

Principal operating revenues by line of product		
Revenues from loans		10,233,142
Revenues from inter-bank lending and borrowing		1,212,685
Revenues from other businesses		581,410
Total		12,027,237

Region	Profits from principal operations (RMB' 000 yuan)	Revenues from principal operations (RMB ' 000 yuan)
Shanghai Region	1,467,661	3,750,519
Beijing Region	239,261	893,831
Jiangsu Region	563,822	1,121,702
Zhejiang Region	977,096	1,863,842
Guangdong Region	403,356	1,221,861
Other Domestic Regions	1,514,421	3,160,544
Offshore	18,108	14,938
Total	5,183,725	12,027,237

d. Major products and service and market share

According to the "4th Quarterly Report on Banks' Incomes and Expenditures for Lendings" issued by PBOC, the Company occupied 12.87% of the deposit market among the 9 Chinese national joint-stock commercial banks by the end of reporting period.

e. Five industries the company supported most with lending and their percentages

Industry	Outstanding balance of loans (RMB. ' 000 yuan)	Percentage
Manufacturing	76,948,141	30.16%
Wholesale and retailing	34,317,106	13.45%
Consumer loans	29,631,028	11.61%
Property development loans	29,472,825	11.55%
Transportation, warehouse and postal services	14,399,520	5.64%

f. Outstanding balance of major off-balance sheet items and risk management

Item	Outstanding balance for 2003 (Unit: RMB' 000 yuan)	Outstanding balance for 2002 (Unit: RMB' 000 yuan)
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Interests receivable	1,405,157	1,573,277
Letter of Guarantee issued	8,760,574	5,656,465
Guarantee		
Loan commitment		
Letter of Credit items	10,183,112	8,949,803
Bank Acceptance Notes	94,949,445	45,039,517

(2) Major shareholding activities and equity investment

Following is an overview of the companies in which SPDB has made an equity investment as at December 31st, 2003.

Company name	Investment term	Percentage of stake held by SPDB(%)	Investment as at Dec. 31 st , 2003 (RMB '000 yuan)
First Sino Bank ^{*1}	20 years	10%	84,319
Shen Lian International Investment Company	none	16.5%	288,303
China UnionPay Company	none	4.85%	80,000
Total			452,622

*1: The change in the investment in First Sino Bank is due to the use of the investment returns to deduct the equity investment.

(3) Difficulties encountered in business operation and solutions

During the reporting period, the People's Bank of China increased the deposit reserve ratio and implemented other monetary policies, which caused the fluctuation of interest rates and dropping of bond prices. In addition, competitions in the banking industry turned even fiercer with the further opening-up of the banking sector. And there was a general shortage of funds. To cope with the difficult situation, the Company has taken the following measures:

a. The Company actively promoted the innovation of marketing skills and expanded the profit margin by resorting to diversified services. The company integrated the business processes, services and products, further enhanced management of VIP customers and actively promoted concerted marketing of major customers for the purpose to gradually transform marketing by single account manager to team-backed marketing and the establishment of regional marketing center.

b. The Company made active efforts to reform the business operation management and upgrade the management efficiency in the whole-process. The company improved the efficiency of capital uses by deepening the whole-process management of fund utilization and further standardized the authorization and credit management system by strengthening the whole-process risk prevention. The company implemented the Rules on Authorization for Integrated Businesses, Detailed Rules on Credit Authorization, Rules for Medium and Long-term Authorization and so on to define the limits to authorities in business operation and enhance the basis for authorization system. In addition, the company further improved the internal control system and clarified the job duties. It

also integrated and optimized the front-office, mid-office and back-office operation processes so as to improve the internal managerial standards.

c. The Company made intensive efforts to strengthen the technical support and establish an integrated information platform. The company established an integrated business processing structure featuring bank-wide integrated handling of accounts, integrated processing of RMB and foreign exchange businesses and integrated dealing of corporate and consumer banking businesses. All these efforts set a solid foundation for the company to speed up the development and innovation of new products and new services and strengthen the capacity of marketing and sales.

2. Summary of financial data

(1). An overview of the company's network

The Company operates as a one-layer legal person entity, with the structure of a head-office and branches. According to the principles of economic returns and economic region demarcation, and based on the development strategy of “being based in Shanghai and serving the whole nation”, the Company set up branches in the coastal areas and in some key cities. By the end of the reporting period, the Company had established 21 directly-subordinate branches, bringing the total number of branches and sub-branches to 305. Details are listed below:

No.	Unit	Address	Staff Number	Assets (RMB ' 000 yuan)	Subordinate units
1	Head-office	No. 12, Zhongshan Dong Yi Road, Shanghai	506	15,625,642	304
2	Shanghai Branch	No. 50, Ningbo Road, Shanghai	1912	107,545,239	117
3	Hangzhou Branch	No. 129, Yanan Road, Hangzhou	506	28,052,464	20
4	Ningbo Branch	No. 21, Jiangxia Street, Ningbo	414	18,187,516	18
5	Nanjing Branch	No. 90, Zhongshan Dong Road, Nanjing	669	30,916,953	27
6	Beijing Branch	No.3, Chegongzhuang Street Xicheng District, Beijing	724	34,434,354	18
7	Wenzhou Sub-branch	Pufa Building, Renmin Dong Road, Wenzhou	238	6,635,083	10
8	Suzhou Branch	No. 504, Renmin Road, Suzhou	171	6,874,229	7
9	Chongqing Branch	No. 9, Shangqing Si Zheng Street, Chongqing	333	8,014,969	11
10	Guangzhou Branch	No. 424, Huanshi Dong Road, Guangzhou	394	21,009,472	12
11	Shenzhen Branch	No. 1012, Shennan Zhong Road, Shenzhen	347	13,668,861	7
12	Kunming Branch	No. 145-1, Dongfeng Xi Road, Kunming	172	3,378,159	6
13	Wuhu Sub-branch	No. 203, Renmin Road, Wuhu	47	1,399,175	2
14	Tianjin Branch	Suite D, 9 Binshui Avenue, Hexi District, Tianjin	236	13,969,906	7
15	Zhengzhou Branch	No. 30, Jing San Road, Zhengzhou	260	14,853,227	8
16	Dalian Branch	No. 3 Zhongshan Square, Zhongshan District, Dalian	175	9,734,472	5

17	Jinan Branch	No. 165, Jiefang Road, Jinan	182	12,821,503	5
18	Chengdu Branch	No.98-1,Shuangling Road,Chengdu	113	7,694,356	1
19	Xi' an Branch	No. 3, Beida Road, Xi' an	122	7,036,980	2
20	Shenyang Branch	No.158 Qingnian Road, Shenhu district, Shenyang	142	9,829,781	1
21	Wuhan Branch	No. 8, Xinhua Xia Road, Wuhan	84	2,279,323	-
22	Qingdao Branch	No. 53, Hong Kong Xi Road, Qingdao	64	3,615,798	-
	Total adjustment			-6,520,764	284
	Total		7811	371,056,698	305

Serial number	Unit	Address	Subordinate units
One	Head Office	No. 12, Zhongshan Dong Yi Road, Shanghai	304
Two	Shanghai Branch	No. 50, Ningbo Road, Shanghai	0
1	No. 1 Business Office	No. 12, Zhongshan Dong Yi Road	4
2	Huangpu Sub-branch	No. 50, Ningbo Road	5
3	Waigaoqiao Sub-branch	No. 2005, Yanggao Bei Road	9
4	Lujiazui Sub-branch	No. 877, Dongfang Road	3
5	Jinqiao Sub-branch	No. 509, Jin Gang Road, Pudong New Area	2
6	Konggang Sub-branch	No. 100, Weiyi Road, Pudong New Area	4
7	Yangpu Sub-branch	No. 1296, Xuchang Road	6
8	Putuo Sub-branch	No. 746, Changshou Road	3
9	Jingan Sub-branch	No. 669, Beijing Xi Road	5
10	Nanshi Sub-branch	No. 617, Zhongshan Nan Road	9
11	Xuhui Sub-branch	No. 587, Jianguo Xi Road	0
12	Minhang Sub-branch	No. 159, Xinsong Road, Minhang District	4
13	Hongkou Sub-branch	No. 731, Quyang Road	5
14	Jiading Sub-branch	No. 8, Qinghe Road, Jiading County	3
15	Zhabei Sub-branch	No. 123, Tianmu Xi Road	4
16	Baoshan Sub-branch	No. 1283, Mudanjiang Road, Baoshan District	6
17	Changning Sub-branch	No. 855, Changning Road	5
18	New Hongqiao Sub-branch	No. 85, Loushanguan Road	2
19	Songjiang Sub-branch	No. 388, Ledu Road, Songjiang District	5
20	Nanhui Sub-branch	No. 3388, Renmin Dong Road	4
21	Jinshan Sub-branch	No. 158, Xiangzhou Road, Shihua District	3
22	Qingpu Sub-branch	No. 699, Chengzhong Dong Road, Qingpu	2

		District		
	23	Fengxian Sub-branch	No. 352, Jiefang Zhong Road	1
		Sub-total		117
Three	1	Hangzhou Branch	No. 129, Yanan Road, Hangzhou	
	2	Jiaxing Sub-branch	No. 148, Zhongshan Road, Jiaxing City	2
	3	Shaoxing Sub-branch	No. 236, Renmin Xi Road, Shaoxing City	2
	4	Xihu Sub-branch	No. 429, Yanan Road, Hangzhou City	
	5	Gaoxin Sub-branch	No. 328, Wener Road, Hangzhou	
	6	Qingtai Sub-branch	No. 438, Qingtai Street, Hangzhou	
	7	Xiaoshan Sub-branch	No. 55, Tiyu Road, Chengxiang County, Xiaoshan City	2
	8	Lin' an Sub-branch	No. 417, Qianwang Street, Jincheng County, Linan City	
	9	Baoshu Sub-branch	No. 90, Huancheng Xi Road, Hangzhou City	
	10	Yuhang Sub-branch	No. 68, Bei Street, Linping County, Yuhang City	
	11	Zhongshan Sub-branch	No. 165, Qing Chun Road, Hangzhou City	
	12	Wenhui Sub-branch	No. 112, Wenshan Road, Hangzhou City	
	13	Wulin Sub-branch	No. 47, Huancheng Bei Road, Hangzhou City	
	14	Qiaosi Sub-branch	No. 56, Qiaomodong Road, Qiaosi County, Yuhang District	
	15	Qianjiang Sub-branch	No. 88, Qiutao Bei Road, Hangzhou City	
		Sub-total		21
Four	1	Ningbo Branch	No. 21, Jiangxia Road, Ningbo City	
	2	Yindong Sub-branch	No. 428, Zhongshan Dong Road, Ningbo City	
	3	Wanghu Sub-branch	No. 40, Changchun Road, Ningbo City	
	4	Ximen Sub-branch	No. 198, Zhongshan Xi Road, Ningbo City	
	5	Beilun Sub-branch	No. 560, Donghe Road, Beilun District, Ningbo City	
	6	Yuyao Sub-branch	No. 38, Yangming Dong Road, Yuyao City	
	7	Jiangbei Sub-branch	No. 332-6, Renmin Road, Jiangbei District, Ningbo	
	8	Zhenghai Sub-branch	No. 185, Miaopu Road, Ningbo City	
	9	Development District Sub-branch	Room 101,A, Xianggang Building, Xianggang, Ningbo	
	10	Cixi Sub-branch	No. 1, Children's Palace Road, Xushan County, Cixi City	
	11	Technical Sub-branch	Park No. 599, Jiangnan Road, Ningbo City	
	12	Taizhou Sub-branch	No. 87, Jiefang Nan Road, Jiaojiang District	
	13	Xingning Sub-branch	No. 39, Xingning Road, Ningbo City	
	14	Jiefang Sub-branch	Road No. 216, Jiefang Nan Road, Ningbo City	2
	15	Wenling Sub-branch	No. 114, Wanshou Road, Taiping County, Wenling City	
	16	Zhongxing Sub-branch	No.651,Zhongxing Road, Ningbo	
	17	Yinzhou Sub-branch	No. 288, Tiantong Bei Road, Yinzhou District, Ningbo	
		Sub-total		19

Five	1	Nanjing Branch	No. 90, Zhongshan Dong Road, Nanjing City	
	2	Nantong Sub-branch	No. 28, Renmin Zhong Road, Nantong City	5
	3	Wuxi Sub-branch	No. 191, Jiefang Xi Road, Wuxi	4
	4	Gulou Sub-branch	No. 49, Zhongshan Bei Road, Nanjing City	
	5	Xinjie Kou Sub-branch	No. 89, Zhongshan Nan Road, Nanjing City	
	6	Chengzhong Sub-branch	No. 41, Taiping Bei Road, Nanjing City	
	7	Beijing Xi Lu Sub-branch	No. 48, Beijing Xi Road, Nanjing City	
	8	Dachang Sub-branch	No. 388, Xinhua Road, Dachang District, Nanjing City	
	9	Chengdong Sub-branch	No.416, Zhongshan dong Road Nanjing	
	10	Chengxi Sub-branch	No.282, Hanzhong Road, Nanjing City	
	11	Chengbei Sub-branch	No.92, Xinmofan Road Nanjing	
	12	Hunan Lu Sub-branch	No. 99, Hunan Road, Nanjing City	
	13	Jiangyin Sub-branch	No. 99, Hongqiao Nan Road, Jiangyin City	5
	14	Chengnan Sub-branch	No.333,Taiping Nan Road	
		Sub-total	28	
Six	1	Beijing Branch	No. 3, Chegongzhuang Street, Xicheng District	
	2	Finance Street Branch	No. 35, Finance Street, Xicheng District	
	3	Xuanwu Sub-branch	No. 316, Guanganmen Nei Street, Xuanwu District	
	4	Huangsi Sub-branch	No. 21, Andeli Bei Street, Dongcheng District	
	5	Zhongguancun Sub-branch	No. 15, Haidian Nan Road, Haidian District	
	6	Cuiwei Road Sub-branch	B19 Xisanhuan Zhong Road, Haidian District	
	7	Caoyang Sub-branch	No. 19, Caowai Street, Caoyang District	
	8	Anwai Sub-branch	A88 Anwai Street, Dongcheng District	
	9	Jianguo Road Sub-branch	No. 99, Jianguomen Wai Street, Chaoyang District	
	10	Fucheng Sub-branch	No. 3, Nanlishi Road, Xicheng District	
	11	Yabao Road Sub-branch	Huarun Building, No. 8 Jianguo Lu Bei Street	
	12	Haidian Sub-branch	YuanHailong Building, No. 79 Haidian Road, Haidian District	
	13	Shouti Sub-branch	Fangyuan Building, A54 Baishiqiao Road	
	14	Dongsanhuan Sub-branch	Pengrun Building, No. 26 Xiaoyun Road, Chaoyang District	
	15	Yayuncun Sub-branch	Section B Yuanda Center, No. 5, Huizhong Road, Yayuncun	
	16	Zhicun Road Sub-branch	No. 9, Zhicun Road, Haidian District	
	17	Anhuaqiao Sub-branch	No. 15, District 3,Anzhenxili, Chaoyang District	
	18	Dengshikou Sub-branch	No. 143, Sinan Road Dongchen District	
	19	Electronic City Sub-branch	Hengtong Building, No. 10, Jiuxian Qiac Road, Chaoyang District	

		Sub-total		19
Seven	1	Wenzhou Branch	Pufa Building, Renmin Dong Road, Wenzhou City	
	2	Lucheng Sub-branch	1 st Floor, Yongtai Building, Feixia Nar Road	
	3	Dongcheng Sub-branch	No. 8, Minhang Road	
	4	Xicheng Sub-branch	1, Building 9, Lane 67, Xueshan Road	
	5	Shizhong Sub-branch	Rm. 101, 2A, New World Garden, Ma' anchi Xi Road	
	6	Nancheng Sub-branch	No. 112, Kangdijin Garden, Wendi Road	
	7	Rui' an Sub-branch	Local Tax Building, Gongruishan Road, Anyang, Rui' an City	2
	8	Leqing Sub-branch	No. 49, Qingyun road, Lecheng County, Leqing	
	9	Longwan Sub-branch	No. 265, Luodong Street, Longwan District, Wenzhou	
		Sub-total		11
Eight	1	Suzhou Branch	No. 504, Renmin Road, Suzhou City	
	2	Hi-tech Development District Sub-branch	No.8, Sishan Road, Suzhou New Area	
	3	Suzhou Industrial Park Sub-branch	Xinghai Road ,Industrial Park	
	4	Canglang Sub-branch	301-1 Zuhui Road, Suzhou City	
	5	Sanxiang Sub-branch	No. 120, Sanxiang Road, Suzhou	
	6	Kunshan Sub-branch	No. 180, Qianjing Road, Kunshan City	
	7	Wuzhong Sub-branch	No.103, DongWubei Road Industrial Office	
	8	Changshu Sub-branch	No. 21, Haiyu bei Road Changshu	
		Sub-total		8
Nine	1	Chongqing Branch	No. 9, Shangqing Si Zheng Street, Chongqing City	
	2	Jiangbei Sub-branch	No. 14, Jianxin Dong Road, Jiangbei District	
	3	Yuzhong Sub-branch	No. 99, Mianhua Street, Yuzhong District	
	4	Gaoxin District Sub-branch	No. 199, Keyuansi Road, Gaoxin District, Chongqing	
	5	Shapingba Sub-branch	No. 16, Hanyu Road, Shapingba, Chongqing	
	6	Fuling Sub-branch	No. 15, Xinghua Zhong Road, Peiling	
	7	Jiulongpo Sub-branch	No. 68, Xingsheng Road, Jiulongpo, Chongqing	
	8	Nanping Sub-branch	No. 1, Nanping Nan Road, Nanan District	
	9	Yubei Sub-branch	No. 89, Shuanglong Avenue, Yubei District	
	10	North New District Sub-branch	No.6-2,Xingpaifang, Longxi County, Yubei district	
	11	Daping Sub-branch	No. 110, Daping Road Yuzhong District	
	12	Hechuan Sub-branch	No. 1, Jiaotong Street, Hechuan City	
		Sub-total		12
Ten	1	Guangzhou Branch	No. 424, Huanshi Dong Road	
	2	Daduhui Sub-branch	5/F 183 Tianhe Bei Road	
	3	Dongshan Sub-branch	Xinxing Building No. 53, Zhongshan Er Road	
	4	Jichang Sub-branch	1A Zhongyi Garden, Jichang Road	

	5	Yuexiu Sub-branch	No. 28, Jixiang Road, Guangzhou City	
	6	Tianhe Sub-branch	Tianhui Building, No. 18, Tianhe Dong Road, Guangzhou City	
	7	Wuyang Sub-branch	No. 77-79, Siyouxin Street, Guangzhou City	
	8	Jincheng Sub-branch	Jincheng Garden, No. 858, Dongfeng Dong Road, Guangzhou City	
	9	Dongfeng Sub-branch	Jiaye Building, No.318, Dongfeng Zhong Road	
	10	Donghu Sub-branch	Longhu Building, No.128, Donghu Road	
	11	Dayu Sub-branch	No.156, Linghe Zhong Road, Tianhe District	
	12	Zhujiang New City Sub-branch	No. 9, Xinghui Garden, No. 50, Jinsui Road, Tianhe District	
	13	Liuhua Sub-branch	No. 859, Jiefang Bei Road, Yuexiu District	
		Sub-total		13
Eleven	1	Shenzhen Branch	No. 1012, Shennan Zhong Road	
	2	Zhenhua Sub-branch	Languang Building, No. 56, Zhenhua Road, Futian District	
	3	Luohu Sub-branch	No. 3018, Dongmeng Nan Road, Luohu District	
	4	Jintian Sub-branch	Floor 1,2 Woman & Child Center, Jingdian Road	
	5	Baoan Sub-branch	Fl 1,Huibao Building,Qianjing Road, Baoan District	
	6	LongGang Sub-branch	Fl 1,Ziteng Garden,LongGang district	
	7	Zhongxin District Sub-branch	Flat B, International Trade Building, Fuhua Yi Road, Futian District	
	8	Nanshan Sub-branch	Attachment, Modern Dream Garden, Nanyou Street, Nanshan District	
		Sub-total		8
Twelve	1	Kunming Branch	No. 145-1, Dongfeng Xi Road	
	2	Bailong Lu Sub-branch	No. 196, Bailong Road, Kunming City	
	3	Wujin Sub-branch	No. 67, Wujin Road, Kunming City	
	4	Ankang Sub-branch	No. 195, Ankang Road, Kunming City	
	5	Renming Xi Road Sub-branch	No. 320, Renming Xi Road	
	6	Beijing Road Sub-branch	No.920, Beijing Road	
	7	Tuodong Road Sub-branch	No. 270, Tuodong Road	
		Sub-total		7
Thirteen	1	Wuhu Branch	No. 203, Renmin Road, Wuhu City	
	2	Development District Sub-branch	1/F Chuangye Building, Development District, Wuhu City	
	3	Erjie Sub-branch	No.86, Zhong Er Road	
		Sub-total		3
Fourteen	1	Tianjin Branch	No. 9, Binshui Avenue, Hexi District, Tianjin City	
	2	Pucheng Sub-branch	Jinchen Garden, 188 Jinwei Road, Hebei District	
	3	Puxin Sub-branch	No. 542, Xingang Road, Tanggu District	
	4	Puhui Sub-branch	No. 114, Cuiheng Square, 39 San Street, Economic Development District	

	5	Puan Sub-branch	No. 3, Yunan road, heping district	
	6	Putai Sub-branch	Fl 1,No.2, Hangyu Apartment,256,Baiti Road	
	7	Puxin Sub-branch	No. 18, Guomao Road, Bonded Zone	
	8	Pude Sub-branch	National Tax Building, Cross Section between Jingjin Road and Beiyi Road, Beichen District	
		Sub-total		8
Fifteen	1	Zhengzhou Branch	No. 30,0 Jingsan Road, Zhengzhou City	
n	2	Daxue Lu Sub-branch	No. 54, Daxue Road	
	3	Jiankang Sub-branch	Lu No. 159, Jiankang Road	
	4	Huanghe Sub-branch	LuShengda Building, 9 Huanghe Road, Jinshui District	
	5	Zijinshan Sub-branch	Lu No. 72, Zijinshan Road	
	6	Dongming Sub-branch	Jiangshan building,126, Huanghe Road	
	7	Jinshui Sub-branch	No. 111, Jinshui Road	
	8	Wehua Road Sub-branch	No. 91, Wenhua Road	
	9	Jianxi Sub-branch	No. 219, Jianse Road	
		Sub-total		9
Sixteen	1	Dalian Branch	No. 3, Zhongshan Square, Zhongshan District	
n	2	High-tech Sub-branch	Zone No.649, Huanghe Road, ShahekuoDistrict	
	3	Development Sub-branch	Zone No. 135,Jinma road, development Zone	
	4	Zhanqian Sub-branch	Building A, Shengli Square, Zhongshan District	
	5	Zhongshan Sub-branch	No. 7, Gangwan Street, Zhongshan District, Dalian	
	6	Xigang Sub-branch	No. 7, Xinkai Raod, Zhongshan District, Dalian	
		Sub-total		6
Seventeen	1	Jinan Branch	No. 165,Jiefang Road, Ji'nan	
n	2	Shanda Sub-branch	No.242-2, Shanda Road	
	3	Shizhong Sub-branch	No. 84, Wei-er Road	
	4	Shinan Sub-branch	No. 40, Jing Shiyi Road	
	5	Quanchen Sub-branch	Road No. 366, Quanchen Road	
	6	Shungeng Sub-branch	No. 51, Jitai Road	
		Sub-total		6
Eighteen	1	Chengdu Branch	No.98-1,Shuangling Road,Chengdu	
n	2	Kehua Sub-branch	No. 153, Kehua Bei Road, Chengdu	
		Sub-total		2
Nineteen	1	Xi' an Branch	No.3, Beida Road, Xi' an	
n	2	Hanguang Sub-branch	No. 56, Tianshuijing Road, Xi' an	
	3	Hi-tech Development Zone Sub-branch	1/F, Buchang Mansion, Gaoxin Road, Xi' an	

	Sub-total		3
Twenty 1	Shenyang Branch	No.158,Qingnian Road, Shenhu district, Shenyang	
	2 Taishan Sub-branch	No. 93, Huanghe Nan Street, Huanggu District, Shenyang	
	Sub-total		2
Twenty 1-one	Wuhan Branch	T8,Xinhua Xia Road, Wuhan	1
	Total		305

(2). An overview of SPDB's loans in terms of 5-category classification and provisions for NPLs

RMB' 000 yuan

5-category classification	Amount	Percentage %	Provisions %
Normal	238,053,169	93.31%	1%
Especially Mentioned	10,601,990	4.16%	2%
Sub-standard	2,146,263	0.84%	35%
Doubtful	4,294,144	1.68%	70%
Loss	15,774	0.01%	100%
Total	255,111,339	100.00%	

Note: According to the actual amount of all kinds of loans, with the collateral articles and valid collateral amount deducted, SPDB's provisions for various kinds of NPLs (according to the above standards) stood at RMB 6.268 billion at the end of the reporting period.

(3). Loans by Top 10 borrowers

Unit: RMB' 000,000 yuan

Top 10 borrowers	RMB loans	Foreign currency loans converted to RMB	RMB and foreign currency loan total	Percentage % of total
Shanghai Urban Construction & Investment Corporation	1,000		1,000	0.39%
Shanghai Semi-conductor Manufacturing Co., Ltd.	229	666	895	0.35%
Guangzhou Construction Investment & Development Co.	800		800	0.31%
China Off-shore Gas Co., Ltd.	800		800	0.31%
Shanghai Zhong Huan Investment & Development(Group) Co.	720		720	0.28%
Jiangsu Jingfu Pengcheng Super-highway Construction Co.	650		650	0.25%
Tianjin Iron and Steel Co.	600		600	0.23%
Beijing Haidian District State-owned Assets Investment Co.	600		600	0.23%
Jingan Land Development Holding Co.	510		510	0.20%
China Petro-Chemical Group Co.	500		500	0.19%
Total	6,409	666	7,075	2.74%

(4). General Information on Credit Services to Corporate Groups and Risk Management

In 2003, SPDB strengthened marketing of its banking services. It conducted business cooperation with a number of Fortune 500 enterprises or giant corporate groups of China, such as China Petro-Chemical Co., Ltd, China Petro Chemical Group, China Chemical Import and Export Co., China Overseas Shipping Co., China Unicom, Anshan Iron and Steel Group etc. It has signed credit line agreements with several groups, such as China Petro-Chemical Co., Ltd, China Petro Chemical Group, COSCO and so on to support the business growth of their subsidiaries and offer a turn-key financial solution to cater for their various demands for financing, settlement and so on. Meanwhile, SPDB has strengthened risk management for these major groups. The head-office signed the credit line agreements with the headquarters of these groups, in which each parties rights and liabilities were clearly defined. The various business departments in the head-office of SPDB were responsible for managing the credit lines of these customers on a daily basis so as to allocate the credit line among the various subsidiaries of the groups in a rational way. The various banking businesses conducted by SPDB's branches with the subsidiaries of the group company shall be integrated into the credit line and the overall guarantee was provided by the headquarters of the group. In this way, we were able to minimize the credit risk of the whole group.

(5). Subsidized loans that account for more than (and including) 20% of total loans at year-end: such situation never occurred during the reporting period.

(6). Balance of restructured loans at year-end and overdue status.

Outstanding restructured loans at year-end	RMB 588,466,000 yuan	In particular, outstanding overdue loans at year-end	RMB 115,956,000 yuan
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(7) Annual average outstanding balance of major loans by product category calculated on a monthly basis and average interest rates per annum for loans

Category	Monthly average balance (RMB ' 000 yuan)	Average interest rate per annum %
Short-term loans	123, 774, 045	5.48%
Mid & long- term loans	39, 950, 702	4.67%

(7). Major treasury bonds held at the end of the reporting period

(Unit: RMB ' 000 yuan)

Type of bond	Annualized interest rate	Par value	Date of maturity
Booked treasury bonds 1998	5.01%	550,000	2005.12
Booked treasury bonds 1999	2.85-4.88%	1,990,000	2004.10-2009.04
Booked treasury bonds 2000	2.45-3.5%	2,720,000	2005.06-2007.12
Booked treasury bonds 2001	2.46-4.69%	8,095,000	2004.04-2021.10
Booked treasury bonds 2002	1.9—2.93%	6,830,061	2004.05-2012.06
Booked treasury bonds 2003	1.98-2.80%	4, 130, 000	2004.03-2013.04

1998 Specific-purpose bonds	6.80%	2,503,040	2005.05
Overseas Bonds issued by the Ministry of Finance	of 6ML+ (0.215~9.00) *	1,891,763	2003.11-96.1
Total		28,709,864	

*Note: 6ML+ (0.215~9.00) stands for 6 month LIBOR + (0.215~9.00) %.

(8). Loss reserves for interests receivable and other receivables

Unit: RMB ' 000 yuan

Item	Amount	Loss reserves	Method to charge the reserves
Interests receivable	168,137		-
Other receivables	2,786,365	132,172	Case by case verification

(9). Annual average balance and deposit interest rates for major types of deposits calculated on a monthly basis during the reporting period

Categories	Monthly average balance (RMB ' 000 yuan)	Annualized average deposit interest rate %
Corporate Current Deposits	113,281,709	0.80%
Corporate Fixed Deposits	71,040,422	2.31%
Current Savings Deposits	8,739,997	0.94%
Fixed Savings Deposits	16,473,123	1.92%

(10). NPL profile at year-end and the relevant measures taken

During the reporting period, both the company's NPL volume and NPL ratio continued to drop. At the end of the reporting period, the Company's non-performing loans (last 3 categories) accounted for 2.53 % of the total, down by 1.9 % on a year-on-year basis.

The Company took the following main measures to resolve and reduce NPLs:

a. Working out old NPLs. With the joint efforts of various departments in the bank, some progresses have been made in retrieving old NPLs. In particular, some breakthrough have been made in some key cases.

b. Focusing on the quality of new loans and strictly controlling the NPL ratio. The company has taken some measures in terms of establishing a risk management mechanism, including: a complete management system of credit review authorization has been implemented throughout the bank and accordingly, the head-office, branches and sub-branches were granted with different authorizations for credit review; the right to review and control credit businesses involving high risks, new customers, large sum of funds, medium and long-term loans and innovation businesses and so on was concentrated on credit review centers at branch level or above; an integrated credit management system was established in the bank, which manages the credit businesses to related enterprises under the same group as well as the cross-branch businesses; a series of standards and credit review procedures have been implemented to standardize and guide the credit review practice; strengthened efforts have been made in terms of after-loan inspections and the accountability system has been enforced.

c. Intensive efforts have been made to differentiate the management work for different category of loans. Strictly classification standards have been implemented so as to make the classification of loans truly reflect the risk position of the company.

d. The system to charge provisions has been established and loan losses are written off, thus setting up a standard and sound writing off system of non-performing loans.

(11). Debts overdue. This situation did not occur during the reporting period.

(12). Major off-balance sheet items

From the Company's overall business situation, major factors that may exert a serious impact on the bank's financial situation or business performance came from off-balance sheet liabilities. The Company's off-balance sheet liabilities as at the end of the reporting period were as follows:

Unit: RMB ' 000 yuan

Item	Dec. 31, 2003	Dec. 31, 2002
Banker's acceptance bills	94,949,445	45,039,517
Accepted bills payable	2,404,371	2,510,542
Letter of Guarantee for financing	2,459,288	1,328,503
Letter of Guarantee not for financing	6,301,286	4,327,962
Letters of Credit issued	7,778,741	6,439,261

(13). Various risks faced by the Company and countermeasures

a. Risks faced by the Company: As a special company dealing with money, SPDB mainly faced the following risks: credit risk, market risks (including interest rate risk, foreign exchange rate risk etc.), operation risks (including transfer risk, technical risk, systematic risk etc.), liquidity risk, policy risk, legal risk, commercial accountability risk and so on.

b. Countermeasures to offset risks during the reporting period which could exert a major impact: The Company set up a framework of risk management and internal control, which conforms to the international banking regulatory standards. The Risk Management and Related Transaction Control Committee under the Board of Directors has been established, which coordinates and formulates the principles and goals of risk management for the whole bank. A Risk Management Committee has been set up under the leadership of the Presidents' Office, which reviews the key issues related with risk management of the bank. At the head-office, several departments are set up to exert different functions, each responsible for the management of credit risk, operation risk, market risk, legal risk, policy risk and so on. In addition, the company appointed Da Hua Certified Public Accountants Co., and Ernst & Young Accounting Firm to audit the annual reports and mi-term reports. Besides, the company is under periodic inspections by the State Audit Commission, the People Bank of China, the China Banking Regulatory Committee, China Securities Regulatory Committee and so on. Consequently, a risk control system combing internal control with external audit has taken shape. In order to prevent and solve the major risk that banks are faced with—credit risks, on the basis of implementing separation of lending practice from credit review practice, the company formulated and implemented "SPDB's Rules for Credit Review by Professionals", "SPDB's Provisionary Rules on Job Responsibility System for Credit Review Officers" and so on to promote the credit-review-by professionals system in the whole bank. In terms of after-loan inspection, the bank, on the basis of periodic routine inspections of loans, continued to strengthen off-site loan inspections, established and improved the routine reporting system of credit assets quality. In terms of loan classification, the company actively promoted the 5-class classification of loans and clearly defined the standards for classification and implemented them through the whole process of investigation, review, inspection, provision withdrawal and writing-off of NPLs. Besides, the company made intensive efforts to work out NPLs and make up for the losses suffered by the company. The company has established a prevention, monitoring and after-event compensation management mechanism for businesses involving risks so as to strengthen the centralized control system and manage all kinds of risks encountered by the company during business operation.

c. In comparison with the previous reporting period, no major changes had occurred in terms of the policy and procedures for writing-off non-performing loans. According to the "Provisions on the Bad Loan Reserve and Write-off of Bad Loans" issued by the Ministry of Finance in May 2001, which stipulated that "bad debt reserves and bad debt write-offs by listed financial enterprises shall be handled in accordance with national unified accounting systems", the authority

for writing-off of bad loans is held only by the Board of Directors or General Meeting of Shareholders and there is no need to report such cases to the governmental authorities in charge of finance for check and approval. However, the cases shall be reported for file.

(14) The Company's internal control

The Company further enhanced the construction of various internal systems so as to reinforce the foundation for further development. Related systems and rules had been formulated for such marketing departments as Corporate Banking Department, Personal Banking Department and Financial Institutions Department, as well as for such management departments as the Risk Management Department, Treasury and Finance Department, Internal Audit Department, Accounting Department, Foreign Exchange Management Department etc. For example, "Provisional Regulations on Disciplinary Sanctions for Staff Who Has Violated Relevant Rules and Regulations" and other regulations set a good foundation for effective internal control and risk management. Meanwhile, the Company actively promoted the construction of listed banks' financial accounting management systems and regulations, set up standards for financial accounting, profit and loss accounting, tax management etc. The Company implemented an internal accounting report system and contact systems for branches and sub-branches. It further strengthened pre-event, in-the-event and post-event control over financial accounting. In addition, the management system for ensuring the bank's financial security had been further improved, and staff's awareness of the importance of security was constantly enhanced.

(15) Internal control and relevant system

The company continued to establish various systems and reinforce the basis for business growth. Relevant systems and rules have been formulated for each business lines of corporate banking, personal banking and financial institution businesses, as well as for such managerial departments as risk control, financial accounting, audit, treasury, foreign exchange management and so on. These efforts set a solid foundation for internal control and risk prevention. In addition, the company made active efforts to promote the establishment of financial management system as a listed bank. Relevant standards have been formulated for accounting, loss/profit accounting, tax management and so on. The system of internal financial reporting, contact person system for branches/sub-branches and so on has been tried so as to strengthen before-event, in-event and after-event control of finance. In addition, the security management has been further reinforced. Staff's awareness of safety and risk prevent has been strengthened.

3. Investments made by the Company

(1). Investment made with the capital raised

The Company issued 400 million common shares to the public on September 23rd, 1999 at an offered price of RMB 10 per share. With the issuance expenditures deducted, a total of RMB 3.955 billion yuan was raised from the IPO. The proceeds were all used (with official ratification from PBOC) to enrich the capital, and had substantially boosted the Company's capital adequacy ratio. Consequently, shareholders equity had been remarkable increased and the Company's capacity to tide over risks had been enhanced. This laid a solid foundation for the speedy growth of the Company. The Company used the funds raised from IPO strictly in compliance with the commitments it made in the IPO Statement and gained good returns.

(2). The outstanding balance of the Company's equity investment stood at RMB 448.06 million as at the end of the reporting period, down RMB 3.25 million on a year-on-year basis. This is due to the fact that the Company received returns on investment into First Sino Bank and used it to deduct the equity investment.

4. Financial statements

Unit: RMB ' 000 yuan

Item	As at Dec. 31, 2003	As at Dec. 31, 2002	Increase or decrease %	Major causes
Total assets	371,056,698	279,300,719	32.85%	Increases in deposits and loans
Long-term equity investment	448,063	451,311	-0.72%	Equity investment deduction with returns on investment received
Long-term bond investment in	30,590,618	27,021,337	13.21%	Increase in long-term bond investment
Fixed assets	5,758,352	5,266,226	9.34%	Increase in fixed assets investment
Total liabilities	359,045,775	270,948,743	32.53%	Increase in deposits
Long-term liabilities	117,221,000	85,203,236	37.58%	Increase in long-term deposits
Shareholder's equity	12,010,923	8,351,976	43.81%	Increase in net profit
Principal operating profit	5,183,725	3,505,591	47.87%	Business growth
Investment returns	1,471,319	1,298,676	13.29%	Expansion in investment
Net profit	1,566,088	1,285,309	21.85%	Increase in businesses

5. Items with a variance over 30% on a year-on-year basis in the financial statement and causes:

Item	Dec. 31, 2003	Dec. 31, 2002	Increase or decrease %	Causes for the variance
Precious metal	0	1,633	-100.00%	Decrease in precious metal businesses
Placements with banks and other financial institutions	5,627,938	2,968,051	89.62%	Increase placements with banks and other financial institutions
Lending to other banks	7,863,320	11,512,828	-31.70%	Decrease in businesses
Interests receivable	168,137	5,749	2824.38%	The accounting basis for some businesses changed to accrual basis
Other receivables	2,654,193	1,899,604	39.72%	Business growth
Short-term loans	164,873,841	107,986,036	52.68%	Growth in loan businesses
Import and export advances and negotiation	1,887,661	756,392	149.56%	Increase in businesses
Long-term bond investment to be mature within one year	6,553,434	3,961,066	65.45%	More bonds to be mature
Other current assets	287,942	173,446	66.01%	Increase in other current assets
Interim loans	26,346,187	14,268,057	84.65%	Increase in loan businesses

Long-term loans	29,222,168	13,592,054	114.99%	Increase in loan businesses
Overdue loans	244,359	170,246	43.53%	Increase in loan businesses
Collateral assets to be disposed of	486,135	171,021	184.25%	Intensified efforts to retrieve loans
Less: provisions for depreciation of collateral assets	230,495	3,941	5748.60%	Charge of provisions for depreciation of collateral assets
Other long-term assets	588,815	165,078	256.69%	Increase in other long-term assets
Deferred tax	1,744,194	1,264,685	37.92%	Time factors for withdrawal of reserves
Short-term deposit	11,688,116	8,345,427	40.05%	Increase in deposits
Inter-bank borrowing	3,055,379	545,525	460.08%	Increase in inter-bank borrowing
Short-term guarantee deposits	55,763,550	32,648,269	70.80%	Business expansion
Proceedings from sale of repurchased assets	9,271,122	4,424,739	109.53%	Increase in sales of repurchased assets
Inward and outward remittance payable and temporary deposits	1,122,671	1,635,395	-31.35%	Increase in remittance services
Entrusted funds	1,048,631	1,650,979	-36.48%	Increase in remittance services
Salary payable	113,807	74,983	51.78%	Increase in entrusted fund management services
Benefits payable	64,149	8,655	641.21%	Increase in salary payable
Long-term deposits	87,858	56,420	55.72%	Increase in benefits payable
Long-term savings deposits	94,507,416	68,683,135	37.60%	Increase in deposits
Other long-term liabilities	21,047,631	14,688,167	43.30%	Increase in deposits
Contributed capital surplus	658,050	137,664	378.01%	Increase in other long-term liabilities
General reserves	4,869,396	2,685,037	81.35%	Premium of new issuance
	1,150,000	500,000	130.00%	Increase in the charge of general reserves

6. Changes in the Company's operation environment and macro policies and their impacts on the Company

(1). On August 22, 2003, the People's Bank of China issued the Notice on Increasing the Deposit Reserve Ratio. Consequently, starting from September 21, 2003, the deposit reserve ratio for commercial banks will be increased by 1%, that is, from 6% to 7%. The increase of the deposit reserve ratio will result in shortage of funds in the market and exert great pressure on financial institution's treasury management.

(2). On December 10, 2003, the People's Bank of China issued the Notice on Issues Related with Enlarging the Floating Range of Loan Interest Rates of Financial Institutions (encoded as Yin Fa [2003] No. 250) and Notice on Issues Related with RMB Loan Interest Rates (encoded as Yin Fa [2003] No. 251). According to the notices, PBOC decided to enlarge the floating range of RMB loan interest rates and decrease the deposit interest rates for the excessive reserves by financial institutions. The enlargement of the floating range of loan interest rates brings new scope for the company to conduct asset operation and is helpful for readjusting the structure of customers. The market-orientation of loan pricing and interest calculation will benefit the innovation of new products. The decrease of deposits placed by other banks helps to cut down on the costs of funds.

However, the decrease of interest rates for excessive reserves will reduce the relevant interest income of the company.

7. Business development plans for the new financial year

(1) Guidelines for development

Being oriented to sustainable growth and deepening the reform and innovation, the Company shall learn from the international common practice and Citibank's experiences, stick to SPDB's own features and speed up the reform and transformation of the whole bank in terms of ideology, system, management, operation and so on. The extensive management shall be transformed to integrated management and the layered and function-based organizational structure shall be transformed to a flat and matrix organization management. The single and non-balanced business growth model shall be changed into a diversified and concerted way of business growth so as to continuously enhance SPDB's core competence and build her into one of the leading commercial banks according to the international standards.

(2) Operating objectives for the new financial year

- Strive to increase total assets to over RMB 445 billion yuan, up 20% on a year-on-year basis;
- Strive to increase total outstanding deposits to RMB 406 billion yuan, up 20% on a year-on-year basis;
- Strive to increase total outstanding loans to RMB 305 billion yuan, up 20% on the previous year;
- Strive to control the NPL ratio below 2% (according to the 5-category classification of loans) .

(3) Major measures for the new financial year

a. To be oriented to speeding up the adaptation to international best practices, actively promote the flat and matrix organization reform of the whole bank, be aimed at the best practices of the leading international banks, explore, formulate and detailize the various reform programs for each system and each business line; in addition, efforts shall be made to speed up the construction of IT system, the performance appraisal system, the organizational reform and strengthen the functions of management by business lines;

b. To stick to structural readjustment, promote the diversification of banking businesses, focus on the operation vision of "being customer-centered", speed up the structural readjustment, enhance innovation, define focuses in business operation, and promote the change from non-balanced way of business growth to a diversified and concerted way of business growth;

c. To use the implementation of 628 information platform as the turning point and make every effort to develop new products and tap new markets; to use the development of online banking and customer-service center as the point for breakthrough and establish all-dimension and standardized marketing channels;

d. To improve the overall operation efficiency by resorting to market-oriented means and ways, strengthen assets/liabilities management, optimize internal pricing system and effectively allocate resources; to reinforce all-round cost management and upgrade the cost-efficiency level.

8. Day-to-day work of the Board of Directors

(1). Details and resolutions of meetings of the Board of Directors within the reporting period
There were 19 members of the Board of Directors during the reporting period (before April 29th, 2003, there were 15 members and then 4 new members were elected), and 6 sessions of the board meeting were held in 2003, as detailed below:

a. On March 27th, 2003, the Company held the 5th Session of “Shanghai Pudong Development Bank Co., Ltd. 2nd Board of Directors” in Shanghai. 15 board members participated, which was in compliance with the stipulations of the “Company Law” and the Company’s Articles of Association. All the supervisors attended the meeting as non-voting delegates, which also complied with legal requirements. The meeting discussed and passed the following resolutions: “Board of Directors Report 2002”, “Company’s Performance Report 2002”, “Company Annual Report 2002” and its “Summary”, “Company Final Accounting Report 2002 and Financial Budget Report for 2003”, “Profit Distribution Proposal for 2002”, “Motion on Continuing to Appoint Da Hua Public Accountants Co., Ltd. and Ernst & Young Accounting Firm as Auditors”, “Motion on Nominating Independent Directors of the Board”, “Motion on Convening the 2002 Annual General Meeting of Shareholders”, “Motion on Writing Off NPLs”, “Motion on Share Transfer and Name Change of Some Shareholders”. The above details and resolutions were published in “China Securities Journal”, “Shanghai Securities News” and “Securities Times” on March 29th, 2003.

b. On April 11th, 2003, the Company held the 6th Session of the 2nd Board of Shanghai Pudong Development Bank Co., Ltd. in Shanghai. 15 board members attended the meeting, which was in compliance with the “Company Law” and the Company’s Articles of Association. Some supervisors attended the meeting as non-voting delegates. The meeting was valid and effective. The meeting discussed and passed the “Motion on Changing Some Directors of the Company. The above details and resolution were published in “China Securities Journal”, “Shanghai Securities News” and “Securities Times” on April 12th, 2003.

c. On April 26th, 2003, the Company held the 7th session the 2nd board of Shanghai Pudong Development Bank Co., Ltd in Shanghai. 15 board members attended the meeting, which was in compliance with the “Company Law” and the Company’s Articles of Association. All supervisors attended the meeting as non-voting delegates. The meeting was valid and effective. The meeting discussed and passed the following resolutions: “SPDB’s 1st Quarterly Report, 2003”, “Motion on Establishing A Long-term Incentive System for Managers and Key Staff”, and “Motion on Share Transfer”. The above details and resolutions were published in “China Securities Journal”, “Shanghai Securities News” and “Securities Times” on April 29th, 2003.

d. On August 25th, 2003, the Company held the 8th session of the 2nd board of Shanghai Pudong Development Bank Co., Ltd. in Shanghai. 19 board members attended the meeting, which was in compliance with the “Company Law” and the Company’s Articles of Association. All supervisors attended the meeting as non-voting delegates. The meeting was valid and effective. The meeting discussed and passed the following resolutions: “Interim Report, 2003”, “Motion on Changing Members of Special Committees of the Board”, “Motion on the Guidelines for Management of Related Transactions”, “Motion on Writing Off NPLs”, and “Motion on Share Transfer and Name Change”. The above details and resolutions were published in “China Securities Journal”, “Shanghai Securities News” and “Securities Times” on August 27th, 2003.

e. On October 27th, 2003, the Company held the 9th session of the second board in Shanghai. 19 board members attended the meeting, which was in compliance with the “Company Law” and the Company’s Articles of Association. All supervisors attended the meeting as non-voting delegates. The meeting was valid and effective. The meeting discussed and passed the following resolutions: “SPDB’s 3rd Quarterly Report 2003” and “Motion on Share Transfer”. The above details and

resolutions were published in “China Securities Journal”, “Shanghai Securities News” and “Securities Times” on October 29th, 2003.

f. On November 10th, 2003, the Company held the 10th Session of the board meeting in Shanghai. 19 board members attended the meeting, which was in compliance with the Company Law and the Company’s Articles of Association. All supervisors attended the meeting as non-voting delegates. The meeting was valid and effective. The meeting discussed and passed the following resolutions: “Motion on the Utilization of Funds Raised Previously”, “Motion on Issuing Convertible Bonds”, “Motion on SPDB Being Qualified for Issuing Convertible Bonds”, “Motion on Feasibility Analyses of Raising Funds by Issuing Convertible Bonds” “Code of Conducts for Directors and Senior Management in terms of Accountability” “SPDB’s Rules on Investor Relation Management” and “Motion on Convening the 1st Provisionary Meeting of Shareholders”. The above details and resolutions were published in “China Securities Journal”, “Shanghai Securities News” and “Securities Times” on November 12th, 2003.

9. Company’s profit distribution proposal or the plan for converting capital reserve to bonus shares

According to the auditor’s report issued by Da Hua Certified Public Accountant Firm with no reserved opinions, the Company’s net profit for 2003 was RMB1.566 billion yuan, non-distributed profit for 2003 was RMB 429 million yuan. The Company’s profit distribution proposal for 2003 is as follows:

- (1) 10% of the after-tax profit for the year will be charged as statutory surplus reserve, totaling RMB 156.609 million yuan;
- (2) 10% of the after-tax profit for the year will be charged as statutory welfare reserve, totaling RMB 156.609 million yuan;
- (3) 10% of the after-tax profit for the year will be charged as discretionary reserve, totaling RMB 156.609 million yuan;
- (4) RMB 650 million yuan shall be charged as general provisions pursuant to the relevant stipulations of the Ministry of Finance;
- (5) For the current fiscal year, no bonus share shall be distributed nor any capital reserve shall be converted to bonus shares.

The profit distribution proposal for year 2003 is to pay a dividend of RMB 1.1 yuan (taxes included) per 10 common shares, involving a total dividends payable of RMB 430.65 million yuan. The above sum is still included in the undistributed profits at the year-end of 2003.

Chapter 9 Report by the Supervisory Board

1. Meetings of the Supervisory Board

- (1) Throughout the 2003 financial year, the Supervisory Board convened 4 meetings. Details are as follows:

a. On March 27th, 2003, the Company held the 5th session of the Second Supervisory Board, the following resolutions were discussed and passed: “Resolution on the Report by the Supervisory Board for 2002”, “Resolution on the Annual Report 2002 and Report Summary”, “Resolution on the Profit Distribution Proposal 2002”, “Resolution on the 2002 Final Accounting Report and the 2003 Budget”, “Resolution for Passing the Report on Directors’ and Senior Management Performing Their Duties According to Law”, “Resolution on Payment of Auditor’s Fees to the Accounting Firms For 2002” and the “Resolution on Writing Off Non-performing Loans”.

b. On April 26th, 2003, the Company held the 6th session of the Second Supervisory Board, and the following resolution was discussed and passed: “Resolution on Passing the 1st Quarterly Report 2002”.

c. On August 25th, 2003, the Company held the 7th meeting of the Second Supervisory Board. The following resolution was discussed and passed: “Resolutions on Passing the Interim Report 2002”, “Resolution on Setting up Special Committees of the Supervisory Board”, “Resolution on Passing the Rules for the Nomination Committee of the Supervisory Board”, “Resolution on Passing the Detailed Rules for the Audit Committee of the Supervisory Board” and “Resolution on Writing off Non-performing Loans”.

d. On October 27th, 2003, the Company held the 8th session of the Second Supervisory Board. The following resolution was discussed and passed: “Resolution on Passing the 3rd Quarterly Report 2003”.

2. Independent opinions from the Supervisory Board

(1) An overview of the company’s operation according to law

During the reporting period, the Company operated according to law, standardized its management and reported its performance objectively and true to the fact. It has developed and upgraded its internal control intensively and extensively. The decision-making procedures were all legal. The Directors and Senior Management were prudent, conscientious and diligent, and did not breach any law or regulation in the process of business operations and management, nor any of them was discovered to conduct any behavior that caused any damage to shareholders’ interests.

(2) Authenticity of the financial statement

After careful review of the Company’s financial reports and the audited financial reports issued by accounting firms for 2003, the Supervisory Board believes that the Company’s financial report accurately reflects the Company’s financial status and performance during the reporting period. The auditors, Da Hua Certified Public Accountant Co., Ltd. and Ernst & Young Accounting Firm both issued an auditor’s report without any reserved opinions. Neither did they refuse to express an opinion. The audited reports reflect the company’s financial status authentically, objectively and accurately.

(3) The Company’s utilization of the funds raised from IPO

When the Company launched its IPO in 1999, it raised a total of RMB3.955 billion yuan. Through its second offering of 300 million new shares, it raised another RMB 2.495 billion yuan. As approved by the People’s Bank of China, all these funds have been used to reinforce the Company’s capital and enlarge the company (the bank)’s asset scale. The actual projects invested with these funds and the uses of the funds are consistent with the promises made in the share prospectus. The Company strictly implemented the plan for using the funds as stated in the stock-recruiting prospectus and utilized the capital raise in a reasonable manner.

(4) Acquisition and sales of assets

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

(5) Transactions with related parties

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

(6) Internal control

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

(7) Auditing report

Both Da Hua Certified Public Accounting Co., Ltd. (the domestic auditor of the company) and Ernst & Young Accounting Firm (the international auditor of the company) issued an auditor's report without any reserved opinions.

(8) Execution of resolutions made at the General Meeting of Shareholders

The members of the Company's Supervisory Board attended the Company's Board of Directors meetings and Shareholders Meetings as non-voting delegates, and the Supervisory Board had no objections to the contents of the reports and proposals submitted by the Company's Board of Directors to the General Meeting of Shareholders for examination and approval. The Company's Supervisory Board supervised on the execution of resolutions made at the Shareholders Meetings and believes the Board of Directors is able to earnestly implement the relevant resolutions made at the Shareholders Meeting.

Chapter 10 Important Issues

1. Cooperation between SPDB and Citibank as the foreign strategic investor

With official approval from the relevant authorities, the company introduced Citibank and its related subsidiaries (hereafter referred to as Citibank for short) as the foreign strategic investor and signed a series of agreements on strategic cooperation on with Citibank on December 31, 2002. According to the agreements, the two sides will cooperate in terms of exclusive stake holding, credit card businesses, technical support and so on.

Citibank will be the exclusive foreign strategic investor that the Company introduces and the Company will be the exclusive domestic commercial bank that Citibank invests in (excluding Hong Kong, Taiwan and Macau). Based on the strategic partnership between the two sides, the stake investment made by Citibank in the Company will be a long-term, on-going process in accordance with the relevant policies and laws of China. That is, after Citibank takes 5% stake of the company in the initial stage, by April 30th, 2008, it may take up to 24.9% of the company's stake by way of share purchase and execution of the right to share purchase and/or share subscription, under the condition that such increase in stakes is allowed by the relevant laws and regulations of China and approved by the regulatory authorities.

With Citibank's help, the company will set up an independent credit card inside the company to run credit card businesses. Based on the close and long-term strategic partnership between the two sides, Citibank promises to provide technical support in terms of personal banking, risk

management, financial management, IT system upgrading and transformation, audit and compliance management and human resources so as to help the company to upgrade its operation, management and performance standards and be built into a commercial bank up to the international banking standards.

2. Major lawsuit and arbitration issues

Within the reporting period, the Company had no lawsuits or arbitration that resulted in a major impact on business. By the end of the reporting period, the Company as the plaintiff had brought 58 lawsuits to court that had not been verdict, involving a total amount of RMB 313.301 million yuan. There was one major lawsuit (in which the Company was the defendant) that had not been verdict involving a property transfer dispute, in which Shanghai Yongxin Raincoat Dying and Textile Plant sued against Waigaoqiao Sub-branch of Shanghai Branch involving a total amount of RMB 3.362 million yuan.

3. Important Transactions with Related Parties

Import transactions with related parties of the Company are defined as transactions with a value over RMB 30 million or 1% of the company's net assets with related parties.

1. The company has no related party that holds a controlling stake of the company.
2. The following is an overview of the company's related parties and transactions with related parties:

Unit: RMB' 000 yuan

Name	Loan/call loan balance at the end of 2003	Interest income 2003	Loan /call for loan balance at the end of 2002	Interest income for 2002
Shanghai Industrial (Holdings) Co., Ltd.	24,830	854	41,386	1,279
Shanghai International Group	100,000	38	-	-
Shanghai Industrial Development Co., Ltd.	18,000	211	-	-
SIC International Trade (Group) Co.	13,239	2,941	13,153	106

Notes: The above loans were granted at the loan interest rate set by the People's Bank of China, and call loans were granted at inter-bank lending and borrowing interest rate. The principal and

interest on all loans and call loans to the related parties were returned or paid normally and exerted no negative impact on the Company's businesses or profit.

4. Major contracts and implementation

(1) Major trusteeship, contract and lease issues: there were no major trusteeship, contract or lease issues during the reporting period.

(2) Major guarantees: apart from the financial guarantee business which falls within the Company's business scope as approved by the People's Bank of China within the reporting period, the Company had no other major guarantee issues requiring disclosure.

(3) Assets management entrusted to other parties: during the reporting period, the Company had not entrusted any party to manage any of its assets.

(4) Other major contracts (including guarantees) and their implementation: the Company's various business contracts were implemented normally during the reporting period, and no disputes over any major contracts occurred.

5. Appointment of Accounting Firms

During the reporting period, the Company appointed Da Hua Certified Public Accounting Co., Ltd. and Ernst & Young Certified Public Accounting Co., Ltd. as the Company's auditors for its statutory financial statements and supplemental financial reports.

During the reporting period, the company paid to Da Hua RMB 1.2 million yuan as auditing fees (the Company did not cover travel expenses), among which RMB 1.2 million yuan was for the auditing of annual and semi-annual reports. Da Hua has been the company's auditor for 6 consecutive years.

Fees paid to Ernst & Young by the Company during the reporting period amounted to RMB 1.7 million yuan (the Company did not cover travel expenses). Ernst & Young had been an auditor for the Company for 3 consecutive years.

6. None of the Company's directors, supervisors or senior management was penalized by the supervisory authorities during the reporting period

7. Other major events taken place during the reporting period

According to the "Provisions on Bad Loan Reserves and Writing-off for Financial Institutions" issued by the Ministry of Finance in May 2001 (encoded as Cai Jin [2001] No. 127), the

Company's board meetings approved to write off bad loans totaling RMB 674 million.

8. The Company has not changed its name or its abbreviation in the stock market.

9. The Company or any shareholder with more than 5% stake made no disclosure of commitment in the designated newspapers or websites.

Chapter 11 Financial Report (see Appendix I)

Chapter 12 Referential Documents

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

Signature of Chairman of the Board: ZHANG Guangsheng

Board of Directors

Shanghai Pudong Development Bank Co., Ltd.

February 25th, 2004

Auditor's Report

EYDH(2004) No.058

To the Shareholders of Shanghai Pudong Development Bank Co., Ltd

We, Ernst & Young Da Hua Certified Public Accountants, have audited the accompanying balance sheet of Shanghai Pudong Development Bank Co., Ltd. (“the Company”) as of December 31, 2003, and the related statements of income and profit appropriation and distribution and cash flows for the year then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the aforesaid financial statements present fairly, in all material respects, the financial position of the Company as of December 31,2003 and the results of its operations and the cash flows for the year then ended in accordance with *the Accounting Standard for Chinese Enterprises* and *the Accounting Regulation for Financial Institutions*. The adoption of accounting policy conforms to the convention of consistency.

Ernst & Young Da Hua Certified Public Accountants

C.P.A.

Zhu Lei Lei

Xu Yan

146 Kun Shan Road, Shanghai China

February 25, 2004

Notes to the Financial Statements of Shanghai Pudong Development
Bank Co., Ltd. for the Year Ended December 31, 2003

I. Brief Introduction

1. Background

Shanghai Pudong Development Bank Co., Ltd. (“the Company”) is a joint-stock commercial bank approved by the People’s Bank of China, who issued document YF [1992] No.350 on August 28, 1992, and its business license was issued on October 19, 1992 by the Shanghai Municipal Administration of Industry and Commerce (“SMAIC”). The Company started business on January 9, 1993. On September 23, 1999, the Company issued 400,000,000 ordinary shares (Share A) to general public in China with issue price RMB ¥ 10.00 for each. And on November 10, 1999, these shares issued by the Company started trading on Shanghai Securities Exchange. In the year 2002, as authorized by the shareholders’ annual meeting for the year 2001, the Company capitalized part of its capital surplus, the capitalization amount being 50% of the balance of its share capital before such change. On December 23, 2002, upon the approval of China Securities Regulatory Commission (“CSRC”), who issued document ZJGSZ (2002) 135, the Company issued additional A share 300 million shares with issue price RMB ¥ 8.45 for each. The additional share issue was completed on January 13, 2003, which has been verified by Ernst & Yong Da Hua Certified Public Accountants, who issued verification report EYDH (2003) No.016.

The current amount of registered capital of the Company is RMB ¥ 3.915 billion, The registration number of the Company is 3100001001236, and its license for conducting financial transactions, which was numbered YJGZB1151290001, was re-issued on June 19, 2002 by the People Bank of China (“PBOC”). The legal representative of the Company is Zhang Guang Sheng.

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

The industry in which the Company operates: financing.

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

3. Principal activities and services performed:

Accepting public deposits; granting loans of short-term, mid-term and long-term nature; performing settlements; discounting bills and notes; issuing financial debentures; issuing, underwriting and cashing securities on behalf of governmental authorities; trading of governmental bonds and debentures; inter-bank loans and deposits; services relating to letters of credit and letters of guarantee; factoring and assignment of receivables and payables; safe deposit

services; accepting deposit in foreign currencies; granting loans in foreign currencies; remittance of foreign currencies; exchange of foreign currencies; international settlements; inter-bank placements and deposits in foreign currencies; accepting and discounting of bills and notes expressed in foreign currencies; lending in foreign currencies; guarantees in foreign currencies; purchase and sale of foreign currencies; purchase and sale of marketable securities expressed in foreign currencies(excluding stocks), either for itself or on behalf of clients; purchase and sale of foreign currencies, either for itself or on behalf of clients; credit investigation, consultancy and testimonial services; offshore banking; and other services as approved by PBOC.

II. Significant accounting policies and accounting estimates adopted by the Company

1. The accounting standards and the accounting regulations applicable to the Company

Applicable accounting standards: *the Accounting Standards for Chinese Enterprises* and other related specific standards

Applicable accounting regulations: *the Accounting Regulations for Financial Institutions (Revised 2002)*.

2. The financial year of the Company runs from January 1 to December 31 of each calendar year.

3. Renminbi is adopted by the Company as reporting currency. Separate books and accounting records are kept for foreign currency transactions. Foreign currency transactions are entered into these books and accounting records at their original foreign currency amount.

4. The Company's books and ledgers are kept on accrual basis. The Company's assets and liabilities are valued at their historical cost.

5. Accounting for foreign currency transactions

Since separate books and accounting records are prepared for foreign currency transactions, and foreign currency transactions are entered into these books and accounting records at their original foreign currency amount, no problems in the area of foreign currency translation were encountered.

6. Translation of financial statements in foreign currencies

Daily translation of financial statements in foreign currencies

(including balance sheet and profit and loss account) is made using exchange rates ruling at the end of last year. At the end of each year, balance sheet and profit and loss account expressed in foreign currencies are translated into RMB amount using exchange rates ruling at that date. Effects of changes in exchange rates are treated separately in each financial statement items, and the net exchange difference is charged/credited to profit and loss account as exchange gains or losses.

7. Recognition of cash equivalents when preparing the cash flow statement

Cash equivalents of the Company include cash, due from the central bank (excluding statutory deposit reserve), inter-bank balances (debit side only) and inter-bank placements maturing within 3 months and reverse repurchase.

8. Types and scope of loans

(1) Distinguishment between short-term loans and mid- and long-term loans

Distinguishment between short-term loans and mid- and long-term loans is made by the duration of the loans. Loans with duration of one year or less are classified as short-term loans; loans with duration of more than one year but less than five years are classified as mid-term loans; loans with duration of more than five years are classified as long-term loans.

(2) Recognition of overdue loans

The loans, either the principal or the interest, which have been overdue for less than 90 days are classified as overdue loans.

(3) Recognition of non-performing loans

The loans, the principal of and/or interest accrued on which have been overdue for 90 days or more, are classified as non-performing loans.

(4) Distinguishment of self-supporting loans and designated loans

Self-supporting loans are those loans granted by the Company on its own. The risk of these loans rests with the Company, and the Company is entitled to recover the principal of such loans and collect interests accrued thereon. Designated loans are those loans granted on behalf of the clients. The terms and conditions of such loans, such as borrower(s), use of funds, amount, term of borrowing, interest rates etc., are specified by the clients, rather than by the Company. The use of designated loans by

the borrower(s) should be overseen by the Company, and the Company should assist the clients in the recovery and collection of such loans. For designated loans granted, the Company is only entitled to commissions from clients, and shall not make any advances therefor. Self –supporting loans, as part of the credit assets of the Company, are presented on the face of the balance sheet. Designated loans are presented off balance sheet.

9. Accounting for bad loans

(1) Criteria of recognition for bad loans

When one of the following situations come into existence, after all possible measures have been resorted to and all necessary procedures have been performed, the loans and investments that yet cannot be recovered as scheduled by the Company are identified as bad loans:

- A. Both the borrower and guarantor have gone bankrupt, shut down or dissolved, and they have ceased to exist as legal persons, and the loan cannot be recovered after the legal liquidation proceedings have been performed against the borrower and guarantor;
- B. The borrower has died or has been declared dead or disappeared by the court in accordance with *the General Principles of Civil Laws of the PRC*, and the loan cannot be recovered after repayment of his debt out of his properties or heritage and exercise of recourse against the guarantor;
- C. The borrower has suffered huge loss from material natural calamity or accident that is not covered by insurance, which made it fail to repay all or part of its debt to the Company, or it cannot repay the loans out of the insurance indemnity, and the loan cannot be recovered in full after the exercise of recourse against the guarantor;
- D. The borrower and/or guarantor, though not formally declared bankrupt, shut down or dissolved, has terminated its business activities and has been de-registered by the administration authorities of industry and commerce at county level or above, and it has ceased to exist as a legal person. And, the loan still cannot be recovered after claiming repayment out of the properties of the borrower and exercise of recourse against the guarantor;
- E. The borrower has committed a crime and has been subject to criminal sanction, and the loan cannot be recovered in full by the Company out of its properties, and there is nobody else to assume this liability, thus the loan cannot be recovered after exercise of recourse;
- F. The Company has sued the borrower and/or the guarantor for their inability to repay the borrowings when falling due, and the court, at the request of the Company, made an forcible execution on the borrower and/or guarantor, but

it was determined that no property is available for the settlement of the debt. And after the court has decided upon the termination of the forcible execution, all or part of the loan still cannot be recovered by the Company;

- G. For advances made by the Company in the case of credit card overdraft, establishment of L/C and L/G, acceptance of bank drafts etc., the applicant and the guarantor failed to reimburse that advance due to reason(s) stated in A to F above, and after exercise of recourse by the Company, the advance still cannot be recovered;
- H. In case of equity investments that the Company is entitled to legitimately make in accordance with relevant laws and regulations, the Company, after liquidation and exercise of recourse, still cannot recover its equity interests in investee enterprises that have gone bankrupt, shut down or dissolved and ceased to exist as legal persons;
- I. Loans written off as approved specifically by the State Council.

If the fact that the bad loans can not be recovered is proved to be true by strong evidence, the bad loans can be written off after approved by the board of the directors/shareholders' meeting.

(2) Accounting policy adopted for bad loans: Allowance method.

Provision for bad loans is made on the following credit assets: loans, whose risks and losses are undertaken by the Company, including pledged loans, collateral loans, secured loans and credit loans; credit card overdrafts; discounted bills; credit advances (such as advances under acceptance of bank drafts, advances under guarantees, advances under letters of credit); import & export advances and negotiations and factoring of accounts receivable etc.

The policy adopted in making provisions for bad loans: The loans granted by the Company are grouped into five categories by their risk levels and the actual situation such as the ability to repay, financial position, sufficiency of the assets pledged as a security and guarantee etc., based on which a serious study is made of the amount of probable losses that may arise therefrom, then the balances of bad loans provision for each category are determined. At the end of each financial year, the balance of general provision for bad loans is adjusted to 1% of outstanding balances of loans in total as at that date. The excess of total provisions that should be made over the general provisions should be made in the form of special provisions for bad loans.

The bad loans provision is also made for the loans which have been financed by foreign borrowings and the responsibility of repayment of such borrowings still rests with the Company.

The bad loans provision should not be made for the designated loans, as the risks of such loans are not retained by the Company.

Bad loans provision made in current year is reflected in the related income statement accounts. It will be written off when the loss of bad loans is actually incurred. And if the bad loans written off are recovered later, the related bad loans provision written off will be restored accordingly.

10. Accounting for bad debts

(1) Criteria for identification of bad debts

When one of the following situations come into existence, the related other receivables or other current assets that cannot be recovered as scheduled by the Company are identified as bad debts:

- A. The borrower has gone bankrupt or has died, and the receivables cannot be recovered after repayment of his debt out of his bankrupt properties or heritage;
- B. The borrower does not repay the debt in time and there is strong evidence as to the inability on the part of the borrower to repay such debt;
- C. Other receivables that have been on account for more than 3 years.

If the fact that the receivables mentioned above can not be recovered is proved to be true by strong evidence, the bad debts can be written off after approved by the board of the directors/shareholders' meeting.

(2) Accounting for bad debts

Allowance method is adopted for accounting for bad debts.

A. Interests receivable

Interests receivable outstanding for 90 days or more is transferred to off-balance sheet items, so the aging of interests receivable is all less than 90 days. Thus no bad debt provision is made for interests receivable.

B. Other receivables

The bad debts provision for other receivables is made using specific identification method.

C. Other current assets (including placements)

The bad debts provision for other current assets is made using specific identification method.

In determining the rate(s) of provision for bad debts, the following factors are taken into account by the Company in order to ensure reasonableness of the estimates: the past experience; the financial position and cash flow status of the debtors; the other related information.

Bad debts provision made in current year is reflected in the related income statement accounts. It will be written off when the loss of bad debts is actually incurred. And if the bad debts written off are recovered later, the related bad

debts provision written off will be restored accordingly.

11. Accounting for reverse repurchase agreement and repurchase

The purchase of reverse repurchase loans /resell of repurchase loans are initially stated at the actual costs and the interest income or expenditures are recognized evenly over the corresponding useful lives. The purchase of reverse repurchase notes /resell of repurchase notes are initially stated at their par value. The difference between the actual amounts paid / received and the par value of bonds should be amortized over the useful lives in which the relevant interest is recognized.

12. Accounting for current investments

Current investments are entered into the Company's books at their actual cost. Investment income is recognized only when they are sold or cashed on maturity. At the end of reporting period, current investments are valued at their cost or market value, whichever is lower.

13. Accounting for long-term investments

(1) Accounting for long-term debt investments

Long-term debt investments are entered into the Company's books at their actual cost, namely actual purchase price paid on acquisition, excluding/including incidental expenses (such as taxes and commissions), less interest accrued over the period from the date of their issue to the purchase date included therein. Interest income is recognized on accrual basis, and after the adjustment of premium and discount on investment in bonds/debentures, it should be reflected in the related income statement accounts.

(2) Amortization of the premium and discount on investment in bonds:

Premium or discount on investment in bonds is amortized over the period between the acquisition date and the maturity date in which the relevant bond interest is recognized. The amortization method used is the straight-line method.

(3) Accounting for long-term equity investments

The valuation of long-term equity investments and recognition of income thereon Long-term investment in shares and other long-term investment are collectively called long-term equity investment. The long-term equity investments are recorded at its initial cost on acquisition, i.e., the total price paid on acquisition.

Cost method is used to account for long-term equity investments when the Company does not have control, joint control or significant influence over the investee enterprise. The equity method is used to account for long-term equity investments when the Company can control, jointly control or has significant influence over the investee enterprise.

(4) Provision for impairment of long-term investments —criteria for recognition and

determination of amount to be provided for

Provision for impairment of long-term investments is made on an individual item basis. If the recoverable amount of any investment is lower than the carrying amount of that investment as a result of a continuing decline in market value or changes in operating conditions of the investee enterprise, and it is considered impossible for the impaired value to recover, the difference by which the recoverable amount is lower than the carrying amount of the investment should be provided for, and reflected in the profit and loss account for the reporting period.

14. Accounting for fixed assets

(1) Recognition criteria of fixed assets

Fixed assets are defined as tangible assets that (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; (b) have useful life of more than one year; and (c) have relatively high unit price. Specifically, the following items are recognized as fixed assets: (a) buildings and constructions, machinery, transportation facilities and other equipment and appliances used in the operation of the Company, of which the useful lives are over 1 year; and (b) those items whose useful lives are over 2 years and the unit price exceed RMB ¥ 2000, which do not fall within the scope of key operation facilities.

(2) Fixed assets of the Company are classified into the following categories: buildings and constructions, transportation facilities, mainframe computers, minicomputers and microcomputers, electronic equipment, office equipment and improvements of fixed assets.

(3) Accounting for fixed assets and provisions for impairment thereof

The initial measurement of fixed assets upon acquisition is made at their actual cost or amount determined otherwise. At the end of each year and interim reporting period, recoverable amount of fixed assets is examined on an individual item basis. The difference by which the recoverable amount is lower than the carrying amount of the fixed assets should be provided for. The impairment loss should be recognized in the income statement for the current period. The provision for impairment of fixed assets is made on an individual item basis.

(4) Accounting for accumulated depreciation

The fixed assets are depreciated on straight-line basis over their estimated useful lives based on the original cost and estimated useful lives. The depreciable amount of a fixed asset equals its original cost less estimated residual value. The residual value is estimated at 3% of the original cost (excluding the cost of fixed assets improvements). The depreciation rates for each category of fixed assets are as follows:

<u>Category of fixed assets</u>	<u>Useful lives</u>	<u>Depreciation rates/year</u>
---------------------------------	---------------------	--------------------------------

Buildings and constructions	30 years	3.23%
Transportation facilities	5 years	19.4%
Mainframe computers	5 years	19.4%
Minicomputers and microcomputers	3 years	32.33%
Electronic equipment	5 years	19.4%
Office equipment	5 years	19.4%
Fixed assets improvement disbursement.	Useful lives	10-33.33%

When a provision for impairment has been made for a fixed asset, the depreciation rate and depreciation charge for the fixed asset should be recalculated based on the asset's carrying amount and its remaining useful life. If the value of a fixed asset for which impairment provision has previously been made is recovered, the depreciation rate and depreciation charge for the fixed asset should be recalculated based on the asset's revised carrying amount and its remaining useful life.

15. Accounting for constructions in progress

The actual construction expenditures incurred are charged to the construction in progress account. When the fixed asset being acquired or constructed has reached its expected usable condition, the total construction cost in that account is capitalized as fixed assets. At the end of each fiscal year, the recoverable amount of all the constructions in progress is reviewed for impairment purposes and, if there is such evidence on occurrence of impairment losses of construction in progress, provision should be made and recognized in the income statement for the current period. The provision for impairment of construction in progress is made on an individual item basis.

16. Valuation, amortization and provision for impairment in value of intangible assets

(1) Initial measurement of intangible assets

Intangible assets should be recorded at the actual purchase price paid.

(2) Amortization of intangible assets

The cost of an intangible asset should be amortized on straight line basis. The details are as follows:

- A. Use rights of buildings and constructions are amortized over their actual useful lives starting in the month in which they were acquired. But their amortization period should not exceed 30 years.
- B. Land use rights are amortized over their legal lives starting in the month in which they were acquired.
- C. Franchises are amortized over 5 years starting in the month in which acquisition is complete.
- D. Computer software are amortized over 3 years starting in the month in which they were acquired.

(3) Provision for impairment of intangible assets—criteria for recognition and determination of amount to be provided for

The Company reviews the carrying amount of its intangible assets at the end of each year and interim reporting period for the future economic benefits associated therewith that will flow to the enterprise. The difference by which the recoverable amount is lower than the carrying amount of the intangible assets should be provided for and recognized in the income statement for the current period. The provision for impairment of intangible assets is made on an individual item basis.

17. Amortization of long-term deferred charges

(1) Organization expenses of branches and sub-branches are entered into the Company's books at their actual cost incurred and written off immediately when the branch or sub-branch starts operation.

(2) Rental is amortized on straight-line basis over actual duration of lease.

18. Accounting for assets received from insolvent debtors to be disposed of

(1) Measurement of assets received from insolvent debtors to be disposed of
Assets received from insolvent debtors to be disposed of should be recorded at an amount equal to the aggregate of principal and interest of restructured loans as presented on the face of balance sheet, plus any related tax payments and boot paid (or less boot received and plus gains recognized). Meanwhile the provision for bad loans related thereto is transferred to provision for impairment of assets received from insolvent debtors.

(2) Provision for impairment of assets received from insolvent debtors to be disposed of—criteria for recognition and determination of amount to be provided for

The Company reviews the carrying amount of the assets received from insolvent debtors to be disposed of at the end of each year and interim reporting period on an individual item basis. The difference by which the recoverable amount is lower than the carrying amount of the assets should be provided for and recognized in the income statement for the current period.

19. Measurement of the non-cash assets received in debt restructuring transactions

When a receivable is satisfied by a transfer of non-cash assets, the Company (as the creditor) records the non-cash assets received at an amount equal to the carrying amount of the receivable to be restructured. If several non-cash assets are involved in the above restructuring, each non-cash asset received should be recorded at an amount determined by applying the proportion of the fair value of each non-cash asset received to the total fair value of the non-cash assets received to the carrying amount of the receivable to be restructured

20. Measurement of the assets received in non-monetary transactions

In a non-monetary transaction, the Company records the asset received at an amount equal to the aggregate of the carrying amount of the asset surrendered and the boot paid (or less the boot received and add the amount of gain recognized), plus any related tax payments. If several assets are received at the same time in a non-monetary transaction, each asset received should be recorded at an amount determined by applying the proportion of the fair value of each asset received to the total fair value of the assets received to the aggregate of the carrying amounts of the assets surrendered and any related tax payments.

21. The principle of revenue recognition

(1) Interest revenue

Interest revenue on loans granted or arising from transactions with other financial institutions should be measured based on the length of time for which the Company's cash is used by others and the applicable interest rate(s). In addition, as prescribed in the *Accounting Regulation for Financial Institutions* issued by the Ministry of Finance that became effective on January 1, 2002, interest receivable on loans shall be computed periodically, and recognized as an item of profit and loss. When principals of such loans are overdue for more than 90 days (not inclusive), the recognition of interest on such loans should be terminated, and interests already accrued thereon should be written off and transferred to off balance sheet account. But when interest receivables accrued are overdue for more than 90 days (not inclusive), the recognition of interest on such loans, regardless of the maturity status of the principal thereof, should be terminated, and the recorded interests receivable thereon should be written off against the profit and loss for the current period and transferred to off-balance sheet account. In addition, the related loans should be transferred to non-performing loans account. And from then on, the interests should be recognized in the related off-balance account and not reflected in the profit and loss account. The interest revenue thereon is recognized when it is actually received.

(2) Revenue from commissions income

Revenue from commissions income comprises of revenue from handling and providing guarantee, which are recognized when the transactions have been completed and the amounts have been received in cash.

(3) Exchange gains

Exchange gains are recognized when the related transactions are completed and the amount is actually received.

(4) Other operating revenue

Other operating revenue (including income on purchase and sale of debentures, and revenue from other non-commissions income) is recognized when it is

actually received by the Company.

22. Recognition of interest expenses

Accrual basis is adopted. For current deposits and inter-bank balances, the interests are settled quarterly; for current savings, the interests are accrued quarterly; for time savings and negotiation deposits, the interests are accrued quarterly at the interest rates set on the deposit receipt and the deposit contracts respectively; the interests on interest-bearing-liabilities such as the amounts received for sell of repurchase assets are accrued quarterly at the contract interest rates.

23. Accounting for income taxes: The liability method (under the tax effect accounting method) was adopted for accounting for income taxes.

24. Accounting for derivative financial instruments and recognition of gains/losses resulting therefrom

(1) Measurement of derivative financial instruments

The Company uses derivatives primarily for hedging purposes (with the exception of those purchased/sold on behalf of clients). In order to lessen the market risks resulting from transactions with the clients, the Company has entered into back-to-back agreements with third parties, which effectively passed the risks to which the Company is exposed. Derivatives are carried in the books of the Company at their actual value for receipt/payment, and their nominal value and market value is disclosed off-balance-sheet.

(2) Gains and losses resulting therefrom are recognized on the settlement date.

(3) Criteria for recognition of hedge: The Company uses hedging as part of its asset/liability management activities when there is a mismatch in terms of exchange rate, interest rate, time etc.

25. Changes in accounting policies and reclassification of the Company's financial statement items

(1) The interest income and expenses for such items as discounting is accounted for on accrual basis instead of cash basis

Since the core business system was successfully put into use in 2003, the centralization of data processing throughout the Company was realized. To give a more accurate view of the operating results, accrual basis was adopted in substitution of the cash basis for such items as discounting, inter-bank placements and reverse repo etc. The said change in accounting policy decreased the profit for the year ended December 31, 2003 by RMB ¥ 50,411 thousand. Prospective application method is adopted for prudent purposes.

(2) Dividends declared in an informal scheme

The Company used to treat the profit distribution (exclusive of stock dividend) in an informal scheme in connection with the reporting period as passed at the board of directors' meeting held after the balance sheet date as an adjusting issue in accordance with the regulations of the original accounting standards. According to *Accounting Standard for Chinese Enterprises: post balance sheet event* (CK (2003) 12) issued by the Ministry of Finance, from July 1, 2003 on, the cash dividends declared in an informal scheme as passed at the board of directors' meeting held between the balance sheet date and the approval date of the financial statements is reflected in the undistributed profits account and shall not be transferred into the dividends account until it is passed at the shareholders' meeting. Retrospective adjustments is made in connection with the said change in the accounting policy in accordance with document CK (2003) 12.

26. Consolidation of financial statements

As stipulated in *the Law on Commercial Banks of the People's Republic of China* ("the Law"), which has been in force from July 1, 1995, the Company cannot invest in non-bank financial institutions and enterprises in PRC. Thus in the reporting year, the Company has no subsidiaries over which it can exercise control, and there is no need to prepare consolidated financial statements.

III. Taxation

The taxes and surcharges applicable to the Company and the respective rates are as follows:

Taxes/Surcharges	Basis of Tax and Surcharge	Tax and Surcharge rate
Business Tax	Operating revenue (excluding interest income from financial institutions and income from investments)	5%
City Maintenance and Construction Tax	Municipal business tax (5%)	7%
Educational Surcharge	Municipal business tax (5%)	3%
Corporate income tax	Taxable Income	33%

Note: As prescribed by *the Notification on Reduction of the Business Tax Rate Applicable to Financial Institutions and Insurance Companies* (CSZ[2001] No. 21) issued by the Ministry of Finance and the National Administration of Taxation, from the year 2001 to 2003, the rate of business tax for financial institutions will be reduced by 1% each year. And after 3 years, the rate of business tax for financial institutions will be reduced to 5%. Thus the rate of business tax applicable to the Company for the reporting year is 5%.

IV. Notes to the financial statements (Unit of currency: RMB ¥ ' 000)

1. Cash

Currency	December 31,2003	December 31,2002
RMB	821,446	806,749
FX equivalent of RMB	<u>260,384</u>	<u>256,122</u>
Total	<u>1,081,830</u>	<u>1,062,871</u>

2. Due from the central bank

Item	December 31,2003	December 31,2002
Deposit reserve ⁽¹⁾	17,578,900	10,945,125
Provision	20,253,284	22,117,103
Financial deposit	<u>29,477</u>	<u>66,499</u>
Total	<u>37,861,661</u>	<u>33,128,727</u>

Notes: (1) Deposit reserve: As stipulated by PBOC, the balance of deposit reserve expressed in Renminbi should not be less than 7% of the ending balance of deposit in RMB (6% was applicable before September 21, 2003). The balance of deposit reserve in foreign currencies should be 2% of the ending balance of deposit expressed in foreign currency.

3. Due from banks

Item	December 31,2003	December 31,2002
Deposit with domestic banks	2,817,870	2,722,562
Deposit with foreign banks	<u>2,810,068</u>	<u>245,489</u>
Total	<u>5,627,938</u>	<u>2,968,051</u>

4. Inter-bank placements

Item	December 31,2003	December 31,2002
To domestic banks	1,634,150	3,684,198
To foreign banks	5,459,327	6,917,330
To domestic non-bank financial institution ⁽¹⁾	825,619	911,300
Less: Provision for bad loans	<u>55,776</u>	=

Written-down value	<u>7,863,320</u>	<u>11,512,828</u>
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Note (1) Within the aforesaid balance of placements to non-bank financial institutions (as at December 31, 2003) there is RMB ¥ 437,219 thousand which has been overdue and the provision for it has been made.

5. Discounted bills

Currency	December 31,2003	December 31,2002
Banker's acceptance draft	22,014,553	22,913,405
Trade acceptance	4,980,794	8,624,913
Notes expressed in foreign currencies	26,022	-
Accounts receivables factoring	<u>813,933</u>	<u>177,496</u>
Total	<u>27,835,302</u>	<u>31,715,814</u>

6. Interests receivable

(1) On balance sheet

Item	December 31,2003	December 31,2002
Interests receivable on loans	164,392	5,749
Interests receivable on placements	1,902	-
Interests receivable on reverse repo	<u>1,843</u>	-
Total	<u>168,137</u>	<u>5,749</u>

Of the balance, the interests on loans RMB ¥ 9,909 thousand has been overdue, the aging of which is all within 90 days. The remaining balance represents the interests accrued on such assets as loans and placements etc., no provision for bad loans has been made.

(2) Off balance sheet

	December 31,2003	December 31,2002
Amount	1,405,157	1,573,277

7. Other receivables

Items	December 31, 2003					Bad Debts Provision	Net
	1 year or less	1-2 years	2-3 years	Total	Percentage		
Interests receivable from such long-term investment that the interest on which is collected annually	479,889	-	-	479,889	17.22%	-	479,889

Working fund	10,470	33	209	10,712	0.38%	-	10,712
Settlement fund	487,128	522	65	487,715	17.50%	-	487,715
Housing Fund for Staff	1,070,312	84,837	6,253	1,161,402	41.70%	11,611	1,149,791
Refund for cooperative construction of Pu Fa Mansion	-	181,228	-	181,228	6.50%	-	181,228
Prepayment for purchasing houses	196,426	-	-	196,426	7.05%	-	196,426
Amounts paid on behalf of others besides those mentioned above	<u>229,302</u>	<u>22,806</u>	<u>16,885</u>	<u>268,993</u>	<u>9.65%</u>	<u>120,561</u>	<u>148,432</u>
Total	<u>2,473,527</u>	<u>289,426</u>	<u>23,412</u>	<u>2,786,365</u>	<u>100%</u>	<u>132,172</u>	<u>2,654,193</u>

December 31, 2002

Items	1 year or less	1-2 years	2-3 years	Total	Percentage	Bad Debts Provision	Net
Interests receivable from such long-term investment that the interest on which is collected annually	415,064	-	-	415,064	20.49%	-	415,064
Working fund	2,605	308	803	3,716	0.18%	-	3,716
Settlement fund	331,684	2,746	-	334,430	16.51%	-	334,430
Housing Fund for Staff	463,683	38,166	87,481	589,330	29.09%	5,689	583,641
Refund for cooperative construction of Pu Fa Mansion	183,230	-	-	183,230	9.04%	-	183,230
Prepayment for purchasing houses	150,203	-	-	150,203	7.41%	-	150,203
Amounts paid on behalf of others besides those mentioned above	<u>243,250</u>	<u>37,029</u>	<u>69,664</u>	<u>349,943</u>	<u>17.28%</u>	<u>120,623</u>	<u>229,320</u>
Total	<u>1,789,719</u>	<u>78,249</u>	<u>157,948</u>	<u>2,025,916</u>	<u>100%</u>	<u>126,312</u>	<u>1,899,604</u>

8. Reverse repurchase agreements

<u>Trading counterpart</u>	December 31,2003	December 31,2002
Commercial banks other than the Company	6,542,595	10,691,943
Credit unions	1,460,049	148,760
Financial companies	<u>120,000</u>	<u>49,000</u>

Sub-total	<u>8,122,644</u>	<u>10,889,703</u>
<u>Securities</u>		
Treasury bills	400,000	730,000
Other bonds	<u>2,000,000</u>	<u>960,000</u>
Sub-total	<u>2,400,000</u>	<u>1,690,000</u>
<u>Trading counterpart</u>		
Commercial banks other than the Company	1,900,000	-
Credit unions	1,200,000	-
Financial companies	<u>438,500</u>	-
Sub-total	<u>3,538,500</u>	-
Total	<u>14,061,144</u>	<u>12,579,703</u>

9. Current investments

Item	December 31,2003	December 31,2002
	Cost	Cost
Treasury bills (expressed in RMB)	1,918,838	2,489,085
Other bonds in RMB	502,274	1,896,788
Short-term central bank bills	4,376,646	1,280,000
Bonds in foreign currencies	<u>1,125,208</u>	<u>3,633,887</u>
Total	<u>7,922,966</u>	<u>9,299,760</u>

Notes: 1. The treasury bills and other bonds in RMB can only be traded among banks in organized financial market (inter-bank bond and bill market). Since trading in such a market is not active, there are no quotations of market price that can be used as a reference. We take into account such factor as the interest accrued to arrive at the market value for reference. There is no impairment of these investments.

2. Bonds in Foreign currencies are purchased in foreign capital markets, and there is no impairment of these investments.

3. Within the aforesaid balance as at December 31, 2003, there is treasury bill amounting to RMB ¥ 225 million has been put in pledge for repurchase agreements.

10. Short-term loans

Type	December 31,2003	December 31,2002
Credit loan	30,340,532	18,932,882
Secured loan	97,962,223	60,580,757
Collateral loan	25,598,000	18,121,099
Pledged loan	<u>10,973,086</u>	<u>10,351,298</u>
Total	<u>164,873,841</u>	<u>107,986,036</u>

11. Import & export advances and negotiations

Item	December 31,2003	December 31,2002
Import deposit exchange	1,348,046	380,075
Export deposit exchange	<u>539,615</u>	<u>376,317</u>
Total	<u>1,887,661</u>	<u>756,392</u>

12. Interest to be amortized

Item	December 31,2003	December 31,2002
Interest on amounts received for assets resold	47,840	-
Interests on trans-discount /rediscount	<u>109,872</u>	=
Total	<u>157,712</u>	=

13. Long-term investment of bond to be expired within 1 year

Item	Maturity Date	Par value	Cost	Interest Rate p.a.	Interest Accrued in Current Year	Accumulat ed Interest Accrued	Total
Treasury notes (in documentary form)	2004-02/ 2004-11	474,514	474,536	2.89-5.13%	12,905	62,898	537,434
Treasury notes (in account form)	2004-04/ 2004-12	5,550,000	5,549,908	1.9-3.31%	122,697	-	5,549,908
Bonds issued by the National Development Bank FRN of Import & Export Bank	2004-3 2004-11	350,000 <u>115,874</u>	350,000 <u>116,092</u>	3.38% <u>6ML+1.05%</u>	9,756 <u>432</u>	- <u>-</u>	350,000 <u>116,092</u>
Total		<u>6,490,388</u>	<u>6,490,536</u>		<u>145,790</u>	<u>62,898</u>	<u>6,553,434</u>

Note: Within the aforesaid balance as at December 31, 2003, there is treasury bill amounting to RMB¥900 million has been put in pledge for repurchase agreements.

14. Other current assets

Item	December 31,2003	December 31,2002
Overdrafts and advances	<u>287,942</u>	<u>173,446</u>

15. Medium-term loans

Item	December 31,2003	December 31,2002
Credit loan	6,665,063	3,141,451
Secured loan	9,525,327	4,683,380
Collateral loan	8,788,945	5,391,206
Pledged loan	<u>1,366,852</u>	<u>1,052,020</u>
Total	<u>26,346,187</u>	<u>14,268,057</u>

16. Long-term loans

Item	December 31,2003	December 31,2002
Credit loan	2,000,797	803,255
Secured loan	2,887,495	1,737,319
Collateral loan	22,741,476	10,460,575
Pledged loan	<u>1,592,400</u>	<u>590,905</u>
Total	<u>29,222,168</u>	<u>13,592,054</u>

17. Loans overdue for 6 months or less

Item	December 31,2003	December 31,2002
Credit loan	21,430	6,535
Secured loan	79,485	101,483
Collateral loan	104,881	60,542
Pledged loan	<u>38,563</u>	<u>1,686</u>
Total	<u>244,359</u>	<u>170,246</u>

Notes: The loans included in the aforesaid balances are all overdue for less than 90 days.

18. Non-performing loans

Item	December 31,2003					More than 3 years
	Total	90-180 days	0.5 – 1 year	1 – 2 years	2-3 years	
Credit loan	146,501	353	21,136	3,837	87	121,088
Secured loan	2,233,016	42,968	189,122	595,211	517,201	888,514

Collateral loan	2,000,040	139,677	30,920	252,768	492,322	1,084,353
Pledged loan	<u>34,321</u>	<u>7,480</u>	<u>25,742</u>	<u>299</u>	<u>-</u>	<u>800</u>
Total	<u>4,413,878</u>	<u>190,478</u>	<u>266,920</u>	<u>852,115</u>	<u>1,009,610</u>	<u>2,094,755</u>
Proportion to total amount	<u>100%</u>	<u>4.32%</u>	<u>6.05%</u>	<u>19.30%</u>	<u>22.87%</u>	<u>47.46%</u>

Item	December 31, 2002					
	Total	90-180 days	0.5 – 1 year	1 – 2 years	2-3 years	More than 3 years
Credit loan	181,898	185	12,252	4	105,550	63,907
Secured loan	3,154,784	125,629	335,388	932,802	725,700	1,035,265
Collateral loan	2,303,288	34,973	175,940	511,788	886,444	694,143
Pledged loan	<u>75,463</u>	<u>477</u>	<u>4,570</u>	<u>91</u>	<u>-</u>	<u>70,325</u>
Total	<u>5,715,433</u>	<u>161,264</u>	<u>528,150</u>	<u>1,444,685</u>	<u>1,717,694</u>	<u>1,863,640</u>
Proportion to total amount	<u>100%</u>	<u>2.82%</u>	<u>9.24%</u>	<u>25.28%</u>	<u>30.05%</u>	<u>32.61%</u>

19. Provision for bad loans

Item	General Provision	Specific Provision	Total
As at December 31, 2002	1,743,774	3,201,231	4,945,005
Provisions made in the reporting year	814,976	1,272,023	2,086,999
Recovery in the reporting year	577	57,090	57,667
Transferred out in the reporting year	1,417	140,330	141,747
Writing-offs in the reporting year	<u>6,797</u>	<u>672,922</u>	<u>679,719</u>
As at December 31, 2003	<u>2,551,113</u>	<u>3,717,092</u>	<u>6,268,205</u>

20. Long-term investments in bonds

Item	Maturity Date	Face Value	Cost	Interest Rate p.a.	Interest Accrued for Current Year	Cumulative Interest Accrued	Total
Treasury Note ' 2000 (in documentary form)	2005-03/2005-09	126,692	126,692	3.14	3,171	12,873	139,565
Treasury Note ' 2001 (in documentary form)	2006-03/2006-09	36,135	36,135	3.14	2,203	2,681	38,816
Treasury Note ' 2002 (in documentary form)	2005-03/2007-11	283,479	283,479	2.07-2.74	5,745	8,730	292,209
Treasury Note ' 2003	2005-11/	325,474	326,011	2.25-2.63	2,363	3,603	329,614

(in documentary form)	2008-11							
Treasury Bond 696	2006-6-14	200,010	241,684	11.83	25,139	-	241,684	
Treasury Note ' 99	2006-02/2009-04	1,890,000	1,893,376	3.18-4.88	64,206	-	1,893,376	
(in account form)								
Treasury Note ' 2000	2005-06/2010-09	2,717,000	2,718,906	2.44-3.5	63,349	-	2,718,906	
(in account form)								
Treasury Note ' 2001	2006-07/2021-10	5,085,000	5,086,149	2.86-4.69	110,369	-	5,086,149	
(in account form)								
Treasury Note ' 2002	2005-06/2012-07	4,340,000	4,332,117	1.90-2.93	69,557	-	4,332,117	
(in account form)								
Treasury Note ' 2003	2005-11/2023-04	3,470,000	3,470,639	2.32-3.4	41,820	-	3,470,639	
(in account form)								
Bonds issued by the National Development Bank	2005-08/2022-05	6,065,000	6,038,914	0-4.31	108,078	-	6,038,914	
Bonds issued by the Import & Export Bank	2008-11/2012-11	890,000	888,586	3.48-3.7	22,424	-	888,586	
Special Treasury Bond ' 98	2005-5-18	2,503,040	2,503,040	6.8	148,872	-	2,503,040	
Treasury bonds expressed in foreign currencies	2005/7~2006/1	573,652	609,067	1.72-9	18,648	-	609,067	
FRN bond	2005/03~2012/3	1,103,822	1,101,941	1.04-6.38	578	-	1,101,941	
Other bonds in foreign currencies	2005/6~2005/2/12	<u>906,628</u>	<u>905,995</u>	1.78-13	<u>2,014</u>	<u>-</u>	<u>905,995</u>	
Total		<u>30,515,932</u>	<u>30,562,731</u>		<u>688,536</u>	<u>27,887</u>	<u>30,590,618</u>	

Note: Within the aforesaid balance as at December 31, 2003, there is treasury bill amounting to RMB ¥ 2.457 billion has been put in pledge for repurchase agreements.

21. Long-term equity investment

(1) Details are as follows:

Item	Gross net carrying value as at December 31, 2002	Net carrying value as at December 31, 2002	Increase	Decrease	December 31, 2003	Provision for Impairment	Net book value
No significant influence over investee	<u>455,870</u>	<u>451,311</u>	<u>-</u>	<u>3,248</u>	<u>452,622</u>	<u>4,559</u>	<u>448,063</u>

(2) Equity investments meeting one of the following criteria can be detailed as follows: (A) The Company holds less than 20% of the voting shares or equity capital of the investee; or (B) although the Company holds 20% or more, but can not exert significant influence over the investee

Name of Investee	Term of Investment (in years)	Proportions of shares hold by the Company to total shares outstanding	December 31,2003	December 31,2002
First Sino Bank ⁽¹⁾	30	10%	84,319	87,567
Shenlian Investment Co., Ltd.	None	16.5%	288,303	288,303
China Joint-bank Co., Ltd.	None	4.85%	<u>80,000</u>	<u>80,000</u>
Total			<u>452,622</u>	<u>455,870</u>

Note (1) The decrease represents the profit distribution out of the profits made before 2001, since the equity method was adopted before 2001, the amount received was off set against the investment cost.

(3) Provision for impairment of long-term investments

The ending balance of provision for impairment of long-term investments is adjusted to 1% of the original investment cost of long-term equity investments.

	December 31,2002	December 31,2003
Balance	<u>4,559</u>	<u>4,559</u>

22. Fixed assets – cost and accumulated depreciation

Item	Fixed Assets – cost			
	December 31,2002	Increase	Decrease	December 31,2003
Buildings and constructions	3,289,612	320,812	11,537	3,598,887
Transportation facilities	212,515	13,817	16,806	209,526
Computers	894,373	276,995	194,849	976,519
Electronic equipment	81,887	23,824	15,084	90,627
Office equipment	70,819	36,325	5,926	101,218
Improvement of fixed assets	<u>717,020</u>	<u>106,620</u>	<u>42,065</u>	<u>781,575</u>
Total	<u>5,266,226</u>	<u>778,393</u>	<u>286,267</u>	<u>5,758,352</u>

Item	Fixed Assets - accumulated depreciation			
	December 31,2002	Increase	Decrease	December 31,2003
Buildings and constructions	298,142	104,504	1,010	401,636
Transportation facilities	125,646	26,432	12,127	139,951
Computers	547,617	175,614	153,321	569,910
Electronic equipment	47,228	17,358	8,082	56,504
Office equipment	37,336	12,777	1,475	48,638
Improvement of fixed assets	<u>307,042</u>	<u>113,414</u>	<u>31,355</u>	<u>389,101</u>
Total	<u>1,363,011</u>	<u>450,099</u>	<u>207,370</u>	<u>1,605,740</u>

Item	Fixed Assets – net book value	
	December 31,2002	December 31,2003
Buildings and constructions	2,991,470	3,197,251
Transportation facilities	86,869	69,575
Computers	346,756	406,609
Electronic equipment	34,659	34,123
Office equipment	33,483	52,580
Improvement of fixed assets	<u>409,978</u>	<u>392,474</u>
Total	<u>3,903,215</u>	<u>4,152,612</u>

Note: 1. In current period, the value of constructions in progress transferred to fixed assets is RMB ¥ 203,926 thousand.

2. As at December 31, 2003, fixed assets were not impaired, thus no provision is made for such impairment.

3. Reconciliation of the carrying amount of fixed assets at the beginning and end of the fiscal year 2003

① Original cost of fixed assets	
Balance as at January 1, 2003	5,266,226
Add:	
Purchases	449,222
Transfer from construction in progress account	203,926
Others	<u>125,245</u>
Subtotal of increase	778,393
Less: Retirement and disposal	<u>286,267</u>
Balance as at December 31, 2003	<u>5,758,352</u>
ii. Accumulated depreciation	
Balance as at January 1, 2003	1,363,011
Add: Depreciation provided	450,099
Less: Retirement and disposal	<u>207,370</u>
Balance as at December 31, 2003	<u>1,605,740</u>

23. Constructions in progress

Project name	Budgeted cost	Percentage of completion %	Source of funds	December 31,2002	Increase	Decrease	December 31,2003
Building of Chong Qing branch	55,000	100%	Self-raised Fund	55,028	57	-	55,085
Building of Wenhui sub-branch, Hangzhou			Self-raised Fund	18,791	557	19,348	-
Office Building of Beijing sub-branch			Self-raised Fund	65,848	108,560	174,408	-
Information center	170,000	83%	Self-raised Fund	60,821	79,479	-	140,300
Project 628	134,120	37%	Self-raised	43,299	6,346	-	49,645

Others	<u>33,826</u>	92% Self-raised Fund	<u>11,479</u>	<u>19,658</u>	<u>10,170</u>	<u>20,967</u>
Total	<u>392,946</u>		<u>255,266</u>	<u>214,657</u>	<u>203,926</u>	<u>265,997</u>

Notes: (1) No interest was capitalized on construction projects.

(2) As at December 31, 2002, constructions in progress were not impaired, thus no provision is made for such impairments.

(3) The assets transferred to fixed assets in the reporting year amounted to RMB ¥203,926 thousand.

24. Intangible assets

Item	Method of Acquisition	Original Cost	December 31, 2002	Increase	Decrease	Amortization	Accumulated Amortization	December 31, 2003	Remaining amortization period (in years)
Occupancy right of office buildings	Purchase	165,340	129,218	20,839	10,925	6,987	33,195	132,145	20.5-2
Franchise	Purchase	38,411	31,118	-	20	7,685	14,998	23,413	
Land use right	Purchase	36,100	33,750	7,270	6,585	1,728	3,393	32,707	43.5-44.
Computer software	Purchase	23,946	15,664	4,055	106	5,643	9,976	13,970	1.
Others	Purchase	<u>1,050</u>	<u>608</u>	<u>400</u>	<u>-</u>	<u>198</u>	<u>240</u>	<u>810</u>	3.5-4.
Total		<u>264,847</u>	<u>210,358</u>	<u>32,564</u>	<u>17,636</u>	<u>22,241</u>	<u>61,802</u>	<u>203,045</u>	

Note: At the end of the year 2003, intangible assets were not impaired.

25. Long-term deferred charges

Item	Original cost	December 31, 2002	Increase	Decrease	Amortization	Accumulated Amortization	December 31, 2003	Remaining amortization period (in years)
Rentals	20,116	6,173	4,590	1,143	6,125	16,621	3,495	0.5-9.5
Others	<u>13,873</u>	<u>3,830</u>	<u>9,723</u>	<u>1,309</u>	<u>3,494</u>	<u>5,123</u>	<u>8,750</u>	0.5-4
Total	<u>33,989</u>	<u>10,003</u>	<u>14,313</u>	<u>2,452</u>	<u>9,619</u>	<u>21,744</u>	<u>12,245</u>	

26. Assets received from insolvent debtors to be disposed of

Description	December 31, 2003			December 31, 2002		
	Original Cost	Provision for impairment	Net book value	Original Cost	Provision for impairment	Net book value

Real estate	469,545	224,327	245,218	152,867	-	152,867
Shares owned by domestic legal person	4,900	530	4,370	900	330	570
Others	<u>11,690</u>	<u>5,638</u>	<u>6,052</u>	<u>17,254</u>	<u>3,611</u>	<u>13,643</u>
Total	<u>486,135</u>	<u>230,495</u>	<u>255,640</u>	<u>171,021</u>	<u>3,941</u>	<u>167,080</u>

27. Other long-term assets

Item	December 31,2003	December 31,2002
Centralized syndicate loans	447,313	-
Accounts receivable-Shanghai Wai Gaoqiao (Group) Co. Ltd. (Note)	-	62,142
Long-term interests receivable	141,444	101,444
Others	<u>58</u>	<u>1,492</u>
Total	<u>588,815</u>	<u>165,078</u>

28. Deferred tax-debit

Items	December 31,2002	Increase	Write-offs	December 31,2003
Bad loans provision				
Bad debts provision	1,207,816	386,579	-	1,594,395
Assets received from insolvent debtors provision	39,686	22,610	427	61,869
Start-up expenses amortization	1,301	74,763	-	76,064
Long-term assets amortization	13,522	-3,708	2,234	7,580
	<u>2,360</u>	<u>3,057</u>	<u>1,131</u>	<u>4,286</u>
Total	<u>1,264,685</u>	<u>483,301</u>	<u>3,792</u>	<u>1,744,194</u>

Note: Deferred tax is resulted from the timing difference between income tax expense as determined based on accounting profit and actual income tax payable as determined in accordance with tax laws and regulations. In determining accounting profit, provision for bad loans is based on grouping of loans into five categories by risk levels, bad debts provision and provisions for impairment of assets received from insolvent debtors are determined using specific identification method, provision for impairment of assets received from insolvent debtors and organization expenses of branches and sub-branches are written off immediately

when the branch or sub-branch starts operation, whereas such provisions and write-offs cannot be deducted in full from taxable income while determining taxable income.

29. Due to banks

Description	December 31,2003	December 31,2002
Banks	2,969,376	2,389,872
Security companies	8,111,020	10,914,392
Non-bank financial institutions	<u>5,199,859</u>	<u>1,937,145</u>
Total	<u>16,280,255</u>	<u>15,241,409</u>

30. Inter-bank borrowings

Item	December 31,2003	December 31,2002
From domestic banks	2,600,000	500,000
From foreign banks	<u>455,379</u>	<u>45,525</u>
Total	<u>3,055,379</u>	<u>545,525</u>

31. Short-term guarantee deposit

Items	December 31,2003	December 31,2002
Deposits for accepted drafts	49,400,498	26,528,040
Deposits made by applicants of letters of credit (L/Cs)	2,178,786	2,020,926
Deposits made by applicants of letters of guarantee (L/Gs)	1,634,805	637,545
Deposits in foreign currencies for pledged loans in Renminbi	859,243	1,037,438
Others	<u>1,690,218</u>	<u>2,424,320</u>
Total	<u>55,763,550</u>	<u>32,648,269</u>

32. Reverse repurchase agreements

<u>Trading counterpart</u>	December 31,2003	December 31,2002
Central bank	546,969	-
Commercial banks	4,337,753	4,324,739
Credit unions	807,900	-
Trust investment companies	<u>150,000</u>	-
Sub-total	<u>5,842,622</u>	<u>4,324,739</u>

Securities

Treasury bills	<u>3,428,500</u>	<u>100,000</u>
Sub -total	<u>3,428,500</u>	<u>100,000</u>
Total	<u>9,271,122</u>	<u>4,424,739</u>

33. Designated deposit/loan

(1) Designated deposit

	December 31,2003	December 31,2002
Designated deposit	11,029,889	6,427,766
Less: designated loan	<u>10,916,082</u>	<u>6,352,783</u>
Net value of designated deposit	<u>113,807</u>	<u>74,983</u>

(3) Security investment funds under the Company's custody

As of December 31, 2003, the security investment funds under the Company's custody are Guo Tai Jin Long series security investment funds managed by Guo Tai Fund Management Co., Ltd.

34. Taxes payable

Items	December 31,2003	December 31,2002
Business tax	184,630	170,289
City maintenance and construction tax	12,286	10,098
Corporate income tax (Note)	1,120,982	458,400
Real estate tax	7	114
Surcharges for education	6,670	4,222
Others	<u>2,227</u>	<u>5,303</u>
Total	<u>1,326,802</u>	<u>648,426</u>

Note: The branches outside Shanghai are all independent local taxpayers. They make tax prepayments at 60% of total taxes payable separately to local taxation authorities. At the end of each year, the headquarters of the Company will calculate and settle the taxes payable by the Company as a whole. The statutory rate of corporate income tax applicable to the Company is 33%.

35. Dividends payable

Items	December 31,2003	December 31,2002
Dividend declared out of net	14,985	15,770

profits for previous years not yet paid

Note: The amount declared at the end of 2002 is RMB 407,270 thousand which is different from that declared at the beginning of 2003. The difference is RMB 391,500. Please refer to note 45 for reasons.

36. Other payables

Item	December 31,2003	December 31,2002
Promissory notes	1,389,164	1,426,231
Settlement funds	592,394	490,001
Temporary credits received	328,675	177,618
Others	<u>1,170,603</u>	<u>938,062</u>
Total	<u>3,480,836</u>	<u>3,031,912</u>

Notes: Within the aforesaid balance, there was no amount due to shareholders which hold 5% or more of the Company's shares.

37. Deferred income

Item	December 31,2003	December 31,2002
Discounting interest	316,047	-
Reverse repo	44,164	-
Factoring	<u>4,277</u>	=
Total	<u>364,488</u>	=

38. Other current liabilities

Item	December 31,2003	December 31,2002
Amounts arising from acting as an agent for transactions related to investment funds	1,734	10
Social security fund	130,925	287,399
Amounts arising from acting as an agent for transactions related to scarce metal	154	-
Others	<u>170</u>	<u>-</u>
Total	<u>132,983</u>	<u>287,409</u>

39. Long-term guarantee deposit

Item	December 31,2003	December 31,2002
Deposits made by applicants of letters of credit (L/Cs)	176,928	106,273
Deposits made by applicants of letters of guarantee (L/Gs)	76,539	124,533
Others	<u>754,436</u>	<u>1,463,464</u>
Total	<u>1,007,903</u>	<u>1,694,270</u>

40. Other long-term liabilities

Item	December 31,2003	December 31,2002
Funds covering centralized syndicate loans	447,313	-
Funds covering other agency businesses	<u>210,737</u>	<u>137,664</u>
Total	<u>658,050</u>	<u>137,664</u>

41. Share capital

	December 31, 2002	%	Increase (decrease) in current year	Dec 31, 2003	%
I. Non-marketable portion					
1. Shares owned by sponsors	1,183,500	32.74%	-72,300	1,111,200	28.38%
Including:					
(1) Shares owned by the State	-	-	-	-	-
(2) Shares owned by domestic legal person	1,183,500	32.74%	-72,300	1,111,200	28.38%
(3) Shares owned by foreign legal person	-	-	-	-	-
(4) Others	-	-	-	-	-
2. Shares owned by legal person other than sponsors	1,831,500	50.66%	72,300	1,903,800	48.63%
(1) Shares owned by the State	388,110	10.73%	-108,450	279,660	7.14%
(2) Shares owned by domestic legal person	1,443,390	39.93%	-	1,443,390	36.87%
(3) Shares owned by foreign legal person	-	-	180,750	180,750	4.62%
3. Shares owned by staff	-	-	-	-	-
4. Preferred shares and other non-marketable shares	-	-	-	-	-
Total non-marketable portion	<u>3,015,000</u>	<u>83.40%</u>	<u>-</u>	<u>3,015,000</u>	<u>77.01%</u>

II. Marketable portion					
1.Common shares quoted in Renminbi in PRC stock markets (Share A)	600,000	16.60%	300,000	900,000	22.99%
2.Common shares quoted in foreign currencies in PRC stock markets (Share B)	-	-	-	-	-
3.Common shares quoted in foreign currency and listed in stock markets outside PRC	-	-	-	-	-
4.others	-	-	-	-	-
Total marketable portion	<u>600,000</u>	<u>16.60%</u>	<u>300,000</u>	<u>900,000</u>	<u>22.99%</u>
III. Total	<u>3,615,000</u>	<u>100.00%</u>	<u>300,000</u>	<u>3,915,000</u>	<u>100.00%</u>

Note:

- As approved by the CSRC, who issued approval document of ZJGSZ [2002] No. 135, the Company issued additional A share of 300,000,000 shares on December 23, 2002. The newly issued shares were priced at RMB ¥ 8.45 per share. The issue was completed on January 13, 2003, which has been verified by the Ernst & Yong Da Hua Certified Public Accountants by issuing the capital verification report EYDH (2003) No. 016.
- Transfers made by shareholders holding more than 5% of the Company in the reporting period
 - Shanghai State-owned Assets Operating & Management Co., Ltd. transferred 108,450,000 non-marketable shares to Citibank Overseas Investment Corporation as stated in the equity interest transfer contract.
 - Shanghai Jiushi Company transferred 72,300,000 non-marketable shares to Citibank Overseas Investment Corporation as stated in the equity interest transfer contract.
The above-mentioned transfers have been approved by State-owned Assets Management and Supervision Committee of the State Council. The transfer procedures have been completed on September 30, 2003. After the transfer, Citibank Overseas Investment Corporation holds 180,750,000 shares, accounting for 4.62% of the total share capital of the Company.
 - Shanghai Jinjiang (Group) Co., Ltd. transferred 22,500,000 non-marketable shares to Shanghai International Trust Investment Co., Ltd. as stated in the equity interest transfer contract.
 - Shanghai Jinqiao Export Processing Zone Development Co., Ltd. transferred 60,000,000 shares (comprising of 30,000,000 shares owned by domestic legal persons and 30,000,000 shares owned by

other legal persons) to Shanghai International Trust Investment Co., Ltd. as stated in the equity interest transfer contract.

- (5) Shanghai City Construction Investment Development Co., Ltd. transferred 57,000,000 shares to Shanghai International Group Co., Ltd. as stated in the equity interest transfer contract.

The above-mentioned transfers have been approved by State-owned Assets Management and Supervision Committee of the State Council. The transfer procedures are still in process.

42. Capital surplus

Item	Excess of contributed capital over par value	Transferred in from other capital reserve items	Translation difference of capital of investees in foreign currencies	Total
Balance as at Jan.1, 2002	2,663,466	21,726	-155	2,685,037
Increase (Decrease) in current reporting period	<u>2,184,359</u>	<u>-</u>	<u>-</u>	<u>2,184,359</u>
Balance as at December 31,2003	<u>4,847,825</u>	<u>21,726</u>	<u>-155</u>	<u>4,869,396</u>

Note: The reason for the increase RMB 2,184,359 thousand is detailed in note 41.

43. Revenue reserves

Items	Statutory revenue reserve	Reserve for welfare of employees	Discretionary revenue reserve	Total
Balance as at January 1, 2003	434,957	316,989	370,829	1,122,775
Appropriations out of net profit for current year	<u>156,609</u>	<u>156,609</u>	<u>156,609</u>	<u>469,827</u>
Balance as at December 31, 2003	<u>591,566</u>	<u>473,598</u>	<u>527,438</u>	<u>1,592,602</u>

44. General provisions

Item	December 31,2002	Increase	Decrease	December 31,2003
General provision	<u>500,000</u>	<u>650,000</u>		<u>1,150,000</u>

45. Undistributed profits

Item	Amount
Balance of undistributed profits as at December 31, 2002 (as disclosed in the 2002 annual report)	37,664
Retrospective adjustment for dividends declared upon an informal scheme ⁽¹⁾	<u>391,500</u>
Adjusted opening balance of undistributed profits	429,164
Add: Net profit for the year 2003	<u>1,566,089</u>
Less: Appropriations to statutory revenue reserve	156,609
Appropriations to reserve for public welfare fund	156,609
Appropriations to general provisions	650,000
Appropriations to discretionary revenue reserve	156,609
Dividends declared on ordinary shares for the year 2002 ⁽¹⁾	<u>391,500</u>
Balance of undistributed profits as at December 31, 2003	<u>483,926</u>

(1) The appropriation and distribution of profits in the year 2002 are detailed as follows:

In accordance with the Companies Law of PRC, as passed at the fifth meeting of the second session of the board of directors an informal scheme for appropriation and distribution of profits for the year 2002 by adopting a resolution, which is detailed as follows:

- to appropriate 10% of profits after tax for the year 2002 to statutory revenue reserve, 10% to reserves for welfare of employees, 10% to discretionary revenue reserve;
- to appropriate RMB ¥ 0.5 billion out of the year 2002 profit to general provision;
- to declare a cash dividend of RMB ¥ 0.10 per share on the share capital, the total number of shares after issuing additional shares being 3.915 billion.

This informal scheme for appropriation and distribution has been approved by shareholders' meeting held on April 28, 2003 and has been completed.

According to the document CK (2003) No. 12, the cash dividend was transferred to dividend payable account at the shareholder's meeting date and retrospective adjustment has been made.

(2) The appropriation and distribution of profits in the reporting year are detailed as follows:

In accordance with the Companies Law of PRC, as passed at the eleventh meeting of the second session of the board of directors an informal scheme for appropriation and distribution of profits for the year 2003 by adopting a resolution, which is detailed as follows:

- to appropriate 10% of profits after tax for the year 2003 to statutory revenue

reserve, 10% to reserves for welfare of employees, 10% to discretionary revenue reserve;

- to appropriate RMB ¥ 0.65 billion out of the current year profit to general provision;
- to declare a cash dividend of RMB ¥0.11 per share on the share capital, the total number of shares after issuing additional shares being 3.915 billion.

This informal scheme for appropriation and distribution is pending approval by shareholders' meeting for the year 2003, therefore the amount is still accounted for in the undistributed profits account.

46. Operating revenue grouped by geographic areas

Geographic area	December 31,2003		December 31,2002	
	Amount	Percentage (%)	Amount	Percentage (%)
Shanghai	3,750,519	31.18%	3,002,544	36.81%
Zhejiang province	1,863,842	15.50%	1,175,570	14.41%
Beijing	893,831	7.43%	820,876	10.06%
Jiangsu province	1,121,702	9.33%	624,601	7.66%
Guangdong province	1,221,861	10.16%	877,541	10.76%
Other districts of PRC	3,160,544	26.28%	1,653,955	20.28%
Off-shore banking	<u>14,938</u>	<u>0.12%</u>	<u>1,372</u>	<u>0.02%</u>
Total	<u>12,027,237</u>	<u>100%</u>	<u>8,156,459</u>	<u>100%</u>

47. Income on investments

Items	Income from investments in bonds	Income from investments in shares	Income from other equity investments	Total
Income from current investments	388,626	-	-	388,626
Income from long-term investments	<u>1,067,320</u>	<u>15,373</u>	=	<u>1,082,693</u>
Total for the year ended December 31, 2003	<u>1,455,946</u>	<u>15,373</u>	=	<u>1,471,319</u>
Income from current investments	310,312	-	-	310,312
Income from long-term investments	<u>935,920</u>	<u>24,116</u>	<u>28,328</u>	<u>988,364</u>
Total for the year ended December 31, 2002	<u>1,246,232</u>	<u>24,116</u>	<u>28,328</u>	<u>1,298,676</u>

48. Business taxes and surcharges

Items	For the year ended December 31,2003	For the year ended December 31,2002
Business tax	540,299	433,008
City maintenance and construction tax	36,069	23,753
Surcharges for education	<u>19,408</u>	<u>12,960</u>
Total	<u>595,776</u>	<u>469,721</u>

Note: The taxes and surcharges applicable to the Company and rates thereof have been disclosed in Note III.

49. Provisions for impairment of assets made

Item	2003	2002
Bad Loans Provision	2,087,000	1,129,362
Bad Debts Provision	78,912	67,465
Provisions for impairment of assets received from insolvent debtors	<u>84,806</u>	<u>3,941</u>
Total	<u>2,250,718</u>	<u>1,200,768</u>

50. Off balance sheet items

Items	December 31,2003	December 31,2002
Banker' s acceptance draft	94,949,445	45,039,517
Acceptance drafts payable	2,404,371	2,510,542
Letters of guarantee for financing purposes	2,459,288	1,328,503
Letters of guarantee not for financing purposes	6,301,286	4,327,962
L/Cs established	7,778,741	6,439,261
Re-discounted Bills	3,296,629	86,800
Trans -discount	14,403,989	10,576,502

51. Derivative financial instruments

Item	December 31,2003	December 31,2002
Nominal value	<u>2,006,697</u>	<u>4,957,592</u>
Market value	<u>109,574</u>	<u>54,674</u>

Including: Financial assets	92,268	112,134
Financial liabilities	201,842	166,808

52. Risk position of the financial instruments

(1) Credit risk

Credit risk is the risk of default by the trading counterparts or the debtors. When all the other side of the trade operate in a single industry or geographic area, the credit risk is relatively high, owing to the fact that they, although different in nature, may be affected by the same economic development factors, and ultimately the capacity to repay may be affected in the same way.

Centralization of credit risk: when a number of clients share the similar economic characters due to the fact that they carry out the same activities, or operate in the same geographic area or the same industry, they are liable to the impact of the same change in economics in terms of capacity of accomplishment of contracts. The degree, to which the centralization of credit risk extends reflects the sensitivity of the Company's performance to a specific industry or geographic area.

Although the Company's operations are limited to China, it is subject to various risks since each of the various geographic areas of China is unique in terms of economic development.

A. On balance sheet assets

a. Loans grouped by industry in which the borrowers operate

Industry	December 31,2003	%	December 31,2002	%
Agriculture, forestry, stockbreeding, fishery	4,129,282	1.62	2,121,348	1.21
Mining Industry	2,022,450	0.79	2,171,797	1.24
Manufacturing	76,948,141	30.17	49,402,739	28.33
Electric power, gas and water	9,710,820	3.81	5,492,531	3.15
Constructions	9,031,258	3.54	5,512,234	3.16
Geological prospecting, irrigation	9,491,750	3.72	1,145,950	0.66
Transportation, warehousing and communications	14,399,520	5.64	14,126,886	8.10
Wholesales, retails and entertainment	35,346,714	13.86	20,952,200	12.02
Financial institutions and insurance	2,813,809	1.10	2,280,190	1.31
Real properties	29,472,825	11.55	22,451,296	12.88
Social services	16,308,094	6.39	4,927,571	2.83
Healthcare, physical culture and social welfare	1,085,191	0.43	1,018,370	0.58
Education, culture and broadcasting	4,745,034	1.86	2,664,310	1.53
Scientific research and technologies	1,413,121	0.55	3,310,306	1.90
Others, including entities engaged in various business activities and government-related organs	<u>38,193,330</u>	<u>14.97</u>	<u>36,799,749</u>	<u>21.10</u>
Total	<u>255,111,339</u>	<u>100</u>	<u>174,377,477</u>	<u>100</u>
Less: Provision for bad loans	<u>6,268,205</u>		<u>4,945,005</u>	
Net	<u>248,843,134</u>		<u>169,432,472</u>	

b. Loans grouped by geographical area in which borrowers are located

Area	December 31,2003		December 31,2002	
	Amount	Percentage (%)	Amount	Percentage (%)
Shanghai	67,920,534	26.62	51,931,702	29.78
Beijing	20,737,650	8.13	14,729,776	8.45
Jiangsu province	26,756,471	10.49	15,230,915	8.73
Zhejiang province	41,065,954	16.10	25,267,876	14.49
Guangdong province	22,400,560	8.78	18,152,570	10.41
Other districts of PRC	75,447,214	29.57	48,745,158	27.95
Off-shore banking	<u>782,956</u>	<u>0.31</u>	<u>319,480</u>	<u>0.19</u>
Total	<u>255,111,339</u>	<u>100</u>	<u>174,377,477</u>	<u>100</u>
Less: bad loans provision	<u>6,268,205</u>		<u>4,945,005</u>	
Net	<u>248,843,134</u>		<u>169,432,472</u>	

B. Derivative financial instrument

All the contracts in connection with the derivative financial instrument of the Company are dealt with at the headquarters in Shanghai. The credit risk lies with the fact that whether the trading counterparts can pay the money in time as stipulated in the contracts, the fair value of which is the amount of repayment of the corresponding assets liabilities in transaction.

To lower the credit risk brought about by the derivative financial instruments, the Company signed principal offset contracts with some trading counterparts. The criteria adopted to assess the credit risk brought about by the derivative financial instruments are the same as those adopted to assess the risks of the other business.

(2) Currency risk

The Company is established in the P.R.C. and operates therein. The recording currency is RMB. The foreign currency transactions are mainly dominated in USD. The exchange rate of RMB and USD is subject to the control and supervision of PBOC, therefore minor fluctuations occurred in the reporting year. The loans and advances of the Company are mainly expressed in RMB, the rest are mainly in USD. However, there are such situations that the foreign currencies other than RMB and USD are adopted in terms of deposits and investments. As a result, the Company enters into hedge transactions to lower the related currency risk.

Item	RMB	USD Into RMB	HKD Into RMB	Others into RMB	Total
Assets					
Cash on hand	821,446	116,890	57,605	85,889	1,081,830
Due from the central bank and other banks	39,656,367	1,814,549	1,629,284	389,399	43,489,599

Loans	236,479,466	10,404,058	122,034	1,837,576	248,843,134
Placements	16,004,637	3,928,438	1,172,600	818,789	21,924,464
Investments	41,572,459	2,960,231	117,260	865,131	45,515,081
Other assets	<u>7,857,198</u>	<u>1,691,572</u>	<u>50,853</u>	<u>602,967</u>	<u>10,202,590</u>
Total assets	<u>342,391,573</u>	<u>20,915,738</u>	<u>3,149,636</u>	<u>4,599,751</u>	<u>371,056,698</u>
Liabilities:					
Deposits	301,281,891	15,010,020	3,054,389	2,767,793	322,114,093
Inter-bank Borrowings	11,705,271	207,234	-	413,996	12,326,501
Due to banks	14,245,916	1,846,019	95,245	93,075	16,280,255
Other liabilities	<u>3,532,664</u>	<u>3,473,049</u>	<u>-</u>	<u>1,319,213</u>	<u>8,324,926</u>
Total liabilities	<u>330,765,742</u>	<u>20,536,322</u>	<u>3,149,634</u>	<u>4,594,077</u>	<u>359,045,775</u>
Net exposure	<u>11,625,831</u>	<u>379,416</u>	<u>2</u>	<u>5,674</u>	<u>12,010,923</u>

(3) Interest rate risk

Most of the financial assets and liabilities of the Company are expressed in RMB. As of December 31, 2003, the details are as follows:

	<u>December 31, 2003</u>			<u>December 31, 2002</u>		
	RMB ('000)	Total equivalent of RMB ('000)	Proportion of RMB to total %	RMB ('000)	Total equivalent of RMB ('000)	Proportion of RMB to total %
Cash on hand and in bank	821,446	1,081,830	75.93	808,381	1,064,503	75.94
Due from the central bank and other banks	39,656,367	43,489,599	91.19	34,988,782	36,096,778	96.93
Loans	236,479,466	248,843,134	95.03	161,030,232	169,432,472	95.04
Placements and reverse repurchase agreement	<u>16,004,637</u>	<u>21,924,464</u>	<u>73.00</u>	<u>16,325,123</u>	<u>24,092,531</u>	67.76
Total assets	<u>292,961,916</u>	<u>315,339,027</u>	<u>92.90</u>	<u>213,152,518</u>	<u>230,686,284</u>	92.40
Liabilities						
Deposits	301,281,891	322,114,093	93.53	227,293,318	243,913,238	93.19
Inter-bank Borrowings	11,705,271	12,326,501	94.96	4,924,739	4,970,264	99.08
Due to banks	<u>14,245,916</u>	<u>16,280,255</u>	<u>87.50</u>	<u>13,334,808</u>	<u>15,241,409</u>	87.49
Total Liabilities	<u>327,233,078</u>	<u>350,720,849</u>	<u>93.30</u>	<u>245,552,865</u>	<u>264,124,911</u>	92.97

The Company provides loan and deposit services based on the interest rates determined by PBOC, which adjusted the rates on February 2, 2002. The details are as follows:

Adopted from February 21, 2002
on

Short-term loans and advances	5.04 to 5.31
Mid-term and long-term loans	5.49 to 5.76
Overdue loans	2.1
Demand deposits of individual consumers and enterprises	0.72
Time deposits of individual consumers (maturing within one to five years)	1.71 to 2.79
Enterprise call deposit (one to seven days call)	1.08 to 1.62
Enterprise term deposits	1.44 to 1.98
Balances with central bank	
Deposits	1.89
Rediscount	2.97

As stipulated by PBOC, the upward float range of loan interest may be extended to 30% and the downward float range is 10%.

Discount rate is decided on the basis of rediscount rate plus certain percentage. However, it cannot exceed the credit interest rate of the same grade (floating included).

The interest rates on the inter-bank lending and borrowing can be negotiated between the lender and the borrower, generally decided on the basis of enterprises deposit interest rates and loan interests. There is normally no interest rate difference between that on the lending and borrowing in the money market.

Upon the approval of the State Council, PBOC decided on December 10, 2003 to expand the float range of loan interests for financial institutions and lower the deposit interest rate for excessive deposit reserve. From January 1, 2004 on, the upward float range of loan interest for commercial banks and city credit unions was expanded to 1.7 times of the basic loan interest rate determined by PBOC; that for country credit unions was expanded to 2 times of the basic loan interest rate determined by PBOC; while the downward float range for financial institutions remains 0.9 times of the basic loan interest rate determined by PBOC. From December 21, 2003, the deposit interest rate for excessive deposit reserve was lowered from 1.89% to 1.62% and that for the statutory deposit reserve remains 1.89%.

(4) Liquidity risk

	Overdue	Repaid on time	Within 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Assets							
Cash on hand and in bank	-	1,081,830	-	-	-	-	1,081,830
Due from the central bank and other banks	-	43,489,599	-	-	-	-	43,489,599
Placements and reverse repurchase agreement	381,443	-	18,023,724	3,463,397	55,900	-	21,924,464
Investment	-	7,918,407	437,347	6,110,155	17,898,572	13,150,600	45,515,081
Loans	4,837,770	-	46,541,610	148,323,023	31,767,792	17,372,939	248,843,134
Others	<u>19,909</u>	<u>690,557</u>	<u>694,701</u>	<u>432,713</u>	<u>2,084,318</u>	<u>6,280,392</u>	<u>10,202,590</u>

Total assets	<u>5,239,122</u>	<u>53,180,393</u>	<u>65,697,382</u>	<u>158,329,288</u>	<u>51,806,582</u>	<u>36,803,931</u>	<u>371,056,698</u>
Liabilities							
Deposits	-	170,767,983	31,686,599	95,458,078	15,843,939	8,357,494	322,114,093
Inter-bank Borrowings	-	-	10,151,266	2,175,235	-	-	12,326,501
Due to banks	-	14,851,054	556,078	854,669	18,454	-	16,280,255
Others	-	<u>5,594,044</u>	<u>443,476</u>	<u>799,838</u>	<u>1,238,020</u>	<u>249,548</u>	<u>8,324,926</u>
Total liabilities	-	<u>191,213,081</u>	<u>42,837,419</u>	<u>99,287,820</u>	<u>17,100,413</u>	<u>8,607,042</u>	<u>359,045,775</u>
Net	<u>5,239,122</u>	<u>(138,032,688)</u>	<u>22,859,963</u>	<u>59,041,468</u>	<u>34,706,169</u>	<u>28,196,889</u>	<u>12,010,923</u>

53. Opening and closing balances of cash and cash equivalents

	As at December 31, 2003	As at December 31, 2002
Cash on hand and in bank	1,081,830	1,062,871
Due from central bank	20,253,284	22,117,103
Due from banks	5,627,938	2,968,051
Inter-bank placements maturing within 3 months	6,755,977	4,801,236
Reverse repurchase agreement maturing within 3 months	<u>6,637,543</u>	<u>5,473,247</u>
Total	<u>40,356,572</u>	<u>36,422,508</u>

V Related parties

Related parties without effective control

(1) Related parties without effective control

Name	Relationship with the Company
Shanghai Industry (Group) Co., Ltd.	Shareholder of the Company
Shanghai International Trust Investment Company	Shareholder of the Company
Shanghai International Group Co., Ltd.	Shareholder of the Company
Shanghai Industry Development Co., Ltd.	Shareholder of the Company
SIIC Shanghai International (Group) Co., Ltd.	Shareholder of the Company

(2) Transactions with related parties without effective control

Name	2003 Interest income	2002 Interest income
Shanghai Industry (Group) Co., Ltd.	854	1,279
Shanghai International Trust Investment Company	38	-

Shanghai Industry Development Co., Ltd.	211	-
SIIC Shanghai International (Group) Co., Ltd.	2,941	106

Note: The loans and placements mentioned above were made at the interest rates as specified by PBOC and the general business terms.

(3) Balance of loans and placements with to related parties without effective control

Name of Company	December 31,2003	December 31,2002
	Amount	Amount
Shanghai Industry (Group) Co., Ltd.	24,830	41,386
Shanghai International Trust Investment Company	100,000	-
Shanghai Industry Development Co., Ltd.	18,000	-
SIIC Shanghai International (Group) Co., Ltd.	13,239	13,153

VI Contingencies

As of the date on which the financial statements were approved, there is no material pending litigation in which the Company acts as a defendant.

VII Commitments

1. As at December 31, 2003, operating lease commitments for premises and equipment are detailed as follows:

Maturity date for rentals	December 31,2003	December 31,2002
Within 1 year	159,463	189,170
2 – 5 years	427,734	530,189
Over 5 years	<u>176,775</u>	<u>132,519</u>
Total	<u>763,972</u>	<u>851,878</u>

2. As of December 31, 2002, the major capital commitment of the Company which had been approved yet not honored is RMB ¥ 136,960 thousand.

VIII Non-adjusting post balance sheet date events

The Company treats the cash dividends in connection with the reporting period in the informal scheme of profit appropriation and distribution passed at the board of directors' meeting after the balance sheet date as a non-adjusting issue. Please refer to note 45 for details.

IX Debt restructuring

As at the date of the balance sheet, there exists no significant debt restructuring that needs disclosure.

X Non-monetary transactions

As at the date of the balance sheet, there exists no significant non-monetary transaction that needs disclosure.

XI Other matters and events that need disclosure

1. Convertible bonds

On December 12, 2003, as approved by the first ad hoc shareholders' meeting held in 2003, the Company is to issue convertible bonds valuing not exceeding RMB ¥ 6 billion. The related application is still in process.

2. Subordinating term liabilities

As passed at the eleventh meeting of the second session of the board of director's meeting held on February 25, 2004, the Company planned to issue subordinating term liabilities (not exceeding RMB ¥ 6 billion), which is pending approval from the shareholders' meeting. In case that the issuance is successful, the amount received shall be credited to subordinating capital to improve the adequacy of capital of the Company in accordance with the *Notification on Crediting the Subordinating Term Liabilities to Subordinating Capital by China Banking Supervision and Management Committee*.

3. Investments in domestic non-bank financial institutions and enterprises disposed of

As stipulated in the Commercial Bank Law of the P.R.C. which came into force on July 1, 1995, the Company cannot invest in domestic non-bank financial institutions and enterprises, and investments of the Company made in non-bank financial institutions and enterprises before the Law became effective should be disposed of. Disposal method for these investments should be specifically prescribed by the State Council. The following investments made by the Company have been disposed of in 2002:

Name of investee	Date of capital contribution	Amount of investment	Balance before disposal
Shanghai Outer Gaoqiao Free Trade Zone New Development Co., Ltd.	July 11, 1994	<u>182.770</u>	<u>182.770</u>

On February 6, 2002, the Company entered into an agreement ("the Agreement") with Shanghai Outer Gaoqiao (Holdings) Co., Ltd. on disposal of its equity

interests in Shanghai Outer Gaoqiao Free Trade Zone New Development Co., Ltd., whereby the Company shall sell all of its equity investments therein (namely 48% of total capital of that company) to Shanghai Outer Gaoqiao (Holding) Co., Ltd. at a consideration of RMB ¥ 182,770,000. And Shanghai Outer Gaoqiao (Holdings) Co., Ltd. will put the aforesaid equity interests in pledge to the Company to finance the purchase, the payment for which will be made in several installments with the last installment to be settled on or before November 30, 2004.

Up to December 31, 2003, the equity investment of the Company in Shanghai Outer Gaoqiao Free Trade Zone New Development Co., Ltd. has been transferred to Shanghai Outer Gaoqiao (Holdings) Co., Ltd., and the change in ownership has been registered and completed with the administration authority of industry and commerce. Meanwhile, the Company has received the first installment of consideration therefore, namely RMB ¥ 120,628 thousand, as prescribed in the Agreement. The considerations unsettled at the end of year 2003 (RMB ¥ 62,142 thousand) were reflected in the other receivables account in the balance sheet as classified by the scheduled settlement date.

4. Impact of non-recurring profits and losses on the net profits

Item	2003	2002
Recovery of amounts not yet written off	36,314	34,420
Non-operating income	9,969	16,393
Less: non-operating expenditure	<u>15,885</u>	<u>11,345</u>
Total	<u>30,398</u>	<u>39,468</u>

XII Approval of Financial Statements

The financial statements and notes related thereto were approved for issue by the Board of Directors on February 25, 2004.

Audited Financial Statements

Shanghai Pudong Development Bank Co., Ltd

31 December 2003

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD

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REPORT OF THE INTERNATIONAL AUDITORS

To the members
Shanghai Pudong Development Bank Co., Ltd

We have audited the accompanying balance sheet of Shanghai Pudong Development Bank Co., Ltd (the "Company") as of 31 December 2003, together with the related statements of income and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

In our opinion, the financial statements give a true and fair view of the Company's financial position as of 31 December 2003 and of its results and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Hong Kong
25 February 2004

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD

BALANCE SHEET

At the year ended 31 December 2003

	Notes	31 December 2003 RMB' 000	31 December 2002 RMB' 000
ASSETS			
Cash on hand		1,081,830	1,062,872
Due from the central bank	11	37,861,661	33,128,727
Inter-bank placements	12	7,093,477	10,347,319
Due from banks	13a	5,672,438	3,222,261
Reverse repurchase agreements	14	14,061,144	12,579,702
Trading securities	15	7,483,684	9,554,225
Loans, net of allowance for credit losses	13a	249,568,476	170,343,771
Financial investments	15	38,113,667	31,354,254
Construction in progress	16	265,997	255,266
Property, plant and equipment	17	4,166,583	3,918,879
Intangible assets	18	189,074	194,694
Other assets	19	<u>5,275,458</u>	<u>3,778,783</u>
TOTAL ASSETS		<u>370,833,489</u>	<u>279,740,753</u>
LIABILITIES			
Inter-bank borrowings	12	3,055,379	545,525
Due to banks	20	16,280,255	15,241,409
Repurchase agreements	14	9,271,122	4,424,739
Due to customers	20	321,065,463	242,262,258
Inward and outward remittances		2,171,303	3,286,374
Dividends payable	21	14,985	15,770
Other liabilities	22	<u>6,870,617</u>	<u>5,532,263</u>
TOTAL LIABILITIES		<u>358,729,124</u>	<u>271,308,338</u>
SHAREHOLDERS' EQUITY			
Share capital	23	3,915,000	3,615,000
Share premium		4,869,396	2,685,037
Reserves	24	2,384,208	1,292,459
Retained earnings	25	<u>935,761</u>	<u>839,919</u>
TOTAL SHAREHOLDERS' EQUITY		<u>12,104,365</u>	<u>8,432,415</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>370,833,489</u>	<u>279,740,753</u>

The accounting policies and explanatory notes on pages 6 through 41 form an integral part of the financial statements.

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD

INCOME STATEMENT

For the year ended 31 December 2003

	Notes	2003 RMB' 000	2002 RMB' 000
OPERATING REVENUE			
Interest income	4	12,694,183	8,591,193
Interest expense	4	<u>4,864,681</u>	<u>3,272,143</u>
Net interest income	4	7,829,502	5,319,050
Business tax and surcharges		595,776	469,721
Credit loss expense	13b	<u>2,098,281</u>	<u>1,129,362</u>
Net interest income after business tax and surcharges and credit loss expense		5,135,445	3,719,967
Net fee and commission income	5	225,575	161,609
Net trading income	6	257,120	319,196
Other income	7	<u>286,660</u>	<u>268,717</u>
TOTAL OPERATING INCOME		<u>5,904,800</u>	<u>4,469,489</u>
OPERATING EXPENSES			
Personnel	8	1,543,989	1,116,100
General and administrative	8	1,525,290	1,130,773
Depreciation and amortization	8	<u>472,340</u>	<u>420,486</u>
	8	<u>3,541,619</u>	<u>2,667,359</u>
OPERATING PROFIT BEFORE TAX		2,363,181	1,802,130
Income tax expense	9	<u>(784,090)</u>	<u>(560,118)</u>
NET PROFIT		<u>1,579,091</u>	<u>1,242,012</u>
EARNINGS PER SHARE			
Basic earnings per share (RMB)	10	0.40	0.34
Diluted earnings per share (RMB)	10	0.40	0.34

The accounting policies and explanatory notes on pages 6 through 41 form an integral part of the financial statements.

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2003

	Notes	2003 RMB' 000	2002 RMB' 000
SHARE CAPITAL			
Balance at beginning of year	23	3,615,000	2,410,000
Additions	23	<u>300,000</u>	<u>1,205,000</u>
Balance at end of year	23	<u>3,915,000</u>	<u>3,615,000</u>
SHARE PREMIUM			
Balance at beginning of year		2,685,037	3,890,037
Transfer to share capital	23	<u>2,184,359</u>	<u>(1,205,000)</u>
Balance at end of year		<u>4,869,396</u>	<u>2,685,037</u>
RESERVES			
Balance at beginning of the year	24	1,292,459	462,333
Transfer from retained earnings	24	<u>1,091,749</u>	<u>830,126</u>
Balance at end of year	24	<u>2,384,208</u>	<u>1,292,459</u>
RETAINED EARNINGS			
Balance at beginning of year		839,919	910,033
Net profit for the year		1,579,091	1,242,012
Transfer to reserves	24	(1,091,749)	(830,126)
Dividends	25a	<u>(391,500)</u>	<u>(482,000)</u>
Balance at end of year		<u>935,761</u>	<u>839,919</u>
TOTAL SHAREHOLDERS' EQUITY		<u><u>12,104,365</u></u>	<u><u>8,432,415</u></u>

The accounting policies and explanatory notes on pages 6 through 41 form an integral part of the financial statements.

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD

STATEMENT OF CASH FLOWS

For the year ended 31 December 2003

	Notes	2003 RMB' 000	2002 RMB' 000
NET CASH FLOWS FROM OPERATING ACTIVITIES	26	6,520,103	19,702,005
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(453,279)	(492,826)
Purchase of intangible assets		(28,509)	(13,242)
Purchase of financial investments		(8,699,698)	(9,418,798)
Purchase of equity investments		-	(54,850)
Proceeds from maturity of financial investments		4,584,807	5,082,824
Proceeds from disposal of equity investments		63,562	60,314
Dividend income received		15,372	24,117
Proceeds from disposal of property, plant and equipment		36,664	47,913
Proceeds from disposal of intangible assets		17,625	-
Payments for constructions in progress		<u>(214,657)</u>	<u>(153,879)</u>
Net cash flows used in investing activities		<u>(4,678,113)</u>	<u>(4,918,427)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of additional public share		2,484,358	-
Dividends paid		<u>(392,285)</u>	<u>(466,740)</u>
Net cash flows received from/(used in) financing activities		<u>2,092,073</u>	<u>(466,740)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS		3,934,063	14,316,838
Cash and cash equivalents, beginning of year		<u>36,422,509</u>	<u>22,105,671</u>
Cash and cash equivalents, end of year		<u>40,356,572</u>	<u>36,422,509</u>
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Cash on hand		1,081,830	1,062,872
General deposits with the central bank		20,253,284	22,117,103
Due from banks		5,627,938	2,968,051
Inter-bank placements maturing in less than three months		6,755,978	4,801,236
Reverse repurchase agreements in less than three months		<u>6,637,542</u>	<u>5,473,247</u>
		<u>40,356,572</u>	<u>36,422,509</u>

The accounting policies and explanatory notes on pages 6 through 41 form an integral part of the financial statements.

1. CORPORATE INFORMATION

Shanghai Pudong Development Bank Co., Ltd (the “Company”) is a joint-stock commercial bank approved by the People’s Bank of China (“PBOC”), who issued the document “Ying Fu [1992]No.350” on 28 August 1992. The Company’s business license was issued on 19 October 1992 by the Shanghai Municipal Administration of Industry and Commerce. The Company commenced its business on 9 January 1993 and was listed on the Shanghai Stock Exchange in November 1999.

The Company was principally engaged in commercial banking activities.

The registered office of the Company is located at No. 500, Pudong South Road, Pudong New Area, Shanghai, the People’s Republic of China (the “PRC”). The Company operates in the PRC and employed 7,337 employees as at 31 December 2003 (31 December 2002: 6,739).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements have been prepared following the accounting measurement policies set out in note 2 which are in accordance with International Financial Reporting Standards (“IFRS”), which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect. Disclosures have been made, in all material respects, in accordance with IFRS and in a format appropriate to the business environment of the Company and the PRC.

The financial statements have been prepared on a historical cost basis except for the re-measurement at fair value of derivatives and trading and available-for-sale investment securities.

The Company maintains its books and prepares its statutory financial statements in accordance with the relevant financial regulations and accounting principles applicable to joint stock limited companies and financial institutions established by the Ministry of Finance of the PRC. The accounting policies and bases adopted in the preparation of the statutory financial statements differ in certain material respects from IFRS. The material accounting measurement adjustments arising from restating the results and net assets of the Company to comply with IFRS have been made in the preparation of these financial statements, but will not be taken up in the accounting records of the Company. The adjustments include, primarily,

adjustments for the accrual of interest receivable/payable and the fair value of derivative contracts and trading securities. Further details with respect to the net impact of these IFRS adjustments are included in note 34.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans and allowances for credit losses

Loans are initially recorded at cost. For loans originated by the Company, the cost is the amount lent to the borrower.

The allowance for credit losses provides for risks of losses inherent in the credit extension process, including loans and lending-related commitments. Such commitments include letters of credit, bank acceptance, guarantees and commitments to extend credit.

Impairments in loans are recognized when it becomes probable that the Company will not be able to collect all amounts due according to the contractual terms of the loans. The carrying amounts of the loans are reduced to their estimated realizable value through specific allowance. The impairment is recognized as an expense for the year. Loans are stated at their principal amount net of any allowance for credit losses.

The recognition of interest on loans and advances ceases when the principal payments of underlying loans and advances are in arrears for 90 days or more, or when the payments of interest receivable are in arrears for more than 90 days.

Revenue recognition

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

- a) interest revenue is recognized on an accrual basis;
- b) fee and commission revenue is recognized when the proceeds can be reasonably estimated; and
- c) dividend is recognized when the shareholders' right to receive the payment is established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative instruments

Derivative instruments including forward exchange contracts and currency and interest rate swaps are carried at fair value. The fair values of derivative instruments are obtained from quoted market prices and discounted cash flow models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Realized and unrealized gains and losses are recognized in net trading income.

On the date a derivative contract is entered into, the Company designates certain derivative as either a fair value hedge (a hedge of the fair value of a recognized asset or liability) or cash flow hedge (a hedge of a future cash flow attributable to a recognized asset or liability, a forecasted transaction or a firm commitment).

Changes in the fair value of derivatives, that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the specific hedged risk, are recorded in the income statement, along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk.

Changes in the fair value of derivatives, that are designated and qualify as cash flow hedges and that prove to be highly effective in relation to the specific hedged risk, are recognized in the hedge reserve in equity. Where the forecasted transaction or firm commitment results in the recognition of an asset or of a liability in the initial measurement of the cost of the asset or liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. Otherwise, amounts deferred in equity are transferred to the income statement as revenue or expense in the periods during which the hedged firm commitment or forecasted transaction affects the income statement.

If the hedging instrument expires or is sold, terminated or exercised or the hedge is no longer qualified as a hedge under the criteria as described, an adjustment to the carrying amount of a hedged financial instrument is amortized to net profit or loss over the year to maturity. The criteria for a derivative instrument to be accounted for as a hedge include: (a) formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared before hedge accounting is applied; (b) the hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting year; and (c) the hedge is effective on an ongoing basis.

Certain derivative transactions, while providing effective economic hedges under the Company's risk management positions, do not qualify for hedge accounting under the

specific rules in IAS 39 and are therefore treated as derivatives held for trading with fair value gains or losses reported in net trading income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting

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

Reverse repurchase and repurchase transactions

The Company enters into purchases of securities/discounted bills/loans under agreements to resell and sales of securities/discounted bills/loans under agreements to repurchase. Securities/discounted bills/loans purchased subject to commitments to resell at a future date are treated as loans collateralized by the security and are included in reverse repurchase agreements. Securities/discounted bills/loans which have been sold subject to repurchase agreements continue to be recognized in the balance sheet and securities are measured in accordance with the accounting policy for trading or investment assets as appropriate.

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

Trading securities

Trading securities are securities acquired for generating a profit from short-term fluctuations in price. Trading securities are initially recognized at cost and subsequently re-measured at fair value. For investments actively traded in organized financial markets, fair value is generally determined by reference to Stock Exchange quoted market prices at the close of business on the balance sheet date, adjusted for transaction costs necessary to realize the asset. For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another investment which is substantially the same, the prices of the most recent reported sales or purchases of the securities net of relevant market factors, or is calculated based on the expected cash flows of the underlying net asset base of the securities.

Investment securities

The Company classified its investment securities into held-to-maturity and available-for-sale assets. Investment securities with fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale. Management determines the appropriate classification of its investments at the time

of the purchase.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment securities (continued)

Investment assets which are intended to be held to maturity are measured at amortized cost using the straight line method, less any provision for impairment. A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortized cost is calculated as the difference between the assets' carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate. By comparison, the recoverable amount of an instrument measured at fair value is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset.

Available-for-sale financial assets are initially recognized at cost and subsequently re-measured at fair value. For investments actively traded in organized financial markets, fair value is generally determined by reference to Stock Exchange quoted market prices at the close of business on the balance sheet date, adjusted for transaction costs necessary to realize the asset. For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another investment which is substantially the same, the prices of the most recent reported sales or purchases of the securities net of relevant market factors, or is calculated based on the expected cash flows of the underlying net asset base of the investments. Unrealized gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognized in equity. When the securities are disposed of or impaired, the related accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

All regular way purchases and sales of investment securities are recognized at settlement date.

Application of estimation

In accordance with the disclosure requirement of IFRS, the management may need to make certain estimations and assumptions in the amounts affecting the financial statements and disclosure notes. Up to a certain extent, the actual results may vary when compared to such estimations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates

An associate is a company, not being a subsidiary or a joint venture, in which the Company has an interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Company's interests in associates are stated in the balance sheet at the Company's share of net assets under the equity method of accounting less any provision for diminution in value other than temporary in nature deemed necessary by the management.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the income statement on a straight-line basis over the lease terms.

Constructions in progress

Constructions in progress represent costs incurred in the construction of office premises including furniture and fixtures. Cost comprises direct costs incurred during the period of construction. Interest charged on related borrowings for the construction is capitalized and such interest ceases when the assets under construction are completed and are ready for their intended use. No capitalization of interest is made if the cost incurred during the construction is from the Company's own fund.

The costs are transferred to property and equipment when bringing to working condition for its intended use and to be depreciated in accordance with the depreciation policy on land and buildings. No provision for depreciation is made on constructions in progress until such time as the relevant assets are completed and put into use.

Intangible assets

Intangible assets comprise premise occupancy rights, land use rights and franchise rights. They are stated at cost less accumulated amortization. Intangible assets are amortized, using the straight-line basis, over the effective useful lives of the rights. The carrying amount of intangible assets are reviewed at each balance sheet by the management of the Company whether they are recorded in excess of their recoverable amount and if carrying values exceed this recoverable amount, assets are written down. Reductions in recoverable amounts are charged to the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalized as an additional cost of the asset.

The carrying amounts of property, plant and equipment are reviewed at each balance sheet date by the management of the Company or an independent valuer to assess whether they are recorded in excess of their recoverable amount, and if carrying values exceed this recoverable amount, assets are written down.

Depreciation is provided to write off the costs of property, plant and equipment over their estimated useful lives, using the straight-line method, at the following rates per annum:

Land and buildings	3.23%
Transportation facilities	19.4%
Computers and software	19.4% and 32.33%
Electronic appliances & Office equipment	19.4%
Leasehold improvements	Over the lease terms

Foreign currency transactions

The Company maintains separate financial records for assets and liabilities and transactions denominated in foreign currencies. The financial statements are stated in RMB.

At the balance sheet date, the balance sheet and income statement denominated in foreign currencies are translated into RMB at the year end rate and average exchange rate of the year respectively. Exchange differences are dealt with in the income statement.

Acceptances

Acceptances comprise undertakings by the Company to pay bills of exchange and domestic trade drafts drawn on customers. The Company expects most acceptances to be settled simultaneously with the reimbursement from the customers. Acceptances are accounted for as off-balance sheet transactions and are disclosed as commitment

and contingent liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fiduciary activities

Assets arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements where the Company acts in a fiduciary capacity such as nominee, trustee or agent.

Related parties

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

Tax

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

Deferred tax is provided, using the liability method, on all temporary differences between the tax base of assets and liabilities and their carrying values for statutory financial reporting purposes. Currently enacted tax rates are used to determine deferred tax.

Additional deferred tax is provided, using the liability method, on all timing differences between the tax base of assets and liabilities and their carrying values for IFRS financial reporting purpose. Currently enacted tax rates are used to determine deferred tax.

Retirement benefit scheme

According to the statutory retirements in the PRC, the Company is required to provide certain staff retirement benefits and pensions. The Company is obliged to contribute a fixed percentage of staff salaries to the employee benefits, retirement welfare scheme, governed by the Labor Department of the Municipal People's government. All the contributions are recognized as expense.

Cash equivalents

Cash equivalents represent general deposits with the central bank, due from banks, inter-bank placements maturing in less than 3 months, discounted bills under reverse repurchase agreements and short term and highly liquid investments which are readily convertible to known amounts of cash, subject to an insignificant risk of conversion

in value and which were within three months of maturity when acquired.

3. SEGMENT REPORTING

The Company's principal business activities are in commercial lending and accepting public deposits. The Company's main source of funding is from customers' deposits to finance its consumer and corporate lending business. The consumer lending is an integral part of the Company's activities and as at 31 December 2003, the percentage of consumer lending against the total lending amounted to 11.58% (31 December 2002: 9.49%). Accordingly, a business segment is not presented.

Since the commencement of the Company's business in January 1993, it has opened branches and sub-branches in various locations in the PRC to expand its operations and customer base. The Company has established a strong presence in certain key locations in the PRC. To enable a more meaningful analysis, a geographical segment report is presented, which has been prepared on a management reporting basis.

	Total operating income		Total operating income		Total assets		Total assets		Total capital investment		Total capital investment	
	2003.12.31		2002.12.31		2003.12.31		2002.12.31		2003.12.31		2002.12.31	
	RMB' 000	%	RMB' 000	%	RMB' 000	%	RMB' 000	%	RMB' 000	%	RMB' 000	%
Off-shore banking	9,225	-	(2,709)	-	1,990,270	-	637,955	-	-	-	-	-
Shanghai	1,765,013	30	1,929,736	43	147,237,223	40	119,795,637	43	2,749,968	60	2,574,632	59
Beijing	475,125	8	489,686	11	25,471,355	7	23,286,427	9	299,719	6	176,044	4
Zhejiang	1,062,674	18	717,399	16	46,820,670	13	31,323,978	11	506,844	11	525,828	12
Jiangsu	619,878	10	342,925	8	33,213,209	9	20,611,516	7	365,551	8	386,949	9
Guangzhou	400,206	7	234,580	5	17,999,572	5	13,573,657	5	32,096	1	36,896	1
Others	<u>1,572,679</u>	<u>27</u>	<u>757,872</u>	<u>17</u>	<u>98,101,190</u>	<u>26</u>	<u>70,511,583</u>	<u>25</u>	<u>667,476</u>	<u>14</u>	<u>668,490</u>	<u>15</u>
Total	<u>5,904,800</u>	<u>100</u>	<u>4,469,489</u>	<u>100</u>	<u>370,833,489</u>	<u>100</u>	<u>279,740,753</u>	<u>100</u>	<u>4,621,654</u>	<u>100</u>	<u>4,368,839</u>	<u>100</u>

4. NET INTEREST INCOME

	2003	2002
	RMB' 000	RMB' 000
Interest income:		
Interest earned on loans and advances to customers	10,317,570	6,712,507
Interest earned from loans to banks and placements	1,235,536	872,955
Interest income from financial investments	1,125,704	981,614

Dividend income from financial investments	<u>15,373</u>	<u>24,117</u>
	<u>12,694,183</u>	<u>8,591,193</u>
Interest expense:		
Interest on amounts due to customers	3,877,691	2,779,189
Interest on amounts due to banks and borrowings	<u>986,990</u>	<u>492,954</u>
	<u>4,864,681</u>	<u>3,272,143</u>
	<u>7,829,502</u>	<u>5,319,050</u>

5. NET FEE AND COMMISSION INCOME

	2003	2002
	RMB' 000	RMB' 000
Service fee and commission income	285,237	226,348
Service fee and commission expense	<u>(59,662)</u>	<u>(64,739)</u>
	<u>225,575</u>	<u>161,609</u>

6. NET TRADING INCOME

	2003	2002
	RMB' 000	RMB' 000
Net gain on trading securities	251,393	324,334
Gain/(loss) on derivative instruments	<u>5,727</u>	<u>(5,138)</u>
	<u>257,120</u>	<u>319,196</u>

7. OTHER INCOME

	2003	2002
	RMB' 000	RMB' 000
Net foreign exchange gains	197,540	177,980
Surcharges	494	281
Other income	<u>88,626</u>	<u>90,456</u>
	<u>286,660</u>	<u>268,717</u>

8. OPERATING EXPENSES

	2003	2002
	RMB' 000	RMB' 000
Personnel expenses:		
Salaries and bonuses	514,611	367,067
Insurance and social contributions	251,841	177,270
Other personnel expenses	<u>777,537</u>	<u>571,763</u>
	<u>1,543,989</u>	<u>1,116,100</u>
General and administrative expenses:		
Occupancy	246,319	223,974
Properties and equipment maintenance	40,974	32,579
Computer system maintenance	64,033	41,802
Telecommunications and postage	75,728	53,141
Administration	484,832	366,006
Entertainment	160,639	108,788
Travelling	105,368	85,310
Professional fees	48,860	16,794
Net loss/(gain) on disposal of property, plant and equipment	935	(9,844)
Donations	8,719	2,908
Other expenses	<u>288,883</u>	<u>209,315</u>
	<u>1,525,290</u>	<u>1,130,773</u>
Depreciation and amortization:		
Depreciation of property, plant and equipment	455,741	407,146
Amortization of intangible assets	<u>16,599</u>	<u>13,340</u>
	<u>472,340</u>	<u>420,486</u>
Total operating expenses	<u>3,541,619</u>	<u>2,667,359</u>

9. INCOME TAX

	2003 RMB' 000	2002 RMB' 000
Income tax expense:		
Charge for the year	1,255,879	489,113
Under provision in respect of prior years	1,315	30,496
Deferred tax	<u>(473,104)</u>	<u>40,509</u>
	<u>784,090</u>	<u>560,118</u>

The differences between income tax expense reflected in the financial statements and the amounts calculated at the statutory rate of 33% were as follows:

Operating profit before tax	<u>2,363,181</u>	<u>1,802,130</u>
Income tax at statutory rate of 33%	779,849	594,702
Increase/(decrease) resulting from:		
Applicable tax rates of certain investments		
differing from the statutory rate	3,120	4,391
Under provision in respect of prior years	1,315	30,496
Non-deductible expenses	337,221	244,759
Non-assessable income	<u>(337,415)</u>	<u>(314,230)</u>
	<u>784,090</u>	<u>560,118</u>

Significant components of the Company's deferred income tax asset/(liability) were as follows:

	31 December 2003 RMB' 000	31 December 2002 RMB' 000
Allowance for credit losses	1,732,328	1,248,804
Net interest receivable	(20,771)	(5,515)
Trading securities	(1,763)	(24,584)
Others	<u>(11,623)</u>	<u>6,362</u>
	<u>1,698,171</u>	<u>1,225,067</u>

10. EARNINGS PER SHARE

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

	2003 RMB' 000	2002 RMB' 000
Earnings per share calculation:		
Net profit for the year (RMB' 000)	1,579,091	1,242,012
Weighted average common shares outstanding (Unit' 000)	3,905,000	3,615,000
Basic earnings per share (RMB)	0.40	0.34
Diluted earnings per share (RMB)	0.40	0.34

11. DUE FROM THE CENTRAL BANK

	2003- 12-31 RMB' 000	2002- 12-31 RMB' 000
Due from the central bank:		
General deposits	20,253,284	22,117,103
Statutory deposits	17,578,900	10,945,125
Fiduciary deposits	<u>29,477</u>	<u>66,499</u>
	<u>37,861,661</u>	<u>33,128,727</u>

The statutory deposits represent a statutory reserve of 7% (31 December 2002: 6%) on customer deposits denominated in RMB and 2% (31 December 2002: 2%) of customer deposits denominated in foreign currencies held by the Company.

Fiduciary deposits represent amounts received from the Ministry of Finance that are required to be deposited with the central bank.

12. INTER-BANK PLACEMENTS AND INTER-BANK BORROWINGS

	2003- 12-31 RMB' 000	2002- 12-31 RMB' 000
Inter-bank placements:		

Domestic banks	1,634,150	3,429,989
Foreign banks	<u>5,459,327</u>	<u>6,917,330</u>
	<u>7,093,477</u>	<u>10,347,319</u>
Inter-bank borrowings:		
Domestic banks	2,600,000	500,000
Foreign banks	<u>455,379</u>	<u>45,525</u>
	<u>3,055,379</u>	<u>545,525</u>

13a. DUE FROM BANKS AND LOANS TO CUSTOMERS

The composition of due from banks, the loan portfolio and the allowance for credit losses by types of exposure at the end of the year was as follows:

	2003-12-31 RMB' 000	2002-12-31 RMB' 000
Due from banks:		
Domestic banks	2,862,370	2,976,773
Foreign banks	<u>2,810,068</u>	<u>245,488</u>
	<u>5,672,438</u>	<u>3,222,261</u>
Loans and advances to customers:		
Corporate	225,480,307	157,738,868
Consumer	29,631,028	16,638,609
Non-bank financial institutions:		
Leasing companies	22,802	26,900
Securities companies	709,421	880,000
Fiduciary investment companies	<u>4,400</u>	<u>4,400</u>
	<u>255,847,958</u>	<u>175,288,777</u>
Due from banks and loans and advances to customers	261,520,396	178,511,038
Allowance for losses	<u>(6,279,482)</u>	<u>(4,945,006)</u>
	<u>255,240,914</u>	<u>173,566,032</u>

13a. DUE FROM BANKS AND LOANS TO CUSTOMERS (continued)

The composition of loans and advances to customers by type of collateral at the balance sheet date was as follows:

	2003-12-31 RMB' 000	2002-12-31 RMB' 000
Loans and advances:		
Guaranteed	112,687,545	69,111,952
Secured by mortgages and other collateral	73,622,385	49,041,050
Unsecured	39,815,065	24,663,569
Trade finance:		
Import and export advances and negotiation	1,887,661	756,392
Factoring	813,933	177,496
Discounted bills	<u>27,021,369</u>	<u>31,538,318</u>
	<u>255,847,958</u>	<u>175,288,777</u>

13b. ALLOWANCE AND PROVISION FOR CREDIT LOSSES

	2003-12-31 RMB' 000	2002-12-31 RMB' 000
Balance at beginning of year	4,945,006	4,223,661
Write-offs	(679,719)	(473,942)
Transfer-out	(141,747)	-
Recoveries	57,661	65,925
Increase in allowance for credit losses for the year	<u>2,098,281</u>	<u>1,129,362</u>
Balance at end of year	<u>6,279,482</u>	<u>4,945,006</u>

14. REPURCHASE AND REVERSE REPURCHASE AGREEMENTS

	2003-12-31	2002-12-31
	RMB' 000	RMB' 000
Reverse repurchase agreements:		
Discounted bills under reverse repurchase agreements	8,122,644	10,889,702
Trading securities and financial investments under reverse repurchase agreements	2,400,000	1,690,000
Credit assets under reverse repurchase agreements	<u>3,538,500</u>	<u>-</u>
Balance at end of year	<u>14,061,144</u>	<u>12,579,702</u>
Repurchase agreements:		
Discounted bills under repurchase agreements	5,842,622	4,324,739
Trading securities and financial investments under reverse repurchase agreements	<u>3,428,500</u>	<u>100,000</u>
Balance at end of year	<u>9,271,122</u>	<u>4,424,739</u>

The counterparties of the repurchase and reverse repurchase agreements are financial institute in the PRC.

Discounted bills and trading securities under repurchase agreements were secured by discounted bills and trading securities of equivalent amounts respectively.

15. INVESTMENTS AND TRADING SECURITIES

		2003-12-31 RMB' 000	2002-12-31 RMB' 000
Trading securities:			
Treasury notes, government bonds and other bonds in RMB		6,852,225	5,768,232
Foreign currency bonds		<u>631,459</u>	<u>3,785,993</u>
Total trading securities		<u>7,483,684</u>	<u>9,554,225</u>
Financial investments, at cost:			
Treasury notes, government bonds and other bonds in RMB		34,320,171	30,902,943
Foreign currency bonds		3,345,433	-
Equities, unlisted	15a	<u>452,622</u>	<u>455,870</u>
		38,118,226	31,358,813
Provision for diminution in value		<u>(4,559)</u>	<u>(4,559)</u>
Total financial investments		<u>38,113,667</u>	<u>31,354,254</u>
Total investments		<u>45,597,351</u>	<u>40,908,479</u>

Included in treasury note and government bonds categorized under financial investments and trading securities are securities pledged under repurchase agreements amounted to RMB3,357 million (31 December 2002: RMB100 million) and RMB225 million (31 December 2002: Nil) respectively. All repurchase agreements mature within twelve months from their respective dates of inception.

15a. Unlisted equities at the balance sheet date were as follow:

Company	% share held	2003-12-31 RMB' 000	2002-12-31 RMB' 000
First Sino Bank	10%	84,319	87,567
Shenlian International Investment Co., Ltd.	16.5%	288,303	288,303
China Yinlian Co., Ltd.	4.85%	<u>80,000</u>	<u>80,000</u>

Total

452,622

455,870

16. CONSTRUCTION IN PROGRESS

	2003-12-31 RMB' 000	2002-12-31 RMB' 000
At beginning of year	255,266	624,226
Additions	214,657	192,840
Transferred to property, plant and equipment	<u>(203,926)</u>	<u>(561,800)</u>
At end of year	<u>265,997</u>	<u>255,266</u>

17. PROPERTY, PLANT AND EQUIPMENT

	At beginning of year RMB' 000	Additions RMB' 000	Disposals RMB' 000	At end of year RMB' 000
Property, plant and equipment at cost:				
Land and buildings	3,289,612	320,812	11,537	3,598,887
Transportation facilities	212,514	13,817	16,806	209,525
Computers and software	917,730	281,051	194,955	1,003,826
Electronic and office equipment	152,708	60,149	21,010	191,847
Leasehold improvements	<u>797,471</u>	<u>106,620</u>	<u>42,065</u>	<u>862,026</u>
	<u>5,370,035</u>	<u>782,449</u>	<u>286,373</u>	<u>5,866,111</u>
Accumulated depreciation:				
Land and buildings	298,142	104,504	1,010	401,636
Transportation facilities	125,647	26,430	12,125	139,952
Computers and software	555,311	181,258	153,321	583,248
Electronic office equipment	84,564	30,135	9,558	105,141
Leasehold improvements	<u>387,492</u>	<u>113,414</u>	<u>31,355</u>	<u>469,551</u>
	<u>1,451,156</u>	<u>455,741</u>	<u>207,369</u>	<u>1,699,528</u>
Net book value	<u>3,918,879</u>			<u>4,166,583</u>

18. INTANGIBLE ASSETS

	At beginning				At end	Remaining
	of year	Additions	Disposals	Amortization	of year	Amortization
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	year
Premise occupancy rights	129,216	20,839	10,925	6,988	132,142	20 - 26 years
Land use rights	33,750	7,270	6,585	1,728	32,707	43.5 - 44.5 years
Franchise	31,119	-	20	7,685	23,414	2 - 3 years
Others	<u>609</u>	<u>400</u>	<u>-</u>	<u>198</u>	<u>811</u>	3.5 - 4.5 years
	<u>194,694</u>	<u>28,509</u>	<u>17,530</u>	<u>16,599</u>	<u>189,074</u>	

19. OTHER ASSETS

	2003-12-31	2002-12-31
	RMB' 000	RMB' 000
Interest receivable from financial investments	575,478	494,524
Interest receivable from loans and advances	19a 164,392	85,847
Interest receivable from inter-bank placements	1,902	19,076
Interest receivable from reverse repurchase agreements	1,843	2,506
Working capital	10,712	3,716
Settlement and clearing	487,715	333,008
Advance payments for office renovation	180,572	150,203
Staff housing loans	1,149,791	583,641
Prepaid rental expenses	5,767	6,173
Deferred tax asset	9 1,698,171	1,225,067
Assets acquired from insolvent debtors for resale	255,640	167,080
Receivables from derivative instruments	27 92,268	112,133
Securities finance receivables	57	218
Consideration receivable on share transfer	62,142	122,456
Refund from the Pudong Tower construction	181,228	183,230
Receivables from over-paid interest on negotiated deposit	141,444	101,444
Other receivables	<u>266,336</u>	<u>188,461</u>
	<u>5,275,458</u>	<u>3,778,783</u>

19a. When loans and advances are in arrears for 90 days or more, recognition of interest income ceases and the interest is recorded off-balance sheet. Interest income

previously recognized is reversed and recorded off-balance sheet when loans and advances are in arrears for 90 days, or the interest receivables are in arrears for more than 90 days. As at 31 December 2003, the total unrecognized interest receivable was RMB 1,405,157,000 (31 December 2002: RMB 1,573,277,000).

20. DUE TO BANKS AND CUSTOMERS

	2003-12-31	2002-12-31
	RMB' 000	RMB' 000
Due to banks:		
Domestic banks	<u>16,280,255</u>	<u>15,241,409</u>
Due to customers:		
Short-term deposits	148,561,865	124,428,143
Long-term deposits	115,555,047	83,371,302
Guaranteed deposits	56,771,453	34,342,539
Entrusted deposits	113,807	74,983
Deposits from the Ministry of Finance	<u>63,291</u>	<u>45,291</u>
	<u>321,065,463</u>	<u>242,262,258</u>
Total due to banks and customers	<u>337,345,718</u>	<u>257,503,667</u>

Short-term deposits represent deposits maturing within 1 year. The guaranteed deposits represent margin deposits from customers for banking facilities granted by the Company.

21. DIVIDENDS PAYABLE

	2003-12-31	2002-12-31
	RMB' 000	RMB' 000
Dividends declared out of prior year net profits	<u>14,985</u>	<u>15,770</u>

22. OTHER LIABILITIES

	2003-12-31	2002-12-31
	RMB' 000	RMB' 000
Interest payable	1,072,103	970,307
Bank drafts payable	1,389,164	1,426,231
Personnel expense payable	64,149	8,655
Welfare expense payable	87,858	56,420
Social securities fund deposits	130,925	287,399

Taxes payable		1,120,982	458,400
Payables on derivative contracts	27	201,842	166,808
Others		<u>2,803,594</u>	<u>2,158,043</u>
		<u>6,870,617</u>	<u>5,532,263</u>

23. SHARE CAPITAL

	Non-marketable shares owned by sponsors					Marketable	Total	
	Sponsors portion	Non-marketable shares owned by legal person other than sponsors			Sub-total	Total non-marketable portion	portion	
		Shares owned by domestic legal persons	Shares owned by the state government	Shares owned by domestic legal persons			Shares owned by foreign legal persons	Ordinary
								shares quoted in RMB (A-Shares)
2002-1-1								
Number of shares Unit' 000	789,000	258,740	962,260	-	1,221,000	2,010,000	400,000	2,410,000
RMB' 000	789,000	258,740	962,260	-	1,221,000	2,010,000	400,000	2,410,000
Addition								
Number of shares Unit' 000	394,500	129,370	481,130	-	610,500	1,005,000	200,000	1,205,000
RMB' 000	394,500	129,370	481,130	-	610,500	1,005,000	200,000	1,205,000
2002-12-31 and 2003-1-1								
Number of shares Unit' 000	1,183,500	388,110	1,443,390	-	1,831,500	3,015,000	600,000	3,615,000
RMB' 000	1,183,500	388,110	1,443,390	-	1,831,500	3,015,000	600,000	3,615,000
Addition/(Disposal)								
Number of shares Unit' 000	23a (72,300)	(108,450)	-	180,750	72,300	-	300,000	300,000
RMB' 000	23a (72,300)	(108,450)	-	180,750	72,300	-	300,000	300,000
2003-12-31								
Number of shares Unit' 000	1,111,200	279,660	1,443,390	180,750	1,903,800	3,015,000	900,000	3,915,000
RMB' 000	1,111,200	279,660	1,443,390	180,750	1,903,800	3,015,000	900,000	3,915,000

According to a paper Zhen Jian Gong Si Zi [2002] No. 135 issued by China Securities Regulatory Commission's ("CSRC") on 23 December 2002, the Company was allowed to issue additional 300,000,000 A shares, which were priced at RMB8.45 per share. The issue of additional shares was completed on 13 January 2003 and the increased paid-up capital was verified by the Ernst & Young Dahua Accounting Corporation Limited by issuing the capital verification report of Ernst & Young Dahua Ye Zi (2003) No. 016.

- 23a. Shanghai National Assets Management Company Limited and Shanghai Jiushi Company, the shareholders of the Company, entered into share transfer agreements with Citibank Overseas Investment Corporation for the transfer of 108,450,000 and 72,300,000 non-marketable shares respectively.

The aforesaid share transfer agreements were approved by State Owned Assets Supervision and Administration Commission of the State Council. Citibank Overseas Investment Corporation completed share transfer procedure at 30 September 2003 and owned 180,750,000 non-marketable shares (4.62% of total share capital) accordingly.

24. RESERVES

	Statutory surplus reserve	Statutory public welfare fund	Discretionary surplus reserve	General reserve	Total
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
Balance as at 1 January 2002	306,426	155,907	-	-	462,333
Appropriations from net profit for the year (note 24c,24e)	<u>128,531</u>	<u>128,531</u>	<u>73,064</u>	<u>500,000</u>	<u>830,126</u>
Balance as at 31 December 2002 and at 1 January 2003	434,957	284,438	73,064	500,000	1,292,459
Appropriations from net profit for the year (note 24c, 24d, 24e)	<u>156,609</u>	<u>156,609</u>	<u>128,531</u>	<u>650,000</u>	<u>1,091,749</u>
Balance as at 31 December 2003	<u>591,566</u>	<u>441,047</u>	<u>201,595</u>	<u>1,150,000</u>	<u>2,384,208</u>

24a. Statutory surplus reserve

In accordance with the PRC Company Law, the Company is required to allocate 10% of its profit after tax, as determined in accordance with PRC accounting standards and regulations applicable to the Company, to the statutory surplus reserve until such reserve reaches 50% of the registered capital of the Company. Subject to certain restrictions set out in the PRC Company Law and the Company's articles of association, statutory surplus reserve may be distributed to shareholders in the form of bonus issues, but the minimum retained statutory surplus reserve must not fall below 25% of the registered share capital.

24b. Statutory public welfare fund

In accordance with the PRC Company Law, the Company is required to transfer 5% to 10% of its profit after tax, as determined in accordance with the PRC accounting standards and regulations applicable to the Company, to a statutory public welfare fund ("PWF") which is a non-distributable reserve other than in the event of the liquidation of the Company. PWF must be used for capital expenditure on staff welfare facilities and these facilities will remain the property of the Company. When the PWF is utilized, an amount equal to the lower of cost of the assets and the balance of the PWF will be transferred from the PWF to the discretionary surplus

reserve. On disposal of the relevant assets, the original transfers from the PWF are reversed.

24c. Appropriations from net profit for the year

Pursuant to the board resolution on 27 March 2003, appropriations based on 10% of the net profit for the year 2002 were proposed and made to each of the statutory surplus reserve, statutory public welfare fund and the discretionary surplus reserve. As the amount to be appropriated to the discretionary surplus reserve would only be finalized at the Annual General Meeting of Shareholders, the financial statements had not incorporated the proposed 10% appropriation to the discretionary surplus reserve as at 31 December 2002. Pursuant to the resolution passed by 2002 Annual General Meeting of shareholders on 28 April 2003 regarding appropriation to discretionary surplus reserve based on 10% of net profit, the financial statements for the year ended 31 December 2003 has incorporated the proposed 10% appropriation to the discretionary surplus reserve.

24d. Pursuant to the board resolution passed on 25 February 2004, the appropriations to statutory surplus reserve, statutory public welfare fund and the discretionary surplus reserve of 2003 were made on basis of 10% net profit for the year. Until the date of issue of 2003 financial statements, the appropriation method had not been approved by 2003 Annual General Meeting of the shareholders. Consequently, 2003 financial statements had not included the proposed 10% appropriation to the discretionary surplus reserve.

24e. Pursuant to the “Accounting System for Financial Enterprises” issued on 17 November 2001, effective from 1 January 2002, general reserve made by financial enterprises engaging in the deposit and loan activities and loan activities shall form part of the owner’s equity.

Pursuant to the board resolution passed on 27 March 2003, the appropriation to general reserve for the year 2002 was RMB500,000,000.

Pursuant to the board resolution passed on 25 February 2004, the appropriation to general reserve for the year 2003 was RMB650,000,000.

25. RETAINED EARNINGS

These financial statements are prepared in accordance with the basis of presentation set out in note 2. These financial statements are not the statutory financial statements of the Company and are prepared for readers’ reference only.

Commencing from 2001, in accordance with the regulations of the *Questions and Answers on Standard Disclosures by Companies with Publicly Issued Shares, No. 4* issued by the PRC Securities Regulatory Committee, listed financial companies should make appropriations to the statutory surplus reserve and statutory public welfare fund based on the net profit for the year as stated in the Company’s statutory financial statements. However, appropriation to the discretionary surplus reserve and payment of dividends should be made based on the lower of net profit for the year as stated in the Company’s statutory financial statements and these financial statements.

25a. DIVIDENDS

Pursuant to a resolution passed by the Annual General Meeting of Shareholders on 28 April 2003, dividend of RMB0.1 per share was approved for the financial year of 2002. These dividends (totaling RMB391,500,000), which had not been recognized as at 31 December 2002, were recognized in the current year financial statements.

Pursuant to the board resolution on 25 February 2004, a dividend of RMB0.11 per share were proposed and approved for the financial year of 2003 on the basis of 3,915,000,000 shares. As at 31 December 2003, these dividends (totaling RMB430,650,000) were not recognized as liabilities in current year financial statements.

26. NOTE TO THE STATEMENT OF CASH FLOWS

	2003	2002
	RMB' 000	RMB' 000
Net profit	1,579,091	1,242,012
Adjustments to reconcile to cash flow from operating activities		
Non-cash items included in net profit and other adjustments:		
Depreciation and amortization	472,340	420,486
Allowance for credit loss	2,098,281	1,129,362
Exchange gain for equity investment	-	(17,372)
Deferred tax	(473,104)	40,509
Loss/(gain) on disposal of property, plant and equipment	935	(9,844)
Loss/(gain) on disposal of intangible assets	(95)	-
Provision for diminution of value for equity investment	-	(980)
Dividends income received	(15,373)	(24,117)
Amortization of investments premium	16,052	11,659
Net decrease / (increase) in operating assets:		
Due from the central bank	(6,596,753)	(3,833,965)
Inter-bank placements	5,208,584	(712,767)
Due from banks	209,710	46,400
Reverse repurchase	(317,146)	(1,789,194)
Trading securities	(593,281)	(2,873,952)
Loans to customers	(81,322,986)	(78,498,926)
Other assets	(1,123,023)	(474,274)
Net increase / (decrease) in operating liabilities:		
Due to the central bank	-	(459,799)
Inter-bank borrowings	2,509,854	(199,378)
Due to banks	1,038,846	4,785,824
Repurchase	4,846,383	3,576,239
Due to customers	78,803,205	94,928,819
Inward and outward remittances	(1,115,071)	1,055,525
Other liabilities	631,072	965,923
Income tax (paid)/refunded	<u>662,582</u>	<u>393,815</u>
Net cash flow from operating activities	<u>6,520,103</u>	<u>19,702,005</u>

27. DERIVATIVE INSTRUMENTS

The Company entered into derivative transactions for sales activities and asset/liability management activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to transfer, modify or reduce current or expected risks.

To mitigate the market risk for transactions entered with the customers, the Company entered into back-to-back contracts with third parties which effectively transferred the Company's market risk exposure arising from the contracts.

The Company uses derivatives as part of its asset/liability management activities. When there is a mismatch of interest rates between the Company's assets and liabilities, i.e. when the Company purchases assets at fixed rates funded from deposits at floating rates, it subjects itself to fair value fluctuations as market interest rates change. These fluctuations in fair value are managed by entering into interest rate contracts which change the fixed rate instrument into a variable rate instrument.

The Company uses the following derivative financial instruments for both trading and hedging purposes:

Swaps: Swaps are commitments to exchange one set of cash flow for another for a predetermined period.

Interest rate swap contracts generally represent the contractual exchange of fixed and floating rate payments of a single currency, based on a notional amount and a reference interest rate.

Cross currency interest rate swap contracts generally involve the exchange of payments which are based on the interest reference rates available at the inception of the contract on the principal balances of the two different currencies that are being exchanged. The principal balances are re-exchanged at an agreed upon rate at a specified future date.

Forwards: Forwards are contractual obligations to buy or sell a financial instrument on a future date at a specified price.

The following table provides the notional amount and the fair value of the Company's derivative instruments.

The notional amount is the amount of a derivative underlying asset or reference rate and is the basis upon which changes in the value of derivatives are measured. It provides

an indication of the volume of business transacted by the Company but does not provide any measure of risk.

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

27. DERIVATIVE INSTRUMENTS (continued)

	2003-12-31		
	Notional amount RMB' 000	Fair value	
		Assets RMB' 000	Liabilities RMB' 000
Derivatives held for trading:			
Interest rate swaps	-	-	-
Currency swaps	472,594	87,983	87,983
Currency forwards	512,614	<u>3,300</u>	<u>2,498</u>
Total derivative assets/liabilities held for trading		<u>91,283</u>	<u>90,481</u>
Derivatives held for hedging:			
Derivatives designated as fair value hedges			
Interest rate swaps	697,726	985	43,443
Currency swaps	323,403	<u>-</u>	<u>67,918</u>
Total derivative assets/liabilities held for hedging		<u>985</u>	<u>111,361</u>
Total derivative assets/liabilities		<u>92,268</u>	<u>201,842</u>
2002-12-31			
	Notional amount RMB' 000	Fair value	
		Assets RMB' 000	Liabilities RMB' 000
Derivatives held for trading:			
Interest rate swaps	3,145,336	50,740	50,740
Currency swaps	472,983	42,615	42,615
Currency forwards	212,548	<u>1,753</u>	<u>6,678</u>
Total derivative assets/liabilities held for trading		<u>95,108</u>	<u>100,033</u>

Derivatives held for hedging:

Derivatives designated as fair value hedges

Interest rate swaps	803,302	1,317	49,568
Currency swaps	323,423	<u>15,708</u>	<u>17,207</u>

Total derivative assets/liabilities held
for hedging

17,025 66,775

Total derivative assets/liabilities

112,133 166,808

28. COMMITMENTS AND CONTINGENT LIABILITIES

	2003-12-31	2002-12-31
	RMB' 000	RMB' 000
Bank acceptance	94,949,445	45,039,517
Confirmed letter of credit	2,404,371	2,510,542
Guarantees issued	8,760,573	5,656,465
Irrevocable letter of credits issued	7,778,741	6,439,261
Re-discounted bills to PBOC	3,296,629	86,800

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

As at 31 December 2003, the Company has material capital commitments amounting to RMB136,960,000.

29. FIDUCIARY TRANSACTIONS

	2003-12-31	2002-12-31
	RMB' 000	RMB' 000
29a. Entrusted deposits:		
PBOC	1,532,500	1,775,000
Others	9,383,582	6,235,268

Entrusted deposits represent funds which depositors have instructed the Company to use to make loans to third parties designated by them. The credit risk remains with the depositors.

29b. Custody services

Pursuant to the approval made by CSRC and the China Banking Regulatory Commission on 10 September 2003, the Company is able to provide the custody services for securities investment fund. As at 31 December 2003, the Company only acted as the custodian for Guo Tai Jin Long Fund, which is managed by Guo Tai Asset Management Company Limited.

30. OPERATING LEASE COMMITMENTS

Operating lease commitments of office rentals expiring:

	2003-12-31 RMB' 000	2002-12-31 RMB' 000
Within one year	159,463	189,170
Two to five years	427,734	530,188
After five years	<u>176,775</u>	<u>132,519</u>
	<u><u>763,972</u></u>	<u><u>851,877</u></u>

31. FINANCIAL INSTRUMENTS RISK POSITION

a) Credit risk

Credit risk is the risk of loss from the default by an obligor or counterparty. Credit risk is greater when counterparties are concentrated in a single industry or geographic location, because a group of otherwise unrelated counterparties could be adversely affected in their ability to repay their obligations due to economic developments affecting their common industry or location.

Concentration of credit risk exists if a number of clients are engaged in similar activities, or are located in the same geographic location or have comparable economic characteristics such that their ability to meet contractual obligations would be similarly affected by changes in economic or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographic location.

The Company solely operates in the PRC, however, due to the geographic diversification and the unique economic development of each location, this results in a different risk profile to the Company.

On-balance sheet assets

As at 31 December 2003, outstanding loan balances made to corporate and non-bank financial institutions grouped by industries were as follows:

Industry	2003-12-31				2002-12-31			
	Foreign		Total		Foreign		Total	
	RMB RMB' 000	currency RMB' 000	RMB' 000	%	RMB RMB' 000	currency RMB' 000	RMB' 000	%
Agriculture	4,020,030	109,252	4,129,282	2	2,049,750	71,598	2,121,348	1
Manufacturing	70,257,589	6,690,553	76,948,142	34	45,230,120	4,172,619	49,402,739	31
Public utilities	9,706,020	4,800	9,710,820	4	5,369,780	122,751	5,492,531	4
Constructions	8,928,130	103,128	9,031,258	4	5,460,750	51,484	5,512,234	4
Transportation and communications	13,543,340	856,180	14,399,520	6	12,758,500	1,368,387	14,126,887	9
Wholesales, retails and entertainment	32,915,020	2,431,695	35,346,715	16	20,152,540	799,660	20,952,200	13
Financial institutions and insurance	3,550,428	-	3,550,428	2	3,191,490	-	3,191,490	2

Real estate	28,526,550	946,275	29,472,825	13	21,626,970	824,326	22,451,296	14
Social services	15,956,500	351,594	16,308,094	7	4,871,700	55,871	4,927,571	3
Others, primarily conglomerates and government related entities	<u>26,355,444</u>	<u>964,402</u>	<u>27,319,846</u>	<u>12</u>	<u>29,346,300</u>	<u>1,125,572</u>	<u>30,471,872</u>	<u>19</u>
	<u>213,759,051</u>	<u>12,457,879</u>	<u>226,216,930</u>	<u>100</u>	<u>150,057,900</u>	<u>8,592,268</u>	<u>158,650,168</u>	<u>100</u>

The geographical concentration of loans, excluding loans to non-bank financial institutions, by location at the end of the year, was as follows:

	2003-12-31		2002-12-31	
	RMB' 000	%	RMB' 000	%
Shanghai	67,920,534	27	51,931,702	30
Beijing	20,737,650	8	14,729,776	8
Zhejiang province	41,065,954	16	25,267,876	15
Jiangsu province	26,756,471	10	15,230,915	9
Guangzhou	11,071,535	5	11,267,481	6
Off-shore banking	782,956	-	319,480	-
Others	<u>86,776,235</u>	<u>34</u>	<u>55,630,247</u>	<u>32</u>
	<u>255,111,335</u>	<u>100</u>	<u>174,377,477</u>	<u>100</u>

31. FINANCIAL INSTRUMENTS RISK POSITION (continued)

a) Credit risk (continued)

Off-balance sheet assets

As at 31 December 2003, the Company has credit commitments amounting to RMB117.2 billion, of which 8%, 13%, 8%, 4%, 9% and 1% is related to customers domiciled in Shanghai, Zhejiang Province, Jiangsu Province, Beijing, Guangzhou and off-shore banking respectively. The remainder related to customers located elsewhere throughout the PRC.

Derivatives

All the derivative contracts were transacted by the Company's head office in Shanghai. Credit risk represents the inability of the counterparty to deliver payment in accordance with the terms of the derivative contracts. The fair value is the amount for which an asset could be exchanged, or a liability to settle.

To mitigate the credit risk associated with derivative instruments, the Company enters into master netting agreements with certain counterparties. The Company subjects its derivative-related credit risks to the same credit approval and monitoring standards that it uses for managing other transactions that create credit exposure.

b) Currency risk

The Company is incorporated and operates in the PRC, with RMB as its reporting currency. The other major foreign currency in which the Company transacts is USD. The exchange rate between USD and RMB is subject to the PBOC Management and hence fluctuates within a narrow range, as it has throughout the year. The Company's loans and advances were mainly denominated in RMB with the remainder mainly in USD. However, some of the Company's deposits and investments are in currencies other than the reporting currency and USD. In order to manage such currency risks, the Company entered into foreign currency hedging transactions between such currencies and USD.

31. FINANCIAL INSTRUMENTS RISK POSITION (continued)

b) Currency risk (continued)

Below is a breakdown of relevant assets and liabilities by currencies:

<i>RMB Million</i>	2003-12-31				2002-12-31			
	RMB	USD	OTHERS	TOTAL	RMB	USD	OTHERS	TOTAL
Assets								
Cash on hand	822	117	143	1,082	806	123	134	1,063
Due from the central bank	37,322	491	49	37,862	32,720	369	40	33,129
Inter-bank placements	1,340	3,763	1,990	7,093	2,580	6,208	1,559	10,347
Due from bank	2,378	1,345	1,949	5,672	2,522	420	280	3,222
Reverse repurchase agreements	13,895	166	-	14,061	12,580	-	-	12,580
Trading securities	6,852	152	480	7,484	5,768	3,332	454	9,554
Loans, net of allowance for credit losses	237,240	10,368	1,960	249,568	161,942	7,903	499	170,344
Financial investments	34,684	2,921	509	38,114	31,271	83	-	31,354
Other assets	<u>2,965</u>	<u>1,541</u>	<u>769</u>	<u>5,275</u>	<u>3,670</u>	<u>79</u>	<u>30</u>	<u>3,779</u>
Total assets	<u>337,498</u>	<u>20,864</u>	<u>7,849</u>	<u>366,211</u>	<u>253,859</u>	<u>18,517</u>	<u>2,996</u>	<u>275,372</u>
Liabilities								
Inter-bank borrowings	2,600	41	414	3,055	500	46	-	546
Due to banks	14,246	1,846	188	16,280	13,335	1,793	113	15,241
Repurchase agreement	9,105	166	-	9,271	4,425	-	-	4,425
Due to customers	300,306	14,974	5,786	321,066	225,735	14,692	1,835	242,262
Inward and outward remittances	2,093	37	41	2,171	3,189	78	19	3,286
Dividend payable	15	-	-	15	16	-	-	16
Other liabilities	<u>2,050</u>	<u>3,349</u>	<u>1,472</u>	<u>6,871</u>	<u>3,112</u>	<u>1,997</u>	<u>423</u>	<u>5,532</u>
Total liabilities	<u>330,415</u>	<u>20,413</u>	<u>7,901</u>	<u>358,729</u>	<u>250,312</u>	<u>18,606</u>	<u>2,390</u>	<u>271,308</u>

c) Interest rate risk

The majority of the Company's financial assets and liabilities are denominated in RMB. The nature of the Company's financial assets and liabilities in RMB at the balance sheet date was as follows:

	2003-12-31			2002-12-31		
	RMB RMB' 000	Total RMB' 000	RMB	RMB RMB' 000	Total RMB' 000	RMB
			in total			in total
			positions %			positions %
Financial assets						
Cash	821,446	1,081,830	76	806,380	1,062,872	76
Personal loans and advances	29,630,904	29,631,028	100	16,637,154	16,638,609	100
Corporate loans and advances	213,759,051	226,216,930	94	150,057,900	158,650,168	95
Deposits with the PBOC	37,322,377	37,861,661	99	32,720,400	33,128,727	99
Inter-bank placements	1,339,500	7,093,477	19	2,579,910	10,347,319	25
Due from banks	2,378,491	5,672,438	42	2,522,594	3,222,261	78
Reverse repurchase agreements	<u>13,895,294</u>	<u>14,061,144</u>	99	<u>12,579,702</u>	<u>12,579,702</u>	100
	<u>299,147,063</u>	<u>321,618,508</u>		<u>217,904,040</u>	<u>235,629,658</u>	
Financial liabilities						
Personal savings	10,768,425	11,688,116	92	7,717,202	8,345,427	92
Personal fixed deposits	17,720,251	21,047,631	84	10,896,945	14,688,167	74
Corporate savings and current accounts	132,281,160	136,873,749	97	112,236,401	116,082,717	97
Corporate fixed deposits	85,659,926	94,507,416	91	64,606,163	68,683,134	94
Inter-bank borrowings	2,600,000	3,055,379	85	500,000	545,525	92
Due to banks	14,245,916	16,280,255	88	13,334,809	15,241,409	87
Repurchase agreements	<u>9,105,271</u>	<u>9,271,122</u>	98	<u>4,424,739</u>	<u>4,424,739</u>	100
	<u>272,380,949</u>	<u>292,723,668</u>		<u>213,716,259</u>	<u>228,011,118</u>	

31. FINANCIAL INSTRUMENTS RISK POSITION (continued)

c) Interest rate risk (continued)

The Company is required to apply the interest rates set by the PBOC for its loans and advances and deposit activities. The PBOC last adjusted the market rates on 21 February 2002. The interest rates for the relevant periods for the following types of loans, advances and deposits were as follows:

	Since 21 February 2002 %
Short term loans and advances	5.04 to 5.31
Medium to long terms loans	5.49 to 5.76
Non-performing loans	2.1
Personal and corporate savings	0.72
Personal fixed deposits (1 to 5 years)	1.71 to 2.79
Corporate call deposits (1 to 7 days)	1.08 to 1.62
Corporate fixed deposits	1.44 to 1.98
Balances with the PBOC:	
Deposits	1.89
Re-discounted bills	2.97

In accordance with the regulations of the PBOC, the allowable ceiling and floor for corporate loans are restricted at 30% and 10% above and below the applicable interest rates, respectively.

A spread above the interest rate charged by the PBOC on re-discounted bills is allowed to be charged to the Company's customer discounted bills. However, the spread is subject to a ceiling of the applicable interest rates charged on corporate loans with the same tenor (including the floating rates).

The rates of inter-bank placements and borrowings can be decided through negotiation between the borrowers and lenders, and generally the adjustment base is the corporate loan and deposit rates. There is generally no interest spread between the money market placements and borrowings.

31. FINANCIAL INSTRUMENTS RISK POSITION (continued)

d) Liquidity risk

The maturity analysis of assets and liabilities of the Company as at 31 December 2003 is as follows:

	Overdue	On demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
Assets:							
Cash on hand	-	1,081,830	-	-	-	-	1,081,830
Due from the							
central bank	-	29,561,300	1,737,806	5,235,262	868,938	458,355	37,861,661
Inter-bank placement	-	-	7,016,181	39,796	37,500	-	7,093,477
Due from banks	44,500	5,627,938	-	-	-	-	5,672,438
Trading securities and							
financial investments	-	7,918,407	431,293	6,107,339	17,927,074	13,213,238	45,597,351
Reverse repurchase							
agreements	-	-	10,637,543	3,423,601	-	-	14,061,144
Loans, net of allowance							
for credit losses	4,886,771	-	46,911,610	148,501,988	31,895,169	17,372,938	249,568,476
Other assets	307,851	690,557	724,123	1,484,375	2,092,192	4,598,014	9,897,112
Total assets	5,239,122	44,880,032	67,458,556	164,792,361	52,820,873	35,642,545	370,833,489
Liabilities:							
Inter-bank borrowings	-	-	3,055,379	-	-	-	3,055,379
Due to banks	-	14,851,054	556,078	854,669	18,454	-	16,280,255
Repurchase agreements	-	-	7,095,888	2,175,234	-	-	9,271,122
Due to customers	-	169,719,351	31,686,599	95,458,078	15,843,939	8,357,496	321,065,463
Inward and outward							
remittances	-	2,171,303	-	-	-	-	2,171,303
Dividend payable	-	14,985	-	-	-	-	14,985
Other liabilities	-	4,456,387	446,223	310,497	1,407,962	249,548	6,870,617
Total liabilities	-	191,213,080	42,840,167	98,798,478	17,270,355	8,607,044	358,729,124

31. FINANCIAL INSTRUMENTS RISK POSITION (continued)

c) Liquidity risk (continued)

The maturity analysis of assets and liabilities of the Company as at 31 December 2002 is as follows:

	Overdue	On demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
Assets:							
Cash on hand	-	1,062,872	-	-	-	-	1,062,872
Due from the							
central bank	-	28,373,753	733,742	2,760,672	963,277	297,283	33,128,727
Inter-bank placement	-	-	7,498,072	2,796,747	52,500	-	10,347,319
Due from banks	254,567	2,967,694	-	-	-	-	3,222,261
Trading securities and							
financial investments	66	9,738,838	66,859	3,599,631	16,551,086	10,951,999	40,908,479
Reverse repurchase							
agreements	-	-	8,895,287	3,684,415	-	-	12,579,702
Loans, net of allowance							
for credit losses	2,801,821	-	31,661,680	110,066,807	13,212,291	12,601,172	170,343,771
Other assets	137,530	1,450,247	784,582	900,778	1,014,247	3,860,238	8,147,622
Total assets	3,193,984	43,593,404	49,640,222	123,809,050	31,793,401	27,710,692	279,740,753
Liabilities:							
Inter-bank borrowings	-	-	545,525	-	-	-	545,525
Due to banks	-	9,076,672	4,916,852	1,037,094	1,528	209,263	15,241,409
Repurchase agreements	-	-	4,109,939	314,800	-	-	4,424,739
Due to customers	-	137,014,411	16,240,832	61,105,440	21,321,428	6,580,147	242,262,258
Inward and outward							
remittances	-	3,286,374	-	-	-	-	3,286,374
Dividend payable	-	15,770	-	-	-	-	15,770
Other liabilities	-	3,644,694	606,757	876,296	360,174	44,342	5,532,263
Total liabilities	-	153,037,921	26,419,905	63,333,630	21,683,130	6,833,752	271,308,338

Maturities are tabulated based on balance sheet date to due date.

e) Fair values

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The management of the Company is of the opinion that the fair value of financial assets and liabilities are close to their carrying values, after taking into account any allowances for credit losses, and the marking-to-market of trading securities and derivative instruments.

In the opinion of the management, there was no material difference between the carrying value and the fair value of the land and buildings as at 31 December 2003.

31. FINANCIAL INSTRUMENTS RISK POSITION (continued)

e) Fair values (continued)

The majority of the Company's RMB loans and advances were made at fixed rates and most of the USD loans and advances were made at floating rates. Deposits are made at fixed rates or floating rates depending on their nature, with the majority denominated in RMB. Management estimates that the difference between the fair values and carrying amounts of loans and advances and deposits was not material as at 31 December 2003 because the RMB interest rates have been relatively stable. The fair value is estimated by comparing market interest rates when the loans and advances were granted with current market rates offered on similar loans and advances. The fair value of deposits is estimated based on the same concept.

32. RELATED PARTIES

The Company had the following material transactions with related parties during the year:

	2003	2002
	RMB' 000	RMB' 000
Interest income from:		
Shanghai Industrial (Group) Co., Ltd.	854	1,279
Shanghai International Group Co., Ltd.	38	-
Shanghai Industrial Development Co., Ltd.	211	-
SIIC Shanghai International Trade (Group) Co., Ltd.	2,941	106

Balance of loans receivable from related parties at the balance sheet date are as follows:

	2003-12-31	2002-12-31
	RMB' 000	RMB' 000
Shanghai Industrial (Group) Co., Ltd.	24,830	41,386
Shanghai International Group Co., Ltd.	100,000	-
Shanghai Industrial Development Co., Ltd.	18,000	-
SIIC Shanghai International Trade (Group) Co., Ltd.	13,239	13,153

32. RELATED PARTIES (continued)

The relationship of the above related parties to the Company is as follows:

Company	Relationship with the Company
Shanghai Industrial (Group) Co., Ltd.	Shareholder of the Company
Shanghai International Group Co., Ltd.	Shareholder of the Company
Shanghai Industrial Development Co., Ltd.	Shareholder of the Company
SIIC Shanghai International Trade (Group) Co., Ltd.	Shareholder of the Company

In the opinion of the directors, loans made to the respective shareholders and affiliated companies as well as to shareholders who held less than 5% of the share capital of the Company were transacted on normal commercial terms and the interest rates charged on loans to these related parties were based on the market rates set by the PBOC.

33. RETIREMENT BENEFITS

In accordance with the regulations of the related PRC Municipal Government where the Company operates, the Company is required to contribute employee retirement benefits to the Labour Department of the Municipal People's Government. The contributions are calculated based on 22.5% (2002: 22.5%) of the salaries of the employees.

34. IMPACT OF IAS ADJUSTMENTS ON NET PROFIT AND NET ASSETS

	Net profit for the year ended 31 December 2003 RMB' 000	Net assets as at 31 December 2003 RMB' 000	Net profit for the year ended 31 December 2002 RMB' 000	Net assets as at 31 December 2002 RMB' 000
Per audited statutory financial statements, as previously reported	1,566,088	12,010,923	1,285,309	7,960,476
Prior year adjustment:				
Dividend	—	—	—	391,500

Per audited statutory financial statements, as restated	1,566,088	12,010,923	1,285,309	8,351,976
Add/(less):				
IFRS adjustments, net	19,408	139,465	(64,623)	120,057
Tax effect	<u>(6,405)</u>	<u>(46,023)</u>	<u>21,326</u>	<u>(39,618)</u>
As reported in these financial statements	<u>1,579,091</u>	<u>12,104,365</u>	<u>1,242,012</u>	<u>8,432,415</u>

The principal adjustments made to the statutory financial statements of the Company to conform with IFRS include the following:

- a) accrual of interest receivable and payable; and
- b) restatement of derivative contracts and trading securities to fair value.

35. POST BALANCE SHEET EVENTS

Pursuant to the resolution passed by the first extra-ordinary shareholders' meeting on 12 December 2003, the Company decided to issue convertible bonds with amount no more than RMB6,000,000,000. The relevant application procedures are still in progress.

Pursuant to the board resolution passed on 25 February 2004, the Company decided to issue subordinate bonds with amount no more than RMB6,000,000,000. Until the date of issue of 2003 financial statements, the relevant issue of subordinate bonds had not been approved by 2003 Annual General Meeting of the shareholders.

As at 31 December 2003, there are no other significant post-balance sheet events which require disclosure or adjustment to the financial statements.

36. COMPARATIVE AMOUNTS

Certain comparative figures have been reclassified to conform with the current year's presentation.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements of the Company for the year ended 31 December 2003 were authorized for issue in accordance with a resolution of the directors on 25 February 2004.

Auditor's Report

EYDH(2004) No.058

To the Shareholders of Shanghai Pudong Development Bank Co., Ltd

We, Ernst & Young Da Hua Certified Public Accountants, have audited the accompanying balance sheet of Shanghai Pudong Development Bank Co., Ltd. (“the Company”) as of December 31, 2003, and the related statements of income and profit appropriation and distribution and cash flows for the year then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the aforesaid financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2003 and the results of its operations and the cash flows for the year then ended in accordance with *the Accounting Standard for Chinese Enterprises* and *the Accounting Regulation for Financial Institutions*. The adoption of accounting policy conforms to the convention of consistency.

Ernst & Young Da Hua Certified Public Accountants

C.P.A.

Zhu Lei Lei

Xu Yan

146 Kun Shan Road, Shanghai China

February 25, 2004

**Notes to the Financial Statements of Shanghai Pudong Development Bank Co.,
Ltd. for the Year Ended December 31, 2003**

I. Brief Introduction

1. Background

Shanghai Pudong Development Bank Co., Ltd. (“the Company”) is a joint-stock commercial bank approved by the People’s Bank of China, who issued document YF [1992] No.350 on August 28, 1992, and its business license was issued on October 19, 1992 by the Shanghai Municipal Administration of Industry and Commerce (“SMAIC”). The Company started business on January 9, 1993. On September 23, 1999, the Company issued 400,000,000 ordinary shares (Share A) to general public in China with issue price RMB ¥ 10.00 for each. And on November 10, 1999, these shares issued by the Company started trading on Shanghai Securities Exchange. In the year 2002, as authorized by the shareholders’ annual meeting for the year 2001, the Company capitalized part of its capital surplus, the capitalization amount being 50% of the balance of its share capital before such change. On December 23, 2002, upon the approval of China Securities Regulatory Commission (“CSRC”), who issued document ZJGSZ (2002) 135, the Company issued additional A share 300 million shares with issue price RMB ¥ 8.45 for each. The additional share issue was completed on January 13, 2003, which has been verified by Ernst & Yong Da Hua Certified Public Accountants, who issued verification report EYDH (2003) No.016.

The current amount of registered capital of the Company is RMB ¥ 3.915 billion, The registration number of the Company is 3100001001236, and its license for conducting financial transactions, which was numbered YJGZB1151290001, was re-issued on June 19, 2002 by the People Bank of China (“PBOC”). The legal representative of the Company is Zhang Guang Sheng.

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

The industry in which the Company operates: financing.

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

3. Principal activities and services performed:

Accepting public deposits; granting loans of short-term, mid-term and long-term nature; performing settlements; discounting bills and notes; issuing financial debentures; issuing, underwriting and cashing securities on behalf of governmental

authorities; trading of governmental bonds and debentures; inter-bank loans and deposits; services relating to letters of credit and letters of guarantee; factoring and assignment of receivables and payables; safe deposit services; accepting deposit in foreign currencies; granting loans in foreign currencies; remittance of foreign currencies; exchange of foreign currencies; international settlements; inter-bank placements and deposits in foreign currencies; accepting and discounting of bills and notes expressed in foreign currencies; lending in foreign currencies; guarantees in foreign currencies; purchase and sale of foreign currencies; purchase and sale of marketable securities expressed in foreign currencies(excluding stocks), either for itself or on behalf of clients; purchase and sale of foreign currencies, either for itself or on behalf of clients; credit investigation, consultancy and testimonial services; offshore banking; and other services as approved by PBOC.

II. Significant accounting policies and accounting estimates adopted by the Company

1.The accounting standards and the accounting regulations applicable to the Company

Applicable accounting standards: *the Accounting Standards for Chinese Enterprises* and other related specific standards

Applicable accounting regulations: *the Accounting Regulations for Financial Institutions (Revised 2002)*.

2. The financial year of the Company runs from January 1 to December 31 of each calendar year.

3. Renminbi is adopted by the Company as reporting currency. Separate books and accounting records are kept for foreign currency transactions. Foreign currency transactions are entered into these books and accounting records at their original foreign currency amount.

4. The Company's books and ledgers are kept on accrual basis. The Company's assets and liabilities are valued at their historical cost.

5. Accounting for foreign currency transactions

Since separate books and accounting records are prepared for foreign currency transactions, and foreign currency transactions are entered into these books and accounting records at their original foreign currency amount, no problems in the area of foreign currency translation were encountered.

6. Translation of financial statements in foreign currencies

Daily translation of financial statements in foreign currencies (including balance sheet and profit and loss account) is made using exchange rates ruling at the end of last year. At the end of each year, balance sheet and profit and loss account expressed in foreign currencies are translated into RMB amount using exchange rates ruling at that date. Effects of changes in exchange rates are treated separately in each financial statement items, and the net exchange difference is charged/credited to profit and loss account as exchange gains or losses.

7. Recognition of cash equivalents when preparing the cash flow statement

Cash equivalents of the Company include cash, due from the central bank (excluding statutory deposit reserve), inter-bank balances (debit side only) and inter-bank placements maturing within 3 months and reverse repurchase.

8. Types and scope of loans

(1) Distinguishment between short-term loans and mid- and long-term loans

Distinguishment between short-term loans and mid- and long-term loans is made by the duration of the loans. Loans with duration of one year or less are classified as short-term loans; loans with duration of more than one year but less than five years are classified as mid-term loans; loans with duration of more than five years are classified as long-term loans.

(2) Recognition of overdue loans

The loans, either the principal or the interest, which have been overdue for less than 90 days are classified as overdue loans.

(3) Recognition of non-performing loans

The loans, the principal of and/or interest accrued on which have been overdue for 90 days or more, are classified as non-performing loans.

(4) Distinguishment of self-supporting loans and designated loans

Self-supporting loans are those loans granted by the Company on its own. The risk of these loans rests with the Company, and the Company is entitled to recover the principal of such loans and collect interests accrued thereon. Designated loans are those loans granted on behalf of the clients. The terms and conditions of such loans, such as borrower(s), use of funds, amount, term of borrowing, interest rates etc., are specified by the clients, rather than by the Company. The use of designated loans by the borrower(s) should be overseen by the Company, and the Company should assist the clients in the recovery and collection of such loans. For designated loans granted, the Company is only entitled to commissions from clients, and shall not make any advances therefor. Self –supporting loans, as part of the credit assets of the Company,

are presented on the face of the balance sheet. Designated loans are presented off balance sheet.

9. Accounting for bad loans

(1) Criteria of recognition for bad loans

When one of the following situations come into existence, after all possible measures have been resorted to and all necessary procedures have been performed, the loans and investments that yet cannot be recovered as scheduled by the Company are identified as bad loans:

- A. Both the borrower and guarantor have gone bankrupt, shut down or dissolved, and they have ceased to exist as legal persons, and the loan cannot be recovered after the legal liquidation proceedings have been performed against the borrower and guarantor;
- B. The borrower has died or has been declared dead or disappeared by the court in accordance with *the General Principles of Civil Laws of the PRC*, and the loan cannot be recovered after repayment of his debt out of his properties or heritage and exercise of recourse against the guarantor;
- C. The borrower has suffered huge loss from material natural calamity or accident that is not covered by insurance, which made it fail to repay all or part of its debt to the Company, or it cannot repay the loans out of the insurance indemnity, and the loan cannot be recovered in full after the exercise of recourse against the guarantor;
- D. The borrower and/or guarantor, though not formally declared bankrupt, shut down or dissolved, has terminated its business activities and has been de-registered by the administration authorities of industry and commerce at county level or above, and it has ceased to exist as a legal person. And, the loan still cannot be recovered after claiming repayment out of the properties of the borrower and exercise of recourse against the guarantor;
- E. The borrower has committed a crime and has been subject to criminal sanction, and the loan cannot be recovered in full by the Company out of its properties, and there is nobody else to assume this liability, thus the loan cannot be recovered after exercise of recourse;
- F. The Company has sued the borrower and/or the guarantor for their inability to repay the borrowings when falling due, and the court, at the request of the Company, made an forcible execution on the borrower and/or guarantor, but it was determined that no property is available for the settlement of the debt. And after the court has decided upon the termination of the forcible execution, all or part of the loan still cannot be recovered by the Company;
- G. For advances made by the Company in the case of credit card overdraft,

establishment of L/C and L/G, acceptance of bank drafts etc., the applicant and the guarantor failed to reimburse that advance due to reason(s) stated in A to F above, and after exercise of recourse by the Company, the advance still cannot be recovered;

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

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

If the fact that the bad loans can not be recovered is proved to be true by strong evidence, the bad loans can be written off after approved by the board of the directors/shareholders' meeting.

(2) Accounting policy adopted for bad loans: Allowance method.

Provision for bad loans is made on the following credit assets: loans, whose risks and losses are undertaken by the Company, including pledged loans, collateral loans, secured loans and credit loans; credit card overdrafts; discounted bills; credit advances (such as advances under acceptance of bank drafts, advances under guarantees, advances under letters of credit); import & export advances and negotiations and factoring of accounts receivable etc.

The policy adopted in making provisions for bad loans: The loans granted by the Company are grouped into five categories by their risk levels and the actual situation such as the ability to repay, financial position, sufficiency of the assets pledged as a security and guarantee etc., based on which a serious study is made of the amount of probable losses that may arise therefrom, then the balances of bad loans provision for each category are determined. At the end of each financial year, the balance of general provision for bad loans is adjusted to 1% of outstanding balances of loans in total as at that date. The excess of total provisions that should be made over the general provisions should be made in the form of special provisions for bad loans.

The bad loans provision is also made for the loans which have been financed by foreign borrowings and the responsibility of repayment of such borrowings still rests with the Company.

The bad loans provision should not be made for the designated loans, as the risks of such loans are not retained by the Company.

Bad loans provision made in current year is reflected in the related income statement accounts. It will be written off when the loss of bad loans is actually incurred. And if the bad loans written off are recovered later, the related bad loans

provision written off will be restored accordingly.

10. Accounting for bad debts

(1) Criteria for identification of bad debts

When one of the following situations come into existence, the related other receivables or other current assets that cannot be recovered as scheduled by the Company are identified as bad debts:

- A. The borrower has gone bankrupt or has died, and the receivables cannot be recovered after repayment of his debt out of his bankrupt properties or heritage;
- B. The borrower does not repay the debt in time and there is strong evidence as to the inability on the part of the borrower to repay such debt;
- C. Other receivables that have been on account for more than 3 years.

If the fact that the receivables mentioned above can not be recovered is proved to be true by strong evidence, the bad debts can be written off after approved by the board of the directors/shareholders' meeting.

(2) Accounting for bad debts

Allowance method is adopted for accounting for bad debts.

A. Interests receivable

Interests receivable outstanding for 90 days or more is transferred to off-balance sheet items, so the aging of interests receivable is all less than 90 days. Thus no bad debt provision is made for interests receivable.

B. Other receivables

The bad debts provision for other receivables is made using specific identification method.

C. Other current assets (including placements)

The bad debts provision for other current assets is made using specific identification method.

In determining the rate(s) of provision for bad debts, the following factors are taken into account by the Company in order to ensure reasonableness of the estimates: the past experience; the financial position and cash flow status of the debtors; the other related information.

Bad debts provision made in current year is reflected in the related income statement accounts. It will be written off when the loss of bad debts is actually incurred. And if the bad debts written off are recovered later, the related bad debts provision written off will be restored accordingly.

11. Accounting for reverse repurchase agreement and repurchase

The purchase of reverse repurchase loans /resell of repurchase loans are initially stated at the actual costs and the interest income or expenditures are recognized evenly over the corresponding useful lives. The purchase of reverse repurchase notes /resell of repurchase notes are initially stated at their par value. The difference between the actual amounts paid / received and the par value of bonds should be amortized over the useful lives in which the relevant interest is recognized.

12. Accounting for current investments

Current investments are entered into the Company's books at their actual cost. Investment income is recognized only when they are sold or cashed on maturity. At the end of reporting period, current investments are valued at their cost or market value, whichever is lower.

13. Accounting for long-term investments

(1) Accounting for long-term debt investments

Long-term debt investments are entered into the Company's books at their actual cost, namely actual purchase price paid on acquisition, excluding/including incidental expenses (such as taxes and commissions), less interest accrued over the period from the date of their issue to the purchase date included therein. Interest income is recognized on accrual basis, and after the adjustment of premium and discount on investment in bonds/debentures, it should be reflected in the related income statement accounts.

(2) Amortization of the premium and discount on investment in bonds:

Premium or discount on investment in bonds is amortized over the period between the acquisition date and the maturity date in which the relevant bond interest is recognized. The amortization method used is the straight-line method.

(3) Accounting for long-term equity investments

The valuation of long-term equity investments and recognition of income thereon

Long-term investment in shares and other long-term investment are collectively called long-term equity investment. The long-term equity investments are recorded at its initial cost on acquisition, i.e., the total price paid on acquisition.

Cost method is used to account for long-term equity investments when the Company does not have control, joint control or significant influence over the investee enterprise. The equity method is used to account for long-term equity investments when the Company can control, jointly control or has significant influence over the investee enterprise.

(4) Provision for impairment of long-term investments—criteria for recognition and

determination of amount to be provided for

Provision for impairment of long-term investments is made on an individual item basis. If the recoverable amount of any investment is lower than the carrying amount of that investment as a result of a continuing decline in market value or changes in operating conditions of the investee enterprise, and it is considered impossible for the impaired value to recover, the difference by which the recoverable amount is lower than the carrying amount of the investment should be provided for, and reflected in the profit and loss account for the reporting period.

14. Accounting for fixed assets

(1) Recognition criteria of fixed assets

Fixed assets are defined as tangible assets that (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; (b) have useful life of more than one year; and (c) have relatively high unit price. Specifically, the following items are recognized as fixed assets: (a) buildings and constructions, machinery, transportation facilities and other equipment and appliances used in the operation of the Company, of which the useful lives are over 1 year; and (b) those items whose useful lives are over 2 years and the unit price exceed RMB ¥ 2000, which do not fall within the scope of key operation facilities.

(2) Fixed assets of the Company are classified into the following categories: buildings and constructions, transportation facilities, mainframe computers, minicomputers and microcomputers, electronic equipment, office equipment and improvements of fixed assets.

(3) Accounting for fixed assets and provisions for impairment thereof

The initial measurement of fixed assets upon acquisition is made at their actual cost or amount determined otherwise. At the end of each year and interim reporting period, recoverable amount of fixed assets is examined on an individual item basis. The difference by which the recoverable amount is lower than the carrying amount of the fixed assets should be provided for. The impairment loss should be recognized in the income statement for the current period. The provision for impairment of fixed assets is made on an individual item basis.

(4) Accounting for accumulated depreciation

The fixed assets are depreciated on straight-line basis over their estimated useful lives based on the original cost and estimated useful lives. The depreciable amount of a fixed asset equals its original cost less estimated residual value. The residual value is estimated at 3% of the original cost (excluding the cost of fixed assets improvements). The depreciation rates for each category of fixed assets are as follows:

<u>Category of fixed assets</u>	<u>Useful lives</u>	<u>Depreciation rates/year</u>
Buildings and constructions	30 years	3.23%
Transportation facilities	5 years	19.4%
Mainframe computers	5 years	19.4%
Minicomputers and microcomputers	3 years	32.33%
Electronic equipment	5 years	19.4%
Office equipment	5 years	19.4%
Fixed assets improvement disbursement.	Useful lives	10-33.33%

When a provision for impairment has been made for a fixed asset, the depreciation rate and depreciation charge for the fixed asset should be recalculated based on the asset's carrying amount and its remaining useful life. If the value of a fixed asset for which impairment provision has previously been made is recovered, the depreciation rate and depreciation charge for the fixed asset should be recalculated based on the asset's revised carrying amount and its remaining useful life.

15. Accounting for constructions in progress

The actual construction expenditures incurred are charged to the construction in progress account. When the fixed asset being acquired or constructed has reached its expected usable condition, the total construction cost in that account is capitalized as fixed assets. At the end of each fiscal year, the recoverable amount of all the constructions in progress is reviewed for impairment purposes and, if there is such evidence on occurrence of impairment losses of construction in progress, provision should be made and recognized in the income statement for the current period. The provision for impairment of construction in progress is made on an individual item basis.

16. Valuation, amortization and provision for impairment in value of intangible assets

(1) Initial measurement of intangible assets

Intangible assets should be recorded at the actual purchase price paid.

(2) Amortization of intangible assets

The cost of an intangible asset should be amortized on straight line basis. The details are as follows:

- A. Use rights of buildings and constructions are amortized over their actual useful lives starting in the month in which they were acquired. But their amortization period should not exceed 30 years.
- B. Land use rights are amortized over their legal lives starting in the month in which they were acquired.
- C. Franchises are amortized over 5 years starting in the month in which acquisition is complete.
- D. Computer software are amortized over 3 years starting in the month in which

they were acquired.

- (3) Provision for impairment of intangible assets—criteria for recognition and determination of amount to be provided for

The Company reviews the carrying amount of its intangible assets at the end of each year and interim reporting period for the future economic benefits associated therewith that will flow to the enterprise. The difference by which the recoverable amount is lower than the carrying amount of the intangible assets should be provided for and recognized in the income statement for the current period. The provision for impairment of intangible assets is made on an individual item basis.

17. Amortization of long-term deferred charges

- (1) Organization expenses of branches and sub-branches are entered into the Company's books at their actual cost incurred and written off immediately when the branch or sub-branch starts operation.
- (2) Rental is amortized on straight-line basis over actual duration of lease.

18. Accounting for assets received from insolvent debtors to be disposed of

- (1) Measurement of assets received from insolvent debtors to be disposed of

Assets received from insolvent debtors to be disposed of should be recorded at an amount equal to the aggregate of principal and interest of restructured loans as presented on the face of balance sheet, plus any related tax payments and boot paid (or less boot received and plus gains recognized). Meanwhile the provision for bad loans related thereto is transferred to provision for impairment of assets received from insolvent debtors.

- (2) Provision for impairment of assets received from insolvent debtors to be disposed of—criteria for recognition and determination of amount to be provided for

The Company reviews the carrying amount of the assets received from insolvent debtors to be disposed of at the end of each year and interim reporting period on an individual item basis. The difference by which the recoverable amount is lower than the carrying amount of the assets should be provided for and recognized in the income statement for the current period.

19. Measurement of the non-cash assets received in debt restructuring transactions

When a receivable is satisfied by a transfer of non-cash assets, the Company (as the creditor) records the non-cash assets received at an amount equal to the carrying amount of the receivable to be restructured. If several non-cash assets are involved in the above restructuring, each non-cash asset received should be recorded at an

amount determined by applying the proportion of the fair value of each non-cash asset received to the total fair value of the non-cash assets received to the carrying amount of the receivable to be restructured

20. Measurement of the assets received in non-monetary transactions

In a non-monetary transaction, the Company records the asset received at an amount equal to the aggregate of the carrying amount of the asset surrendered and the boot paid (or less the boot received and add the amount of gain recognized), plus any related tax payments. If several assets are received at the same time in a non-monetary transaction, each asset received should be recorded at an amount determined by applying the proportion of the fair value of each asset received to the total fair value of the assets received to the aggregate of the carrying amounts of the assets surrendered and any related tax payments.

21. The principle of revenue recognition

(1) Interest revenue

Interest revenue on loans granted or arising from transactions with other financial institutions should be measured based on the length of time for which the Company's cash is used by others and the applicable interest rate(s). In addition, as prescribed in the *Accounting Regulation for Financial Institutions* issued by the Ministry of Finance that became effective on January 1, 2002, interest receivable on loans shall be computed periodically, and recognized as an item of profit and loss. When principals of such loans are overdue for more than 90 days (not inclusive), the recognition of interest on such loans should be terminated, and interests already accrued thereon should be written off and transferred to off balance sheet account. But when interest receivables accrued are overdue for more than 90 days (not inclusive), the recognition of interest on such loans, regardless of the maturity status of the principal thereof, should be terminated, and the recorded interests receivable thereon should be written off against the profit and loss for the current period and transferred to off-balance sheet account. In addition, the related loans should be transferred to non-performing loans account. And from then on, the interests should be recognized in the related off-balance account and not reflected in the profit and loss account. The interest revenue thereon is recognized when it is actually received.

(2) Revenue from commissions income

Revenue from commissions income comprises of revenue from handling and providing guarantee, which are recognized when the transactions have been completed and the amounts have been received in cash.

(3) Exchange gains

Exchange gains are recognized when the related transactions are completed and the amount is actually received.

(4) Other operating revenue

Other operating revenue (including income on purchase and sale of debentures, and revenue from other non-commissions income) is recognized when it is actually received by the Company.

22. Recognition of interest expenses

Accrual basis is adopted. For current deposits and inter-bank balances, the interests are settled quarterly; for current savings, the interests are accrued quarterly; for time savings and negotiation deposits, the interests are accrued quarterly at the interest rates set on the deposit receipt and the deposit contracts respectively; the interests on interest-bearing-liabilities such as the amounts received for sell of repurchase assets are accrued quarterly at the contract interest rates.

23. Accounting for income taxes: The liability method (under the tax effect accounting method) was adopted for accounting for income taxes.

24. Accounting for derivative financial instruments and recognition of gains/losses resulting therefrom

(1) Measurement of derivative financial instruments

The Company uses derivatives primarily for hedging purposes (with the exception of those purchased/sold on behalf of clients). In order to lessen the market risks resulting from transactions with the clients, the Company has entered into back-to-back agreements with third parties, which effectively passed the risks to which the Company is exposed. Derivatives are carried in the books of the Company at their actual value for receipt/payment, and their nominal value and market value is disclosed off-balance-sheet.

(2) Gains and losses resulting therefrom are recognized on the settlement date.

(3) Criteria for recognition of hedge: The Company uses hedging as part of its asset/liability management activities when there is a mismatch in terms of exchange rate, interest rate, time etc.

25. Changes in accounting policies and reclassification of the Company's financial statement items

(1) The interest income and expenses for such items as discounting is accounted for on accrual basis instead of cash basis

Since the core business system was successfully put into use in 2003, the

centralization of data processing throughout the Company was realized. To give a more accurate view of the operating results, accrual basis was adopted in substitution of the cash basis for such items as discounting, inter-bank placements and reverse repo etc. The said change in accounting policy decreased the profit for the year ended December 31, 2003 by RMB ¥ 50,411 thousand. Prospective application method is adopted for prudent purposes.

(2) Dividends declared in an informal scheme

The Company used to treat the profit distribution (exclusive of stock dividend) in an informal scheme in connection with the reporting period as passed at the board of directors' meeting held after the balance sheet date as an adjusting issue in accordance with the regulations of the original accounting standards. According to *Accounting Standard for Chinese Enterprises: post balance sheet event* (CK (2003) 12) issued by the Ministry of Finance, from July 1, 2003 on, the cash dividends declared in an informal scheme as passed at the board of directors' meeting held between the balance sheet date and the approval date of the financial statements is reflected in the undistributed profits account and shall not be transferred into the dividends account until it is passed at the shareholders' meeting. Retrospective adjustments is made in connection with the said change in the accounting policy in accordance with document CK (2003) 12.

26. Consolidation of financial statements

As stipulated in *the Law on Commercial Banks of the People's Republic of China* ("the Law"), which has been in force from July 1, 1995, the Company cannot invest in non-bank financial institutions and enterprises in PRC. Thus in the reporting year, the Company has no subsidiaries over which it can exercise control, and there is no need to prepare consolidated financial statements.

III. Taxation

The taxes and surcharges applicable to the Company and the respective rates are as follows:

Taxes/Surcharges	Basis of Tax and Surcharge	Tax and Surcharge rate
Business Tax	Operating revenue (excluding interest income from financial institutions and income from investments)	5%
City Maintenance and Construction Tax	Municipal business tax (5%)	7%
Educational Surcharge	Municipal business tax (5%)	3%
Corporate income tax	Taxable Income	33%

Note: As prescribed by *the Notification on Reduction of the Business Tax Rate Applicable to Financial Institutions and Insurance Companies* (CSZ[2001] No. 21) issued by the Ministry

of Finance and the National Administration of Taxation, from the year 2001 to 2003, the rate of business tax for financial institutions will be reduced by 1% each year. And after 3 years, the rate of business tax for financial institutions will be reduced to 5%. Thus the rate of business tax applicable to the Company for the reporting year is 5%.

IV. Notes to the financial statements (Unit of currency: RMB ¥ ' 000)

1. Cash

Currency	December 31,2003	December 31,2002
RMB	821,446	806,749
FX equivalent of RMB	<u>260,384</u>	<u>256,122</u>
Total	<u>1,081,830</u>	<u>1,062,871</u>

2. Due from the central bank

Item	December 31,2003	December 31,2002
Deposit reserve ⁽¹⁾	17,578,900	10,945,125
Provision	20,253,284	22,117,103
Financial deposit	<u>29,477</u>	<u>66,499</u>
Total	<u>37,861,661</u>	<u>33,128,727</u>

Notes: (1) Deposit reserve: As stipulated by PBOC, the balance of deposit reserve expressed in Renminbi should not be less than 7% of the ending balance of deposit in RMB (6% was applicable before September 21, 2003). The balance of deposit reserve in foreign currencies should be 2% of the ending balance of deposit expressed in foreign currency.

3. Due from banks

Item	December 31,2003	December 31,2002
Deposit with domestic banks	2,817,870	2,722,562
Deposit with foreign banks	<u>2,810,068</u>	<u>245,489</u>
Total	<u>5,627,938</u>	<u>2,968,051</u>

4. Inter-bank placements

Item	December 31,2003	December 31,2002
To domestic banks	1,634,150	3,684,198
To foreign banks	5,459,327	6,917,330
To domestic non-bank financial institution ⁽¹⁾	825,619	911,300
Less: Provision for bad loans	<u>55,776</u>	<u>-</u>
Written-down value	<u>7,863,320</u>	<u>11,512,828</u>

Note (1) Within the aforesaid balance of placements to non-bank financial institutions (as at December 31, 2003) there is RMB ¥ 437,219 thousand which has been overdue and the provision for it has been made.

5. Discounted bills

Currency	December 31,2003	December 31,2002
Banker's acceptance draft	22,014,553	22,913,405
Trade acceptance	4,980,794	8,624,913
Notes expressed in foreign currencies	26,022	-
Accounts receivables factoring	<u>813,933</u>	<u>177,496</u>
Total	<u>27,835,302</u>	<u>31,715,814</u>

6. Interests receivable

(1) On balance sheet

Item	December 31,2003	December 31,2002
Interests receivable on loans	164,392	5,749
Interests receivable on placements	1,902	-
Interests receivable on reverse repo	<u>1,843</u>	-
Total	<u>168,137</u>	<u>5,749</u>

Of the balance, the interests on loans RMB ¥ 9,909 thousand has been overdue, the aging of which is all within 90 days. The remaining balance represents the interests accrued on such assets as loans and placements etc., no provision for bad loans has been made.

(2) Off balance sheet

	December 31,2003	December 31,2002
Amount	1,405,157	1,573,277

7. Other receivables

December 31, 2003							
Items	1 year or less	1-2 years	2-3 years	Total	Percentag e	Bad Debts Provision	Net
Interests receivable from such long-term investment that the interest on which is collected annually	479,889	-	-	479,889	17.22%	-	479,889
Working fund	10,470	33	209	10,712	0.38%	-	10,712
Settlement fund	487,128	522	65	487,715	17.50%	-	487,715
Housing Fund for Staff	1,070,312	84,837	6,253	1,161,402	41.70%	11,611	1,149,791
Refund for cooperative construction of Pu Fa Mansion	-	181,228	-	181,228	6.50%	-	181,228
Prepayment for purchasing houses	196,426	-	-	196,426	7.05%	-	196,426
Amounts paid on behalf of others besides those mentioned above	<u>229,302</u>	<u>22,806</u>	<u>16,885</u>	<u>268,993</u>	<u>9.65%</u>	<u>120,561</u>	<u>148,432</u>
Total	<u>2,473,527</u>	<u>289,426</u>	<u>23,412</u>	<u>2,786,365</u>	<u>100%</u>	<u>132,172</u>	<u>2,654,193</u>

December 31, 2002							
Items	1 year or less	1-2 years	2-3 years	Total	Percentag e	Bad Debts Provision	Net
Interests receivable from such long-term investment that the interest on which is collected annually	415,064	-	-	415,064	20.49%	-	415,064
Working fund	2,605	308	803	3,716	0.18%	-	3,716
Settlement fund	331,684	2,746	-	334,430	16.51%	-	334,430
Housing Fund for Staff	463,683	38,166	87,481	589,330	29.09%	5,689	583,641
Refund for cooperative construction of Pu Fa Mansion	183,230	-	-	183,230	9.04%	-	183,230
Prepayment for purchasing houses	150,203	-	-	150,203	7.41%	-	150,203
Amounts paid on behalf of others besides those mentioned above	<u>243,250</u>	<u>37,029</u>	<u>69,664</u>	<u>349,943</u>	<u>17.28%</u>	<u>120,623</u>	<u>229,320</u>
Total	<u>1,789,719</u>	<u>78,249</u>	<u>157,948</u>	<u>2,025,916</u>	<u>100%</u>	<u>126,312</u>	<u>1,899,604</u>

8. Reverse repurchase agreements

<u>Trading counterpart</u>	December 31,2003	December 31,2002
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Commercial banks other than the Company	6,542,595	10,691,943
Credit unions	1,460,049	148,760
Financial companies	<u>120,000</u>	<u>49,000</u>
Sub-total	<u>8,122,644</u>	<u>10,889,703</u>
<u>Securities</u>		
Treasury bills	400,000	730,000
Other bonds	<u>2,000,000</u>	<u>960,000</u>
Sub-total	<u>2,400,000</u>	<u>1,690,000</u>
<u>Trading counterpart</u>		
Commercial banks other than the Company	1,900,000	-
Credit unions	1,200,000	-
Financial companies	<u>438,500</u>	=
Sub-total	<u>3,538,500</u>	=
Total	<u>14,061,144</u>	<u>12,579,703</u>

9. Current investments

Item	December 31,2003	December 31,2002
	Cost	Cost
Treasury bills (expressed in RMB)	1,918,838	2,489,085
Other bonds in RMB	502,274	1,896,788
Short-term central back bills	4,376,646	1,280,000
Bonds in foreign currencies	<u>1,125,208</u>	<u>3,633,887</u>
Total	<u>7,922,966</u>	<u>9,299,760</u>

Notes: 1. The treasury bills and other bonds in RMB can only be traded among banks in organized financial market (inter-bank bond and bill market). Since trading in such a market is not active, there are no quotations of market price that can be used as a reference. We take into account such factor as the interest accrued to arrive at the market value for reference. There is no impairment of these investments.

2. Bonds in Foreign currencies are purchased in foreign capital markets, and there is no impairment of these investments.

3. Within the aforesaid balance as at December 31, 2003, there is treasury bill

amounting to RMB ¥ 225 million has been put in pledge for repurchase agreements.

10. Short-term loans

Type	December 31,2003	December 31,2002
Credit loan	30,340,532	18,932,882
Secured loan	97,962,223	60,580,757
Collateral loan	25,598,000	18,121,099
Pledged loan	<u>10,973,086</u>	<u>10,351,298</u>
Total	<u>164,873,841</u>	<u>107,986,036</u>

11. Import & export advances and negotiations

Item	December 31,2003	December 31,2002
Import deposit exchange	1,348,046	380,075
Export deposit exchange	<u>539,615</u>	<u>376,317</u>
Total	<u>1,887,661</u>	<u>756,392</u>

12. Interest to be amortized

Item	December 31,2003	December 31,2002
Interest on amounts received for assets resold	47,840	-
Interests on trans-discount /rediscount	<u>109,872</u>	=
Total	<u>157,712</u>	=

13. Long-term investment of bond to be expired within 1 year

Item	Maturity Date	Par value	Cost	Interest Rate p.a.	Interest Accrued in Current Year	Accumulated Interest Accrued	Total
Treasury notes (in documentary form)	2004-02/ 2004-11	474,514	474,536	2.89-5.13%	12,905	62,898	537,434
Treasury notes (in account form)	2004-04/ 2004-12	5,550,000	5,549,908	1.9-3.31%	122,697	-	5,549,908
Bonds issued by the National Development Bank FRN of Import & Export Bank	2004-3 2004-11	350,000	350,000	3.38%	9,756	-	350,000
		<u>115,874</u>	<u>116,092</u>	<u>6ML+1.05%</u>	<u>432</u>	<u>-</u>	<u>116,092</u>

Total	<u>6,490,388</u>	<u>6,490,536</u>	<u>145,790</u>	<u>62,898</u>	<u>6,553,434</u>
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Note: Within the aforesaid balance as at December 31, 2003, there is treasury bill amounting to RMB ¥900 million has been put in pledge for repurchase agreements.

14. Other current assets

Item	December 31,2003	December 31,2002
Overdrafts and advances	<u>287,942</u>	<u>173,446</u>

15. Medium-term loans

Item	December 31,2003	December 31,2002
Credit loan	6,665,063	3,141,451
Secured loan	9,525,327	4,683,380
Collateral loan	8,788,945	5,391,206
Pledged loan	<u>1,366,852</u>	<u>1,052,020</u>
Total	<u>26,346,187</u>	<u>14,268,057</u>

16. Long-term loans

Item	December 31,2003	December 31,2002
Credit loan	2,000,797	803,255
Secured loan	2,887,495	1,737,319
Collateral loan	22,741,476	10,460,575
Pledged loan	<u>1,592,400</u>	<u>590,905</u>
Total	<u>29,222,168</u>	<u>13,592,054</u>

17. Loans overdue for 6 months or less

Item	December 31,2003	December 31,2002
Credit loan	21,430	6,535
Secured loan	79,485	101,483
Collateral loan	104,881	60,542
Pledged loan	<u>38,563</u>	<u>1,686</u>
Total	<u>244,359</u>	<u>170,246</u>

Notes: The loans included in the aforesaid balances are all overdue for less than 90 days.

18. Non-performing loans

Item	December 31, 2003					
	Total	90-180 days	0.5 – 1 year	1 – 2 years	2-3 years	More than 3 years
Credit loan	146,501	353	21,136	3,837	87	121,088
Secured loan	2,233,016	42,968	189,122	595,211	517,201	888,514
Collateral loan	2,000,040	139,677	30,920	252,768	492,322	1,084,353
Pledged loan	<u>34,321</u>	<u>7,480</u>	<u>25,742</u>	<u>299</u>	<u>-</u>	<u>800</u>
Total	<u>4,413,878</u>	<u>190,478</u>	<u>266,920</u>	<u>852,115</u>	<u>1,009,610</u>	<u>2,094,755</u>
Proportion to total amount	<u>100%</u>	<u>4.32%</u>	<u>6.05%</u>	<u>19.30%</u>	<u>22.87%</u>	<u>47.46%</u>

Item	December 31, 2002					
	Total	90-180 days	0.5 – 1 year	1 – 2 years	2-3 years	More than 3 years
Credit loan	181,898	185	12,252	4	105,550	63,907
Secured loan	3,154,784	125,629	335,388	932,802	725,700	1,035,265
Collateral loan	2,303,288	34,973	175,940	511,788	886,444	694,143
Pledged loan	<u>75,463</u>	<u>477</u>	<u>4,570</u>	<u>91</u>	<u>-</u>	<u>70,325</u>
Total	<u>5,715,433</u>	<u>161,264</u>	<u>528,150</u>	<u>1,444,685</u>	<u>1,717,694</u>	<u>1,863,640</u>
Proportion to total amount	<u>100%</u>	<u>2.82%</u>	<u>9.24%</u>	<u>25.28%</u>	<u>30.05%</u>	<u>32.61%</u>

19. Provision for bad loans

Item	General Provision	Specific Provision	Total
As at December 31, 2002	1,743,774	3,201,231	4,945,005
Provisions made in the reporting year	814,976	1,272,023	2,086,999
Recovery in the reporting year	577	57,090	57,667
Transferred out in the reporting year	1,417	140,330	141,747
Writing-offs in the reporting year	<u>6,797</u>	<u>672,922</u>	<u>679,719</u>
As at December 31, 2003	<u>2,551,113</u>	<u>3,717,092</u>	<u>6,268,205</u>

20. Long-term investments in bonds

Item	Maturity Date	Face Value	Cost	Interest Rate p.a.	Interest Accrued for Current Year	Cumulative Interest Accrued	Total
Treasury Note ' 2000 (in documentary form)	2005-03/2005-09	126,692	126,692	3.14	3,171	12,873	139,565

Treasury Note ' 2001 (in documentary form)	2006-03/ 2006-09	36,135	36,135	3.14	2,203	2,681	38,816
Treasury Note ' 2002 (in documentary form)	2005-03/ 2007-11	283,479	283,479	2.07-2.74	5,745	8,730	292,209
Treasury Note ' 2003 (in documentary form)	2005-11/ 2008-11	325,474	326,011	2.25-2.63	2,363	3,603	329,614
Treasury Bond 696	2006-6-14	200,010	241,684	11.83	25,139	-	241,684
Treasury Note ' 99 (in account form)	2006-02/ 2009-04	1,890,000	1,893,376	3.18-4.88	64,206	-	1,893,376
Treasury Note ' 2000 (in account form)	2005-06/ 2010-09	2,717,000	2,718,906	2.44-3.5	63,349	-	2,718,906
Treasury Note ' 2001 (in account form)	2006-07/ 2021-10	5,085,000	5,086,149	2.86-4.69	110,369	-	5,086,149
Treasury Note ' 2002 (in account form)	2005-06/ 2012-07	4,340,000	4,332,117	1.90-2.93	69,557	-	4,332,117
Treasury Note ' 2003 (in account form)	2005-11/ 2023-04	3,470,000	3,470,639	2.32-3.4	41,820	-	3,470,639
Bonds issued by the National Development Bank	2005-08/ 2022-05	6,065,000	6,038,914	0-4.31	108,078	-	6,038,914
Bonds issued by the Import & Export Bank	2008-11/ 2012-11	890,000	888,586	3.48-3.7	22,424	-	888,586
Special Treasury Bond ' 98	2005-5-18	2,503,040	2,503,040	6.8	148,872	-	2,503,040
Treasury bonds expressed in foreign currencies	2005/7~209 6/1	573,652	609,067	1.72-9	18,648	-	609,067
FRN bond	2005/03~20 12/3	1,103,822	1,101,941	1.04-6.38	578	-	1,101,941
Other bonds in foreign currencies	2005/6~205 2/12	<u>906,628</u>	<u>905,995</u>	1.78-13	<u>2,014</u>	<u>-</u>	<u>905,995</u>
Total		<u>30,515,932</u>	<u>30,562,731</u>		<u>688,536</u>	<u>27,887</u>	<u>30,590,618</u>

Note: Within the aforesaid balance as at December 31, 2003, there is treasury bill amounting to RMB ¥ 2.457 billion has been put in pledge for repurchase agreements.

21. Long-term equity investment

(1) Details are as follows:

Item	Gross net carrying value as at December 31, 2002	Net carrying value as at December 31, 2002	Increase	Decrease	December 31, 2003	Provision for Impairment	Net book value
No significant influence over investee	<u>455,870</u>	<u>451,311</u>	<u>-</u>	<u>3,248</u>	<u>452,622</u>	<u>4,559</u>	<u>448,063</u>

- (2) Equity investments meeting one of the following criteria can be detailed as follows: (A) The Company holds less than 20% of the voting shares or equity capital of the investee; or (B) although the Company holds 20% or more, but can not exert significant influence over the investee

Name of Investee	Term of Investment (in years)	Proportions of shares hold by the Company to total shares outstanding	December 31,2003	December 31,2002
First Sino Bank ⁽¹⁾	30	10%	84,319	87,567
Shenlian Investment Co., Ltd.	None	16.5%	288,303	288,303
China Joint-bank Co., Ltd.	None	4.85%	<u>80,000</u>	<u>80,000</u>
Total			<u>452,622</u>	<u>455,870</u>

Note (1) The decrease represents the profit distribution out of the profits made before 2001, since the equity method was adopted before 2001, the amount received was off set against the investment cost.

(3) Provision for impairment of long-term investments

The ending balance of provision for impairment of long-term investments is adjusted to 1% of the original investment cost of long-term equity investments.

	December 31,2002	December 31,2003
Balance	<u>4,559</u>	<u>4,559</u>

22. Fixed assets – cost and accumulated depreciation

Item	<u>Fixed Assets – cost</u>			December 31,2003
	December 31,2002	Increase	Decrease	
Buildings and constructions	3,289,612	320,812	11,537	3,598,887
Transportation facilities	212,515	13,817	16,806	209,526
Computers	894,373	276,995	194,849	976,519
Electronic equipment	81,887	23,824	15,084	90,627
Office equipment	70,819	36,325	5,926	101,218
Improvement of fixed assets	<u>717,020</u>	<u>106,620</u>	<u>42,065</u>	<u>781,575</u>
Total	<u>5,266,226</u>	<u>778,393</u>	<u>286,267</u>	<u>5,758,352</u>

Item	<u>Fixed Assets - accumulated depreciation</u>			December 31,2003
	December 31,2002	Increase	Decrease	
Buildings and constructions	298,142	104,504	1,010	401,636
Transportation facilities	125,646	26,432	12,127	139,951
Computers	547,617	175,614	153,321	569,910

Electronic equipment	47,228	17,358	8,082	56,504
Office equipment	37,336	12,777	1,475	48,638
Improvement of fixed assets	<u>307,042</u>	<u>113,414</u>	<u>31,355</u>	<u>389,101</u>
Total	<u>1,363,011</u>	<u>450,099</u>	<u>207,370</u>	<u>1,605,740</u>

Item	<u>Fixed Assets – net book value</u>	
	December 31,2002	December 31,2003
Buildings and constructions	2,991,470	3,197,251
Transportation facilities	86,869	69,575
Computers	346,756	406,609
Electronic equipment	34,659	34,123
Office equipment	33,483	52,580
Improvement of fixed assets	<u>409,978</u>	<u>392,474</u>
Total	<u>3,903,215</u>	<u>4,152,612</u>

Note: 1. In current period, the value of constructions in progress transferred to fixed assets is RMB ¥ 203,926 thousand.

2. As at December 31, 2003, fixed assets were not impaired, thus no provision is made for such impairment.

3. Reconciliation of the carrying amount of fixed assets at the beginning and end of the fiscal year 2003

① Original cost of fixed assets	
Balance as at January 1, 2003	5,266,226
Add:	
Purchases	449,222
Transfer from construction in progress account	203,926
Others	<u>125,245</u>
Subtotal of increase	778,393
Less: Retirement and disposal	<u>286,267</u>
Balance as at December 31, 2003	<u>5,758,352</u>
ii. Accumulated depreciation	
Balance as at January 1, 2003	1,363,011
Add: Depreciation provided	450,099
Less: Retirement and disposal	<u>207,370</u>
Balance as at December 31, 2003	<u>1,605,740</u>

23. Constructions in progress

Project name	Budgeted cost	Percentage of completion %	Source of funds	December 31,2002	Increase	Decrease	December 31,2003
Building of Chong Qing branch	55,000	100%	Self-raised Fund	55,028	57	-	55,085

Building of Wenhui sub-branch, Hangzhou			Self-raised Fund	18,791	557	19,348	-
Office Building of Beijing sub-branch			Self-raised Fund	65,848	108,560	174,408	-
Information center	170,000	83%	Self-raised Fund	60,821	79,479	-	140,300
Project 628	134,120	37%	Self-raised Fund	43,299	6,346	-	49,645
Others	<u>33,826</u>	92%	Self-raised Fund	<u>11,479</u>	<u>19,658</u>	<u>10,170</u>	<u>20,967</u>
Total	<u>392,946</u>			<u>255,266</u>	<u>214,657</u>	<u>203,926</u>	<u>265,997</u>

Notes: (1) No interest was capitalized on construction projects.

(2) As at December 31, 2002, constructions in progress were not impaired, thus no provision is made for such impairments.

(3) The assets transferred to fixed assets in the reporting year amounted to RMB ¥203,926 thousand.

24. Intangible assets

Item	Method of Acquisition	Original Cost	December 31, 2002	Increase	Decrease	Amortization	Accumulated Amortization	December 31, 2003	Remaining amortization period (in years)
Occupancy right of office buildings	Purchase	165,340	129,218	20,839	10,925	6,987	33,195	132,145	20.5-2
Franchise	Purchase	38,411	31,118	-	20	7,685	14,998	23,413	
Land use right	Purchase	36,100	33,750	7,270	6,585	1,728	3,393	32,707	43.5-44.
Computer software	Purchase	23,946	15,664	4,055	106	5,643	9,976	13,970	1.
Others	Purchase	<u>1,050</u>	<u>608</u>	<u>400</u>	<u>-</u>	<u>198</u>	<u>240</u>	<u>810</u>	3.5-4.
Total		<u>264,847</u>	<u>210,358</u>	<u>32,564</u>	<u>17,636</u>	<u>22,241</u>	<u>61,802</u>	<u>203,045</u>	

Note: At the end of the year 2003, intangible assets were not impaired.

25. Long-term deferred charges

Item	Original cost	December 31, 2002	Increase	Decrease	Amortization	Accumulated Amortization	December 31, 2003	Remaining amortization period (in years)
Rentals	20,116	6,173	4,590	1,143	6,125	16,621	3,495	0.5-9.5
Others	<u>13,873</u>	<u>3,830</u>	<u>9,723</u>	<u>1,309</u>	<u>3,494</u>	<u>5,123</u>	<u>8,750</u>	0.5-4
Total	<u>33,989</u>	<u>10,003</u>	<u>14,313</u>	<u>2,452</u>	<u>9,619</u>	<u>21,744</u>	<u>12,245</u>	

26. Assets received from insolvent debtors to be disposed of

Description	December 31, 2003			December 31, 2002		
	Original Cost	Provision for impairment	Net book value	Original Cost	Provision for impairment	Net book value
Real estate	469,545	224,327	245,218	152,867	-	152,867
Shares owned by domestic legal person	4,900	530	4,370	900	330	570
Others	<u>11,690</u>	<u>5,638</u>	<u>6,052</u>	<u>17,254</u>	<u>3,611</u>	<u>13,643</u>
Total	<u>486,135</u>	<u>230,495</u>	<u>255,640</u>	<u>171,021</u>	<u>3,941</u>	<u>167,080</u>

27. Other long-term assets

Item	December 31, 2003	December 31, 2002
Centralized syndicate loans	447,313	-
Accounts receivable-Shanghai Wai Gaoqiao (Group) Co. Ltd. (Note)	-	62,142
Long-term interests receivable	141,444	101,444
Others	<u>58</u>	<u>1,492</u>
Total	<u>588,815</u>	<u>165,078</u>

28. Deferred tax-debit

Items	December 31, 2002	Increase	Write-offs	December 31, 2003
Bad loans provision	1,207,816	386,579	-	1,594,395
Bad debts provision	39,686	22,610	427	61,869
Assets received from insolvent debtors provision	1,301	74,763	-	76,064
Start-up expenses amortization	13,522	-3,708	2,234	7,580
Long-term assets amortization	<u>2,360</u>	<u>3,057</u>	<u>1,131</u>	<u>4,286</u>
Total	<u>1,264,685</u>	<u>483,301</u>	<u>3,792</u>	<u>1,744,194</u>

Note: Deferred tax is resulted from the timing difference between income tax expense as determined based on accounting profit and actual income tax payable as determined in accordance with tax laws and regulations. In determining accounting profit, provision for bad

loans is based on grouping of loans into five categories by risk levels, bad debts provision and provisions for impairment of assets received from insolvent debtors are determined using specific identification method, provision for impairment of assets received from insolvent debtors and organization expenses of branches and sub-branches are written off immediately when the branch or sub-branch starts operation, whereas such provisions and write-offs cannot be deducted in full from taxable income while determining taxable income.

29. Due to banks

Description	December 31,2003	December 31,2002
Banks	2,969,376	2,389,872
Security companies	8,111,020	10,914,392
Non-bank financial institutions	<u>5,199,859</u>	<u>1,937,145</u>
Total	<u>16,280,255</u>	<u>15,241,409</u>

30. Inter-bank borrowings

Item	December 31,2003	December 31,2002
From domestic banks	2,600,000	500,000
From foreign banks	<u>455,379</u>	<u>45,525</u>
Total	<u>3,055,379</u>	<u>545,525</u>

31. Short-term guarantee deposit

Items	December 31,2003	December 31,2002
Deposits for accepted drafts	49,400,498	26,528,040
Deposits made by applicants of letters of credit (L/Cs)	2,178,786	2,020,926
Deposits made by applicants of letters of guarantee (L/Gs)	1,634,805	637,545
Deposits in foreign currencies for pledged loans in Renminbi	859,243	1,037,438
Others	<u>1,690,218</u>	<u>2,424,320</u>
Total	<u>55,763,550</u>	<u>32,648,269</u>

32. Reverse repurchase agreements

Trading counterpart

December 31,2003

December 31,2002

Central bank	546,969	-
Commercial banks	4,337,753	4,324,739
Credit unions	807,900	-
Trust investment companies	<u>150,000</u>	<u>-</u>
Sub-total	<u>5,842,622</u>	<u>4,324,739</u>
<u>Securities</u>		
Treasury bills	<u>3,428,500</u>	<u>100,000</u>
Sub -total	<u>3,428,500</u>	<u>100,000</u>
Total	<u>9,271,122</u>	<u>4,424,739</u>

33. Designated deposit/loan

(1) Designated deposit

	December 31,2003	December 31,2002
Designated deposit	11,029,889	6,427,766
Less: designated loan	<u>10,916,082</u>	<u>6,352,783</u>
Net value of designated deposit	<u>113,807</u>	<u>74,983</u>

(3) Security investment funds under the Company' s custody

As of December 31, 2003, the security investment funds under the Company' s custody are Guo Tai Jin Long series security investment funds managed by Guo Tai Fund Management Co., Ltd.

34. Taxes payable

Items	December 31,2003	December 31,2002
Business tax	184,630	170,289
City maintenance and construction tax	12,286	10,098
Corporate income tax (Note)	1,120,982	458,400
Real estate tax	7	114
Surcharges for education	6,670	4,222
Others	<u>2,227</u>	<u>5,303</u>
Total	<u>1,326,802</u>	<u>648,426</u>

Note: The branches outside Shanghai are all independent local taxpayers. They make tax prepayments at 60% of total taxes payable separately to local taxation authorities. At the end of each year, the headquarters of the Company will calculate and settle the taxes

payable by the Company as a whole. The statutory rate of corporate income tax applicable to the Company is 33%.

35. Dividends payable

Items	December 31,2003	December 31,2002
Dividend declared out of net profits for previous years not yet paid	14,985	15,770

Note: The amount declared at the end of 2002 is RMB 407,270 thousand which is different from that declared at the beginning of 2003. The difference is RMB 391,500. Please refer to note 45 for reasons.

36. Other payables

Item	December 31,2003	December 31,2002
Promissory notes	1,389,164	1,426,231
Settlement funds	592,394	490,001
Temporary credits received	328,675	177,618
Others	<u>1,170,603</u>	<u>938,062</u>
Total	<u>3,480,836</u>	<u>3,031,912</u>

Notes: Within the aforesaid balance, there was no amount due to shareholders which hold 5% or more of the Company's shares.

37. Deferred income

Item	December 31,2003	December 31,2002
Discounting interest	316,047	-
Reverse repo	44,164	-
Factoring	<u>4,277</u>	=
Total	<u>364,488</u>	=

38. Other current liabilities

Item	December 31,2003	December 31,2002
Amounts arising from acting as an agent for transactions related to investment funds	1,734	10
Social security fund	130,925	287,399

Amounts arising from acting as an agent for transactions related to scarce metal	154	-
Others	<u>170</u>	<u>-</u>
Total	<u>132,983</u>	<u>287,409</u>

39. Long-term guarantee deposit

Item	December 31,2003	December 31,2002
Deposits made by applicants of letters of credit (L/Cs)	176,928	106,273
Deposits made by applicants of letters of guarantee (L/Gs)	76,539	124,533
Others	<u>754,436</u>	<u>1,463,464</u>
Total	<u>1,007,903</u>	<u>1,694,270</u>

40. Other long-term liabilities

Item	December 31,2003	December 31,2002
Funds covering centralized syndicate loans	447,313	-
Funds covering other agency businesses	<u>210,737</u>	<u>137,664</u>
Total	<u>658,050</u>	<u>137,664</u>

41. Share capital

	December 31, 2002	%	Increase (decrease) in current year	Dec 31, 2003	%
I. Non-marketable portion					
1. Shares owned by sponsors	1,183,500	32.74%	-72,300	1,111,200	28.38%
Including:					
(1) Shares owned by the State	-	-	-	-	-
(2) Shares owned by domestic legal person	1,183,500	32.74%	-72,300	1,111,200	28.38%
(3) Shares owned by foreign legal person	-	-	-	-	-
(4) Others	-	-	-	-	-
2. Shares owned by legal person other than sponsors	1,831,500	50.66%	72,300	1,903,800	48.63%

(1)Shares owned by the State	388,110	10.73%	-108,450	279,660	7.14%
(2)Shares owned by domestic legal person	1,443,390	39.93%	-	1,443,390	36.87%
(3)Shares owned by foreign legal person	-	-	180,750	180,750	4.62%
3. Shares owned by staff	-	-	-	-	-
4.Preferred shares and other non-marketable shares	-	-	-	-	-
Total non-marketable portion	<u>3,015,000</u>	<u>83.40%</u>	<u>-</u>	<u>3,015,000</u>	<u>77.01%</u>
II. Marketable portion					
1.Common shares quoted in Renminbi in PRC stock markets (Share A)	600,000	16.60%	300,000	900,000	22.99%
2.Common shares quoted in foreign currencies in PRC stock markets (Share B)	-	-	-	-	-
3.Common shares quoted in foreign currency and listed in stock markets outside PRC	-	-	-	-	-
4.others	-	-	-	-	-
Total marketable portion	<u>600,000</u>	<u>16.60%</u>	<u>300,000</u>	<u>900,000</u>	<u>22.99%</u>
III. Total	<u>3,615,000</u>	<u>100.00%</u>	<u>300,000</u>	<u>3,915,000</u>	<u>100.00%</u>

Note:

1. As approved by the CSRC, who issued approval document of ZJGSZ [2002] No. 135, the Company issued additional A share of 300,000,000 shares on December 23, 2002. The newly issued shares were priced at RMB ¥ 8.45 per share. The issue was completed on January 13, 2003, which has been verified by the Ernst & Yong Da Hua Certified Public Accountants by issuing the capital verification report EYDH (2003) No. 016.
2. Transfers made by shareholders holding more than 5% of the Company in the reporting period
 - (1) Shanghai State-owned Assets Operating & Management Co., Ltd. transferred 108,450,000 non-marketable shares to Citibank Overseas Investment Corporation as stated in the equity interest transfer contract.
 - (2) Shanghai Jiushi Company transferred 72,300,000 non-marketable shares to Citibank Overseas Investment Corporation as stated in the equity interest transfer contract.

The above-mentioned transfers have been approved by State-owned Assets Management and Supervision Committee of the State Council. The transfer procedures have been completed on September 30, 2003. After the transfer, Citibank Overseas Investment Corporation holds

180,750,000 shares, accounting for 4.62% of the total share capital of the Company.

- (3) Shanghai Jinjiang (Group) Co., Ltd. transferred 22,500,000 non-marketable shares to Shanghai International Trust Investment Co., Ltd. as stated in the equity interest transfer contract.
- (4) Shanghai Jinqiao Export Processing Zone Development Co., Ltd. transferred 60,000,000 shares (comprising of 30,000,000 shares owned by domestic legal persons and 30,000,000 shares owned by other legal persons) to Shanghai International Trust Investment Co., Ltd. as stated in the equity interest transfer contract.
- (5) Shanghai City Construction Investment Development Co., Ltd. transferred 57,000,000 shares to Shanghai International Group Co., Ltd. as stated in the equity interest transfer contract.

The above-mentioned transfers have been approved by State-owned Assets Management and Supervision Committee of the State Council. The transfer procedures are still in process.

42. Capital surplus

Item	Excess of contributed capital over par value	Transferred in from other capital reserve items	Translation difference of capital of investees in foreign currencies	Total
Balance as at Jan.1, 2002	2,663,466	21,726	-155	2,685,037
Increase (Decrease) in current reporting period	<u>2,184,359</u>	<u>-</u>	<u>-</u>	<u>2,184,359</u>
Balance as at December 31,2003	<u>4,847,825</u>	<u>21,726</u>	<u>-155</u>	<u>4,869,396</u>

Note: The reason for the increase RMB 2,184,359 thousand is detailed in note 41.

43. Revenue reserves

Items	Statutory revenue reserve	Reserve for welfare of employees	Discretionary revenue reserve	Total
Balance as at January 1, 2003	434,957	316,989	370,829	1,122,775
Appropriations out of net profit for current year	<u>156,609</u>	<u>156,609</u>	<u>156,609</u>	<u>469,827</u>

Balance as at December 31, 2003	<u>591,566</u>	<u>473,598</u>	<u>527,438</u>	<u>1,592,602</u>
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44. General provisions

Item	December 31,2002	Increase	Decrease	December 31,2003
General provision	<u>500,000</u>	<u>650,000</u>		<u>1,150,000</u>

45. Undistributed profits

Item	Amount
Balance of undistributed profits as at December 31, 2002 (as disclosed in the 2002 annual report)	37,664
Retrospective adjustment for dividends declared upon an informal scheme ⁽¹⁾	<u>391,500</u>
Adjusted opening balance of undistributed profits	429,164
Add: Net profit for the year 2003	<u>1,566,089</u>
Less: Appropriations to statutory revenue reserve	156,609
Appropriations to reserve for public welfare fund	156,609
Appropriations to general provisions	650,000
Appropriations to discretionary revenue reserve	156,609
Dividends declared on ordinary shares for the year 2002 ⁽¹⁾	<u>391,500</u>
Balance of undistributed profits as at December 31, 2003	<u>483,926</u>

(1) The appropriation and distribution of profits in the year 2002 are detailed as follows:

In accordance with the Companies Law of PRC, as passed at the fifth meeting of the second session of the board of directors an informal scheme for appropriation and distribution of profits for the year 2002 by adopting a resolution, which is detailed as follows:

- to appropriate 10% of profits after tax for the year 2002 to statutory revenue reserve, 10% to reserves for welfare of employees, 10% to discretionary revenue reserve;
- to appropriate RMB ¥ 0.5 billion out of the year 2002 profit to general provision;
- to declare a cash dividend of RMB ¥ 0.10 per share on the share capital, the total number of shares after issuing additional shares being 3.915 billion.

This informal scheme for appropriation and distribution has been approved by shareholders' meeting held on April 28, 2003 and has been completed.

According to the document CK (2003) No. 12, the cash dividend was transferred to dividend payable account at the shareholder's meeting date and retrospective

adjustment has been made.

(2) The appropriation and distribution of profits in the reporting year are detailed as follows:

In accordance with the Companies Law of PRC, as passed at the eleventh meeting of the second session of the board of directors an informal scheme for appropriation and distribution of profits for the year 2003 by adopting a resolution, which is detailed as follows:

- to appropriate 10% of profits after tax for the year 2003 to statutory revenue reserve, 10% to reserves for welfare of employees, 10% to discretionary revenue reserve;
- to appropriate RMB ¥ 0.65 billion out of the current year profit to general provision;
- to declare a cash dividend of RMB ¥0.11 per share on the share capital, the total number of shares after issuing additional shares being 3.915 billion.

This informal scheme for appropriation and distribution is pending approval by shareholders' meeting for the year 2003, therefore the amount is still accounted for in the undistributed profits account.

46. Operating revenue grouped by geographic areas

Geographic area	<u>December 31,2003</u>		<u>December 31,2002</u>	
	Amount	Percentage (%)	Amount	Percentage (%)
Shanghai	3,750,519	31.18%	3,002,544	36.81%
Zhejiang province	1,863,842	15.50%	1,175,570	14.41%
Beijing	893,831	7.43%	820,876	10.06%
Jiangsu province	1,121,702	9.33%	624,601	7.66%
Guangdong province	1,221,861	10.16%	877,541	10.76%
Other districts of PRC	3,160,544	26.28%	1,653,955	20.28%
Off-shore banking	<u>14,938</u>	<u>0.12%</u>	<u>1,372</u>	<u>0.02%</u>
Total	<u>12,027,237</u>	<u>100%</u>	<u>8,156,459</u>	<u>100%</u>

47. Income on investments

Items	Income from investments in bonds	Income from investments in shares	Income from other equity investments	Total
Income from current investments	388,626	-	-	388,626
Income from long-term investments	<u>1,067,320</u>	<u>15,373</u>	-	<u>1,082,693</u>
Total for the year ended December 31,	<u>1,455,946</u>	<u>15,373</u>	<u>=</u>	<u>1,471,319</u>

2003				
Income from current investments	310,312	-	-	310,312
Income from long-term investments	<u>935,920</u>	<u>24,116</u>	<u>28,328</u>	<u>988,364</u>
Total for the year ended December 31, 2002	<u>1,246,232</u>	<u>24,116</u>	<u>28,328</u>	<u>1,298,676</u>

48. Business taxes and surcharges

Items	For the year ended December 31,2003	For the year ended December 31,2002
Business tax	540,299	433,008
City maintenance and construction tax	36,069	23,753
Surcharges for education	<u>19,408</u>	<u>12,960</u>
Total	<u>595,776</u>	<u>469,721</u>

Note: The taxes and surcharges applicable to the Company and rates thereof have been disclosed in Note III.

49. Provisions for impairment of assets made

Item	2003	2002
Bad Loans Provision	2,087,000	1,129,362
Bad Debts Provision	78,912	67,465
Provisions for impairment of assets received from insolvent debtors	<u>84,806</u>	<u>3,941</u>
Total	<u>2,250,718</u>	<u>1,200,768</u>

50. Off balance sheet items

Items	December 31,2003	December 31,2002
Banker's acceptance draft	94,949,445	45,039,517
Acceptance drafts payable	2,404,371	2,510,542
Letters of guarantee for financing purposes	2,459,288	1,328,503
Letters of guarantee not for financing purposes	6,301,286	4,327,962
L/Cs established	7,778,741	6,439,261
Re-discounted Bills	3,296,629	86,800

Trans-discount	14,403,989	10,576,502
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51. Derivative financial instruments

Item	December 31,2003	December 31,2002
Nominal value	<u>2,006,697</u>	<u>4,957,592</u>
Market value	<u>109,574</u>	<u>54,674</u>
Including: Financial assets	92,268	112,134
Financial liabilities	201,842	166,808

52. Risk position of the financial instruments

(1) Credit risk

Credit risk is the risk of default by the trading counterparts or the debtors. When all the other side of the trade operate in a single industry or geographic area, the credit risk is relatively high, owing to the fact that they, although different in nature, may be affected by the same economic development factors, and ultimately the capacity to repay may be affected in the same way.

Centralization of credit risk: when a number of clients share the similar economic characters due to the fact that they carry out the same activities, or operate in the same geographic area or the same industry, they are liable to the impact of the same change in economics in terms of capacity of accomplishment of contracts. The degree, to which the centralization of credit risk extends reflects the sensitivity of the Company's performance to a specific industry or geographic area.

Although the Company's operations are limited to China, it is subject to various risks since each of the various geographic areas of China is unique in terms of economic development.

A. On balance sheet assets

a. Loans grouped by industry in which the borrowers operate

Industry	December 31,2003	%	December 31,2002	%
Agriculture, forestry, stockbreeding, fishery	4,129,282	1.62	2,121,348	1.21
Mining Industry	2,022,450	0.79	2,171,797	1.24
Manufacturing	76,948,141	30.17	49,402,739	28.33
Electric power, gas and water	9,710,820	3.81	5,492,531	3.15
Constructions	9,031,258	3.54	5,512,234	3.16
Geological prospecting, irrigation	9,491,750	3.72	1,145,950	0.66

Transportation, warehousing and communications	14,399,520	5.64	14,126,886	8.10
Wholesales, retails and entertainment	35,346,714	13.86	20,952,200	12.02
Financial institutions and insurance	2,813,809	1.10	2,280,190	1.31
Real properties	29,472,825	11.55	22,451,296	12.88
Social services	16,308,094	6.39	4,927,571	2.83
Healthcare, physical culture and social welfare	1,085,191	0.43	1,018,370	0.58
Education, culture and broadcasting	4,745,034	1.86	2,664,310	1.53
Scientific research and technologies	1,413,121	0.55	3,310,306	1.90
Others, including entities engaged in various business activities and government-related organs	<u>38,193,330</u>	<u>14.97</u>	<u>36,799,749</u>	<u>21.10</u>
Total	<u>255,111,339</u>	<u>100</u>	<u>174,377,477</u>	<u>100</u>
Less: Provision for bad loans	<u>6,268,205</u>		<u>4,945,005</u>	
Net	<u>248,843,134</u>		<u>169,432,472</u>	

b. Loans grouped by geographical area in which borrowers are located

Area	<u>December 31,2003</u>		<u>December 31,2002</u>	
	Amount	Percentage (%)	Amount	Percentage (%)
Shanghai	67,920,534	26.62	51,931,702	29.78
Beijing	20,737,650	8.13	14,729,776	8.45
Jiangsu province	26,756,471	10.49	15,230,915	8.73
Zhejiang province	41,065,954	16.10	25,267,876	14.49
Guangdong province	22,400,560	8.78	18,152,570	10.41
Other districts of PRC	75,447,214	29.57	48,745,158	27.95
Off-shore banking	<u>782,956</u>	<u>0.31</u>	<u>319,480</u>	<u>0.19</u>
Total	<u>255,111,339</u>	<u>100</u>	<u>174,377,477</u>	<u>100</u>
Less: bad loans provision	<u>6,268,205</u>		<u>4,945,005</u>	
Net	<u>248,843,134</u>		<u>169,432,472</u>	

B. Derivative financial instrument

All the contracts in connection with the derivative financial instrument of the Company are dealt with at the headquarters in Shanghai. The credit risk lies with the fact that whether the trading counterparts can pay the money in time as stipulated in the contracts, the fair value of which is the amount of repayment of the corresponding assets liabilities in transaction.

To lower the credit risk brought about by the derivative financial instruments, the Company signed principal offset contracts with some trading counterparts. The criteria adopted to assess the credit risk brought about by the derivative financial instruments are the same as those adopted to assess the risks of the other business.

(2) Currency risk

The Company is established in the P.R.C. and operates therein. The recording currency is RMB. The foreign currency transactions are mainly dominated in USD. The exchange rate of RMB and USD is subject to the control and supervision of PBOC, therefore minor fluctuations occurred in the reporting year. The loans and advances of the Company are mainly expressed in RMB, the rest are mainly in USD. However, there are such situations that the foreign currencies other than RMB and USD are adopted in terms of deposits and investments. As a result, the Company enters into hedge transactions to lower the related currency risk.

Item	RMB	USD Into RMB	HKD Into RMB	Others into RMB	Total
Assets					
Cash on hand	821,446	116,890	57,605	85,889	1,081,830
Due from the central bank and other banks	39,656,367	1,814,549	1,629,284	389,399	43,489,599
Loans	236,479,466	10,404,058	122,034	1,837,576	248,843,134
Placements	16,004,637	3,928,438	1,172,600	818,789	21,924,464
Investments	41,572,459	2,960,231	117,260	865,131	45,515,081
Other assets	<u>7,857,198</u>	<u>1,691,572</u>	<u>50,853</u>	<u>602,967</u>	<u>10,202,590</u>
Total assets	<u>342,391,573</u>	<u>20,915,738</u>	<u>3,149,636</u>	<u>4,599,751</u>	<u>371,056,698</u>
Liabilities:					
Deposits	301,281,891	15,010,020	3,054,389	2,767,793	322,114,093
Inter-bank Borrowings	11,705,271	207,234	-	413,996	12,326,501
Due to banks	14,245,916	1,846,019	95,245	93,075	16,280,255
Other liabilities	<u>3,532,664</u>	<u>3,473,049</u>	<u>-</u>	<u>1,319,213</u>	<u>8,324,926</u>
Total liabilities	<u>330,765,742</u>	<u>20,536,322</u>	<u>3,149,634</u>	<u>4,594,077</u>	<u>359,045,775</u>
Net exposure	<u>11,625,831</u>	<u>379,416</u>	<u>2</u>	<u>5,674</u>	<u>12,010,923</u>

(3) Interest rate risk

Most of the financial assets and liabilities of the Company are expressed in RMB. As of December 31, 2003, the details are as follows:

	<u>December 31, 2003</u>			<u>December 31, 2002</u>		
	Total equivalent RMB ('000)	of RMB ('000)	Proportion of RMB to total %	Total equivalent of RMB ('000)	of RMB to total %	Proportion of RMB to total %
Cash on hand and in bank	821,446	1,081,830	75.93	808,381	1,064,503	75.94

Due from the central bank and other banks	39,656,367	43,489,599	91.19	34,988,782	36,096,778	96.93
Loans	236,479,466	248,843,134	95.03	161,030,232	169,432,472	95.04
Placements and reverse repurchase agreement	<u>16,004,637</u>	<u>21,924,464</u>	<u>73.00</u>	<u>16,325,123</u>	<u>24,092,531</u>	67.76
Total assets	<u>292,961,916</u>	<u>315,339,027</u>	<u>92.90</u>	<u>213,152,518</u>	<u>230,686,284</u>	92.40
Liabilities						
Deposits	301,281,891	322,114,093	93.53	227,293,318	243,913,238	93.19
Inter-bank Borrowings	11,705,271	12,326,501	94.96	4,924,739	4,970,264	99.08
Due to banks	<u>14,245,916</u>	<u>16,280,255</u>	<u>87.50</u>	<u>13,334,808</u>	<u>15,241,409</u>	87.49
Total Liabilities	<u>327,233,078</u>	<u>350,720,849</u>	<u>93.30</u>	<u>245,552,865</u>	<u>264,124,911</u>	92.97

The Company provides loan and deposit services based on the interest rates determined by PBOC, which adjusted the rates on February 2, 2002. The details are as follows:

**Adopted from February 21, 2002
on**

Short-term loans and advances	5.04 to 5.31
Mid-term and long-term loans	5.49 to 5.76
Overdue loans	2.1
Demand deposits of individual consumers and enterprises	0.72
Time deposits of individual consumers (maturing within one to five years)	1.71 to 2.79
Enterprise call deposit (one to seven days call)	1.08 to 1.62
Enterprise term deposits	1.44 to 1.98
Balances with central bank	
Deposits	1.89
Rediscount	2.97

As stipulated by PBOC, the upward float range of loan interest may be extended to 30% and the downward float range is 10%.

Discount rate is decided on the basis of rediscount rate plus certain percentage. However, it cannot exceed the credit interest rate of the same grade (floating included). The interest rates on the inter-bank lending and borrowing can be negotiated between the lender and the borrower, generally decided on the basis of enterprises deposit interest rates and loan interests. There is normally no interest rate difference between that on the lending and borrowing in the money market.

Upon the approval of the State Council, PBOC decided on December 10, 2003 to expand the float range of loan interests for financial institutions and lower the deposit interest rate for excessive deposit reserve. From January 1, 2004 on, the upward float range of loan interest for commercial banks and city credit unions was expanded to 1.7 times of the basic loan interest rate determined by PBOC; that for country credit unions was expanded to 2 times of the basic loan interest rate determined by PBOC; while the downward float range for financial institutions remains 0.9 times of the basic loan interest rate determined by PBOC. From December 21, 2003, the deposit interest rate for excessive deposit reserve was lowered from 1.89% to 1.62% and that for the statutory deposit reserve remains 1.89%.

(4) Liquidity risk

	Overdue	Repaid on time	Within 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Assets							
Cash on hand and in bank	-	1,081,830	-	-	-	-	1,081,830
Due from the central bank and other banks	-	43,489,599	-	-	-	-	43,489,599
Placements and reverse repurchase agreement	381,443	-	18,023,724	3,463,397	55,900	-	21,924,464
Investment	-	7,918,407	437,347	6,110,155	17,898,572	13,150,600	45,515,081
Loans	4,837,770	-	46,541,610	148,323,023	31,767,792	17,372,939	248,843,134
Others	<u>19,909</u>	<u>690,557</u>	<u>694,701</u>	<u>432,713</u>	<u>2,084,318</u>	<u>6,280,392</u>	<u>10,202,590</u>
Total assets	<u>5,239,122</u>	<u>53,180,393</u>	<u>65,697,382</u>	<u>158,329,288</u>	<u>51,806,582</u>	<u>36,803,931</u>	<u>371,056,698</u>
Liabilities							
Deposits	-	170,767,983	31,686,599	95,458,078	15,843,939	8,357,494	322,114,093
Inter-bank Borrowings	-	-	10,151,266	2,175,235	-	-	12,326,501
Due to banks	-	14,851,054	556,078	854,669	18,454	-	16,280,255
Others	<u>-</u>	<u>5,594,044</u>	<u>443,476</u>	<u>799,838</u>	<u>1,238,020</u>	<u>249,548</u>	<u>8,324,926</u>
Total liabilities	<u>-</u>	<u>191,213,081</u>	<u>42,837,419</u>	<u>99,287,820</u>	<u>17,100,413</u>	<u>8,607,042</u>	<u>359,045,775</u>
Net	<u>5,239,122</u>	<u>(138,032,688)</u>	<u>22,859,963</u>	<u>59,041,468</u>	<u>34,706,169</u>	<u>28,196,889</u>	<u>12,010,923</u>

53. Opening and closing balances of cash and cash equivalents

	As at December 31, 2003	As at December 31, 2002
Cash on hand and in bank	1,081,830	1,062,871
Due from central bank	20,253,284	22,117,103
Due from banks	5,627,938	2,968,051
Inter-bank placements maturing within 3 months	6,755,977	4,801,236
Reverse repurchase agreement maturing within 3 months	<u>6,637,543</u>	<u>5,473,247</u>
Total	<u>40,356,572</u>	<u>36,422,508</u>

V Related parties

Related parties without effective control

(1) Related parties without effective control

Name	Relationship with the Company
Shanghai Industry (Group) Co., Ltd.	Shareholder of the Company
Shanghai International Trust Investment Company	Shareholder of the Company
Shanghai International Group Co., Ltd.	Shareholder of the Company
Shanghai Industry Development Co., Ltd.	Shareholder of the Company
SIIC Shanghai International (Group) Co., Ltd.	Shareholder of the Company

(2) Transactions with related parties without effective control

Name	2003 Interest income	2002 Interest income
Shanghai Industry (Group) Co., Ltd.	854	1,279
Shanghai International Trust Investment Company	38	-
Shanghai Industry Development Co., Ltd.	211	-
SIIC Shanghai International (Group) Co., Ltd.	2,941	106

Note: The loans and placements mentioned above were made at the interest rates as specified by PBOC and the general business terms.

(3) Balance of loans and placements with to related parties without effective control

Name of Company	December 31,2003 Amount	December 31,2002 Amount
Shanghai Industry (Group) Co., Ltd.	24,830	41,386
Shanghai International Trust Investment Company	100,000	-
Shanghai Industry Development Co., Ltd.	18,000	-
SIIC Shanghai International (Group) Co., Ltd.	13,239	13,153

VI Contingencies

As of the date on which the financial statements were approved, there is no material pending litigation in which the Company acts as a defendant.

VII Commitments

1. As at December 31, 2003, operating lease commitments for premises and equipment are detailed as follows:

Maturity date for rentals	December 31,2003	December 31,2002
Within 1 year	159,463	189,170
2 – 5 years	427,734	530,189

Over 5 years	<u>176,775</u>	<u>132,519</u>
Total	<u>763,972</u>	<u>851,878</u>

2. As of December 31, 2002, the major capital commitment of the Company which had been approved yet not honored is RMB ¥ 136,960 thousand.

VIII Non-adjusting post balance sheet date events

The Company treats the cash dividends in connection with the reporting period in the informal scheme of profit appropriation and distribution passed at the board of directors' meeting after the balance sheet date as a non-adjusting issue. Please refer to note 45 for details.

IX Debt restructuring

As at the date of the balance sheet, there exists no significant debt restructuring that needs disclosure.

X Non-monetary transactions

As at the date of the balance sheet, there exists no significant non-monetary transaction that needs disclosure.

XI Other matters and events that need disclosure

1. Convertible bonds

On December 12, 2003, as approved by the first ad hoc shareholders' meeting held in 2003, the Company is to issue convertible bonds valuing not exceeding RMB ¥ 6 billion. The related application is still in process.

2. Subordinating term liabilities

As passed at the eleventh meeting of the second session of the board of director's meeting held on February 25, 2004, the Company planned to issue subordinating term liabilities (not exceeding RMB ¥ 6 billion), which is pending approval from the shareholders' meeting. In case that the issuance is successful, the amount received shall be credited to subordinating capital to improve the adequacy of capital of the Company in accordance with the *Notification on Crediting the Subordinating Term Liabilities to Subordinating Capital by China Banking Supervision and Management Committee*.

3. Investments in domestic non-bank financial institutions and enterprises

disposed of

As stipulated in the Commercial Bank Law of the P.R.C. which came into force on July 1, 1995, the Company cannot invest in domestic non-bank financial institutions and enterprises, and investments of the Company made in non-bank financial institutions and enterprises before the Law became effective should be disposed of. Disposal method for these investments should be specifically prescribed by the State Council. The following investments made by the Company have been disposed of in 2002:

Name of investee	Date of capital contribution	Amount of investment	Balance before disposal
Shanghai Outer Gaoqiao Free Trade Zone New Development Co., Ltd.	July 11, 1994	<u>182,770</u>	<u>182,770</u>

On February 6, 2002, the Company entered into an agreement (“the Agreement”) with Shanghai Outer Gaoqiao (Holdings) Co., Ltd. on disposal of its equity interests in Shanghai Outer Gaoqiao Free Trade Zone New Development Co., Ltd., whereby the Company shall sell all of its equity investments therein (namely 48% of total capital of that company) to Shanghai Outer Gaoqiao (Holding) Co., Ltd. at a consideration of RMB ¥ 182,770,000. And Shanghai Outer Gaoqiao (Holdings) Co., Ltd. will put the aforesaid equity interests in pledge to the Company to finance the purchase, the payment for which will be made in several installments with the last installment to be settled on or before November 30, 2004.

Up to December 31, 2003, the equity investment of the Company in Shanghai Outer Gaoqiao Free Trade Zone New Development Co., Ltd. has been transferred to Shanghai Outer Gaoqiao (Holdings) Co., Ltd., and the change in ownership has been registered and completed with the administration authority of industry and commerce. Meanwhile, the Company has received the first installment of consideration therefore, namely RMB ¥ 120,628 thousand, as prescribed in the Agreement. The considerations unsettled at the end of year 2003 (RMB ¥ 62,142 thousand) were reflected in the other receivables account in the balance sheet as classified by the scheduled settlement date.

4. Impact of non-recurring profits and losses on the net profits

Item	2003	2002
Recovery of amounts not yet written off	36,314	34,420
Non-operating income	9,969	16,393
Less: non-operating expenditure	<u>15,885</u>	<u>11,345</u>
Total	<u>30,398</u>	<u>39,468</u>

XII Approval of Financial Statements

The financial statements and notes related thereto were approved for issue by the Board of Directors on February 25, 2004.

Audited Financial Statements

Shanghai Pudong Development Bank Co., Ltd

31 December 2003

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD

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REPORT OF THE INTERNATIONAL AUDITORS

To the members
Shanghai Pudong Development Bank Co., Ltd

We have audited the accompanying balance sheet of Shanghai Pudong Development Bank Co., Ltd (the "Company") as of 31 December 2003, together with the related statements of income and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

In our opinion, the financial statements give a true and fair view of the Company's financial position as of 31 December 2003 and of its results and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Hong Kong
25 February 2004

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD

BALANCE SHEET

At the year ended 31 December 2003

	Notes	31 December 2003 RMB' 000	31 December 2002 RMB' 000
ASSETS			
Cash on hand		1,081,830	1,062,872
Due from the central bank	11	37,861,661	33,128,727
Inter-bank placements	12	7,093,477	10,347,319
Due from banks	13a	5,672,438	3,222,261
Reverse repurchase agreements	14	14,061,144	12,579,702
Trading securities	15	7,483,684	9,554,225
Loans, net of allowance for credit losses	13a	249,568,476	170,343,771
Financial investments	15	38,113,667	31,354,254
Construction in progress	16	265,997	255,266
Property, plant and equipment	17	4,166,583	3,918,879
Intangible assets	18	189,074	194,694
Other assets	19	<u>5,275,458</u>	<u>3,778,783</u>
TOTAL ASSETS		<u>370,833,489</u>	<u>279,740,753</u>
LIABILITIES			
Inter-bank borrowings	12	3,055,379	545,525
Due to banks	20	16,280,255	15,241,409
Repurchase agreements	14	9,271,122	4,424,739
Due to customers	20	321,065,463	242,262,258
Inward and outward remittances		2,171,303	3,286,374
Dividends payable	21	14,985	15,770
Other liabilities	22	<u>6,870,617</u>	<u>5,532,263</u>
TOTAL LIABILITIES		<u>358,729,124</u>	<u>271,308,338</u>
SHAREHOLDERS' EQUITY			
Share capital	23	3,915,000	3,615,000
Share premium		4,869,396	2,685,037
Reserves	24	2,384,208	1,292,459
Retained earnings	25	<u>935,761</u>	<u>839,919</u>
TOTAL SHAREHOLDERS' EQUITY		<u>12,104,365</u>	<u>8,432,415</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>370,833,489</u>	<u>279,740,753</u>

The accounting policies and explanatory notes on pages 6 through 41 form an integral part of the financial statements.

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD

INCOME STATEMENT

For the year ended 31 December 2003

	Notes	2003 RMB' 000	2002 RMB' 000
OPERATING REVENUE			
Interest income	4	12,694,183	8,591,193
Interest expense	4	<u>4,864,681</u>	<u>3,272,143</u>
Net interest income	4	7,829,502	5,319,050
Business tax and surcharges		595,776	469,721
Credit loss expense	13b	<u>2,098,281</u>	<u>1,129,362</u>
Net interest income after business tax and surcharges and credit loss expense		5,135,445	3,719,967
Net fee and commission income	5	225,575	161,609
Net trading income	6	257,120	319,196
Other income	7	<u>286,660</u>	<u>268,717</u>
TOTAL OPERATING INCOME		<u>5,904,800</u>	<u>4,469,489</u>
OPERATING EXPENSES			
Personnel	8	1,543,989	1,116,100
General and administrative	8	1,525,290	1,130,773
Depreciation and amortization	8	<u>472,340</u>	<u>420,486</u>
	8	<u>3,541,619</u>	<u>2,667,359</u>
OPERATING PROFIT BEFORE TAX		2,363,181	1,802,130
Income tax expense	9	<u>(784,090)</u>	<u>(560,118)</u>
NET PROFIT		<u>1,579,091</u>	<u>1,242,012</u>
EARNINGS PER SHARE			
Basic earnings per share (RMB)	10	0.40	0.34
Diluted earnings per share (RMB)	10	0.40	0.34

The accounting policies and explanatory notes on pages 6 through 41 form an integral part of the financial statements.

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2003

	Notes	2003 RMB' 000	2002 RMB' 000
SHARE CAPITAL			
Balance at beginning of year	23	3,615,000	2,410,000
Additions	23	<u>300,000</u>	<u>1,205,000</u>
Balance at end of year	23	<u>3,915,000</u>	<u>3,615,000</u>
SHARE PREMIUM			
Balance at beginning of year		2,685,037	3,890,037
Transfer to share capital	23	<u>2,184,359</u>	<u>(1,205,000)</u>
Balance at end of year		<u>4,869,396</u>	<u>2,685,037</u>
RESERVES			
Balance at beginning of the year	24	1,292,459	462,333
Transfer from retained earnings	24	<u>1,091,749</u>	<u>830,126</u>
Balance at end of year	24	<u>2,384,208</u>	<u>1,292,459</u>
RETAINED EARNINGS			
Balance at beginning of year		839,919	910,033
Net profit for the year		1,579,091	1,242,012
Transfer to reserves	24	(1,091,749)	(830,126)
Dividends	25a	<u>(391,500)</u>	<u>(482,000)</u>
Balance at end of year		<u>935,761</u>	<u>839,919</u>
TOTAL SHAREHOLDERS' EQUITY		<u><u>12,104,365</u></u>	<u><u>8,432,415</u></u>

The accounting policies and explanatory notes on pages 6 through 41 form an integral part of the financial statements.

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD

STATEMENT OF CASH FLOWS

For the year ended 31 December 2003

	Notes	2003 RMB' 000	2002 RMB' 000
NET CASH FLOWS FROM OPERATING ACTIVITIES	26	6,520,103	19,702,005
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(453,279)	(492,826)
Purchase of intangible assets		(28,509)	(13,242)
Purchase of financial investments		(8,699,698)	(9,418,798)
Purchase of equity investments		-	(54,850)
Proceeds from maturity of financial investments		4,584,807	5,082,824
Proceeds from disposal of equity investments		63,562	60,314
Dividend income received		15,372	24,117
Proceeds from disposal of property, plant and equipment		36,664	47,913
Proceeds from disposal of intangible assets		17,625	-
Payments for constructions in progress		<u>(214,657)</u>	<u>(153,879)</u>
Net cash flows used in investing activities		<u>(4,678,113)</u>	<u>(4,918,427)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of additional public share		2,484,358	-
Dividends paid		<u>(392,285)</u>	<u>(466,740)</u>
Net cash flows received from/(used in) financing activities		<u>2,092,073</u>	<u>(466,740)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents, beginning of year		<u>36,422,509</u>	<u>22,105,671</u>
Cash and cash equivalents, end of year		<u>40,356,572</u>	<u>36,422,509</u>
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Cash on hand		1,081,830	1,062,872
General deposits with the central bank		20,253,284	22,117,103
Due from banks		5,627,938	2,968,051
Inter-bank placements maturing in less than three months		6,755,978	4,801,236
Reverse repurchase agreements in less than three months		<u>6,637,542</u>	<u>5,473,247</u>
		<u>40,356,572</u>	<u>36,422,509</u>

The accounting policies and explanatory notes on pages 6 through 41 form an integral part of the financial statements.

1. CORPORATE INFORMATION

Shanghai Pudong Development Bank Co., Ltd (the “Company”) is a joint-stock commercial bank approved by the People’s Bank of China (“PBOC”), who issued the document “Ying Fu [1992]No.350” on 28 August 1992. The Company’s business license was issued on 19 October 1992 by the Shanghai Municipal Administration of Industry and Commerce. The Company commenced its business on 9 January 1993 and was listed on the Shanghai Stock Exchange in November 1999.

The Company was principally engaged in commercial banking activities.

The registered office of the Company is located at No. 500, Pudong South Road, Pudong New Area, Shanghai, the People’s Republic of China (the “PRC”). The Company operates in the PRC and employed 7,337 employees as at 31 December 2003 (31 December 2002: 6,739).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements have been prepared following the accounting measurement policies set out in note 2 which are in accordance with International Financial Reporting Standards (“IFRS”), which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect. Disclosures have been made, in all material respects, in accordance with IFRS and in a format appropriate to the business environment of the Company and the PRC.

The financial statements have been prepared on a historical cost basis except for the re-measurement at fair value of derivatives and trading and available-for-sale investment securities.

The Company maintains its books and prepares its statutory financial statements in accordance with the relevant financial regulations and accounting principles applicable to joint stock limited companies and financial institutions established by the Ministry of Finance of the PRC. The accounting policies and bases adopted in the preparation of the statutory financial statements differ in certain material respects from IFRS. The material accounting measurement adjustments arising from restating the results and net assets of the Company to comply with IFRS have been made in the preparation of these financial statements, but will not be taken up in the accounting records of the Company. The adjustments include, primarily, adjustments for the accrual of interest receivable/payable and the fair value of derivative contracts and trading securities. Further details with respect to the net impact of these IFRS adjustments are included in note 34.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans and allowances for credit losses

Loans are initially recorded at cost. For loans originated by the Company, the cost is the amount lent to the borrower.

The allowance for credit losses provides for risks of losses inherent in the credit extension process, including loans and lending-related commitments. Such commitments include letters of credit, bank acceptance, guarantees and commitments to extend credit.

Impairments in loans are recognized when it becomes probable that the Company will not be able to collect all amounts due according to the contractual terms of the loans. The carrying amounts of the loans are reduced to their estimated realizable value through specific allowance. The impairment is recognized as an expense for the year. Loans are stated at their principal amount net of any allowance for credit losses.

The recognition of interest on loans and advances ceases when the principal payments of underlying loans and advances are in arrears for 90 days or more, or when the payments of interest receivable are in arrears for more than 90 days.

Revenue recognition

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

- a) interest revenue is recognized on an accrual basis;
- b) fee and commission revenue is recognized when the proceeds can be reasonably estimated; and
- c) dividend is recognized when the shareholders' right to receive the payment is established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative instruments

Derivative instruments including forward exchange contracts and currency and interest rate swaps are carried at fair value. The fair values of derivative instruments are obtained from quoted market prices and discounted cash flow models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Realized and unrealized gains and losses are recognized in net trading income.

On the date a derivative contract is entered into, the Company designates certain derivative as either a fair value hedge (a hedge of the fair value of a recognized asset or liability) or cash flow hedge (a hedge of a future cash flow attributable to a recognized asset or liability, a forecasted transaction or a firm commitment).

Changes in the fair value of derivatives, that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the specific hedged risk, are recorded in the income statement, along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk.

Changes in the fair value of derivatives, that are designated and qualify as cash flow hedges and that prove to be highly effective in relation to the specific hedged risk, are recognized in the hedge reserve in equity. Where the forecasted transaction or firm commitment results in the recognition of an asset or of a liability in the initial measurement of the cost of the asset or liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. Otherwise, amounts deferred in equity are transferred to the income statement as revenue or expense in the periods during which the hedged firm commitment or forecasted transaction affects the income statement.

If the hedging instrument expires or is sold, terminated or exercised or the hedge is no longer qualified as a hedge under the criteria as described, an adjustment to the carrying amount of a hedged financial instrument is amortized to net profit or loss over the year to maturity. The criteria for a derivative instrument to be accounted for as a hedge include: (a) formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared before hedge accounting is applied; (b) the hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting year; and (c) the hedge is effective on an ongoing basis.

Certain derivative transactions, while providing effective economic hedges under the Company's risk management positions, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore treated as derivatives held for trading with fair value gains or losses reported in net trading income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting

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

Reverse repurchase and repurchase transactions

The Company enters into purchases of securities/discounted bills/loans under agreements to resell and sales of securities/discounted bills/loans under agreements to repurchase. Securities/discounted bills/loans purchased subject to commitments to resell at a future date are treated as loans collateralized by the security and are included in reverse repurchase agreements. Securities/discounted bills/loans which have been sold subject to repurchase agreements continue to be recognized in the balance sheet and securities are measured in accordance with the accounting policy for trading or investment assets as appropriate.

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

Trading securities

Trading securities are securities acquired for generating a profit from short-term fluctuations in price. Trading securities are initially recognized at cost and subsequently re-measured at fair value. For investments actively traded in organized financial markets, fair value is generally determined by reference to Stock Exchange quoted market prices at the close of business on the balance sheet date, adjusted for transaction costs necessary to realize the asset. For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another investment which is substantially the same, the prices of the most recent reported sales or purchases of the securities net of relevant market factors, or is calculated based on the expected cash flows of the underlying net asset base of the securities.

Investment securities

The Company classified its investment securities into held-to-maturity and available-for-sale assets. Investment securities with fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale. Management determines the appropriate classification of its investments at the time of the purchase.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment securities (continued)

Investment assets which are intended to be held to maturity are measured at amortized cost using the straight line method, less any provision for impairment. A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortized cost is calculated as the difference between the assets' carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate. By comparison, the recoverable amount of an instrument measured at fair value is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset.

Available-for-sale financial assets are initially recognized at cost and subsequently re-measured at fair value. For investments actively traded in organized financial markets, fair value is generally determined by reference to Stock Exchange quoted market prices at the close of business on the balance sheet date, adjusted for transaction costs necessary to realize the asset. For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another investment which is substantially the same, the prices of the most recent reported sales or purchases of the securities net of relevant market factors, or is calculated based on the expected cash flows of the underlying net asset base of the investments. Unrealized gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognized in equity. When the securities are disposed of or impaired, the related accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

All regular way purchases and sales of investment securities are recognized at settlement date.

Application of estimation

In accordance with the disclosure requirement of IFRS, the management may need to make certain estimations and assumptions in the amounts affecting the financial statements and disclosure notes. Up to a certain extent, the actual results may vary when compared to such estimations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates

An associate is a company, not being a subsidiary or a joint venture, in which the Company has an interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Company's interests in associates are stated in the balance sheet at the Company's share of net assets under the equity method of accounting less any provision for diminution in value other than temporary in nature deemed necessary by the management.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the income statement on a straight-line basis over the lease terms.

Constructions in progress

Constructions in progress represent costs incurred in the construction of office premises including furniture and fixtures. Cost comprises direct costs incurred during the period of construction. Interest charged on related borrowings for the construction is capitalized and such interest ceases when the assets under construction are completed and are ready for their intended use. No capitalization of interest is made if the cost incurred during the construction is from the Company's own fund.

The costs are transferred to property and equipment when bringing to working condition for its intended use and to be depreciated in accordance with the depreciation policy on land and buildings. No provision for depreciation is made on constructions in progress until such time as the relevant assets are completed and put into use.

Intangible assets

Intangible assets comprise premise occupancy rights, land use rights and franchise rights. They are stated at cost less accumulated amortization. Intangible assets are amortized, using the straight-line basis, over the effective useful lives of the rights. The carrying amount of intangible assets are reviewed at each balance sheet by the management of the Company whether they are recorded in excess of their recoverable amount and if carrying values exceed this recoverable amount, assets are written down. Reductions in recoverable amounts are charged to the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalized as an additional cost of the asset.

The carrying amounts of property, plant and equipment are reviewed at each balance sheet date by the management of the Company or an independent valuer to assess whether they are recorded in excess of their recoverable amount, and if carrying values exceed this recoverable amount, assets are written down.

Depreciation is provided to write off the costs of property, plant and equipment over their estimated useful lives, using the straight-line method, at the following rates per annum:

Land and buildings	3.23%
Transportation facilities	19.4%
Computers and software	19.4% and 32.33%
Electronic appliances & Office equipment	19.4%
Leasehold improvements	Over the lease terms

Foreign currency transactions

The Company maintains separate financial records for assets and liabilities and transactions denominated in foreign currencies. The financial statements are stated in RMB.

At the balance sheet date, the balance sheet and income statement denominated in foreign currencies are translated into RMB at the year end rate and average exchange rate of the year respectively. Exchange differences are dealt with in the income statement.

Acceptances

Acceptances comprise undertakings by the Company to pay bills of exchange and domestic trade drafts drawn on customers. The Company expects most acceptances to be settled simultaneously with the reimbursement from the customers. Acceptances are accounted for as off-balance sheet transactions and are disclosed as commitment and contingent liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fiduciary activities

Assets arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements where the Company acts in a fiduciary capacity such as nominee, trustee or agent.

Related parties

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

Tax

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

Deferred tax is provided, using the liability method, on all temporary differences between the tax base of assets and liabilities and their carrying values for statutory financial reporting purposes. Currently enacted tax rates are used to determine deferred tax.

Additional deferred tax is provided, using the liability method, on all timing differences between the tax base of assets and liabilities and then carrying values for IFRS financial reporting purpose. Currently enacted tax rates are used to determine deferred tax.

Retirement benefit scheme

According to the statutory retirements in the PRC, the Company is required to provide certain staff retirement benefits and pensions. The Company is obliged to contribute a fixed percentage of staff salaries to the employee benefits, retirement welfare scheme, governed by the Labor Department of the Municipal People's government. All the contributions are recognized as expense.

Cash equivalents

Cash equivalents represent general deposits with the central bank, due from banks, inter-bank placements maturing in less than 3 months, discounted bills under reverse repurchase agreements and short term and highly liquid investments which are readily convertible to known amounts of cash, subject to an insignificant risk of conversion in value and which were within three months of maturity when acquired.

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD
 NOTES TO THE FINANCIAL STATEMENTS
 At the year ended 31 December 2003

3. SEGMENT REPORTING

The Company's principal business activities are in commercial lending and accepting public deposits. The Company's main source of funding is from customers' deposits to finance its consumer and corporate lending business. The consumer lending is an integral part of the Company's activities and as at 31 December 2003, the percentage of consumer lending against the total lending amounted to 11.58% (31 December 2002: 9.49%). Accordingly, a business segment is not presented.

Since the commencement of the Company's business in January 1993, it has opened branches and sub-branches in various locations in the PRC to expand its operations and customer base. The Company has established a strong presence in certain key locations in the PRC. To enable a more meaningful analysis, a geographical segment report is presented, which has been prepared on a management reporting basis.

	Total operating income		Total assets		Total capital investment		Total capital investment			
	2003.12.31 RMB'000	%	2002.12.31 RMB'000	%	2003.12.31 RMB'000	%	2002.12.31 RMB'000	%		
Off-shore banking	9,225	-	(2,709)	-	1,990,270	-	637,955	-	-	-
Shanghai	1,765,013	30	1,929,736	43	147,237,223	40	119,795,637	43	2,749,968	60
Beijing	475,125	8	489,686	11	25,471,355	7	23,286,427	9	299,719	6
Zhejiang	1,062,674	18	717,399	16	46,820,670	13	31,323,978	11	506,844	11
Jiangsu	619,878	10	342,925	8	33,213,209	9	20,611,516	7	365,551	8
Guangzhou	400,206	7	234,580	5	17,999,572	5	13,573,657	5	32,096	1
Others	1,572,679	27	757,872	17	98,101,190	26	70,511,583	25	667,476	14
Total	5,904,800	100	4,469,489	100	370,833,489	100	279,740,753	100	4,621,654	100

4. NET INTEREST INCOME

	2003 RMB'000	2002 RMB'000
Interest income:		
Interest earned on loans and advances to customers	10,317,570	6,712,507
Interest earned from loans to banks and placements	1,235,536	872,955
Interest income from financial investments	1,125,704	981,614
Dividend income from financial investments	15,373	24,117
	<u>12,694,183</u>	<u>8,591,193</u>
Interest expense:		
Interest on amounts due to customers	3,877,691	2,779,189
Interest on amounts due to banks and borrowings	986,990	492,954
	<u>4,864,681</u>	<u>3,272,143</u>
	<u><u>7,829,502</u></u>	<u><u>5,319,050</u></u>

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD
 NOTES TO THE FINANCIAL STATEMENTS
 At the year ended 31 December 2003

5. NET FEE AND COMMISSION INCOME

	2003 RMB' 000	2002 RMB' 000
Service fee and commission income	285,237	226,348
Service fee and commission expense	<u>(59,662)</u>	<u>(64,739)</u>
	<u>225,575</u>	<u>161,609</u>

6. NET TRADING INCOME

	2003 RMB' 000	2002 RMB' 000
Net gain on trading securities	251,393	324,334
Gain/(loss) on derivative instruments	<u>5,727</u>	<u>(5,138)</u>
	<u>257,120</u>	<u>319,196</u>

7. OTHER INCOME

	2003 RMB' 000	2002 RMB' 000
Net foreign exchange gains	197,540	177,980
Surcharges	494	281
Other income	<u>88,626</u>	<u>90,456</u>
	<u>286,660</u>	<u>268,717</u>

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD
NOTES TO THE FINANCIAL STATEMENTS
At the year ended 31 December 2003

8. OPERATING EXPENSES

	2003 RMB' 000	2002 RMB' 000
Personnel expenses:		
Salaries and bonuses	514,611	367,067
Insurance and social contributions	251,841	177,270
Other personnel expenses	<u>777,537</u>	<u>571,763</u>
	<u>1,543,989</u>	<u>1,116,100</u>
General and administrative expenses:		
Occupancy	246,319	223,974
Properties and equipment maintenance	40,974	32,579
Computer system maintenance	64,033	41,802
Telecommunications and postage	75,728	53,141
Administration	484,832	366,006
Entertainment	160,639	108,788
Travelling	105,368	85,310
Professional fees	48,860	16,794
Net loss/(gain) on disposal of property, plant and equipment	935	(9,844)
Donations	8,719	2,908
Other expenses	<u>288,883</u>	<u>209,315</u>
	<u>1,525,290</u>	<u>1,130,773</u>
Depreciation and amortization:		
Depreciation of property, plant and equipment	455,741	407,146
Amortization of intangible assets	<u>16,599</u>	<u>13,340</u>
	<u>472,340</u>	<u>420,486</u>
Total operating expenses	<u><u>3,541,619</u></u>	<u><u>2,667,359</u></u>

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD
 NOTES TO THE FINANCIAL STATEMENTS
 At the year ended 31 December 2003

9. INCOME TAX

	2003 RMB' 000	2002 RMB' 000
Income tax expense:		
Charge for the year	1,255,879	489,113
Under provision in respect of prior years	1,315	30,496
Deferred tax	<u>(473,104)</u>	<u>40,509</u>
	<u>784,090</u>	<u>560,118</u>

The differences between income tax expense reflected in the financial statements and the amounts calculated at the statutory rate of 33% were as follows:

Operating profit before tax	<u>2,363,181</u>	<u>1,802,130</u>
Income tax at statutory rate of 33%	779,849	594,702
Increase/(decrease) resulting from:		
Applicable tax rates of certain investments differing from the statutory rate	3,120	4,391
Under provision in respect of prior years	1,315	30,496
Non-deductible expenses	337,221	244,759
Non-assessable income	<u>(337,415)</u>	<u>(314,230)</u>
	<u>784,090</u>	<u>560,118</u>

Significant components of the Company's deferred income tax asset/(liability) were as follows:

	31 December 2003 RMB' 000	31 December 2002 RMB' 000
Allowance for credit losses	1,732,328	1,248,804
Net interest receivable	(20,771)	(5,515)
Trading securities	(1,763)	(24,584)
Others	<u>(11,623)</u>	<u>6,362</u>
	<u>1,698,171</u>	<u>1,225,067</u>

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD
 NOTES TO THE FINANCIAL STATEMENTS
 At the year ended 31 December 2003

10. EARNINGS PER SHARE

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

	2003 RMB' 000	2002 RMB' 000
Earnings per share calculation:		
Net profit for the year (RMB' 000)	1,579,091	1,242,012
Weighted average common shares outstanding (Unit' 000)	3,905,000	3,615,000
Basic earnings per share (RMB)	0.40	0.34
Diluted earnings per share (RMB)	0.40	0.34

11. DUE FROM THE CENTRAL BANK

	2003-12-31 RMB' 000	2002-12-31 RMB' 000
Due from the central bank:		
General deposits	20,253,284	22,117,103
Statutory deposits	17,578,900	10,945,125
Fiduciary deposits	<u>29,477</u>	<u>66,499</u>
	<u><u>37,861,661</u></u>	<u><u>33,128,727</u></u>

The statutory deposits represent a statutory reserve of 7% (31 December 2002: 6%) on customer deposits denominated in RMB and 2% (31 December 2002: 2%) of customer deposits denominated in foreign currencies held by the Company.

Fiduciary deposits represent amounts received from the Ministry of Finance that are required to be deposited with the central bank.

12. INTER-BANK PLACEMENTS AND INTER-BANK BORROWINGS

	2003-12-31 RMB' 000	2002-12-31 RMB' 000
Inter-bank placements:		
Domestic banks	1,634,150	3,429,989
Foreign banks	<u>5,459,327</u>	<u>6,917,330</u>
	<u><u>7,093,477</u></u>	<u><u>10,347,319</u></u>
Inter-bank borrowings:		
Domestic banks	2,600,000	500,000
Foreign banks	<u>455,379</u>	<u>45,525</u>
	<u><u>3,055,379</u></u>	<u><u>545,525</u></u>

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD
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13a. DUE FROM BANKS AND LOANS TO CUSTOMERS

The composition of due from banks, the loan portfolio and the allowance for credit losses by types of exposure at the end of the year was as follows:

	2003-12-31 RMB' 000	2002-12-31 RMB' 000
Due from banks:		
Domestic banks	2,862,370	2,976,773
Foreign banks	<u>2,810,068</u>	<u>245,488</u>
	<u>5,672,438</u>	<u>3,222,261</u>
Loans and advances to customers:		
Corporate	225,480,307	157,738,868
Consumer	29,631,028	16,638,609
Non-bank financial institutions:		
Leasing companies	22,802	26,900
Securities companies	709,421	880,000
Fiduciary investment companies	<u>4,400</u>	<u>4,400</u>
	<u>255,847,958</u>	<u>175,288,777</u>
Due from banks and loans and advances to customers	261,520,396	178,511,038
Allowance for losses	<u>(6,279,482)</u>	<u>(4,945,006)</u>
	<u>255,240,914</u>	<u>173,566,032</u>

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD
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13a. DUE FROM BANKS AND LOANS TO CUSTOMERS (continued)

The composition of loans and advances to customers by type of collateral at the balance sheet date was as follows:

	2003-12-31 RMB' 000	2002-12-31 RMB' 000
Loans and advances:		
Guaranteed	112,687,545	69,111,952
Secured by mortgages and other collateral	73,622,385	49,041,050
Unsecured	39,815,065	24,663,569
Trade finance:		
Import and export advances and negotiation	1,887,661	756,392
Factoring	813,933	177,496
Discounted bills	<u>27,021,369</u>	<u>31,538,318</u>
	<u>255,847,958</u>	<u>175,288,777</u>

13b. ALLOWANCE AND PROVISION FOR CREDIT LOSSES

	2003-12-31 RMB' 000	2002-12-31 RMB' 000
Balance at beginning of year	4,945,006	4,223,661
Write-offs	(679,719)	(473,942)
Transfer-out	(141,747)	-
Recoveries	57,661	65,925
Increase in allowance for credit losses for the year	<u>2,098,281</u>	<u>1,129,362</u>
Balance at end of year	<u>6,279,482</u>	<u>4,945,006</u>

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD
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14. REPURCHASE AND REVERSE REPURCHASE AGREEMENTS

	2003-12-31 RMB' 000	2002-12-31 RMB' 000
Reverse repurchase agreements:		
Discounted bills under reverse repurchase agreements	8,122,644	10,889,702
Trading securities and financial investments under reverse repurchase agreements	2,400,000	1,690,000
Credit assets under reverse repurchase agreements	<u>3,538,500</u>	<u>-</u>
Balance at end of year	<u>14,061,144</u>	<u>12,579,702</u>
Repurchase agreements:		
Discounted bills under repurchase agreements	5,842,622	4,324,739
Trading securities and financial investments under reverse repurchase agreements	<u>3,428,500</u>	<u>100,000</u>
Balance at end of year	<u>9,271,122</u>	<u>4,424,739</u>

The counterparties of the repurchase and reverse repurchase agreements are financial institute in the PRC.

Discounted bills and trading securities under repurchase agreements were secured by discounted bills and trading securities of equivalent amounts respectively.

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15. INVESTMENTS AND TRADING SECURITIES

	2003-12-31 RMB' 000	2002-12-31 RMB' 000
Trading securities:		
Treasury notes, government bonds and other bonds in RMB	6,852,225	5,768,232
Foreign currency bonds	<u>631,459</u>	<u>3,785,993</u>
Total trading securities	<u>7,483,684</u>	<u>9,554,225</u>
Financial investments, at cost:		
Treasury notes, government bonds and other bonds in RMB	34,320,171	30,902,943
Foreign currency bonds	3,345,433	-
Equities, unlisted	15a <u>452,622</u>	<u>455,870</u>
	38,118,226	31,358,813
Provision for diminution in value	<u>(4,559)</u>	<u>(4,559)</u>
Total financial investments	<u>38,113,667</u>	<u>31,354,254</u>
Total investments	<u>45,597,351</u>	<u>40,908,479</u>

Included in treasury note and government bonds categorized under financial investments and trading securities are securities pledged under repurchase agreements amounted to RMB3,357 million (31 December 2002: RMB100 million) and RMB225 million (31 December 2002: Nil) respectively. All repurchase agreements mature within twelve months from their respective dates of inception.

15a. Unlisted equities at the balance sheet date were as follow:

Company	% share held	2003-12-31 RMB' 000	2002-12-31 RMB' 000
First Sino Bank	10%	84,319	87,567
Shenlian International Investment Co., Ltd.	16.5%	288,303	288,303
China Yinlian Co., Ltd.	4.85%	<u>80,000</u>	<u>80,000</u>
Total		<u>452,622</u>	<u>455,870</u>

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16. CONSTRUCTION IN PROGRESS

	2003-12-31 RMB' 000	2002-12-31 RMB' 000
At beginning of year	255,266	624,226
Additions	214,657	192,840
Transferred to property, plant and equipment	<u>(203,926)</u>	<u>(561,800)</u>
At end of year	<u>265,997</u>	<u>255,266</u>

17. PROPERTY, PLANT AND EQUIPMENT

	At beginning of year RMB' 000	Additions RMB' 000	Disposals RMB' 000	At end of year RMB' 000
Property, plant and equipment at cost:				
Land and buildings	3,289,612	320,812	11,537	3,598,887
Transportation facilities	212,514	13,817	16,806	209,525
Computers and software	917,730	281,051	194,955	1,003,826
Electronic and office equipment	152,708	60,149	21,010	191,847
Leasehold improvements	<u>797,471</u>	<u>106,620</u>	<u>42,065</u>	<u>862,026</u>
	<u>5,370,035</u>	<u>782,449</u>	<u>286,373</u>	<u>5,866,111</u>
Accumulated depreciation:				
Land and buildings	298,142	104,504	1,010	401,636
Transportation facilities	125,647	26,430	12,125	139,952
Computers and software	555,311	181,258	153,321	583,248
Electronic office equipment	84,564	30,135	9,558	105,141
Leasehold improvements	<u>387,492</u>	<u>113,414</u>	<u>31,355</u>	<u>469,551</u>
	<u>1,451,156</u>	<u>455,741</u>	<u>207,369</u>	<u>1,699,528</u>
Net book value	<u>3,918,879</u>			<u>4,166,583</u>

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18. INTANGIBLE ASSETS

	At beginning of year RMB' 000	Additions RMB' 000	Disposals RMB' 000	Amortization RMB' 000	At end of year RMB' 000	Remaining Amortization year
Premise occupancy rights	129,216	20,839	10,925	6,988	132,142	20 - 26 years
Land use rights	33,750	7,270	6,585	1,728	32,707	43.5 - 44.5 years
Franchise	31,119	-	20	7,685	23,414	2 - 3 years
Others	<u>609</u>	<u>400</u>	<u>-</u>	<u>198</u>	<u>811</u>	3.5 - 4.5 years
	<u>194,694</u>	<u>28,509</u>	<u>17,530</u>	<u>16,599</u>	<u>189,074</u>	

19. OTHER ASSETS

	2003-12-31 RMB' 000	2002-12-31 RMB' 000
Interest receivable from financial investments	575,478	494,524
Interest receivable from loans and advances	19a 164,392	85,847
Interest receivable from inter-bank placements	1,902	19,076
Interest receivable from reverse repurchase agreements	1,843	2,506
Working capital	10,712	3,716
Settlement and clearing	487,715	333,008
Advance payments for office renovation	180,572	150,203
Staff housing loans	1,149,791	583,641
Prepaid rental expenses	5,767	6,173
Deferred tax asset	9 1,698,171	1,225,067
Assets acquired from insolvent debtors for resale	255,640	167,080
Receivables from derivative instruments	27 92,268	112,133
Securities finance receivables	57	218
Consideration receivable on share transfer	62,142	122,456
Refund from the Pudong Tower construction	181,228	183,230
Receivables from over-paid interest on negotiated deposit	141,444	101,444
Other receivables	<u>266,336</u>	<u>188,461</u>
	<u>5,275,458</u>	<u>3,778,783</u>

19a. When loans and advances are in arrears for 90 days or more, recognition of interest income ceases and the interest is recorded off-balance sheet. Interest income previously recognized is reversed and recorded off-balance sheet when loans and advances are in arrears for 90 days, or the interest receivables are in arrears for more than 90 days. As at 31 December 2003, the total unrecognized interest receivable was RMB 1,405,157,000 (31 December 2002: RMB 1,573,277,000).

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20. DUE TO BANKS AND CUSTOMERS

	2003-12-31 RMB' 000	2002-12-31 RMB' 000
Due to banks:		
Domestic banks	<u>16,280,255</u>	<u>15,241,409</u>
Due to customers:		
Short-term deposits	148,561,865	124,428,143
Long-term deposits	115,555,047	83,371,302
Guaranteed deposits	56,771,453	34,342,539
Entrusted deposits	113,807	74,983
Deposits from the Ministry of Finance	<u>63,291</u>	<u>45,291</u>
	<u>321,065,463</u>	<u>242,262,258</u>
Total due to banks and customers	<u>337,345,718</u>	<u>257,503,667</u>

Short-term deposits represent deposits maturing within 1 year. The guaranteed deposits represent margin deposits from customers for banking facilities granted by the Company.

21. DIVIDENDS PAYABLE

	2003-12-31 RMB' 000	2002-12-31 RMB' 000
Dividends declared out of prior year net profits	<u>14,985</u>	<u>15,770</u>

22. OTHER LIABILITIES

	2003-12-31 RMB' 000	2002-12-31 RMB' 000
Interest payable	1,072,103	970,307
Bank drafts payable	1,389,164	1,426,231
Personnel expense payable	64,149	8,655
Welfare expense payable	87,858	56,420
Social securities fund deposits	130,925	287,399
Taxes payable	1,120,982	458,400
Payables on derivative contracts	27 201,842	166,808
Others	<u>2,803,594</u>	<u>2,158,043</u>
	<u>6,870,617</u>	<u>5,532,263</u>

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23. SHARE CAPITAL

	Non-marketable shares owned by sponsors					Total non-marketable portion	Marketable portion	Total
	Sponsors portion	Non-marketable shares owned by legal person other than sponsors					Ordinary shares quoted in RMB (A-Shares)	
		Shares owned by domestic legal persons	Shares owned by the state government	Shares owned by domestic legal persons	Shares owned by foreign legal persons			
2002-1-1								
Number of shares								
Unit' 000	789,000	258,740	962,260	-	1,221,000	2,010,000	400,000	2,410,000
RMB' 000	789,000	258,740	962,260	-	1,221,000	2,010,000	400,000	2,410,000
Addition								
Number of shares								
Unit' 000	394,500	129,370	481,130	-	610,500	1,005,000	200,000	1,205,000
RMB' 000	394,500	129,370	481,130	-	610,500	1,005,000	200,000	1,205,000
2002-12-31 and 2003-1-1								
Number of shares	1,183,500	388,110	1,443,390	-	1,831,500	3,015,000	600,000	3,615,000
Unit' 000	1,183,500	388,110	1,443,390	-	1,831,500	3,015,000	600,000	3,615,000
RMB' 000	1,183,500	388,110	1,443,390	-	1,831,500	3,015,000	600,000	3,615,000
Addition/(Disposal)								
Number of shares	23a (72,300)	(108,450)	-	180,750	72,300	-	300,000	300,000
Unit' 000	23a (72,300)	(108,450)	-	180,750	72,300	-	300,000	300,000
RMB' 000	23a (72,300)	(108,450)	-	180,750	72,300	-	300,000	300,000
2003-12-31								
Number of shares	1,111,200	279,660	1,443,390	180,750	1,903,800	3,015,000	900,000	3,915,000
Unit' 000	1,111,200	279,660	1,443,390	180,750	1,903,800	3,015,000	900,000	3,915,000
RMB' 000	1,111,200	279,660	1,443,390	180,750	1,903,800	3,015,000	900,000	3,915,000

According to a paper Zhen Jian Gong Si Zi [2002] No. 135 issued by China Securities Regulatory Commission's ("CSRC") on 23 December 2002, the Company was allowed to issue additional 300,000,000 A shares, which were priced at RMB8.45 per share. The issue of additional shares was completed on 13 January 2003 and the increased paid-up capital was verified by the Ernst & Young Dahua Accounting Corporation Limited by issuing the capital verification report of Ernst & Young Dahua Ye Zi (2003) No. 016.

- 23a. Shanghai National Assets Management Company Limited and Shanghai Jiushi Company, the shareholders of the Company, entered into share transfer agreements with Citibank Overseas Investment Corporation for the transfer of 108,450,000 and 72,300,000 non-marketable shares respectively.

The aforesaid share transfer agreements were approved by State Owned Assets Supervision and Administration Commission of the State Council. Citibank Overseas Investment Corporation completed share transfer procedure at 30 September 2003 and owned 180,750,000 non-marketable shares (4.62% of total share capital) accordingly.

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24. RESERVES

	Statutory surplus reserve RMB' 000	Statutory public welfare fund RMB' 000	Discretionary surplus reserve RMB' 000	General reserve RMB' 000	Total RMB' 000
Balance as at 1 January 2002	306,426	155,907	-	-	462,333
Appropriations from net profit for the year (note 24c,24e)	<u>128,531</u>	<u>128,531</u>	<u>73,064</u>	<u>500,000</u>	<u>830,126</u>
Balance as at 31 December 2002 and at 1 January 2003	434,957	284,438	73,064	500,000	1,292,459
Appropriations from net profit for the year (note 24c, 24d, 24e)	<u>156,609</u>	<u>156,609</u>	<u>128,531</u>	<u>650,000</u>	<u>1,091,749</u>
Balance as at 31 December 2003	<u>591,566</u>	<u>441,047</u>	<u>201,595</u>	<u>1,150,000</u>	<u>2,384,208</u>

24a. Statutory surplus reserve

In accordance with the PRC Company Law, the Company is required to allocate 10% of its profit after tax, as determined in accordance with PRC accounting standards and regulations applicable to the Company, to the statutory surplus reserve until such reserve reaches 50% of the registered capital of the Company. Subject to certain restrictions set out in the PRC Company Law and the Company's articles of association, statutory surplus reserve may be distributed to shareholders in the form of bonus issues, but the minimum retained statutory surplus reserve must not fall below 25% of the registered share capital.

24b. Statutory public welfare fund

In accordance with the PRC Company Law, the Company is required to transfer 5% to 10% of its profit after tax, as determined in accordance with the PRC accounting standards and regulations applicable to the Company, to a statutory public welfare fund ("PWF") which is a non-distributable reserve other than in the event of the liquidation of the Company. PWF must be used for capital expenditure on staff welfare facilities and these facilities will remain the property of the Company. When the PWF is utilized, an amount equal to the lower of cost of the assets and the balance of the PWF will be transferred from the PWF to the discretionary surplus reserve. On disposal of the relevant assets, the original transfers from the PWF are reversed.

24c. Appropriations from net profit for the year

Pursuant to the board resolution on 27 March 2003, appropriations based on 10% of the net profit for the year 2002 were proposed and made to each of the statutory surplus reserve, statutory public welfare fund and the discretionary surplus reserve. As the amount to be appropriated to the discretionary surplus reserve would only be finalized at the Annual General Meeting of Shareholders, the financial statements had not incorporated the proposed 10% appropriation to the discretionary surplus reserve as at 31 December 2002. Pursuant to the resolution passed by 2002 Annual General Meeting of shareholders on 28 April 2003 regarding appropriation to discretionary surplus reserve based on 10% of net profit, the financial statements for the year ended 31 December 2003 has incorporated the proposed 10% appropriation to the discretionary surplus reserve.

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24d. Pursuant to the board resolution passed on 25 February 2004, the appropriations to statutory surplus reserve, statutory public welfare fund and the discretionary surplus reserve of 2003 were made on basis of 10% net profit for the year. Until the date of issue of 2003 financial statements, the appropriation method had not been approved by 2003 Annual General Meeting of the shareholders. Consequently, 2003 financial statements had not included the proposed 10% appropriation to the discretionary surplus reserve.

24e. Pursuant to the “Accounting System for Financial Enterprises” issued on 17 November 2001, effective from 1 January 2002, general reserve made by financial enterprises engaging in the deposit and loan activities and loan activities shall form part of the owner’s equity.

Pursuant to the board resolution passed on 27 March 2003, the appropriation to general reserve for the year 2002 was RMB500,000,000.

Pursuant to the board resolution passed on 25 February 2004, the appropriation to general reserve for the year 2003 was RMB650,000,000.

25. RETAINED EARNINGS

These financial statements are prepared in accordance with the basis of presentation set out in note 2. These financial statements are not the statutory financial statements of the Company and are prepared for readers’ reference only.

Commencing from 2001, in accordance with the regulations of the *Questions and Answers on Standard Disclosures by Companies with Publicly Issued Shares, No. 4* issued by the PRC Securities Regulatory Committee, listed financial companies should make appropriations to the statutory surplus reserve and statutory public welfare fund based on the net profit for the year as stated in the Company’s statutory financial statements. However, appropriation to the discretionary surplus reserve and payment of dividends should be made based on the lower of net profit for the year as stated in the Company’s statutory financial statements and these financial statements.

25a. DIVIDENDS

Pursuant to a resolution passed by the Annual General Meeting of Shareholders on 28 April 2003, dividend of RMB0.1 per share was approved for the financial year of 2002. These dividends (totaling RMB391,500,000), which had not been recognized as at 31 December 2002, were recognized in the current year financial statements.

Pursuant to the board resolution on 25 February 2004, a dividend of RMB0.11 per share were proposed and approved for the financial year of 2003 on the basis of 3,915,000,000 shares. As at 31 December 2003, these dividends (totaling RMB430,650,000) were not recognized as liabilities in current year financial statements.

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26. NOTE TO THE STATEMENT OF CASH FLOWS

	2003 RMB' 000	2002 RMB' 000
Net profit	1,579,091	1,242,012
Adjustments to reconcile to cash flow from operating activities		
Non-cash items included in net profit and other adjustments:		
Depreciation and amortization	472,340	420,486
Allowance for credit loss	2,098,281	1,129,362
Exchange gain for equity investment	-	(17,372)
Deferred tax	(473,104)	40,509
Loss/(gain) on disposal of property, plant and equipment	935	(9,844)
Loss/(gain) on disposal of intangible assets	(95)	-
Provision for diminution of value for equity investment	-	(980)
Dividends income received	(15,373)	(24,117)
Amortization of investments premium	16,052	11,659
Net decrease / (increase) in operating assets:		
Due from the central bank	(6,596,753)	(3,833,965)
Inter-bank placements	5,208,584	(712,767)
Due from banks	209,710	46,400
Reverse repurchase	(317,146)	(1,789,194)
Trading securities	(593,281)	(2,873,952)
Loans to customers	(81,322,986)	(78,498,926)
Other assets	(1,123,023)	(474,274)
Net increase / (decrease) in operating liabilities:		
Due to the central bank	-	(459,799)
Inter-bank borrowings	2,509,854	(199,378)
Due to banks	1,038,846	4,785,824
Repurchase	4,846,383	3,576,239
Due to customers	78,803,205	94,928,819
Inward and outward remittances	(1,115,071)	1,055,525
Other liabilities	631,072	965,923
Income tax (paid)/refunded	<u>662,582</u>	<u>393,815</u>
Net cash flow from operating activities	<u><u>6,520,103</u></u>	<u><u>19,702,005</u></u>

27. DERIVATIVE INSTRUMENTS

The Company entered into derivative transactions for sales activities and asset/liability management activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to transfer, modify or reduce current or expected risks.

To mitigate the market risk for transactions entered with the customers, the Company entered into back-to-back contracts with third parties which effectively transferred the Company's market risk exposure arising from the contracts.

The Company uses derivatives as part of its asset/liability management activities. When there is a mismatch of interest rates between the Company's assets and liabilities, i.e. when the Company purchases assets at fixed rates funded from deposits at floating rates, it subjects itself to fair value fluctuations as market interest rates change. These fluctuations in fair value are managed by entering into interest rate contracts which change the fixed rate instrument into a variable rate instrument.

The Company uses the following derivative financial instruments for both trading and hedging purposes:

Swaps: Swaps are commitments to exchange one set of cash flow for another for a predetermined period.

Interest rate swap contracts generally represent the contractual exchange of fixed and floating rate payments of a single currency, based on a notional amount and a reference interest rate.

Cross currency interest rate swap contracts generally involve the exchange of payments which are based on the interest reference rates available at the inception of the contract on the principal balances of the two different currencies that are being exchanged. The principal balances are re-exchanged at an agreed upon rate at a specified future date.

Forwards: Forwards are contractual obligations to buy or sell a financial instrument on a future date at a specified price.

The following table provides the notional amount and the fair value of the Company's derivative instruments.

The notional amount is the amount of a derivative underlying asset or reference rate and is the basis upon which changes in the value of derivatives are measured. It provides an indication of the volume of business transacted by the Company but does not provide any measure of risk.

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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27. DERIVATIVE INSTRUMENTS (continued)

	2003-12-31		
	Notional amount RMB' 000	Fair value	
		Assets RMB' 000	Liabilities RMB' 000
Derivatives held for trading:			
Interest rate swaps	-	-	-
Currency swaps	472,594	87,983	87,983
Currency forwards	512,614	<u>3,300</u>	<u>2,498</u>
Total derivative assets/liabilities held for trading		<u>91,283</u>	<u>90,481</u>
Derivatives held for hedging:			
Derivatives designated as fair value hedges			
Interest rate swaps	697,726	985	43,443
Currency swaps	323,403	<u>-</u>	<u>67,918</u>
Total derivative assets/liabilities held for hedging		<u>985</u>	<u>111,361</u>
Total derivative assets/liabilities		<u>92,268</u>	<u>201,842</u>
2002-12-31			
	Notional amount RMB' 000	Fair value	
		Assets RMB' 000	Liabilities RMB' 000
Derivatives held for trading:			
Interest rate swaps	3,145,336	50,740	50,740
Currency swaps	472,983	42,615	42,615
Currency forwards	212,548	<u>1,753</u>	<u>6,678</u>
Total derivative assets/liabilities held for trading		<u>95,108</u>	<u>100,033</u>
Derivatives held for hedging:			
Derivatives designated as fair value hedges			
Interest rate swaps	803,302	1,317	49,568
Currency swaps	323,423	<u>15,708</u>	<u>17,207</u>
Total derivative assets/liabilities held for hedging		<u>17,025</u>	<u>66,775</u>
Total derivative assets/liabilities		<u>112,133</u>	<u>166,808</u>

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28. COMMITMENTS AND CONTINGENT LIABILITIES

	2003-12-31 RMB' 000	2002-12-31 RMB' 000
Bank acceptance	94,949,445	45,039,517
Confirmed letter of credit	2,404,371	2,510,542
Guarantees issued	8,760,573	5,656,465
Irrevocable letter of credits issued	7,778,741	6,439,261
Re-discounted bills to PBOC	3,296,629	86,800

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

As at 31 December 2003, the Company has material capital commitments amounting to RMB136,960,000.

29. FIDUCIARY TRANSACTIONS

	2003-12-31 RMB' 000	2002-12-31 RMB' 000
29a. Entrusted deposits:		
PBOC	1,532,500	1,775,000
Others	9,383,582	6,235,268

Entrusted deposits represent funds which depositors have instructed the Company to use to make loans to third parties designated by them. The credit risk remains with the depositors.

29b. Custody services

Pursuant to the approval made by CSRC and the China Banking Regulatory Commission on 10 September 2003, the Company is able to provide the custody services for securities investment fund. As at 31 December 2003, the Company only acted as the custodian for Guo Tai Jin Long Fund, which is managed by Guo Tai Asset Management Company Limited.

30. OPERATING LEASE COMMITMENTS

Operating lease commitments of office rentals expiring:

	2003-12-31 RMB' 000	2002-12-31 RMB' 000
Within one year	159,463	189,170
Two to five years	427,734	530,188
After five years	<u>176,775</u>	<u>132,519</u>
	<u><u>763,972</u></u>	<u><u>851,877</u></u>

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD
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31. FINANCIAL INSTRUMENTS RISK POSITION

a) Credit risk

Credit risk is the risk of loss from the default by an obligor or counterparty. Credit risk is greater when counterparties are concentrated in a single industry or geographic location, because a group of otherwise unrelated counterparties could be adversely affected in their ability to repay their obligations due to economic developments affecting their common industry or location.

Concentration of credit risk exists if a number of clients are engaged in similar activities, or are located in the same geographic location or have comparable economic characteristics such that their ability to meet contractual obligations would be similarly affected by changes in economic or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographic location.

The Company solely operates in the PRC, however, due to the geographic diversification and the unique economic development of each location, this results in a different risk profile to the Company.

On-balance sheet assets

As at 31 December 2003, outstanding loan balances made to corporate and non-bank financial institutions grouped by industries were as follows:

Industry	2003-12-31				2002-12-31			
	RMB RMB' 000	Foreign currency RMB' 000	Total RMB' 000	%	RMB RMB' 000	Foreign currency RMB' 000	Total RMB' 000	%
Agriculture	4,020,030	109,252	4,129,282	2	2,049,750	71,598	2,121,348	1
Manufacturing	70,257,589	6,690,553	76,948,142	34	45,230,120	4,172,619	49,402,739	31
Public utilities	9,706,020	4,800	9,710,820	4	5,369,780	122,751	5,492,531	4
Constructions	8,928,130	103,128	9,031,258	4	5,460,750	51,484	5,512,234	4
Transportation and communications	13,543,340	856,180	14,399,520	6	12,758,500	1,368,387	14,126,887	9
Wholesales, retails and entertainment	32,915,020	2,431,695	35,346,715	16	20,152,540	799,660	20,952,200	13
Financial institutions and insurance	3,550,428	-	3,550,428	2	3,191,490	-	3,191,490	2
Real estate	28,526,550	946,275	29,472,825	13	21,626,970	824,326	22,451,296	14
Social services	15,956,500	351,594	16,308,094	7	4,871,700	55,871	4,927,571	3
Others, primarily conglomerates and government related entities	<u>26,355,444</u>	<u>964,402</u>	<u>27,319,846</u>	<u>12</u>	<u>29,346,300</u>	<u>1,125,572</u>	<u>30,471,872</u>	<u>19</u>
	<u>213,759,051</u>	<u>12,457,879</u>	<u>226,216,930</u>	<u>100</u>	<u>150,057,900</u>	<u>8,592,268</u>	<u>158,650,168</u>	<u>100</u>

The geographical concentration of loans, excluding loans to non-bank financial institutions, by location at the end of the year, was as follows:

	2003-12-31		2002-12-31	
	RMB' 000	%	RMB' 000	%
Shanghai	67,920,534	27	51,931,702	30
Beijing	20,737,650	8	14,729,776	8
Zhejiang province	41,065,954	16	25,267,876	15
Jiangsu province	26,756,471	10	15,230,915	9
Guangzhou	11,071,535	5	11,267,481	6
Off-shore banking	782,956	-	319,480	-
Others	<u>86,776,235</u>	<u>34</u>	<u>55,630,247</u>	<u>32</u>
	<u>255,111,335</u>	<u>100</u>	<u>174,377,477</u>	<u>100</u>

31. FINANCIAL INSTRUMENTS RISK POSITION (continued)

a) Credit risk (continued)

Off-balance sheet assets

As at 31 December 2003, the Company has credit commitments amounting to RMB117.2 billion, of which 8%, 13%, 8%, 4%, 9% and 1% is related to customers domiciled in Shanghai, Zhejiang Province, Jiangsu Province, Beijing, Guangzhou and off-shore banking respectively. The remainder related to customers located elsewhere throughout the PRC.

Derivatives

All the derivative contracts were transacted by the Company's head office in Shanghai. Credit risk represents the inability of the counterparty to deliver payment in accordance with the terms of the derivative contracts. The fair value is the amount for which an asset could be exchanged, or a liability to settle.

To mitigate the credit risk associated with derivative instruments, the Company enters into master netting agreements with certain counterparties. The Company subjects its derivative-related credit risks to the same credit approval and monitoring standards that it uses for managing other transactions that create credit exposure.

b) Currency risk

The Company is incorporated and operates in the PRC, with RMB as its reporting currency. The other major foreign currency in which the Company transacts is USD. The exchange rate between USD and RMB is subject to the PBOC Management and hence fluctuates within a narrow range, as it has throughout the year. The Company's loans and advances were mainly denominated in RMB with the remainder mainly in USD. However, some of the Company's deposits and investments are in currencies other than the reporting currency and USD. In order to manage such currency risks, the Company entered into foreign currency hedging transactions between such currencies and USD.

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31. FINANCIAL INSTRUMENTS RISK POSITION (continued)

b) Currency risk (continued)

Below is a breakdown of relevant assets and liabilities by currencies:

RMB Million	2003-12-31				2002-12-31			
	RMB	USD	OTHERS	TOTAL	RMB	USD	OTHERS	TOTAL
Assets								
Cash on hand	822	117	143	1,082	806	123	134	1,063
Due from the central bank	37,322	491	49	37,862	32,720	369	40	33,129
Inter-bank placements	1,340	3,763	1,990	7,093	2,580	6,208	1,559	10,347
Due from bank	2,378	1,345	1,949	5,672	2,522	420	280	3,222
Reverse repurchase agreements	13,895	166	-	14,061	12,580	-	-	12,580
Trading securities	6,852	152	480	7,484	5,768	3,332	454	9,554
Loans, net of allowance for credit losses	237,240	10,368	1,960	249,568	161,942	7,903	499	170,344
Financial investments	34,684	2,921	509	38,114	31,271	83	-	31,354
Other assets	2,965	1,541	769	5,275	3,670	79	30	3,779
Total assets	337,498	20,864	7,849	366,211	253,859	18,517	2,996	275,372
Liabilities								
Inter-bank borrowings	2,600	41	414	3,055	500	46	-	546
Due to banks	14,246	1,846	188	16,280	13,335	1,793	113	15,241
Repurchase agreement	9,105	166	-	9,271	4,425	-	-	4,425
Due to customers	300,306	14,974	5,786	321,066	225,735	14,692	1,835	242,262
Inward and outward remittances	2,093	37	41	2,171	3,189	78	19	3,286
Dividend payable	15	-	-	15	16	-	-	16
Other liabilities	2,050	3,349	1,472	6,871	3,112	1,997	423	5,532
Total liabilities	330,415	20,413	7,901	358,729	250,312	18,606	2,390	271,308

c) Interest rate risk

The majority of the Company's financial assets and liabilities are denominated in RMB. The nature of the Company's financial assets and liabilities in RMB at the balance sheet date was as follows:

	2003-12-31			2002-12-31		
	RMB RMB' 000	Total RMB' 000	RMB in total positions %	RMB RMB' 000	Total RMB' 000	RMB in total positions %
Financial assets						
Cash	821,446	1,081,830	76	806,380	1,062,872	76
Personal loans and advances	29,630,904	29,631,028	100	16,637,154	16,638,609	100
Corporate loans and advances	213,759,051	226,216,930	94	150,057,900	158,650,168	95
Deposits with the PBOC	37,322,377	37,861,661	99	32,720,400	33,128,727	99
Inter-bank placements	1,339,500	7,093,477	19	2,579,910	10,347,319	25
Due from banks	2,378,491	5,672,438	42	2,522,594	3,222,261	78
Reverse repurchase agreements	13,895,294	14,061,144	99	12,579,702	12,579,702	100
	299,147,063	321,618,508		217,904,040	235,629,658	
Financial liabilities						
Personal savings	10,768,425	11,688,116	92	7,717,202	8,345,427	92
Personal fixed deposits	17,720,251	21,047,631	84	10,896,945	14,688,167	74
Corporate savings and current accounts	132,281,160	136,873,749	97	112,236,401	116,082,717	97
Corporate fixed deposits	85,659,926	94,507,416	91	64,606,163	68,683,134	94
Inter-bank borrowings	2,600,000	3,055,379	85	500,000	545,525	92
Due to banks	14,245,916	16,280,255	88	13,334,809	15,241,409	87
Repurchase agreements	9,105,271	9,271,122	98	4,424,739	4,424,739	100
	272,380,949	292,723,668		213,716,259	228,011,118	

31. FINANCIAL INSTRUMENTS RISK POSITION (continued)

c) Interest rate risk (continued)

The Company is required to apply the interest rates set by the PBOC for its loans and advances and deposit activities. The PBOC last adjusted the market rates on 21 February 2002. The interest rates for the relevant periods for the following types of loans, advances and deposits were as follows:

	Since 21 February 2002 %
Short term loans and advances	5.04 to 5.31
Medium to long terms loans	5.49 to 5.76
Non-performing loans	2.1
Personal and corporate savings	0.72
Personal fixed deposits (1 to 5 years)	1.71 to 2.79
Corporate call deposits (1 to 7 days)	1.08 to 1.62
Corporate fixed deposits	1.44 to 1.98
Balances with the PBOC:	
Deposits	1.89
Re-discounted bills	2.97

In accordance with the regulations of the PBOC, the allowable ceiling and floor for corporate loans are restricted at 30% and 10% above and below the applicable interest rates, respectively.

A spread above the interest rate charged by the PBOC on re-discounted bills is allowed to be charged to the Company's customer discounted bills. However, the spread is subject to a ceiling of the applicable interest rates charged on corporate loans with the same tenor (including the floating rates).

The rates of inter-bank placements and borrowings can be decided through negotiation between the borrowers and lenders, and generally the adjustment base is the corporate loan and deposit rates. There is generally no interest spread between the money market placements and borrowings.

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31. FINANCIAL INSTRUMENTS RISK POSITION (continued)

d) Liquidity risk

The maturity analysis of assets and liabilities of the Company as at 31 December 2003 is as follows:

	Overdue	On demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
Assets:							
Cash on hand	-	1,081,830	-	-	-	-	1,081,830
Due from the central bank	-	29,561,300	1,737,806	5,235,262	868,938	458,355	37,861,661
Inter-bank placement	-	-	7,016,181	39,796	37,500	-	7,093,477
Due from banks	44,500	5,627,938	-	-	-	-	5,672,438
Trading securities and financial investments	-	7,918,407	431,293	6,107,339	17,927,074	13,213,238	45,597,351
Reverse repurchase agreements	-	-	10,637,543	3,423,601	-	-	14,061,144
Loans, net of allowance for credit losses	4,886,771	-	46,911,610	148,501,988	31,895,169	17,372,938	249,568,476
Other assets	307,851	690,557	724,123	1,484,375	2,092,192	4,598,014	9,897,112
Total assets	5,239,122	44,880,032	67,458,556	164,792,361	52,820,873	35,642,545	370,833,489
Liabilities:							
Inter-bank borrowings	-	-	3,055,379	-	-	-	3,055,379
Due to banks	-	14,851,054	556,078	854,669	18,454	-	16,280,255
Repurchase agreements	-	-	7,095,888	2,175,234	-	-	9,271,122
Due to customers	-	169,719,351	31,686,599	95,458,078	15,843,939	8,357,496	321,065,463
Inward and outward remittances	-	2,171,303	-	-	-	-	2,171,303
Dividend payable	-	14,985	-	-	-	-	14,985
Other liabilities	-	4,456,387	446,223	310,497	1,407,962	249,548	6,870,617
Total liabilities	-	191,213,080	42,840,167	98,798,478	17,270,355	8,607,044	358,729,124

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD
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31. FINANCIAL INSTRUMENTS RISK POSITION (continued)

c) Liquidity risk (continued)

The maturity analysis of assets and liabilities of the Company as at 31 December 2002 is as follows:

	Overdue RMB' 000	On demand RMB' 000	Due within 3 months RMB' 000	Due between 3 and 12 months RMB' 000	Due between 1 and 5 years RMB' 000	Due after 5 years RMB' 000	Total RMB' 000
Assets:							
Cash on hand	-	1,062,872	-	-	-	-	1,062,872
Due from the central bank	-	28,373,753	733,742	2,760,672	963,277	297,283	33,128,727
Inter-bank placement	-	-	7,498,072	2,796,747	52,500	-	10,347,319
Due from banks	254,567	2,967,694	-	-	-	-	3,222,261
Trading securities and financial investments	66	9,738,838	66,859	3,599,631	16,551,086	10,951,999	40,908,479
Reverse repurchase agreements	-	-	8,895,287	3,684,415	-	-	12,579,702
Loans, net of allowance for credit losses	2,801,821	-	31,661,680	110,066,807	13,212,291	12,601,172	170,343,771
Other assets	137,530	1,450,247	784,582	900,778	1,014,247	3,860,238	8,147,622
Total assets	3,193,984	43,593,404	49,640,222	123,809,050	31,793,401	27,710,692	279,740,753
Liabilities:							
Inter-bank borrowings	-	-	545,525	-	-	-	545,525
Due to banks	-	9,076,672	4,916,852	1,037,094	1,528	209,263	15,241,409
Repurchase agreements	-	-	4,109,939	314,800	-	-	4,424,739
Due to customers	-	137,014,411	16,240,832	61,105,440	21,321,428	6,580,147	242,262,258
Inward and outward remittances	-	3,286,374	-	-	-	-	3,286,374
Dividend payable	-	15,770	-	-	-	-	15,770
Other liabilities	-	3,644,694	606,757	876,296	360,174	44,342	5,532,263
Total liabilities	-	153,037,921	26,419,905	63,333,630	21,683,130	6,833,752	271,308,338

Maturities are tabulated based on balance sheet date to due date.

e) Fair values

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The management of the Company is of the opinion that the fair value of financial assets and liabilities are close to their carrying values, after taking into account any allowances for credit losses, and the marking-to-market of trading securities and derivative instruments.

In the opinion of the management, there was no material difference between the carrying value and the fair value of the land and buildings as at 31 December 2003.

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31. FINANCIAL INSTRUMENTS RISK POSITION (continued)

e) Fair values (continued)

The majority of the Company's RMB loans and advances were made at fixed rates and most of the USD loans and advances were made at floating rates. Deposits are made at fixed rates or floating rates depending on their nature, with the majority denominated in RMB. Management estimates that the difference between the fair values and carrying amounts of loans and advances and deposits was not material as at 31 December 2003 because the RMB interest rates have been relatively stable. The fair value is estimated by comparing market interest rates when the loans and advances were granted with current market rates offered on similar loans and advances. The fair value of deposits is estimated based on the same concept.

32. RELATED PARTIES

The Company had the following material transactions with related parties during the year:

	2003 RMB' 000	2002 RMB' 000
Interest income from:		
Shanghai Industrial (Group) Co., Ltd.	854	1,279
Shanghai International Group Co., Ltd.	38	-
Shanghai Industrial Development Co., Ltd.	211	-
SIIC Shanghai International Trade (Group) Co., Ltd.	2,941	106

Balance of loans receivable from related parties at the balance sheet date are as follows:

	2003-12-31 RMB' 000	2002-12-31 RMB' 000
Shanghai Industrial (Group) Co., Ltd.	24,830	41,386
Shanghai International Group Co., Ltd.	100,000	-
Shanghai Industrial Development Co., Ltd.	18,000	-
SIIC Shanghai International Trade (Group) Co., Ltd.	13,239	13,153

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32. RELATED PARTIES (continued)

The relationship of the above related parties to the Company is as follows:

Company	Relationship with the Company
Shanghai Industrial (Group) Co., Ltd.	Shareholder of the Company
Shanghai International Group Co., Ltd.	Shareholder of the Company
Shanghai Industrial Development Co., Ltd.	Shareholder of the Company
SIIC Shanghai International Trade (Group) Co., Ltd.	Shareholder of the Company

In the opinion of the directors, loans made to the respective shareholders and affiliated companies as well as to shareholders who held less than 5% of the share capital of the Company were transacted on normal commercial terms and the interest rates charged on loans to these related parties were based on the market rates set by the PBOC.

33. RETIREMENT BENEFITS

In accordance with the regulations of the related PRC Municipal Government where the Company operates, the Company is required to contribute employee retirement benefits to the Labour Department of the Municipal People's Government. The contributions are calculated based on 22.5% (2002: 22.5%) of the salaries of the employees.

34. IMPACT OF IAS ADJUSTMENTS ON NET PROFIT AND NET ASSETS

	Net profit for the year ended 31 December 2003 RMB' 000	Net assets as at 31 December 2003 RMB' 000	Net profit for the year ended 31 December 2002 RMB' 000	Net assets as at 31 December 2002 RMB' 000
Per audited statutory financial statements, as previously reported	1,566,088	12,010,923	1,285,309	7,960,476
Prior year adjustment: Dividend	<u>-</u>	<u>-</u>	<u>-</u>	<u>391,500</u>
Per audited statutory financial statements, as restated	1,566,088	12,010,923	1,285,309	8,351,976
Add/(less): IFRS adjustments, net	19,408	139,465	(64,623)	120,057
Tax effect	<u>(6,405)</u>	<u>(46,023)</u>	<u>21,326</u>	<u>(39,618)</u>
As reported in these financial statements	<u>1,579,091</u>	<u>12,104,365</u>	<u>1,242,012</u>	<u>8,432,415</u>

The principal adjustments made to the statutory financial statements of the Company to conform with IFRS include the following:

- accrual of interest receivable and payable; and
- restatement of derivative contracts and trading securities to fair value.

35. POST BALANCE SHEET EVENTS

Pursuant to the resolution passed by the first extra-ordinary shareholders' meeting on 12 December 2003, the Company decided to issue convertible bonds with amount no more than RMB6,000,000,000. The relevant application procedures are still in progress.

Pursuant to the board resolution passed on 25 February 2004, the Company decided to issue subordinate bonds with amount no more than RMB6,000,000,000. Until the date of issue of 2003 financial statements, the relevant issue of subordinate bonds had not been approved by 2003 Annual General Meeting of the shareholders.

As at 31 December 2003, there are no other significant post-balance sheet events which require disclosure or adjustment to the financial statements.

36. COMPARATIVE AMOUNTS

Certain comparative figures have been reclassified to conform with the current year's presentation.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements of the Company for the year ended 31 December 2003 were authorized for issue in accordance with a resolution of the directors on 25 February 2004.