

The information set out below does not form part of the Accountants' Report prepared by the independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong, as set out in Appendix I, and is included herein for information purposes only.

**(a) Significant differences between the financial statements prepared under International Financial Reporting Standards (“IFRS”) and those prepared in accordance with the relevant accounting rules and regulations in the PRC**

As a state-owned financial institution, China Construction Bank (“CCB”), the predecessor of China Construction Bank Corporation (the “Bank”), prepared its statutory financial statements for the years ended 31 December 2002 and 2003 in accordance with the Accounting Standards for Business Enterprises (limited to standards applicable for all enterprises) issued by the Ministry of Finance (the “MOF”), the *Accounting Regulations for Financial Enterprises* jointly issued by the MOF and the People's Bank of China (the “PBOC”) in 1993, and other relevant regulations issued by the MOF (collectively “previous PRC GAAP”).

The Bank's statutory financial statements for the year ended December 31, 2004 and the financial statements for the six months ended June 30, 2004 and 2005 are prepared in accordance with the Accounting Standards for Business Enterprises, the *Accounting Regulations for Financial Enterprises* (2001) and other relevant regulations issued by the MOF (collectively “PRC GAAP”).

The above financial statements are collectively named as “PRC statutory financial statements” for the purpose of this reconciliation.

A reconciliation of differences between the financial statements prepared under IFRS and those PRC statutory financial statements are set out below.

	Note	Years ended December 31,			Six months ended June 30,	
		2002	2003	2004	2004	2005
Net profit attributable to equity holders of the Bank under IFRS .....		11,334	22,533	49,042	24,279	28,351
Fair value adjustments for investments .....	(ii)	(60)	(5)	14	77	19
Fair value adjustments for derivatives .....	(iii)	88	(30)	99	14	(916)
Interest recognition for short term debt securities .....	(iv)	(246)	(111)	(697)	(396)	(300)
(Deferral)/ amortisation of subordinated bonds' issue costs		—	—	(70)	—	4
Adjustment for allowance on impairment losses .....	(v)	1,329	(15,917)	—	—	—
Recognition of provisions for probable losses and obligations	(vi)	(1,031)	(4,128)	—	—	—
Recognition of deferred tax .....	(vii)	10,669	14,874	—	—	—
Adjustment on cut off differences of interest income .....		(11,815)	(8,129)	—	—	—
Adjustment on cut off differences of other operating income and expenses .....		(6,202)	(4,463)	—	—	—
Reversal of the reserve in relation to the interest income received from Cinda bond .....	(x)	—	(5,558)	—	—	—
Others .....	(xi)	238	1,345	—	—	—
Net profit shown in PRC statutory financial statements .....		<u>4,304</u>	<u>411</u>	<u>48,388</u>	<u>23,974</u>	<u>27,158</u>

## (a) Significant differences between the financial statements prepared under International Financial Reporting Standards (“IFRS”) and those prepared in accordance with the relevant accounting rules and regulations in the PRC (continued)

	Note	December 31,			June 30,
		2002	2003	2004	2005
Owner’s equity, other than minority interest, under IFRS .....		(133,206)	187,168	195,516	200,907
Fair value adjustments for investments .....	(ii)	(963)	(644)	190	(612)
Fair value adjustments for derivatives .....	(iii)	98	68	167	(749)
Interest recognition for short term debt securities ...	(iv)	(251)	(362)	(1,059)	(1,359)
Deferral of subordinated bonds’ issue costs .....		—	—	(70)	(66)
Adjustment for allowance on impairment losses .....	(v)	235,428	88,117	—	—
Recognition of provisions for probable losses and obligations .....	(vi)	17,003	12,875	—	—
Recognition of deferred tax .....	(vii)	(14,874)	—	—	—
Adjustment on cut off differences of interest income .....		3,297	(1,290)	—	—
Adjustment on cut off differences of other operating income and expenses .....		7,028	2,565	—	—
Surplus on revaluation .....	(viii)	—	(14,160)	—	—
Replenishment of accumulated losses .....	(ix)	—	(65,499)	—	—
Reversal of the reserve in relation to the interest income received from Cinda bond .....	(x)	(18,146)	(23,704)	—	—
Others .....	(xi)	11,822	1,146	—	—
Owner’s equity shown in PRC statutory financial statements .....		<u>107,236</u>	<u>186,280</u>	<u>194,744</u>	<u>198,121</u>

## Notes:

(i) In the statutory financial statements of the Bank for the year ended December 31, 2004, the comparative figures for the year ended December 31, 2003 have been restated to conform to the accounting policies adopted for the year ended December 31, 2004 and to reflect the effect of the restructuring of CCB. The restated owner’s equity of the Bank as at December 31, 2003 and the net profit for the year then ended were RMB 186,230 million and RMB 22,387 million respectively.

## (ii) Fair value adjustments for investments

Under previous PRC GAAP and PRC GAAP, debt securities are categorised as short term and long term debt securities according to the intention in relation to the investments. Short term debt investments and equity investments are stated at the lower-of-cost and market value. Long term debt investments are carried at amortised cost less provision for diminution in value.

Under IFRS, debt securities and equity investments are classified as financial assets at fair value through profit and loss, available-for-sale, loans and receivables or held-to-maturity depending on the intention and the market activity in relation to the investments. Financial assets at fair value through profit and loss and available-for-sale investments are stated at their fair value subsequent to the initial recognition while loans and receivables and held-to-maturity investments are stated at amortised cost less impairment losses.

**(a) Significant differences between the financial statements prepared under International Financial Reporting Standards (“IFRS”) and those prepared in accordance with the relevant accounting rules and regulations in the PRC (continued)**

Notes: (continued)

(iii) Fair value adjustments for derivatives

Under previous PRC GAAP and PRC GAAP, derivatives are recorded as an off-balance sheet item at the notional amount. Any gains and losses are recognised in the income statement upon the expiry of the derivative contracts.

Under IFRS, derivatives are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the consolidated income statement, except for the derivatives that qualify for hedge accounting. Where derivatives qualify for hedge accounting, the gain or loss on remeasurement to fair value are recognised in the consolidated income statement or in equity, depending on the nature of the hedged item.

(iv) Interest recognition for short term debt securities

Under IFRS, interest income from debt securities is recognised on an accruals basis while under previous PRC GAAP and PRC GAAP, interest income together with discount and premium for short term investment is recognised on disposal or maturity.

(v) Adjustment for allowance on impairment losses

Previous PRC GAAP does not require recognition of impairment losses against the assets based on their estimated recoverable amounts. Only an allowance of 1% of the total gross amount of certain assets, including loans and investments, is required to be made.

Under PRC GAAP and IFRS, the Group is required to assess whether its assets are impaired and recognise impairment losses based on their estimated recoverable amounts.

(vi) Recognition of provisions for probable losses and obligations

Previous PRC GAAP does not require the recognition of a provision for probable losses that an entity may suffer.

Under PRC GAAP and IFRS, provisions are recognised for liabilities of uncertain timing or amount when an entity has an obligation arising as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation with the potential loss reliably estimated. Accordingly, adjustments have been made to provide for the probable losses, which primarily represent the provision for litigation loss, claims in relation to investments in entities and liability in respect of supplementary retirement benefits, in the period the losses incurred.

(vii) Recognition of deferred tax

CCB did not recognise deferred tax in the financial statements prepared under previous PRC GAAP.

Under IFRS, deferred tax is provided using the balance sheet liability method, for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

**(a) Significant differences between the financial statements prepared under International Financial Reporting Standards (“IFRS”) and those prepared in accordance with the relevant accounting rules and regulations in the PRC (continued)**

Notes: (continued)

(vii) Recognition of deferred tax (continued)

When it is not probable that the tax benefits of deferred tax assets will be realised, the deferred tax assets are reduced to the extent that the related tax benefits are expected to be realised.

There is no significant difference between PRC GAAP and IFRS in this respect.

(viii) Surplus on revaluation

Pursuant to the restructuring of CCB, the property and equipment, and land use rights of CCB have been restated at deemed cost on December 31, 2003, resulting in a surplus on valuation of RMB 14,160 million.

(ix) Replenishment of accumulated losses

As part of the restructuring of CCB, the PRC government agreed to replenish the remaining accumulated losses of CCB as at December 31, 2003.

(x) Reversal of the reserve in relation to the interest income received from Cinda bond

CCB recorded the interest received on Cinda bond as interest income and, at the same time, made a reserve in the same amount of the interest received in the allowance for loan losses. In 2002, such reserve was made as an appropriation of profit and thus there was no impact on the income statement. In 2003, the reserve for the interest received of RMB 5,558 million was charged to the income statement as part of the provision for impairment losses.

These journal entries were reversed in the preparation of the IFRS financial statements as there was no recoverability issue in relation to the interest on Cinda bond.

(xi) Others

Others represent rectification of certain differences that have been identified for the years ended December 31, 2002 and 2003, such as the recognition of a liability for the transfer of assets to Cinda and reclassification differences.

(xii) Consolidation of subsidiaries

Under previous PRC GAAP or PRC GAAP, the Bank’s interests in subsidiaries are stated at the Bank’s attributable share of net assets, and the Bank does not prepare consolidated financial statements. The result of the Bank includes the Bank’s share of the result of its subsidiaries.

Under IFRS, all of the Bank’s controlled, principal subsidiaries have been consolidated into the Financial Information of the Group.

However, there are no differences in net profit or net assets between IFRS and PRC GAAP in this regard.

**(b) Liquidity ratios**

	December 31,			June 30,
	2002	2003	2004	2005
Liquidity ratios:				
RMB current assets to RMB current liabilities .....	<u>25.69%</u>	<u>44.64%</u>	<u>51.37%</u>	<u>55.77%</u>
Foreign currency current assets to foreign currency current liabilities .....	<u>35.30%</u>	<u>41.26%</u>	<u>71.15%</u>	<u>80.62%</u>

The above liquidity ratios are calculated in accordance with the formula promulgated by the PBOC and China Banking Regulatory Commission (“CBRC”) and based on previous PRC GAAP (for December 31, 2002 and 2003) or PRC GAAP (for December 31, 2004 and June 30, 2005).

**(c) Capital adequacy ratio**

The capital adequacy ratio is prepared on a solo basis in accordance with the guideline “Regulation Governing Capital Adequacy of Commercial Banks” [Order (2004) No. 2] issued by the CBRC (the “CBRC guideline”) in March 2004, which may have significant differences with the relevant requirements in Hong Kong or other countries.

The capital adequacy ratios and the related components of the Bank as at December 31, 2004, which was the first year end of the Bank after its incorporation, and as at June 30, 2005, calculated based on PRC GAAP, were as follows:

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

The capital adequacy ratios as at December 31, 2002 and 2003 reported to the PBOC and CBRC respectively are not presented as the Group is of the opinion that they provide no real value to the shareholders given that they are based on the financial information of CCB calculated in accordance with the previous PRC GAAP and the guideline issued by the PBOC, which has been replaced by the CBRC guideline since March 2004.

## APPENDIX II

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

## (d) Currency concentrations other than RMB

	December 31, 2002			
	US Dollars	HK Dollars	Others	Total
	(in millions of RMB)			
Spot assets .....	144,646	33,739	22,548	200,933
Spot liabilities .....	(127,578)	(24,285)	(12,870)	(164,733)
Forward purchases .....	20,520	2,883	5,793	29,196
Forward sales .....	(9,961)	(11,568)	(7,661)	(29,190)
Net long position .....	<u>27,627</u>	<u>769</u>	<u>7,810</u>	<u>36,206</u>
Net structural position .....	<u>—</u>	<u>126</u>	<u>6</u>	<u>132</u>
	December 31, 2003			
	US Dollars	HK Dollars	Others	Total
	(in millions of RMB)			
Spot assets .....	314,982	30,134	34,599	379,715
Spot liabilities .....	(114,621)	(30,506)	(18,562)	(163,689)
Forward purchases .....	28,146	9,926	7,563	45,635
Forward sales .....	(17,500)	(7,184)	(15,828)	(40,512)
Net option position .....	(2)	—	2	—
Net long position .....	<u>211,005</u>	<u>2,370</u>	<u>7,774</u>	<u>221,149</u>
Net structural position .....	<u>—</u>	<u>125</u>	<u>19</u>	<u>144</u>
	December 31, 2004			
	US Dollars	HK Dollars	Others	Total
	(in millions of RMB)			
Spot assets .....	331,949	13,336	51,156	396,441
Spot liabilities .....	(115,362)	(13,911)	(35,095)	(164,368)
Forward purchases .....	29,827	5,312	3,631	38,770
Forward sales .....	(9,624)	(4,514)	(18,744)	(32,882)
Net option position .....	1	—	—	1
Net long position .....	<u>236,791</u>	<u>223</u>	<u>948</u>	<u>237,962</u>
Net structural position .....	<u>—</u>	<u>121</u>	<u>15</u>	<u>136</u>
	June 30, 2005			
	US Dollars	HK Dollars	Others	Total
	(in millions of RMB)			
Spot assets .....	341,296	29,954	37,269	408,519
Spot liabilities .....	(135,915)	(32,285)	(17,972)	(186,172)
Forward purchases .....	34,392	2,774	10,787	47,953
Forward sales .....	(25,646)	(3,376)	(17,313)	(46,335)
Net option position .....	(186,221)	—	1	(186,220)
Net long/ (short) position .....	<u>27,906</u>	<u>(2,933)</u>	<u>12,772</u>	<u>37,745</u>
Net structural position .....	<u>—</u>	<u>115</u>	<u>12</u>	<u>127</u>

**(d) Currency concentrations other than RMB (continued)**

The net option position is calculated using the delta equivalent approach required by the Hong Kong Monetary Authority (the “HKMA”). The net structural position of the Group includes the structural positions of the Bank’s overseas branches, banking subsidiaries and other subsidiaries substantially involved in foreign exchange. Structural assets and liabilities include:

- Investments in fixed assets and premises, net of depreciation charges;
- Capital and statutory reserves of overseas branches; and
- Investments in overseas subsidiaries and related companies.

**(e) Cross-border claims**

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China as cross-border claims.

Cross-border claims include loans and advances, balances and placements with banks and other financial institutions, holdings of trade bills and certificates of deposit and investment securities.

Cross-border claims have been disclosed by different country or geographical areas. A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of cross-border claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

	<u>December 31, 2002</u>			
	<u>Banks and other financial institutions</u>	<u>Public sector entities</u>	<u>Others</u>	<u>Total</u>
	(in millions of RMB)			
Asia Pacific excluding the PRC.....	50,964	4,038	14,817	69,819
— of which attributed to Hong Kong .....	20,051	3,000	8,969	32,020
Europe .....	23,050	2,618	2,967	28,635
North and South America .....	<u>12,233</u>	<u>11,736</u>	<u>4,314</u>	<u>28,283</u>
	<u>86,247</u>	<u>18,392</u>	<u>22,098</u>	<u>126,737</u>
	<u>December 31, 2003</u>			
	<u>Banks and other financial institutions</u>	<u>Public sector entities</u>	<u>Others</u>	<u>Total</u>
	(in millions of RMB)			
Asia Pacific excluding the PRC.....	19,705	2,446	14,963	37,114
— of which attributed to Hong Kong .....	9,866	1,307	6,153	17,326
Europe .....	19,783	2,091	4,124	25,998
North and South America .....	<u>14,153</u>	<u>14,503</u>	<u>5,674</u>	<u>34,330</u>
	<u>53,641</u>	<u>19,040</u>	<u>24,761</u>	<u>97,442</u>

## (e) Cross-border claims (continued)

	December 31, 2004			
	Banks and other financial institutions	Public sector entities	Others	Total
	(in millions of RMB)			
Asia Pacific excluding the PRC.....	60,365	4,120	15,302	79,787
— of which attributed to Hong Kong .....	26,204	2,869	4,726	33,799
Europe .....	30,104	3,669	4,532	38,305
North and South America .....	48,486	107,006	6,718	162,210
	<u>138,955</u>	<u>114,795</u>	<u>26,552</u>	<u>280,302</u>
	June 30, 2005			
	Banks and other financial institutions	Public sector entities	Others	Total
	(in millions of RMB)			
Asia Pacific excluding the PRC.....	60,518	3,577	15,459	79,554
— of which attributed to Hong Kong .....	24,100	2,816	5,676	32,592
Europe .....	38,608	5,290	6,488	50,386
North and South America .....	73,207	77,202	9,208	159,617
	<u>172,333</u>	<u>86,069</u>	<u>31,155</u>	<u>289,557</u>

## (f) Overdue loans and advances to customers by geographical segments

	December 31,			June 30,
	2002	2003	2004	2005
Yangtze River Delta .....	28,095	5,462	6,843	8,234
Pearl River Delta.....	45,834	10,618	14,944	14,830
Bohai Rim .....	39,571	9,382	13,999	16,807
Central .....	53,356	8,830	8,068	12,617
Western .....	39,550	8,555	9,990	17,269
Northeastern .....	29,128	6,095	5,938	6,243
Head Office .....	5,358	1,559	2,399	2,359
Overseas .....	235	259	216	86
Total .....	<u>241,127</u>	<u>50,760</u>	<u>62,397</u>	<u>78,445</u>

Note:

The above analysis includes loans and advances overdue for more than 90 days as required by the HKMA.

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

For loans and advances repayable by regular instalments, if part of the instalments is overdue, the whole amount of these loans would be classified as overdue.

Loans and advances repayable on demand are classified as overdue when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instructions. If the loans and advances repayable on demand are outside the approved limit that was advised to the borrower, they are also considered as overdue.



**(g) Gross amount of overdue loans and advances to customers**

	December 31,			June 30,
	2002	2003	2004	2005
Gross loans and advances to customers which have been overdue with respect to either principal or interest for periods of:				
— between 3 and 6 months	15,776	11,776	14,883	12,585
— between 6 and 12 months	26,067	9,851	14,313	27,120
— over 12 months	199,284	29,133	33,201	38,740
Total	<u>241,127</u>	<u>50,760</u>	<u>62,397</u>	<u>78,445</u>
As a percentage of total gross loans and advances:				
— between 3 and 6 months	0.88%	0.59%	0.67%	0.53%
— between 6 and 12 months	1.46%	0.49%	0.64%	1.14%
— over 12 months	11.17%	1.46%	1.49%	1.63%
Total	<u>13.51%</u>	<u>2.54%</u>	<u>2.80%</u>	<u>3.30%</u>

## Notes:

- (i) The above analysis includes loans and advances overdue for more than 90 days as required by the HKMA. Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue. For loans and advances repayable by regular instalments, if part of the instalments is overdue, the whole amount of these loans would be classified as overdue. Loans and advances repayable on demand are classified as overdue when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instructions. If the loans and advances repayable on demand are outside the approved limit that was advised to the borrower, they are also considered as overdue.
- (ii) There were no overdue loans and advances to financial institutions as of December 31, 2002, 2003 and 2004 and June 30, 2005.

**(h) Rescheduled loans and advances to customers**

	December 31,						June 30,	
	2002		2003		2004		2005	
	% of total loans and advances		% of total loans and advances		% of total loans and advances		% of total loans and advances	
Rescheduled loans and advances	15,304	0.86%	6,043	0.30%	2,563	0.12%	2,350	0.10%
Less:								
— rescheduled loans and advances but overdue more than 90 days	<u>7,551</u>	0.42%	<u>1,674</u>	0.08%	<u>1,128</u>	0.05%	<u>1,168</u>	0.05%
Rescheduled loans and advances overdue less than 90 days	<u>7,753</u>	0.44%	<u>4,369</u>	0.22%	<u>1,435</u>	0.07%	<u>1,182</u>	0.05%