

BUSINESS REVIEW

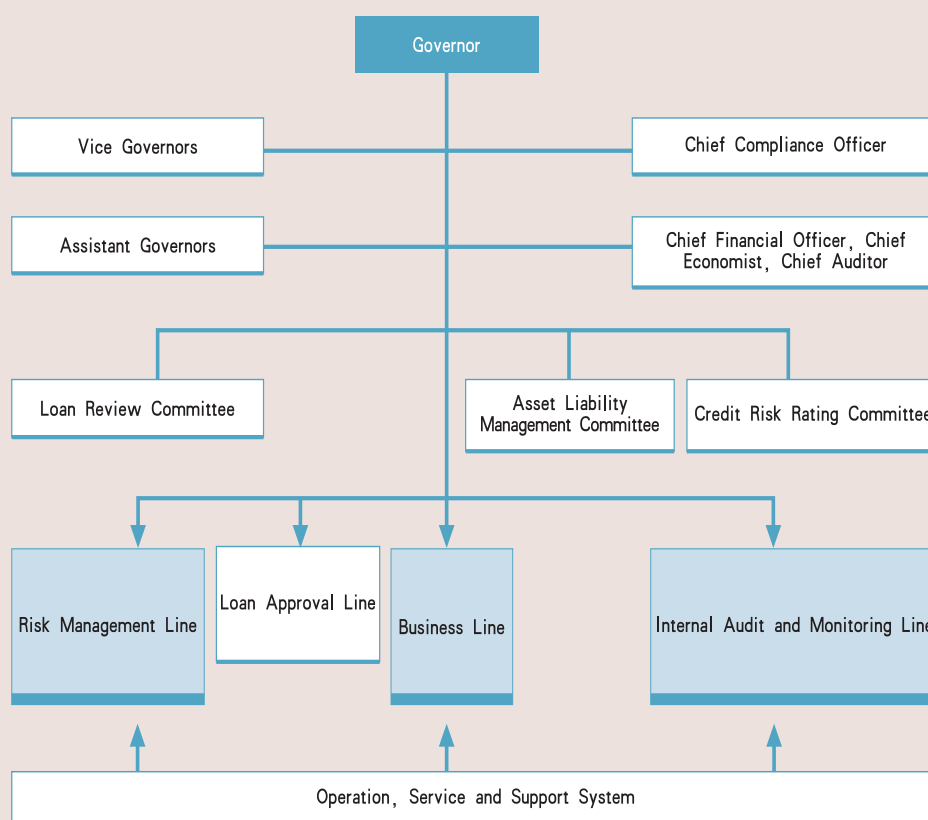
MARKET OVERVIEW

CDB conducts its business in two major markets - the domestic lending market to support infrastructure and economic development and the domestic debt securities market to fund our operations. Although we have issued bonds on the international debt markets in the past, our activity in these markets has been limited in recent years as the liquidity in the domestic market, which offers more attractive rates, has increased. Our activities in the international debt markets are driven largely by our need to fund loans denominated in foreign currencies. The sustained growth rate in the range of 7-9% of the Chinese economy is dependent, in no small part, to continued infrastructure development and investment in key industry sectors. In this regard, we have focused our lending on a few major industry sectors -power, road construction, railways, petrochemicals, and telecommunications. Total funding by CDB alone to these industry sectors accounts for two-thirds of the total funding provided by domestic banks in China.

CDB has a unique status in the Chinese economy and the capacity to provide large scale financing to significant projects. Accordingly, we work closely with the central and provincial governments in identifying large infrastructure projects and underwriting financial support for those projects. We have developed effective working relationships with these government entities, which enable us to identify projects that are both commercially viable and relevant to the government's infrastructure development plans. Although financing for some of the smaller infrastructure projects can be underwritten by other domestic commercial banks, we often act as the lead bank in syndicated lending arrangements that allow us to diversify our credit risk and provide other domestic commercial bank with access to attractive lending opportunities.

The domestic bond market is still dominated by bonds issued by government and CDB. Bonds issued by other financial institutions and corporations have not yet become a major influence in the market. With our quasi-sovereign rating, CDB bonds are among the most liquid and highest quality in the domestic bond market. Accordingly, they are well received by investors.

BOX 1: ORGANIZATIONAL STRUCTURE BY BUSINESS LINE



Notes:

1. Business Line: Responsible for growing the banking practice within the scope of risk management
2. Risk Management Line: Responsible for risk determination and control on a real-time basis
3. Internal Audit and Monitoring Line: Responsible for enhancing internal audit function, monitoring, identifying and resolving issues in risk management
4. Operation, Service and Support System: Responsible for providing back-office support to business departments as well as providing other services in broader base to support the stable operation of the Bank
5. Loan Review and Approval: A platform linking the business line and risk management line. This committee is responsible for loan approvals

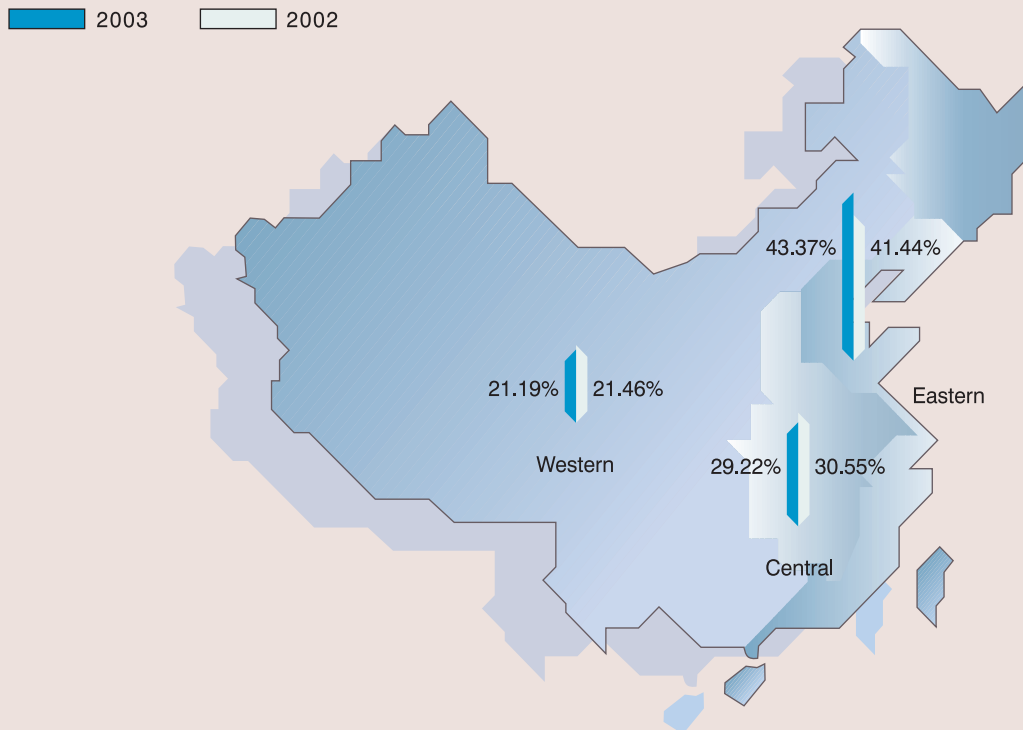
OUR LENDING RESULTS

At the end of 2003, we had RMB 1,139.9 billion in loans outstanding, representing an increase of 27.2% over 2002. New loans totalling RMB 243.7 billion were made in 2003, of which RMB 227.3 billion were denominated in RMB and RMB 16.4 billion were denominated in equivalent US dollars.

Foreign currency loans, which represent approximately 6.3% of our total outstanding loans, are generally provided for the acquisition, introduction and implementation of foreign technology, materials, equipment, and advisory services related to key projects. These loans are normally designed to meet specific medium and long-term capital financing requirements.

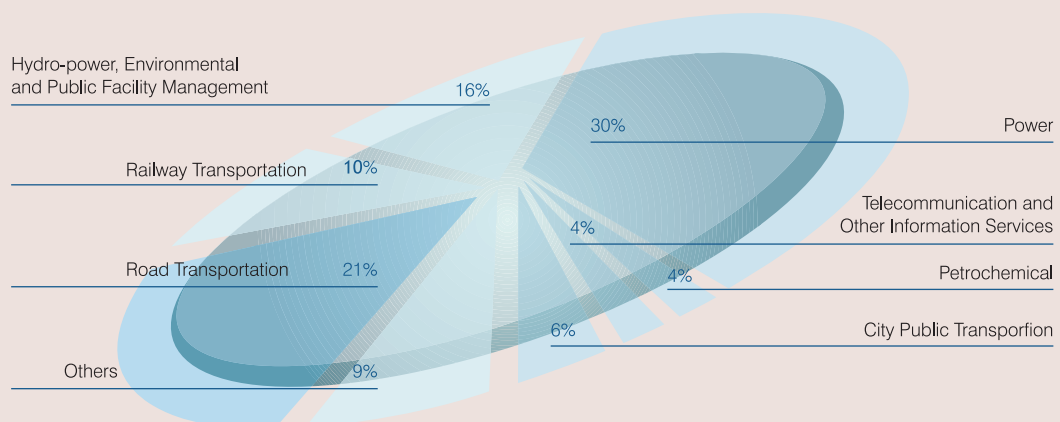
By the end of 2003, our infrastructure and basic industries lending amounted to RMB 1,090.4 billion, accounting for 95.7% of our total loan portfolio at year-end.

BREAKDOWN OF OUTSTANDING LOANS BY GEOGRAPHICAL DISTRIBUTION (BASED ON PROJECT LOCATION)



Note: For 2003, 6.22% are multi-regional, while this number for 2002 is 6.55%

BREAKDOWN OF OUTSTANDING LOANS BY INDUSTRY



LOAN SYNDICATION AND PARTICIPATION

Loan syndication and participation activities were first introduced in China by CDB in 2001 and 2002, respectively. By working with other financial institutions on either loan originations, through syndications, or subsequent loan sales, we have not only diversified our credit risk, but also have improved our relationship with other commercial banks. More importantly, though, we have pioneered practices that will become a catalyst for commercial banks to more broadly support economic development in China. Specifically, these arrangements enabled us to support financings that otherwise might not have occurred due to our capital constraints. They have also permitted other commercial banks to participate in attractive financing opportunities that they otherwise might be too large for them to underwrite alone.

In 2003, CDB served as the lead syndicator on one project, totalling RMB 19.4 billion, and sold participations on 21 projects totalling RMB 12.6 billion.

BOX 2: THE SUCCESSFUL CASE OF TARGETED-DEVELOPMENT FINANCE - THREE GORGES PROJECT

The Three Gorges project represents the effectiveness with which our “Targeted Development Financing” approach can be used to support infrastructure development in China. In 1992, the State Council decided to establish the construction fund for the Three Gorges Construction and Development Corporation (“Three Gorges Project”), and in January 1993, it created the Three Gorges Construction Committee, so that the Three Gorges Project could enter its planning and fund-raising stage.

The funding needs of the Three Gorges Project were enormous and the tenors of the related loans were long-term in nature. Commercial banks were reluctant to provide funding due to the amounts and terms involved. It was CDB alone who made the commitment to provide RMB 3.0 billion in funding each year from 1994 to 2003, for a total of RMB 30.0 billion. The maturities of these funding ranged up to 15 years. It was our commitment to this funding, which enabled the Three Gorges project to commence. With CDB’s financing, China Three Gorges Project Corporation (“CTGPC”), a state-owned company, to serve as the entity responsible for managing the project and owning its assets, was also established.

Supported by CDB in both financing and management advisory services, CTGPC commenced its operation as planned. In 1997, the first phase of the project was successfully completed and CTGPC entered the domestic debt market for the first time, raising RMB 1.0 billion through its first issuance of corporate bonds. In the subsequent years, CTGPC successfully offered four additional debt security issues in the domestic debt market, for a total of RMB 16.0 billion.

Eventually, CTGPC successfully engaged commercial banks to provide sufficient financing for the various elements of the Project. In 1998, China Construction Bank, Industrial and Commercial Bank of China and Bank of Communications each signed a three-year loan agreement with CTGPC for RMB 4.0 billion, RMB 3.0 billion and RMB 3.0 billion, respectively.

The investments made by commercial banks in the form of long-term loans marked the completion of the transition process from government support to market economy for the project.

In August 2003, the two 700,000 kilowatt generators went into production, which signified the commencement of the operation of the Three Gorges Project. In November 2003, China Yangtze Power Co., Ltd. ("CYPC"), a state-owned enterprise established for the continuing financing of the Three Gorges Project, was listed on the domestic stock exchange with RMB 10.0 billion raised.

In summary, the key elements of the success of our "Targeted Development Financing" on this large-scale project are as follows:

- Our initial lending to the project assisted in the formation of the legal entities through which all funding activities were conducted. As the lead creditor and financial advisor, we supported the management's approach to financing that was consistent with good commercial practices and conducted within an open and transparent framework.
- Through their significant level of activities in the domestic debt market and local stock exchanges, CTGPC and CYPC contributed to the development of the capital market in China.
- Modern financial reporting and planning practices have enabled CTGPC to produce and manage balance sheets and profit/loss statements that are familiar to foreign investors. The concept of return on capital has also been introduced, along with cash flow management techniques.
- CTGPC has established credit relationships with a number of domestic commercial banks. More significantly, though, CDB has helped CTGPC to establish a presence in the local debt markets.

With the support from our government in marshalling resources and coordination, as well as the quasi-sovereign rating, CDB was able to help forever relieve the Chinese people from the natural disasters caused by the Yangzi River.

BOX 3: HOT TOPICS IN ECONOMIC DEVELOPMENT

In responding to our government's call for balanced economic development, we conducted various studies to identify opportunities for a broader focus. Such studies focused, among other things, on the development of China's western provinces; the revitalization of the Northeast industrial regions; and support for rural development (rural regions, agricultural enterprises and farms), and the strategy of "go out".

DEVELOPMENT OF CHINA'S WESTERN PROVINCES

The development of China's 12 western provinces is part of the national strategy of the Chinese government. CDB has always supported our government's regional development policies, which include the development of the western provinces. To accommodate the needs of these provinces, we made certain adjustments in our internal policies and procedures to give special attention to the region, such as providing technical support loans at the early stage of development on key projects, and offering flexible loan tenors and lower interest rate to certain strategic infrastructure projects.

In 2003, the Bank conducted detailed studies on the impact of the government's fiscal and credit policies related to development of the western region. The results of these studies were summarized by CDB in "Comments on the Support to the Western Development and the Building of the Investment and Financing Framework", and were submitted to the Western Development Office ("WDO") of the State Council. Our goal is not only to solve funding shortages, but also to promote the development of a healthy financial market through working with local governments and corporate customers. Our efforts were focused on improving the management capabilities, corporate governance, and cash flows of corporate customers; as well as fostering a credit culture in this special region. With the understanding and support

from local governments, we were able to play an increasingly significant role in the development of the western provinces. In 2003, together with the WDO, we conducted a seminar on the strategic development of the western region, through which, we sought to identify opportunities on a wide range of technical support loans to promote the infrastructure, economic and environmental development of the region.

THE REVITALISATION OF THE NORTHEAST INDUSTRIAL BASES

The revitalisation of the northeast industrial regions is another primary objective of the newly elected Chinese government in its broader efforts to improve the living standards of the Chinese people. Again as a development bank, we have the obligation to assist our government in achieving its goals. In 2003, the Bank conducted studies that were focused on the efforts needed to rejuvenate these industrially rich regions. These studies included regional economic development analysis, detailed interviews with national and local government officials and top business leaders to discuss their thoughts on the effective means to revitalize the region. The results of our study were presented in the Bank's Symposium on the Promotion of Northeast Region and the Development-oriented Finance, and the Financial Executive Forum on the Promotion of Northeast Industrial Bases sponsored by the People's Bank of China and China Banking Regulatory Commission .

We have developed certain principles that are intended to effectively focus our efforts in this region. While these principles reflect an approach that is similar to the ones we are using in China's western provinces, these principles are designed to transform and upgrade the existing infrastructure of large industrial companies in the region to support globally competitive and commercially viable businesses - including the restructuring of certain state-owned enterprises to improve its core competitiveness.

We believe the key to the revitalisation of the northeast industrial region is economic restructuring, and we are ready to provide funding as well as technical assistance. We also understand the potential consequences that come out of any restructuring, and are taking specific measures to address concerns related to such areas as unemployment, job training, and social security requirements raised by many constituents. In 2003, we made funding

commitments to the unemployment insurance fund of Liaoning province in the amount of RMB 640 million, with RMB 200 million disbursed. Our support alleviated the short-term payment difficulty in the unemployment insurance fund, and helped our government stabilise a region where large number of lay-offs were happening.

RURAL DEVELOPMENT

The development of modern agriculture techniques to increase the average income of rural farmers is critical to the continued improvement in the living standards of a large portion of the Chinese population. In 2003, the Bank organized studies in agriculture, rural regions and farmers and identified three specific initiatives to support the Chinese government's development objectives in this area - planned urbanization, agro-industrialization and small agriculture finance.

Leveraging our successful experience in financing city infrastructure construction, the Bank conducted in-depth studies related to (i) the financing of infrastructure projects in small cities and towns in the rural areas and (ii) the initial design to promote the building of a development-oriented investment and financing framework for major small cities and towns of the country. The Bank intends to collaborate with the Ministry of Construction to jointly pilot-test loans to key small cities and towns, and improve the governance structure, performance and credit framework and mitigate financial risks by leveraging the roles of the overseeing authorities in policy development, industry guidance and coordination.

The Bank has met with senior officials from the State Council. Largely through the discussions with these officials and our experience in agricultural lending, we have developed an approach to finance the agro-industrialization initiatives that addresses the need to control the risks. Further to helping relieve the heavy impacts of SARS in 2003 on enterprises currently involved with agro-industrialization, the Bank proposed recommendations to the State Council to offer disaster recovery loans. Pilot-testing of other agro-industrialization loan program has also commenced in Shandong province and we anticipate that the introduction of such initiatives will continue in 2004.