You should carefully consider all of the information in this prospectus, including the risks and uncertainties described below, before making an investment in our H Shares. You should pay particular attention to the fact that we are a PRC company and are governed by a legal and regulatory environment which in some respects may differ from that which prevails in other countries. Our business, financial condition or results of operations could be materially and adversely affected by any of these risks. The trading price of our H Shares could significantly decrease due to any of these risks, and you may lose all or part of your investment. For more information concerning the PRC and certain related matters discussed below, see the section headed "Supervision and Regulation", Appendix VII – "Summary of Principal Legal and Regulatory Provisions" and Appendix VIII – "Summary of Articles of Association".

RISKS RELATING TO OUR BUSINESS

If we are unable to control the level of impaired loans in our loan portfolio, our financial condition and results of operations will be materially and adversely affected.

Our results of operations have been, and continue to be, negatively impacted by our impaired loans. Under IFRS, the accounting principles that are applicable to us, loans are impaired if there is objective evidence that we will not be able to collect all amounts due according to the original contractual terms of loans. For a detailed discussion of the definition of "impaired loans" under IFRS , see Appendix I – "Accountants' Report". As of December 31, 2002, 2003 and 2004, our individually identified loans with impairment were RMB71,106 million, RMB65,199 million and RMB19,193 million, respectively. Our allowance for impairment losses on loans and advances were RMB31,610 million, RMB33,268 million and RMB8,446 million for the years ended December 31, 2002, 2003 and 2004, respectively, representing 44.5%, 51.0% and 44.0%, respectively, of our total individually identified loans with impairment for the same periods. In June 2004, we transferred approximately RMB53,020 million of impaired loans to Cinda, an asset management company established by the PRC government, in exchange for bills issued by the PBOC with a face value of RMB20,700 million. See the section headed "Our Reorganization and Restructuring – Financial Restructuring". Largely as a result of these disposals, the ratio of our impaired loans to our gross loans and advances to customers decreased from 11.86% as of December 31, 2003 to 3.00% as of December 31, 2004. We may not be permitted to make sales or write-offs of our impaired loans in similar sizes or on similar terms in the future. In the absence of such transfer of impaired loans, the ratio of our impaired loans to our loans and advances to customers would have been substantially higher.

We cannot assure you that we will be able to effectively control the level of impaired loans in our loan portfolio. In particular, the amount of our reported impaired loans and the ratio of our impaired loans to our loans and advances to customers may increase in the future as a result of deterioration in the quality of our loan portfolio. Such deterioration may occur for a variety of reasons, including factors which are beyond our control. Furthermore, a portion of our allowances for impairment losses are estimated based on historical patterns of losses of our loan portfolio. As historical patterns may differ from our future experience, our current allowances for impairment losses on loans and advances may not be adequate to cover any further increase in the amount of impaired loans or any future deterioration in the overall credit quality of our loan portfolio. See note 2(i) to Appendix I – "Accountants' Report". As a result, we may be required to increase our provision for impaired loans, which may in turn reduce our profit and adversely affect our financial condition and results of operations. Moreover, there is no precise method for predicting loan losses, and we cannot assure you that our allowance for impairment losses on loans and advances is or will be sufficient to cover actual losses. If we are unable to control the level of our impaired loans, our financial condition and results of operations will be materially and adversely affected.

A significant portion of our loans are secured by collateral or guarantees. Any significant decline in the value of the collateral or deterioration of the financial condition of the guarantors or any failure by us to enforce our rights as a secured creditor may adversely affect our financial condition and results of operations.

A substantial portion of our loans is secured by collateral or guarantees. As of December 31, 2004, 28% and 39% of our loans were secured by collateral and guarantees, respectively. Our loan collateral primarily includes real estate and other assets that are located in the PRC, the value of which may significantly fluctuate or decline due to factors beyond our control, including macroeconomic factors affecting the PRC economy. An economic slowdown in the PRC may lead to a downturn in the PRC real estate markets, which may in turn result in declines in the value of the collateral securing many of our loans to levels below the outstanding principal balance of such loans. Any decline in the value of the collateral securing our loans may result in a reduction in the amount we can recover from collateral realization and an increase in our impairment losses.

A significant portion of the guarantees of our loans is provided by the borrower's parent, subsidiaries and affiliated entities. A significant deterioration in the financial condition of the guarantors may significantly decrease the value of the guarantees.

In addition, we may not be able to enforce or may face difficulties in enforcing our rights as a secured creditor. In particular, a recent judicial interpretation issued by the Supreme Court of the PRC prohibits courts from foreclosing residential properties in civil proceedings if these properties are the necessary residential properties of the relevant individuals. See the section headed "Supervision and Regulation – Other Requirements – Limitation on Enforcement of Security Interest". In addition, in certain areas in the PRC, local protectionism and deficiencies regarding the enforcement of legal proceedings may make it difficult for us to implement foreclosures and enforce favorable judgments, and hence may result in losses to our Company.

As a result, any significant decline in the value of the collateral or deterioration of the economic condition of the guarantors or any failure by us to enforce our rights as a secured creditor may adversely affect our financial condition and results of operations.

Our primary source of income is interest income and we may not be able to increase the proportion of our non-interest income as our ability to generate non-interest income is limited.

Our primary source of income is interest income from our loans and investment securities. Currently, our non-interest income is derived primarily from our settlement and foreign exchange trading services. In 2004, our non-interest income constituted only 9.9% of our operating profit before tax, impairment losses on loans and advances and other operating expenses. As part of our growth strategy, we intend to increase our non-interest income, especially from international settlement business, bank card business, personal foreign exchange services and fund custody. However, our ability to increase our non-interest income is limited due to factors including, among others, our limited experience and regulatory restrictions imposed on PRC commercial banks. For example, a PRC commercial bank is required to obtain prior written approval from the CBRC before launching certain intermediary services, such as letters of credit and financial derivatives. See the section headed "Supervision and Regulation – Establishment and Scope of Business Activities". As a result, our results of operations will continue to be primarily dependent upon our interest income, which is subject to the regulatory, market and other risks set forth elsewhere in this section.

Fluctuations in interest rates as well as our limited ability to adjust the interest rates we charge on our assets or pay on our liabilities may adversely affect our lending operations and our financial condition.

As with most commercial banks, our results of operations depend to a great extent on our net interest income. For the year ended December 31, 2004, net interest income represented approximately 90.1% of our operating profit before tax, impairment losses on loans and advances and other operating expenses. Fluctuations in interest rates could affect our financial condition and results of operations and profitability in different ways. For example, a decrease in interest rates may reduce our interest income as well as yields from interest-earning investments. An increase in interest rates may decrease the value of our debt securities portfolio and raise our funding costs. In addition, an increase in interest rates may reduce overall demand for loans, and, accordingly, reduce our origination of new loans, as well as increase the risk of customer default. In addition, volatility in interest rates may also result in a gap between our interest rate sensitive assets and interest rate sensitive liabilities. As a result, we may be required to incur additional costs to adjust our interest rate sensitive assets and liabilities, and our net interest income may decrease. Furthermore, we have no ability to influence the benchmark rates set by the PBOC and have limited ability to adjust the interest rate on loans and deposits due to PRC regulatory restraints. As a result, fluctuations in interest rates may adversely affect our lending operations and our financial condition. See the section headed "Supervision and Regulation – Prudent Operating Requirements – Regulation of Interest Rates".

The high proportion of our loans due within one year may adversely affect the reliability and stability of our interest income, or result in a higher default rate on our loans.

Interest income from loans represents a substantial portion of our total interest income. A significant portion of our outstanding loans consists of loans that are due within one year. As of December 31, 2004, these loans represented approximately 68% of our loans excluding interest receivables. In our experience, a substantial portion of these loans is rolled over upon maturity and, as a result, these loans have been a stable source of interest income. We cannot assure you, however, that this will continue to be the case, particularly if competition increases or alternative sources of funding at lower interest rates become available to our customers. In addition, the concentration of short-term loans means that the repayment of such loans may be more vulnerable to, and could result in a higher default rate in case of, any downturns in the PRC economy or in the specific sectors of the PRC economy to which we primarily lend. Either of these two factors of unstable interest income and a higher rate of loan defaults could have a material adverse effect on our financial condition and results of operations.

Our outstanding loans are heavily concentrated in certain industries, and any significant or extended downturn in any of these industries may adversely affect our financial condition and results of operations.

As of December 31, 2004, approximately 35.4%, 13.3% and 12.4% of our corporate loans were concentrated in the manufacturing sector, trading sector and real estate sector, respectively. As of the same date, approximately 35.0%, 31.5% and 15.2% of our impaired corporate loans were concentrated in these three sectors, respectively. Any significant or extended downturn in any of these sectors may reduce the borrowing activities in these sectors, increase the level of our impaired loans and related provision for impaired loans, reduce our net profit and adversely affect our financial condition and results of operations. Moreover, any inaccurate assessment of the credit risks regarding the borrowers in any of these sectors may adversely affect our asset quality, financial condition and results of operations. The recent macroeconomic measures undertaken by the PRC government have led to a slow-down in lending activities in various sectors, including the real estate sector.

Our outstanding loans are heavily concentrated in certain regions, and any significant downturn in any of these regions may adversely affect our financial condition and results of operations.

As of December 31, 2004, approximately 30.5%, 24.6% and 8.3% of our loans excluding interest receivables were concentrated in the Yangtze River Delta, the Bohai Rim Economic Zone and the Pearl River Delta, respectively. As of the same date, approximately 12.6%, 10.7% and 11.2% of our loans excluding interest receivables were concentrated in Jiangsu Province, Shanghai and Beijing, respectively. In addition, a substantial portion of our corporate customers and over 50% of our branches, sub-branches and self-service centers are located in the Yangtze River Delta, the Bohai Rim Economic Zone and the Pearl River Delta. We currently expect the future growth of our corporate and retail banking businesses, especially our corporate and retail loan businesses, will continue to be concentrated in these areas. Any significant economic downturn in any of these regions may adversely affect our financial condition and results of operations. Moreover, any inaccurate assessment of the credit risks regarding the borrowers in any of these regions may adversely affect our asset quality, financial condition and results of operations.

We may not be able to manage the various risks we will face as we expand our range of products and services.

Part of our strategy is to expand the range of products and services that we offer to our banking customers in the PRC and overseas. As we expand the range of our products and services, we will be exposed to new and potentially increasingly complex risks. For example, we recently established a credit card unit to market, together with our strategic investor, HSBC, credit cards in the PRC. However, as the credit card market in the PRC is still at an early stage of development and there is limited credit information available regarding individual borrowers, we face additional risks in connection with the development of our credit card business. In addition, our employees and our risk management systems may not be adequate to handle such risks. Any or all of these types of risks could have an adverse effect on our financial condition and results of operations.

Our organizational restructuring may not be completed or effectively implemented, which may affect our ability to enhance our competitiveness and may have a material adverse effect on our business operations or prospects.

In order to improve our efficiency and overall competitiveness, in 2002, our Board and senior management decided to redesign our organizational structure by adopting a customer-centric model commonly used by international banks. The new organizational structure separates front office (mainly marketing), middle office (mainly risk management and finance management) and back office (mainly internal audit, administrative management, information technology and banking business processing) functions, giving each of them clear reporting lines and responsibilities. At the same time, the new organizational structure also adopts a business-line-based organizational model that connects different regions with an emphasis on centralized and vertical management structure. As part of our organizational restructuring, we are also in the process of establishing a management accounting system, including an internal transfer-pricing mechanism, which we believe will enable us to accurately evaluate our financial performance by business segments, customers and products and to optimize our allocation of resources. We plan to complete our organizational restructuring at the head office level by the end of 2005. See the section headed “Our Reorganization and Restructuring”. To the extent we are unable to complete the organizational restructuring, including our establishment of the management accounting system, as planned or realize the full benefits of the organizational restructuring, we may not be able to improve our efficiency and long-term competitiveness as expected, which in turn may adversely affect our business operations and prospects.

Any failure or ineffectiveness in implementing our centralized management may adversely affect our business operations, financial condition and reputation.

Like many other PRC banks, the branches we set up in various regions historically had relatively significant autonomy in their operation and management. As a result, in the past we were not always able to effectively prevent or timely detect failures in management at the branch level. For example, between 2000 and 2002, some employees at our Jinzhou branch in the city of Jinzhou, Liaoning province and three local courts were alleged to collaborate in falsifying legal documents and court judgments, which were submitted to our head office as the basis for writing off loans to 175 enterprises in the amount of RMB221 million. See the section headed “Business – Special Events”.

We are in the process of centralizing our management and risk controls and establishing accountability at each level within our Company by creating a "vertical" management system between our head office and our branches, including a "vertical" reporting internal audit system under which the auditing departments at our branches report directly to the internal auditing department at our head office. See also "– Our Organizational restructuring may not be completed or effectively implemented, which may affect our ability to enhance our competitiveness and may have a material adverse effect on our business operations or prospects". In addition, we have restructured our risk control system to strengthen our ability to detect and prevent risks at an early stage. See the section headed "Business – Risk Management and Internal Controls". However, our efforts to centralize our management and initiatives we undertook to improve management of our branches may not be sufficient to prevent all irregular transactions or incidents like the Jinzhou incident. Furthermore, in the event that any irregular transactions or incidents occur, we may not be able to timely detect and take appropriate measures to resolve them. If incidents similar to the Jinzhou incident or other irregular transactions do occur, relevant PRC regulatory authorities may take disciplinary actions or impose fines or other types of penalties against us, and our business and reputation as a result may be materially and adversely affected.

We are in the process of further improving our internal control system, and we cannot assure you that we will be able to implement and maintain stringent internal controls at all times.

Our internal control system is the essential means to maintain the integrity of our business operations and financial results. As part of our organizational restructuring and in response to recommendations by regulatory authorities, we are in the process of implementing various initiatives to enhance our internal controls. Such initiatives include improving our corporate governance structure and implementing various internal control policies and guidelines with respect to our credit management, treasury operations, internal accounting and auditing and information management system. See the sections headed "Our Reorganization and Restructuring – Organizational Restructuring" and "Supervision and Regulation – Prudent Operating Requirements – Internal Control". However, as these policies and guidelines are relatively new, our staff may require a longer period of time to adjust to these new or prospective policies and guidelines and we cannot assure you that our staff will be able to consistently follow these policies and guidelines at all times. We also cannot assure you these initiatives will be successfully implemented or as effective as anticipated.

In addition, our growth and expansion may affect our ability to implement and maintain stringent internal controls at all times. In particular, we do not currently comply with the PBOC's guideline to have a minimum of 2% of our employees devoted to internal auditing. There is no timeframe within which we are required to comply with this PBOC guideline and no sanctions or penalties have been stipulated for any non-compliance with this guideline. However, the CBRC may impose certain regulatory actions, which may include, among others, increased frequency of on-site inspections, recommending a change of management, suspension of relevant employees and imposing a deadline for full compliance, in relation to this non-compliance when exercising its general supervisory power for assessing the overall condition of our internal control system. We are currently in the process of rectifying such situation by external recruitment and/or internal assignment, and expect to be in full compliance with the PBOC's guideline by the end of 2007.

To the extent that we cannot effectively enhance our internal controls or our internal control system is not effectively implemented or consistently applied, our business operations, financial results and reputation may be materially and adversely affected.

Our business, reputation and prospects may be adversely affected if we are not able to timely detect and prevent fraud or other misconduct committed by our employees, customers or other third parties.

There have been a number of highly publicized cases involving fraud and misconduct by employees or customers in the PRC financial services industry recently, and, like other banks, we are subject to fraud and other misconduct committed by our employees, customers or other third parties, which could adversely affect our business, reputation or prospects. Such misconduct could take a variety of forms including, among other things:

- hiding unauthorized or illegal activities that may result in unknown and unmanaged risks or losses;
- engaging in unauthorized transactions to the detriment of our bank, breaching applicable laws or our internal control procedures or violating financial accounting rules;
- misapplying or failing to apply the loan classification standards thereby resulting in misclassifications within our loan portfolio;
- engaging in misrepresentation or fraudulent, deceptive or otherwise improper activities when marketing or selling products to our customers;
- improperly using or disclosing confidential information;
- falsifying or concealing information, including illegal or unlawful activities or credit information, during the credit application or loan classification process; and
- binding us to transactions that exceed authorized limits.

For a discussion of similar events that have occurred at some of our branches in the past, see the section headed "Business – Special Events".

While we will continue improving our risk management and internal control system, including internal audit and management information systems, to help prevent and detect such fraud or misconduct, we cannot predict whether or when such fraud or misconduct will happen and in what form, and cannot assure you that we will be able to timely detect or prevent such fraud or misconduct. We also may need to further improve our reporting procedures and staff awareness for such fraud or misconduct. As a result, our business, reputation and prospects may be adversely affected if we are not able to timely detect and prevent fraud or other misconduct committed by our employees, customers or other third parties.

Failure to successfully implement and continue to improve our credit risk management system may materially and adversely affect our business operations and prospects.

As a commercial bank, one of the principal types of risks inherent in our business is credit risk. Over the past decade, we have made continuous efforts to improve our credit management system. In particular, the improvements we made to our credit risk management system as a result of the World Bank project we have been implementing since 2001 have brought our credit risk management more in line with practice adopted by leading international banks. For a description of the World Bank project, see the section headed "Business". We continue to take various initiatives to improve the quality, and refine the practices, of our credit risk management. However, we may not be able to effectively implement our credit risk management system or continue to improve it so that it can function effectively. For example, an important part of our credit risk management system is to employ an internal 10-class credit rating system to assess the particular risk profile of a corporate client and the credit risk throughout our bank. As this process involves detailed analyses of the client or credit risk, taking into account both quantitative and qualitative factors, it is subject to human error. In exercising their judgment, our employees may not always be able to assign an accurate credit rating to a client or credit risk, which may result in inaccurate assessment of risk exposure for us. In addition, we have been trying to refine our credit policies and guidelines to address potential risks associated with particular industries or types of customers, such as affiliated entities and group customers. See the section headed "Business – Risk Management and Internal Controls – Credit Risk Management". However, we may not be able to timely detect these risks, or due to limited resources or tools available to us, our employees may not be able to effectively implement them, which may increase our credit risk. As a result, failure to implement effectively, consistently follow or continuously refine our credit risk management system may result in a higher risk exposure for us, which may in turn materially and adversely affect our financial condition and results of operations.

Our risk management policies as well as the risk management tools available to us may not be adequate or effective in addressing market risk and liquidity risk in our operations, which in turn could result in significant losses.

Like many other commercial banks, we typically utilize various financial instruments and investments to manage market risks and liquidity risks associated with our business. Some methods of managing market risks are based upon observed historical market behavior, which may not be indicative of market behavior in the future. As a result, those methods may not be able to timely or precisely predict future market risk exposures, which could be significantly greater than those indicated by the historical measures. Our other risk management methods depend upon an evaluation of available information regarding operating and market conditions or other matters. This information, including information provided by third parties, may not be accurate, complete, up-to-date or properly evaluated in all cases. In addition, current PRC rules and regulations restrict the types of financial instruments and investments we may hold. As a result, the risk management tools available to us are limited and may not be effective. If we cannot effectively address the market and liquidity risks associated with our businesses, our business and results of operations could be materially and adversely affected.

Our business and prospects may be materially and adversely affected if we are not able to grow or successfully manage our growth.

We have experienced rapid growth in recent years as a result of the growth of the PRC economy in general, and the various strategies we have taken to grow our business, including locating our branches in the more economically developed areas of the PRC. However, we cannot assure you that we will be able to maintain our rapid growth or grow at all as the PRC economy may in the future experience a slowdown or the strategies we designed to further grow our business may not be successful. See also "– Risks Relating to the PRC Banking Industry – The rate of growth of the PRC Banking market may not be sustainable" and "– Risks Relating to the PRC – An economic slowdown in the PRC may materially and adversely affect our financial condition and results of operations, as well as our future prospects".

In addition, the management of this growth has required, and will continue to require, substantial managerial and operational resources. The management of our growth will require, among other things:

- a sufficient capital base;
- continued strengthening of financial, management and internal controls and information technology systems;
- enhancing of risk management tools and technologies;
- stringent cost controls;
- effective marketing and sales activities; and
- retaining and re-training of existing skilled employees as well as attracting and training of new employees.

We cannot assure you that we will continue to grow at our current rate or at all. In addition, any growth will continue to place significant demands on our management, operations and internal risk control. If we are not able to manage our growth successfully, our business and prospects may be adversely affected.

The highly competitive nature of the PRC banking industry could adversely affect our profitability.

The PRC banking industry is becoming increasingly competitive. We face competition from other domestic commercial banks, including the Big Four in the PRC, and foreign financial institutions. For example, the Big Four may have greater financial, management and other resources than we do, and may be able to provide more access to customers due to their geographical coverage. In addition, the expansion of joint stock commercial banks in the PRC have intensified competition. In particular, some of these commercial banks may have less impaired loans due to their shorter operating history or better credit management. Furthermore, many other PRC commercial banks compete with us for substantially the same loan, deposit and fee customers.

As a result of the PRC's joining the WTO in December 2001, the PRC government is gradually phasing out restrictions on foreign participation in the PRC banking market. This will result in the further opening of the PRC banking market to foreign financial institutions, which could erode certain competitive advantages that we currently enjoy, such as those associated with our greater network scale in the PRC. In particular, in the accession agreement relating to its entry into the WTO, the PRC government has undertaken to eliminate by 2006:

- geographic restrictions on business activities of foreign banks and other foreign financial institutions; and
- restrictions on the permitted scope of business for foreign banks and other foreign financial institutions.

Moreover, the Mainland and Hong Kong Closer Economic Partnership Arrangement, a free trade agreement that became effective on January 1, 2004, enables smaller Hong Kong banks to enter the PRC banking sector, which we expect will increase the competition in the PRC banking industry. See "Industry Overview – Foreign Competition in the PRC Banking Sector".

In addition, the recent series of measures implemented by the PRC government, designed to liberalize the PRC banking industry, including those relating to interest rates and non-interest income products and services, are changing the basis on which we compete with other banks in the PRC. See the section headed "Supervision and Regulation".

The increased competitive pressures resulting from these and other factors may materially and adversely affect our business and prospects, as well as have a material adverse effect on our financial condition and results of operations by, among other things:

- reducing our market share in our principal lines of business;
- reducing the size of our loan portfolio;
- decreasing our net interest margins and spreads;
- increasing non-interest expenses, such as sales and marketing expenses; and
- reducing our returns.

We may not always be able to compete effectively and successfully in all the business areas in which we currently or will in the future operate.

We may need additional capital in the future, and we may not be able to obtain such capital on acceptable terms, or at all, which may result in a lower capital adequacy ratio.

In order for us to grow, remain competitive, enter into new businesses, expand our base of operations or meet regulatory capital adequacy requirements, we may require new funding in the future. Moreover, we may need to raise additional capital in the event of any increase in the minimum regulatory capital adequacy requirements by the CBRC or large losses in our loan portfolio that result in a reduction of our shareholders' equity. Our ability to obtain additional capital in the future is subject to a variety of factors, including:

- our future financial condition, results of operations and cash flows;
- any necessary government regulatory approvals;
- our credit rating;
- general market conditions for capital-raising activities by commercial banks and other financial institutions; and
- economic, political and other conditions both within and outside the PRC.

We may not be able to obtain additional capital in a timely manner or on acceptable terms or at all. Failure to obtain additional capital in a timely manner and on acceptable terms may result in a lower capital adequacy ratio, which may in turn materially and adversely affect our financial condition, results of operations and business prospects.

We are heavily dependent upon short-term funding, principally in the form of deposits, and our liquidity may be materially and adversely affected if a substantial portion of our short-term deposits fails to roll over upon maturity or if our banking business is not able to attract sufficient deposits to fund our loan activities.

Most of the funding requirements of our banking business are met through short-term funding, principally in the form of deposits, including customer deposits and inter-bank deposits. As of December 31, 2004, approximately 94% of our deposits had current maturities of one year or less or were payable on demand. In the past, our customer deposits have been a stable source of funding for our banking business. We cannot assure you, however, that this practice will continue. If a substantial portion of our depositors do not roll over deposited funds upon maturity, our liquidity could be materially and adversely affected, and we may be required to seek more expensive sources of short-term or long-term funding to finance our operations. See the section headed "Financial Information – Financial Position – Liquidity".

Our loan loss provision is determined in accordance with IAS 39, and any future amendment to IAS 39 and interpretive guidance on the application of IAS 39 may materially affect our loan loss provision practice and, as a result, our financial condition and results of operations.

Our loan loss provision is determined in accordance with IAS 39. Since January 2004, the IASB has issued authoritative amendments to IAS 39. To date, none of these amendments has had a material effect on our previously reported financial position or results of operations. The IASB is currently considering other amendments to IAS 39. In addition, the International Financial Reporting Interpretations Committee and other relevant accounting standard-setters and regulators (collectively, the "Authoritative Interpretive Bodies") have been asked by their constituents to consider providing interpretive guidance relating to the application of IAS 39. We cannot assure you if and when the IASB will issue amendments to IAS 39 or the Authoritative Interpretive Bodies will issue authoritative interpretive guidance relating to IAS 39. Future amendments to IAS 39 and interpretive guidance on the application of IAS 39 may be significantly different from our current loan loss provision practice and may, as a result, materially affect our financial condition and results of operations.

We may not be able to hire, train or retain a sufficient number of qualified staff.

Most aspects of our business are dependent on the quality of our staff. We devote considerable resources to recruiting, training and compensating these personnel. However, we face increased competition in recruiting and retaining these individuals as other banks are competing for the same pool of potential employees. In addition, our employees may choose to resign at any time to pursue other opportunities and may seek to divert customer relationships that they have developed while working for our Company. The majority of our employees are not subject to long-term employment contracts or non-compete agreements.

Our corporate banking operations depend to a significant extent on qualified relationship managers to distribute our products, and we plan to increase the number and efficiency of these relationship managers. In addition, we intend to increase the number of financial advisors employed by our retail banking operations and enhance their training. However, these efforts may not be successful.

Our largest shareholders may individually or collectively take actions that are not in, and may conflict with, our or our other shareholders' best interests.

Immediately after the completion of the Global Offering, assuming the Over-allotment Option is not exercised and no new Shares are issued pursuant to the HSBC Price Adjustment Top-Up, our four existing largest shareholders, the MOF, HSBC, the National Council for Social Security Fund and China SAFE Investments Ltd., will collectively own, directly and indirectly, approximately 61.15% of our outstanding Shares. Accordingly, our largest shareholders, including these four shareholders, may have the ability to individually or collectively exercise significant influence over our business, including matters relating to:

- the issuance of new securities;
- the election of our Directors and Supervisors;
- our management, especially the composition of our senior management, due to their significant influence over our Board;
- our business strategies and policies;
- the timing and amount of the distribution of dividends;
- any plans relating to mergers, acquisitions, joint ventures, investments or divestitures; and
- amendments to our Articles of Association.

Our largest shareholders may individually or collectively take actions that you may not agree with or that are not in our or our other shareholders' best interests.

Our businesses rely heavily on data collection, processing, storage and retrieval systems, the failure of which could materially and adversely affect the effectiveness of our risk management and internal control system as well as our financial condition and results of operations.

All of our principal businesses are highly dependent on the ability to timely and accurately collect and process a large amount of financial and other information across numerous and diverse markets and products at our various branches, at a time when transaction processes have become increasingly complex with increasing volume. The proper functioning of our financial control, risk management, accounting or other data collection and processing systems, together with the communication networks connecting our various branches and our main data processing center, is critical to our businesses and to our ability to compete effectively. We are currently in the process of centralizing our data and improving our information management system. See the section headed "Business – Information Technology". Although we have backup data that could be used in the event of catastrophe or failure of the primary systems, a partial or complete failure of any of these primary systems or communication networks could materially and adversely affect our decision-making process, our risk management and our internal controls as well as our timely response to changing market conditions. If we cannot maintain an effective data collection and management system, our business operations, financial condition and results of operations could be materially and adversely affected.

Any failure to effectively improve or upgrade our information technology infrastructure and management information systems in a timely manner could adversely affect our competitiveness, financial condition and results of operations.

Our ability to remain competitive will depend in part on our ability to upgrade our information technology infrastructure on a timely and cost-effective basis. In particular, we must continually make significant investments and improvements in our information technology infrastructure in order to remain competitive. See the section headed "Business – Information Technology". The quality and timing of information available to and received by our management through our existing information systems may not be sufficient to manage risks as well as to plan for and respond to changes in market conditions and other developments in our operations. In addition, we may experience difficulties in upgrading, developing and expanding our information technology systems quickly enough to accommodate our growing customer base.

Certain PRC regulations limit our ability to diversify our investments, and as a result, a decrease in the value of a particular type of investment may have a material adverse effect on our financial condition and results of operations.

As a result of the current PRC regulatory restrictions, substantially all of our Renminbi-denominated investment assets are concentrated in a limited number of investments permitted for PRC commercial banks, such as PRC treasury bonds, finance bonds issued by PRC policy banks, central bank notes, and subordinated term bonds. These restrictions on our ability to diversify our investment portfolio limit our ability to seek an optimal return. In addition, we are exposed to a significant level of risk associated with these types of investments. For example, the deterioration of the financial condition of PRC commercial banks would increase the risks associated with holding our subordinated term bonds. In addition, if the PRC government's budget deficit continues to increase, the value of the PRC treasury bonds and finance bonds in which we invest may be adversely affected. Consequently, a decrease in the value of any of these types of investments could have a material adverse effect on our financial condition and results of operations.

Future inspections, examinations, inquiries or audits by PRC regulatory authorities may result in fines, other penalties or actions that could materially and adversely affect our business, financial condition and results of operations as well as our reputation.

We are subject to various inspections, examinations, inquiries and audits by PRC regulatory authorities. Such inspections, examinations, inquiries and audits have from time to time revealed weaknesses in certain areas of our operations such as corporate governance and internal controls. In the past, we have also from time to time been found to have violated certain laws and regulations. As a result, we have been subject to penalties and fines. During the three years ended December 31, 2004, we were fined 302 times totaling approximately RMB15.8 million by PRC regulatory authorities. These fines covered violations relating to, among other things, late payment of income taxes. In the past, we have also occasionally been subject to corrective actions by relevant regulatory authorities. These penalties have not had a material adverse effect on our business, financial condition and results of operations. However, future inspections, examinations, inquiries or audits by PRC regulatory authorities may result in fines, other penalties or actions that may materially and adversely affect our business, financial condition and results of operations as well as our reputation.

We may be subject to administrative sanctions, fines and other penalties for violations, particularly for using our funds in a manner that is inconsistent with, or impermissible under, the applicable limitations set forth in the PRC Commercial Banking Law.

The PRC Commercial Banking Law imposes strict limitations on the use of funds by PRC commercial banks. In particular, the PRC Commercial Banking Law prohibits PRC commercial banks from, among other things, using their funds to engage in activities that are outside of the scope of normal banking operations. See the section headed "Supervision and Regulation – Other Requirements – Use of Funds". We have in the past used our funds in a manner that is inconsistent with, or impermissible under, the applicable limitations set forth under the PRC Commercial Banking Law. We have either terminated or are in the process of rectifying these activities. See the section headed “Business – Other Matters – Other Investments”. While we have not been subject to any material administrative sanctions, fines or other penalties for such use of our funds, we cannot assure you that the relevant regulatory authorities would not take additional actions against us in the future, including the revocation of banking licence(s) of the relevant branch or branches. Any future administrative sanctions, fines or other penalties, including those discussed above, may have a material adverse effect on our business, financial condition and results of operations.

We are subject to counterparty risks in our derivative transactions.

We act primarily as an intermediary in domestic and international foreign exchange and derivative markets, and we currently have foreign currency forward and swap arrangements with a number of domestic and international banks, financial institutions and other entities. We also have a more limited number of interest rate swap arrangements. We do not typically enter into foreign currency or interest rate derivative arrangements for our own account but are subject to credit risk from our various counterparties. Although we believe that the overall credit quality of our counterparties is adequate, there can be no assurances that parties with significant exposures will not face difficulty in paying amounts on derivative contracts when due.

We do not possess the relevant land use right certificates or building ownership certificates in respect of some of the properties held by us, and we may be required to seek alternative premises for some of our offices due to our landlords’ lack of relevant land use right certificates or building ownership certificates.

As of March 31, 2005, we held approximately 1,677 properties with an aggregate gross floor area of approximately 2,469,693 square meters, of which 1,633 properties with an aggregate gross floor area of approximately 2,407,744 square meters were located in the PRC. We hold the relevant long-term granted land use right certificates and/or building ownership certificates for all but 349 properties with an aggregate gross floor area of approximately 346,059 square meters situated in the PRC, including fourteen properties we leased to third parties in respect of which we do not hold relevant title certificates. We are in the process of applying for the relevant land use right certificates and building ownership certificates that we do not yet hold. Upon obtaining the relevant certificates for these properties, we will have the legal right to occupy, let, transfer and mortgage such property. See the section headed “Business – Properties – Property Titles”. We may not be able to obtain all of the title deeds for the defective properties and we are uncertain how our rights as owner/occupier of these defective properties would be adversely affected as a result of the absence of the title deeds as described above.

As of March 31, 2005, we also leased approximately 2,359 properties with an aggregate gross floor area of approximately 734,998 square meters, of which 2,334 properties with an aggregate gross floor area of approximately 732,369 square meters were located in the PRC. In respect of 1,047 properties with an aggregate gross floor area of approximately 289,539 square meters leased by us, our landlords do not possess the relevant building ownership certificates for the properties leased to us. Such leases and the leases for the fourteen properties we leased to third parties in respect of which we do not hold relevant title certificates may be deemed invalid under the PRC law and may not be enforced in the PRC courts. In addition, we cannot assure you that we will be able to renew our leases on terms acceptable to us upon their expiration. If any of our leases were terminated as a result of being challenged by third parties or failure of the lessors to renew upon expiration, we may be forced to seek alternative premises for these offices and incur additional costs associated therewith, and our lessees may make claims against us in the event these leases are deemed invalid.

RISKS RELATING TO THE PRC BANKING INDUSTRY

Our businesses are highly regulated and we may be materially and adversely affected by future regulatory changes.

We operate in a highly regulated industry and are subject to laws regulating all aspects of our business, including the PRC Commercial Banking Law and related rules and regulations. The principal regulators of the PRC banking industry include the CBRC and the PBOC, and, in exercising their authority, they are given wide discretion. The PRC banking regulatory regime is currently undergoing significant changes, including changes in the rules and regulations that are applicable to us, as it moves toward a more transparent regulatory process. Some of these changes may result in additional costs or restrictions on our activities. For example, we may be required to increase our reserves in response to future changes in PBOC rules and regulations. In addition, some of the changes may require us to take additional steps to comply with new rules and regulations on a timely basis. For example, the CBRC announced in September 2004 that it would begin to levy supervision charges on financial institutions under its supervision. See the section headed "Supervision and Regulation – Regulatory Authorities – The CBRC". Furthermore, the PBOC, as the PRC central bank, exercises significant influence over monetary policies, including the official benchmark interest rates. For example, the PBOC recently increased the benchmark interest rate for one-year loans and deposits by 27 basis points. In addition, the PBOC enacted several anti-money laundering rules and regulations in 2003 and is in the process of drafting an anti-money laundering law, which we expect will have a significant impact on our operations.

As some of these laws, rules, regulations or policies are relatively new, there is uncertainty regarding their interpretation and application. Failure to comply with any of these laws, rules, regulations or policies may result in fines, restrictions on our business activities or, in extreme cases, suspension or revocation of our business licenses, which could materially and adversely affect us. In addition, future laws, rules, regulations or policies, or the interpretation of existing or future laws, rules, regulations or policies, including accounting policies and standards, may have a material adverse affect on our business, financial condition and results of operations. See the section headed "Description of Our Assets and Liabilities – Assets – Loan Quality – Provision for Impairment Losses". Future legislative or regulatory changes, including deregulation, may have a material adverse effect on our business, financial condition and results of operations, and we may not be able to achieve full compliance with any such new laws, rules, regulations or policies.

Guidelines for loan classification and provisioning in the PRC may be perceived as less stringent than those in some other jurisdictions.

The PRC loan classification guidelines, or the Loan Classification Principles, were adopted in 2001 with reference to, but may be different in certain respects from, those in other jurisdictions, including Hong Kong. For example, the period of time for which a loan is overdue is a determining factor under the Hong Kong Monetary Authority loan classification guidelines, but not under the Loan Classification Principles. For a detailed description of the loan classification and provisioning in the PRC, see the section headed "Supervision and Regulation – Prudent Operating Requirements – Loan Classification". This may result in particular loans, or a larger overall portion of loans, being classified by us as performing loans, or in a category reflecting a lower degree of risk for purposes of calculating our capital adequacy as compared to banks operating in other countries. Accordingly, the actual level of risk associated with our loan portfolio may be higher than that to which international investors are accustomed.

The rate of growth of the PRC banking market may not be sustainable.

We expect the banking market in the PRC to expand as a result of anticipated growth in the PRC economy, increases in household wealth, continued social welfare reform, demographic changes and the opening of the PRC banking market to foreign participants. The prospective impact on the PRC banking industry of certain trends and events, such as the pace of economic growth in the PRC, the

PRC's accession to the WTO and the ongoing reform of the social welfare system is currently not clear. Consequently, we cannot assure you that the growth and development of the PRC banking market will be sustainable.

The effectiveness of our credit risk management system is affected by the quality and scope of information available in the PRC and the absence of a nationwide credit information system for individual borrowers.

A national credit information database on corporate borrowers was established by the PBOC in 1997. However, not all corporate borrowers are included in this database. In addition, this database was created based on credit information provided by various banks in the PRC. The quality of such information varies from bank to bank. As a result, this database may not provide a complete, reliable and accurate record of a corporate borrower's credit history or information, such as guarantees provided to affiliated entities. Furthermore, unlike the United States or other developed countries, no unified nationwide credit information on individuals is currently available in the PRC, which means that our assessment of the credit risks associated with a particular retail client may not be complete, accurate or reliable. In December 2004, a pilot personal credit data collection and sharing service, established by PRC commercial banks under the coordination of the PBOC, was introduced in seven cities in the PRC. This personal credit database is scheduled to be available nationwide by the end of 2005. However, we do not know how effective or accurate such a database will be. Without such information, we had to resort to relying on other publicly available resources and our internal resources, which may not be as effective as a unified nationwide credit information system. As a result, our ability to effectively manage our risk is materially and adversely affected.

We cannot guarantee the accuracy of facts and statistics contained in this prospectus with respect to the PRC, its economy or its banking industry.

Some of the facts and statistics in this prospectus relating to the PRC, its economy and its banking industry are derived from various official and other publicly available sources generally believed to be reliable. However, we cannot guarantee the quality and reliability of such official source material. In addition, these facts and statistics have not been independently verified by us and therefore we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside the PRC and may not be complete or up-to-date. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable from period to period or to statistics produced for other economies and should not be unduly relied upon.

The ability of our shareholders, including those holding H Shares, to pledge their Shares is limited by applicable PRC laws and regulations.

Under the PRC Company Law, shareholders of a PRC company, including those of a PRC commercial bank, may not pledge their shares of the company as collateral for loans or benefits received from such company.

Moreover, the PBOC issued the Corporate Governance Guidelines on June 4, 2002, most of which we have adopted in our Articles of Association. For example, our Articles of Association provide that our shareholders shall give prior notice to our Board if they wish to pledge their Shares to any lender, other than us, as collateral. Moreover, if any shareholder has any loan with us and the outstanding amount of the loan exceeds the audited net asset value of such shareholder's equity in our Company for the immediately preceding year, and if such shareholder does not pledge any government bonds or bank deposit certificates as collateral, the shareholder may not pledge its Shares. See the section headed "Supervision and Regulation – Other Requirements – Ownership Restrictions".

Relevant PRC regulations provide that a pledge for shares of a publicly-listed company does not become effective until the pledge is registered with relevant securities registration authorities. In addition, our Articles of Association provide that any transfer or pledge of our shares has to satisfy applicable regulatory requirements.

As a result of the foregoing, our shareholders' ability to pledge their Shares is limited by applicable PRC laws and regulations.

Any acquisition of 5% or more of our total outstanding shares will require the CBRC's prior approval.

Under the current ownership restrictions imposed on investments in commercial banks in the PRC, a prior approval from the CBRC is required for any person or entity to hold 5% or more of the total issued shares of a PRC commercial bank. For consequences in connection with any existing shareholder of a commercial bank increasing their shareholding in excess of the 5% threshold without obtaining the CBRC's prior approval, see the section headed "Supervision and Regulation – Other Requirements – Ownership Restrictions". As a result, if one of your investment goals is to acquire a substantial share interest in our Company, your goal may not be achieved unless you are able to obtain the prior approval from the CBRC.

RISKS RELATING TO THE PRC

Substantially all of our assets are located in the PRC, and substantially all of our revenues are derived from our operations in the PRC. Accordingly, our financial condition, results of operations and prospects will be affected to a significant extent by economic, political and legal developments in the PRC.

PRC economic, political and social conditions and government policies could affect our business.

Substantially all of our business, assets and operations are located in the PRC. The economy of the PRC differs from the economies of most developed countries in many respects, including, among others:

- government involvement;
- level of development;
- growth rate;
- control of foreign exchange; and
- allocation of resources.

While the PRC economy has experienced significant growth in the past twenty years, such growth has been concentrated in certain geographic areas and sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. These measures are aimed to benefit the overall economy of the PRC, but some of them may have a negative effect on certain industries, including the commercial banking industry. For example, our operating results may be adversely affected by government control over capital investments or changes in, interpretation of, and application of applicable tax regulations.

The PRC economy has been undergoing a transition from a planned economy to a more market-oriented economy. Although the PRC government has in recent years implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of productive assets in the PRC is still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government still retains significant control over the PRC's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

Our financial condition and results of operations could be materially and adversely affected by macroeconomic policies of the PRC government.

The PRC government in the past has implemented various macroeconomic policies to manage the growth of the PRC economy, and these macroeconomic policies generally had a significant impact on the PRC banking industry. For example, from 1993 to 1997, the PRC government took various measures designed to temper the overheated economy, such as restricting construction activities and investment in real estate and property development, tightening the control of banking credit, and raising interest rates. As a result of these policies, PRC commercial banks were compelled to limit their loans to certain industries and raise the interest rates on deposits and loans.

The PRC government has recently taken various macroeconomic measures, such as credit controls and restricted lending to securities and property industries, to moderate the rate of growth of the PRC economy. In October 2004, the PBOC raised the one-year benchmark interest rates on Renminbi-denominated loans and deposits by 27 basis points and eliminated the ceiling on the interest rates of the Renminbi-denominated loans. As the PRC government continues to use macroeconomic policies, including monetary and fiscal policies, to manage the growth of the PRC economy, our financial condition and results of operations could be materially and adversely affected.

Government control of currency conversion could have a material adverse effect on our operations and financial results, as well as affect our ability to pay dividends in foreign currencies.

The Renminbi currently is not a freely convertible currency, and any PRC commercial bank, including us, that plans to conduct foreign exchange settlement or offshore business is required to obtain prior approval from SAFE. See the section headed "Supervision and Regulation – Establishment and Scope of Business Activities".

In addition, we receive substantially all of our revenues in Renminbi, and a portion of these revenues must be converted into other currencies to meet our foreign currency obligations. We need to obtain foreign currency to pay dividends declared, if any, in respect of our H Shares and to pay foreign exchange expenses and liabilities.

Under the PRC's existing foreign exchange regulations, following the completion of the Global Offering, we will be able to pay dividends in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, the PRC government may take measures at its discretion in the future to restrict access to foreign currencies for current account transactions if foreign currencies become scarce in the PRC. We may not be able to pay dividends in foreign currencies to our shareholders if the PRC government restricts access to foreign currencies for current account transactions.

Foreign exchange transactions under our capital account continue to be subject to significant foreign exchange controls and require the SAFE approval. These limitations could affect our ability to obtain foreign exchange through equity financing, or to obtain foreign exchange for capital expenditures.

An economic slowdown in the PRC may materially and adversely affect our financial condition and results of operations, as well as our future prospects.

We conduct most of our business and generate substantially all of our revenues in the PRC. As a result, economic conditions in the PRC have a significant effect on our financial condition and results of operations, as well as our future prospects. Since 1978, the PRC has been one of the world's fastest growing economies in terms of GDP growth. According to published data from the National Bureau of Statistics of China, between 1978 and 2003, GDP of the PRC increased from approximately RMB362 billion to approximately RMB11,725 billion. We cannot assure you, however, that such growth will be sustained in the future. In addition, the PRC government recently has taken a number of measures designed to moderate the growth of the PRC economy. These measures have already to some extent resulted in slower growth in certain sectors, such as the real estate market and certain other industry sectors in which there is, or there is perceived to be, an over-concentration of investment. In addition, an economic slowdown in the PRC may reduce loan demand and increase the likelihood of default by our customers. As a result, our impairment losses for our loans and advances may increase, which may in turn materially and adversely affect our financial condition and results of operations. Moreover, a slowdown in the economies of the United States, the European Union or certain Asian countries may adversely affect economic growth in the PRC. Our financial condition and results of operations, as well as our future prospects, may be materially and adversely affected by an economic downturn in the PRC.

Fluctuations of the Renminbi could have a material adverse effect on our financial condition and results of operations, as well as reduce the value of, and dividends payable on, our H Shares in foreign currency terms.

The value of the Renminbi is subject to changes in the PRC's political and economic conditions. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and US dollars, has been based on rates set by the PBOC, which are set daily based on the previous day's inter-bank foreign exchange market rates and current exchange rates on the world financial markets. Since 1994, the official exchange rate for the conversion of Renminbi to US dollars has generally been stable. A revaluation of the Renminbi, however, may materially affect the value of, and dividends, if any, payable on, our H Shares in foreign currency terms, since we will receive substantially all of our revenues, and express our profits, in Renminbi. Our financial condition and results of operations may also be affected by changes in the value of certain currencies other than the Renminbi, such as Hong Kong dollars and US dollars, as some of our obligations or holdings are denominated in Hong Kong dollars or US dollars. See Appendix VI – "Taxation and Foreign Exchange".

The PRC legal system could limit the legal protections available to you.

We are organized under the laws of the PRC. The PRC legal system is based on written statutes. Prior court decisions may be quoted for reference but have limited precedential value. Since 1979, the PRC government has promulgated laws and regulations dealing with economic matters, such as foreign investment, corporate organization and governance, commerce, taxation and trade, with a view towards developing a comprehensive system of commercial law. However, as these laws and regulations are relatively new, and because of the limited volume of published cases and their non-binding nature, interpretation and enforcement of these laws and regulations involve uncertainties.

Our Articles of Association provide that disputes between holders of H Shares and us, our Directors, Supervisors or senior officers or holders of Domestic Shares, arising out of our Articles of Association or any rights or obligations conferred or imposed upon by the PRC Company Law and related rules and regulations concerning our affairs, including the transfer of our Shares, are to be resolved through arbitration rather than by a court of law. A claimant may elect to submit a dispute to arbitration organizations in Hong Kong or the PRC. Awards that are made by the PRC arbitral authorities recognized under the Arbitration Ordinance of Hong Kong can be enforced in Hong Kong. Hong Kong arbitration awards may be recognized and enforced by PRC courts, subject to the satisfaction of certain PRC legal requirements. However, to our knowledge, no action has been brought in the PRC by any holder of H Shares to enforce an arbitral award, and we cannot assure you as to the outcome of any action brought in the PRC by any holder of H Shares to enforce a Hong Kong arbitral award made in favor of holders of H Shares. Moreover, to our knowledge, there has not been any published report of judicial enforcement in the PRC by holders of H Shares of their rights under the Articles of Association of their respective investee companies or the PRC Company Law.

In addition, under the applicable PRC laws, it is not clear whether shareholders have the right to sue the directors, supervisors, senior officers or other shareholders on behalf of a corporation to enforce a claim against such party or parties that the corporation has failed to enforce itself. Our shareholders may be required to rely on other means to enforce their rights. PRC laws, rules and regulations applicable to companies listed overseas do not distinguish among minority and controlling shareholders in terms of their rights and protections. Furthermore, our minority shareholders may not have the same protections enjoyed by shareholders of companies incorporated under the laws of the United States and certain other countries.

You may experience difficulties in effecting service of legal process and enforcing judgments against us and our Directors and officers.

We are a company incorporated under the laws of the PRC, and substantially all of our assets and our subsidiaries are located in the PRC. In addition, most of our Directors and officers reside within the PRC, and the assets of our Directors and officers may be located within the PRC. As a result, it may not be possible to effect service of process within the United States or elsewhere outside of the PRC upon most of our Directors and officers, including with respect to matters arising under the U.S. Federal securities laws or applicable state securities laws. Moreover, a judgment of a court of another jurisdiction may be reciprocally recognized or enforced if the jurisdiction has a treaty with the PRC or if judgments of PRC courts have been recognized before in that jurisdiction, subject to the satisfaction of other requirements. Our PRC counsel, King & Wood, PRC Lawyers, has advised us that the PRC does not have treaties providing for the reciprocal enforcement of judgments of courts with the United States, the United Kingdom, Japan or most other Western countries. In addition, our Hong Kong counsel, Linklaters, has advised us that Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. As a result, recognition and enforcement in the PRC or Hong Kong of judgments of a court in the United States and any of the other jurisdictions mentioned above in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.

In addition, although we will be subject to the Hong Kong Listing Rules and the Hong Kong Takeovers Codes upon the listing of our H Shares on the Hong Kong Stock Exchange, the holders of H Shares will not be able to bring actions on the basis of violations of the Hong Kong Listing Rules and must rely on the Hong Kong Stock Exchange to enforce its rules. Furthermore, the Hong Kong Takeovers Codes do not have the force of law and provide only standards of commercial conduct considered acceptable for takeover and merger transactions and share repurchases in Hong Kong.

Holders of H Shares may be subject to PRC taxation.

Under the PRC's current tax laws, regulations and rulings, dividends paid by us to holders of H Shares outside the PRC are currently exempt from PRC income tax. In addition, gains realized by individuals or enterprises upon the sale or other disposition of H Shares are currently exempt from PRC income tax. If the exemptions are withdrawn in the future, holders of H Shares may be required to pay withholding tax on dividends, which is currently imposed at the rate of 20%, or capital gains tax, which is currently imposed upon individuals at the rate of 20%. See Appendix VI – "Taxation and Foreign Exchange".

Payment of dividends is subject to restrictions under PRC laws.

Under PRC law, dividends may be paid only out of distributable profits. Distributable profits means our after-tax profits as determined under PRC GAAP or IFRS, whichever is lower, less any recovery of accumulated losses and allocations to statutory funds that we are required to make. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years. However, we will not ordinarily pay any dividends in a year in which we did not have distributable profits for that year.

In addition, the CBRC has the discretionary authority to prohibit any bank that has a total capital adequacy ratio below 8% or a core capital adequacy ratio below 4% from paying dividends and other forms of distributions. See the section headed "Supervision and Regulation – Prudent Operating Requirements – Capital Adequacy Ratio".

The calculation of distributable profits for a bank holding company under PRC GAAP differs in a few respects from the calculation under IFRS. As a result, we may not be able to pay any dividends in a given year if we do not have distributable profits as determined under PRC GAAP, even if we have profits for that year as determined under IFRS. Payment of dividends by us is also regulated by the relevant PRC banking regulations. See the section headed "Financial Information – Dividend Policy".

Any future outbreak of severe acute respiratory syndrome in the PRC, or similar adverse public health developments, may have a material adverse effect on our business operations, financial condition and results of operations.

From November 2002 to June 2003, the PRC and certain other countries and regions experienced an outbreak of a new and highly contagious form of atypical pneumonia known as severe acute respiratory syndrome, or SARS. On July 5, 2003, the World Health Organization declared that the SARS outbreak had been contained. However, a number of isolated cases of SARS were reported in the PRC in April 2004. If there is a new outbreak of SARS or similar adverse public health developments, the World Health Organization or the PRC government may recommend or impose travel restrictions and other measures that could cause significant interruption to our business operations and have a material adverse effect on our financial condition and results of operations.

RISKS RELATING TO THE GLOBAL OFFERING

An active trading market for our H Shares may fail to develop or be sustained, and their trading price may fluctuate significantly.

Prior to the Global Offering, no public market for our H Shares existed. Following the completion of the Global Offering, the Hong Kong Stock Exchange will be the only market for the H Shares. However, an active trading market for our H Shares may not develop or be sustained after the Global Offering. In addition, our H Shares may trade in the public market subsequent to the Global Offering below the Offer Price. The Offer Price for the H Shares is expected to be fixed by agreement among the Joint Global Coordinators (on behalf of the Hong Kong Underwriters and the International Purchasers) and us, and may not be indicative of the market price of the H Shares following the completion of the Global Offering. If an active trading market for our H Shares does not develop or is not sustained after the Global Offering, the market price and liquidity of our H Shares could be materially and adversely affected.

Future sales or perceived sales of substantial amounts of our H Shares in the public market could have a material adverse effect on the prevailing market price of our H Shares and our ability to raise capital in the future.

The market price of our H Shares could decline as a result of future sales of substantial amounts of our H Shares or other securities relating to our H Shares in the public market or the issuance of new H Shares, or the perception that such sales or issuances may occur. In particular, the Shares owned by HSBC, National Council for Social Security Fund and China SAFE Investments Ltd. will be converted into H Shares upon completion of the Global Offering. National Council for Social Security Fund, China SAFE Investments Ltd., and HSBC have agreed not to sell their respective converted H Shares for one year, one year and prior to August 18, 2008, respectively, following the Listing Date.

These converted H Shares will be available for sale after their respective lock-up periods end. Future sales, or perceived sales, of substantial amounts of our H Shares could also materially and adversely affect our ability to raise capital in the future at a time and at a price which we deem appropriate. In addition, our shareholders may experience dilution in their holdings to the extent we issue additional securities in future offerings.

Since the Offer Prices of our H Shares are higher than the net tangible book value per share immediately prior to the Global Offering, you will incur immediate dilution.

The Offer Price of our H Shares is higher than the net tangible book value per share immediately prior to the Global Offering. Therefore, purchasers of our H Shares in the Global Offering will experience an immediate dilution in pro forma combined net tangible book value of HK$0.85 per H share assuming an Offer Price of HK$2.25 (being the mid-point of the stated offer price range of HK$1.95 and HK$2.55). If the Underwriters exercise their Over-allotment Option or if we issue additional H Shares in the future, purchasers of our H Shares may experience further dilution.

Since there will be a gap of several days between pricing and trading of our H Shares, holders of our H Shares are subject to the risk that the price of our H Shares could fall during the period before trading of our H Shares begins.

The initial price to the public of our H Shares was determined on the date of this prospectus. However, our H Shares will not commence trading on the Hong Kong Stock Exchange until they are delivered, which is expected to be five Hong Kong business days after the pricing date. As a result, investors may not be able to sell or otherwise deal in our H Shares during that period. Accordingly, holders of our H Shares are subject to the risk that the price of our H Shares could fall before trading begins as a result of adverse market conditions or other adverse developments that could occur between the time of sale and the time trading begins.

We strongly caution you not to place any reliance on any information contained in press articles or other media regarding the Company and/or the Global Offering including, in particular, any financial projections, valuations or other forward-looking information.

There have been reports in certain news publications about the Company and/or the Global Offering, including the news articles of Ta Kung Pao, Wen Wei Po, Ming Pao Daily News and 21st Century Business Herald on May 14, 2005, China Business News on May 25, 2005, 21st Century Business Herald on May 26, 2005, Sing Tao Daily, Ta Kung Pao, The Sun, Oriental Daily News, and the Hong Kong Economic Journal on May 27, 2005, Ming Pao Daily News on May 28, 2005, Apple Daily, Ta Kung Pao and Dow Jones Newswires on May 30, 2005, Apple Daily and National Business Daily on May 31, 2005, www.p5w.net, 21st Century Business Herald, www.CBBN.NET, China Times and Dow Jones Newswires on June 1, 2005, International Finance News, China Industry Daily News, Infocast Financial Newswire and Wen Wei Po on June 2, 2005, Sing Tao Daily on June 3, 2005, and Sing Pao Daily News and Beijing Times on June 6, 2005 which contained certain projections, valuations and other forward-looking information. We wish to emphasize to potential investors that we do not accept any responsibility for the accuracy or completeness of any media articles or reports as such articles or reports were not prepared or approved by us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations or other forward-looking information, or of any assumptions underlying such projections, valuations or other forward-looking information included in or referred to by the media. To the extent that any such statements are inconsistent with, or conflict with, the information contained in this prospectus, we disclaim them. Accordingly, we strongly caution you not to place any reliance on any such information.