



Striving for Global Connections



Report of the Board of Supervisors

1 DESCRIPTIONS OF THE MEETINGS OF THE BOARD OF SUPERVISORS AND ITS COMMITTEES

- (1) On 5 April 2005, the 6th Session of the 4th Board of Supervisors and the 2nd Session of the Nomination Committee and the Monitoring Committee were held in Shanghai. At the meeting, the Board of Supervisors passed unanimously the 2005 Work Plan of the Board of Supervisors and the Proposal on the Change of the Name of the Audit Committee of the Board of Supervisors and agreed to change the name of the Audit Committee to Monitoring Committee. At the meeting, the Committees passed the 2005 Work Plan of the Nomination Committee, the 2005 Work Plan of the Monitoring Committee and the 2005 Auditing Plan of the Monitoring Committee.

The supervisors attending the meetings reviewed the 2004 Report of Board of Directors, the 2004 President Report, the Proposals on the Final Accounts, Profit Distribution for 2004 and Financial Budget 2005, the 2004 Annual Report, the proposed measures regarding Connected Transactions Management, the Report on Risk Management for 2004 and 2005 Work Plan of Risk Management and the Summary of Comprehensive Risk Management for 2005-2007 during the 6th Session of the Board of Directors.

- (2) On 13 May 2005, the 7th Session of the 4th Board of Supervisors was held via written communications. At the meeting, the Board of Supervisors passed unanimously the 2004 Report of the Board of Supervisors and agreed to submit it to the General Meeting of shareholders.
- (3) On 29 June 2005, the 8th Session of the 4th Board of Supervisors and the 3rd Session of the Monitoring Committee were held in Shanghai. The Board of Supervisors passed unanimously the Measures on the Board of Supervisors Inquiries, discussed the training issues of the supervisors, was briefed by the office of the Board of Supervisors on Report on the Questionnaires on the Performance of the Directors, Supervisors and Senior Management, and by the finance department on the analysis of the Bank's operating condition during January to May. The 3rd Session of the Nomination Committee discussed the Opinion on the Introduction of Business Training in 2005 by the Board of Supervisors. At the 3rd Session, the Monitoring Committee was briefed by the audit department in respect of its internal control, risk elimination and the work of the department.
- (4) On 17 August 2005, the 9th Session of the 4th Board of Supervisors and the 4th Session of the Monitoring Committee were held in Shanghai and at those sessions, the 2005 Interim Report was considered and approved.

1 DESCRIPTIONS OF THE MEETINGS OF THE BOARD OF SUPERVISORS AND ITS COMMITTEES *(Continued)*

- (5) On 18 November 2005, the 10th Session of the 4th Board of Supervisors, the 4th Session of the Nomination Committee and the 5th Session of the Monitoring Committee were held in Shanghai. At the meeting, the Board of Supervisors agreed that Li Jun should replace Yin Baoyu as supervisor and passed the Resolution Relating to the Change of Certain Members of the Special Committee of the 4th Board of Supervisors, by which Li Jun, supervisor, replaced Yin Baoyu as member of the Nomination Committee and member of the Monitoring Committee of the 4th Board of Supervisors. The meeting also made inquiries to the senior management in respect of six aspects such as the overall condition of risk management, the impact of the change of special-mentioned loans which is of concern by the Board of Supervisors, market-oriented interest rate and the impact of reform of exchange rate on the Bank's future development. Mr. Peng Chun, Vice President of the Bank, made replies on behalf of the senior management. At the meeting, it was suggested that the senior management should strengthen its research activities on market risk avoidance instruments so as to timely eliminate and reduce the impact of changes of exchange rates on the Bank.

The scope of measures on risk tolerance should extend gradually from credit assets to non-credit assets and operating risk to ensure that comprehensive measures on risk control were in place. The Monitoring Committee also heard the report on the review of the Bank's financial statements for the first three quarters of 2005 from PricewaterhouseCoopers.

2 MAJOR SCOPE OF SUPERVISION OF THE BOARD OF SUPERVISORS

In 2005, the Board of Supervisors focused on adjusting its corporate governance structure and actively explored various means of supervision.

- (1) The Board of Supervisors reviewed the authenticity of the financial positions and operation indicators of 10 branches in Tiangin, Shanghai and Guangzhou and examined the granting of credits to corporate clients and securities management by Nanjin and Suzhou branch. More than 100 internal and external inspection reports were reviewed and analyzed and some regulatory recommendations were raised by the Board of Supervisors.
- (2) On 5 April, 2005, the Board of Supervisors conducted a survey on the performance of all directors, supervisors and senior management, a total of 30 people. It also submitted the Report on the Questionnaires on the Performance of the Directors and Senior Management of the Bank to the Chairman and senior management. The Board of Supervisors subsequently made its inquiries to the senior management about risk management on 18 November, 2005.

Report of the Board of Supervisors *(Continued)*

2 MAJOR SCOPE OF SUPERVISION OF THE BOARD OF SUPERVISORS *(Continued)*

- (3) The Board of Supervisors was briefed by the auditors about auditing on six occasions, discussed the nature of auditing and the main problems encountered, as well as supervised such auditing procedures.
- (4) Each supervisor also attended the board meetings for the current year and advised on the issues being presented at the meetings. The 2004 annual report, issues presented at the 2004 General Meeting and the 2005 Interim Report were all reviewed by the Board of Supervisors, which also reviewed and gave its advice on certain reports submitted by the senior management to the CBRC.

3 THE INDEPENDENT ADVICE PROVIDED BY THE BOARD OF SUPERVISORS ON RELATED MATTERS

(1) Compliance with law

During the reporting period, the Bank adhered to its legal operation, and strived to optimize its management scope by taking initiatives in accepting the opinions of regulatory bodies and domestic and overseas investors, as well as enhancing its transparency on information disclosure. The Bank strictly adopted its internal control measures. At the same time, the senior management carried out several internal controls, adopted risk elimination measures, and started to handle special cases in accordance with the instructions of the Central government and the CBRC. The Bank's decision-making procedures were legal and the directors and senior management performed their duties with trust and honesty. During the reporting period, no material breach of law and regulations or any actions against the interest of the Bank and the shareholders were found.

(2) Accuracy and Correctness of financial reports

These financial statements reflected the financial conditions and operating results of the Bank fairly and truly.

(3) Use of proceeds

During the reporting period, the Bank initially issued overseas listed shares, amounting to 6.734 billion shares (including 878 million shares under over-allotment) at the offer price of HK\$2.50 each. After deducting all related costs, the actual amount of net proceeds was RMB17.402 billion. Such proceeds were already received and the use of the proceeds was consistent with those set out in the Prospectus issued by the Bank.

3 THE INDEPENDENT ADVICE PROVIDED BY THE BOARD OF SUPERVISORS ON RELATED MATTERS *(Continued)*

(4) Acquisition and disposal of assets

During the reporting period, the Bank did not make any purchase or disposal of assets that could affect the shareholders' interest or result in a loss of assets.

(5) Connected transactions

During the reporting period, the Bank did not have any connected transactions that could damage the interest of the Bank or its shareholders.

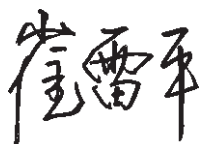
(6) Review of report

The financial condition and operating results of the Bank in 2005 as prepared by the auditors had been reviewed by the Board of Supervisors without opinion.

(7) The execution of resolutions passed in the General Meetings

The Board of Supervisors agreed with the reports and proposals which were submitted to the general meeting during the reporting period. The Board of Directors had effectively executed the resolutions made by shareholders.

By order of the Board of Supervisors



Cui Lei Ping
Chairman

Shanghai, the PRC
28 March, 2006