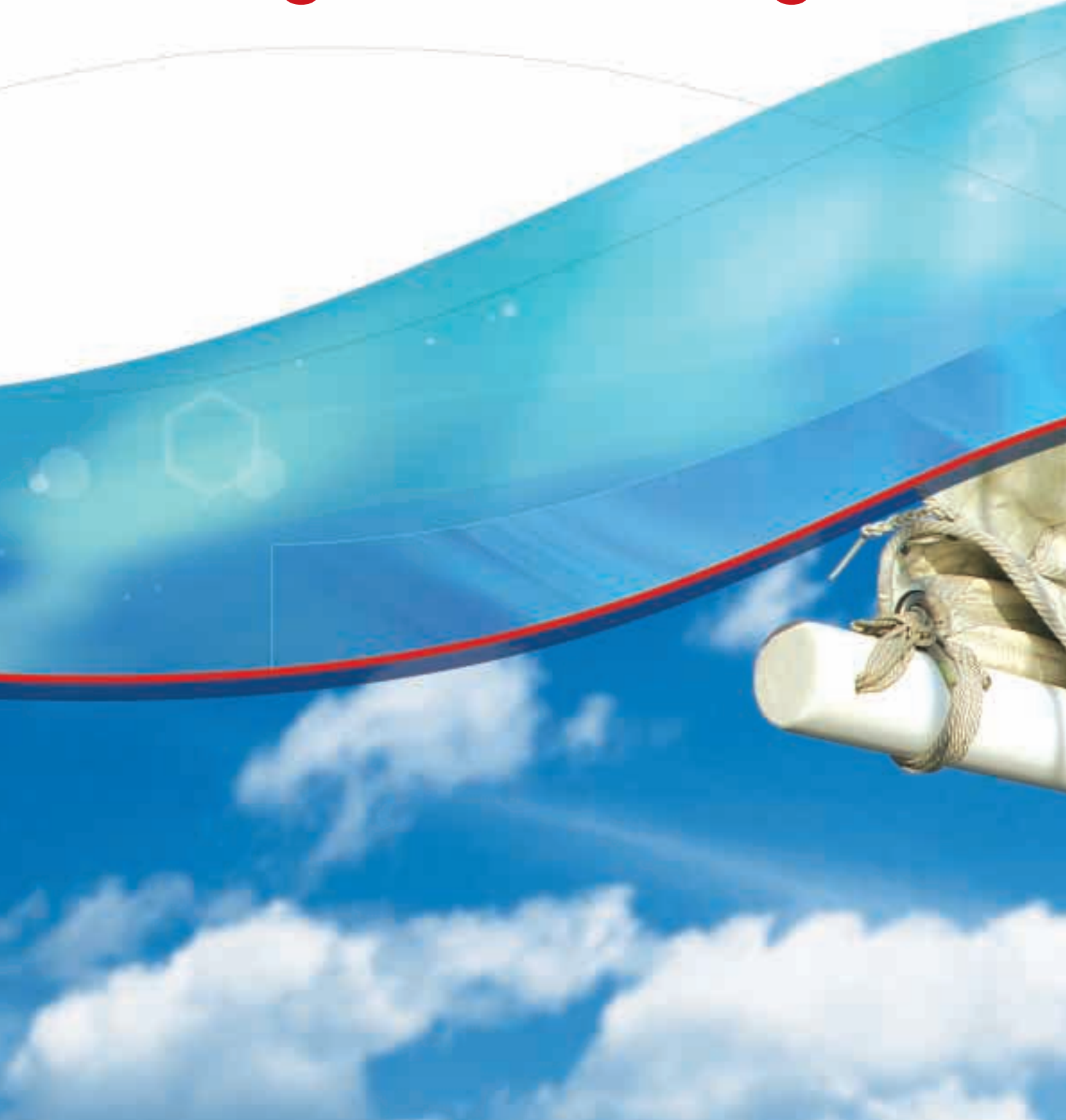




Solid Safeguards with Pragmatic Strategics



Corporate Governance Report

In 2005, the Bank has complied with the Code provisions in the Code set out in Appendix 14 of the Listing Rules, and endeavored to maintain corporate governance of a high standard, so as to continuously enhance its transparency and guarantee the interests of shareholders.

In accordance with the laws and regulations of the Company Laws of the People's Republic of China, the rules and guidelines issued by the domestic and overseas regulatory bodies, as well as the requirements under the Listing Rules and the Code provisions in the Code, the Bank has established an independent and modern corporate structure comprising shareholders' general meeting, the board of directors, the board of supervisors, and senior management to perform its check and balance functions. The Bank has also set up four special committees under the board of directors, including strategy committee, audit committee, risk management committee, and personnel & compensation committee. Two special committees under the board of supervisors are monitoring committee and nomination committee. Five special committees under the senior management include the asset and liabilities management, risk management, loans inspection, credit policies and financial review committees.

In 2005, the Bank committed to implementation of corporate governance policies and efficient and effective operations by adopting the best corporate standards of international public banks to guarantee the interest of shareholders and uplift the decision making power of the board of directors and the supervisory function of the board of supervisors. With the establishment of a long-term incentive plan, the Bank endeavored to enhance its operations and management level and to formulate a comprehensive regulatory system, so as to contribute a promising growth to the Bank.

1 GENERAL MEETING OF SHAREHOLDERS

General meeting of shareholders represents the core authority of a corporate governance structure of the Bank. The primary roles of general meetings include, but not limited to:

- Determining of business policy and investment plans;
- Electing directors and supervisors (except employee representatives), and determining of the remuneration of directors and supervisors;
- Considering and approving reports of the boards of directors and supervisors;
- Considering and approving annual budget, final accounts and profit distribution;
- Determining the size of registered capital and bond issuance;
- Revising of the Bank's articles of associations;
- Determining engagement, removal or non-renewal of the Bank's auditor.



1 GENERAL MEETING OF SHAREHOLDERS *(Continued)*

On 30 June 2005, the Bank's 2004 Annual General Meeting of Shareholders was held in Shanghai, China. There were in total 293 shareholders either present in person or by their proxies, representing a total of 38,323,597,606 shares and about 98.09% to the total number of shares as at the date of the register of the Bank, under the requirements of the Company Law of the People's Republic of China and the Articles of Associations of the Bank of Communications Co., Ltd.

At the meeting, shareholders considered and approved, by an open ballot, eight resolutions, namely the 2004 Report of Board of Directors, the 2004 Report of Board of Supervisors, the Proposals on the Final Accounts, Profit Distribution for 2004 and Financial Budget 2005, the Proposed Amendments to the Articles of Associations, the Proposal on the Adjustments of the Annual Remuneration of Independent Directors and External Supervisors, the Proposal on the Purchase of Liability Insurance Policy for Directors and Supervisors, the Proposal on the Change of Registered Address, and the Proposed Appointment of Herbert Hui Ho Ming and Chen Qingtai as Independent Directors.

Corporate Governance Report (Continued)

2 THE BOARD OF DIRECTORS

The Board of Directors comprised all directors and is the core power in the corporate governance structure of the Bank. The Board of Directors will report to the general meeting of shareholders and perform legally its primary duties in the following areas:

- Convening of shareholders' meetings, and reporting its work to shareholders at such meetings;
- Implementing of resolutions approved by shareholders;
- Determining of the Bank's business plans and investment proposals;
- Formulating of the Bank's dividend and bonus policy, and plans relating to capitalization; and
- Exercising any other powers conferred by shareholders meetings or under the Articles of Associations.

The Board currently comprises nineteen directors, four of whom are Executive Directors, ten are Non-executive Directors and five are Independent Non-executive Directors. The number of independent Non-executive Directors and their qualification comply with Rules 3.10 (1) and (2) of the Listing Rules. In addition, the Bank has received from each of the Independent Non-executive Directors an annual confirmation of his independence and considers each of them to be independent.

None of the Independent Non-executive Directors of the Bank has any interest in any business or financial interest of the Bank or its subsidiaries. Each of the Independent Non-executive Directors has confirmed to the Bank his independence and is not allowed to hold any administrative positions in the Bank. They owe also fiduciary duties to the Bank and its shareholders, in particular, they should protect the rights of minority shareholders. As a critical part in corporate governance, they play a significant role of "check and balance" during the decision-making process at board meetings. During the year 2005, Independent Non-executive Directors expressed their views and comments on various matters concerning the interest of the shareholders and the Bank as a whole at the board meetings.

Six meetings were held in 2005 of which four were physical meetings and two were by written communications. All these meetings were convened in accordance with the provisions of the Bank's Articles of Associations, individual attendance of directors is set forth as follows:

2 THE BOARD OF DIRECTORS *(Continued)*

Individual Attendance Rate of the Board Meetings during the Year 2005

Directors	Number of Board meetings attended	Attendance rate (%)
Executive Directors		
Zhang Jianguo	6/6	100%
Li Jun	5/6	83.3%
Zhang Jixiang	6/6	100%
Peng Chun <i>(Note 1)</i>	2/2	100%
Qiao Wei <i>(Note 2)</i>	2/3	66.7%
Non-executive Directors		
Jiang Chaoliang	5/6	83.3%
Hu Huating	6/6	100%
William Fung Kwok Lun	3/6	50%
Li Keping	5/6	83.3%
Li Zexing	6/6	100%
Gao Shiqing	3/6	50%
Shen Weiming	4/6	66.7%
Li Guanglin	5/6	83.3%
Peter Wong Tung Shun <i>(Note 1)</i>	1/2	50%
Qian Ping <i>(Note 1)</i>	1/2	50%
Or Ching Fai <i>(Note 2)</i>	2/3	66.7%
Li Ruge <i>(Note 2)</i>	0/3	0%
Independent Non-executive Directors		
Xie Qingjian	6/6	100%
Ian Ramsay Wilson	5/6	83.3%
Thomas Joseph Manning	5/6	83.3%
Herbert Hui Ho Ming <i>(Note 3)</i>	4/5	80%
Chen Qingtai <i>(Note 3)</i>	3/5	60%
Average attendance rate		74.5%

Notes:

- Mr Peng Chun, Mr Peter Wong Tung Shun and Mr Qian Ping were appointed as the Bank's Directors on 22 August, 2005.
- Mr Qiao Wei, Mr Or Ching Fai and Mr Li Ruge were resigned as the Bank's Directors on 1 August, 2005.
- Mr Herbert Hui Ho Ming and Mr Chen Qingtai were appointed as the Bank's Independent Non-Executive Directors on 5 April, 2005.

Corporate Governance Report *(Continued)*

2 THE BOARD OF DIRECTORS *(Continued)*

Board Meetings and Major Resolutions

During the year under review, we held six board meetings in total, of which four were physical meeting and two were via written communications. Details are set out below:

- (1) On 5 April 2005, the 6th Session of the 4th Board of Directors was held in Shanghai. At the meeting, the Board considered and approved totally 14 resolutions, namely the 2004 Report of the Board of Directors, the President Report, the Proposals on the Final Accounts, Profit Distribution for 2004 and Financial Budget 2005, the 2004 Annual Report, the Proposed Appointment of Herbert Hui Ho Ming and Chen Qingtai as Independent Directors, the Proposal on Amendment to the Board Committees' Compositions, the Proposed Amendment to the Annual Remuneration of Independent Directors and External Supervisors, the Proposed Appointment of Dicky Peter Yip as the Executive Vice President, the Proposed Performance-based Incentive Program 2004 for Senior Executives, the Proposed Provisional Measures of the Performance-based Incentive Program for Senior Executives, the Proposed Measures regarding Connected Transactions management, the Proposal on the Purchase of Liability Insurance Policy for Directors and Supervisors, the Proposed Change of Registered Address, the Proposal on convening the 2004 Annual General Meeting of Shareholders.
- (2) On 8 May 2005, the 7th Session of the 4th Board of Directors was held via written communications, where the Board considered and approved two resolutions, namely the Proposal on confirming the time and venue of the 2004 Annual General Meeting of Shareholders with One Additional Agenda and the Proposed Amendments to the Articles of Association.

2 THE BOARD OF DIRECTORS *(Continued)*

Board Meetings and Major Resolutions *(Continued)*

- (3) On 31 May 2005, the 8th Session of the 4th Board of Directors was held in Shanghai. At the meeting, the Board considered and approved two resolutions, namely the Proposed Working Plan regarding the H-share Listing and the related issues and the Proposed Appointment of Wang Bin (王濱) as the Executive Vice President.
- (4) On 22 August 2005, the 9th Session of the 4th Board of Directors was held in Hong Kong. At the meeting, the Board considered and approved four resolutions, namely the Proposal on the 2005 Interim Report, the Proposed Appointment of Peng Chun, Peter Wong Tung Shun and Qian Ping as Directors, the Proposed Addition to Members of the Audit Committee of the Board and Proposal on the establishment of the Strategy Committee of the Board.
- (5) On 18 November 2005, the 10th Session of the 4th Board of Directors was held in Shanghai. At the meeting, the Board considered and approved seven resolutions, namely the Proposed 2005 Third Quarterly Report, the Proposal on the Implementation of the First Grant of SARS under the Long Term Incentive Plan, the Proposed Draft Rules of Procedures of Strategy Committee of the Board, the Proposed Amendment to the Rules of Procedures of Audit Committee of the Board, the Proposed Amendment to the Rules of Procedures of Risk Management Committee of the Board, the Proposed Amendment to the Rules of Procedures of Personnel and Compensation Committee of the Board and the Proposed Amendment to the Management of Disclosable Information.
- (6) On 26 December 2005, the 11th Session of the 4th Board of Directors was held via written communications, where the Board considered and approved two resolutions, namely the Proposal on Establishing Branches in Huhehot, Taizhou and Huizhou and the Proposed Acquisition of Wenzhou Taishun Jinxin Urban Credit Cooperative (溫州市泰順縣金鑫城市信用社) and the Establishment of Sub-branches in Rui An, Wen Zhou and Yue Qing, Wen Zhou.

All minutes of the meetings of the Board of the Directors were kept by the Secretary of the Board and delivered to directors for records.

Directors can seek independent professional opinions under appropriate circumstances. The related costs shall be paid by the Bank.

Corporate Governance Report (Continued)

2 THE BOARD OF DIRECTORS (Continued)

Financial Reporting

Senior management shall provide adequate and sufficient information to the Board, so as for them to make an informed view on the financial condition and additional information provided, which is subject for approval.

The Directors have confirmed they shall be responsible for preparing true and accurate financial statements of the Group for each financial year, and shall use their best endeavors to provide all shareholders with a well-balanced and understandable assessment on the current condition and future prospects of the Group when the quarterly, interim and annual financial statements and results announcements are delivered for approval. As far as were known to the Directors, there was no material uncertainty relation to any events or conditions that were considered to cause any material effect on the continuing operations of the Group.

The Directors have confirmed that they have the responsibilities to give a well-balanced, clear and understandable assessment on the annual and interim financial report and sensitive share prices movement announcements of the Bank as well as other financial disclosures required by the Listing Rules, and to report to the regulatory bodies.

Focus of the Board

- (1) *Successful listing of H shares.* The successful listing of H shares has embarked a historic development of the Bank, resulting in a sound foundation for the implementation of corporate governance structure, expanding the financing means, and enhancing value of the Bank.
- (2) *Active strategic transformation.* The Strategy Committee has been set up by the Board. This makes a good start of the Bank's transformation. Under the Board's leadership, the senior management has fully accomplished all the missions and operating targets for the year, with the best performance recorded in its operating history.
- (3) *Strengthening of the Bank's structure.* These measures comprise mainly decision-making formulation, continuous perfection on rules and regulations and streamlining the Group's structure, in order to fully capitalize the synergies created by various special committees in terms of policy-making and advisory. The decision-making capabilities of the Board were further reinforced accordingly.
- (4) *Increasing the Bank's transparency.* Adherence to the requirements of the regulatory bodies and the Listing Rules, the Bank has taken the initiatives to disclose its quarterly financial reports, build up investors' relationship and partnership, and maintain close communications with investors and analysts.
- (5) *Strengthening of risk management and internal control.* To set up and implement a system of regular analysis on risk management and internal control. An independent, effective and widely recognized system of internal control and risk prevention has been initially formed by the Bank, which has taken a leading position amongst other players in the industry.
- (6) *Continuous improvement on incentives system.* As a pioneer to implement a long-term incentive plan for senior management in the country, the Bank intends to enhance the quality of its performance-based incentive plan for senior management and shows its support for a performance-based plan focusing on economic interests and return on economic assets to be carried out among branches.

3 BOARD COMMITTEES

The Strategy Committee

The Strategy Committee is responsible for studying and formulating business strategies of the Bank, as well as assessing regularly the management of capital. It comprises five members, three of whom are executive directors namely Zhang Jianguo, Li Jun and Peng Chun, one is non-executive director Hu Huating, and the other is independent non-executive director Herbert Hui Ho Ming. Zhang Jianguo is the chairman of the Committee. In 2005, one meeting was held by the Committee to resolve the Proposed Draft Rules of Procedures of Strategy Committee of the Board and the Work Plan 2006 of the Strategy Committee.

Individual Attendance Rate of the Strategy Committee during the year of 2005

Members	Number of meetings attended	Attendance rate (%)
Zhang Jianguo (<i>Chairman</i>)	1/1	100%
Li Jun	1/1	100%
Peng Chun	1/1	100%
Hu Huating	1/1	100%
Herbert Hui Ho Ming	0/1	0%
Average attendance rate		80%

The Audit Committee

The Audit Committee is mainly responsible for reviewing and overseeing the Bank's financial reporting procedure. It also assists the Board in any matters in relation to appointment, remuneration and removal of auditor. The Committee evaluates the effectiveness of the Bank's internal control, including the undertaking of a regular internal review on the Bank's corporate governance practices and operational procedures, considers all potential risks prevailing to ensure a smooth operation, and fulfils the Bank's corporate objectives and strategies. The internal audit and review covers the areas in finance, operations, compliance requirements, and risk management. It also assesses the Bank's internal audit policy, reports regularly to the Board and gives recommendations accordingly.

Corporate Governance Report (Continued)

3 BOARD COMMITTEES (Continued)

The Audit Committee (Continued)

The Committee comprises five members, three of whom are independent non-executive directors namely Herbert Hui Ho Ming, Xie Qingjian, and Chen Qingtai, and two are non-executive directors namely Peter Wong Tung Shun and Li Zexing, and Mr. Herbert Hui Ho Ming is the Chairman.

In 2005, three meetings were held. On 4 April 2005, at the 3rd meeting, the Committee approved the Proposals on the Report of Final Accounts, Profit Distribution for 2004 and Financial Budget 2005 and the 2004 Annual Report. On 21 August 2005, at the 4th meeting, the Committee approved the 2005 Interim Report and the Report on the Operation of the Internal Control System during the first half year of 2005. On 17 November 2005, at the 5th meeting, the Committee approved the 2005 Thirdly Quarter Report, The (Revised) Rules of Procedures of Audit Committee, the 2006 Working Plan of the Audit Committee and Report of the Enhancement of the Internal Controls during the third quarter of 2005.

Individual Attendance Rate of the Audit Committee during the year of 2005

Members	Number of meetings attended	Attendance rate (%)
Herbert Hui Ho Ming <i>(Chairman) (Note 1)</i>	2/2	100%
Xie Qingjian	3/3	100%
Chen Qingtai <i>(Note 1)</i>	1/2	50%
Peter Wong Tung Shun <i>(Note 2)</i>	0/1	0%
Li Zexing <i>(Note 3)</i>	2/2	100%
Average attendance rate		70%

3 BOARD COMMITTEES *(Continued)*

The Audit Committee (Continued)

Notes:

1. Mr Herbert Hui Ho Ming and Mr Chen Qingtai were appointed as independent non-executive directors on 5 April 2005. On the same date, they were also appointed as members of the Audit Committee of the Board.
2. Mr Peter Wong Tung Shun was appointed as a non-executive director on 22 August 2005. On the same date, he was also appointed as a member of the Audit Committee of the Board.
3. Mr Li Zexing was appointed as a member of the Audit Committee of the Board on 5 April 2005.

In collaboration with senior management, the Audit Committee reviewed the accounting standards and practices adopted by the Bank and examined the internal controls and financial reporting policies, including reviewing the Bank's annual financial statements for the year 2004, condensed interim financial statements and annual financial statements for the year 2005.

The Risk Management Committee

The Risk Management Committee is responsible for monitoring and assessing risk management, as well as approving major connected transactions. It comprises four members, two of whom are independent non-executive directors namely Xie Qingjian and Ian Ramsay Wilson, and two are non-executive directors namely Li Keping and Gao Shiqing, and Mr. Xie Qingjian is the chairman.

In 2005, three meetings were held. On 4 April 2005, at the 3rd meeting, the Committee approved the 2004 Risk Management Report and its 2005 Working Plan, and the Outline of Comprehensive Risk Management 2005-2007. On 21 August 2005, at the 4th meeting, the Committee approved the Report of Risk Management Evaluation during the first half year of 2005. On 17 November 2005, the Committee issued a written approval for the Revised Rules of Procedures of Risk Management Committee, the 2006 Working Plan of the Risk Management Committee, the Report of the Risk Forbearance and the Report of Risk Management Evaluation during the third quarter of 2005".

Corporate Governance Report (Continued)

3 BOARD COMMITTEES (Continued)

The Risk Management Committee (Continued)

Individual Attendance Rate of the Risk Management Committee during the year of 2005

Members	Number of meetings attended	Attendance rate (%)
Xie Qingjian <i>(Chairman)</i>	3/3	100%
Ian Ramsay Wilson	2/3	66.7%
Li Keping	3/3	100%
Gao Shiqing	2/3	66.7%
Average attendance rate		83.3%

The Personnel and Compensation Committee

The Personnel and Compensation Committee is primarily responsible for proposing the nomination of directors and senior management to be considered by the Board, and advising the Bank's remuneration policy for directors and senior management. The Committee also evaluates performance of senior management and determines their remuneration packages. The Committee comprises four members: two are independent non-executive directors namely Thomas Joseph Manning and Chen Qingtai, and two are non-executive directors namely Hu Huating and William Fung Kwok Lun, and Mr. Thomas Joseph Manning is the chairman.

In 2005, two meetings were held. On 4 April 2005, at the 3rd meeting, the Committee approved the Report of the Proposed Appointment of Herbert Hui Ho Ming and Chen Qingtai as Independent Non-executive Directors, the Proposed Amendment to the Remuneration Policy of Independent Directors and External Supervisors, the Report of the Proposed Appointment of Dicky Peter Yip as the Executive Vice President, the Draft Performance-based Incentive Program 2004 for Senior Executives, and the Draft Proposal on the Provisional Measures of the Performance-based Incentive Program for Senior Executives. On 17 November 2005, at the 4th meeting, the Committee approved the Proposal on the Execution of the First Grant of SARS under the Long Term Incentive Plan, the Revised Rules of Procedures of Risk Management Committee, the 2006 Working Plan of the Personnel and Compensation Committee and the Report of the Human Resources Management Reform Update. In addition, the Committee issued a written approval for the Proposed Appointment of Wang Bin (王濱) as the Executive Vice President and the Proposed Appointment of Peng Chun, Peter Wong Tung Shun and Qian Ping as Directors.

3 BOARD COMMITTEES *(Continued)*

The Personnel and Compensation Committee (Continued)

Individual Attendance Rate of the Personnel and Compensation Committee during the year of 2005

Members	Number of meetings attended	Attendance rate (%)
Thomas Joseph Manning <i>(Chairman)</i>	2/2	100%
Chen Qingtai <i>(Note 1)</i>	1/1	100%
Hu Huating	2/2	100%
William Fung Kwok Lun	1/2	50%
Average attendance rate		87.5%

Note 1: Mr Chen Qingtai was appointed as the Bank's independent non-executive director on 5 April 2005. On the same date, he was also appointed as a member of the Personnel and Compensation Committee of the Board.

4 BOARD OF SUPERVISORS

The Board of Supervisors' major duties and powers include:

- Approving financial reports and other financial information compiled by the Board of Directors which are to be presented at shareholders meetings;
- Examining and reviewing the Bank's financial results; and
- Reviewing and monitoring of compliance with laws, administrative regulations and its Articles of Associations

The Board of Supervisors currently comprises nine members, two of whom are external supervisors. Monitoring Committee and Nomination Committee are established under the Board of Supervisors.

For details about the Board of Supervisors and its committees, please refer to section 7 "Report of the Board of Supervisors" of the annual report.

Corporate Governance Report (Continued)

5 SENIOR MANAGEMENT

Senior management consists mainly of the President, Executive Vice-president, Chief Financial Officer and Chief Information Officer. The President is accountable to the Board of Directors, whereas all senior executives from different departments and branch offices report directly to the President. Pursuant to the laws and regulations, the Articles of Associations and the authority granted by the Board, the President is able to operate and manage all affairs of the Company, including the powers to:

- oversee and manage daily operation, as well as report to the Board of Directors;
- implement resolutions approved by shareholders meetings and the Board;
- draft annual business and investment plans, annual budget estimates, final accounts, profit appropriations plans and others;
- appoint and remove department heads and branch officers, other than those who should be appointed or removed by the Board.

All members of the senior management have accumulated extensive expertise in banking, with 20 years of experience in average. They have a vision for globalization. In 2005, a dedicated employee of the HSBC, Dicky Peter Yip, joined the Bank as Executive Vice President. Wang Bin (王濱) was also appointed as Executive Vice President to enhance the competitiveness of the senior management team.

6 RULES AND REGULATIONS

As a crucial element to corporate governance, the Bank continued to focus on the establishment and consolidation of rules and regulations during 2005. Significant improvements had been achieved as follows:

Firstly, five regulations and rules were revised and modified, namely the Articles of Associations, the Rules of Procedures of Audit Committee of the Board of Directors, the Rules of Procedures of Risk Management Committee of the Board of Directors and the Rules of Procedures of Personnel and Compensation Committee of the Board of Directors, and the Measures for Information Disclosure Management.

6 RULES AND REGULATIONS *(Continued)*

Secondly, eleven new regulations and rules were developed respectively: the Rules of Procedures of the Board of Supervisors, the Rules of Procedures of Strategy Committee of the Board of Directors, the Rules of Procedures of Supervisory Committee of the Board of Supervisors, the Rules of Procedures of Nomination Committee of the Board of Supervisors, the Provisional Measures of Investor Relations Management, the Measures of Connected Transactions Management, the Measures of Internal Reporting on Major Disclosable Information, certain regulations in relation to disclosure of price-sensitive information, the Measures of Information and Archive Management, the Procedures and Measures of Selection and Election of Supervisors, the Measures of Interrogation of the Board of Supervisors.

Thirdly, to ensure all fundamental work procedures are lawful and effective, eight new regulations and rules were developed, namely the Regulations of Procedures of Planning and Arranging General Meetings of Shareholders, the Regulations of Procedures of Planning and Arranging Meetings of the Board and its Committees, the Regulations of Documentation Management of Regular Meetings of the Board, the Regulations of Regular Performance Presentations, the Rules of Daily Operations of Investor Relations Management, the Codes of Conduct for Investor Relations Management, the Conference Rules of Investor Relations Management System and the Regulations of Information Disclosure.

The above rules and regulations laid critical foundations for the Bank's corporate governance.

Corporate Governance Report (Continued)

7 INTERNAL CONTROL

During the Year, the Board of Directors has conducted review of the effectiveness of the system of internal control of the Bank each quarter during the year.

Under the direct leadership of the President of the Bank, the audit department is responsible for overseeing and assessing the internal control procedures of the Bank and to review its operations. It has the power to determine the number and scope of internal control reviews to the Bank's operations, and to make an independent review and estimate of any possible substantial risks or internal control procedures of any departments, in particular, on the following aspects:

- compliance with applicable laws and regulations;
- compliance with the internal policies or guidelines of the Bank and their validity;
- effectiveness of the risk management (including lending business management) and the accounting system;
- safety of the information technology system of the Bank;
- efficiency, applicability and effectiveness of the internal control procedures adopted by the Bank. The audit department takes all follow-up actions, and implement supervisory and remedial measures on any problems found, so as to enhance its risk prevention level.

The audit department reviews the financial and operating results, credit risk management, accounting issues, technology application and internal controls of the Bank every year, including internal audits on various branches and subsidiaries. In addition, the audit department also makes special reviews on any new issues. These reviews comprise internal and external audits.

The Bank has established a three-level framework, which includes audit department, regional audit department and branch audit department, operating independently with other departments.

8 LONG TERM INCENTIVE PLAN (SHARE APPRECIATION RIGHTS)

On 18 November 2005, the Board resolved to grant certain SARS under the Long Term Incentive Plan, to attract and retain quality staff of high caliber, and to encourage senior management to pursue long-term benefits for both shareholders and the Bank. The approval echoed the resolution made at the 2004 second extraordinary general meeting of shareholders, as well as that made previously by the Board concerning the adoption of SARS.

8 LONG TERM INCENTIVE PLAN (SHARE APPRECIATION RIGHTS)

(Continued)

According to the resolution, the initial grant of SARS targeted at senior executives of the head office as at 23 June 2005. The exercise price of each SARS is HK\$2.5, being the issue price of the H share at the time of its initial public offering (“IPO”). The amount of the initial grant of the SARS will be 7.5 million shares, representing approximately 0.11% of the total number of shares issued by the Bank upon listing. The SARS will be valid for a period of ten years from 23 June 2005, with a two-year vesting period.

The initial grant of SARS as a long-term incentive specifically for the senior executives of the head office is the first step of the entire Incentive Plan. Under the request from the Board, senior management should proactively develop and implement long-term incentive plans for key and other staff with thorough thought of both employees’ benefits and the Bank’s long-term development.

9 EQUITY TRANSACTIONS OF DIRECTORS

The Bank adopted the Model Code as set out in Appendix 10 of the Listing Rules, as the code of practice regarding its directors’ equity transactions. Based on the specific requests made to the Bank’s directors, all directors have complied with the required standards of the Model Code for the year under review.

The Board will revise from time to time the Bank’s corporate governance practices and operations, and observe relevant regulations of the Listing Rules to guarantee the rights and interest of shareholders.

10 AUDIT FEE

The Bank’s annual financial statements prepared in accordance with IFRS for the year 2005 were audited by PricewaterhouseCoopers and the Bank’s annual financial statements prepared in accordance with PRC GAAP were audited by Deloitte Touche Tohmatsu, at a total audit fee of RMB 38.0562 million. The statement of PricewaterhouseCoopers’ reporting responsibilities was set out on page 81 of the Auditor’s Report.

The Bank incurred a fee of RMB 2.8298 million for non-audit services provided by PricewaterhouseCoopers in 2005. Such non-audit services comprised:

Training services on IFRS amounted to RMB 1.3931 million;

Japanese translation services required for the interim and annual report in 2005 amounted to RMB292,400;

Listed bank simulation management training amounted to RMB 1.1443 million.