

OUR HISTORY

We were incorporated on March 31, 1987 in the Shenzhen Special Economic Zone, China, as the first commercial bank in China wholly owned by corporate shareholders. Our registered capital upon establishment was RMB100 million. In 1989, we increased our registered capital to RMB400 million. In 1994 and 1999, we conducted two additional rounds of private offerings of our shares and increased our registered capital to RMB4.2 billion. In 1994, we were restructured as a joint stock company. In the past 19 years, we have grown from a regional bank located in Shekou, Shenzhen to China's sixth largest commercial bank in terms of total assets. At June 30, 2006, we had 463 branches and sub-branches and a representative office in 39 major cities across China, a branch in Hong Kong and a representative office in the U.S. In addition, we have established correspondent banking relationships with over 1,100 overseas banks in 89 countries and regions.

On April 9, 2002, we issued 1.5 billion A Shares in connection with our initial public offering and listing on the SHSE. Our 4.2 billion shares held by our corporate shareholders before the initial public offering were in the form of non-tradeable shares that were not freely transferable. In February 2006, we completed our reform of our share structure and converted all of our non-tradeable shares to A Shares subject to certain trading restrictions entered into in connection with such reform of non-tradeable shares ("restricted A Shares"). See "— Reform of Non-tradeable Shares."

At August 15, 2006, we had a total share capital of approximately RMB12.3 billion and 158,378 shareholders on record. Our largest shareholder is China Merchants Steam Navigation, which is a wholly owned subsidiary of China Merchants Group. China Merchants Group and its subsidiaries own 21.87% of our share capital at August 15, 2006. Headquartered in Hong Kong, China Merchants Group is wholly owned by the PRC government. Established on December 26, 1872, China Merchants Group is currently a diversified conglomerate operating in the transportation infrastructure, shipping, logistics, finance and real estate industries. At December 31, 2005, China Merchants Group had HK\$79.5 billion of total assets.

Reform of Non-tradeable Shares

Pursuant to the "Administrative Measures on the Reform of Non-tradeable Shares of Listed Companies" promulgated by the CSRC on September 4, 2005, companies listed on a domestic stock exchange in China are required to eliminate the trading restrictions on their non-tradeable shares through an arrangement that seeks to balance the interests of holders of non-tradeable shares with those of holders of tradeable shares (a "Conversion Scheme"). In accordance with such measures, holders of more than two-thirds of a listed company's non-tradeable shares shall have the power to propose and then negotiate a Conversion Scheme with holders of tradeable shares. The Conversion Scheme is then subject to the approval of two-thirds majority of the tradeable shares participating in the vote and two-thirds majority of all the shares participating in the vote.

Our Conversion Scheme was approved by our shareholders at an extraordinary shareholders' general meeting on January 20, 2006, by the SASAC on February 14, 2006 and by the CBRC on February 17, 2006. We completed our non-tradeable share reform in February 2006 and our non-tradeable shares became restricted A Shares on February 24, 2006, the trading of which is subject to certain restrictions (see below). On February 27, 2006, our A Shares resumed trading on the SHSE following the reform.

Immediately before the reform, we had 7,572,272,454 non-tradeable shares and 3,735,561,132 A Shares outstanding. Pursuant to our Conversion Scheme, we issued to each shareholder 0.8589 new shares for every 10 shares held by the shareholder out of our capital reserve fund, and most of the new shares issued to the holders of non-tradeable shares were then transferred to the holders of tradeable shares, on the basis of 1.6 new shares for every 10 shares held by the holders of tradeable shares prior to the conversion. In addition, our largest shareholder, China Merchants Steam Navigation, issued to our A shareholders a 0.6 put warrant for every A Share held. The put warrant is valid for 18 months from March 2, 2006 and has a strike price of RMB5.65. Thirteen holders of our non-tradeable shares prior to the conversion, including China Merchants Steam Navigation, agreed to undertake the obligation of the put warrants. These 13 shareholders also agreed to not sell or transfer any of their shares in our company within 36 months from February 27, 2006 (the “36-month lock-up period”). Three of the 13 shareholders further undertook not to sell or transfer any of their shares in our company for an additional 12 months after the expiration of the 36-month lock-up period unless the price of A Shares first reaches RMB8.48 or above (adjusted to reflect all subsequent stock dividend, splits and other adjustments). In addition to these 13 shareholders, all the other holders of our non-tradeable shares prior to the conversion undertook not to sell or transfer any of their shares in our company within 24 months from February 27, 2006 (the “24-month lock-up period”).

Immediately after the reform of non-tradeable shares, we had a total of 12,279,063,413 shares outstanding, of which 7,573,629,579 shares were restricted A Shares, and the remaining 4,705,433,834 shares were freely tradeable A Shares.

A Share Market Performance

Our A Shares are listed on the SHSE and are denominated in RMB. Our A Shares and H Shares are neither interchangeable nor fungible. There is no trading or settlement between the A Shares on the SHSE and the H Shares on the Hong Kong Stock Exchange, and the market prices of our A Shares and H Shares may be different. According to the stipulations by the State Council securities regulatory authority and our articles of association, our domestic shares may be transferred to overseas investors, and such transferred shares may be listed or traded on an overseas stock exchange. Such conversion requires our internal approval, approval by the relevant PRC regulatory authorities, including the CSRC, and must in all respect comply with the regulations prescribed by the State Council securities regulatory authority and the regulations, requirements and procedures prescribed by the relevant overseas stock exchange.

Market Price Information

Our Company was listed on the SHSE on April 9, 2002. The offering price for our public offering in China was RMB7.3 per A Share, or RMB3.73 per A Share, adjusted to reflect changes from stock dividends and other adjustments.

OUR HISTORY AND CORPORATE STRUCTURE

The following table sets out, for the periods indicated, the high and low closing prices and the average daily trading volume activity for our A Shares on the SHSE, and the high and low closing values of the SHSE Index.

	Our A Share Price ⁽¹⁾		Average Daily Trading Volume ⁽²⁾	Shanghai A Share Index	
	High	Low		High	Low
	RMB	RMB	(in millions of shares)		
Yearly					
2002	5.96	4.16	27.68	1,809.96	1,416.08
2003	6.52	4.12	48.81	1,706.69	1,376.70
2004	6.36	5.06	33.24	1,864.13	1,322.11
2005 Quarterly					
First Quarter	5.58	4.92	20.07	1,383.68	1,230.13
Second Quarter	5.76	4.92	31.29	1,309.54	1,063.96
Third Quarter	6.53	5.43	40.01	1,282.59	1,062.45
Fourth Quarter	6.16	5.53	22.61	1,230.34	1,134.56
2006 Monthly					
January	7.16	6.06	137.93	1,318.91	1,220.93
February	7.07	6.66	285.59	1,362.66	1,318.91
March	6.62	6.09	75.28	1,370.46	1,306.39
April	7.19	6.40	109.63	1,511.71	1,383.50
May	7.65	7.02	128.84	1,747.44	1,511.71
June	7.71	6.78	65.80	1,770.40	1,609.63
July	7.96	7.29	42.36	1,835.76	1,695.15
August	8.56	7.36	43.37	1,743.71	1,626.17

Source: Datastream.

(1) A Share prices have been adjusted to reflect changes from stock dividends and other adjustments.

(2) Average daily trading volumes have been adjusted for stock dividends and other adjustments.

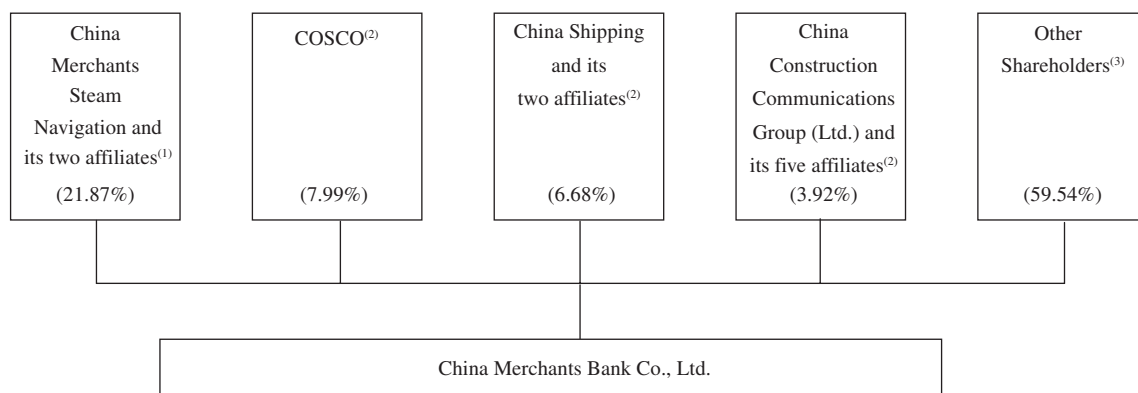
Acquisition of Equity Interest in China Merchants Fund Management Company

In June 2006, we entered into an agreement with three independent third parties and China Merchants Securities Company, our connected person, to acquire a 33.4% equity interest in China Merchants Fund Management Company. Of the total equity interest to be acquired, 30% of the equity will be acquired from the three independent third parties and 3.4% of the equity interest will be acquired from China Merchants Securities Company. The total consideration for the 33.4% equity interest is RMB197.7 million, which was determined based on a valuation report prepared by an independent consultant and negotiations among the parties. According to relevant PRC laws and regulations, the acquisition of a fund management company is subject to approval from the CBRC and the CSRC. See “Regulation and Supervision — PRC Regulation and Supervision — Regulation of Principal Commercial Banking Activities — Securities and Asset Management Businesses.” At June 30, 2006, the proposed acquisition had been approved by the CBRC but the approval from the CSRC was pending.

OUR HISTORY AND CORPORATE STRUCTURE

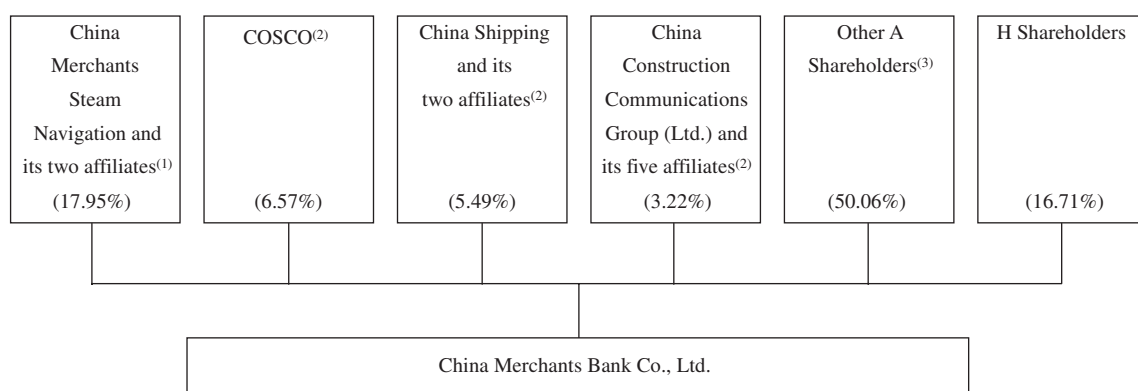
OUR SHAREHOLDING STRUCTURE

The following chart sets forth, to the best knowledge of our directors, certain information relating to our shareholding structure at August 15, 2006.



- (1) Each is a state-owned entity and a subsidiary of China Merchants Group, and each holds restricted A Shares with a 36-month lock-up period starting February 27, 2006. Such shares are subject to certain selling restrictions for the 12 months following the expiration of the 36-month lock-up period. In addition, China Merchants Steam Navigation has (indirectly) a 25.02% interest in China Merchants China Direct Investments Limited, a listed investment fund, which in turn owns 100% of China Merchants Industrial Development (Shenzhen) Limited, a 1.00% shareholder of our company.
- (2) Each is a state-owned entity and holds restricted A Shares with a 36-month lock-up period starting from February 27, 2006.
- (3) Includes in aggregate 38.33% of freely tradeable A Shares and 21.21% of restricted A Shares with a 24-month lock-up period starting from February 27, 2006. The 21.21% of restricted A Shares are owned by 77 corporate shareholders, of which 58 are state-owned entities.

The following chart sets forth, to the best knowledge of our directors, certain information relating to our shareholding structure immediately after completion of the Global Offering, assuming no exercise of the Over-allotment Option, no change in shareholding by each of the shareholders listed below subsequent to August 15, 2006 and no conversion of our convertible bonds subsequent to August 15, 2006.



- (1) Each is a state-owned entity and a subsidiary of China Merchants Group, and each holds restricted A Shares with a 36-month lock-up period starting from February 27, 2006. Such shares are subject to certain selling restrictions for the 12 months following the expiration of the 36-month lock-up period. In addition, China Merchants Steam Navigation has (indirectly) a 25.02% interest in China Merchants China Direct Investments Limited, a listed investment fund, which in turn owns 100% of China Merchants Industrial Development (Shenzhen) Limited, a 0.85% shareholder of our company after the Global Offering.
- (2) Each is a state-owned entity and holds restricted A Shares with a 36-month lock-up period starting from February 27, 2006.
- (3) Includes in aggregate 32.51% of freely tradeable A Shares and 17.55% of restricted A Shares with a 24-month lock-up period starting from February 27, 2006. The 17.55% of restricted A Shares are owned by 77 corporate shareholders, of which 58 are state-owned entities.

CORPORATE GOVERNANCE

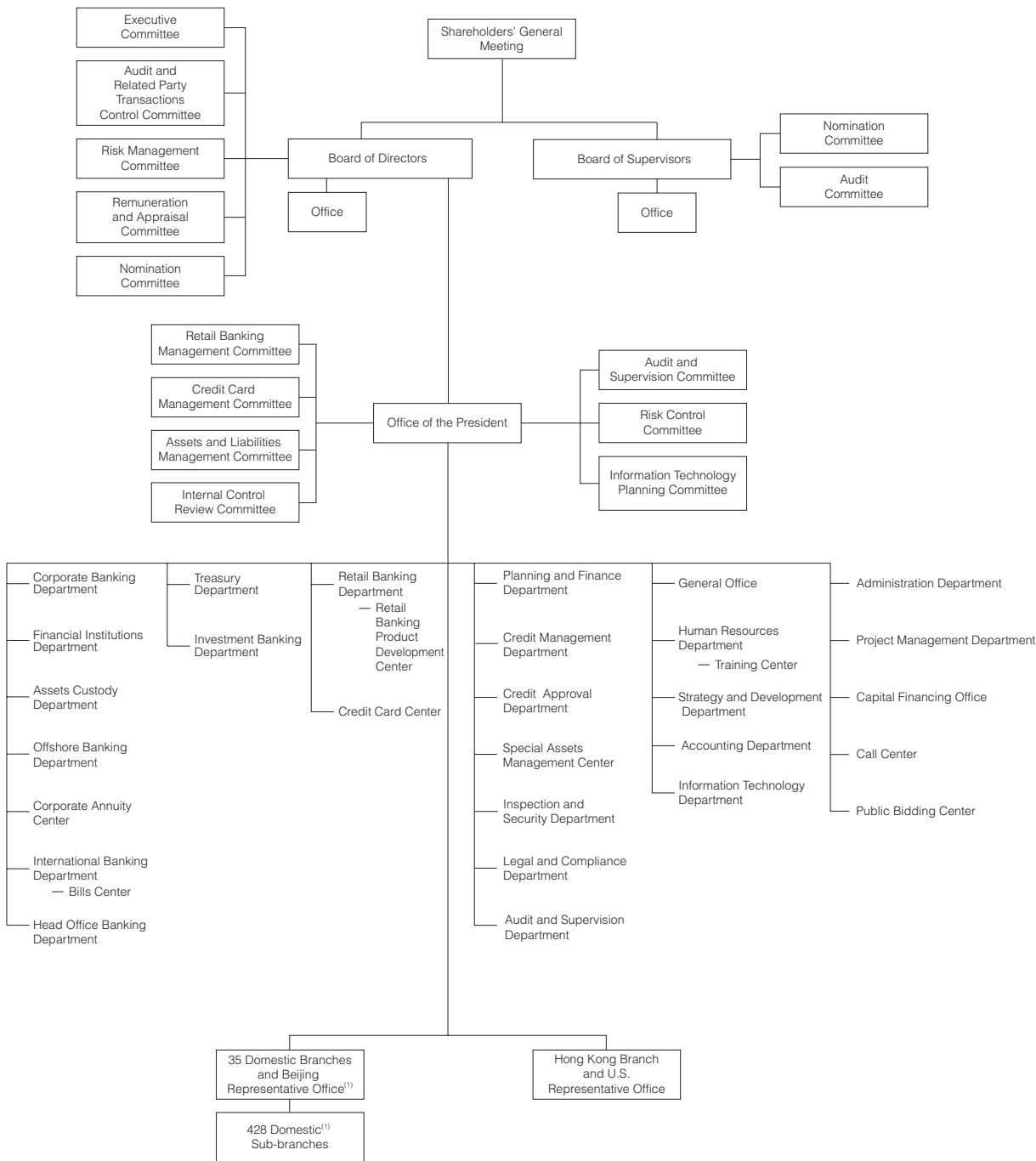
We have adopted a corporate governance structure with a view toward creating shareholder value. Our Board of Directors, which includes six independent non-executive directors out of a total of 17 directors, is responsible for setting strategic, management and financial objectives and ensuring that the interests of our shareholders, including those of minority shareholders, are protected. Our Board of Supervisors is responsible for monitoring financial matters and the actions of the Board of Directors and the management. Our Board of Directors delegates certain responsibilities to board committees consisting of the Audit and Related Party Transactions Control Committee, Risk Management Committee, Remuneration and Appraisal Committee, Nomination Committee and Executive Committee. See “Management — Committees under the Board of Directors.”

CORPORATE STRUCTURE

We manage our business pursuant to a matrix structure, where our branch and sub-branch operational units report both to the branch management and the corresponding management department in the head office. In addition, we have established various management committees as the senior management authority in areas which we believe are strategically important for our business, including the Risk Control Committee, Assets and Liabilities Management Committee, Audit and Supervision Management Committee, Internal Control Review Committee, Information Technology Planning and Development Committee, Retail Banking Management Committee and Credit Card Management Committee. These committees enable us to take advantage of the collective wisdom of our management and integrate resources within our company more effectively, and facilitate the implementation of our management strategy across our organization.

OUR HISTORY AND CORPORATE STRUCTURE

The following chart sets forth our current organizational structure:



(1) At June 30, 2006.