

OVERVIEW

We were ranked sixth among China's commercial banks and second among the Other National Commercial Banks in terms of total assets at June 30, 2006, according to the PBOC. At June 30, 2006, we had approximately RMB824.3 billion (US\$103.1 billion) in total assets, RMB531.6 billion (US\$66.5 billion) in total loans and RMB703.6 billion (US\$88.0 billion) in total deposits from customers. We believe we are a leading retail bank in China, with an efficient and strategically located distribution network concentrated in China's relatively affluent regions, such as the Yangtze River Delta, the Pearl River Delta and the Bohai Rim, and certain major cities in other regions.

We were incorporated in 1987 in the Shenzhen Special Economic Zone, China. Largely through our own resources and efforts, we have grown from a regional bank to become a national bank with critical mass in China's more economically developed regions. We became a joint stock limited company in 1994 and completed our domestic initial public offering on the SHSE in April 2002. We prepared our financial statements under both PRC GAAP and IFRS in connection with our listing on the SHSE, and we have reported our annual audited financial results using both standards since our listing. We have received many domestic and international honors and awards for our business performance, management capability and corporate culture. For example:

- in 2006, China's *The Banker* (銀行家) magazine in its "2005-2006 China Commercial Bank Competitiveness Research Report" ranked us first in core competitiveness among China's 13 largest national commercial banks in terms of total assets (Industrial and Commercial Bank of China was not included in the survey);
- in 2006, *FinanceAsia* magazine named us the "Best Bank in China" in its 2006 Country Award for Achievement;
- in 2006, *The Asian Banker* magazine named us the "Best Retail Bank China 2005";
- in 2005, *EuroMoney* magazine named us the "Best Bank in China"; and
- for four consecutive years, from 2002 to 2005, we were voted as one of "China's Most Respected Enterprises" in an annual survey conducted by Peking University Management Case Center and the *Economic Observer* (經濟觀察報).

Our head office is located in Shenzhen, China, and our operations are predominantly based in China. At June 30, 2006, we had 463 branches and sub-branches, one representative office, 747 self-service centers, 2,288 ATMs and 833 CDMs in 39 cities across China. We also have a branch in Hong Kong, a subsidiary in Hong Kong and a U.S. representative office in New York. In addition, we obtained necessary approvals from the PRC regulatory authorities in February 2006 to establish a branch in New York. We also have correspondent banking relationships with over 1,100 overseas banks in 89 countries and regions.

We provide a broad range of corporate and retail banking products and services. We also conduct treasury operations for our own account and on behalf of our customers. We believe we have been successful in providing innovative products and services. Many of our products or services have become widely accepted in China, such as the All-in-one Card multi-function debit card, the All-in-one Net comprehensive online banking services, the dual-currency credit card and the Sunflower wealth management services and the Bank-Customs Express electronic tariff payment service.

OUR COMPETITIVE STRENGTHS

We believe the following competitive strengths differentiate us from other banks in China and should provide us with important advantages as we compete in China's growing banking industry. We believe our competitive strengths should become increasingly important to our business as China's banking industry is further de-regulated and becomes more open to international competition.

A national bank that has achieved critical mass through organic growth

We were established in 1987 as the first commercial bank in China wholly owned by corporate shareholders as part of the PRC government's banking industry reform to establish market-oriented banks. Since our establishment, we have grown from a regional bank to a national bank in China largely through our own resources and efforts. We have endeavored to follow a principle of "balanced development in respect of profitability, quality and scale." Under such principle, we have sought to adjust our business mix, proactively manage our risk and pursue a business model that seeks to achieve lower capital requirements, lower risk and higher profitability. From December 31, 2003 to December 31, 2005, our compound annual growth rate for total assets, total loans, total deposits and net profit was 21.9%, 23.9%, 24.9% and 30.2%, respectively. We have maintained our asset quality during this period of growth, and our non-performing loan ratio was 2.30%, 2.58%, 2.88% and 3.15% at June 30, 2006 and December 31, 2005, 2004 and 2003, respectively.

We believe that our scale of operations as a commercial bank has achieved critical mass. With total assets of RMB824.3 billion at June 30, 2006, we were ranked sixth among China's commercial banks, according to the PBOC. We believe that this scale of operations should enable us to meet our customers' needs through broad product and service offerings, while at the same time permit us to be flexible enough to adapt quickly to China's fast changing economy and banking industry. More importantly, we believe that we are well-positioned to become more competitive and responsive to an increasingly market-oriented banking industry in China due to our unique history as one of China's first market-oriented banks.

A leading retail bank in China

We believe we are a leading retail bank in China. We were recognized as the "Best Retail Bank China 2005" by *The Asian Banker* magazine in 2006. Our corporate brand was also named as the number one brand in retail banking in China, according to a survey of Chinese executives conducted by the *Chief Executive China* magazine in 2006. Our competitive strengths in retail banking include our broad customer base, widely recognized brands and high-quality services. At June 30, 2006, our retail deposits accounted for 40.8% of our total deposits, which we believe have provided us with a stable source of low-cost funding for our operations. We have a growing wealth management business with a significant number of affluent retail banking customers. At June 30, 2006, deposits from our customers who had deposit balance with us of over RMB500,000 accounted for 35.5% of our total retail deposits. In addition, at December 31, 2005, we had 36.8 million All-in-one Card debit cards issued, with an average deposit balance per card of RMB5,421, which was significantly higher than China's average deposit balance per debit card of RMB2,274 at the same date, according to the PBOC.

Leading and fast growing credit card business

With a market share of approximately 42% of dual-currency credit cards issued in China at December 31, 2005 (calculated based on data provided by VISA International and MasterCard International on the cumulative number of such cards issued by us and other banks in China up to that date), we believe we have a leading credit card business in China. Our credit card management team includes senior personnel recruited from major international financial institutions. We have been a leader in China's credit card industry in many respects. For example:

- Our Air China co-branded credit card was recognized by VISA International as the "Best Co-branded Card in China in 2003."
- More affluent consumers named our credit card than any other credit card as their preferred credit card in China, and more affluent consumers named our bank than any other commercial bank in China as their preferred credit card issuing bank, according to surveys conducted in 2004 and 2005, respectively, by the *Hurun Report*, a publication targeting China's richest individuals.
- We offer a broad range of credit card services in China, including online transaction authentication, protection against unauthorized transactions due to lost or stolen cards (up to a certain limit) and installment payment option.

Our credit card business has grown rapidly in the past three years. We had approximately 5.2 million, 2.9 million and 0.6 million credit cards issued at December 31, 2005, 2004 and 2003, respectively, representing a compound annual growth rate of 194.4% over this period. At June 30, 2006, we had a total of 6.9 million credit cards issued, of which 4.5 million cards were in circulation. At June 30, 2006, approximately 21% of our 3.0 million accounts in-force (each account may include more than one credit card in circulation) carried an interest-bearing balance, with a total interest-bearing balance of RMB2.4 billion. Our credit card non-performing loan ratio was 1.81%, 1.71%, 2.18% and 0.56% at June 30, 2006 and December 31, 2005, 2004 and 2003, respectively.

Fast growing non-interest-based businesses

We have focused on growing our non-interest-based businesses in recent years, particularly fee-based businesses, since these businesses generally have lower regulatory capital requirements and bear a lower risk. In retail banking, we offer various services, such as asset management services, Sunflower wealth management services, investment in funds and agency sale of insurance products. In addition, we have successfully leveraged the popularity of our All-in-one Card debit cards and credit cards to boost our revenues from card transaction fees. In corporate banking, we have sought to increase our related fee-generating businesses by offering value-added services such as Bank-Customs Express and Bank-Tax Express, and we have also expanded into other areas such as cash management, custody services, corporate annuity account management and commercial paper underwriting. For example, in 2004, we were selected by General Electric over ten other domestic and international banks to provide U.S. dollar cash pooling services for its China-based operations. Our income from non-interest-based businesses has grown in the past three years. In 2005, 2004 and 2003, our non-interest income totaled RMB2,572 million, RMB1,384 million and RMB1,050 million, respectively, representing a compound annual growth rate of 56.5% over this period. Our net fee and commission income during the same periods totaled RMB1,567 million, RMB889 million and RMB559 million, respectively, representing a compound annual growth rate of 67.4% over this period.

For the six months ended June 30, 2006, our non-interest income totaled RMB1,513 million and our net fee and commission income was RMB1,124 million. In 2005, our non-interest income accounted for 13.4% of our operating income, which was among the highest of China's publicly listed commercial banks.

Strategically located branch network and efficient distribution channels

We have strategically located most of our branch outlets in China's more economically developed regions with relatively higher per capita income, including the Yangtze River Delta, the Pearl River Delta and the Bohai Rim. At June 30, 2006, 62.5% of our branch outlets were located in these three regions. In 2005, these three regions together accounted for 34.8% of China's population and 59.3% of China's GDP. With a concentration of branch outlets in these regions, we believe we are well positioned to benefit from their continued growth. Additionally, we believe we operate a highly efficient distribution network. According to the PBOC, at December 31, 2005, our average total assets per branch outlet were RMB1.60 billion, and our average loans and deposits per branch outlet were RMB1.03 billion and RMB1.37 billion, respectively, as compared with RMB0.33 billion, RMB0.13 billion and RMB0.20 billion, respectively, for the average of China's 16 national commercial banks. We also have developed an extensive electronic banking platform (which consists of online banking, telephone banking and mobile phone banking) to complement our physical distribution channels, enabling us to provide services to a larger area.

Strong brand recognition reflecting innovative products and high-quality customer service

We believe that many of our brands are widely recognized in China and are associated with our innovative products and high-quality customer service. We believe our strong brand recognition combined with customer loyalty should enhance the effectiveness of our future marketing activities and facilitate cross-selling. In 2005, our All-in-one Card was named by bank card customers in China as the most preferred brand, according to a survey conducted by the Market Information Center of *People's Daily*. Our trade name "China Merchants Bank" was also recognized as the third most valuable brand among China's commercial banks by the World Brand Lab in its report "2005 China's 500 Most Valuable Brands." We have been recognized for introducing innovative products and services in China. Our All-in-one Card debit card was one of the first debit cards in China to enable cardholders to access multi-currency deposit accounts and various banking services through one card and one of the first in China to enable cardholders to access accounts at substantially all branches and sub-branches nationwide of the issuing bank. Our All-in-one Net was the first online banking platform in China to offer extensive online banking services. In recent years, we have introduced other products and services, such as the Sunflower wealth management service, dual-currency credit card and Air China co-branded credit card in our retail banking business, and the Bank-Customs Express, foreign currency cash management service and export credit insurance finance in our corporate banking business.

We believe that our strong brand recognition is also due to the quality of our customer relations management and customer service. We seek to offer high-quality customer service and be responsive to our customers' needs throughout our organization. Our customer relationship management capabilities have been recognized by industry analysts. We were recognized as one of the best in terms of customer relationship management by GreaterChina CRM, a well-known customer relationship management organization, in its "Best CRM Practice in China" evaluation report in each of 2003 and

2004. Our call center was recognized as “2006 China’s Best Call Center” by the China Customer Relationship Management Committee of the China Federation of IT Promotion (CFIP).

Advanced information technology capabilities and electronic banking platform in China

We believe we are a leader among China’s commercial banks in implementing advanced information technology systems. In 2003, our online bank was a finalist for the “21st Century Contribution Award” in the category of “finance, insurance and real estate” at The Computerworld Honors. Building and upgrading our information technology system has been a top priority, which we have implemented through a program of centralized management, planning and procurement designed to ensure the compatibility of our information technology. We believe our centralized information technology platform enables us to efficiently launch innovative products and services. We believe we have strong information technology development capabilities, and we seek to adopt advanced technologies to meet our specific requirements. We have also established an information technology development committee that includes some of China’s well-known information technology experts.

We believe we have been at the forefront of the development and use of banking information technology in China. In 1999, we launched our comprehensive online banking services, becoming one of China’s first commercial banks to provide such services. Since 1999, we have regularly upgraded our online banking systems and expanded our electronic banking platform to telephone banking, mobile phone banking and PDA banking. With respect to online corporate banking, the number and the amount of online payments accounted for 21% and 38%, respectively, of our total number and total amount of payments in 2005. With respect to online retail banking, the total number of our online transfer and remittance transactions was approximately 2.5 times of the total number of our corresponding transactions conducted over the counter in 2005.

Prudent risk management

Since our establishment, we have sought to resolve our non-performing loans largely through our own resources and efforts. Through this process, we have sought to cultivate a corporate culture of prudent risk management throughout our organization. We have improved our risk management system by revamping our risk management organizational structure and utilizing advanced risk management tools. Our non-performing loan ratio was 2.30%, 2.58%, 2.88% and 3.15% at June 30, 2006 and December 31, 2005, 2004 and 2003, respectively. In addition, our allowance for impairment losses to non-performing loans was 123.2% at June 30, 2006, which was one of the highest among China’s publicly listed commercial banks. As part of our risk management practice, we have established procedures to identify, and limit our exposure to industries and customers with potentially high credit risk, such as the property development industry. For example, at June 30, 2006 and December 31, 2005, 2004 and 2003, loans to property developers accounted for 4.7%, 4.3%, 4.8% and 4.8%, respectively, of our total loans.

Since 2006, in order to better manage risk and increase shareholder value, we have adopted risk-adjusted performance measures to evaluate the performance of our branch outlets and business departments. We have separated the management of credit risk from that of market risk and liquidity risk, and have sought to utilize certain advanced risk management tools and quantitative measures to strengthen our ability to monitor, analyze and manage market risk and liquidity risk.

Strong corporate governance and management with an experienced and capable senior management team

As our founding shareholder is a company with a long history in Hong Kong and our head office is located in Shenzhen, we have endeavored to follow the corporate governance standards of the Hong Kong banking industry. As a company listed on the SHSE, we have sought to improve our financial transparency and strengthen our corporate governance in accordance with the Shanghai Listing Rules, and we intend to continue to enhance our financial reporting and corporate governance standards as a listed company on the Hong Kong Stock Exchange. We have also sought to manage our business in line with international best practices. For example, in 1997, we were the first commercial bank in China to obtain ISO9001:1994 certification for our deposit-taking services in Shenzhen. In 2005, we obtained ISO9001:2000 certification for our head office and most of our branches in respect of the design of retail banking services and the provision of certain banking services, including retail banking, accounting process and settlement. In April 2002, in connection with our domestic listing on the SHSE, we prepared our financial statements under both PRC GAAP and IFRS, and we have reported our annual financial results using both PRC GAAP and IFRS since our listing. We are in the process of establishing a performance-based employee compensation system to further motivate our work force and attract and retain qualified personnel.

Our senior management team has extensive management experience, with an average of 21 years of experience in the banking industry. Our Chairman, Mr. Qin Xiao, holds a Ph.D. in economics from Cambridge University and also serves as an adjunct professor at Tsinghua University's School of Economics and Management. Mr. Qin has extensive senior management experience in financial institutions, large conglomerates and organizations with substantial international operations. In 2005, Mr. Qin was named as the "Top Corporate Manager with the Best Shareholder Relations" by China's *Securities Market Weekly* magazine. Our President, Mr. Ma Weihua, holds a Ph.D. in economics from South Western University of Finance and Economics in China and serves as an adjunct professor at Peking University, Nankai University and Jilin University. He has extensive experience in the financial industry, including senior management positions at the PBOC. Mr. Ma has received many domestic and international awards and recognitions. He was recognized as "China Economy Person of the Year" by CCTV in 2001 and was named as one of the "Rising Stars of Banking" in 2005 by the United Kingdom's *The Banker* magazine.

OUR STRATEGIES

Our strategic goal is to become a globally competitive commercial bank and China's best commercial bank by offering innovative financial products and providing superior customer services. We plan to achieve our goal by implementing the following strategies.

Strengthen our position in China's retail banking business

We believe retail banking will become increasingly critical to the success of commercial banks in China in light of the expected growth of China's economy and per capita income. We plan to expand our market share in retail banking and continue to strategically grow our retail banking business relative to our other businesses. We believe that this strategy should enable us to diversify and improve the stability of our revenues and reduce the impact of economic cycles. Specifically, we intend to take the following actions:

- *Customers:* By continuing to focus on product and service innovations, we intend to expand our market share among our core customers, including medium- to high-income

customers, and target customers we believe to have high earnings potential (e.g., university-educated customers). We plan to expand our market share among affluent customers by further broadening the scope and improving the quality of our wealth management services.

- *Products and Services:* Meeting our customers' needs is our top priority, and we strive to provide high-quality, personalized products and services. Accordingly, we plan to establish a retail banking product development center at our head office to focus on developing new products and services and recruit specialists as necessary to assist in this respect.
- *Marketing:* We plan to further target our products and services and tailor our marketing campaigns towards specific markets and customers. We intend to improve the physical layout and operational processes at our branches and sub-branches to make them more customer friendly and conducive to sales. We believe that such changes should enhance cross-selling of our products and services and enable us to provide more personalized customer service. Further, we plan to improve the effectiveness of our wealth management relationship managers.

Expand our credit card business by leveraging our early-mover advantage

We plan to further strengthen our position in China's credit card sector by leveraging the international expertise of our credit card management team and adapting their experience to China's credit card sector. We seek to establish a highly efficient, multi-channel customer acquisition system and set up multiple payment platforms for our credit card holders. To support an efficient, large-scale credit card operation, we plan to continue to streamline our operational processes by adopting advanced technologies and building a customer service platform that meets international standards. In addition, we plan to leverage the data collected from our customer relationship management system and transaction database to better analyze our customers' consumption behavior and design products and services to meet their needs. We believe the data collected could also help us develop a more effective credit card risk management system.

Continue to develop a distinctive corporate banking business with a growing focus on SMEs

The traditional corporate lending business in China is likely to become less profitable due to the liberalization of interest rates and the growing bargaining power of large corporate borrowers resulting from increased competition and the availability of alternative sources of direct corporate financing (e.g., commercial paper). To address these industry trends, we intend to develop lower risk non-interest-based businesses and trade finance products, among other things. To reduce our exposure to price competition, we plan to leverage our brands such as "GoFortune" and introduce differentiated products and services. In addition, we plan to diversify our corporate banking business by expanding our business with SMEs based in regions that we regard as having lower credit risk with a high concentration of SMEs, such as the Yangtze River Delta. Although loans to SMEs generally bear relatively higher risk than loans to large companies, we believe that by employing a strict loan approval process, applying a stringent collateral policy and making adequate loan loss provisions, among other things, we should be able to manage such risks and benefit from higher returns.

Further expand our non-interest-based businesses

We believe we are one of China's leading commercial banks in terms of the development of non-interest-based products and services. However, for historical reasons and due to the current market

and regulatory environment in China, our non-interest income as a percentage of our total operating income is relatively low compared with international banks. In order to further develop our non-interest-based businesses, we have created management positions at our head office and branches responsible for developing these businesses. Further, we intend to make development of non-interest-based businesses a key performance measure for relevant departments and employees. We intend to continue to strengthen our management of non-interest-based businesses and introduce additional distinctive and competitive products.

Expand our distribution channels

We plan to expand our distribution channels to meet the needs of our customers and seek regulatory approval to expand the number of branches and sub-branches. In expanding our distribution channels, we intend to strengthen our competitive position in China's relatively affluent regions, while prudently expanding our presence in certain other strategically important regions that we believe have strong growth potential. We also plan to establish more self-service centers and install additional ATMs. In addition, to complement our physical distribution channels, we intend to continue to expand and improve our electronic banking platforms (in particular our All-in-one Net online banking and telephone banking systems), including by making such platforms more convenient and user-friendly for our customers. We believe these steps should reduce our customers' reliance on our physical distribution channels, improve customer service and reduce costs.

Improve our overall risk management capabilities

We intend to improve our overall risk management capabilities in order to increase our risk-adjusted return on capital and maintain our asset quality. We plan to:

- *Improve credit risk management.* We plan to adopt stricter loan approval standards and strengthen our loan portfolio management. We have established the Special Assets Management Center to focus exclusively on the collection of non-performing loans. In addition, we plan to adopt and implement international best practices in respect of credit risk management principles, tools and methods. In collaboration with Moody's Investor Service, a provider of independent credit ratings, research and financial information to the capital markets, we have implemented a new customer credit risk rating system which we have begun to utilize for rating most of our corporate customers and have begun to develop a loan facility rating system to estimate loss on a given default. We believe the use of such credit risk management systems should enable us to make better credit and pricing decisions.
- *Increasingly use quantitative tools to monitor and control liquidity risk and market risk.* Although to date we have not extensively used quantitative tools to manage our risks, we plan to increase our use of advanced liquidity risk and market risk monitoring and analysis tools, such as gap analysis, duration analysis, scenario simulation and stress testing, in order to improve our capabilities to identify, measure and manage liquidity risk and market risk.
- *Strengthen internal controls to reduce operational risk.* We plan to establish an operational risk incidents reporting and self-assessment system in order to compile reports of such incidents and their related loss on a timely basis. We also plan to develop key operational risk indicators customized for our bank and to establish an early warning system for operational risk events.

Further strengthen our management in accordance with international best practices

We plan to further strengthen our management in accordance with international best practices by adopting the following management principles, tools and methods:

- *Economic capital management system.* We plan to further expand the use of our FTP and economic capital management system. By improving our current system, we plan to evaluate each branch outlet's and business department's performance based on risk-adjusted return on capital. In order to more efficiently allocate capital and improve profitability, we plan to manage our assets and liabilities and allocate our financial and human resources by adopting a comprehensive budgeting program based on economic capital.
- *Process-centric bank.* We plan to revamp our organizational structure to become a more customer-focused "process-centric bank." We intend to center our organizational and management structure around business processes designed to quickly meet customer needs and respond to market conditions. Our medium- to long-term objective is to manage our business through strategic business units. Our short-term objective is to give our front-office employees greater authority to improve efficiency, speed up product innovation and respond to market developments without significantly changing our current management structure.
- *Interest re-alignment.* We plan to adopt the principle of "interest re-alignment," through which we intend to enhance bank-wide cooperation among our branches, sub-branches and business departments by building an effective incentive system based on internal transfer pricing and cost allocation among the head office, branches, sub-branches and business departments.
- *Focused marketing.* We plan to promote "focused marketing." By further segmenting our target markets and customers, we plan to offer differentiated products and provide high-quality customer services to our target customers. We intend to improve our marketing program by adopting effective branding strategies, leveraging multiple marketing channels and enhancing the product knowledge and team work of our marketing team.
- *Human resources management.* We plan to strengthen our human resources management in order to attract, retain and incentivize outstanding employees. We also plan to improve our compensation structure to better align employees' compensation with their contribution to our business and establish a more transparent promotion system and encourage internal promotions, thereby motivating our employees and offering them more career opportunities. Furthermore, we seek to improve our training program to enhance our employees' professional know-how and skills. Through this plan, we seek to create a culture of excellence and team work.

Selectively pursue new business opportunities in other areas of financial services

We intend to selectively expand into certain other areas of financial services as permitted by applicable laws and regulations. We plan to strengthen our cooperation with other non-banking financial institutions to explore new business opportunities in order to diversify our sources of revenues and risks. We plan to further develop our securities underwriting business in Hong Kong through our Hong Kong subsidiary, CMBI. In addition, we plan to acquire a 33.4% stake in China Merchants Fund Management Company, which has already been approved by the CBRC, in order to develop our fund management business. By expanding our offering of products and services, we plan to further diversify our business and increase cross-selling opportunities.

OUR PRINCIPAL BUSINESS ACTIVITIES

Our three principal business segments are corporate banking, retail banking and treasury operations. The following table sets forth the contribution of each segment to our total operating income for the periods indicated. The basis on which this information was prepared is described in the section headed “Financial Information — Summary Segment Operating Results — Summary Business Segment Information.”

	For the Year Ended December 31,						For the Six Months Ended June 30,			
	2003		2004		2005		2005		2006	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
								(unaudited)		
(in millions of RMB, except percentages)										
Corporate banking	7,343	65.8%	10,957	69.9%	13,295	69.2%	5,946	66.8%	6,950	63.5%
Retail banking	2,516	22.5	3,958	25.2	4,898	25.5	2,509	28.2	2,842	26.0
Treasury operations	1,198	10.7	557	3.6	830	4.3	366	4.1	1,094	10.0
Others	112	1.0	204	1.3	191	1.0	82	0.9	55	0.5
Total operating income . .	11,169	100.0%	15,676	100.0%	19,214	100.0%	8,903	100.0%	10,941	100.0%

Corporate Banking

We provide a broad range of corporate banking products and services to corporations, financial institutions and government agencies. Our corporate banking business consists of corporate lending (including trade finance), bill discounting, deposit-taking, remittance and settlement services, foreign currency trading and foreign exchange services, cash management services, custody services, corporate annuities account management services, underwriting of commercial paper, agency services, guarantee services, offshore banking and various other corporate banking products and services. We also offer an extensive array of online corporate banking services. Our corporate banking business accounted for 63.5%, 69.2%, 69.9% and 65.8%, respectively, of our total operating income for the six months ended June 30, 2006 and in 2005, 2004 and 2003. Our corporate loans accounted for 65.7%, 63.2%, 69.1% and 68.5%, of our total loans, and our corporate deposits accounted for 59.2%, 59.7%, 61.4% and 61.6%, of our total deposits from customers at June 30, 2006 and December 31, 2005, 2004 and 2003, respectively.

Corporate Banking Products and Services

Corporate Loans

Corporate loans have historically comprised the largest portion of our loan portfolio. Our corporate loans totaled RMB298.6 billion, RMB258.4 billion and RMB210.7 billion at December 31, 2005, 2004 and 2003, respectively, representing a compound annual growth rate of 19.1% over this period. At June 30, 2006, our corporate loans totaled RMB349.3 billion. Our corporate loans consist primarily of RMB-denominated loans, with a small portion of foreign currency-denominated loans. At June 30, 2006, our RMB-denominated corporate loans accounted for 91.1% of our total corporate loans. We generally require collateral or guarantees for corporate loans and provide unsecured loans only to customers with high credit ratings.

Working Capital Loans

Our corporate loans consist primarily of working capital loans, which typically have a term of one year or less but in some instances may have a term of up to three years. At June 30, 2006 and December 31, 2005, 2004 and 2003, working capital loans accounted for 79.5%, 81.2%, 86.8% and 89.5%, respectively, of our total corporate loans. Our working capital loans are primarily provided to corporations to meet their working capital requirements. We also provide domestic trade-related short-term financing products in the form of working capital loans.

Fixed Asset Loans

We provide various fixed asset loan products to meet our customers' funding requirements for infrastructure project development, construction and acquisition of machinery and equipment. Our fixed asset loans typically have maturities ranging from three to ten years. At June 30, 2006 and December 31, 2005, 2004 and 2003, fixed asset loans accounted for 15.8%, 13.0%, 7.9% and 5.3%, respectively, of our total corporate loans.

Trade Finance

We provide various trade finance products and services for our customers engaging in international trade. In a 2004 *Asiamoney* poll for trade finance in China, we were ranked among the top five banks on a weighted basis in many categories, including "best services for all trade needs," "best relationship management," "best customer support" and "best overall domestic/local services." According to the PBOC, at December 31, 2005, we were ranked third among China's commercial banks and first among the Other National Commercial Banks in terms of the amount of international trade finance loans outstanding. According to the PBOC, our outstanding international trade finance loans at June 30, 2006 accounted for 23.8% of the total outstanding international trade finance loans among the Other National Commercial Banks. Our international trade finance transaction volume amounted to US\$7.8 billion, US\$5.6 billion and US\$3.7 billion in 2005, 2004 and 2003, respectively, representing a compound annual growth rate of 45.2% over this period. For the six months ended June 30, 2006, our international trade finance transaction volume amounted to US\$3.3 billion.

Our primary import trade finance products and services include letters of credit, import bills advances, shipping guarantees and import invoice finance. Our major export trade finance products and services include packing loans, export bill purchasing and export invoice finance. We seek to provide new products in international trade finance to meet the needs of our customers, including international factoring, forfaiting and export credit insurance financing. We provide international factoring by guaranteeing payments on receivables, providing customers with trade finance, managing customers' sales accounts and collecting accounts receivables. At December 31, 2005, our international factoring business was ranked fifth among China's commercial banks in terms of transaction volume, according to Factors Chain International. Forfaiting is the non-recourse purchase of an exporter's trade-related debt or other receivables at a discount. We also provide export credit insurance financing (a product we developed in collaboration with China Export Credit Insurance Corporation) through which we provide bank finance to exporters after shipment of the goods being exported if the exporter purchases export credit insurance policy for short-term receivables and uses such policies as guarantees for repayment.

Discounted Bills

Bill discounting refers to the purchase of bank acceptance bills and corporate acceptance bills at a discount. Bill discounting is a form of short-term financing provided to corporate customers. We

primarily purchase bank acceptance bills as well as corporate acceptance bills from a small number of pre-approved large companies with high credit ratings. At June 30, 2006, our bank acceptance bills accounted for 85.4% of our total discounted bills. We generally limit our bill discounting to bills with a remaining maturity of less than six months. We may re-discount these bills with the PBOC or other financial institutions authorized to conduct bill discounting business, providing us with additional liquidity.

At December 31, 2005, 2004 and 2003, our outstanding discounted bills totaled RMB99.5 billion, RMB60.9 billion and RMB62.2 billion, respectively. At June 30, 2006, our outstanding discounted bills totaled RMB96.2 billion and accounted for 18.1% of our total loans. According to the PBOC, the amount of our outstanding discounted bills at December 31, 2005 was the highest among the Other National Commercial Banks.

Corporate Deposits

We provide our corporate banking customers with a range of interest-bearing time and demand deposit products in Renminbi and major foreign currencies. We generally offer RMB-denominated time deposit products with maturities of up to three years, except certain negotiated deposit products for which we are permitted to negotiate interest rates. Such products generally bear longer terms. See “Regulation and Supervision — PRC Regulation and Supervision — Pricing of Products and Services — Interest Rates for Loans and Deposits.” Our foreign currency-denominated time deposit products generally have maturities of up to two years. In addition, we offer a call deposit product that bears a higher interest rate than a demand deposit product but with some of the flexibility of a demand deposit, which allows our customers to withdraw money upon either a one-day or a seven-day prior notice.

At June 30, 2006, our corporate deposits totaled RMB416.8 billion, of which 91.1% were denominated in Renminbi and 8.9% were denominated in foreign currencies. Our corporate deposits were RMB378.5 billion, RMB314.7 billion and RMB250.7 billion, at December 31, 2005, 2004 and 2003, respectively, representing a compound annual growth rate of 22.9% over this period.

Non-interest-based Corporate Banking Businesses

We provide a broad range of non-interest-based products and services to our corporate customers. This segment of our corporate banking business has grown significantly in the past three years and generated non-interest income of RMB1,060 million, RMB701 million, RMB531 million in 2005, 2004 and 2003, respectively, representing a compound annual growth rate of 41.3% over this period. For the six months ended June 30, 2006, we generated non-interest income of RMB665 million.

Settlement Services

We provide settlement services in connection with both our domestic and international corporate banking businesses. We also provide our corporate customers with electronic settlement services through which they can make reliable, fast and convenient payments online to settle payments for customs tariffs, certain corporate taxes and other payments.

Domestic Settlement Services. Our domestic settlement services include settlement through cash, drafts, promissory notes, checks and other negotiable instruments. We also provide collection, payment, and disbursement services for our corporate customers.

Bank-Customs Express and Bank-Tax Express. Our Bank-Customs Express system features a centralized digital system connection to the public online customs data center, enabling remote payment capabilities across different customs regions as well as paperless payment for roadside customs checkpoints. By directly connecting the accounts of our corporate banking customers with the public online customs database, Bank-Customs Express enables our customers to transfer funds directly, which greatly simplifies the payment process. In addition, based on our proprietary technology, we are operating on a trial basis a new service that enables our customers that meet our credit rating requirements to clear goods through customs and pay customs tariffs at a later date. Similarly, our Bank-Tax Express system connects our corporate banking customers to the PBOC's treasury information processing system and enables our corporate customers to conveniently pay corporate taxes online. We believe our Bank-Customs Express and Bank-Tax Express services are value-added services for our customers.

International Settlement Services. Our international settlement services include, among other things, international remittance, collection and letters of credit. The transaction volume processed in our international settlement business was US\$74.2 billion, US\$52.9 billion and US\$35.4 billion in 2005, 2004 and 2003, respectively, representing a compound annual growth rate of 44.8% over this period. For the six months ended June 30, 2006, our international settlement transaction volume totaled US\$40.8 billion. We launched our online international business in August 2005, enabling our customers to apply online for international remittance and letters of credit. For the six months ended June 30, 2006, the total volume of our online applications for international remittance totaled US\$745.4 million, and our online applications for letters of credit totaled US\$37.1 million.

Foreign Currency Trading and Foreign Exchange Services

We provide foreign currency trading services to our corporate and retail customers through both physical and electronic channels. Our customers can either effect transactions on the spot market or enter into forward contracts with us. We generally settle our customer-related positions promptly in the international currency exchange markets.

We provide foreign exchange services between Renminbi and major foreign currencies. While we have historically provided such services on a spot basis, beginning in the fourth quarter of 2005, we started providing such services based on forward contracts. We settle substantially all of our open positions created by such foreign exchange services in the inter-bank market on the same day to minimize our exposure to the changes in exchange rates between Renminbi and foreign currencies. The transaction volume of our foreign exchange services totaled US\$39.3 billion, US\$27.5 billion and US\$20.2 billion in 2005, 2004 and 2003, respectively, representing a compound annual growth rate of 39.5% over this period. For the six months ended June 30, 2006, the transaction volume of our foreign exchange services totaled US\$21.5 billion.

Cash Management Services

Cash management refers to the integration of cash collection, disbursement, transfer, investment and financing activities as well as account management, information notification and consulting services through advanced electronic means. Cash management services are particularly useful for large corporate banking customers, particularly group companies that need to centrally manage their cash flow among many locations or subsidiaries to increase the effectiveness of cash planning and the efficiency of cash usage. We operate a proprietary funds transfer and settlement

system designed to enable group companies operating in multiple locations to manage nationwide intra-group funds transfer and investment on a real-time basis. We provide both Renminbi and foreign currency cash management services to hundreds of group companies, each with multiple subsidiaries or affiliates. Our cash management customers include domestic corporations as well as foreign corporations with significant operations in China. In 2004, we were selected by General Electric over ten domestic and foreign bidders to provide a U.S. dollar cash pooling system for its numerous operation sites in China. In 2005, *Asiamoney* magazine named us the “Best Local Cash Management Bank — China.” In addition to generating fee income, our cash management services also provide us with a source of low cost funding. We expect demand for our cash management services to continue to grow as the cash management needs of our corporate customers become more sophisticated.

Custody Services

In November 2002, we were qualified by the PBOC and the CSRC to be a custodian bank for securities investment funds, becoming the first publicly listed bank in China to obtain such qualification. We are also qualified to be a custodian bank of entrusted investment funds, social security funds, funds invested in China by Qualified Foreign Institutional Investors, or QFIIs, corporate annuity funds and funds from insurance companies.

The major funds currently under our custody include securities investment funds, collective investment scheme funds managed by securities firms, entrusted collective investment scheme funds and corporate annuities. Our custody services include asset custody, fund clearance, asset valuation, investment monitoring and custody information reporting services. In addition, we offer value-added services such as provision of market information, research reports and tax consultations. Our advanced computer system enables us to provide these custody-related services in an effective and secure manner.

The total net asset value of funds under our custody was RMB34.3 billion, RMB34.4 billion, RMB25.3 billion, and RMB4.5 billion, at June 30, 2006 and December 31, 2005, 2004 and 2003, respectively. We receive fees calculated as a percentage of the net asset value of the funds under custody for providing such services.

Corporate Annuities Account Management Services

In 2001, we introduced corporate annuity products in China. Corporate annuities are a new type of corporate pension product in China encouraged by the PRC government to supplement the mandatory social security fund. The employee and the employer each makes periodic contributions to the corporate annuity fund, which is managed by certain qualified financial institutions in China. Upon an employee’s retirement, the amount in the employee’s account is distributed to the employee either in a lump sum or in installments, at the employee’s option. In 2005, we obtained licenses to act as an annuities custodian bank and annuities account manager. At June 30, 2006, only four commercial banks in China have obtained such dual licenses. We believe that we were one of the first commercial banks in China to use advanced computer systems to manage our customers’ annuity accounts and have gained experience in managing annuity accounts for large corporations and corporations with complex plans. Our annuity account holders have access to account information 24 hours a day, seven days a week through a number of channels, including the Internet, telephone and enterprise resource planning, or ERP, systems. We also provide customized annuity design and consulting services to our customers. At June 30, 2006, we served as account manager to over 100 corporate annuity customers.

Underwriting of Commercial Paper

We commenced underwriting commercial paper in July 2005 after the PBOC issued regulations in May 2005 permitting qualified corporations to issue commercial paper and commercial banks to underwrite such issuances. As interest rates for commercial paper are currently lower than those for bank loans in China, we expect the issuance of commercial paper by corporations to grow substantially in the near future. In an effort to capture this growth opportunity, we established the Investment Banking Department at our head office in April 2006 to focus on the underwriting of commercial paper.

Agency Services

Under the brand names Bank-Fund Express, Bank-Securities Express and Bank-Insurance Express, we act as an agent for our corporate and retail customers in providing services relating to the purchase of investment funds, bonds and insurance products, respectively. We receive fees in connection with such services. See “— Retail Banking Products and Services — Non-interest-based Retail Banking Businesses — Investment Services” and “— Retail Banking Products and Services — Non-interest-based Retail Banking Businesses — Sales of Insurance Products.”

Guarantee Services

We act as surety for our corporate banking customers by providing bank guarantees in the form of bid bonds, performance bonds and other types of guarantees. These guarantee contracts provide for specified payments to be made by us to reimburse for losses incurred when a guaranteed party defaults under the terms of the relevant agreement. Guarantees are usually provided for our corporate banking customers as part of an overall credit facility. Our guarantee services are generally subject to substantially the same credit approval procedures as those applicable to our corporate credit products. We receive fees for providing guarantee services and earn interest income on amounts that we are required to pay on behalf of customers in connection with guarantees.

Offshore Banking

Our offshore banking business involves taking deposits from and providing financial services to non-residents. We primarily offer deposits, loans, discounted bills and offshore settlement services to our offshore banking customers. We started our offshore banking business in 1989, and we are currently one of four commercial banks in China licensed to conduct offshore banking.

As our head office is located in Shenzhen, in close proximity to Hong Kong and Macau, our offshore business has benefited from the growth of cross border investments to and from mainland China and Hong Kong and Macau. In the 1980s and 1990s, in connection with China’s policy to attract overseas investments, our offshore banking business primarily served Hong Kong- and Macau-based corporations and entrepreneurs investing in China. Our offshore banking business had high non-performing loan ratios and suffered significant losses in the late 1990s, in part due to our lack of experience in conducting the offshore business and certain weaknesses with our credit approval and internal control procedures, combined with the effects of the Asian financial crisis. See “— Legal and Administrative Proceedings — Legal Proceedings — Certain Legal Proceedings Involving Our Offshore Business.” We suspended our offshore lending business in 1999, reorganized such business and implemented various risk management measures. We resumed our offshore lending business in 2002.

We are currently focused on developing our offshore banking business in connection with Chinese-invested companies in Hong Kong and other countries. As Chinese companies continue to expand their operations overseas, we believe our offshore banking business is well-positioned to benefit from these growth opportunities.

Online Corporate Banking

We believe we were one of the first commercial banks in China to offer online banking services to both our corporate and retail banking customers. We began offering online corporate banking services in April 1998 under the All-in-one Net brand. In 1999, we began offering comprehensive online banking services that included both corporate and retail banking services. We have continued to improve our online corporate banking services since the launch of our services. In November 2005, we launched the fifth version of our online corporate banking software, which was designed to offer a more comprehensive array of online banking products and services. Our online corporate banking platform was built on our centralized data system and provides seven-day, 24-hour services to our customers.

We provide basic online banking services such as account management, transaction inquiry, deposit management, money transfer, and third-party collection and payment. We enable our customers to directly connect to our online banking system through their ERP system. We also provide additional online settlement, financing and investment-related services, including application for self-serviced loans, application for entrusted management of loans, application for letters of credit and bills management, application for domestic and international money remittance, active notification of account information and access to a substantial amount of business information. Our online corporate banking platform utilizes modular layout to facilitate customization, which enables our customers to remotely monitor their online transactions.

We have also established an online settlement center and financial center, enabling group companies to centrally manage deposits, payments, fund transfers and other banking transactions with or among companies within the group.

Launched in April 2005, our innovative Bills Express service provides our customers with a secure, low-cost, convenient and efficient online platform to manage bank acceptance bills and corporate acceptance bills. Our customers can apply for and obtain online our acceptance bills in electronic form and make payments online. Holders of our electronic bank acceptance bills may also endorse such acceptance bills electronically to third parties. We also provide custody services for bank acceptance bills and corporate acceptance bills, either in paper or electronic form, and the holders of acceptance bills can access the information relating to such acceptance bills online. In addition, we process online applications for bill acceptance, bill discounting, and submission of acceptance bills as collateral for corporate credit applications. By using our bill custody services, companies can create an online acceptance bills pool to centrally manage their acceptance bills and those of their subsidiaries. Our Bills Express transaction volume totaled approximately RMB5.5 billion and RMB2.5 billion for the six months ended June 30, 2006 and in 2005 (from April to December), respectively. We believe this online capability gives us a competitive advantage in the bill discounting business.

At June 30, 2006, we had over 43,000 online corporate banking customers. In 2005, our customers conducted approximately 5.7 million transactions through our online corporate banking services with a total transaction volume of RMB2,640 billion. The number and the amount of online

payments accounted for 24% and 39%, respectively, of our total number and total amount of payments for the six months ended June 30, 2006, as compared with 21% and 38%, and 17% and 31%, respectively, in 2005 and 2004.

Customers

We focus on developing long-term relationships with customers in economically developed regions and strategically important industries in China. We have extensive customer relationships with many large business groups and leading companies in China, in particular those based in the more economically developed regions such as the Yangtze River Delta, the Pearl River Delta and the Bohai Rim. Our corporate customers also include many of China's financial institutions and government agencies as well as Fortune 500 multinational companies with operations in China. At June 30, 2006, we had over 220,000 corporate deposit customers, over 7,400 corporate loan customers and 10,000 international business customers.

At June 30, 2006, our major corporate loan customers were concentrated in the transportation and telecommunications, manufacturing, energy and resources, and trading industries, which accounted for 22.4%, 22.0%, 15.5% and 10.9%, respectively, of our outstanding corporate loans. We intend to continue to focus on building customer relationships with leading companies in industries that are strategically important to China's economy, including industries such as transportation, mining, electric, automobile, telecommunication, infrastructure construction, petrochemical and equipment manufacturing.

The majority of our corporate loan customers are large companies. However, we have been actively developing our corporate banking business with SMEs. Our SME customers are primarily manufacturing companies located in the Yangtze River Delta, the Pearl River Delta and the Bohai Rim.

Our international banking business focuses on developing relationships with customers engaging in international trade. Our international banking customers operate mostly in industries such as mining, chemical engineering, steel, electronics, transportation and textile. Our international banking customers include foreign-invested enterprises in China, manufacturing and high-technology companies with significant international business and international trading companies.

Our offshore banking customers primarily include foreign subsidiaries of Chinese corporations, Chinese-invested overseas enterprises, foreign shareholders of the foreign-invested companies in China and overseas-listed Chinese corporations. At June 30, 2006, we had offshore banking customers from over 50 countries and regions.

Marketing

We market our products and services through our head office, branches and sub-branches. We employ both bank-wide and local marketing strategies customized for specific regions, customers and products. Our head office formulates our overall corporate banking business development plans and strategies, develops our bank-wide corporate banking marketing initiatives and establishes general corporate banking marketing guidelines based on industry, geographical, customer and product considerations. Our branches and sub-branches are responsible for developing and implementing detailed corporate banking marketing plans customized for local needs based on these guidelines.

We maintain a customer database and analyze such data and information to better determine the specific needs of our corporate banking customers and enable us to better manage our resources in providing standard or customized services. We seek to provide customized products and services to our key customers to meet their specific banking needs. Our head office generally manages client coverage and marketing efforts for our larger corporate customers to ensure consistency and quality of service. Our senior management and branch managers are often directly involved in marketing efforts. For other smaller corporate customers, we place a greater emphasis on counter services, online banking services and telephone banking services to meet their corporate banking needs and to cross sell other products and services.

We seek to build strong brand names for our products and services, which we believe should significantly enhance our corporate banking marketing efforts. We integrate most of our corporate banking products and services under the GoFortune brand to raise our corporate identity. We also have secondary brands under the GoFortune brand for certain products and services. We have conducted extensive marketing campaigns to promote our GoFortune brand. In addition, we have established the GoFortune Club to serve as a marketing platform for our key corporate customers and their senior management personnel. At June 30, 2006, we had a total of 31 GoFortune Clubs in China. We believe our GoFortune Clubs allows us to maintain close relationships with our customers and enhance customer loyalty.

Retail Banking

We provide a broad range of retail banking products and services to retail customers, including retail loans, deposits, debit cards, credit cards, wealth management services, investment services, sales of insurance products, sales of asset management products, and foreign currency trading and foreign exchange services. We offer these products and services through multiple distribution channels, including our branches and sub-branches, self-service banking centers, ATMs and CDMs, and online and telephone banking systems. Our retail banking business has grown rapidly in recent years, due in large part to the success of our All-in-one Card debit cards, credit cards and online banking products. Our retail banking business accounted for 26.0%, 25.5%, 25.2% and 22.5%, respectively, of our total operating income for the six months ended June 30, 2006 and in 2005, 2004 and 2003. Our retail loans (including credit card balances) accounted for 16.2%, 15.7%, 14.6% and 11.3%, respectively, of our total loans, and our retail deposits accounted for 40.8%, 40.3%, 38.6% and 38.4%, respectively, of our total deposits from customers at June 30, 2006 and December 31, 2005, 2004 and 2003.

Retail Banking Products and Services

Retail Loans

We provide various loan products to our retail banking customers. Our retail loans totaled RMB74.0 billion, RMB54.8 billion and RMB34.6 billion, respectively, at December 31, 2005, 2004 and 2003, representing a compound annual growth rate of 46.3% over this period. At December 31, 2005, we were ranked first among the Other National Commercial Banks in terms of retail loans outstanding, according to the PBOC (according to the definition used by the PBOC in compiling the data, the term “retail loans” includes residential mortgage loans, automobile loans, home improvement loans, general consumption loans, education loans, credit card balances and other personal loans, but does not include personal business working capital loans).

Residential Mortgage Loans

We provide residential mortgage loans to our retail banking customers in connection with the purchase of residential properties. Such loans are generally secured by the property being purchased. We provide regular residential mortgage loans with an adjustable rate that changes with PBOC's benchmark rate, which is the predominant form of residential mortgage loans in China. We also provide other residential mortgage loan products, such as fixed-interest residential mortgage loans and structured fixed-rate residential mortgage loans. For fixed-rate residential mortgage loans, interest rate is fixed for a pre-determined period of time, after which the interest rate changes according to the terms in the residential mortgage agreement. Structured fixed-rate residential mortgage loans are similar to fixed-rate residential mortgage loans except that the fixed-rate period is divided into sub-periods, each with a different fixed-interest rate. At June 30, 2006, our residential mortgage loans totaled RMB73.9 billion, accounting for 85.9% of our total retail loans.

Other Retail Loans

We provide other retail loan products, including automobile loans, home improvement loans, general consumption loans, education loans, personal business working capital loans, credit card balances and other personal loans. We generally require collateral for retail loans other than credit card balances. We believe we are one of the first commercial banks in China to offer home owners revolving home equity credit lines, which use their residential properties as collateral. We also offer our All-in-one Card holders self-service loans, which can be obtained through online banking, telephone banking and self-service banking centers, using the cardholder's time deposits in our bank as collateral.

Retail Deposits

Our retail deposit products primarily consist of demand deposits, time deposits and call deposits. We currently offer regular time deposit products with terms ranging from three months to five years for RMB-denominated deposits and one month to two years for foreign currency-denominated deposits. We also offer various other time deposit products, including monthly deposit plans, monthly withdrawal plans and flexible-term deposits. If time deposits are withdrawn prior to maturity, the interest on the withdrawn amount is calculated based on the demand deposit interest rate. Our call deposit products bear higher interest rates than demand deposits and permit withdrawals upon either a one-day or a seven-day prior notice.

Our retail deposits amounted to RMB255.9 billion, RMB197.9 billion and RMB156.2 billion, respectively, at December 31, 2005, 2004 and 2003, representing a compound annual growth rate of 28.0% over the period. At June 30, 2006, our retail deposits amounted to RMB286.8 billion. Our retail deposits consist primarily of RMB-denominated deposits. At June 30, 2006, we had approximately 23.0 million retail deposit accounts, with an average balance of approximately RMB12,450 per deposit account. To reduce our account maintenance costs and to encourage customers to maintain higher average deposit balances with us, some of our branches charge management fees for accounts with average monthly account balance below RMB10,000. For the six months ended June 30, 2006 and in 2005, we received management fees of RMB54.7 million and RMB29.3 million, respectively.

Debit Cards

We issue debit cards to customers maintaining deposit accounts with us and directly deduct from the cardholder's deposit accounts payments for transactions conducted through such cards. Our debit cards include All-in-one Card, All-in-one Gold Card, Sunflower VIP Card and other cards with specific features, including All-in-one Beauty Card marketed to female customers, All-in-one QQ card marketed to young customers and various co-branded All-in-one Cards with specific retailer affiliations.

We had approximately 39.2 million debit cards issued at June 30, 2006, and the average balance of the accounts linked to our debit cards was RMB5,653.

All-in-one Card

We expanded our retail banking business in 1995 with the introduction of our branded debit card, All-in-one Card. In 1995, we were one of the first commercial banks in China to introduce a debit card with integrated Renminbi and foreign currency accounts and time deposit and demand deposit accounts. In June 1996, we became the first commercial bank in China to enable debit card holders to access our debit and deposit services at our branches and sub-branches across China. In January 1998, we linked our debit cards to our nationwide ATM network, and in December 1998, we enabled our debit cards to be used in China's national POS system. At June 30, 2006, we provided over 20 features and services through our debit cards, including integrated multi-currency accounts, investment services in stocks and mutual funds, foreign currency services, self-service loans, self-service fee payments and online payments. In 2005, our All-in-one Card was named by bank card customers in China as the most preferred brand, based on a survey conducted by the Market Information Center of *People's Daily*.

We are a member of China Unionpay, China's national inter-bank bank card information exchange and transaction network. Holders of our All-in-one Cards can conduct transactions through ATMs and POS terminals connected to the China Unionpay network. At December 31, 2005, the China Unionpay network consisted of 175 member banks and financial institutions, with approximately 390,000 merchants and 610,000 POS terminals linked to the network.

All-in-one Gold Card and Sunflower VIP Card

We introduced Sunflower VIP Card in October 2002 and All-in-one Gold Card in July 2004 for our affluent customers. See "— Customers." These two cards offer enhanced features and services to attract affluent customers. In addition to the China Unionpay network, holders of our All-in-one Gold Card and Sunflower VIP Card can also withdraw cash from ATMs and pay for store purchases worldwide at merchants linked to the VISA and MasterCard network.

We also provide additional services to our All-in-one Gold Card and Sunflower VIP Card holders, such as priority banking, the ability to convert foreign currencies at preferred exchange rates and other benefits. In particular, we provide Sunflower VIP Card holders with a broad array of wealth management and financial consulting services and access to a dedicated relationship manager. See "— Non-interest-based Retail Banking Businesses — Wealth Management Services."

Credit Cards

We first issued credit cards in the late 1990s. These cards could only be used in China to pay for RMB-denominated goods and services. In December 2002, we began to issue dual-currency credit cards, which for purposes of this prospectus means credit cards that could be used in China and overseas to purchase goods and services denominated in Renminbi as well as major foreign currencies. For goods and services purchased overseas, the card holder may choose to settle card bills in Renminbi or in U.S. dollar. Substantially all of our credit cards are dual-currency credit cards. Our dual-currency credit cards are accepted globally through the China Unionpay, VISA or MasterCard system. Our credit card holders can withdraw cash in China at ATMs connected to the China Unionpay network and withdraw cash in local currencies in foreign countries at ATMs connected to the China Unionpay, VISA or MasterCard networks.

We offer regular, gold and platinum cards, each with different requirements and service offerings. The type of card a customer can qualify for depends on, among other things, that customer's income or assets and credit history. We also issue credit cards with special features or services that target a specific group of customers, such as the VISA Mini Card targeted at young customers and the Young Card targeted at university students. In addition, we issue various co-branded "affinity" credit cards in conjunction with well-known businesses in China, including our Air China co-branded credit card as well as credit cards with specific retailer affiliations. Our Air China co-branded credit card was recognized by VISA International as the "Best Co-branded Card in China in 2003." At June 30, 2006, over one-third of our issued credit cards were co-branded credit cards. Based on a survey conducted by the *Hurun Report* in 2005, more affluent consumers named our bank than any other commercial bank in China as their preferred credit card issuing bank.

Our total issued dual-currency credit cards amounted to 6.9 million, 5.2 million, 2.9 million and 0.6 million, respectively, at June 30, 2006 and December 31, 2005, 2004 and 2003. According to VISA International and MasterCard International, at December 31, 2005, we had a domestic market share of approximately 42% in terms of the cumulative number of dual-currency credit cards issued. The transaction volume of our credit cards amounted to RMB26.9 billion, RMB32.9 billion, RMB14.1 billion and RMB3.4 billion, respectively, for the six months ended June 30, 2006 and in 2005, 2004 and 2003. Our outstanding credit card balance totaled RMB6,232 million, RMB4,550 million, RMB2,157 million, and RMB891 million, respectively, and the non-performing loan ratio for our credit card business was 1.81%, 1.71%, 2.18% and 0.56%, respectively, at June 30, 2006 and December 31, 2005, 2004 and 2003. Our credit card business has been frequently recognized by both MasterCard International and VISA International. MasterCard International granted us the "2003 Greater China Dual-currency Credit Card Sales Volume Record Award" and recognized us as having the "2004 Asia Pacific Region Best Overall Marketing Program (Parkson co-branded card)." VISA International awarded us the "Best Dual-currency Card Growth Award" in 2003 and 2004 and the "Dual Currency Excellent Growth Award" in 2005.

Our income from credit card business consists primarily of commissions from merchants, interest from interest-bearing balances, annual fees and cash advance fees. The operating income from our credit card business was RMB493.2 million, RMB631.8 million, RMB315.7 million and RMB114.6 million for the six months ended June 30, 2006 and in 2005, 2004 and 2003, respectively. Commissions from merchants and interest from interest-bearing balances were the two largest sources of our credit card income. Commissions from merchants accounted for approximately 32% and 35%, respectively, of our gross income from our credit card business for the six months ended June 30, 2006

and in 2005, and interest from interest-bearing balances accounted for 39% and 35%, respectively, during the same periods. Approximately 21% and 18% of our credit card accounts in-force carried an interest-bearing balance, respectively, with a total outstanding interest-bearing balance of RMB2.4 billion and RMB1.6 billion, respectively at June 30, 2006 and December 31, 2005.

Our credit card business is managed and operated by our Credit Card Center based in Shanghai, which maintains independent accounting and management systems. Our Credit Card Center works closely with other departments and has established credit card departments in 12 branches to manage and operate our credit card business. We have also established the Credit Card Management Committee, comprising members of our senior management, to supervise our Credit Card Center.

Non-interest-based Retail Banking Businesses

We conduct numerous non-interest-based businesses in retail banking, including wealth management services, investment services, sales of insurance products, sales of asset management products, foreign currency trading and foreign exchange services and others.

Wealth Management Services

We launched our wealth management services in 2002 to meet the growing needs of affluent customers in China. We believe our wealth management services are widely recognized in China for the breadth and quality of products and services. In January 2006, more affluent consumers named our bank than any other bank as having the best Renminbi wealth management services in China, based on a survey conducted by the *Hurun Report*. Our Sunflower wealth management services are generally provided to our Sunflower VIP customers, which include, among other things, dedicated one-on-one financial consulting services, dedicated Sunflower wealth management centers, VIP rooms and VIP counters, provision of timely wealth management information and special discounts for certain of our products and services. Our wealth management customers also enjoy other services provided by our many partners, including, among others, airports, hotels, restaurants, shopping centers and fitness clubs in China. At June 30, 2006, we had over 120,000 Sunflower wealth management customers, 102 Sunflower wealth management centers, 374 VIP rooms, 339 VIP counters and a team of 1,189 dedicated relationship managers.

Investment Services

We provide investment services under the brand names Bank-Fund Express and Bank-Securities Express. For our Bank-Fund Express services, we seek to offer a “fund supermarket” allowing our customers to buy and sell a number of PRC mutual funds. At June 30, 2006, we offered a total of 89 mutual funds. Our Bank-Fund Express trading volume totaled RMB50.4 billion and RMB51.8 billion, respectively, for the six months ended June 30, 2006 and in 2005. In addition, for the same periods, our Bank-Fund Express subscription volume for newly launched funds by our customers totaled RMB5.3 billion and RMB3.6 billion, respectively.

For our Bank-Securities Express services, we collaborate with Chinese securities firms to enable our retail banking customers to establish a linked securities trading account under their deposit accounts to directly conduct securities trading activities. In May 2006, the CSRC issued a notice to Chinese securities firms aimed at tightening the regulation on the manner that securities trading services are provided. As required under the notice, we stopped opening new Bank-Securities Express accounts and may be required to discontinue such services as they are currently conducted.

Sales of Insurance Products

In collaboration with a number of insurance companies, we sell various insurance products through numerous channels, including branches and sub-branches, relationship managers, telephone banking and online banking platforms under the brand name Bank-Insurance Express. For the six months ended June 30, 2006 and in 2005, we sold RMB1.3 billion and RMB1.0 billion in insurance premiums and received net fees of RMB28.0 million and RMB27.9 million, respectively.

Sales of Asset Management Products

We offer asset management products designed by us as well as products designed by other financial institutions. Our asset management products have different maturities, expected return rates and risk profiles. We started offering asset management products in December 2002. At June 30, 2006, we had 56 such products outstanding.

Foreign Currency Trading and Foreign Exchange Services

We provide currency trading services among major foreign currencies and foreign exchange services between Renminbi and major foreign currencies for our retail and corporate customers. See “— Corporate Banking — Corporate Banking Products and Services — Non-interest-based Corporate Banking Businesses — Foreign Currency Trading and Foreign Exchange Services.”

Other Services

Our other services include bill collection and payment services, such as for electricity, water and cable as well as safety deposit box services. We also provide fund transfer services between different accounts and remittance services through counter transactions at our branches and sub-branches as well as through our telephone banking and online banking platforms. We charge a fee for such services. Further, we install POS terminals at retail locations and charge a fee based on a percentage of the transaction amount processed by such POS terminals.

Online Retail Banking

We launched our online retail banking website in 1997 offering limited services, such as account inquiry, to our All-in-one Card customers. In September 1999, we launched our online retail banking business under the brand name All-in-one Net, enabling our customers all across China to conduct online retail banking transactions. In the same year, we obtained formal approval from the PBOC for our retail online banking business, the first such approval issued by the PBOC. The launch of All-in-one Net was named as one of the milestones in China’s Internet development by China Internet Network Information Center, the state network information center of China.

In November 2000, we released a professional edition of our All-in-one Net online retail banking software with improved security features that allow our online customers to conduct a wider array of transactions compared to the regular edition. Our professional edition also enables our customers to transfer funds and make remittances online. We have continued to improve the range of features, ease of use and reliability of both the regular and professional editions.

Our All-in-one Net online retail banking system provides account inquiry, fee payment, credit card management, loan applications, foreign currency services, trading of securities, mutual funds and

government bonds, financial analysis services and asset management services. Our customers can conduct online retail banking transactions 24 hours a day, seven days a week. We have extended our online banking services to mobile phones and PDAs.

At June 30, 2006, we had approximately 2.0 million customers using the All-in-one Net professional edition. In 2005, 2004 and 2003, our retail customers conducted online transactions in the amount of RMB98.7 billion, RMB55.6 billion and RMB29.8 billion, respectively, representing a compound annual growth rate of 82.0%. For the six months ended June 30, 2006, our online transfer and remittance transactions totaled RMB89.2 billion. In addition, in 2005, the total number of online transfer and remittance transactions conducted using our professional edition software was approximately 2.5 times of the total number of corresponding counter transactions.

Customers

General Retail Banking

At June 30, 2006, we had approximately 23.0 million retail deposit accounts with total deposits of RMB286.8 billion, a significant portion of which was from affluent retail banking customers. At June 30, 2006, we had over 90,000 retail customers that had a deposit balance in excess of RMB500,000, with deposits from such customers totaling RMB101.8 billion or 35.5% of our total retail deposits. To attract more affluent customers, we generally offer our All-in-one Gold Card debit card to our customers with an aggregate monthly average account balance of between RMB50,000 and RMB500,000, and we generally issue Sunflower VIP Card debit card to our customers with an aggregate average monthly account balance of over RMB500,000. At June 30, 2006, we had over 120,000 of such Sunflower VIP customers. All-in-one Gold Card and the Sunflower VIP Card holders enjoy a number of benefits and privileges not available to other All-in-one Card debit card holders. See “— Retail Banking Products and Services — Debit Cards.” For example, we provide dedicated relationship managers to provide one-on-one services to our Sunflower VIP Card holders. Our dedicated relationship managers consider the financial planning needs of each Sunflower VIP Card holder to provide tailored wealth management and investment advice.

We also focus on establishing relationships with college students, a demographic group that we believe has the potential of becoming affluent retail banking customers of ours in the future.

We are also working to improve the services we offer to our regular retail banking customers by expanding the use of information technology platforms such as online banking and ATMs, which we believe offer greater convenience to customers while at the same time reducing our operating costs.

Credit Card

Our regular credit card holders generally have a monthly income of over RMB2,000. We primarily target our gold credit card toward professionals and frequent business travellers, and our gold credit card holders generally have a monthly income of over RMB10,000. We primarily target our platinum credit card toward senior executives, entrepreneurs and other wealthy individuals, and our platinum credit card holders generally have a monthly income of over RMB50,000 or otherwise have substantial assets. We also offer a number of co-branded cards affiliated with specific well-known consumer businesses to attract customers who prefer to use the services offered by those businesses. In addition, we target our Young Card at college students. Although many of our Young Card customers do not have an independent source of income, we believe they represent an important demographic

group because of their future earning potential. At June 30, 2006, we had approximately 6.9 million credit cards issued, including 5.4 million regular cards, 1.4 million gold cards and over 9,000 platinum cards.

Our credit card business is a key platform for acquiring new customers for our other products and services. Through our regular interaction with our credit card customers, we have been able to obtain information about our customers and their consumption behavior to further our cross-selling efforts. We seek to cross sell to our credit card customers other products and services, such as insurance policies and services, retail loans and asset management products based on our analysis of such customer information.

Marketing

We believe that building strong brand recognition is one of our most important marketing strategies for attracting and retaining customers. Many of our brands have achieved national recognition, such as the All-in-one Card, All-in-one Net and Sunflower. We are also building other brand names in respect of other products and services, such as Foreign Currency Express, the Young Card, the QQ Card and the Beauty Card. We believe our All-in-one Card and All-in-one Net brand names are associated with high-quality, comprehensive service offerings and superior customer services, which greatly facilitates our marketing efforts for our other products and services, including deposits, retail loans and non-interest-based products and services.

We seek to strategically locate our branches and sub-branches in cities with high concentrations of our target customers, such as in the more economically developed eastern coastal regions of China. Based on our advanced information technology platform, we also seek to extensively use electronic banking channels, such as online banking, telephone banking, mobile phone banking and PDA banking, to market our products and services. In addition, we conduct extensive advertising campaigns promoting our debit cards, credit cards, wealth management services and other new products and services. Such campaigns are usually conducted with a unified theme, combining resources from both our head office and branches. We conduct market studies and strive to achieve maximum market penetration with our advertisement campaigns. We also conduct direct marketing activities in public areas (such as handing out brochures) and at large enterprises and institutions (such as providing promotional materials to employees of such enterprises and institutions).

We market our products and services to our existing customers through our physical and electronic channels. We employ different strategies to market our products and services to different customers based partly on their aggregate account balances with us. For our Sunflower VIP Card holders, we primarily market our investment products and services (including insurance products, investment products and foreign currency wealth management services), with our relationship managers playing a significant role marketing such products and services through one-on-one wealth management advisory services. For our All-in-one Gold Card holders, we primarily market our deposit products and certain investment products that do not require a significant amount of capital. We use various means, including our gold card priority counters in our sub-branches offices, to promote such services. For our regular customers, we primarily market traditional banking services, including deposits, loans and settlement services, and we rely more on our regular counter personnel and self-service banking centers.

We employ various marketing strategies to promote our credit cards to potential customers. Our Credit Card Center collaborates with our branches to help promote our credit cards. We also conduct sales activities through commissioned sales representatives to promote our credit cards. In addition, we market our credit cards to potential customers through online advertising, tele-marketing, direct mailing, co-promotion activities with our co-brand or affiliate partners, promotional brochures and other marketing methods.

Treasury Operations

Our treasury operations primarily consist of our money market transactions, investment portfolio management and treasury transactions conducted on behalf of our customers. Operating income from our treasury operations accounted for approximately 10.0%, 4.3%, 3.6% and 10.7%, respectively, of our total operating income for the six months ended June 30, 2006 and in 2005, 2004 and 2003.

Money Market Transactions

Our money market transactions primarily consist of (1) short-term borrowings from and lending to other domestic and foreign banks and non-bank financial institutions (often referred to as inter-bank money market activities), (2) sale of securities under repurchase agreements (often referred to as repurchase transactions) and (3) purchases of securities under resale agreements (often referred to as reverse repurchase transactions). Most securities underlying our repurchase transactions and reverse repurchase agreements are PRC government bonds. Most of our reverse repurchase transactions have a maturity ranging from one to 14 days from the original purchase date. At June 30, 2006, we were a net lender in our money market transactions, with a net receivable of RMB64.4 billion.

Investment and Trading in Securities

We classify our investment securities and other assets into (1) financial assets at fair value through profit or loss, (2) available-for-sale investments, (3) held-to-maturity debt securities and (4) receivables in our investment portfolio. See “Assets and Liabilities — Assets — Investment Securities and Other Financial Assets.” We purchase and sell various highly liquid debt securities for trading purposes, from which we seek to obtain short-term profits. We classify such trading securities as financial assets at fair value through profit or loss, and we employ strict stop-loss and other limits for such trading transactions. We seek investment returns on available-for-sale securities, held-to-maturity debt securities and receivables. We invest in these securities based on our target profile after taking into account the interest rate, exchange rate, credit, liquidity and other risks. In the domestic market, we primarily hold debt securities issued by the PRC government, the PBOC and the policy banks and, to a lesser extent, debt securities issued by other financial institutions and certain high-grade debt securities issued by non-financial institutions. In the international market, we primarily invest in investment-grade debt securities denominated in foreign currencies issued by governments, government agencies, financial institutions, corporations and international organizations. At June 30, 2006, our outstanding balance of financial assets at fair value through profit or loss, available-for-sale securities in our investment portfolio, held-to-maturity debt securities and receivables totaled RMB9.2 billion, RMB72.6 billion, RMB48.6 billion and RMB7.2 billion, respectively.

Treasury Transactions Conducted on Behalf of Customers

We provide trading, settlement and custody services in respect of debt securities on behalf of corporate customers through our treasury operations. For the six months ended June 30, 2006 and in 2005, our total transaction volume relating to debt securities transactions conducted on behalf of our customers was RMB32.6 billion and RMB42.5 billion, respectively. In addition, we conduct currency exchange services between Renminbi and foreign currencies, and we trade, on behalf of our customers, spot and forward foreign currency contracts and other financial derivatives. In general, we manage the risks resulted from such transactions conducted on behalf of our customers by entering into financial derivative instruments on a back-to-back basis in the international market to hedge the exposure created by such derivatives transactions.

Our treasury operations also consist of designing certain investment products for our corporate and retail customers. We generally use funds received from such products to purchase low-risk, highly liquid products in the financial markets and profit from the difference in interest rates.

Overseas Banking Businesses

We provide our overseas banking business (consisting primarily of corporate and retail banking services) through our Hong Kong branch, which was established in August 2002. At June 30, 2006, our Hong Kong branch had total assets of HK\$8.9 billion, total loans of HK\$3.6 billion and total deposits of HK\$7.6 billion. Most of our Hong Kong branch's corporate banking customers are companies in Hong Kong established or operated by investors from China, and the products we offer primarily consist of corporate deposits and corporate loans, including syndicated loans.

The overseas retail banking business primarily targets customers who travel frequently between Hong Kong and China. Our main product is the Mainland-Hong Kong All-in-one Card, which is linked to two deposit accounts — one in Hong Kong and one in Shenzhen — enabling cardholders to withdraw cash from either account without a fee and to transfer money between the two deposit accounts in real time. This card has features of a Hong Kong debit card and a PRC debit card. In addition, our Hong Kong branch provides a wealth management account which allows holders to make online investments.

We also have a wholly owned subsidiary in Hong Kong, CMBI, which is our only subsidiary. We are in the process of developing a full-service investment banking business to be conducted by CMBI upon receipt of necessary regulatory approvals.

We currently have a representative office in New York, which we plan to convert into a branch. We obtained the necessary approval from the PRC regulatory authorities to establish a New York branch in February 2006.

PRODUCT PRICING

Loans

The interest rates we are permitted to charge on our RMB-denominated loans are generally regulated by the PBOC. For RMB-denominated corporate loans and retail loans (other than residential mortgage loans and credit card balances), we are not permitted to set the interest rate lower than 90% of the relevant PBOC benchmark rate, but there has been no upper limit since October 29, 2004.

Before March 17, 2005, interest rates for residential mortgage loans were fixed by the PBOC at a level lower than other loans with the same terms. From March 17, 2005 to August 18, 2006, residential mortgage loans were regulated in the same manner as other corporate and retail loans. Since August 19, 2006, the lowest interest rates we can charge on residential mortgage loans have been changed to 85% of the PBOC benchmark interest rate of the same term. See “Regulation and Supervision — PRC Regulation and Supervision — Pricing of Products and Services — Interest Rates for Loans and Deposits.” Interest rates for foreign currency-denominated loans are generally not subject to PRC regulatory restrictions, and we are permitted to negotiate the interest rates on such loans.

We price our products based on various criteria, such as the borrower’s financial condition, value of collateral, if any, the intended use of the loan, market conditions and the term of the loan. We also analyze, among other things, our cost of providing the loan, credit and other risks, expected rates of return, general market conditions, our market position and the prices of our competitors. We focus on matching risks with returns and generally charge higher interest rates to customers with higher risk. We have started using the FTP method to calculate the cost of our funds in connection with the extension of loans. From these analyses, we derive internal benchmark prices. We are in the process of developing loan pricing models that assist us to determine the minimum interest rates at which our loan products may be priced. We permit our branches to set prices at their discretion within the established ranges of these internal benchmark prices. We believe granting limited pricing discretion allows branches to consider local factors and gives them greater flexibility to compete effectively.

As compared with loans to large companies, we generally charge higher interest rates on loans to SMEs due to their potentially higher credit risk. As interest rates on loans are increasingly liberalized, we expect to rely more on our ability to accurately calculate our expected risk-adjusted return on capital and further differentiate our loan prices based on our internal analyses. We price our bill discounting services based primarily on market conditions and our cost for providing the services.

Deposits

Under current PRC laws and regulations, interest rates for our RMB-denominated demand and regular time deposits cannot be higher than the relevant PBOC benchmark rate. We generally price our demand and regular time deposits at the relevant PBOC benchmark rates. However, we are permitted to provide negotiated time deposits to insurance companies, the SSF and China Post under certain circumstances. See “Regulation and Supervision — PRC Regulation and Supervision — Pricing of Products and Services — Interest Rates for Loans and Deposits.” The PBOC has liberalized interest rates charged for lendings and deposits between financial institutions, and we determine such rates based primarily on our assets and liabilities management policies and the market interest rate. In addition, we are permitted to negotiate the interest rates on foreign currency deposits other than those denominated in U.S. dollars, Euros, Japanese Yen and HK dollars in an amount less than US\$3 million. Interest rates on inter-bank foreign currency deposits and foreign currency deposits by non-PRC residents are generally not subject to PRC regulatory restrictions, and we are permitted to negotiate the interest rates on such deposits.

Non-interest-based Businesses

With respect to non-interest-based businesses, certain services are subject to government guideline prices, such as basic Renminbi settlement services specified by the CBRC and the NDRC.

See “Regulation and Supervision — PRC Regulation and Supervision — Pricing of Products and Services — Pricing for Non-interest-based Products and Services.” We generally determine fees for other products and services based on market conditions.

DISTRIBUTION CHANNELS

Our head office is located in Shenzhen, China. We deliver our products and services through various distribution channels. At June 30, 2006, we had 35 branches and 428 sub-branches located in 39 cities across China as well as 747 self-service banking centers and a network of 2,288 ATMs and 833 CDMs. In addition, we had a branch in Hong Kong, a representative office in Beijing and a representative office in New York. In addition to expanding our physical distribution channels, we seek to expand and improve our electronic banking channels, such as online banking and telephone banking.

Branch Network

The following table sets forth, at the dates indicated, the number of our branch outlets by geographical region.

	At June 30, 2006	
	Branch Outlets⁽¹⁾	% of Total
Yangtze River Delta	105	22.5%
Pearl River Delta	115	24.6
Bohai Rim	72	15.4
Others	175	37.5
Total	<u>467</u>	<u>100.0%</u>

(1) Including the head office, branches, sub-branches and representative offices in China and overseas.

Our branches and sub-branches are concentrated in the relatively affluent eastern coastal regions of China, particularly the Yangtze River Delta, the Pearl River Delta and the Bohai Rim. In line with our customer concentration in these regions of China, we seek to strategically locate our branches and sub-branches in these regions to better serve our customers. Our other branches and sub-branches are located in major cities across China.

Self-Service Banking Centers and ATMs

Many basic banking transactions can be conducted through self-service banking centers and ATMs, which provide cost-efficient alternatives to our branches and sub-branches. Accordingly, we have been expanding our self-service banking centers and ATMs. The number of our self-service banking centers increased from 506 at December 31, 2003 to 747 at June 30, 2006, and the number of our ATMs increased from 1,531 to 2,288 over the same period.

Electronic Banking

Since the late 1990s, we have strategically focused on establishing and improving our electronic banking platform, which we believe has contributed significantly to our development in the past few years. Using a combination of Internet, telephone, PDA and the mobile phone SMS-based system, we provide our corporate and retail banking customers with a broad array of electronic banking services.

Online Banking

We provide a broad range of online banking services. Our All-in-one Net brand name is widely recognized among China's consumers, and we have received multiple awards in third-party customer surveys. We believe that the successful launch and continued enhancement of our convenient, user-friendly and extensive online banking system has contributed significantly to our success in developing our corporate banking and retail banking businesses. See “— Corporate Banking — Online Corporate Banking” and “— Retail Banking — Online Retail Banking.”

Telephone Banking

Call Center

Established in August 1999, our call center operates 24 hours a day, seven days a week. Our corporate and retail customers can conduct most non-cash transactions by phone, including access account information, transfer funds and pay bills as well as execute certain asset management transactions, foreign currency transactions and securities transactions. Our “EasiBanking” telephone banking services platform enables our customers to access many of our products and services.

Our call center also serves as our customer relations management, or CRM, center through which our CRM personnel answer customer inquiries, handle customer complaints and suggestions and conduct customer surveys. We were recognized as one of the best in terms of customer relations management by GreaterChina CRM, a well-known customer relations management organization, in its “Best CRM Practice in China” evaluation report in each of 2003 and 2004. Our call center was recognized as “2006 China's Best Call Center” by the China Customer Relationship Management Committee of the China Federation of IT Promotion.

Credit Card Customer Service Center

Our Shanghai-based Credit Card Customer Service Center was established in December 2002 in connection with the launch of our credit card business. The center operates 24 hours a day, seven days a week. At June 30, 2006, the center had over 400 customer representatives providing services to our credit card holders and applicants. Our customers can call or email our customer service center to obtain account information, request temporary credit line adjustment, dispute transactions, report lost cards and access other services.

We recognize the importance of customer service to our credit card business, and we have sought to continuously cultivate a customer-centric corporate culture. We periodically offer our employees workshops to improve customer service and monitor the quality of our service through customer satisfaction surveys. In April 2004, our credit card customer support center was awarded by China Customer Relationship Management Committee of the China Federation of IT Promotion as the only recipient of “2004 China's Best Call Center” award.

INFORMATION TECHNOLOGY

We believe we are a leader among China's commercial banks in adopting and using advanced information technology systems. Information technology systems are the backbone of many aspects of our operations, including customer service, transaction processing, account management, risk management and financial management. Substantially all computer terminals of our branches

nationwide are connected to our centralized computer system, which processes and manages electronic transactions. We believe that sophisticated information technology systems are critical to the effective management of a bank's operations and the provision of high-quality customer services. We have not suffered any material failure or problems in respect of our electronic banking platform in the last three years. We are continuing to make significant investments to improve our information technology systems in order to enhance operational efficiency and risk management.

We believe we have a strong in-house information technology development capability. Most of the systems that are important for our core businesses have been developed in-house to leverage our substantial industry knowledge. We outsource the development of certain peripheral systems, management systems and highly specialized systems, such as the systems relating to our credit card business, treasury trading business and risk management, and our enterprise resource planning system. We often customize our purchased software to meet our specific requirements. In order to ensure compatibility, we have implemented a centralized procurement on the purchase of hardware and software.

In addition to our unified core banking system, we also operate a broad array of information systems and software applications for accounting, credit management, risk management, customer relationship management, financial management, and business operations management.

We have adopted advanced firewall technologies, anti-spoofing policies and anti-virus systems to provide a high level of network security. Moreover, our business sub-networks are separated from our administrative sub-networks as an additional safety measure to protect our business systems from viruses or other malicious attacks. To enhance reliability and security of our operations, we have established a disaster recovery center in Nanjing with a backup system. We backup substantially all of our operational data to this backup system. We also backup our data in each of our business locations on a regular basis. We believe our backup system would enable us to maintain our basic functions in case of a catastrophic failure in our primary system.

COMPETITION

We face significant competition in all of our principal businesses from commercial banks and other financial institutions in China. We believe that the principal competitive factors in China's banking industry include the breadth and quality of products and services, the convenience of banking facilities, customer service, brand recognition and product pricing. We compete principally with the Big Four and Other National Commercial Banks. We also face increasing competition from other players, including city commercial banks and foreign banks operating in China.

The Big Four generally have much larger customer and deposit bases, more extensive distribution networks and more capital than Other National Commercial Banks. Due to their size and geographical presence, the Big Four are predominant players in China's commercial banking industry. Beginning in the 1990s, the Big Four have undertaken numerous reforms instituted by the PRC government designed to improve their corporate governance, management and operations and overall asset quality. In particular, certain members of the Big Four have been restructured as joint stock commercial banks, received capital injections from the PRC government, disposed of a substantial amount of non-performing loans, received equity investments from major foreign financial institutions, and listed their shares on the Hong Kong Stock Exchange. See "Banking Industry in China — Current Competitive Landscape — Historical Factors." These developments have strengthened the competitiveness of the Big Four.

We also compete with the Other National Commercial Banks. Generally, the Other National Commercial Banks have not been historically burdened with non-performing loans and are more flexible in their operations.

We believe competition from foreign financial institutions will likely intensify significantly in the future. In the accession agreement relating to China's entry to the WTO, the PRC government has undertaken to eliminate certain geographical, customer and license restrictions placed on foreign banks in respect of their RMB-denominated business in China by December 2006. As a result of the elimination of these restrictions, we may lose certain competitive advantages that we currently enjoy over foreign banks and may face greater challenges in competing with foreign banks.

In China's corporate banking sector, competition for our targeted customers is increasing, in particular after the PBOC permitted companies to issue commercial paper in May 2005. We are facing challenges in growing our loans to such customers and in pricing such loans. We are increasingly facing more competition in respect of fee-based products and services as banks are increasing their efforts to develop and market these products and services. We expect to face intense competition from foreign banks in this area after the restrictions on foreign banks in respect of their RMB-denominated businesses in China are lifted, as foreign banks are generally more experienced in providing such products and services.

In China's retail banking sector, we are facing increasing competition in retail banking as other banks increasingly focus on the development of their retail banking business. Additionally, we expect to face increasing competition from foreign banks in retail banking (particularly in the credit card business) when restrictions on foreign banks on their RMB-denominated businesses in China are lifted in December 2006.

EMPLOYEES

At June 30, 2006 and December 31, 2005, 2004 and 2003, we had 20,950, 20,653, 17,829 and 15,965 employees, respectively. The following table sets forth the total number of employees by function at June 30, 2006.

	At June 30, 2006	
	Number of Employees	% of Total
Corporate banking	2,964	14.1%
Retail banking	7,996	38.2
Treasury operations	34	0.2
Finance and accounting	4,073	19.4
Management	2,382	11.4
Risk management, internal audit, and legal compliance	857	4.1
Information technology	611	2.9
Others	2,033	9.7
Total	<u>20,950</u>	<u>100.0%</u>

We have a young and educated employee team. At June 30, 2006, 85.4% of our employees had an associate degree or higher, and the average age of our employees was approximately 30.

We provide extensive trainings for our employees. The department heads at our head office conduct training sessions for key business and management personnel on various topics relating to

banking industry developments, regulations, product design and other general knowledge, as well as conduct professional skill training sessions aimed at improving specific banking skills. We also offer training to our lower level employees to improve their knowledge and skills relating to the banking business. We spent RMB80.0 million, RMB48.0 million and RMB26.0 million in 2005, 2004 and 2003, respectively, on employee training. Our employees received on average 54 hours of training in 2005, compared to 43 hours in 2004 and 35 hours in 2003.

We believe that our ability to attract and retain qualified and motivated employees is critical to our future success. We provide bonuses that are based mainly on employee performance. We are also in the process of implementing a bank-wide salary reform in which employees' salaries will be linked more to their responsibilities and performances and less to their seniority and title. Our training and promotion opportunities are also based partly on performance. To encourage more promotions from within our bank, we have introduced a process in which employees who meet certain qualifications may compete for certain management positions. Applicants are evaluated based on a combination of written exam results, interviews, performance reviews and a 360-degree peer evaluation.

Our employee training programs and employee relations have been well recognized. For example, in 2005, we were named as the corporation with the highest employee development potential by JobsDB.com (中國人才熱線), and we were regarded as one of the most preferred employers among college graduates, according to a survey by ChinaHR.com (中華英才網), Sina.com (新浪網) and others.

We contribute to our employees' social security fund and provident housing fund in accordance with the requirements by the PRC government.

We have not experienced any strikes or other material labor disturbances that have interfered with our operations, and we believe that relations among our management, the labor union and employees have been good.

PROPERTIES

Our head office is located at 7088 Shennan Boulevard, Futian District, Shenzhen, China. At June 30, 2006, we owned 976 properties and leased 1,117 properties in the PRC. The above properties were used in accordance with the relevant certificates, lease agreements or designed purpose. In addition, we owned nine properties and three car parks in Hong Kong. We leased one property in Hong Kong and one property in the United States.

Owned Properties

At June 30, 2006, we held 976 properties in the PRC, including our head office in Shenzhen, with a total gross floor area of approximately 528,444 square meters. Among the 976 properties, 179 with a total gross floor area of approximately 381,318 square meters are commercial properties, 776 properties with a total gross floor area of approximately 115,422 square meters are residential properties and 21 properties with a total gross floor area of 31,704 square meters are ancillary properties. In addition, we owned nine properties and three car parks with a total gross floor area of approximately 980 square meters in Hong Kong.

China

We held a total of 190 properties, with a total gross floor area of approximately 78,172 square meters, which are not freely transferable either because they are situated on land with allocated land use rights certificates or because they comprise buildings for which we have obtained long-term building ownership certificates but which are situated on land for which we do not hold the relevant land use right certificates. Of these properties, 17 properties with an aggregate gross floor area of approximately 39,842 square meters are commercial properties, and the remainder are used for residential (mainly as staff quarters) and ancillary purposes. Our PRC legal counsel, Jun He Law Offices, has advised that we have the legal right to use and occupy these 190 properties.

There are 10 residential properties with a total gross floor area of 948 square meters for which we have obtained title certificates but are co-owned with our employees.

In addition, we held a total of 187 properties, with a total gross floor area of approximately 120,635 square meters, which are without long-term building ownership certificates. Of these properties, 11 properties with an aggregate gross floor area of approximately 86,361 square meters are commercial properties. According to our PRC legal counsel, Jun He Law Offices, there are no legal obstacles to obtaining the title certificate in respect of one of the above properties with a gross floor area of 49,658 square meters after the payment for the construction is settled, provided that there is no *force majeure* event that destroys the property. The remaining 176 properties of the above properties are principally used for residential (mainly as staff quarters) and ancillary purposes. We consider that those residential properties for which we do not hold title certificates are not material to our business operations because they are not used for our core business operations. If we were required by the relevant authorities to cease using commercial properties for which we do not hold title certificates, we believe we can relocate to alternative premises without materially affecting our operations.

Hong Kong

At June 30, 2006, we held seven properties and two car parks in Hong Kong with an aggregate gross floor area of approximately 750 square meters, of which four properties are leased to independent third parties.

At June 30, 2006, CMBI held two properties and one car park in Hong Kong with an aggregate gross floor area of approximately 230 square meters, which are currently self-occupied by CMBI.

Properties under Development

At June 30, 2006, we obtained land use right to two parcels of land with a total site area of approximately 18,717 square meters. We plan to construct buildings on these two parcels of land to support our business activities and operations in China.

Properties Contracted to Be Acquired

We have entered into agreements with some real estate developers or sellers to purchase one commercial property with a total gross floor area of 20,118 square meters and 104 residential properties with a total gross floor area of 16,869 square meters, 15 of which will be co-owned with our employees. At June 30, 2006, ownership to such properties had not been transferred to us. No commercial value has been attributed to those properties in our property valuation report.

Properties Obtained from Foreclosure Proceedings

At June 30, 2006, we held 77 properties with a total gross floor area of approximately 91,669 square meters and 11 parcels of land with a site area of approximately 2,304,305 square meters as a result of foreclosure proceedings. According to our PRC legal counsel, Jun He Law Offices, we are permitted to liquidate such properties.

Leased Properties

At June 30, 2006, we leased 1,117 properties with a total gross floor area of approximately 570,604 square meters in China, one property with a gross floor area of 188 square meters in the United States and one property with a gross floor area of 1,289 square meters in Hong Kong.

A total of 54 leased properties in PRC with an aggregate lease area of approximately 29,994 square meters are held by us under leases which have been duly registered with the relevant authorities but whose title documents have not been provided by the lessors. Our PRC legal counsel, Jun He Law Offices, has advised that such leases are nevertheless valid and enforceable by us.

We also occupy a total of 368 leased properties in China with an aggregate lease area of approximately 142,186 square meters under leases which have not been registered with the relevant authorities and whose title documents have not been provided by the lessors. In relation to 83 of these properties, we have obtained indemnity undertakings from the lessors for any loss arising from any challenge by third parties on our right to occupy these properties and in relation to another 119 of these properties, the existing lease agreements provide that the lessors will compensate us for any loss arising from any challenge by third parties on our right to occupy such properties. At the Latest Practicable Date, we are not aware of any such challenges being made by any third party. Of the 368 leased properties in China with an aggregate lease area of approximately 142,186 square meters, eight leased properties with an aggregate gross floor area of approximately 2,510 square meters are being used for non-commercial operations and 360 leased properties with an aggregate lease area of approximately 139,676 square meters are being used for our commercial operations, of which, 179 leased properties with an aggregate lease area of approximately 12,740 square meters are occupied as our ATM locations and the remaining 181 leased properties with an aggregate lease area of approximately 129,936 square meters are being used as branches and offices. As each of the commercial operations premises is part of our larger network of ATMs and branches and offices, if any challenges are made against the properties that are being used for our commercial operations, we believe that, in respect of the premises that are occupied as our ATM locations, we can relocate to alternative premises in the nearby vicinity of the relevant property to ensure that our larger network of ATMs is maintained and in respect of the premises that are used as branches and offices, we can relocate to alternative and comparable premises in the nearby vicinity of the relevant property to ensure that our larger network of branches and offices is maintained and our commercial operations will not be affected. We anticipate that there will not be significant practical difficulties in relocating to such premises, especially for the premises occupied as our ATM locations. Based on the aforementioned reasons and the advice of our PRC legal counsel, Jun He Law Offices, our directors are of the view that the fact that the leased properties have not been registered with the relevant authorities and the absence of the relevant title documents will not have a material adverse effect on our business.

Property Titles

We are in the process of applying for the relevant land use right certificates and building ownership certificates that we do not yet hold and have taken steps to the best of our ability to rectify title defects of certain properties insofar as we are able to.

At June 30, 2006, we held 200 properties with building ownership certificates which were subject to certain transfer restrictions. The above properties, with a total gross floor area of 79,121 square meters, accounted for 14.97% of the total gross floor area of the properties we held. Among these properties, 17 are commercial properties with a total gross floor area of 39,842 square meters, accounting for 7.54% of the total gross floor area of the properties we held. According to our PRC legal counsel, Jun He Law Offices, we are entitled to occupy and use the above properties. However, our ability to lease, mortgage, transfer and dispose of the above properties are, to varying degrees, restricted. We have no intention to lease, mortgage or transfer the above commercial properties. Therefore we believe the transfer restrictions of the above properties will not have a material adverse effect on our business, operational results or financial condition.

At June 30, 2006, we held 187 properties for which we have not obtained title certificates, with a total gross floor area of 120,635 square meters. Among these properties, 11 are commercial properties with a total gross floor area of 86,361 square meters, of which the construction of one property with a gross floor area of 49,658 square meters has been completed and accepted. According to our PRC legal counsel, Jun He Law Offices, there are no legal obstacles for us to obtain the title certificate for this property after the payment for the construction is settled, provided that no *force majeure* events will occur to destroy the property. If we have to cease to use the above properties as lawfully required by relevant authorities or any third party who has the right to do so, we can relocate to alternative premises. We believe such relocation will not have any material adverse effect on our operations and this Global Offering. We believe the lack of such title certificates will not have a material adverse effect on our business, operational results or financial condition. See, however, “Risk Factors — Risks Relating to Our Business — We do not possess the relevant land use right certificates or building ownership certificates for some of the properties held by us, and we may be required to seek alternative premises for some of our offices due to our landlord’s lack of relevant land use right certificates or building ownership certificates.”

Property Valuation

Sallmanns (Far East) Ltd. has valued our property interests at June 30, 2006 at RMB5.89 billion, by taking into account, among other factors, the property values of such property interests. The text of a letter, a summary of values and the valuation certificate issued by Sallmanns (Far East) Ltd. are set forth in “Appendix VI — Property Valuation.”

Waiver from Certain Valuation Report Requirements

According to the valuation report set out in Appendix VI to this prospectus, we owned two parcels of empty land with an aggregate area of approximately 18,717 square meters, 976 buildings with an aggregate gross floor area of approximately 528,444 square meters and the associated land and nine properties and three car parks in Hong Kong with an aggregate gross floor area of approximately 980 square meters. We also leased approximately 1,117 properties with an aggregate gross floor area of approximately 570,604 square meters in the PRC, and two properties in Hong Kong and in the United States. In addition, we took possession 11 parcels of empty land with a total site area of 2,304,305 square

meters and 77 buildings with a total gross floor area of 91,669 square meters with the associated land as a result of court adjudicated foreclosure proceedings. Owing to the substantial number of properties involved, we have applied to the SFC for an exemption and to the Hong Kong Stock Exchange for a waiver from strict compliance with certain of the valuation report requirements contained in paragraph 34(2) of the Third Schedule to the Hong Kong Companies Ordinance and Rules 5.01, 5.06 and 19A.27(4) and paragraph 3(a) of Practice Note 16 of the Hong Kong Listing Rules, respectively, on the grounds that (i) it would be unduly burdensome to include a fully compliant valuation report in this prospectus and the inclusion of such detailed information would be irrelevant to potential investors in a commercial bank and would not be material to a potential investor's investment decision, and (ii) it would be unduly burdensome to prepare an English translation of the report, as substantially all of the properties are located in the PRC and consequently the underlying valuation and title information is in Chinese.

The exemption has been granted by the SFC under section 342A(1) of the Hong Kong Companies Ordinance and the waiver has been granted by the Hong Kong Stock Exchange from Rules 5.01, 5.06 and 19A.27(4) and paragraph 3(a) of Practice Note 16 of the Hong Kong Listing Rules, subject to the following conditions:

- (i) a valuation report in the Chinese language complying with all the requirements of paragraph 34(2) of the Third Schedule must be made available for inspection in accordance with “Appendix XII — Documents Delivered to the Registrar of Companies and Available for Inspection”;
- (ii) the valuer's letter and the valuer's certificate containing a summary valuation of all of our property interests, including particulars of occupancy, open market values and the title status thereof, based on the valuation report must be included in this prospectus in the form set out in Appendix VI to this prospectus; and
- (iii) this prospectus must set out particulars of this exemption.

We are of the view that the exemption from the SFC and the waiver from the Hong Kong Stock Exchange would not prejudice the interests of potential investors on the grounds mentioned above.

INTELLECTUAL PROPERTY

We conduct business under “招商銀行” (China Merchants Bank) “招行”, and “招銀” as our corporate names. We have registered these names and logos as our trademarks in China. In addition, we have registered in China many other trademarks relating to our products and services, such as “一卡通” (All-in-one Card), “一网通” (All-in-one Net), “点金理财” (GoFortune), “金葵花” (Sunflower), “居家乐” and “易贷通”. We are the registered owner of the domain name of our website www.cmbchina.com. In addition, we have obtained a practical new model patent in China titled “Apparatus and Processing System for a Bank Card that Can Be Used in Both Mainland and Hong Kong,” and a short-term patent in Hong Kong titled “System and Processing Method for A Bank Card that Can Be Used in Both Mainland and Hong Kong”, both relating to our Mainland-Hong Kong All-in-one Card debit card. In addition, we own a design patent for our credit card application form. Details of our intellectual property rights are set forth in the paragraph headed “Our Intellectual Property Rights” under “Appendix XI — Statutory and General Information — 3. Further Information About Our Business.”

LEGAL AND ADMINISTRATIVE PROCEEDINGS**Legal Proceedings**

We are involved in a number of legal proceedings in the ordinary course of our business, including, for example, proceedings brought by us for recovery of non-performing loans. However, since January 1, 2003, we and our subsidiaries have not been a party to any legal or administrative proceedings which have had a material adverse effect on our financial condition or results of operations. We are currently not a party to any legal or administrative proceedings, and no proceedings are known by any of us or our subsidiaries to be contemplated by government authorities or third parties, which, if adversely determined, would have a material adverse effect on our financial condition or results of operations. We have been advised by our PRC legal counsel, Jun He Law Offices, that none of the legal or administrative proceedings in which we are a party involving an amount of RMB30 million or below would, individually or in the aggregate, have a material adverse effect on our financial condition or results of operations. For the aggregate claim amount of pending litigation in which we are a defendant, and the provisions made in connection with such litigation, see Note 38(d) to the Accountants' Report in Appendix I to this prospectus.

Certain Legal Proceedings Involving Our Offshore Business

Since January 1, 2003, we have been involved in one legal proceeding involving an amount of at least RMB100 million (or the equivalent) that may implicate internal control weaknesses with respect to certain loans in our early years of operation. This proceeding involves three lawsuits, as described below, relating to certain loan facilities we made available to Chinaup Properties Limited, a company incorporated in Hong Kong ("Chinaup"). At the time the loan agreements were entered into, Chinaup held a 75% equity interest in a Sino-foreign equity joint venture (the "Dalian Joint Venture") engaged in the golf course development business in Liaoning Province.

Pursuant to a loan agreement our Offshore (Banking) Department entered into with Chinaup on November 8, 1996 (the "Loan Agreement"), we made available a US\$35 million loan facility (the "Loan Facility") to Chinaup, the entire amount of which was drawn down by Chinaup. To provide security for the Loan Facility, we entered into, among others, (1) a security agreement with Chinaup, in which it pledged in our favor its 75% equity interest in the Dalian Joint Venture; (2) a security agreement with the Dalian Joint Venture, in which it pledged in our favor certain land use rights and buildings; (3) a share charge agreement with all four shareholders of Chinaup (the "Share Charge Agreement"), pursuant to which such shareholders agreed that, upon default on the loan, we can effect transfer of their shares in Chinaup to us or our appointees and remove them from the board of Chinaup through certain authorization documents signed and delivered in connection with the Share Charge Agreement; and (4) a guarantee agreement with two shareholders of Chinaup as individual guarantors.

Chinaup failed to repay the principal and interest due under the Loan Facility on each of the original maturity date in November 1997 and the extended maturity dates in May 1998 and February 1999. In December 1999 and September 2004, we filed two lawsuits in the Guangdong Province Higher People's Court (the "Guangdong Higher Court") against Chinaup, the Dalian Joint Venture and the two individual guarantors. The first suit was to recover the principal of US\$35 million and accrued interest of approximately US\$7.5 million. The second suit was to recover additional accrued interest of approximately US\$32.9 million. The Guangdong Higher Court ruled in our favor in both suits. In the first suit, as the defendants did not appeal, the judgment went into effect, and the Liaoning Province Higher People's Court granted our petition to enforce the judgments to collect the 75% equity interest

in the Dalian Joint Venture pledged by Chinaup. The two guarantors have filed an appeal in respect of the second suit to the Supreme People's Court of the PRC, which, as of the date of this prospectus, has not agreed to hear this case.

In addition to the legal proceedings in China, as part of our collection efforts, we also exercised our rights under the Share Charge Agreement in Hong Kong. We transferred the shares of Chinaup to two entities controlled by us, removed the four shareholders of Chinaup from its board of directors and replaced them with directors designated by us.

In July 2005, the four original shareholders of Chinaup (including the two guarantors involved in the two suits described above) filed a lawsuit in the High Court of the Hong Kong Special Administrative Region naming our bank, a member of our senior management and certain others as defendants. The plaintiffs alleged that the Loan Agreement and the Loan Facility were illegal in the PRC because we had knowledge that part of the loan proceeds would be contributed as capital to the Dalian Joint Venture, in violation of the requirement that foreign capital contributed to a Sino-foreign joint venture must come from the foreign partner's own funds. The plaintiffs also alleged that the Share Charge Agreement was void because the Loan Agreement was illegal. In addition, the plaintiffs asserted that because the power of attorney was unauthorized and we, as a bank, cannot directly or indirectly be a registered shareholder of non-banking corporations, the signed authorization documents we used to effect transfer of the plaintiff's shares of Chinaup and remove the plaintiffs from their directorship were null and void and/or unenforceable. The plaintiffs also alleged that our actions were part of an overall scheme designed to deprive the plaintiffs of their rights over the assets of the Dalian Joint Venture. In addition, the plaintiffs alleged that by taking control of the management and operations of the Dalian Joint Venture, we have embezzled and/or misappropriated its assets by transferring money from the company to certain unauthorized accounts and conducting certain other alleged inappropriate activities. The suit is claiming unspecified damages for alleged losses.

The lawsuit in Hong Kong is currently pending. The plaintiffs have yet to take the necessary actions to bring the case to trial, and we cannot predict when the case would come to trial. We intend to vigorously contest this case and believe that the allegations are without merit. At March 31, 2006, we had made an impairment allowance of RMB152 million in respect of the Loan Facility. We believe that this legal proceeding, even if ultimately decided against us, would not have a material adverse effect on our financial condition, results of operations or our senior management.

Administrative Proceedings

We are subject to inspections, examinations, inquiries and audits by PRC regulatory authorities, including the PBOC, the CBRC, the MOF, the State Administration for Industry and Commerce, the SAFE and the NAO and their respective local offices.

Administrative Penalties

Certain regulatory inspections and examinations have resulted in our being subject to fines and other penalties as a result of our failure to comply with certain laws and regulations. From January 1, 2003 to July 31, 2006, we were subject to 22 fines of RMB10,000 or more, totalling approximately RMB6.5 million and four fines of less than RMB10,000. These administrative fines and penalties related to our failure to fully comply with laws and regulations relating to, among other things, our anti-money-laundering reporting activities and tax payments.

Among such administrative fines and penalties, 12 fines totalling approximately RMB4.8 million were imposed by the PBOC and the SAFE between December 2004 and July 2006, for, among other things, weaknesses in our enforcement of anti-money-laundering rules uncovered during their on-site examinations conducted at several of our branches. The largest single fine during this period in the amount of RMB2 million was levied against our Shenzhen branch for its deficiencies in conducting customer due diligence, failure to report large and suspicious transactions and weaknesses in anti-money-laundering internal control systems. The PBOC and SAFE also identified similar incidents and deficiencies at our Guangzhou, Harbin, Shanghai, Xi'an, Shenyang, Chengdu, Hangzhou, Nanchang, Ningbo, Zhengzhou, Wulumuqi, Hefei and Beijing branches, resulting in an aggregate fine of RMB2.8 million on our Guangzhou, Harbin, Shanghai, Xi'an, Shenyang, Chengdu, Hangzhou, Nanchang, and Ningbo branches. In addition to the PBOC and SAFE fines and penalties described above, we were subject to ten fines of RMB10,000 or more, totalling approximately RMB1.7 million and four fines of less than RMB10,000 imposed by the national and local tax authorities for certain violations of tax rules between January 1, 2003 and July 31, 2006.

We have paid all the fines in full and taken the steps suggested by the regulatory authorities to remedy the deficiencies described above. See “— Findings of Regulatory Examinations — Impact and Remedial Measures” below.

Findings of PRC Regulatory Examinations

Certain routine or ad hoc examinations or inspections conducted by the PRC regulatory authorities have revealed certain deficiencies or incidents of non-compliance in various areas of our business operations, risk management and internal controls. The results of the principal examinations or inspections are summarized below.

NAO

The NAO is currently conducting an independent comprehensive audit of our bank. This is the first comprehensive audit that the NAO has conducted on our bank. This audit is part of the NAO's regular activities to carry out its audit functions. As of the date of this prospectus, the NAO's audit of our bank is still ongoing. We cannot predict the timing of when the audit will be completed or the outcome of this audit, nor can we assure you that the audit will not identify or uncover material issues, weaknesses, problems, irregularities or improper activities relating to our current or historical operations or the conduct of our current or former senior management or employees, which could have a material adverse effect on our reputation and business prospects. See “Risk Factor — Risks Relating to Our Business — The NAO is currently conducting an independent comprehensive audit of our bank. If the NAO's audit identifies or uncovers material issues or improper activities, we may be subject to fines and penalties, and our corporate image and reputation, the credibility of our management, and our business, financial condition and results of operations could be materially and adversely affected.”

CBRC

The CBRC conducts annual off-site examinations of our bank. In addition, it also conducted on-site examinations in November 2003 and November 2005 in respect of our internal controls. As a result of these examinations, the CBRC recognized that we continue to make progress in improving our risk management, internal controls and business operations. The CBRC also recognized the initiatives taken by our senior management in emphasizing the importance of internal control systems

as the foundation for our balanced business development strategy. However, the CBRC identified certain incidents of non-compliance in our business activities at some branches and certain weaknesses in our internal controls, including certain branches' violations of internal procedures relating to settlement business, lack of rigorous post-disbursement loan management at some branches, inaccurate loan classifications at some branches, and lack of compliance of certain branches with internal bill discounting procedures which require verification of key elements of the bill prior to disbursing funds. Following these examinations, the CBRC issued certain recommendations requiring us to take measures to prevent and remedy the incidents of non-compliance and improve our internal controls and risk management. We have taken the steps suggested by the CBRC in its recommendations. See “— Impact and Remedial Measures” below.

PBOC

The PBOC conducted on-site examinations in respect of our enforcement of anti-money-laundering rules at several of our branches between March 2005 and February 2006. As a result of these examinations, the PBOC recognized that we have established necessary internal organizational and control systems for enforcement of anti-money-laundering rules. However, the PBOC identified certain incidents of non-compliance at some branches and certain weaknesses in our enforcement of anti-money-laundering rules, including deficiencies in conducting customer due diligence and record keeping and in reporting large and suspicious transactions. Following these examinations, the PBOC issued certain recommendations that required us to take measures to prevent and remedy the incidents of non-compliance and improve our internal controls and risk management. We have taken the steps suggested by the PBOC in its recommendations. See “— Impact and Remedial Measures” below.

SAFE

The SAFE conducted on-site examinations at certain branches between January and August 2005 and reported incidents of violations. The SAFE identified certain incidents of non-compliance in our retail foreign exchange settlement business and foreign-invested enterprise capital fund settlement business at certain of our branches. The SAFE identified a total of 378 transactions as having violated relevant foreign exchange rules with an aggregate transaction amount of US\$7.9 million. Following this examination, the SAFE issued certain recommendations requiring us to take measures to prevent and remedy the incidents of non-compliance and improve the management of foreign exchange business. We have taken the steps suggested by the SAFE in its recommendations and believe that we now comply with the relevant rules and regulations. See “— Impact and Remedial Measures” below.

Impact and Remedial Measures

We do not believe that the relevant PRC regulatory authorities' findings described above revealed any material deficiencies in our internal controls. To the extent that any of the findings did suggest any such deficiencies, we believe we have taken the necessary steps to correct them. Furthermore, we have reported the status of our implementation of these remedial measures to the relevant regulatory authorities following the inspections by such authorities. At the end of 2005, the CBRC conducted a follow-up inspection subsequent to its receipt of our report of remedial measures, and issued an opinion letter in early 2006. In the opinion letter, the CBRC indicated its opinion that we have corrected most of the problems identified in its earlier inspection through the implementation of our remedial measures. However, the CBRC also noted that we were still implementing some of the remedial measures. None of these findings has resulted in any material adverse effect on our financial condition or results of operations.

We have been advised by Jun He Law Offices and our directors have confirmed that, as of the date of this prospectus, nothing has come to their attention that would indicate that the relevant PRC regulatory authorities will impose any further administrative penalties in relation to these incidents. We have been further advised by Jun He Law Offices and our directors have confirmed that the above-mentioned fines and penalties have not, individually or in the aggregate, had a material adverse effect on our financial condition or results of operations. For risks relating to regulatory inspections and examinations of our bank, see “Risk Factors — Risks Relating to Our Business — We are subject to PRC and overseas regulatory requirements, and our failure to comply with such requirements, if any, could materially and adversely affect our business, financial condition, results of operations and our reputation.”

We have undertaken a number of measures designed to prevent future violations of laws or regulations and to correct the deficiencies identified by the relevant PRC regulatory authorities, including those identified in the above-mentioned examinations and inspections. Our efforts to reduce these deficiencies and incidents of non-compliance include, among other initiatives, the identification of, and imposition of penalties on, the personnel who were responsible for these incidents, the initiation of training programs for all levels of employees and management personnel on risk prevention, the introduction of more rigorous internal rules and procedures, the development of more advanced IT systems, and the implementation of organizational reforms designed to enhance internal controls and prevent further non-compliance. For details of our recent initiatives to reduce incidents of non-compliance and strengthen our internal controls, see “Risk Management.” However, we cannot assure you that these measures have been fully or effectively implemented. See “Risk Factors — Risks Relating to Our Business — If we are not effective in implementing enhanced risk management and internal controls policies and procedures and introducing certain information technology systems to assist us with our risk management and internal control, our business and prospects may be materially and adversely affected.”

We believe none of our directors, supervisors or members of senior management has been involved in any administrative or legal proceeding or incident of misconduct or non-compliance that would have a material adverse effect on our results of operations or financial condition or that would adversely affect their suitability for taking their respective positions. We have been advised by Jun He Law Offices that none of our directors, supervisors or members of senior management is restricted from taking their respective positions with us due to any non-compliance with the qualification requirements for directors and senior managers of commercial banks stated in the relevant PRC laws and regulations. We have been further advised by Jun He Law Offices that, other than Mr. Liu Yongzhang, Mr. Chow Kwong Fai, Edward and Ms. Liu Hongxia, whose qualifications for taking the independent directorships of our bank are being reviewed by the CBRC, all other directors, supervisors and members of the senior management have obtained the necessary regulatory approvals on their qualifications in accordance with the relevant PRC laws and regulations.

Findings of the HKMA and Our Remedial Measures

The HKMA requires us to maintain a minimum capital adequacy ratio of 8% and also recommends that we maintain a capital adequacy ratio of at least 10%. The HKMA has raised concern that our capital adequacy ratio has been below their recommended level. In response to this concern, we propose to carry out both strategic and structural adjustments to increase our capital, including, without limitation, exploring options for securitization of assets and debt and equity financing. We have already taken measures to improve our capital adequacy through the issuance of subordinated

notes and convertible bonds, and expect to apply the net proceeds of this Global Offering to further strengthen our capital base. In addition, the HKMA conducts examinations and inspections on our operations from time to time. We have implemented, and are in the process of implementing, various measures in response to recommendations by the HKMA, including without limitation, strengthening the compliance functions by establishing an independent compliance department, improving and updating internal policies and practice manuals, establishing a reporting and controlling system to monitor loan portfolio limits and strengthening the reporting procedures for loan administration.