

REPORT OF THE BOARD OF SUPERVISORS

In 2005, pursuant to the relevant provisions of the *Company Law of the People's Republic of China* and the Articles of Association, the Board of supervisors performed its duties faithfully and conducted supervision and checks earnestly in order to safeguard the interests of shareholders and the Bank.

In 2005, five meetings of board of supervisors were held and fourteen proposals were reviewed, seven of which were submitted to the shareholders' general meeting for consideration. Two new external supervisors were elected. Two new committees, namely performance and due diligence supervision committee and financial and internal control supervision committee, were established under the board of supervisors. Relevant rules and regulations of the board of supervisors and their rules of procedure were formulated, amended, and refined. The board of supervisors considered the final accounts of the Bank and its profit distribution plan. The supervisors attended shareholders' general meetings and meetings of the board of directors as observers. Some supervisors attended the relevant meetings of the special committees of the board of directors and the meetings of the senior management as observers.

In 2005, the board of supervisors performed its duties under the Articles of Association by focusing on the performance and due diligence of the board of directors and senior management and their members, as well as financial and internal control, and conducted a series of supervision and inspection. By attending meetings as observers, and conducting work related interviews, supervisory assessment, research and investigation, and documents review, the board of supervisors carried out supervision on the performance and due diligence of the board of directors, senior management, directors and senior executives. Regarding financial and internal control supervision, selective off-site supervision was conducted. Regarding the classification of the risks associated with credit assets, risk management and internal control, specific investigations and researches were carried out on selective key issues. With attention on related transactions of the Bank, the supervisors communicated with the related party transactions committee of the board of directors and various relevant departments.

The board of supervisors addressed the issues found in the course of supervision and investigations, gave opinions and suggestions promptly; and also consulted with and advised the board of directors and the senior management on important matters, thus improving and pushing forward relevant works.

With the introduction of strategic investors, and successful listing in Hong Kong, the Bank's businesses developed in a healthy manner, operating efficiency grew steadily, and financial position improved further with non-performing assets maintained at a lower level. The board of directors performed their duties pursuant to relevant laws, implemented resolutions adopted by the shareholders' general meeting, and exercised their power in deciding on the improvements to the Articles of Association, formulating development strategies, formulating financial budget and profit distribution plan, and promoting the reform of the management system and various departments. The senior management carried out operating activities pursuant to relevant laws, organised the implementation of board of directors' resolutions, confirmed and put into practice the customer-focused culture, strengthened operation and management, and promoted business development and growth of efficiency. The current directors and senior executives were diligent in carrying out bank-wide reform and development, and enquiries revealed that they did not contravene any laws, regulations or the Articles of Association, neither did they commit any acts detrimental to the interests of shareholders and the Bank during the reporting period.

KPMG conducted an audit of the financial statements of the Bank for the year 2005 in accordance with the *Hong Kong Standards on Auditing*, and issued a standard and unqualified audit report, stating that the financial statements gave a true and fair view of the financial position, operating results, and cash flow.

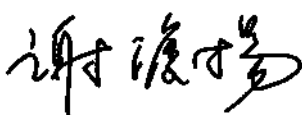
In 2005, the board of supervisors are not aware of any related transactions conducted by the Bank against fair and reasonable principle. The Bank did not carry out any material acquisition or asset sale.

REPORT OF THE BOARD OF SUPERVISORS

Looking forward to the coming year, the board of directors, the board of supervisors, and the senior management will work together to further improve the Bank's corporate governance and rationalise the communication channels and operating mechanism. The board of directors should further enhance the quality of its decision-making, playing a bigger role in guiding the Bank to grow steadily and healthily. The senior management should strengthen macroeconomic policies analysis and industry research, increase the momentum for products and services innovation, further reengineer business operations continuously, improve grassroots level management, enhance internal control, improve asset quality steadily, and enhance the capabilities of the Bank to compete in the market and withstand risks.

The board of supervisors will continue to perform its duties earnestly, properly supervise the board of directors, the senior management and their members to perform their duties, and enhance the financial and internal control of the Bank, so as to contribute to the steady development of the Bank in compliance with the relevant laws and regulations.

By order of the Board of Supervisors



Chairman of the Board of Supervisors

6 April 2006