

OVERVIEW

We are a competitive and fast growing national commercial bank in China and were the seventh largest PRC commercial bank in terms of total assets.⁽¹⁾ As of December 31, 2006, our total assets were RMB 706,723 million. In 2006, we were ranked the 134th largest bank in the world in terms of total assets as of December 31, 2005 by the British magazine “The Banker”. We were ranked fourth in terms of overall competitiveness among PRC commercial banks for the year 2005 by “The Chinese Banker” magazine.

We have enjoyed rapid growth, enhanced profitability and improved asset quality in recent years. From December 31, 2004 to December 31, 2006, the compound annual growth rate, or CAGR, for each of our total assets, total loans, total deposits and net profit was 19.4%, 22.9%, 19.2% and 26.1%, respectively. Our non-performing loan ratio decreased from 6.3% as of December 31, 2004 to 2.5% as of December 31, 2006, reflecting, among other things, our enhanced risk management function and increases in the amount of loans written off.

We believe that we have strong full-service capabilities to offer a comprehensive range of products and services to customers nationwide. As part of our strategy, we have focused on developing corporate customers in “high quality industries and high quality enterprises” and “mainstream markets and mainstream customers” and high- and medium-end retail customers. As a result, we have established an extensive and high quality customer base. Geographically, we have focused on the economically more developed eastern coastal regions of China and have established a strategically located branch network and, we believe, efficient distribution channel.

We have received numerous awards in recent years in recognition of our superior business performance and strong management capabilities. According to the “China Top 100 Banks” list published by “The Chinese Banker” in 2006, our net profit growth rate in 2005 ranked second and our total assets as of December 31, 2005 ranked seventh among all PRC banks. We received the 2005 “VISA Bank Card Comprehensive Innovation Award” from VISA International. In 2006, our personal banking initiatives received the “Excellence in Personal Banking Strategy and Execution Award” from the 2006 Asian Banker Excellence in Retail Financial Services Award Programme. In the same year, we were named the “best domestic provider” of foreign exchange services in China by the “Asiamoney” magazine. In 2005 and 2006, our president, Dr. Chen Xiaoxian, received the “China’s Top Ten Finance Figures of the Year Award” from “The Chinese Banker” magazine. We also received the “Top Ten Growth Financial Institutions Award” at the 2006 China International Finance Forum.

OUR COMPETITIVE STRENGTHS

We believe the following key strengths provide us with a solid foundation from which we can quickly adapt to the changing market environment and continue to compete successfully in China’s banking industry:

A competitive and fast-growing national commercial bank in China

We were one of the largest Other National Commercial Banks in PRC in terms of total assets as of December 31, 2006. Our business has experienced rapid growth in recent years. According to data published by the PBOC, the CAGR for each of our total loans and total deposits from December 31, 2004 to December 31, 2006 were higher than the average CAGR of all PRC banks listed in Hong Kong or China. Our profitability increased in line with the growth in our net profit. Our average pre-tax return on assets (excluding management fee paid to CITIC Group) was 1.09% in 2005, which ranked us first among Other National Commercial Banks listed in Hong Kong or China. Our average pre-tax return on assets (excluding management fee paid to CITIC Group) increased to 1.19% in 2006. In 2005, our pre-tax profit per employee (excluding management fee paid to CITIC Group) was approximately RMB 520,000, which ranked us first among all PRC banks listed in Hong Kong or China. Our pre-tax profit per employee (excluding management fee paid to CITIC Group) increased to approximately RMB 620,000 in 2006.

(1) Our ranking in terms of total assets was based on relevant data as of December 31, 2005 because the relevant data of certain PRC commercial banks as of December 31, 2006 were not available as of the Latest Practical Date.

Strong capabilities in providing banking services to an established corporate customer base

We believe we have established leading market positions in many corporate banking areas among the Other National Commercial Banks. Our corporate loans and deposits outstanding as of December 31, 2006 both ranked second among all Other National Commercial Banks according to the PBOC. In 2006, our international trade settlement volume also ranked second among all Other National Commercial Banks. We were named the “best domestic provider” of foreign exchange services in China by the “Asiamoney” magazine in 2006. As of December 31, 2006, we were the fourth largest short-term bond underwriter among all PRC banks and the second largest among Other National Commercial Banks in terms of transaction volume.

We have an established corporate customer base, with more than half of China’s Fortune 500 companies as our customers. We were among the first Other National Commercial Banks qualified to provide financial services to the Ministry of Finance and State Administration of Taxation. Through a competitive bidding process, we became a provider of non-tax revenue collection services to 29 of the 43 central government departments that have launched such services.

A personal banking business with strong and continuous growth

Our personal banking business has experienced rapid growth in recent years, which we believe was in part attributable to our “three dimensions and four promotions” marketing initiatives, which we believe to be highly innovative and effective. From 2004 to 2006, our operating income from personal banking, personal loans and personal deposits increased at a CAGR of 43.0%, 23.5% and 48.9%, respectively. As of December 31, 2006, our personal deposits outstanding were RMB 105.9 billion. According to the PBOC, we became the third Other National Commercial Bank to reach RMB 100 billion in personal deposits outstanding. Deposits from affluent customers (with deposit balance of RMB 500,000 or more) represented more than 40% of our total personal deposits as of December 31, 2006. Furthermore, our credit card center began to issue credit cards in December 2003 and became profitable in December 2006, and we believe we were among the PRC banks which reached profitability in the least time. Our credit card active ratio was 74% as of December 31, 2006. We received the “Excellence in Personal Banking Strategy and Execution Award” from the 2006 Asian Banker Excellence in Retail Financial Services Award Programme.

A distinctive integrated financial services platform of CITIC Group

Our controlling shareholder, CITIC Group, is one of China’s leading state-owned multinational conglomerates focusing on financial services. Other affiliates of CITIC Group include finance companies engaged in a wide range of financial services, including securities, trusts, fund management, insurance and futures. In particular, each of CITIC Securities and CITIC Trust and Investment is one of the largest firms among their respective PRC peers. We believe CITIC Group’s distinctive integrated financial service platform will enhance our capabilities to offer our customers a full range of financial services and products and further increase our competitiveness in the medium- and high-end markets.

A tradition of innovation on financial services and products

We have continuously focused on developing innovative financial services and products to adapt to the evolving market environment and meet the changing needs of our customers. Our innovative corporate banking services and products include finance and tax services under the trademark “银财通” (Yin Cai Tong), logistic financing products under the trademark “银贸通” (Yin Mao Tong), online tax and fee payment services under the trademark “关贸e点通” (WTO E-line), export tax refund account custody finance services and export tax refund backed loans. We believe we have established leading market positions for these services and products through our product innovation.

With respect to personal banking services and products, we believe we were the first PRC bank to offer international travel financial services. We also provide innovative high value-added account management services under the trademark “理财宝” (CITIC Smart). We have also launched a number of innovative credit card products, such as the CITIC Southern-Fund Co-branded Card (南方基金聯名卡) and the CITIC Golf

Card (中信高爾夫卡). Our credit cards and debit cards have received numerous domestic and international awards.

An efficient distribution network

We have strategically located our branch outlets in some of the most economically developed eastern coastal regions of China, including the Bohai Rim region, the Yangtze River Delta region and the Pearl River Delta and West Strait region. In 2006, 73.6% of our operating income was derived from these regions.

We believe our strategically located branch network has contributed to our high network efficiency. As of December 31, 2005, our average total assets, average loans and average deposits per branch outlet were RMB 1.43 billion, RMB 890 million and RMB 1.28 billion, respectively, which were significantly higher than RMB 1.09 billion, RMB 685 million and RMB 937 million, respectively, for the average of all PRC banks listed in Hong Kong or China. Our average total assets, average loans and average deposits per branch outlet further increased to RMB 1.58 billion, RMB 1.04 billion and RMB 1.39 billion, respectively, as of December 31, 2006.

Prudent risk management and improving asset quality

We seek to establish an independent, comprehensive and dedicated risk management system with a vertical reporting line and our asset quality has continuously improved in recent years. Our efforts have focused on the following aspects of risk management:

Culture and strategy. We seek to develop a risk management culture focusing on maximizing risk-adjusted returns. To this end, we have implemented a risk management strategy focusing on “high quality industries and high quality enterprises” and “mainstream markets and mainstream customers”.

Organizational structure. We have improved the structure of our risk management function in an effort to establish an independent risk management system. We believe that we are among the first PRC banks to centrally appoint risk managers of all branches, and among the first PRC banks to limit the credit approval powers of our president and general managers of our branches.

Technology. We have continued to enhance our risk management technology in recent years in line with international best practices, by developing and upgrading our corporate credit rating system with assistance from McKinsey & Co. and Moody's KMV.

Over the years we have significantly improved our asset quality. Our non-performing loans before write-off, non-performing loan ratio and loans classified as special mention as a percentage of total loans have decreased continuously since December 31, 2004. Our non-performing loan ratio decreased to 2.5% as of December 31, 2006 from 6.3% as of December 31, 2004. Our loans classified as special mention as a percentage of our total loans decreased to 2.4% as of December 31, 2006 from 5.6% as of December 31, 2004.

An experienced management team with a proven track record

Our management team has an average of over 20 years of relevant experience in China's financial services industry and has a proven track record in asset management and business development.

Our chairman, Mr. Kong Dan, is also the chairman of CITIC Group and was formerly the vice chairman and president of China Everbright Group Limited. He has extensive experience in the financial sector and in the management of multinational conglomerates.

Our vice chairman, Mr. Chang Zhenming, is also the vice chairman and president of CITIC Group, and was formerly the vice chairman and president of China Construction Bank. He has extensive experience in the financial and banking sectors and in the operation of the capital markets. Under the leadership of Mr. Chang, China Construction Bank was successfully listed on the Hong Kong Stock Exchange.

Our president, Dr. Chen Xiaoxian, had worked at the PBOC for many years and was the executive vice president and a director of China Merchants Bank before joining us. He has extensive banking experience and

is a renowned expert and academic in China on bank operation and management. Dr. Chen received the “China’s Top Ten Finance Figures of the Year Award” from “The Chinese Banker” magazine for two consecutive years in 2005 and 2006.

Strategic cooperation with BBVA

We have established a strategic cooperation relationship with Banco Bilbao Vizcaya Argentaria, S.A., or BBVA, a leading financial institution in Spain and Latin America. We believe our strategic cooperation with BBVA will enhance our operational and management skills and our ability to improve shareholder value, as well as our international exposure.

OUR STRATEGY

Our objective is to increase the value of our bank through balanced growth in terms of profitability, asset quality and asset size, and at the same time continue our focus on risk-adjusted returns. To this end, we intend to adopt management philosophies based on international best practices of the leading international and Chinese banks. Our specific objectives include:

- establishing a business model focused on economic capital and risk-adjusted returns;
- promoting a balanced growth in our business between corporate banking and personal banking;
- optimizing customer base mix of large and SME customers taking into account regional characteristics;
- achieving a balanced mix in our sources of income between interest income and non-interest income;
- developing diversified and integrated financial products;
- enhancing management capabilities with advanced technology; and
- enhancing our ability to achieve higher risk-adjusted returns with a view to becoming a modern bank competitive with the leading international and Chinese banks.

With a view to achieving the above objectives, we intend to focus our efforts in the following areas:

Reinforce and further our strengths in corporate banking

We follow a corporate banking customer strategy focused on “high quality industries and high quality enterprises” and “mainstream markets and mainstream customers.” Our corporate banking strategy consists of three specific strategies.

Enhance our management structure and selectively expand into targeted products and regions. We summarize this strategy as “one-two-three-four”:

- “One”: establishing ourselves in specific regions as “a” primary bank in corporate banking among Other National Commercial Banks;
- “Two”: strengthening the “two”-tier corporate banking management comprising the head office and branch offices;
- “Three”: following a “three”-tier integrated marketing system comprising the head office, branch offices, and sub-branches.
- “Four”: actively promoting “four” specific product areas: corporate asset management business, investment banking, industry finance, and SME business.

Continue to expand our international business. We intend to continue to develop high quality customers, products and teams of employees. Our goal in expanding our international business is to become the most competitive, obtain the largest market share and establish the best known brand among the Other National Commercial Banks.

Reinforce our leading market position in treasury operations. We seek to reinforce and strengthen our market leading position by enhancing our treasury operations business processes, developing new products and services, and building a high quality team of employees.

Accelerate the expansion of our personal banking business

We intend to continue to refine our personal banking services with our own characteristics and with a focus on increasing the profit from personal banking business as a percentage of our total net profit.

Continue to follow our “three dimensions and four promotions” personal banking initiative. We seek to expand our personal banking business by continuing to follow our “three dimensions and four promotions” initiative. By focusing on the “three dimensions” of our personal banking businesses, we mean customers, products, and core competency. By “four promotions”, we mean strengthening our efforts to realize synergies between corporate and personal banking businesses, promoting product innovation, developing high quality professionals, and encouraging participation of all personnel.

Focus on three aspects of developing our personal banking business. We intend to focus on three aspects: strengthen our customer base, enhance our customer service capabilities and enhance our wallet share, in an effort to meet the demands of customers of different market segments with differentiated products.

Develop a personal banking system with our own characteristics. First, we intend to focus on customers with a high demand for banking products and services by providing them with personalized services through a professional team of relationship managers. Second, we intend to reduce costs by increasing the use of electronic distribution channels as opposed to traditional distribution channels. Third, as our targeted personal banking customer segments are mass affluent and affluent customers, we intend to create a portfolio of products and services specifically tailored to these customers.

Focus on expanding in three areas with high growth potential. In an effort to enhance the profitability of our personal banking business, we intend to focus on three types of businesses with high profit and high growth potential, namely, personal wealth management business, personal consumption loan business and credit card business.

Continue to capitalize on the “CITIC” brand name and the integrated financial platform of CITIC Group

We intend to strengthen our cooperation with the other financial subsidiaries of CITIC Group in product development and marketing, provide a greater diversity of products, refine our financial services capability, and increase our cross-selling efforts, with a view to providing customers with enhanced integrated financial products and service solutions.

Increase non-interest income as a proportion of our total income

We intend to significantly increase the proportion of non-interest income as a percentage of our total operating income and to achieve a more stable income structure by launching more competitive products and services in the areas of our card business, personal wealth management business, corporate asset management business, international settlement business, treasury business on behalf of customers and investment banking business.

Expand and enhance distribution channels

We intend to continue expanding our network of branch outlets based on our business development needs, selectively focusing on regions which are economically developed, with higher growth potential and greater regional coverage. In addition, we plan to expand and enhance our electronic banking (including internet banking and telephone banking), automated service machines and self-service banking centers, so as to be able to offer more services through electronic channels and provide customers with more convenient and prompt services while reducing costs.

Enhance our information technology system

We believe that we operate on an advanced information technology platform. We aim to further strengthen the integration of our business and management systems by enhancing our foundation technology platform, which we believe will make us among the first PRC banks to build an integrated information technology platform to support various aspects of our banking operations.

We expect that, by integrating business operations, customer relationship management, management decision analysis and risk control, our information technology platform will allow us (i) more effectively to manage the services we provide to our high-end customers; (ii) to provide these customers with comprehensive and tailored services; (iii) to perform accounting analyses by business, product and department; and (iv) to determine, examine and conduct audits of the results and profitability of the relevant businesses, products, and various departments of our bank. We intend to further increase resources allocated to technology to strengthen the position of our information technology in the domestic banking sector.

Further strengthen our risk management and internal controls

We plan to establish an independent, comprehensive and dedicated risk management system with a vertical reporting line by adopting the following specific measures:

- Continue to cultivate a corporate culture that focuses on maximizing risk-adjusted returns;
- Establish credit, market and operational risk management units dedicated to managing each of these risks, appoint a risk management head to each line of business, establish independent and dedicated loan approval centers, appoint a chief audit officer, and establish regional audit offices; and
- Continue to enhance risk management technology. We intend to enhance our ability to manage risks associated with transactions and loan portfolios, and formulate policies and strategies and seek to become among the first PRC banks to fully comply with the standards of Basel II.

In an effort to enhance the efficiency and soundness of our business operations, we intend to create an internal control system with standards that are high among PRC banks and consistent with practices of international banks. To this end, we intend to actively promote standardization and use of technology in terms of the technique, methodology, means and procedures of internal control, in accordance with regulatory requirements and international standards on internal control. Our enhanced corporate governance structure and internal control functions enables us to strengthen the compliance level of our overall monitoring system and internal policies and procedures, thereby reducing operational risks.

Continue to align management practices with international best practices

We intend to further enhance our corporate governance structure based on international best practices by adopting a series of advanced management methods and tools and promoting a series of reforms in our organizational structure, with a view to centralizing decision-making processes and enhancing management skillset. We also intend to gradually transit to managing our bank based on business segments. In addition, we intend to manage our assets and liabilities by applying more quantitative measures and on a more timely basis by enhancing our asset and liability management system and funds transfer pricing mechanism, and by further enhancing the allocation of our financial resources. Furthermore, we cultivate a performance-based culture and intend to establish a more refined hierarchy of ranks and positions, strengthen our ability to counsel our employees on career development issues.

We designed our strategies based on an analysis of our current business operations, asset size and industry trends, taking into consideration our specific circumstances, with the view to becoming a leading commercial bank in China.

We will leverage our competitive strengths to proactively develop new business products and services, create and identify new source of profits, increase our profitability, strengthen our risk management function and therefore enhance our overall competitiveness and management efficiency.

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OUR PRINCIPAL BUSINESS ACTIVITIES

Our principal business segments are corporate banking, personal banking and treasury operations. The following table sets forth the operating income by business segment for the periods indicated.

	For the year ended December 31,					
	2004		2005		2006	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Corporate banking	9,039	81.1%	11,009	80.6%	14,242	79.4%
Personal banking	1,167	10.5	1,699	12.4	2,386	13.3
Treasury operations	1,018	9.1	1,260	9.2	1,767	9.9
Others and unallocated	(78)	(0.7)	(313)	(2.2)	(468)	(2.6)
Total operating income	<u>11,146</u>	<u>100.0%</u>	<u>13,655</u>	<u>100.0%</u>	<u>17,927</u>	<u>100.0%</u>

CORPORATE BANKING

We have traditionally focused on corporate banking business and offer a broad range of loans, deposits and non-interest income products and services to our corporate customers, which include state-owned enterprises, private enterprises, foreign-invested enterprises, government agencies and financial institutions. As of December 31, 2006, we had RMB 369,156 million of corporate loans, representing 79.7% of our total loans, and RMB 45,636 million of discounted bills outstanding, representing 9.9% of our total loans. As of the same date, we had RMB 512,551 million of corporate deposits, representing 82.9% of our total deposits. For the year ended December 31, 2006, non-interest income from our corporate banking segment were RMB 938 million, representing 64.5% of our total non-interest income.

Products and Services

Corporate Loans and Advances

Corporate loans have historically been the largest component of our loan portfolio. Our corporate loans outstanding totaled RMB 369,156 million as of December 31, 2006, which increased from RMB 282,275 million as of December 31, 2005 and RMB 256,422 million as of December 31, 2004, representing a CAGR of 20.0%.

Based on maturity, our corporate loans and advances may be classified into short-term loans and medium- and long-term loans. The following table sets forth, as of the dates indicated, our corporate loans by maturity.

	As of December 31,					
	2004		2005		2006	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Short-term loans	162,005	63.2%	182,606	64.7%	228,245	61.8%
Medium- and long-term loans	94,417	36.8	99,669	35.3	140,911	38.2
Total corporate loans	<u>256,422</u>	<u>100.0%</u>	<u>282,275</u>	<u>100.0%</u>	<u>369,156</u>	<u>100.0%</u>

Short-term loans

Short-term loans have maturities of no more than one year. As of December 31, 2006, our short-term corporate loans totaled RMB 228,245 million, representing 61.8% of our total corporate loans. Our short-term loans primarily consist of short-term working capital loans, international trade finance and logistics finance. For RMB-denominated short-term loans, we negotiate with customers an interest rate that is permitted by relevant laws and regulations. For foreign currency-denominated short-term loans, we charge an interest at

either a fixed or floating rate, depending on prevailing conditions of world financial markets, our cost of capital and the creditworthiness of customers.

Working Capital Loans. We provide short-term working capital loans primarily to meet our customers' working capital requirements.

International Trade Finance. We provide a comprehensive range of international trade finance products, primarily consisting of export and import bill purchasing, packaged loans, forfaiting and international factoring. We consistently focus on product innovation and seek to meet customer demand by introducing various new products. For example, in response to the market condition that enterprises may experience temporary liquidity problems caused by delays in export tax refunds, we introduced the first export tax refund account custody financing service in China, which was well received by the market. In order to provide short-term financing to exporting enterprises as well as assist them in managing risks related to account receivables, we designed and introduced post-insurance export bill purchasing in cooperation with China Export and Credit Insurance Corporation, or Sinosure. In 2006, the transaction volume of our post-insurance export bill purchasing ranked third among all PRC commercial banks and first among the Other National Commercial Banks. In addition, we were the third PRC bank to offer international factoring services to customers. We recently received the 2006 Factoring Chain International "Global Export Factoring Service Quality Improvement Award," which we believe is the first such award received by a PRC financial institution. In 2006, the transaction volume of our international trade finance business reached US\$8.4 billion, representing a CAGR of 28% from 2004 to 2006.

Logistics finance. We provide integrated banking services to our targeted customers, and extend such services to their customers and suppliers. We provide various forms of short-term financing to manufacturers and distributors under our "Yin Mao Tong" (银贸通) brand, particularly in the automobile and steel industries. We provide short-term financing to distributors to purchase inventory from their manufacturers in the form of bank acceptance bills and enter into arrangements with the manufacturers to increase likelihood of repayment. Such arrangements make us an integral part of the business and financial links between the manufacturer and distributor, thus enhancing the stability of our relationships with customers. The manufacturer may elect to discount the bank acceptance bills with us and upon rediscounting such bills are converted into the manufacturer's short-term loan obligations with us. In 2006, we issued a cumulative total of RMB 34.6 billion and RMB 29.1 billion, respectively, in bank acceptance bills to automobile dealerships and steel distributors. We also generally require the distributor to make a deposit with us totaling more than 10% of the transaction value, which provides us with additional source of low cost funding. In 2006, we attracted a daily average deposit of RMB 12.0 billion and RMB 10.4 billion, respectively, from automobile dealerships and steel distributors through such arrangements. We received the "Best Logistics Financing Award 2006" from the Chinese Logistics Association in 2006.

Medium- and long-term loans

Medium-term loans have maturities of longer than one year but no more than five years, and long-term loans have maturities of more than five years. As of December 31, 2006, our medium- and long-term loans totaled RMB 140,911 million, representing 38.2% of our total corporate loans. Our medium- and long-term loans primarily consist of fixed-asset loans. Based on the use of loan proceeds, our fixed-asset loans may be classified into infrastructure development loans, technology improvement loans and technology development loans. Other medium- and long-term loans include medium-term working capital loans, syndicated loans and export credit loans. Consistent with our focus on asset quality and diversification, we lend to corporate borrowers in a wide range of industry sectors.

Discounted Bills

Bill discounting is a type of credit service in which we purchase the outstanding commercial bills from the payee or bearer at a certain discount. There are two types of discounted bills: bank acceptance bills and commercial acceptance bills. We generally purchase bank acceptance bills and commercial acceptance bills that have a remaining maturity of less than six months. We provide this facility to our customers as a source of

short-term financing. The interest rate we charge for discounted bills varies according to the creditworthiness of the customers. As of December 31, 2006, we had RMB 45,636 million in discounted bills outstanding. As of that date, bank acceptance bills and commercial acceptance bills represented 86.7% and 13.3%, respectively, of our total discounted bills outstanding. Historically, we have experienced lower risks associated with bank acceptance bills than commercial acceptance bills. We had no non-performing discounted bills from December 31, 2004 to December 31, 2006.

Corporate Deposits

Corporate deposits have been historically the largest component of our customer deposits. Our corporate deposits outstanding increased to RMB 512,551 million as of December 31, 2006, from RMB 459,321 million as of December 31, 2005, and RMB 387,246 million as of December 31, 2004, representing a CAGR of 15.0%. We offer two principal deposit products, demand deposits and time deposits to our corporate customers in Renminbi and major foreign currencies. As of December 31, 2006, our demand deposits and time deposits from corporate customers totaled RMB 260,971 million and RMB 251,580 million, respectively, representing 50.9% and 49.1% of our corporate deposits. As of the same date, our foreign currency-denominated corporate deposits totaled RMB 43,687 million, representing 8.5% of our corporate deposits. As of December 31, 2006, we had RMB 43,687 million in foreign currency-denominated deposits outstanding from corporate customers, which ranked us fifth among all PRC banks and first among the Other National Commercial Banks, according to the PBOC.

Demand deposits accrue interest that is paid quarterly, and account holders may withdraw their funds at any time. Time deposits require that the customer maintain a deposit for a fixed term, during which interest accrues at a fixed rate. Account holders of time deposits may withdraw funds prior to maturity with interest payments calculated based on the demand deposit interest rate. We offer time deposit products with maturities of up to five years. For foreign currency-denominated deposits equivalent to US\$3.0 million or more, interest rates are freely negotiated with our customers. In addition, historically we offer to the postal savings bureau and insurance companies negotiated time deposit products with terms of more than three years, which generally have interest rates higher than regular time deposits. However, beginning in the second half of 2004, we have reduced the outstanding amounts of negotiated deposits we hold with a view to lower our cost of funding.

Non-interest Income Products and Services

Our non-interest income products and services for corporate customers primarily consist of settlement services, guarantee services, short-term commercial papers underwriting, financial advisory, financial services to government agencies, custody services, entrusted loans, syndicated loan arranging and cash management services. In 2006, 2005 and 2004, net non-interest income from corporate banking segment totaled RMB 938 million, RMB 586 million and RMB 416 million, respectively, representing a CAGR of 50.2% from 2004 to 2006.

Settlement Services

We offer a wide range of domestic and international settlement products and services. In 2006, our income from corporate settlement services increased by 28.0% to RMB 210 million, from RMB 164 million in 2005, and RMB 132 million in 2004, representing a CAGR of 26.1% from 2004 to 2006. In 2006, our income from corporate settlement services represented 22.4% of our total corporate non-interest income.

Domestic settlement products and services. Our domestic settlement products and services primarily include promissory notes, checks, consignment collection and remittance. In addition, we provide integrated products and services. For example, we provide financial services to businesses in all links of the logistic chain under our “Yin Mao Tong” (银贸通) brand, which, through closed three-party arrangements, greatly simplified financing procedures and provides a solution to the working capital need and financing difficulties faced by small and medium enterprises. We also provide online tax and fee payment services under the “WTO E-line” (关贸e点通) brand in cooperation with China Customs and China E-Port. Through this efficient

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“one-stop” customs report service, our customers may pay their export and import taxes and fees and other charges resulting from export and import regulations and services through the internet.

International settlement products and services. Our international settlement products and services primarily consist of international letters of credit, international remittance, export and import collection and letters of guarantee. For the year ended December 31, 2006, the transaction volume of our international settlement services was US\$67.8 billion, ranking us second among the Other National Commercial Banks. The transaction volume of our international settlement services in 2006 increased by 45.8% to US\$67.8 billion from US\$46.5 billion in 2005 and US\$33.5 billion in 2004, representing a CAGR of 42.3% from 2004 to 2006.

Guarantee Services

We offer our corporate customers bank guarantees primarily in the form of letter of guarantees and standby letters of credit. We receive a fee for providing guarantees. In 2006, our income from guarantee services increased to RMB 215 million from RMB 162 million in 2005 and RMB 129 million in 2004, representing a CAGR of 29.1% from 2004 to 2006. In 2006, our income from guarantee services represented 22.9% of our total corporate non-interest income.

Short-term Commercial Papers Underwriting

We are among the first PRC banks to underwrite short-term commercial papers. The issuance of debt securities has been historically restricted as a form of financing in the PRC. Since the PRC Government permitted the underwriting of short-term commercial papers in May 2005, we have actively sought to develop our capabilities in this product area. Since the inception of this business in May 2005 to December 31, 2006, we had successfully underwritten short-term commercial papers for 18 corporate enterprises with a total transaction value of RMB 38.3 billion, which ranked us fourth among the PRC banks based on transaction value. In 2006, non-interest income from underwriting short-term commercial papers totaled RMB 83 million, representing 8.8% of our total corporate net non-interest income. In 2005, our non-interest income from underwriting short-term commercial papers was RMB 57 million.

We believe we were the first PRC bank to underwrite U.S. dollar-denominated bonds for a PRC company in the U.S. since the establishment of the PRC, with a US\$250 million debt offering for China CITIC Group in 1993. We also underwrote CITIC Group’s first issuance of commercial paper in Japan in 1994, which we believe was the first such issuance since the foundation of the PRC.

Financial Advisory

We provide financial advisory services, including those to companies conducting restructurings and mergers and acquisitions. In providing these services, we mainly target high quality, large-scale enterprise groups. We charge a fixed fee for general financial advisory services and charge a fee based on a percentage of the transaction amount for services related to project financing and merger and acquisition transactions. In 2006, our income from financial advisory services totaled RMB 45 million, increasing from RMB 18 million from 2005. We were among the first PRC banks to provide financial advisory services related to asset securitization. In 2006, we were the financial advisor to the largest special asset administration program listed on Shenzhen Stock Exchange.

Financial Services to Government Agencies

We offer financial services to China’s Ministry of Finance, such as deposit-taking and non-tax revenue collection, on behalf of governmental departments and agencies. Through a competitive bidding process, we became one of four banks in China qualified to provide non-tax revenue collection services. As of December 31, 2006, we were the service provider to 29 of the 43 central government departments that have launched this type of service. Our branch offices also provide similar services to local governments. In June 2006, we became one of two PRC banks qualified as fund custodian banks on behalf of State Administration of Taxation. We are authorized to provide to all tax administration government agencies at the county level

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and above deposit and settlement services in connection with funds under custody of such agencies. We believe that we attract large amount of low cost deposits through offering such services.

Custody Services

In 2004, we became qualified to provide securities investment fund custody services. Our custody services primarily include securities investment fund custody, assets custody for customers of securities firms and trust companies and corporate annuities custody. One of the stock investment funds under our custody was the largest new fund of its type in 2005.

In an effort to provide professional wealth management services and build and expand our customer base, we focus on product development and innovation and improving the management policies and procedures of the business management and risk management of our custody services. As of December 31, 2006 and 2005, we had approximately RMB 12.32 billion and RMB 6.97 billion, respectively, of assets under custody.

Others

We also provide entrusted loan, syndicated loan arranging and cash management services to our corporate customers.

An entrusted loan is a lending arrangement where a lending entity deposits funds in our bank and requests our bank to on-lend the funds to a designated company according to the lending entity's specific conditions as to loan purpose, amount, term and interest rate. We do not assume the borrower's credit risk. As of December 31, 2006, 2005 and 2004, the total amount of entrusted loan disbursements was RMB 21.99 billion, RMB 14.85 billion and RMB 10.15 billion, respectively.

Syndicated loans are loans offered and negotiated by multiple banks or other financial institutions to a single borrower under the same loan arrangement. Other than ordinary interest income, banks will have other incomes based on their roles in providing the syndicated loans, such as administrative fees, agent fees, management fees and commission fees. Many of the syndicated loans in which we participated were well received by the market and we acted as the leading administrative agent for China's first export credit syndicated loan.

We provide cash management services to large corporate customers to assist them in managing their cash flow. Our cash management services to corporate customers include mainly the online banking system and group customer corporate account management system.

Customer Base and Marketing

Customer Base

We have a well-established corporate customer base in some of the most economically developed regions in China such as the Bohai Rim region, the Yangtze River Delta region, the Pearl River Delta and West Strait region. As of December 31, 2006, we had 196,980 corporate deposit customers, of which 82.8% were located in these three regions. As of the same date, we had 11,666 corporate loan customers, of which 80.5% were located in these three regions. Our customers include many of Chinese leading companies. For example, in 2005, 253, or 50.6%, of China Fortune 500 Corporations were our customers. In addition, we have well-established cooperational relationships with China's various government departments and, through a competitive bidding process, became one of the few PRC banks qualified to provide tax revenue custody services. We provide treasury deposit services to the MOF and non-tax revenue collection services to 29 of the 43 central government departments that have launched this type of service. We are also a custodian bank for the State Administration of Taxation.

In 2005, in an effort to enhance our overall asset quality, we developed a customer identifying strategy of targeting "high quality industries and high quality enterprises" and "mainstream markets and mainstream customers", which are customers we believe to have superior credit profiles. We provide detailed guidance on

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identifying and marketing our products and services to these customers in our annual credit policy, which also sets out certain high-risk industries and markets in which to reduce our exposure.

In addition, we select certain strategic customers among our “high quality industries and high quality enterprises” and “mainstream markets and mainstream customers.” For these current and potential strategic customers, we offer a full range of tailored services through dedicated service teams formed personnel from relevant departments. We consider strategic customers to be those corporate customers with superior reputation, development potential and creditworthiness. In particular, these include enterprises that enjoy relative monopoly positions, national conglomerates, leading enterprises in key industries, enterprises that enjoy regional dominance, China-based enterprises invested by leading multinational enterprises, government agencies and social organizations that have substantial impact on our assets, liabilities and non-interest income business, and other customers that have substantial overall impact on our business. We selected 165 bankwide strategic customers and 1,497 regional strategic customers in 2006. As of December 31, 2006, the corporate loans to our strategic customers represented just under 40% of our total corporate loans, and deposits from such customers represented just under 33% of our total corporate deposits.

Marketing

We use a three-tier (head office, branch and sub-branch) management and marketing model. Our head office is in charge of formulating our overall business development plans and strategies and developing our bank-wide marketing initiatives and guidelines. Our branches and sub-branches are responsible for implementing plans and strategies formulated by the head office and conducting direct marketing activities. Our head office actively seeks to establish business relationships directly with the head offices of our strategic customers in an effort to enhance the effectiveness of our marketing efforts. Furthermore, in an effort to enhance our abilities to develop and maintain more high-quality corporate customers, we have established an internet banking system for corporate customers, a group customer cash management system and an investment banking platform.

Currently, our marketing efforts are primarily carried out by over 3,000 corporate customer relationship managers. We are increasingly shifting to a product- and brand-focused marketing approach, which we believe will enable us to provide better products and services with greater consistency through our bank. We have introduced various brands, including “银财通” (Yin Cai Tong), “银贸通” (Yin Mao Tong) and “关贸e点通” (WTO E-line), and strengthened our leading positions in our target industries and customers. In addition, in an effort to provide the better customer services, we have placed great emphasis on teamwork and cross-department initiatives in marketing activities. Our product support department works closely with customer relationship managers to design service plans, conduct marketing visits and manage customer relationships. Furthermore, capitalizing our relationship with CITIC Group, we increased our cross-selling efforts between us and other financial service subsidiaries of CITIC Group and expanded our corporate banking business, including investing banking.

PERSONAL BANKING

The principal components of our personal banking business consist of personal loans, personal deposits, bank card business, personal wealth management and international travel financial services. As a result of our efforts to develop our personal banking business and the implementation of our personal banking development strategy and marketing initiatives such as “three dimensions and four promotions,” our personal banking business has experienced significant growth in recent years. As of December 31, 2006, we had RMB 48,375 million in personal loans outstanding, representing 10.4% of our total loans, and RMB 105,861 million in personal deposits, representing 17.1% of our total deposits. In 2006, net non-interest income from our personal banking segment totaled RMB 187 million, representing 12.9% of our total net non-interest income.

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We have built our personal banking business on a record of innovation. For example:

- In May 1992, we believe we were the first bank in China to install foreign currency ATMs;
- In March 1994, we established a partnership with American Express and believe we were the first bank in China to offer speedy remittance services through MoneyGram;
- In 2001, we believe we were the first bank in China to introduce international travel financial services; and
- In 2006, our innovative marketing initiative, which we refer to as “four promotions”, received the “Excellence in Personal Banking Initiative and Execution Award” from the 2006 Asian Banker Excellence in Retail Financial Services Award Programme.

Products and Services

Personal Loans

Our personal loans have experienced significant growth in recent years. As of December 31, 2006, our personal loans outstanding totaled RMB 48,375 million, which increased from RMB 37,834 million as of December 31, 2005 and RMB 31,730 million as of December 31, 2004, representing a CAGR of 23.5%.

We offer four types of personal loans to our customers under the “家家乐” (CITIC Happy Family) brand: residential mortgage loans, individual commercial loans, personal consumption loans and education loans.

Residential Mortgage Loans

We provide various residential mortgage loan products in response to customer needs, both for the purchase of newly-built and second-hand residential properties. The market demand for residential mortgage loans has been increasing rapidly in recent years. Residential mortgage loans have generally been a product with relatively low non-performing loan ratios. Accordingly, we have sought to increase residential mortgage loans as a percentage of our total personal loans. Residential mortgage loans represented 75.4%, 69.3% and 56.2% of our total personal loans as of December 31, 2006, 2005 and 2004, respectively. As of December 31, 2006, residential mortgage loans outstanding totaled RMB 36,470 million, which increased from RMB 26,246 million in 2005, and RMB 17,838 million in 2004, representing a CAGR of 43.0%. We received the “2006 Annual Distinguished Personal Housing Loan Provider in China” award from Hexun.com.

Individual Commercial Loans

Individual commercial loans primarily consist of individual commercial mortgage loans and individual business loans. We offer individual commercial mortgage loans for the purchase of commercial properties by individuals. We generally grant these commercial mortgage loans up to 60% of the value of the property and the loan term normally does not exceed 10 years. We have recently restricted our lending policy on individual commercial loans because we have experienced relatively high non-performing loan ratios in these products. Individual commercial loans as a percentage of our total personal loans decreased to 12.1% as of December 31, 2006 from 23.2% as of December 31, 2004.

Personal Consumption Loans

Our personal consumption loans are used for purposes such as home improvement and purchases of durable goods. As of December 31, 2006, we had RMB 3,951 million of personal consumption loans outstanding, representing 8.2% of our total personal loans.

We offer automobile loans for personal use, which are secured by the purchased automobile or residential properties. We generally grant loans up to 50% of the purchase price of the automobile if secured by the purchase automobile, and up to 60% if secured by residential properties. Our target customers for personal automobile loans are those preferred customers whom we consider to have sound credit. As of December 31,

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2006, we had RMB 354 million of personal automobile loans outstanding, decreasing from RMB 1,474 million as of December 31, 2004.

Education Loans

We provide education loans for students who plan to study abroad. Risks associated with education loans are generally lower because the vast majority of such loans are secured by cash deposits with us. As of December 31, 2006, we had RMB 457 million of education loans outstanding, which increased from RMB 105 million as of December 31, 2004, representing a CAGR of 108.6%.

Personal Deposits

We offer several deposit products, including demand deposits, time deposits and call deposits, to our personal banking customers in Renminbi and other major foreign currencies. Demand deposits bear interest at a rate set by the PBOC and account holders may withdraw funds at any time. Time deposits require that the customer maintain a deposit for a fixed term, during which interest accrues at a fixed rate. Account holders may withdraw funds from time deposits prior to maturity with interest payment calculated based on the demand deposit interest rate. Currently, we offer time deposit products with maturities of up to five years. 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.

In particular, we offer a featured personal wealth management product under the trademark “理财宝” (CITIC Smart). This product is designed for our deposit customers to have more flexibility and earn more interest on their deposits by optimizing their deposit portfolios based on their needs and efficiently allocating their deposits among various time and demand deposits.

We have sought to increase personal deposits as a percentage of our total deposits as personal deposits represent a stable source of funding. In coordination with the head office, each branch has carried out deposit marketing activities, supported by performance assessment programs. In addition, we have increased our cross-selling efforts between our corporate banking and personal banking businesses. In particular, we have sought to attract deposits from employees of corporate customers for which we provide payroll services.

As a result of our efforts, personal deposits outstanding totaled RMB 105,861 million as of December 31, 2006, which increased from RMB 71,252 million as of December 31, 2005, and RMB 47,774 billion as of December 31, 2004, representing a CAGR of 48.9%.

Non-interest Income Products and Services

We offer our personal banking customers a wide range of non-interest income products and services such as bank cards, personal wealth management and international travel financial services. Net non-interest income from our personal banking business totaled RMB 187 million in 2006, which increased from RMB 116 million in 2005 and RMB 78 million in 2004, representing a CAGR of 54.8%.

Bank Cards

We offer a variety of debit card and credit card products to our customers. We began offering RMB debit cards to our customers in 1999, RMB credit cards and dual-currency credit cards in 2003, and dual-currency debit cards in 2005. Both types of bank cards have experienced significant growth since 2003. In 2006, fees from our bank card business totaled RMB 199 million, which increased from RMB 86 million in 2005 and RMB 58 million in 2004, representing a CAGR of 85.2%. We received the 2005 “VISA Bank Card Comprehensive Innovation Award” from VISA International.

We are a member of China UnionPay, a bank card network organization headquartered in China. Our bank cards are accepted through the China UnionPay network in China and 23 other countries or regions as well as Citigroup’s global ATM network. As of December 31, 2006, members of China UnionPay consisted of 189 banks and non-bank financial institutions. As of December 31, 2006, approximately 579,000 merchants and 903,000 point-of-sale, or POS, terminals were connected to the China UnionPay network. We are also a

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member of VISA International and MasterCard International. VISA and MasterCard cards issued by us can be used worldwide through VISA and MasterCard networks, respectively.

Debit Cards

A debit card is directly linked to the cardholder's bank account, and accordingly, the cardholder cannot withdraw amounts in excess of the deposits held in their respective bank accounts. As of December 31, 2006, approximately 10.2 million debit cards issued by us were outstanding. We began, in November 2005, to offer RMB- and U.S. dollar-denominated dual-currency debit cards which can be used on POS terminals and ATMs through the China UnionPay network and the VISA network. We received the "Product Innovation Award for Standard Debit Card" in 2005 and the "Best Product Design Award for Standard Debit Card" in 2006 from China UnionPay.

Credit Cards

As credit cards become an increasingly accepted payment alternative in China, we expect our credit card business to continue to experience significant growth. We centrally manage our credit card business through our credit card center in Shenzhen established in December 2002. The personal banking departments in our tier one branches manage our credit card operations locally. Currently credit cards are marketed through our regional direct-sales credit card centers located in 25 cities, as well as through our tier one branches and indirect marketing channels (particularly through co-brand partnerships and 9 agencies that have 74 locations and employ approximately 1,400 marketing and promoting agents). In December 2005, our credit card customer service center became the first in China to receive ISO9001:2000 International Certification for quality management systems in credit cards. In addition, our credit card business has received a number of domestic and international awards, including "Excellence in Product Design Award" from VISA International in 2003, "Excellence in Product Design Award" and "Best Platinum Card Award" from MasterCard International in 2004. In November 2005, our credit cards received the "2005 World Finance Laboratory Annual Award — 2005 Top Ten China Bank Cards Award" by the World Finance Laboratory and Wswire.com. Our "Magic" cards received the "Most Valuable Female Credit Card Product Award" in March 2006. Our credit cards also were ranked second and received the "2006 China Credit Cards Best Customer Experience Award" at the first annual "China Credit Card Watch and Evaluation Conference" organized by Hexun.com.

We offer both single-currency credit cards and dual-currency credit cards. Our primary credit card product is our RMB- and U.S. Dollar-denominated dual-currency credit card, which we began issuing in 2003. We also issue RMB- and Hong Kong dollar-denominated dual-currency credit cards. Our dual-currency credit cards are accepted in China through our own network and China UnionPay network, and overseas through VISA, MasterCard and China UnionPay networks. In addition, we offer cards that target different market segments. We offer co-branded cards in conjunction with, among others, airlines and fund management companies. We target our golf credit cards at high-end customers, "Magic" cards at female customers and "I-Card" at college students.

The number of our credit cards issued has increased at a rapid rate in recent years. As of December 31, 2006, we had issued approximately 2.28 million credit cards (including 1.01 million issued in 2006), which increased from approximately 1,270,000 as of December 31, 2005 and approximately 310,000 as of December 31, 2004. According to VISA International, based on the number of cards issued, dual-currency VISA credit cards issued by us ranked third among all banks in China as of December 31, 2005. For the year ended December 31, 2006, the total volume of our credit card transactions was RMB 7.6 billion. In 2005, 4.9 million transactions were conducted using our credit cards, with a total transaction volume of RMB 2.9 billion. Credit card fee income primarily consists of commissions from merchants, interest charges, cash advance fees and annual fees.

Personal Wealth Management Services

We have a strategic focus on personal wealth management services. We provide financial advisory services and comprehensive financial management services. We classify our personal wealth management customers into ordinary customers and VIP customers.

As of December 31, 2006, we had 38,526 VIP customers. As of the same date, we had 34 dedicated VIP service centers, 246 VIP service offices, 446 VIP service counters and 946 experienced VIP service managers that provide personal wealth management services. We also have an advisory team consisting of five outside experts from the securities, fund management, insurance, trust and commodity futures industries and our own expert in foreign exchange business. In 2005, four of our wealth management products were ranked among the top ten wealth management products in China by Hexun.com. In 2006, we received the “Annual Wealth Management Product with Best Investment Value” award from Hexun.com.

We provide one-on-one wealth management services to our VIP customers through our VIP service managers. Our VIP customers enjoy discounts and other value-added services provided by our partners, including airports, golf clubs, restaurants, shopping centers and fitness clubs. We also provide quality of life services, such as medical and legal services, to our VIP customers. We also plan to offer private banking services to customers with daily average assets under our management of RMB 5 million or more.

International Travel Financial Services

We believe we were the first commercial banks in China to have offered international travel financial services. In 1999, we became the exclusive agent providing visa-related agency services collection for the United States Embassy in Beijing. We currently offer secure, fast and convenient one-stop international travel financial services to five categories of people (Chinese students, tourists, business travelers and emigrants, and nationals of other countries traveling to China). We also act as an agent in providing visa-related agency services for the embassies of Germany, Japan, Italy, Singapore and South Africa. In addition, we offer letters of guarantee and student loans in connection with studying abroad, foreign exchange services for personal use, travelers’ checks and other products and services related to international travel.

In 2005, we consolidated our international travel financial services under the “CITIC International Travel” (出國全程通) brand, for which we received the second prize of the “2005-2006 China Excellence in Marketing Awards” jointly sponsored by “The Economic Observer” and Hong Kong Management Association. This brand also received the “2006 China’s Best Brand Building Case Award” jointly awarded by the “21st Century Economics Report” and international consulting firm Interbrand in September 2006. In 2006, we provided agency services in approximately 505,554 visa-related transactions.

Others

We also provide other personal banking services such as fund transfer between banking accounts and securities accounts, fund investment, insurance, personal foreign exchange trading, payroll services, utility payment service and safe-deposit box services.

Customer Base and Marketing

Customer Base

We have an extensive base of personal banking customers. As of December 31, 2006, we had approximately 10.6 million personal banking customers, approximately 77.1% of which were located in the Bohai Rim region, the Yangtze River Delta region, the Pearl River Delta and West Strait region. We classify our personal banking customers into three segments: mass market customers, mass affluent customers and VIP customers. Although we market our products to customers of all segments, we focus our marketing efforts on mass affluent and VIP customers. We define mass affluent customers as those who have assets of RMB 50,000 to RMB 500,000 under our management and we define VIP customers as those who have assets of no less than RMB 500,000 under our management. As of December 31, 2006, we had 38,526 VIP customers.

Marketing

Our head office formulates general marketing initiatives and sets marketing guidelines for our bank-wide personal banking products, which are implemented by our branches. Our head office also centrally manages our marketing efforts to maintain the bank-wide consistency and improve the effectiveness of our marketing initiatives. In 2006, we increased our efforts in personal banking brand building and marketing, and through cooperating with agencies and media organizations we enhanced brand recognition of our personal banking products and services in the market. In recognition of our marketing initiatives, we received the “Excellence in marketing” award from Hexun.com in January 2007. We also received the “2006 Annual Distinguished Banking Service Provider in China” from Hexun.com. In addition, some of our brands, including “CITIC International Travel” (出國全程通) and “Magic” credit cards, have received various awards. We believe the further promotion of these brands will benefit the expansion of our personal banking business.

We have adopted a “three dimensions and four promotions” initiative to expand our personal banking business. “three dimensions” refer to the measures we have taken to improve our personal banking business from three perspectives:

- developed diversified products and services that meet the needs of different customer segments;
- developed a comprehensive personal banking business structure and product lines that include liabilities, assets and non-interest income products and services; and
- built core competency in terms of information technology systems, products and personnel.

“Four promotions” refer to four aspects of our strategy to acquire new customers, cross-sell products to existing customers and increase business volume from existing customers:

- *Realizing synergies between corporate and personal banking businesses.* We promote our personal banking business by enhancing the cooperation between our corporate and personal banking businesses and promoting cross selling between the segments. In 2005, we increased our efforts in developing payroll services, corporate cards and wealth management services for senior managers. Our branch offices also adopted marketing measures such as customer classification and assigning potential customers to specific customer relationship managers. As a result of the enhanced cooperation between our corporate and personal banking businesses, transaction value of our payroll services totaled RMB 35,836 million in 2006, which significantly contributed to the growth in our deposits.
- *Product innovation.* With a view to expanding our customer base and promoting the growth of our personal banking business, we have continuously introduced new products that meet market demand through product innovation. In 2006, we sold 31 RMB-denominated personal wealth management products with a total value of RMB 17,414 million; and 70 foreign currency-denominated products in 20 series with a total value of US\$1.5 billion. We also acted as distribution agent for seven mutual funds, with a total transaction value of RMB 838 million. We believe our innovative products satisfied customer needs and supported the expansion of our business.
- *High quality professionals.* We also stimulate the growth of our personal banking services through improving the professional skills of our personnel. In 2005, we built a high quality personal wealth management service team revolving around our VIP wealth management system. This team of managers contributed significantly to the growth of our personal banking business. In 2006, the daily average balance of assets under management was approximately RMB 55.1 million per manager.
- *Participation of all personnel.* We have adopted effective measures to motivate all personnel to participate in marketing initiatives. Personal banking business became a bank-wide focus in 2005 as a result of our effective internal education and organization and our measures to motivate all our personnel to participate in marketing efforts.

In June 2006, our “four promotions” initiative received the “Excellence in Retail Banking Initiative and Execution Award” from the 2006 Asian Banker Excellence in Retail Financial Services (RFS) Awards Programme.

TREASURY OPERATIONS

Our treasury operations primarily consist of money market activities, investment portfolio management, foreign exchange operations and treasury transactions on behalf of our customers. In 2006, operating income from our treasury operations totaled RMB 1,767 million, representing 9.9% of our total operating income.

Money Market Activities

We generally use money market tools to manage our liquidity. Our money market activities primarily consist of (i) short-term borrowings from and loans to other domestic and foreign banks and non-bank financial institutions; and (ii) to a lesser extent, repurchase transactions. As of December 31, 2006, we were a net lender in the inter-bank money market and in purchases of securities under reverse repurchase agreements, with a net receivable of RMB 29,435 million.

Investment Portfolio Management

Our investment portfolio primarily consists of government or high-rating debt securities and derivatives. Our RMB-denominated investment securities primarily include bonds issued by the PRC Government and PRC policy banks, bills issued by the PBOC and bonds issued by PRC commercial banks. Our foreign currency-denominated investment securities primarily include foreign currency-denominated bonds issued by foreign governments, government agencies, financial institutions, corporations and international organizations. We also invest in mortgage-backed securities and asset-backed securities. Our foreign currency-denominated securities generally have a Moody's credit rating of A or above. In addition, we enter into financial derivative transactions, including swap and option contracts to hedge our market risk exposure. According to International Financial Reporting Standards, we classify our investment portfolio into (i) held-to-maturity, (ii) available-for-sale, and (iii) debt securities at fair value through profit or loss (primarily consisting of debt securities held for trading purposes).

We manage our investment portfolio according to the investment guidelines established by the market risk committee, which we review and update on an annual basis. These guidelines set forth the requirements regarding the portfolio size, durations, industry and country concentration and credit rating of issuers of securities in our investment portfolio. We generally employ a top-down and bottom-up approach in managing our investment portfolio, pursuant to which we determine the asset allocation of the investment portfolio. Our asset allocation decisions are based on our assessment of the macroeconomic conditions of relevant countries and growth prospects of relevant industries, as well as our investment plan upon an assessment of our current positions. We analyze the market risk of our investment portfolio on a regular basis and adjust our investment strategy according to investment environment and market condition changes. See "Risk Management — Market Risk Management."

Foreign Exchange Operations

We are a leading foreign exchange bank among the PRC banks. We conduct spot and forward foreign exchange trading, and enter into foreign currency swap and option transactions. In 2005, we became licensed as a market maker for both G7 currencies and U.S. dollar-to-RMB transactions and one of the only three PRC banks to hold licenses for both. We ranked third among all market makers in China in terms of transaction volume for spot foreign exchange transactions for the first five months of 2006. According to "Asiamoney" magazine, we were voted by financial institutions as the best domestic provider of foreign exchange services in China.

Treasury Transactions on Behalf of Customers

We primarily provide treasury and capital market services to customers through our treasury operations. Our products and services include currency risk management, interest rate risk management, investment management and financing intermediary services.

PRODUCT PRICING

Loans

The interest rates we charge on RMB-denominated loans are currently subject to the minimum rates based on the PBOC benchmark rates. When determining our pricing, we take into consideration factors including, among others, the borrower's financial condition, nature and value of collateral, term of the loan, intended use of the loan and prevailing market conditions. We also consider cost of providing the loan, credit risk and general market competition when pricing our products and services. Relevant departments in our head office establish internal general benchmark interest rates, based on which various business departments may determine their industry or geographic benchmark rates according to the characteristics of their businesses. Our branches may set prices within the ranges of these internal benchmark rates established by our head office.

We generally charge higher interest rates on loans to small and medium enterprises, or SMEs, than loans to large companies because of the potentially higher credit risk of SMEs. As interest rates on loans are increasing 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 analysis. Foreign currency-denominated loans are not subject to the PBOC benchmarks and we may freely negotiate interest rates with borrowers.

Deposits

The interest rates on RMB-denominated deposits may not be higher than relevant PBOC benchmark rates. Interest rates on RMB-denominated demand deposits and regular time deposits with us are generally the same as the relevant PBOC benchmark rates. However, we are permitted to provide time deposits with negotiated interest rates, or negotiated time deposits, under certain circumstances. The PBOC has liberalized interest rates on 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, for foreign currency-denominated (other than U.S. dollar, Euro, Japanese Yen and Hong Kong dollar) deposits equivalent to US\$3.0 million or more, interest rates are freely negotiated with our customers. Interest rates on deposits between financial institutions and from foreign nationals are also freely negotiated with our customers.

Non-interest Based Products and Services

With respect to non-interest based products and services, those that are subject to government guidance prices include basic RMB settlement services specified by the CBRC and the NDRC. Fees for other products and services are determined by banks based on market conditions. See "Banking Industry in the PRC — Industry Trends — Further Expansion of Fee-based Business" and "Regulation and Supervision — PRC Regulation and Supervision — Pricing of Products and Services."

DISTRIBUTION NETWORK

We deliver our products and services through a variety of distribution channels. We have branch outlets in substantially all major cities in China. In addition, we are increasingly promoting the use of alternative electronic banking channels, such as internet banking and telephone banking. We believe that our network of branch outlets and electronic banking channels enable us to efficiently provide our customers with banking services.

Branch Outlets

As of December 31, 2006, in addition to our head office and its branch outlet, our network of 446 branch outlets in China consisted of 25 tier one branches, 16 tier two branches, and 405 sub-branch outlets. Our 25 tier one branches report directly to our head office and are generally located in provincial capitals and other economic centers. Our tier two branches report to tier one branches and sub-branches report to tier one branches located in the same region.

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The following table sets forth, as of the dates indicated, the number of branch outlets in the PRC by geographical region. For a description of our geographical regions, see “Definitions and Conventions.”

	<u>As of December 31, 2006</u>	
	<u>Branch outlets</u>	<u>% of total</u>
Yantze River Delta	161	36%
Bohai Rim	102	23
Pearl River Delta and West Strait	48	11
Central	45	10
Western	42	9
Northeastern	<u>48</u>	<u>11</u>
Total branch outlets	<u>446</u>	<u>100%</u>

We have maintained a shareholding interest in China Investment and Finance Limited, or CIFL, our subsidiary in Hong Kong since 1997. CIFL’s scope of business includes capital markets investment, lending, advisory services, investment banking and direct investments. CIFL’s investment banking business mainly provides services to the Hong Kong branches or offices of our domestic customers. Such services mainly include participating in or arranging syndicate loans. CIFL does not have the license to conduct underwriting business as of the date of this prospectus. As of December 31, 2006, CIFL has issued 250,000 shares with par value of HK\$100 for each share. We hold 95% of CIFL’s shares and the remaining 5% is held by CKWB. As of December 31, 2006, the total assets, net assets and net profit of CIFL were RMB 583 million, RMB 90 million and RMB 10 million, respectively. CIFL confirms that its money lending activities are consistent with the terms of its Money Lenders Licence which is valid for a period of 12 months from January 8, 2007. It is not aware of any non-compliance with the terms of such licence. As of December 31, 2006, we have no other principal subsidiaries.

Automatic Service Machines and Self-Service Banking Centers

In an effort to provide additional convenient services to customers, reduce operating costs and improve profitability at the branches, we are expanding our self-service banking centers and automatic service machines (including ATMs, CDMs and CRSs) connected to the China UnionPay network. As of December 31, 2006, we had approximately 456 self-service banking centers and 1,645 automatic service machines, representing increases of 35.3% and 22.5%, respectively, from December 31, 2005.

Electronic Banking

We provide a number of electronic banking services that allow our customers to access their accounts and conduct transactions over the internet or telephone. We are promoting the increased use of our electronic banking services by expanding our product offerings and enhancing the functionality of these services.

Internet Banking

Focusing on a customer-oriented service approach, we offer a wide variety of corporate and personal internet banking services. Our corporate internet banking services mainly include account inquiry, internal transfer, remittance, account management, notice and message-taking. Our personal internet banking services mainly include “my account,” “my investment,” “my international travel financial services,” “my household finance,” electronic business, customer service and security management. We intend to gradually build the internet banking system into an integrated platform providing financial transaction, account management, customer relationship management and information posting (including advertising) services.

We have implemented various measures to increase internet banking security including the introduction of requirements for certification by authoritative and reliable third parties in 2000. In recognition of our efforts, our internet banking platform was the first in China to receive certification from China Financial Certification Authority for internet security in 2000.

Telephone Banking

Our telephone banking platform is centrally managed and provides services primarily to personal banking customers. We provide a full range of high quality telephone banking services through our nationwide hotline 24 hours a day, seven days a week. In addition, we analyze customer information and classify customers with a view to provide customized services such as VIP airport services, roadside emergency assistance and golf booking services.

Call Center

Our call center provides services to customers through an automated voice system and customer service representatives. Through this automated system, customers can access account information, pay bills, purchase and sell mutual fund shares, transfer funds between banking accounts and securities accounts, purchase and sell foreign exchange and complete various general account management functions. Our representatives provide services mainly through telephone, fax, electronic mail, the internet and short mobile message. Our call center also serves as our customer relations management center by providing product inquiry services, accepting and handling customer complaints and providing other services.

Credit Card Customer Service Center

To serve the needs of our credit card customers, we established a credit card customer service center in 2003. As of December 31, 2006, this center had approximately 237 customer service representatives providing services 24 hours a day, seven days a week. In order to provide high quality services to meet the different kinds of customer needs in the shortest time, our credit card customer service center is divided into six segments, namely, telephone intake department, dedicated platinum line, customer service and support department, marketing department, quality control and training department, and business development department.

Since establishment, our credit card customer service center has received a variety of recognitions and awards. For example, in 2006, this center became the first in China to receive ISO9001:2000 International Certification for quality management. In addition, this center received the “2006 Best Call Center Award” and Mr. Huang Zhiming of this center received the “2006 Best Call Center Manager Award” during International Contact Center & CRM Expo 2006 — ICC China 2006.

INFORMATION TECHNOLOGY

Our information technology systems provide critical support to many aspects of our business operations, including customer services, transaction processing, risk management and financial management. As of December 31, 2006, we had 416 employees with information-technology related responsibilities. The information technology department at our head office is responsible for formulating information technology strategies and plans, establishing unified technological standards and management policies and providing technological support to the information technology departments of our branch outlets.

All of our business systems are interconnected through our internal network, which our head office utilizes to collect data and reports. We currently have 20 servers located in our head office and 19 tier one branches, which store and process banking data generated in their respective areas. In order to reduce risks associated with system failures, in addition to adopting measures to backup data for our key systems and communication networks on a real time basis, we established a catastrophe backup center in June 2006.

Our information systems primarily consist of a general business and operation system, a treasury transaction system, an international business system, an electronic banking system, a credit management system and a management information system.

- The general business and operation system processes deposit, loan, payment settlement and bank card transactions, and provides clearing and accounting functions. It also includes a post-transaction monitoring system. We are in the process of consolidating our general business and operation system and expect to complete the consolidation by the end of June 2007.

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- The treasury transaction system supports treasury transactions and investment portfolio management of our treasury and capital markets department. It primarily includes a transaction information processing module, a risk management module and a settlement and accounting module.
- The international business system, which primarily consists of an international settlement module, an international trade finance module and a statistical analysis module. We have recently successfully completed the implementation of the SWIFT data processing system throughout the bank by the end of 2006. We will complete the implementation of a bankwide centralized international business system in the first quarter of 2007.
- The electronic banking system, which consists primarily of internet banking and telephone banking platforms, provides corporate and personal banking customers services such as account information inquiry, electronic payment, investment, wealth management and group account management. We began upgrading our internet banking and telephone banking platforms in May 2006 and expect to complete the upgrade by the first quarter of 2007. Upon completion, the integrated system will provide services to corporate banking, personal banking and credit card customers.
- The credit management system consists of a corporate credit management system and a personal credit management system. It provides critical support to our credit extension and risk management functions, including credit investigation, credit approval, credit disbursement and post-disbursement management. We have recently implemented a new consolidated corporate credit management system on a pilot basis in November 2006. The implementation of a bankwide consolidated personal credit management is expected to be completed simultaneously with the implementation of our bankwide consolidated general business and operation system by June 2007.
- The management information system provides critical support to our business operations and management decision-making. It primarily consists of a financial and human resource management system, an assets and liabilities management system, a VIP wealth management system, a performance evaluation system and an office automation system.
 - The financial and human resource management system is based on SAP software packages. The financial management platform centrally manages the accounting of expenses and capital expenditures and the budget planning. The human resource platform electronically manages bank-wide personnel files, organizational structure, and compensation calculation and payments. Both platforms are centrally managed at our head office.
 - Our assets and liabilities management system performs assets and liabilities ratio analysis, liquidity risk analysis, interest rate and exchange rate risk analysis, yield curve calculation, FTP calculation and net interest income and profitability analysis.
 - The VIP wealth management system is the platform based on which our personal banking customer relationship managers provide services to our VIP customers and conduct marketing and sales activities. It consists of six modules, namely, basic operations management, customer management, customer relationship marketing, wealth management, information service and performance evaluation.
 - The bank-wide key performance indicator system has been developed for the purposes of evaluating the performance of customer relationship managers. It can be customized by branch offices to meet the different performance evaluation needs of each branch. Currently, eight of our branch offices utilize this performance evaluation system.
 - The office automation system performs functions such as electronic document transfer, public information announcement and electronic mail management. Most of our paper-based document processing has migrated to this system.

We fully understand the importance of sophisticated information technology infrastructure and systems to the effective management and successful development of our businesses and have increased our investment in information technology infrastructure and applications. We are currently implementing a range of

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information technology projects, with a focus on electronic banking, risk management and management accounting systems.

FINANCIAL MANAGEMENT

Our financial management consists of asset and liability management, capital management, resource allocation and transfer pricing management. In recent years, we have been continuously optimizing our financial management procedures, indicators and system in order to enhance the efficacy of our resources, management skills and profitability.

We seek to continuously enhance our asset and liability structure by focusing on interest rate pricing and risk weighting of our products. To this end, we actively manage a series of operational ratios on a daily basis, such as the daily loan-to-deposit ratio, the ratio of medium- and long-term loans to medium- and long-term deposits, the percentage of banks' acceptance drafts, surplus deposit reserve ratio and the ratio of foreign currency loans to foreign currency deposits. Our objective in our asset and liability management is to increase returns while maintaining an acceptable level of risk and liquidity position.

Capital management is also a key component of our financial management. In an effort to increase capital efficiency and increase focus on cost of capital at our branches, we introduced indicators of economic value added and return on risk capital, which form an integral part of the performance and compensation assessment at the branch level.

In managing resource allocation, we have sought to control cost and capital outflow. As a result of our efforts, our adjusted cost-to-income ratio (excluding management fee to CITIC Group and business tax and surcharges) were 39.7%, 41.1% and 39.1% in 2006, 2005 and 2004, respectively.

Our financial management system, which we implemented in January 2006, enables us to centrally manage expenses, capital expenditures and budget planning.

COMPETITION

We face competition in all of our principal areas of business from commercial banks and other financial institutions in China. We compete principally with the Big Four commercial banks and the Other National Commercial Banks. We are also facing increased competition from a number of additional sources, including city commercial banks and foreign-invested banks operating in China. In addition, we compete for customer funds with other financial service institutions, including the China Postal Savings Bureau, credit cooperatives, securities firms and life insurance companies. See "Banking Industry in China — Current Competitive Landscape" and "Risk Factors — Risks relating to the banking industry in China — Competition in the banking industry in China is increasing."

We believe that the principal competitive factors in the banking industry include the types of products and services offered, the size and location of branches, quality of service, brand recognition, and product pricing.

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EMPLOYEES

As of December 31, 2006, 2005 and 2004, we had 12,575, 11,548 and 10,113 employees, respectively. The following table sets forth the total number of employees by function as of December 31, 2006.

	As of December 31, 2006	
	Number of employees	% of total
Corporate banking	3,520	28%
Personal banking	3,306	26
Treasury operations	129	1
Finance and accounting	2,767	22
Risk management, internal audit, legal and compliance	1,138	9
Information technology	416	3
Management	937	7
Others	<u>362</u>	<u>3</u>
Total	<u><u>12,575</u></u>	<u><u>100%</u></u>

We believe that employees are the most important asset of our bank. As of December 31, 2006, 94% of our full-time employees have received associate bachelor degrees or above, and 69% have more than five years of industry experience.

We have established a key performance indicator system that links bonuses mainly with employee performance and capabilities. Our employee compensations, training and promotion opportunities are also primarily based on performance. In addition, we are in the process of developing a long-term management stock option incentive program based on the performance of our bank. We offer competitive compensation, training and career development opportunities to our employees through our performance evaluation system. We also provide benefits to our employees, consisting of firstly, benefits in accordance with PRC laws and regulation on social insurance, basic retirement benefits, basic health insurance, unemployment benefits, work-related injury insurance, maternity insurance and housing fund; and secondly, corporate benefits provided by our bank including retirement plan, supplementary health insurance, housing allowance and transportation allowance.

We believe high quality employees are critical to the successful implementation of our business strategies and strive to continuously improve the professional capabilities of our employees by providing comprehensive training programs through our bankwide training platform.

INTELLECTUAL PROPERTY

On March 14, 2007, we entered into a trademark license agreement with CITIC Group, pursuant to which we were granted a non-exclusive, two-year license to use certain trademarks of CITIC Group for nil consideration. On April 3, 2007, CITIC Group gave an undertaking to us to extend the term of the above license for nil consideration for so long as CITIC Group remains our controlling shareholder. See “Our Relationship with CITIC Group and Connected Transactions — Connected Transactions — Exempt continuing connected transactions — 5. Trademark licenses”. We have registered seven trademarks, including “理财宝” (CITIC Smart), “贴心保” (Tie Xin Bao), “家家乐” (CITIC Happy Family) and “乐家家” (Le Jia Jia) and a number of our applications for trademarks are pending.

PROPERTIES

Our head office is located at Block C, Fuhua Mansion, 8 Chaoyangmen Beidajie, Dongcheng District, Beijing, China. As of January 31, 2007, we operated our business through 1,002 properties with a total gross floor area of approximately 1,060,693.45 square meters in the PRC for our offices, branch network, self-service banking centers and other places of operation.

Owned Properties

As of January 31, 2007, we owned 248 properties, including our head office in Beijing, which are mainly used as offices and branches that support our business activities and operations throughout China. The aggregate gross floor area of our owned properties is approximately 655,289.99 square meters. In particular, we have obtained the relevant building ownership certificates and administrative allocated land use rights certificates in respect of 7 properties with an aggregate gross floor area of approximately 2,351.03 square meters. We have been advised by King & Wood, our PRC legal counsel, that we are entitled to occupy and use the above properties, but our abilities to lease, mortgage, transfer and dispose of the properties are restricted unless we obtain the land use rights certificate by settling the payment of transfer premium and other related fees for land use rights. We have obtained the building ownership certificates, but not the land use right certificates, in respect of 19 properties with an aggregate gross floor area of 26,053.96 square meters. We have not yet obtained the land use right certificates and building ownership certificates in respect of 24 properties with an aggregate gross floor area 33,393.74 square meters. We have been advised by King & Wood, our PRC legal counsel, that there are various impediments for us to obtain the relevant land use right certificates and building ownership certificates in respect of the above 50 properties with an aggregate gross floor area of approximately 61,798.73 square meters. These legal impediments related to, among others, (i) receiving approval of the relevant government authorities and payment of transfer premium and other related fees for land use rights; (ii) obtaining cooperation from real estate developer in performing the required procedures to obtain land use rights; and (iii) division of land use rights among different parties. These properties can be, if necessary, replaced by other comparable alternative premises for the relevant uses without any material adverse effect to our business operations.

Properties Contracted to Acquire

As of January 31, 2007, we have contracted to acquire 5 properties with an estimated total gross floor area of approximately 22,159.17 square meters. As of January 31, 2007, as the properties above are under construction, no commercial value has been attributed to any of these properties in our property valuation report.

Property Titles

Upon completion of our restructuring, we succeeded to the above lands and buildings (including 5 properties which we contracted to acquire) from China CITIC Bank. As of January 31, 2007, we had obtained the relevant land use right certificates and building ownership certificates in respect of more than 90% of these lands and buildings (including properties which we contracted to acquire) with an aggregate gross floor area of approximately 593,491.26 square meters. We are in the process of applying for certain of the remaining lands and buildings to be registered in our name.

In addition, in relation to those properties for which we do not hold the relevant land use right or building ownership certificates, or are subject to legal defects in title as described in “— Owned Properties” and “— Properties Contracted to Acquire,” we are in the process of applying for the relevant land use right certificates and building ownership certificates and have taken steps to rectify such title defects. With respect to owned properties with defective title due to the default of the relevant real estate developers, we will work with these developers to procure them to perform the required procedures to perfect titles. With respect to those owned properties with defective title due to the delay in government approvals, we will continue to cooperate with the relevant government authorities to expedite the issue of title certificates. We currently expect to receive title certificates or otherwise cure title defects for these properties within two years. We have been advised by King & Wood, our PRC legal counsel, that the absence of such title certificates and the existence of such title defects will not have a material adverse effect on our business, financial condition and results of operations, as the relevant properties represent an insignificant portion of the total value of our properties. See, however, “Risk Factors — Risks Relating to Our Business — We do not possess the relevant land use rights certificates or building ownership certificates for some of the properties we own, and some of our lessors may not possess the relevant title certificates or have consent from the owners to sublet some of the properties occupied by us.”

Leased Properties

As of January 31, 2007, we leased 754 properties in China. The aggregate lease area of the leased properties is approximately 405,403.46 square meters. Of those properties we leased as of that date, we failed to register the relevant lease agreements with the authorities with respect to 543 properties with an aggregate gross floor area of 263,741.45 square meters. We have been advised by our PRC legal counsel, King & Wood, that the penalties for such failures to register varies properties at different locations according to local regulations, if imposed, will not result in any material and adverse effect on our business, financial condition or results of operation. With respect to 318 of the lease properties with an aggregate lease area of approximately 144,711.5 square meters, the lessors were not able to provide the title certificates or documents evidencing the authorization or consent of the owners of such properties. We are of the view that most of these leased properties occupied by us can, if necessary, be replaced by other comparable alternative premises without any material adverse effect on our operations. For a description of risks relating to our properties, see “Risk Factors — Risks Relating to Our Business — We do not possess the relevant land use rights certificates or building ownership certificates for some of the properties we own, and some of our lessors may not possess the relevant title certificates or have consent from the owners to sublet some of the properties occupied by us.”

Waiver from Certain Valuation Report Requirements

According to the valuation report set out in Appendix V to this prospectus, we owned 248 properties with an aggregate gross floor area of approximately 655,289.99 square meters in the PRC and office premises with an aggregate gross floor area of approximately 291.8 square meters in Hong Kong. We also contracted to acquire five properties with an aggregate floor area of approximately 22,159.17 square meters in the PRC. In addition, we leased 754 properties with an aggregate lease area of approximately 405,403.46 square meters in China. Owing to the substantial number of properties involved, we have applied to the SFC for an exemption and 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 (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, subject to the following conditions:

- (i) a valuation report in the Chinese language complying with all the requirements of paragraph 34 of the Third Schedule to the Companies Ordinance will be made available for inspection in accordance with Appendix X — “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 the Group’s property interests be included in this prospectus in the form set out in Appendix V to this prospectus; and
- (iii) this prospectus shall set out particulars of this exemption.

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 full valuation report in Chinese complying with all the requirements under the Listing Rules and paragraph 34 of Part II of the Third Schedule to the Companies Ordinance will be made available for inspection in accordance with Appendix X — “Documents Delivered to the Registrar of Companies and Available for Inspection”;

- (ii) a summary valuation of all property interests of us and our subsidiaries, as set out in Appendix V to this prospectus, has been included in this prospectus; and
- (iii) we obtain a Certificate of Exemption from the SFC in relation to compliance with relevant requirements under the Companies Ordinance.

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 the investing public on the grounds mentioned above.

LEGAL AND ADMINISTRATIVE PROCEEDINGS

Legal Proceedings

We are involved in a number of legal proceedings in the ordinary course of our business, which primarily consists of proceedings we brought against borrowers for recovery of non-performing loans. We are currently not a party to any legal or administrative proceedings, and no proceedings or arbitration are known by any of us or our subsidiaries to be contemplated by governmental authorities or third parties against us, which, if adversely determined, would have a material adverse effect on our financial condition or results of operations. As of December 31, 2006, the aggregate amount of the pending legal proceedings involving claims against us as the defendant or third-party defendant, the amount in dispute of each of which exceeds RMB 30 million, was approximately RMB 217.6 million. We believe none of the pending legal or arbitration administrative proceedings, either individually or in aggregate, would have a material adverse effect on our business, financial condition or results of operations if adversely determined against us.

Administrative Proceedings

Administrative Penalties

We are subject to inspections and examinations by PRC regulatory authorities, including the PBOC, the CBRC, the MOF, the SAIC, and the SAFE and their respective local offices.

Certain regulatory inspections and examinations have resulted in our being subject to penalties, including fines and warnings. From January 1, 2004 to December 31, 2006, we were subject to 37 fines (except for those related to delinquencies in tax payment) totaling approximately RMB 4.04 million. Among others, the PBOC and its local offices imposed 20 penalties on us with a total amount of approximately RMB 2.18 million for our violation of the applicable anti-money laundering regulations, delinquencies in reporting suspicious transactions and irregular account administration. The CBRC and its local offices imposed six penalties on us with a total amount of approximately RMB 1.13 million for our missing of a branch's financial business operation permit and credit extension in violation of the applicable laws and regulations, primarily including the General Rules on Loans (96), Interim Measures for the Administration of the Acceptance, Discount and Rediscount of Commercial Drafts, and Notice of the People's Bank of China on Strengthening the Administration of the Acceptance, Discount and Rediscount of Commercial Drafts (Yin Fa [2001] No. 236).

In addition, from January 1, 2004 to December 31, 2006, penalties were imposed on us, including delinquency charges and fines, by the tax administration for delinquencies in tax payment in an aggregate amount of approximately RMB 2.20 million.

We have paid all the fines in full and taken the steps suggested by the regulatory authorities to remedy the deficiencies described above. None of these findings have resulted in any material adverse effect on our financial condition or results of operations.

Findings of CBRC Examinations

The CBRC conducts routine or ad hoc on-site and off-site examinations on our bank. These examinations have generally found that our risk management and internal controls have been continuously improved. However these examinations have revealed certain non-compliance incidents in our business activities and certain weaknesses in our internal controls, including incidents of credit extensions in excess of authorization limits or in violation of applicable procedures, accounting irregularities, non-compliance in certain treasury

operations, inadequacies in our internal audit function and weakness in our information technology systems. 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.

To the extent any of the CBRC's findings suggested any material deficiencies in our internal controls, we have taken the necessary steps to correct them. Furthermore, we have reported the status of our implementation of these remedial measures to the CBRC following its inspections. The CBRC indicated in its opinion letters of follow-up inspections that we have corrected the problems identified in its earlier inspections through the implementation of our remedial measures. None of these findings have resulted in any material adverse effect on our financial condition or results of operations. Our staff involved in these non-compliance incidents were front office personnel at branch level.

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. Our efforts to reduce these deficiencies and non-compliance include, among other initiatives, the identification of, and imposition of penalties on, the personnel who were responsible for these incidents, the reinforcement of implementation of rectification measures, the increase in frequencies and scales of internal on-site and off-site inspections, the initiation of compliance training program for all levels of employees and management personnel, the introduction of more rigorous internal control policies and procedures, the development of more advanced information technology systems, and the implementation of organizational reforms designed to enhance internal controls and prevent further non-compliance. However, we cannot assure you that these measures have been fully or effectively implemented. See "Risk Factors — Risks Relating to Our Business — We cannot assure you that our risk management and internal control policies and procedures can adequately control or protect us against credit and other risks".

None of our directors, supervisors or members of senior management have been involved in any of the legal or administrative proceedings or incidents of misconduct or non-compliance described above.

Special Events

Incidents of criminal offenses occur from time to time at our bank. We report these incidents immediately to the law enforcement authorities for investigation. Among those investigated, since January 1, 2003, we experienced only one incident involving an amount of at least RMB30 million (which is described below) that may implicate potential internal control weaknesses at one of our sub-branches. However, we do not believe that these potential internal control weaknesses implicated any material deficiency in our internal controls. Except for the incidents disclosed in this prospectus, we are not aware of any other fraud or misconduct that would, individually or in aggregate, have a material and adverse effect on our financial condition or results of operations.

An Incident Involving Our Certificate of Deposit Business

On May 11, 2006, the Pudong sub-branch outlet of our Shanghai branch discovered that the deposits of RMB 40 million of one of our corporate customers were illegally transferred, and the customer's certificate of deposits was forged. The Shanghai branch immediately reported the incident to our head office and the relevant law enforcement authorities. Based on the investigation, it is suspected that an external group and an employee with our Pudong branch conspired to forge the customer's certificate of deposits and stamps, and transfer the funds from the customer's account to the accounts controlled by the group. Criminal proceedings have been brought against those suspects. None of our directors, supervisors or members of senior management have been involved in this incident. As of December 31, 2006, no claims have been brought against us by the customer. With assistance from law enforcement authorities, we have recovered RMB 13.6 million from the suspects. We expect to recover more from the suspects and other sources, including our insurance policy. As of December 31, 2006, we have made a provision of RMB 20 million for this incident. Our directors believe such provision is adequate. We believe the incident will not result in any material and adverse effect on our business, financial condition or results of operations.

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In response to this incident, we have imposed severe penalties on the responsible personnel and turned over the suspected criminal to the relevant law enforcement authorities. We have also set up a special working group to fully cooperate with the relevant law enforcement authorities in their investigations. To prevent the reoccurrence of such incidents, we have conducted large-scale internal on-site inspections of circumstances surrounding the opening and closing of bank accounts as well as large fund transfer and withdrawals by our corporate customers, and taken necessary steps to correct the operational deficiencies revealed by the inspections.

Other Incidents

Other incidents include, among others, misappropriation and embezzlement of customers' and bank's funds, as well as forgery of bank documentation. We have dealt strictly with the perpetrators in accordance with our internal control procedures and adopted tailored corrective measures as necessary to address any operational or internal control-related weaknesses evidenced by these cases. None of our directors, supervisors or members of our senior management were involved in these incidents. We believe that the financial losses and other negative factors resulting from these irregular incidents have not had, either individually or in aggregate, any material adverse effect on our business, financial condition and results of operations. Nevertheless, we will continue to strengthen our internal controls and risk management function with the goal of successfully detecting and preventing such irregular incidents from recurring in the future. Our recent initiatives to reduce the occurrence of irregular incidents and strengthen our internal controls include, among others, the initiation of compliance training program for all levels of employees and management personnel, the increase in frequency and scale of internal on-site and off-site examinations, the reinforcement of implementation of rectification measures, and the introduction of more rigorous and comprehensive internal control policies and procedures. See, however, "Risk Factors — Risks Relating To Our Business — We cannot assure you that our risk management and internal control policies and procedures can adequately control or protect us against credit and other risks," and "— We may encounter difficulties in effectively implementing centralized management and supervision of our branches, as well as consistent application of our policies throughout the bank, and we cannot assure you that it is always possible to detect and prevent fraud or other misconduct committed by our employees or third parties."