

REPORT OF THE BOARD OF DIRECTORS

The Board is pleased to present its report together with the audited financial statements of the Group prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2006 as set forth in the "Financial Statements".

Principal Activities

The Group is engaged in the provision of a range of banking products and services and related financial services.

Profits and Dividends

The profit of the Group for the year ended 31 December 2006 and the state of the Group's financial affairs as at that date are set out in the "Financial Statements" on pages 102 to 217.

The Board recommends the payment of a cash dividend in the amount of RMB0.092 per share, totalling approximately RMB20,671 million in respect of the financial year ended 31 December 2006, subject to the approval of shareholders at the forthcoming annual general meeting. If approved, the dividend will be paid to shareholders whose names appear on the register of members of the Bank as at Monday, 21 May 2007.

Reserves

Please refer to the consolidated statement of changes in equity for details of the movements in the reserves of the Group for the year ended 31 December 2006. Other details of the reserves are set out in notes 30 and 31 to the "Financial Statements".

Summary of Financial Information

Please refer to the "Five-Year Financial Summary" for the summary of the operating results, assets and liabilities of the Group for the five years ended 31 December 2006.

Donations

Donations made by the Group during the year ended 31 December 2006 for charitable and other purposes amounted to RMB21.68 million.

Property and Equipment

Please refer to note 21 to the "Financial Statements" for details of movements in the property and equipment of the Group for the year ended 31 December 2006.

Ultimate Parent and its Subsidiaries

Please refer to notes 41 and 19 to the "Financial Statements" for details of the Bank's ultimate parent and its subsidiaries respectively as at 31 December 2006.

Share Capital and Public Float

Please refer to note 30 (a) to the "Financial Statements" for details of the movements in share capital of the Bank during the financial year.

Based on publicly available information at the latest practicable date prior to the publication of this report, the Bank has maintained the prescribed public float under the Listing Rules.

Purchase, Sale and Redemption of Shares

There was no purchase, sale or redemption by the Bank or any of its subsidiaries of the listed securities of the Bank during the year ended 31 December 2006.

Retirement Benefits

Please refer to note 28 to the “Financial Statements” for details of the retirement benefits provided to employees of the Group.

Pre-emptive Rights

The Articles of Association of the Bank and the relevant PRC law do not have such provisions under which the Bank’s shareholders have pre-emptive rights. The Articles of Association provides that if the Bank wishes to increase its capital, it may issue new shares to non-specified investors, may issue shares to existing shareholders or issue shares by way of distribution to existing shareholders, may transfer capital from its capital accumulation fund to increase its share capital, or through other means permitted by law or regulation.

Major Customers

For the year ended 31 December 2006, the total of interest income and other operating income from the five largest customers of the Group represented an amount not exceeding 30% of the total of interest income and other operating income of the Group.

Directors and Supervisors

The biographical details of the current directors, supervisors and senior management of the Bank are set out in the “Profiles of Directors, Supervisors and Senior Management”. The details of changes in directors and supervisors during 2006 and details of re-election of the Board and board of supervisors at the forthcoming 2006 annual general meeting are set out in the “Corporate Governance Report”.

The Bank has received from each of its independent non-executive directors the confirmation of his/her independence. The Bank considers the existing independent non-executive directors are in compliance with the independence guidelines set out in Rule 3.13 of the Listing Rules, and are accordingly independent.

Material Interests and Short Positions

As at 31 December 2006, the interests and short positions of substantial shareholders and other persons of the Bank in the shares and underlying shares of the Bank as recorded in the register required to be kept under section 336 of the Securities and Futures Ordinance ("SFO") were as follows:

Name	Number of H shares held			% of total issued shares
	Held directly	Held indirectly	Total holding	
Huijin ¹	138,150,047,904	20,692,250,000	158,842,297,904	70.69%
Jianyin ¹	20,692,250,000	—	20,692,250,000	9.21%
BAC ²	19,132,974,346	—	19,132,974,346	8.52%
Temasek ³	—	13,576,203,750	13,576,203,750	6.04%
AFH ⁴	13,207,316,750	—	13,207,316,750	5.88%

1. As Huijin directly controls one-third or more of the voting rights in the shareholders' meetings of Jianyin, in accordance with the SFO, the interests directly held by Jianyin are deemed to be indirect interests of Huijin.
2. BAC holds an option to acquire the Bank's H shares representing a total of 19.90% of our issued share capital (excluding any shares already held by BAC as at that date), which is in the form of a physically settled unlisted derivative.
3. Temasek's interests in the Bank are held through its indirect interests in the following entities, the respective direct shareholdings of which are set out below.

Entity	Number of H shares held
AFH	13,207,316,750
Aranda Investments Pte Ltd	360,700,000
CESMA International Private Limited	62,000
Fullerton (Private) Limited	862,000
PSA Corporation Pte Ltd	291,000
PSA International Pte Ltd	583,000
Singapore Technologies Marine Ltd	606,000
The Rohatyn Group Asia Opportunity Fund, Ltd	3,887,000
Vision Tech Investment Pte Ltd	1,896,000

4. As AFH is a wholly-owned subsidiary of Temasek, in accordance with the SFO, the interests directly held by AFH are deemed to be indirect interests of Temasek.

Save as disclosed above, as at 31 December 2006, in the register required to be kept under Section 336 of the SFO, no other persons or companies were recorded as holding any interests or short positions in the shares or underlying shares of the Bank that would fall to be disclosed by the Bank under Division 2 and 3 of Part XV of the SFO.

Directors' Financial, Business and Family Relationships

There are no relationships among the directors of the Bank, including financial, business, family or other material relationships.

Directors' and Supervisors' Interests in Contracts and Service Contracts

For the year ended 31 December 2006, no director or supervisor of the Bank had any material interest, whether directly or indirectly, in any contract of significance in relation to the Group's business entered into by the Bank, any of its holding companies or subsidiaries or subsidiaries of the Bank's holding companies, apart from service contracts.

None of the directors and supervisors of the Bank has entered into a service contract with the Bank that is not terminable by the Bank within one year without payment of compensation (other than statutory compensation).

Directors' and Supervisors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2006, none of the directors and supervisors of the Bank had any interests or short positions in the shares, underlying shares and debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Bank and The Stock Exchange of Hong Kong Limited pursuant to Appendix 10 of the Listing Rules: Model Code for Securities Transactions by Directors of Listed Issuers.

As at 31 December 2006, the Bank has not granted its directors or supervisors, or their respective spouses or children below the age of 18 any rights to subscribe for the shares or debentures of the Bank or any of its associated corporations and none of them has ever exercised any such right to subscribe for shares or debentures.

Directors' Interests in Competing Businesses

None of the directors of the Bank directly or indirectly has any interest that constitutes or may constitute a competing business of the Bank.

Material Legal Proceedings

As at 31 December 2006, as far as the Bank is aware, the Bank was not involved in any material litigation or arbitration and no material litigation claims were pending or threatened or made against the Bank.

Remuneration Policy for the Directors, Supervisors and Senior Management

We have established interim measures for remuneration and annual bonus for our directors, supervisors and senior management, and continually seek to improve the performance evaluation system and incentive and disciplinary mechanism for our directors, supervisors and senior management.

The Bank's remuneration policy for directors, supervisors and senior management takes into consideration the interests of individuals and the Bank as well as shareholders' value. Individuals are remunerated based on their contribution to the Bank and their positions, with a system of performance bonuses. The principles of incentives and disciplines are also applied to our remuneration policy. The remuneration package comprises salary, annual bonus and long-term incentive and subsidies. The Bank participates in the relevant PRC mandatory retirement schemes for its directors, supervisors and senior management and other employees. The Bank's long-term incentive scheme will be implemented subject to obtaining the necessary approvals.

Corporate Governance

We are committed to maintaining the highest standard of corporate governance practices. Information on the corporate governance practices adopted by the Bank and our compliance with the Code is set out in the "Corporate Governance Report".

Compliance with Hong Kong Monetary Authority Supervisory Policy Manual on Financial Disclosure by Locally Incorporated Authorised Institutions

In preparing the financial statements for 2006, the Bank has fully complied with the guidelines set out in the Supervisory Policy Manual on Financial Disclosure by Locally Incorporated Authorised Institutions issued by the Hong Kong Monetary Authority.

Auditors

Our domestic auditors were KPMG Huazhen and our international auditors were KPMG for the year 2006. The Board will table a resolution at the forthcoming 2006 annual general meeting, proposing to reappoint KPMG Huazhen as our domestic auditors and KPMG as our international auditors for the year 2007.

By order of the Board of Directors



Chairman

13 April 2007