

REPORT OF THE BOARD OF SUPERVISORS

In 2006, pursuant to the relevant provisions of the PRC Company Law and the Articles of Association of the Bank, the board of supervisors performed its duties earnestly and conducted supervision actively in order to safeguard the interests of the shareholders and the Bank.

In 2006 the board of supervisors held six meetings and reviewed twenty-one proposals, six of which were submitted to the general meeting of shareholders for consideration. According to the amended Articles of Association, two new employee representative supervisors were elected. New members were elected to the performance and due diligence supervision committee and the financial and internal control supervision committee. Relevant rules and regulations of the board of supervisors were amended and refined. The board of supervisors considered its annual report and the final accounts and profit distribution plan of the Bank, and studied and deployed the work of the board of supervisors in different phases. The performance and due diligence supervision committee held four meetings and reviewed ten proposals; the financial and internal control supervision committee held six meetings and reviewed nine proposals. The supervisors attended the annual general meeting and extraordinary general meeting of the shareholders in 2005. Additionally, they attended the meetings held by the Board, the relevant Board committees and the senior management as non-voting attendees.

In light of actual conditions of the reform and development of the Bank, the board of supervisors kept focused on the key aspects of

supervisory work and carried out targeted inspections. The board of supervisors actively explored ways to bring the role of supervisory work at full play, made timely prompts and suggestions in many forms to respective parties on problems found in the course of supervisory inspections and items calling for attention, and effectively improved related aspects and enhanced the results of supervision.

In respect of performance and due diligence, the board of supervisors made special efforts to explore new methods of supervision; amended and refined the supervisory rules; improved the form and content of the performance and due diligence assessment; enlarged the scope of visits and interviews; listened to evaluations, comments and suggestions from various sides regarding the performance and due diligence of the Board, senior management and their members; carefully reviewed proposals and background materials of the Bank in relevant meetings, and strengthened the supervision of the compliance with laws, regulations and the Articles of Association of the Bank; and supervised the implementation of shareholder resolutions by the Board and the implementation of Board resolutions by the senior management. In respect of financial and internal control supervision, the board of supervisors actively conducted off-site analysis and, based on such analysis, carried out special investigations or inspections regarding the extension of credit, the risk classification of credit assets, funds denominated in foreign currencies and information technology. The board of supervisors reviewed the periodic financial statements earnestly, and enhanced communication with the external auditors and the respective departments. The board of

supervisors paid great attention to connected transactions and material acquisitions and disposals of assets; and maintained routine communication with the Board committees and relevant departments on these items.

In the opinion of the board of supervisors, in 2006 the Bank continued to improve its corporate governance, its businesses developed rapidly, operating productivity grew steadily, and the asset quality was further improved. The Board performed its duties pursuant to relevant laws, implemented resolutions adopted by the general meeting of shareholders, and played an active role in major business decisions. The senior management organised business activities pursuant to relevant laws, implemented Board resolutions earnestly, endeavoured to put the development strategies into effect, improved operational and management reform, and enhanced the market competitiveness and profitability of the Bank. The current directors and senior executives were diligent in carrying out their duties, and enquiries revealed that they did not contravene any laws, regulations or the Bank's Articles of Association, nor did they commit any acts detrimental to the interests of the shareholders and the Bank during the reporting period.

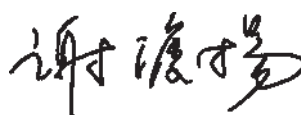
KPMG conducted an audit of the financial statements of the Bank for the year 2006 in accordance with the Hong Kong Standards on Auditing, and issued a standard and unqualified audit report, stating that the financial statements gave a true and fair view of the financial position, operating results, and cash flow.

The board of supervisors is not aware of any related party transactions conducted by the Bank against fair and reasonable principle, or any acts in acquisition or sale of assets detrimental to the interests of the shareholders or leading to a drain on the Bank's assets in 2006.

Looking forward to the coming year, the Board should further enhance the quality of its decision-making, lead the Bank to deal with the relationship between the growth rate, asset size and quality and productivity properly, so as to ensure the prudent operations and healthy development of the Bank. The senior management should further improve operational and management system reform, strengthen essential management and internal controls, and enhance the core competitiveness of the bank on the whole.

The board of supervisors will endeavour to improve the methods of supervision, and strengthen its supervision on the performance and due diligence of the Board, senior management and their members as well as on the financial and internal control of the Bank, so as to play a better role of supervision and checks and balances.

By order of the board of supervisors



Chairman of the board of supervisors

13 April 2007