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OVERVIEW

We are a leading commercial bank in China providing a comprehensive range of commercial banking products and services. According to the PBOC, as of June 30, 2005, we had market shares of approximately 12.0% in total loans and approximately 13.2% in total deposits. As of June 30, 2005, we had RMB 4,224.1 billion (US\$521.8 billion) in total assets, RMB 2,374.4 billion (US\$293.3 billion) in total loans and RMB 3,781.3 billion (US\$467.1 billion) in total deposits. According to *The Banker* magazine, we were the 35th largest bank in the world based on total assets as of December 31, 2004. We were named by *The Banker* magazine as the “Bank of the Year” in China in 2005.

We primarily operate in China, and our principal business activities consist of corporate banking, personal banking and treasury operations. We are among the market leaders in China in a number of products and services. According to the PBOC, as of June 30, 2005, we were:

- the second largest lender of infrastructure loans among commercial banks, with a market share of 27.7%;
- the largest lender of residential mortgage products based on the sum of entrusted provident housing fund mortgage loans and residential mortgage loans, with a market share of 23.1%; the largest administering bank of provident housing fund deposits, with a market share of 62.2%; the largest lender of entrusted provident housing fund mortgage loans, with a market share of 54.9%; and
- the second largest issuer of bank cards, with a market share of 18.7%.

In addition, we are the only commercial bank in China approved to provide project cost evaluation services and to securitize our residential mortgage loans.

We have an extensive customer base, with established banking relationships with many of the largest business groups and leading companies in industries which are strategically important to China’s economy. As of June 30, 2005, we had an established nationwide base of approximately 68,000 corporate loan and discounted bill customers, and approximately 146 million active personal deposit accounts. We believe “China Construction Bank” is one of the most recognized financial services brands in China.

We are headquartered in Beijing, China and have an extensive network of approximately 14,250 branch outlets as of June 30, 2005. In addition, we have two joint-venture subsidiaries in China and maintain overseas branches in Hong Kong, Singapore, Frankfurt, Johannesburg and Seoul; representative offices in New York and London; and a subsidiary bank, Jian Sing Bank Limited, in Hong Kong.

OUR COMPETITIVE STRENGTHS

We believe the following strengths provide us with a stable and effective platform from which we can continue to successfully compete in China’s banking industry.

Large Customer Base and Established Relationships

We have an established nationwide base of approximately 68,000 corporate loan and discounted bill customers, and approximately 3.2 million corporate deposit accounts as of June 30, 2005. We have commercial banking relationships with 97 of the largest 100 enterprises in China as ranked by the China Enterprise Confederation and the China Enterprise Directors Association based on operating revenue as of June 30, 2005. As a leading provider of capital for infrastructure projects in China, we have built and continue

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to maintain strong relationships with leading corporations in China's strategically important industries and with major government agencies and financial institutions.

We also have an established nationwide base of retail customers. As of June 30, 2005, we had approximately 146 million active personal deposit accounts, which we define as those with balances of RMB 100 or more. As of the same date, we had approximately 2.7 million residential mortgage loan accounts with outstanding balances, 28 million provident housing fund deposit customers and 1.7 million customers with entrusted provident housing fund mortgage loans outstanding.

We believe we have long-standing, preferred relationships with segments of corporate and personal banking customers with fast-growing banking needs. This gives us the opportunity to continue to increase our product penetration and cross-selling to these customers.

Leading Positions in Key Products with High Growth Potential

We are a leading and well-recognized provider of medium- and long-term loans to major infrastructure projects and large- and medium-sized enterprises. Capitalizing on our experience as a bank specialized in infrastructure project lending, we have consistently maintained a leading market position in this field. In addition, as the only commercial bank in China that provides project cost evaluation services, we have a competitive advantage in offering differentiated services to our infrastructure lending customers.

We are also a market leader in personal banking. According to the PBOC, we were the largest lender of residential mortgage products based on the sum of entrusted provident housing fund mortgage loans and residential mortgage loans as of June 30, 2005. In addition, according to the PBOC, we were the second largest issuer of bank cards in China with approximately 157 million debit cards, 4.4 million quasi-credit cards and 2.4 million credit cards issued, as of June 30, 2005. We believe we have developed a strong personal banking franchise characterized by widely recognized personal banking brands, including the "Long," or "Dragon," card brand.

We believe we are well-positioned in and will continue to benefit from the growth potential of the corporate and personal banking market segments.

Extensive Distribution Network

Our extensive branch network in China consisted of approximately 14,250 branch outlets, 13,677 ATMs, and 589 self-service banking centers as of June 30, 2005. Through our branch network, we maintain a presence in every major geographical market in China. We also serve our corporate customers through more than 18,000 corporate relationship managers and our high-income retail customers through more than 11,300 retail customer managers. Customers also access our services through electronic banking channels such as internet banking, telephone banking and mobile phone banking, and certain of our preferred corporate customers access collection, fund transfer, payment and settlement services through our dedicated electronic information exchange and financial service platform.

We believe our distribution network gives us an advantage in competing for large corporate customers based on our ability to provide coordinated services on a nationwide basis, and for retail customers based on the convenience of access to our branches and our electronic banking channels. We also use our existing branch network to distribute both our proprietary and third-party products and services.

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Enhanced Risk Management Practices

We believe we were one of the earliest banks in China to focus significant resources and management attention on developing and implementing increasingly sophisticated risk management techniques based on international best practices. For example, we have centralized our risk management through progressively reduced branch-level credit authorization limits; established a separate risk management department to manage credit, market and operational risks; separated the credit approval function from loan origination; and appointed full-time credit approval officers to improve the independence of our credit application approval process. In addition, we implemented the PBOC's five-category loan classification system and subsequently strengthened its application. We believe our sustained focus on risk management has contributed to our superior asset quality relative to the other three big four commercial banks.

Cost-efficient Operations and Enhanced Financial Management Tools

We believe our operations are highly efficient. Our cost-to-income ratio is the lowest among the big four commercial banks, one of the lowest among national commercial banks, and comparable to those of international banks. Our management team has maintained a consistent focus on prudent cost control. For example, we have applied strict centralized procurement procedures and capital expenditure controls, rationalized our branch network and significantly reduced the size of our staff. As a result of our efforts, we reduced our cost-to-income ratio to 38.93% for the six months ended June 30, 2005 from 50.12% in 2002.

We began in 2002 to implement risk-adjusted return on capital metrics in evaluating our financial performance. We believe we are currently the only major bank in China to systematically utilize the economic value added methodology as a financial management tool. We utilize these tools to allocate capital among our branches and measure the performance of our branches and their management. We believe that the use of these tools has contributed to improving our capital efficiency and the return on our capital, and will help us continue to develop a corporate culture focused on shareholder value creation.

Improved Asset Quality and Capital Adequacy

We believe that, as a result of the combination of the enhancements we have made in our risk management policies and procedures, additional capital received in our restructuring, and the disposal and write-off of a substantial portion of our non-performing loans in connection with our restructuring, we have significantly improved our asset quality and strengthened our capital base. Our non-performing loan ratio decreased to 3.91% as of June 30, 2005 from 3.92% as of December 31, 2004, 4.27% (12.42% excluding the impact of the restructuring-related disposal and write-off) as of December 31, 2003, and 16.97% as of December 31, 2002. Even excluding the impact of the restructuring-related disposal and write-off, our non-performing loan ratio would have decreased between 2002 and June 30, 2005. In addition, for corporate loans and discounted bills to our Pre-existing Customers, our non-performing loan ratio decreased to 7.10% as of June 30, 2005 from 7.15% as of December 31, 2004, 8.25% (22.49% excluding the impact of the restructuring-related disposal and write-off) as of December 31, 2003, and 25.05% as of December 31, 2002. For corporate loans and discounted bills to our New Customers, our non-performing loan ratio was 2.36% as of June 30, 2005. For definitions of Pre-existing Customers and New Customers, see "Assets and Liabilities — Assets — Asset Quality of Our Loan Portfolio — Changes in the Asset Quality of Our Loan Portfolio."

We also believe our non-performing loan ratio has consistently been the lowest among the big four commercial banks in recent years; our non-performing loan ratio as of June 30, 2005 of 3.91% was significantly below the average non-performing loan ratio for the big four commercial banks of 10.12% and below the average non-performing loan ratio for the other national commercial banks of 4.66%. Our capital adequacy

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ratio of 10.71% as of June 30, 2005 was, we believe, among the highest of the big four and other national commercial banks.

Overall, we believe that our improved asset quality and strengthened capital base provide us with a solid foundation on which to continue to expand and develop our business.

Experienced Management Team

Our senior management team has extensive experience in the banking and financial sector in China with an average of twenty years' experience in the financial sector. Our chairman, Mr. Guo Shuqing, has held a number of key leadership positions within the financial sector, most recently as deputy governor of the PBOC and the director of the SAFE. Our president, Mr. Chang Zhenming, has held senior positions in key financial institutions both domestically and internationally and has twenty-two years of banking and financial sector management experience. In addition to our senior management, we focus on attracting and retaining high quality mid-level management personnel through our commitment to a performance-based culture.

Strategic Cooperation with Bank of America

We have established a strategic relationship with Bank of America under which Bank of America has acquired a significant equity interest in us with an option to increase its interest to 19.9%. We have agreed to cooperate in a number of strategic business areas, including credit cards, consumer banking and global treasury services. Bank of America has also agreed to provide us with assistance and expertise in certain functional areas including risk management, corporate governance and information technology. Bank of America will provide approximately 50 personnel to advise us in the above areas over the course of our strategic cooperation. We believe we will benefit from Bank of America's experience and expertise and enhance our competitiveness in the above cooperation areas as a result of our strategic relationship with Bank of America.

OUR STRATEGY

We seek to become a world-class bank by providing the best service to our customers and maximizing shareholder value with a first-class team.

We intend to focus our efforts on our target customers, products and geographical regions, with specific emphasis on the following:

- *Customers.* We intend to strengthen our historically strong relationships with our large corporate customers by focusing on industry leaders in strategic industries such as power, telecommunications, oil and gas, and infrastructure, as well as major financial institutions and government agencies, and by selectively developing relationships with small- and medium-enterprise customers. In the personal banking segment, we intend to increase our revenue from high-income retail customers, while capitalizing on our cost efficiency and economies of scale to serve our mass market customers more efficiently.
- *Products.* We intend to develop our wholesale and retail products with a focus on fee-based businesses, including payment and settlement services, personal wealth management and corporate treasury management. We intend to proactively grow our personal banking business with a focus on residential mortgages and diverse savings products, and to build an industry-leading credit card business.

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- *Geographical regions.* We intend to prioritize our efforts in the major cities of the more developed geographical markets of the Yangtze River Delta, Pearl River Delta and Bohai Rim regions. We also intend to accelerate our development in the capital cities of inland provinces in China.

To achieve these goals, we intend to continue to improve our capabilities in the following key areas.

Further Strengthen Our Risk Management Capabilities and Internal Controls

We intend to further strengthen our risk management capabilities and internal controls by enhancing the independence of our risk management and internal audit functions and implementing advanced risk management tools, policies and procedures. We intend to strengthen the vertical reporting line and accountability of our risk management function to the CRO and, through the CRO, to our president and the risk management committee of the board of directors. We intend to increase the effectiveness of our internal controls by strengthening the vertical structure of our internal audit function, where the general auditor reports directly to our president, the audit committee of the board of directors and the board of supervisors. In addition, we are introducing advanced risk management tools to measure, control and manage credit risks and market risks. In particular, we plan to fully implement by the end of 2005 our credit risk rating and early warning, or CRREW, system, which will help us identify and manage risk concentrations in our corporate loan portfolio and assist us in more accurately assessing the creditworthiness of our corporate loan customers, and fully implement a tailored consumer credit assessment system by the end of 2006 to improve our risk assessment and management in our personal banking business. We also intend to enhance our ability to manage operational risk by fully implementing our “Risk Management Platform” project on a bank-wide basis by the end of 2005.

Improve Client Management and Enhance Product Offerings

We intend to foster a customer-focused service culture throughout our entire organization and provide the best product and service offerings to our customers.

We intend to consolidate our position in corporate banking through enhanced product and service capabilities. In particular, we are investing in building customer relationship manager teams with advanced skills in understanding our customers’ business and banking needs. We also intend to introduce specialized product manager teams to develop customized products, with an emphasis on medium- to long-term corporate lending and fee- and commission-based products. We have recently established a dedicated department serving major business groups in China, with a view to enhancing our marketing efforts to these group customers and providing coordinated client management and tailored products and services. At the same time, we are building specialized customer manager teams and credit assessment teams that focus on the small- and medium-sized enterprise segment in target geographical areas where returns are attractive and where we can implement differential pricing.

We plan to significantly grow our personal banking business by increasing our product and service focus on our high-end customers. We intend to provide differentiated services to those customers through specialized distribution channels and enhanced product offerings. In particular, we intend to expand our retail customer manager teams, the number of personal wealth management centers and our electronic banking solutions as alternative channels for our high-end customers to access our services. We also intend to strengthen our product manager teams to better understand our customers’ banking needs and purchase patterns and to develop more tailored products. We intend to focus on cross-selling key products and services,

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including residential mortgages, credit cards, personal consumption loans and personal wealth management services, by leveraging our large and established retail customer base.

Further Enhance Our Financial Management Capabilities and Financial Controls

We intend to continue to enhance our financial management capabilities by reorienting our financial management functions from a cost-based approach to a comprehensive, value-based approach. We plan to improve our financial management and sharpen our focus on balancing risks and returns through the continued application of the economic value added methodology and other key performance indicators, such as return on assets, return on equity and cost-to-income ratio. We intend to further improve our ability to manage interest rate and foreign exchange rate risk by strengthening our asset and liability management. In addition, we intend to enhance our capital management by diversifying our sources of capital and utilizing our capital more efficiently.

We have made improvements in, and intend to continue improving, our financial and accounting management functions and our financial controls and procedures. With respect to financial and accounting management, we are enhancing the co-ordination among the planning and financial, accounting and IT departments and are improving the quality of our management accounting through such measures as the introduction of financial management tools to enhance the allocation of revenues and expenses among business lines, products and customer groups, and improvements in the supporting IT infrastructure. We are enhancing the quality, integration and implementation of our financial control procedures in such areas as off-balance sheet transactions, the co-ordination and consistency in financial controls between our head office and our branches, and the development of uniform controls over our financial and accounting systems.

In addition, we intend to focus on strengthening our expertise and level of experience in IFRS in order to further enhance the quality and transparency of our disclosure to our shareholders.

Improve the Efficiency of Our Operations

We have begun to reorganize our management structure from managing our business primarily along geographical lines to one in which our business is managed both through business segments and along geographical lines. In the future, we intend to manage our business primarily through business segments. In addition, we are continuing to rationalize our branch network in geographical areas with low profit while expanding into our target geographical regions. We intend to further streamline our organizational structure and reduce operational redundancies to lower cost and improve efficiency. We also plan to leverage information technology to further expand our electronic distribution channels, including internet banking, telephone banking and mobile phone banking, in an effort to increase the percentage of transactions conducted through these lower-cost electronic channels.

Implement Information Technology Systems to Support Evolving Business Operations

We believe advanced information technology systems are critical for us to effectively manage our business in an increasingly competitive environment. We intend to develop and implement bank-wide systems that will help improve our decision-making process, client management, operational management and credit risk management. In particular, we implemented a new transaction processing system known as the unified core banking system in September 2005. Under this new system the processing of the majority of our customer transactions and the generation of our general ledger has been consolidated into two processing centers. We are also making investments to improve our information security and disaster recovery capabilities to ensure the continuous operation of our information systems.

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Promote Accountability and a Performance-driven Culture

Our ability to compete depends on our ability to attract, retain and motivate high-performing employees and to link their compensation with their performance. We are refining the economic value added methodology as a core management tool to measure the performance of our branches and our branch managers. We are also refining our key performance indicators to measure the performance of our managers and senior staff. In addition, we are introducing a stock appreciation rights plan for our senior management in order to establish a performance-driven and shareholder value-oriented corporate culture. Furthermore, we are conducting extensive employee training to improve and upgrade the skills of our employees.

Pursue New Business Opportunities

We believe we have opportunities to enter new businesses as restrictions on certain financial service business areas are lifted for commercial banks in China. We are the only commercial bank approved by the government to conduct mortgage-backed securitizations and expect to complete our first securitization transaction, in which we will securitize a portfolio of residential mortgage loans with a total principal amount of up to RMB 3.0 billion, by the end of 2005. We are also one of three pilot banks permitted to operate a fund management business. In September 2005, we established CCB Principal Asset Management Co., Ltd. as a joint-venture fund management company. In addition to these new business areas, we intend to continue to explore cooperation opportunities with insurance companies, securities firms and other non-bank financial institutions and to evaluate other new business opportunities. In entering new businesses, we intend to leverage our scale and our market position to enhance our ability to cross-sell to our existing customers.

OUR PRINCIPAL BUSINESS ACTIVITIES

Historically, we managed our business primarily along geographical lines in a tiered structure, whereby branches were broadly categorized into tier-1 branches, tier-2 branches and lower level branch outlets. Our tier-1 branches, generally located in provincial capitals or other major cities, reported directly to the head office. Each tier-1 branch managed all tier-2 branches within its assigned geographical area, and each tier-2 branch managed other lower level outlets, including deposit-taking offices, within its assigned geographical area.

We have begun to reorganize our management structure with a view to managing our business primarily through business segments. We intend to complete this reorganization by 2007. We believe this new management structure, upon full implementation, will enhance our ability to better assess and manage the financial performance of each of our business segments.

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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 an explanation of the basis on which this information was prepared, see “Financial Information — Summary Segment Operating Results — Summary Business Segment Information.”

	For the year ended December 31,						For the six months ended June 30,			
	2002		2003		2004		2004		2005	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(unaudited)									
	(in millions of RMB, except percentages)									
Corporate banking	56,998	66.9%	64,793	65.7%	65,412	57.4%	30,361	56.7%	36,638	58.2%
Personal banking	16,106	18.9	20,785	21.1	31,237	27.4	15,382	28.7	15,952	25.4
Treasury operations	12,974	15.2	13,522	13.7	15,147	13.3	7,987	14.9	10,300	16.4
Others and unallocated ⁽¹⁾	(879)	(1.0)	(496)	(0.5)	2,180	1.9	(145)	(0.3)	32	0.0
Total operating income	<u>85,199</u>	<u>100.0%</u>	<u>98,604</u>	<u>100.0%</u>	<u>113,976</u>	<u>100.0%</u>	<u>53,585</u>	<u>100.0%</u>	<u>62,922</u>	<u>100.0%</u>

(1) Includes overseas operations.

Unless otherwise indicated, in the following discussion under this “Business” section, all financial data presented are for our domestic operations.

Corporate Banking

Our corporate banking business offers a broad range of commercial banking products and services to corporations, government agencies and financial institutions. We have a leading market position in a number of corporate banking products such as infrastructure loans and discounted bills. As of June 30, 2005, we had RMB 1,743.4 billion of corporate loans, representing 73.4% of our total loan portfolio, and RMB 168.0 billion of discounted bills outstanding, representing 7.1% of our total loan portfolio. As of the same date, we had RMB 1,952.9 billion of corporate deposits, representing 51.6% of our total deposits. For the six months ended June 30, 2005, net fees and commissions from our corporate fee- and commission-based products and services were RMB 1.8 billion, representing 46.9% of our total fees and commissions.

Corporate Loan Products

Corporate loans have been historically the largest component of our loan portfolio. Our corporate loan products consist primarily of fixed asset loans and working capital loans. As of June 30, 2005, we had RMB 1,743.4 billion of corporate loans outstanding. Our corporate loans outstanding increased to RMB 1,624.4 billion as of December 31, 2004, from RMB 1,508.5 billion as of December 31, 2003, which increased from RMB 1,438.6 billion as of December 31, 2002, representing a compound annual growth rate of 6.3%.

Fixed Asset Loans

We provide various fixed asset loan products to address our corporate customers’ funding needs for infrastructure project development, construction, and the acquisition of machinery and equipment. As of June 30, 2005, we had RMB 780.9 billion of fixed asset loans outstanding, representing 44.8% of our total corporate loans. Our fixed asset loans generally have maturities of one year or more. We classify our fixed asset loans into product categories based on the primary use of the loan proceeds. Our fixed asset loan products primarily consist of infrastructure loans, technological improvement loans and real estate development loans.

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Infrastructure loans are used to finance the construction or expansion of infrastructure projects. We are a market leader in infrastructure lending in China. According to the PBOC, as of June 30, 2005, we were the second largest lender of infrastructure loans among commercial banks in China, with a market share of 27.7%. We believe our history as a bank specializing in providing medium- to long-term financing to government-sponsored infrastructure projects has allowed us to better evaluate projects and to market more effectively infrastructure loans to high quality customers. As of June 30, 2005, we had RMB 504.4 billion of infrastructure loans outstanding, representing 64.6% of our total fixed asset loans.

Technological improvement loans are used to finance fixed asset renovations and improvements, including the acquisition of machinery and equipment as well as any ancillary construction. According to the PBOC, as of June 30, 2005, we were the largest lender of technological improvement loans among commercial banks, with a market share of 48.0%. As of June 30, 2005, we had RMB 103.1 billion of technological improvement loans outstanding, representing 13.2% of our total fixed asset loans.

Real estate development loans are granted to real estate developers to finance the development of residential, commercial and industrial properties. In recent years, we have focused our real estate lending efforts on residential property development projects in order to gain better access to home buyers for the purpose of marketing our residential mortgage products. As of June 30, 2005, approximately 72% of our real estate development loans outstanding were extended to residential property development projects. As of the same date, we had RMB 171.5 billion of real estate development loans outstanding, representing 22.0% of our total fixed asset loans.

Working Capital Loans

We provide working capital loans primarily to meet our customers' working capital requirements. As of June 30, 2005, 77.9% of our working capital loans had a remaining maturity of less than one year. In an effort to improve our asset quality, we have increasingly marketed our working capital loans to our existing fixed asset loan borrowers that have good credit history. As of June 30, 2005, we had RMB 935.3 billion of working capital loans outstanding, or 53.6% of our total corporate loans.

Other Corporate Loan Products

We provide a number of other corporate loan products, including factoring, overdrafts, trade finance facilities, as well as on-lending loans which we borrow from overseas banks to lend to Chinese entities. As of June 30, 2005, we had RMB 27.2 billion of such loans outstanding, representing 1.6% of our total corporate loans.

Discounted Bills

We purchase, at a discount, bank acceptance bills and commercial acceptance bills that generally have a remaining maturity of less than six months. Recently, we have focused on expanding our business in discounted bank acceptance bills because we have historically experienced low loan losses in this product. Discounted bank acceptance bills represented 91.2% of our total discounted bills outstanding as of June 30, 2005. We discount commercial acceptance bills issued only by a limited number of major corporations that have been pre-approved by us.

We have identified discounted bills as one of our key product focuses and have enhanced our related marketing efforts to our existing customers. In 2003, we established a discounted bills center in Beijing to centrally manage our discounted bills business. As of June 30, 2005, we had RMB 168.0 billion of discounted

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bills outstanding. Our discounted bills outstanding increased to RMB 157.3 billion as of December 31, 2004 from RMB 103.4 billion as of December 31, 2003, which increased from RMB 48.9 billion as of December 31, 2002, representing a compound annual growth rate of 79.4%.

Corporate Deposit Products

We offer a variety of time and demand deposit products based on interest rates set by the PBOC. In addition, we also take negotiated time deposits from insurance companies, the National Council for Social Security Fund and the postal savings bureau. The minimum deposit amount for insurance companies is RMB 30 million, with a minimum term of five years. The minimum deposit amount for the National Council for Social Security Fund is RMB 500 million, with a minimum term of five years. The minimum deposit amount for the postal savings bureau is RMB 30 million, with a term of three years. We also negotiate freely the interest rates on foreign currency deposits of US\$3 million or more. According to the PBOC, as of June 30, 2005, we were the second largest deposit-taking bank in China based on total corporate deposits with RMB 1,952.9 billion of corporate deposits and a market share of 13.6%. Our corporate deposits increased to RMB 1,833.5 billion as of December 31, 2004 from RMB 1,694.1 billion as of December 31, 2003, which increased from RMB 1,526.3 billion as of December 31, 2002, representing a compound annual growth rate of 9.6%.

Fee- and Commission-Based Products and Services

We provide our corporate customers with a broad range of fee- and commission-based products and services. Our net fee and commission income from fee- and commission-based products and services to corporate customers increased by 28.6% to RMB 1.8 billion for the six months ended June 30, 2005 from RMB 1.4 billion for the six months ended June 30, 2004. Our net fee and commission income from fee- and commission-based products and services to corporate customers increased to RMB 2,786 million in 2004 from RMB 2,452 million in 2003, which increased from RMB 2,118 million in 2002, representing a compound annual growth rate of 14.7%.

Agency Services

We act as an agent in providing payment disbursement, collection, settlement, clearance and other agency services to corporations and government agencies. According to the MOF, we were the largest disbursement agent for China's State Treasury both based on the number of government units that we served, and based on the amount of funds disbursed for the six months ended June 30, 2005, with a market share of 65.0%. We are a major correspondent bank for China Development Bank, China's largest policy bank. We also distribute products and services on behalf of insurance companies and securities firms, and provide payment and fee collection services to public utility and telecommunications companies. In addition, we provide entrusted lending services to our corporate customers that elect to make loans on an entrusted basis through commercial banks such as us. We charge a fee for providing entrusted lending services and do not take the credit risk with respect to these loans. In addition to generating fee income, our agency services also help us develop and enhance our relationships with our corporate loan customers.

Consulting and Advisory Services

We are the only commercial bank in China licensed to provide project cost evaluation services and believe we have one of China's most experienced teams in this area. We also provide financial advisory

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services to corporations and government agencies in investments, financing, corporate restructuring, mergers and acquisitions, asset management and other financial management areas.

Cash Management Services

We provide cash management services to large corporate customers to assist them in managing their cash flow. Our cash management services enable group companies that operate in multiple locations to manage funds between separate accounts through our proprietary funds settlement network on a real-time basis. Our customers include many of China's leading companies as well as a number of *Fortune 500* multinational corporations with operations in China. We intend to invest more resources to expand our cash management services as we believe that these services will enhance our customers' loyalty and allow us to increase opportunities for cross-selling. In addition, we expect demand for cash management services to continue to grow as the cash management needs of our corporate customers become more sophisticated.

Remittance and Settlement Services

We provide remittance, foreign currency exchange as well as settlement services for bank drafts, bank notes, corporate checks and other negotiable instruments to our corporate customers.

Custody Services

We provide custody, funds settlement, record-keeping, asset valuation, and investment monitoring services to mutual funds, corporate annuity funds, social security funds, insurance companies and qualified foreign institutional investors, or QFIIs, and other corporate and institutional customers. As of June 30, 2005, we had approximately RMB 83.3 billion of assets under custody, of which approximately 70.8% were domestic mutual fund assets. In addition, we are a leading custody bank for QFIIs among Chinese banks.

Guarantee Services

We offer our corporate customers letters of credit, bid bonds, performance bonds and other forms of bank guarantees. Our customers in construction-related industries also often obtain from us bid bonds or performance bonds for their construction projects. Our guarantee services are generally subject to substantially the same credit approval procedures as those applicable to our loan products.

Customer Base

We have extensive business relationships with most of the large business groups and leading companies in China, including, as of June 30, 2005, 97 of the largest 100 enterprises in China ranked by the China Enterprise Confederation and the China Enterprise Directors Association based on operating revenue. Our corporate customers also include many of China's government agencies and financial institutions as well as a number of *Fortune 500* multinational companies with operations in China. As of June 30, 2005, we had approximately 68,000 corporate loan and discounted bill customers, all of which also maintain deposit accounts with us. As of the same date, we had approximately 3.2 million corporate deposit accounts.

We have focused and will continue to focus on the leading companies in industries strategically important to China's economy, such as power, telecommunications, transportation and oil and gas, as our most important corporate customers. As of June 30, 2005, 15.6% of our total corporate loans were to customers in the transportation, storage and postal services sectors; 14.9% to customers in the production and supply of electric power, gas and water sectors; and 4.3% to customers in the telecommunications, computer services and software sectors. Most of these large companies in China's strategic industries are state-owned enterprises

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or state-controlled joint stock companies, although private enterprises have experienced significant growth in China in recent years and have become a major sector in China's economy and an important customer group to us.

Marketing

We employ both bank-wide and localized marketing strategies tailored to specific regions, customers and products. Our head office formulates our overall corporate business development plans and strategies, develops our bank-wide marketing initiatives and establishes general marketing guidelines based on industry, geographical region, customer and product considerations. Our tier-1 branches then develop detailed marketing plans tailored to local needs based on these guidelines. See “— Distribution Channels — Branch Outlets.”

Our marketing efforts to both existing and prospective customers are primarily carried out by our corporate relationship managers. Each corporate relationship manager is responsible for a number of accounts for which he is required to perform periodic customer evaluations. Our corporate relationship managers work closely with other staff specialized in particular products and services in order to cross-sell products and to expand our relationship with the customers. We provide on-going training to our relationship managers to further develop their product knowledge, marketing skills, and credit assessment capabilities. As of June 30, 2005, we had more than 18,000 corporate relationship managers.

We seek to provide differentiated products and services to our most important customers to meet their specific banking needs. Our head office generally coordinates client coverage and marketing efforts for our largest corporate customers in an effort to ensure consistency and quality of service. Our senior management and our branch managers are often directly involved in these marketing efforts, including acting as the lead relationship managers.

We have begun developing a set of marketing initiatives designed to target small- and medium-sized enterprises. For example, we are establishing a number of small- and medium-sized enterprise customer service centers at branches located in selected regions.

Personal Banking

We provide a broad range of personal banking products and services under well-recognized brands. We consider the expansion of our personal banking business to be a key component of our strategy. We have a leading position in a number of products and services such as residential mortgage loans, entrusted provident housing fund mortgage lending services as well as bank cards. As of June 30, 2005, we had RMB 429.2 billion of personal loans outstanding, representing 18.1% of our total loan portfolio, and RMB 1,810.7 billion of personal deposits, representing 47.9% of our total deposits. For the six months ended June 30, 2005, net fees and commissions from our personal fee- and commission-based products and services were RMB 1.8 billion, representing 45.7% of our total fees and commissions.

Personal Housing Financing Services

We were one of the earliest providers and remain a market leader of personal housing financing services in China. According to the PBOC, we were the largest lender of residential mortgage products based on the sum of entrusted provident housing fund mortgage loans and residential mortgage loans outstanding as of June 30, 2005, with a market share of approximately 23.1%; the largest administering bank of provident

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housing fund deposits, with a market share of 62.2%; and the largest lender of entrusted provident housing fund mortgage loans, with a market share of 54.9%.

Residential Mortgage Loans

We provide residential mortgage loans to individuals primarily to finance the purchase or construction of their residential properties. Property developers in China exercise significant influence on a home buyer's choice of mortgage lenders. As a result, a substantial portion of our new home residential mortgage loans are from real estate projects for which we provide real estate development lending. A majority of our residential mortgage loans outstanding are for the purchase of new properties. However, as China's residential property market matures, we expect mortgages for the purchase of secondary market homes to increase as a proportion of our total residential mortgage lending business. We generally offer loans with maturities up to 30 years and for up to 80% of the property value. As of June 30, 2005, residential mortgage loans outstanding totaled RMB 328.7 billion, representing 76.6% of our total personal loans.

Provident Housing Fund and Entrusted Provident Housing Fund Mortgage Lending Services

We are licensed to administer the provident housing fund and provide entrusted provident housing fund mortgage lending services to its members. The national provident housing fund is designed to encourage Chinese citizens to purchase their own homes through savings. It also provides provident housing fund members with access to low-cost loans to finance the purchase of a home. Employees in China are generally required to contribute a portion of their compensation to the provident housing fund, with matching amounts also contributed by their employers. These funds may then be withdrawn by fund members to purchase a home and may be supplemented by additional low-cost loans from the fund or by residential mortgage financing provided by commercial banks. Most of our customers who are provident housing fund members also obtain residential mortgage loans from us.

We receive fees for administering provident housing fund deposits, which also serve as a stable source of funding for us. As of June 30, 2005, we had approximately RMB 116.6 billion of provident housing fund deposits.

We also receive fees for providing entrusted provident housing fund mortgage lending services, whereby we disburse entrusted provident housing fund mortgage loans under the provident housing fund on behalf of the fund authorities and monitor the status of such loans. We do not bear credit risk in relation to these entrusted provident housing fund mortgage loans. As of June 30, 2005, we had established business relationships with approximately 350 local provident housing fund authorities. As of the same date, we managed approximately RMB 127.9 billion of entrusted provident housing fund mortgage loans.

We believe our position as the largest administrator of China's national provident housing fund and the largest provider of entrusted provident housing fund mortgage lending services continues to provide us with significant opportunities to market our residential mortgage products to entrusted provident housing fund loan customers.

Individual Commercial Property Mortgage Loans

We grant commercial property mortgage loans to individuals in order to finance their purchase of commercial real estate. These loans generally are secured by the underlying property, have a maximum maturity of ten years and are financed for up to 60% of the property value. As of June 30, 2005, our individual

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commercial property mortgage loans outstanding totaled RMB 35.3 billion, representing 8.2% of our total personal loans.

Home Savings Bank

In February 2004, we formed a Chinese home savings bank, Sino-German Bausparkasse Corporation Limited, with Bausparkasse Schwaebisch Hall, a German home savings bank. We hold a 75.1% equity interest in Sino-German Bausparkasse. Home savings bank products allow customers to make scheduled deposits for the purpose of obtaining residential mortgage loans in the future. We believe Sino-German Bausparkasse will improve our ability to develop more personal housing financing products.

Other Personal Loans

Personal Consumption Loans

Our personal consumption loans primarily consist of personal credit lines and automobile loans which have a maturity of up to five years. Personal credit lines are granted for general purposes based on the borrowers' credit history and the value of collateral provided. Automobile loans are generally granted for up to 80% of the purchase price of the automobile. Our automobile loans are primarily secured by the purchased automobile and residential properties. Other personal consumption loan products include home improvement loans, durable goods purchase loans and personal pledge loans. As of June 30, 2005, our personal consumption loans outstanding totaled RMB 60.1 billion, representing 14.0% of our total personal loans.

Others

Our other loan products primarily consist of education loans, credit card and quasi-credit card overdrafts and other personal loans. As of June 30, 2005, these loans outstanding totaled RMB 5.1 billion, representing 1.2% of our total personal loans.

Bank Card Business

We offer a variety of credit card, quasi-credit card and debit card products to our customers. Our bank cards carry our well-recognized card brand, "Long" or "Dragon." According to the PBOC, as of June 30, 2005, we were the second largest issuer of bank cards in China with a market share of 18.7%. As of that date, we had issued approximately 164 million bank cards, including 2.4 million credit cards, 4.4 million quasi-credit cards and 157 million debit cards. Bank card fee income primarily consists of annual fees, cash advance fees, transaction fees and commissions from merchants. For the six months ended June 30, 2005, gross fee and commission income from our bank card business totaled RMB 1,333 million. Gross fee and commission income from our bank card business increased to RMB 2,316 million in 2004 from RMB 1,023 million in 2003, which increased from RMB 665 million in 2002, representing a compound annual growth rate of 86.6%.

As we are a member of China Unionpay, our customers can complete transactions through ATMs and point-of-sale, or POS, terminals connected to the China Unionpay network. China Unionpay is responsible for establishing and operating a nationwide, inter-bank bank card information exchange and transaction network for its members, which as of June 30, 2005, consisted of 165 banks and financial institutions. We are one of the founding members of China Unionpay and hold a 5.45% equity interest. As of June 30, 2005, over 337,000 merchants and 510,000 POS terminals were linked to the China Unionpay network.

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Credit Cards and Quasi-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. Through our credit card center in Shanghai established in December 2002, which centrally manages our credit card and quasi-credit card business, we seek to enhance our operational efficiency, improve our risk management, and maintain a more consistent level of customer service. We have also established credit card departments in most of our tier-1 branches to manage our operations locally.

Credit Cards. Our primary credit card product is our Renminbi- and U.S. Dollar-denominated dual currency credit card, which we began to issue in 2003. Dual currency cards have become the principal type of credit cards in China, as they allow cardholders to use the same card both domestically and internationally. Our dual currency credit cards are accepted in China through our own network, in China and select countries in Asia through the China Unionpay network, and overseas through our association with the Visa and MasterCard networks.

Quasi-credit Cards. Quasi-credit cards require a cash deposit balance, but provide the cardholders with an interest-bearing overdraft line which can be used for up to 60 days. We have experienced a decline in the transaction volume of our quasi-credit cards since we launched our dual currency credit card as our quasi-credit card customers increasingly shifted toward using our credit cards. We intend to continue to market our credit cards to our quasi-credit card customers by capitalizing on our large customer base of quasi-credit card customers.

Debit Cards

A debit card is directly linked to the cardholder's bank account. As of June 30, 2005, of the 157 million debit cards we issued, 155 million were RMB-denominated debit cards and can be used to make purchases or cash withdrawals in China, Hong Kong and Macau. We also offer international debit cards which can be used abroad. Our income on debit cards primarily consists of commissions from merchants and annual fees from our debit card holders.

Personal Deposit Products

We offer a variety of demand and time, RMB- and foreign currency-denominated, deposit products to our retail customers. Our personal demand deposit products include regular demand deposits and flexible saving deposits. Our personal time deposit products include regular time deposits, education fund deposits and individual notice deposits. We believe that personal deposits provide a relatively stable source of funding. As of June 30, 2005, we had RMB 1,810.7 billion of personal deposits. Our personal deposits increased to RMB 1,647.3 billion as of December 31, 2004 from RMB 1,490.8 billion as of December 31, 2003, which increased from RMB 1,286.6 billion as of December 31, 2002, representing a compound annual growth rate of 13.1%.

Fee- and Commission-based Products and Services

In addition to our card business, we offer our retail customers a wide range of fee- and commission-based products and services such as personal wealth management, remittance, and securities agency services. Net fees and commissions from our personal banking segment increased by 38.5% to RMB 1.8 billion for the six months ended June 30, 2005 from RMB 1.3 billion for the six months ended June 30, 2004. Net fees and commissions from our personal banking segment increased to RMB 3,248 million in 2004 from

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RMB 1,657 million in 2003, which increased from RMB 1,135 million in 2002, representing a compound annual growth rate of 69.2%.

Personal Wealth Management Services

We offer our personal wealth management customers a number of value-added services, such as financial advisory services, priority services, structured foreign currency-denominated deposits and discounts on certain of our products. Personal wealth management customers have access to relationship managers which, as of June 30, 2005, numbered more than 11,300.

While the range of products we are permitted to offer and the fees we are permitted to charge are limited due to regulatory restrictions, we believe we will be able to provide a wider range of personal wealth management services in the future. In addition, we believe the quality of personal wealth management services will become a significant factor in attracting high-income retail customers. As of June 30, 2005, we had approximately 860,000 personal wealth management customers.

Remittance Services

We provide Renminbi- and foreign currency-denominated money transfer, or remittance, services. We market our RMB-denominated remittance services under our brand, “*Swift Remit.*” The total value of our RMB-denominated remittance transactions was RMB 257.3 billion for the six months ended June 30, 2005.

Securities Agency Services

We act as an agent for the issuance and trading of government bonds and open-end mutual fund products and provide fund transfer services between securities companies and customers who maintain trading accounts with us. According to the MOF, we were the second largest distributor of bearer-form treasury bonds in China in 2005. We are also a leading distributor of open-end mutual funds in China in 2005.

Customer Base

We have an extensive base of retail customers. As of June 30, 2005, we had approximately 346 million personal deposit accounts, including approximately 146 million active personal deposit accounts, which we define as those with balances of RMB 100 or more. As of June 30, 2005, we had approximately 2.7 million residential mortgage loan accounts with outstanding balances, and approximately 28 million provident housing fund deposit customers and approximately 1.7 million customers with entrusted provident housing fund mortgage loans outstanding.

In order to serve our retail customers more effectively, our personal banking business is divided into departments that focus on our high-net-worth customers and other retail customers, respectively. We intend to focus our marketing efforts on affluent and mass affluent customers from our existing customer base and are in the process of refining our methodology to better identify these market segments. To solidify our position in our targeted market segments, we intend to expand our sales force, develop tailored personal wealth management services and apply differential pricing.

We believe that both the number of our affluent and mass affluent customers and their average financial assets will increase significantly, fostered by the rapid growth of GDP and personal disposable income in China. We also expect our affluent and mass affluent customers to be a key source of our revenue growth in the long term.

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Marketing

We conduct our personal banking activities through our personal finance, housing finance and personal lending and high-net-worth client departments, as well as through our credit card center. These departments at our head office generally formulate marketing initiatives and set marketing guidelines for our bank-wide personal banking products. In turn, the relevant departments at our tier-1 branches develop detailed marketing plans to implement these initiatives based on the economic and market conditions of their respective geographical regions. We conduct our marketing activities mainly through our branch network, which we supplement with specialized sales centers for specific products such as personal wealth management centers and residential mortgage loan centers. We also have a team of more than 11,300 retail customer managers, as of June 30, 2005. We are increasingly promoting the use of alternative electronic banking channels, such as internet banking, telephone banking and mobile phone banking. In addition, we conduct advertising campaigns for our residential mortgage loans, personal wealth management services, bank cards and remittance services to strengthen the brand recognition of those products and services.

Personal housing financing services continue to be a key focus of our marketing efforts. We believe that our early entry into the market for residential mortgage loans has provided us with extensive experience, a large customer base and a knowledgeable sales force. As real estate developers often have significant influence on home buyers' choice of mortgage lenders in China, we seek to extend real estate development loans to high-quality real estate developers to gain access to the residential mortgage lending business of buyers of new homes. In addition, our branches target local real estate brokers to access customers purchasing secondary market homes. To maintain our leadership position in residential mortgage lending, we intend to standardize the procedures for extending personal loans, intensify marketing efforts to entrusted provident housing fund mortgage loan customers, and expand our team of retail customer managers, to whom we provide extensive customer relationship management and marketing training. We have also increased our efforts in cross-selling related products, such as residential mortgage loans, real estate development loans, personal consumption loans and entrusted provident housing fund mortgage loans.

Treasury Operations

Our treasury operations primarily consist of our money market activities, the management of our investment portfolio, and treasury transactions on behalf of our customers. Our treasury operations are conducted principally through our trading centers in Beijing and Hong Kong. For the six months ended June 30, 2005, the operating income of our treasury operations was RMB 10.3 billion, accounting for 16.4% of our total operating income.

Money Market Activities

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, often referred to as the inter-bank money market activities; and (ii) purchase of securities under resale agreements, often referred to as reverse repurchase transactions. Most securities underlying our reverse repurchase agreements are PRC government and policy bank bonds and PBOC bills. Most of our reverse repurchase transactions have a maturity ranging from one to seven days from the date of original purchase. As of June 30, 2005, we were a net lender in the inter-bank money market and in purchases of securities under resale agreements, with a net receivable of RMB 77.9 billion.

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Investment Portfolio

Our investment portfolio consists primarily of debt securities. We classify our investment portfolio into (i) debt securities at fair value through profit or loss; (ii) receivables in our investment portfolio; (iii) held-to-maturity debt securities; and (iv) available-for-sale securities. Debt securities at fair value through profit or loss represent the securities we hold for trading purposes. Receivables, held-to-maturity debt securities and available-for-sale securities are held primarily for investment purposes. As of June 30, 2005, debt securities at fair value through profit or loss, receivables, held-to-maturity debt securities and available-for-sale securities represented 0.2%, 34.1%, 45.2% and 20.5% of our investment portfolio, respectively. For a detailed description of our investment portfolio, see “Assets and Liabilities — Assets — Investments.”

Trading Activities

We engage in trading activities to achieve short-term profits. Our trading activities primarily include trading of bonds and notes issued by the PRC government and the PBOC, as well as foreign currency trading. In addition, we hedge investment risks through the purchase of derivative financial instruments, including interest rate swap contracts and currency spot, forward, swap and option contracts. Such derivative financial instruments represent a part of our trading activities. However, in general, we do not hold derivative instruments for purposes other than economic hedging.

Investment Activities

We seek to achieve a target return on our investment portfolio based on the targeted profile. We determine the targeted profile principally based on our assessment of interest rate, exchange rate, credit and other risks. We also take into consideration sovereign credit risks when evaluating securities denominated in foreign currencies. We primarily hold domestic debt securities issued by the PRC government, the PBOC, policy banks and, to a lesser extent, other financial institutions in China. In the international market, we invest in investment-grade foreign currency debt securities issued by foreign governments, government agencies, financial institutions, corporations and international organizations. For a detailed description of the regulation of our investment activities, see “Regulation and Supervision — PRC Regulation and Supervision — Regulation of Principal Commercial Banking Activities — Proprietary Investments.”

Treasury Transactions on Behalf of Customers

We primarily provide trading, settlement and custody services for debt securities on behalf of corporate customers through our treasury operations. As of June 30, 2005, we had RMB 13.1 billion in face value of debt securities under custody. In addition, we also provide foreign exchange settlement and sale services and we trade, on behalf of our customers, spot and forward foreign currency contracts, interest rate swaps, currency swaps and options, and other financial derivatives. In general, we purchase offsetting financial derivative instruments in the international market to offset the exposure created by such derivatives transactions on behalf of our customers.

Overseas Operations

Our overseas operations consist of businesses conducted by our branches in Hong Kong, Singapore, Frankfurt, Johannesburg and Seoul; our representative offices in New York and London; and our subsidiaries in Hong Kong.

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Our overseas branches primarily provide loans to Chinese-invested companies and local companies with China-related businesses. In addition, our overseas branches engage in inter-bank lending and invest in debt securities. Our wholly-owned subsidiary in Hong Kong, Jian Sing Bank Limited, is a Hong Kong-licensed commercial bank which provides banking services to local small- and medium-sized enterprises. In addition, Jian Sing recently established a subsidiary, CCB International Capital Limited, to engage in corporate finance advisory services and other investment banking activities.

As of June 30, 2005, our overseas branches and subsidiaries had total assets of RMB 65.8 billion equivalent, or 1.6% of our total assets, including RMB 4.4 billion equivalent held by Jian Sing Bank Limited. Profit before tax from our overseas operations totaled RMB 158 million for the six months ended June 30, 2005.

PRODUCT PRICING

Prices for banking products and services in China have, historically, been highly regulated, but are in the process of being gradually liberalized. Currently, RMB-denominated loans are subject to minimum rates based on the PBOC benchmark rates, but generally are not subject to maximum rates. RMB-denominated deposits are subject to maximum rates set by the PBOC, but generally are not subject to minimum rates. With respect to fee- and commission-based products and services, those that are subject to government guidance prices include basic Renminbi 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 China — Industry Trends — Increasing Liberalization of the Financial Services Industry” and “Regulation and Supervision — PRC Regulation and Supervision — Pricing of Products and Services.”

As prices are gradually liberalized, we are increasingly able to set prices based on our risk and return assessment and business judgment. When determining pricing levels, we analyze, among other things, our cost of providing a particular product or service, credit and other risks, expected rates of return, general market conditions, our market position and the prices of our competitors. From this analysis, we derive internal benchmark prices. We have also developed loan pricing models that generate the minimum interest rates at which our loan products may be priced. Our branches are allowed to set prices at their discretion within established ranges around these benchmark prices. We believe granting limited pricing discretion allows branches to take into account local factors and gives them greater flexibility in order to compete effectively.

As prices are gradually liberalized, we increasingly seek to offer differentiated prices to our important customers based on our pricing analysis with a view to influencing customer decisions relating to our products and services.

DISTRIBUTION CHANNELS

We deliver our products and services through a variety of distribution channels. We have one of the most extensive networks of branch outlets among commercial banks in China. In addition, we are increasingly promoting the use of alternative electronic banking channels, such as internet banking, telephone banking and mobile phone banking. We believe that our network of branch outlets and electronic banking channels enable us efficiently to provide our customers with banking services.

Branch Outlets

As of June 30, 2005, our network of approximately 14,250 branch outlets in China consisted of our head office and its branch outlet, 38 tier-1 branches and 14,210 lower level outlets. In addition, at certain

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locations of our branch outlets, we have established specialized branch outlets dedicated to a number of key personal banking products and services, including 323 personal wealth management centers.

As part of our branch rationalization program implemented since 1998 to improve our operational efficiency and profitability, we have closed or merged a significant number of our less profitable branch outlets. As a result of our efforts, we have reduced the number of our branch outlets in China from 29,819 as of December 31, 1998 to approximately 14,250 as of June 30, 2005.

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

	As of December 31,						As of June 30,	
	2002		2003		2004		2005	
	Branch outlets	% of total	Branch outlets	% of total	Branch outlets	% of total	Branch outlets	% of total
Yangtze River Delta	2,732	12.8%	2,547	15.5%	2,289	15.8%	2,264	15.9%
Pearl River Delta	2,167	10.1	1,918	11.7	1,770	12.3	1,745	12.2
Bohai Rim	3,348	15.7	2,534	15.4	2,266	15.7	2,259	15.9
Central	5,802	27.1	3,877	23.5	3,500	24.2	3,460	24.3
Western	4,790	22.4	3,740	22.7	3,109	21.5	3,011	21.1
Northeastern	2,549	11.9	1,844	11.2	1,521	10.5	1,509	10.6
Head office	3	0.0	3	0.0	3	0.0	2	0.0
Total branch outlets	<u>21,391</u>	<u>100.0%</u>	<u>16,463</u>	<u>100.0%</u>	<u>14,458</u>	<u>100.0%</u>	<u>14,250</u>	<u>100%</u>

ATMs and Self-Service Banking Centers

In an effort to provide convenient services to customers, reduce employee costs and improve efficiency and profitability at the branch level, we are expanding our self-service banking centers and ATMs. As of June 30, 2005, we had approximately 589 self-service banking centers and 13,677 ATMs, representing increases of 26.4% and 9.8%, respectively, from December 31, 2004. For the six months ended June 30, 2005, 234 million transactions were conducted through our self-service banking network with a total transaction value of RMB 144.1 billion, representing increases of 18.8% and 16.0%, respectively, compared to the six months ended June 30, 2004.

Electronic Banking

We provide a number of electronic banking services that allow our customers to access their accounts and conduct transactions over the internet, telephone, mobile phone or through dedicated customer terminals at our branch outlets. We are promoting the increased use of our electronic banking services by expanding our product offerings and enhancing the functionality of these services. In addition, we are conducting a nationwide marketing campaign to educate consumers about these alternative distribution channels. We market our electronic banking services under the brand, “*e-Route*.”

Internet Banking

We offer a variety of internet banking services, including account information, fund transfers, bill payments, and bond and mutual fund trading. In addition, our corporate customers may access additional account information and conduct certain other transactions. As of June 30, 2005, we had approximately 6.8 million registered internet banking customers, a substantial increase from 2.3 million registered internet banking customers as of June 30,

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2004. For the six months ended June 30, 2005, we processed approximately 54 million transactions through our internet banking system, with a total transaction value of RMB 2,842.0 billion, representing increases of 154% and 173%, respectively, compared to the six months ended June 30, 2004.

Dedicated Service System for Preferred Corporate Customers

For our preferred corporate customers, including large corporations, government agencies and financial institutions, we have established a dedicated electronic information exchange and financial service platform which is directly connected to our computer systems, allowing these customers to monitor their accounts and conduct various transactions on a real-time basis. For example, corporate customers that operate in multiple locations may use the system to manage and conduct transactions among their accounts maintained at various locations with us; and our customers in the securities, futures and fund management businesses may use the system to manage their custody accounts maintained with us. As of June 30, 2005, we had more than 370 preferred corporate customers who had subscribed to our dedicated service system. For the six months ended June 30, 2005, these clients processed approximately 5.8 million transactions through this system with a total transaction value of RMB 1,036.0 billion, representing increases of 5.2 million transactions and RMB 476.6 billion compared to the six months ended June 30, 2004, respectively.

Telephone Banking

We provide telephone banking services through our nationwide hotline 24 hours a day, seven days a week. Through telephone banking, customers are able to access account information and conduct a variety of transactions, including fund transfers and bill payments. In addition, our call center representatives answer customer inquiries, take customer complaints and suggestions, and conduct customer surveys. As of June 30, 2005, we had approximately 15 million registered customers of telephone banking services, an increase of 49.0% from 10 million as of December 31, 2004. For the six months ended June 30, 2005, our telephone banking system processed approximately 69 million transactions with a total transaction value of RMB 52.3 billion.

Mobile Phone Banking

Our customers may use their mobile phones to conduct account transfers, balance inquiries, bill payments, remittance and other transactions. We also provide notification and reminder services to our mobile phone banking customers. As of June 30, 2005, we had more than 3.3 million customers of our mobile phone banking services, who conducted approximately 18 million transactions valued at RMB 314 million.

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. Our information technology management committee, chaired by our president, is responsible for reviewing and approving our information technology policies, annual information technology budgets, major information technology projects, and the appointment of senior information technology executives. As of June 30, 2005, we had 9,171 employees with information technology-related responsibilities.

Substantially all of our business transactions are processed by and maintained electronically in computer systems located throughout our branch network. Historically, although each of our tier-1 branch level accounting systems is linked to the respective tier-1 branch's tier-2 and lower level branch outlets, our information systems across our branch network were not fully integrated and were subject to compatibility

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limitations, and consequently our head office was not able to access our bank-wide accounting and transaction information on a real-time basis. In order to consolidate the 38 tier-1 branch-level legacy accounting systems, we launched the Data Consolidation Center (DCC) project to begin implementing a unified core banking system in our bank in late 2002. The unified core banking system is a bank-wide integrated computing system with a centralized database, which consolidates the processing of the majority of our customer transactions and generates our general ledger. By September 2005, we had successfully completed the consolidation of the computer systems of our branch outlet network into our two processing centers in our head office and Shanghai. We believe this system will enable us to access comprehensive and complete customer and transaction data across all branches on a real-time basis, and therefore will assist us in reducing operational risk, enhancing operating efficiency, and improving our decision-making process.

In addition to the unified core banking system, we also operate a broad array of information systems or software applications for credit management, customer relationship management, financial management, and certain business operations. We rely on our credit management information system, or CMIS, as the primary data source for performing credit asset analyses and reporting on our credit portfolio. We are in the process of upgrading the CMIS to increase its operating capacity, enhance data integrity, and improve the timeliness of data. We have also developed the credit risk rating and early warning, or CRREW, system, and have begun to implement this system on a pilot basis since September, 2003. The CRREW system alerts us to increasing risk buildups in particular industries, products, or geographical regions, and is also increasingly used to evaluate and determine preliminary credit risk ratings for our corporate customers. See “Risk Management — Credit Risk Management — Credit Risk Management for Corporate Loans — Credit Risk Management Information Technology.” For financial management, we rely on our general ledger system, which provides automated financial reporting functions and tools for basic financial controls. We have recently commenced a project to deploy a more advanced financial management and general ledger system by 2006.

As part of our effort to upgrade and improve our overall information technology infrastructure and systems, we are also in the process of implementing a number of development projects designed to enhance our product development and pricing capabilities, increase the effectiveness of our customer relationship management, facilitate cross-selling activities, assist us in managing liquidity and market risks, and strengthen compliance with our risk management policies and procedures. We have been, and will continue, working with leading international consulting firms such as IBM and BearingPoint in developing and implementing our information technology strategies.

We have focused on availability, reliability, and security in building and maintaining our information technology infrastructure. All of our domestic branch outlets are connected to our communication networks, which provide electronic data exchange for transaction processing, information delivery, and voice and video-conferencing capabilities. Our communication networks are interconnected through two leading telecommunication service providers, with load-sharing and automatic switching architecture design to ensure overall flexibility, reliability, and resiliency of our electronic data exchanges. In addition, our communication networks are protected by advanced network security technologies, including firewalls, security monitoring, and intruder detection systems, to ensure the safety and integrity of our data. We intend to continue enhancing our network infrastructure and increase our network bandwidth to support our business growth. We also plan to establish, by the end of 2006, an operational disaster recovery center in Shanghai to support business continuity in the case that a catastrophic event occurs in our main data centers.

We believe sophisticated information technology infrastructure and systems are crucial for us to effectively manage our business and provide quality services to our customers in an increasingly competitive

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environment. Accordingly, we are continuing to make significant investments to improve our information technology in order to facilitate operational efficiency, risk management and business development.

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 other three big four commercial banks and other national commercial banks. We are also facing increasing 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 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.

EMPLOYEES

As of December 31, 2004, 2003 and 2002, we had 310,639, 343,188 and 398,843 employees, respectively. The following table sets forth the total number of employees by function as of June 30, 2005.

	As of June 30, 2005	
	Number of employees	% of total
Corporate banking	32,722	10.8%
Personal banking	133,460	43.8
Treasury operations	458	0.2
Finance and accounting ⁽¹⁾	38,047	12.5
Management	14,762	4.8
Risk management, internal audit, and legal and compliances ⁽²⁾	10,934	3.6
Information technology	9,171	3.0
Others ⁽³⁾	64,880	21.3
Total	304,434	100.0%

(1) Includes bank tellers at our branch outlets.

(2) Includes 2,685 internal audit employees, representing 0.9% of our total employees.

(3) Primarily consists of supporting staff.

We have substantially reduced the number of employees in recent years by (i) enhancing the efficiency of our distribution channels; (ii) streamlining our organizational structure and business processes; and (iii) rationalizing personnel distribution. In addition, to increase accountability and mobility within our organizational structure, we have implemented an internal ranking system for our employees. We have also refined our evaluation systems to promote performance-based compensation.

We contribute to our employees’ medical insurance, basic pension plan and provident housing fund, in accordance with PRC laws and regulations. In addition, we provide housing allowances and other welfare benefits. We provide systematic training programs to our employees on an on-going basis and use qualification exams to measure their skills and performance.

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

PROPERTIES

Our head office is located at 25 Finance Street, Xicheng District, Beijing 100032, China. As of August 31, 2005, we operated our business through 20,862 properties in the PRC for our offices, branch network, self-service banking centers and other places of operation.

Land

As of August 31, 2005, we owned and occupied 10,269 parcels of land with a total site area of approximately 10 million square meters to support our business activities and operations throughout China. These parcels of land consist of (i) 4,778 parcels of land with a total site area of approximately 4.2 million square meters for which we have the relevant granted land use rights; (ii) 5,250 parcels with a total site area of approximately 5.8 million square meters for which we held land use rights as contribution land; and (iii) 241 parcels of land with a total site area of approximately 0.1 million square meters for which we have not obtained proper land use rights.

The land use rights as stated in (i) above were valued at approximately RMB 6.5 billion as of August 31, 2005, which are freely transferable by us without further payment of land grant fees to the PRC Government. The land use rights as stated in (ii) above were valued at approximately RMB 8.4 billion as of August 31, 2005. Our PRC legal counsel, Commerce & Finance Law Offices, have advised us that under PRC laws and regulations, for as long as we use these parcels of land for the purposes stated on their land use rights, we will not be required to pay any land grant fees to the PRC government. However, if we use these parcels of land for purposes other than their original purposes, or if we transfer any land use rights relating to these parcels of land to a third party, we are required to pay land grant fees to land administration authorities for those parcels of land that are subject to the change of use or the transfer. Land grant fees are determined based on the land transfer price and the regulation of the local land administration authorities. While we have transferred certain parcels of land to third parties during the restructuring of our branch network, we use the remaining parcels of land principally as our office and outlet premises as allowed under their land use rights, and we do not expect to transfer a significant number of such land use rights to third parties. However, we may transfer the land use rights of certain parcels or alter their use out of business necessity, and consequently we would be required to pay land grant fees for the affected parcels of land. As we have not obtained proper land use rights for the 241 parcels of land as stated in (iii) above, no commercial value has been attributed to them.

Owned Properties

As of August 31, 2005, we owned 11,109 buildings, including our headquarters in Beijing, which are mainly used as offices and branches that support our business activities and operations throughout China. The total gross floor area of the completed buildings is approximately 17 million square meters. We do not have the relevant land use right certificates or building ownership certificates in respect of 318 buildings with a total gross floor area of approximately 324,000 square meters. According to our PRC legal counsel's advice, there is no legal impediment for us to obtain the relevant land use right certificates and building ownership certificates for 123 buildings with a total gross floor area of approximately 138,000 square meters. For the remaining 195 buildings, there exist various legal impediments for us to obtain the relevant land use right and building ownership certificates, and no commercial value has been attributed to such buildings. These properties can

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be, if necessary, replaced by other comparable alternative premises for the relevant uses without any material adverse effect to our business operations.

Properties Under Construction

As of August 31, 2005, we had 36 properties under construction, which, upon completion, will have an estimated total gross floor area of approximately 284,000 square meters. We have not obtained the relevant land use rights certificates and the relevant construction permits in respect of eight properties with an estimated total gross floor area upon completion of approximately 5,200 square meters. As of August 31, 2005, no commercial value has been attributed to these eight properties.

Property Titles

In connection with our restructuring, we succeeded to the above lands and buildings (including properties under construction) from China Construction Bank. As of August 31, 2005, we had completed the registration in our name and thus obtained the relevant land use right certificates and building ownership certificates in respect of most of these lands and buildings (including properties under construction). We are in the process of applying for certain of the remaining lands and buildings to be registered in our name. Our PRC legal counsel, Commerce & Finance Law Offices, have advised us that there is no legal impediment to our obtaining the registration in our name and applying for the land use right certificates and building ownership certificates in respect of such lands and buildings. Upon completion of this process, we will have the rights to use, and subject to the relevant laws and regulations, freely transfer, lease, mortgage or otherwise deal with such lands and buildings.

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 “— Land,” “— Owned Properties” and “— Properties Under Construction,” 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. The net carrying value of properties with title defects amounted to RMB 992 million, representing approximately 2.82% and 0.02% of the carrying value of our total properties and our total assets, respectively, as of June 30, 2005. We are of the view 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 a *de minimis* 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 right certificates or building ownership certificates for some of the properties held by us, and we may be required to seek alternative premises for some of our offices due to our landlords’ lack of relevant land use right certificates or building ownership certificates.”

Leased Properties

As of August 31, 2005, we leased over 9,724 properties throughout China and for our overseas branches (other than our Hong Kong branch) and representative offices in London and New York. The total gross floor area of the leased properties is approximately 3 million square meters. 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 right certificates or building ownership certificates for some of the properties held by us, and we may be required to seek alternative premises for some of our offices due to our landlords’ lack of relevant land use right certificates or building ownership certificates.”

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Property Valuation

Chesterton Petty Limited, an independent property valuer, has valued our property interests as of August 31, 2005 at RMB 57,148 million, by taking into account, among other factors, the property values of such property interests. The text of a letter, a summary of values and the valuation certificate issued by Chesterton Petty Limited are set forth in Appendix V, “Property Valuation.”

Waiver from Certain Valuation Report Requirements

According to the valuation report set out in Appendix V to this prospectus, we owned 10,269 parcels of land with an aggregate area of approximately 10 million square meters, 11,109 buildings with an aggregate gross floor area of approximately 17 million square meters, and 36 buildings which are under construction with an aggregate gross floor area of approximately 280,000 square meters upon completion in the PRC. We also leased approximately 9,739 properties with an aggregate gross floor area of approximately 3.11 million square meters in the PRC, Hong Kong and overseas. 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 would not be material to a potential investor’s investment decision; and (ii) it would be unduly burdensome to prepare an English translation of the report, as substantially all of the properties are located in the PRC and consequently the underlying valuation and title information is in Chinese.

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

- (i) a valuation report in the Chinese language complying with all the requirements of the Hong Kong Listing Rules and paragraph 34(2) of the Third Schedule 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 of our property interests (except property interests held by us in Hong Kong, for which fully compliant particulars will be disclosed), including particulars of occupancy, open market values and the title status thereof, based on the valuation report will be included in this prospectus in the form set out in Appendix V to this prospectus; and
- (iii) this prospectus must set out particulars of this exemption.

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

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LEGAL AND ADMINISTRATIVE PROCEEDINGS

Legal Proceedings

We are involved in a number of legal proceedings in the ordinary course of our business, including, for example, proceedings brought by customers involving such matters as the misappropriation of customer deposits as a result of our employees' misconduct. However, since January 1, 2002, we and our subsidiaries have not been a party to any legal or administrative proceedings which have had a material adverse effect on our financial condition or results of operations; and we are currently not a party to any legal or administrative proceedings, and no proceedings are known by any of us or our subsidiaries to be contemplated by governmental authorities or third parties, which, if adversely determined, would have a material adverse effect on our financial condition or results of operations. For the aggregate claim amount of our pending litigation and disputes, and the provisions made for the estimated losses in such litigation, see Notes 24(c) and 31(d) to the Accountants' Report in Appendix I to this prospectus.

Shanxi Incident

Since January 1, 2002, we have been involved in one legal proceeding involving an amount of at least RMB 100 million which we believe implicates potential internal control weaknesses at two of our sub-branches. This legal proceeding consisted of two related lawsuits, as described below. However, we do not believe that these potential internal control weaknesses implicated any material deficiency in our internal controls.

In October 2004, one of our corporate customers brought two lawsuits against our Wanbolin and Sheng Li Qiao Dong sub-branches, both located in Taiyuan, Shanxi Province, for recovery of its deposits in an aggregate principal amount of RMB 180 million and accrued interest and damages of RMB 4.7 million. Substantially all of these deposits were transferred by certain third parties to the accounts of several companies they controlled. The former heads of both sub-branches and the deputy head and a bookkeeper of the Wanbolin sub-branch allegedly accepted bribes from these third parties and provided them with the corporate customer's stamps kept at the sub-branches, or permitted them to use forged stamps, to withdraw funds from this customer's accounts. Both lawsuits were settled in February 2005 for the principal and accrued interest in an aggregate amount of RMB 181.7 million, which did not have a material adverse effect on our financial condition or results of operations. Criminal proceedings have been brought against the relevant sub-branch personnel for aiding and abetting the third parties' illegal money transfers.

Administrative Proceedings

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

Administrative Penalties

Certain regulatory inspections and examinations have resulted in our being subject to fines and other penalties as a result of our violation of certain laws and regulations. From January 1, 2002 to June 30, 2005, we were subject to 1,180 fines and confiscations of RMB 10,000 or more, totaling RMB 166 million, and to 298 non-monetary penalties (including 195 imposed in conjunction with fines or confiscations). These administrative fines and penalties related to violations of certain laws and regulations relating to, among other things, our credit extension, deposit-taking and fund settlement activities; delinquencies in tax payments; and

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accounting irregularities. Among such administrative fines and penalties, 335 fines and confiscations totaling RMB 17 million and 183 non-monetary penalties (including 111 imposed in conjunction with fines or confiscations) were imposed by the PRC banking regulatory authorities, the PBOC and the CBRC, for, among other things, unauthorized foreign exchange business, unauthorized changes to sub-branch or outlet locations, certain deficiencies in internal controls, and non-compliance in customer account administration.

The largest single fine during this period totaled RMB 19 million and was levied in February 2003 by the NAO for improper accounting (including maintaining unreported accounts and misstatement of profits and losses) uncovered during its audit of our bank in 2002. The NAO found that we maintained 88 unreported accounts to hold funds that were diverted from business operations in violation of the then applicable PRC accounting rules and were not accurately reflected in the financial statements of the relevant branches. An aggregate amount of RMB 102 million was transferred into such accounts, including RMB 83 million transferred prior to 2000 and RMB 19 million transferred in 2000 and 2001. The NAO also found that, in 2001, we understated income of RMB 456 million, overstated income of RMB 55 million, understated expenses of RMB 235 million and overstated expenses of RMB 508 million, primarily as a result of certain branches' non-compliance with the then applicable PRC accounting rules. These misstatements understated our profits in a net amount of RMB 674 million. Such improper accounting had resulted in, among other things, our underpayment of income tax, business tax and levies in an aggregate amount of RMB 253 million, and the diversion of RMB 98 million for unauthorized uses. In addition, the NAO found incidents of non-compliance in our lending, deposit taking and certain other business activities, which involved an aggregate amount of RMB 29.1 billion and resulted in losses of RMB 0.3 billion, and required us to rectify these problems. Of these incidents, an aggregate amount of approximately RMB 20.7 billion related to our lending activities and included, among other problems, weaknesses in the credit extension and loan monitoring process at certain branches, and loans made for purposes prohibited by the relevant PRC rules. We do not believe these incidents of non-compliance relating to these business activities implicated any material deficiency in our internal controls, nor did they have any material adverse effect on our results of operations or financial condition. In response to the NAO audit findings, we paid the fine and taxes, restated the respective accounts, and closed the unreported accounts in 2003. We have also strengthened internal controls and procedures in our business activities and increased our efforts to detect and prevent potential incidents of non-compliance.

These penalties have not, individually or in the aggregate, had a material adverse effect on our business, financial condition or results of operations.

Findings of Regulatory Examinations

Certain routine or ad hoc examinations or inspections conducted by the PRC regulatory authorities, although not resulting in fines or other penalties imposed on us, have revealed certain deficiencies or incidents of non-compliance in various areas of our business operations, risk management and internal controls. The results of the principal examinations or inspections are summarized below.

CBRC

The CBRC conducts annual examinations of our bank. In addition, it also conducted on-site examinations in 2003 and 2004 in respect of our loan classification practice, non-credit assets and off-balance sheet transactions. As a result of these examinations, the CBRC recognized that we have made significant progress in improving our risk management, internal controls and business operations. The CBRC assigned to us an overall evaluation score which was the highest among the big four commercial banks, upon the conclusion of its 2003 annual examination. However, the CBRC also identified certain incidents of non-

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compliance in our business activities at some branches and certain weaknesses in our internal controls, including incidents of incorrect loan classifications, accounting irregularities, credit extensions in excess of authorization limits or in violation of applicable procedures, loans made for purposes prohibited by applicable PRC rules, non-compliance in certain bank acceptance bill transactions, deficiencies in the administration of foreclosed assets and entrusted loans, inadequacies in our internal audit function and weaknesses in our IT systems. Following these examinations, the CBRC issued certain recommendations which required us to take measures to prevent and remedy the incidents of non-compliance, control borrower concentration risk, and improve our internal controls and risk management.

PBOC

The PBOC conducted an on-site examination in respect of our internal control system in 2002, in which it recognized the progress we had made in improving our internal controls, but identified certain deficiencies in our internal controls, including with respect to our credit authorization policies and procedures, credit risk management policies, treasury operations, accounting practices, IT systems, and our internal audit function. The PBOC recommended that we take measures to improve our internal controls in these areas.

NAO

The NAO conducted audits in respect of the state-owned asset management companies, including Cinda, in 2004, in which it found 11 incidents of non-compliance relating to certain non-performing loans we disposed of to Cinda. Six of these loans in an aggregate amount of RMB 479 million involved non-compliance in our loan disposal process, including transfers of false non-performing loans, transfers of loans involving fraud and forgery, and failures to transfer repossessed assets and collateral that secured loans transferred to Cinda. The other five loans implicated certain weaknesses in the loan extension and administration procedures at the relevant branches. Our PRC legal counsel, Commerce & Finance Law Offices, have advised us that, since our disposal of non-performing loans to Cinda was on a non-recourse basis, Cinda generally has no right to claim against us on these non-performing loans, and, to the extent the disposal of certain non-performing loans implicated fraud, given that substantially all of these loans were disposed of in 1999 and Cinda has never brought any claim against us, it is reasonable to believe that Cinda's claim for fraud, if any, has been barred by the statute of limitations, which, under the relevant PRC law, is two years from actual or imputed knowledge of the basis for such claim.

Impact and Remedial Measures

We do not believe that the relevant PRC regulatory authorities' findings described above generally revealed material deficiencies in our internal controls. To the extent any of the findings did suggest any such deficiencies, we have taken the necessary steps to correct them. None of these findings have resulted in any material adverse effect on our financial condition or results of operations.

We have been advised by our PRC legal counsel, Commerce & Finance Law Offices, that, based on the relevant provisions of the PRC laws and regulations, and considering the circumstances under which the above-mentioned incidents of non-compliance arose and the remedial measures we have taken, it is reasonable to believe that the relevant PRC regulatory authorities will not impose any further administrative penalties in relation to these incidents which could have a material adverse effect on our business, financial condition or results of operations. For risks relating to regulatory inspections and examinations of our bank, see "Risk Factors — Risks Relating to the Banking Industry in China — We face risks relating to the inspections and examinations by PRC and overseas regulatory authorities."

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We have undertaken a number of measures designed to prevent future violations of laws or regulations and to correct the deficiencies identified by the relevant PRC regulatory authorities, including those identified in the above-mentioned examinations and inspections. Our efforts to reduce these deficiencies and non-compliance include, among other initiatives, the identification of, and imposition of penalties on, the personnel who were responsible for these incidents, the initiation of a special program to reduce non-compliance in our business operations, the introduction of more rigorous internal rules and procedures, the development of more advanced IT systems, and the implementation of organizational reforms designed to enhance internal controls and prevent further non-compliance. For details of our recent initiatives to reduce the occurrence of non-compliance and strengthen our internal controls, see “Risk Management.” However, we cannot assure you that these measures have been fully or effectively implemented. See “Risk Factors — Risks Relating to Our Business — Some of our risk management and internal control policies and procedures are newly implemented and neither our compliance with them nor their effectiveness has been fully tested.”

None of our directors, supervisors or members of senior management have been involved in any of the administrative or legal proceedings or incidents of misconduct or non-compliance described above or in “Risk Management — Operational Risk Management — Reporting and Monitoring of Non-compliance.”