

Chairman's Statement

During the first half of 2006, China's economy experienced robust growth with a steady increase in urban and rural income and a slight rise in consumer spending, and the financial environment remained stable, helping us to achieve strong and healthy development.

We continued our efforts to implement our overall development strategies, focused on formulating business strategies for overseas expansion and customer development, and further implemented the strategy to prioritise the development of branches in key cities. Internal management reforms on accounting and operations progressed smoothly, providing a mechanism that would ensure the efficiency of business operations. The board of directors (the "Board") appointed a Chief Financial Officer and a Chief Risk Officer to enhance financial and risk management capacity. Our senior management team appointed a Chief Wholesale Business Officer, a Chief Retail Business Officer and a Chief Investment Officer in order to strengthen the management of various lines of businesses and facilitate the establishment of vertical management over different business segments.

In implementing our customer-focused culture, we sustained our efforts in product innovation and operation improvement. We strived to provide comprehensive and competitive financial products and services to our customers, and have become one of the PRC commercial banks that provide the best comprehensive services. Our risk management capabilities have also improved, as we try to strike a sound balance between risk and return amid steady growth of our businesses.

For the first half of 2006, the Group recorded net profit of RMB 23,223 million, representing an increase of 13.3% compared with the same period in 2005 after excluding the tax exemption effect in relation to the restructuring. Earnings per share were RMB 0.10. The annualised return on average assets was 0.95% and the annualised return on average equity was 15.67%. The overall asset quality showed steady improvement with the non-performing loan ratio dropping to 3.51%.

According to *The Banker* in 2006, the Bank took the lead in the PRC banks based on tier-one capital and ranked 11th among the world's top 1,000 banks. The bank was ranked 65th in the world's biggest public companies and second in China for 2006 by *Forbes*. In the list of Top 300 Asian Banks released by *Asiaweek* in July 2006, the Bank ranked first with the highest net interest income and highest net profit, and was hailed as the "most profitable bank in Asia". In addition, we were ranked as Best Managed Company with Best Corporate Governance and Best Commitment to Strong Dividend for 2006 among Asian companies in the poll of *FinanceAsia*.

We will endeavour to further improve the effectiveness of our corporate governance and our overall competitiveness and profitability. We would continue to grasp market opportunities for business expansion and promote innovation throughout, marching towards our goal of becoming a world class commercial bank with the best services to our customers, the most value to our shareholders and the best career development opportunities to our employees.

Finally, on behalf of the Board, I would like to express the most sincere gratitude towards the dedication and hard work of our management and staff, in particular the valuable contribution by Mr. Chang Zhenming and Ms. Liu Shulan who left office this year, and give a warm welcome to our new president Mr. Zhang Jianguo, and two new directors, Mr. Luo Zhefu and Lord Peter Levene, to the Board. We would also like to thank our shareholders, customers and business partners for their continuous trust and support.



Chairman

24 August 2006