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2005年年度报告

ANNUAL REPORT 2005

招商银行股份有限公司
CHINA MERCHANTS BANK CO., LTD.

因您而变

We are here just for you

服务、创新、稳健

CHINA MERCHANTS BANK CO.,LTD.

力创股市蓝筹 打造百年招银

Table of Contents

02	Chairman's Statement
03	President's Statement
06	Section I Important Notice
7	Section II Company Profile
9	Section III Financial and Business Highlights
16	Section IV Changes in Share Capital and Status of Shareholders
22	Section V Directors, Supervisors, Senior Executives and Employees
28	Section VI Corporate Governance
33	Section VII Shareholder General Meeting

34	Section VIII Report from the Board Of Directors
55	Section IX Report from the Board of Supervisors
57	Section X Important Events
59	Section XI Financial Statement
59	Section XII Documents for Inspections
60	Section XIII Exhibits
61	Acknowledging Comments of Directors and Senior Executives
62	Auditors' Report 2005
115	Statement of Provision for Asset Impairment of China Merchants Bank Co., Ltd.

Chairman's Statement

In the year 2005, thanks to the beneficial macroeconomic environment, the banking industry of China has recorded sustained rapid development.

Being in an environment where the government has continued to adopt macro-control policies, the interest rate and exchange rate were more market oriented and further deregulated, a sharp increase was ongoing in corporate's direct financing, the Bank continued to follow the guiding philosophy of "Seeking balanced development in terms of profitability, quality and business scale" and the business guideline of "Quickening the reform, optimizing the structure, upgrading the management and controlling risks", and sought the improvement of business strategies adjustment and management efficiency. With full support from the Board of Supervisors, senior management and all the shareholders, the Board of Directors made more efforts in the research and review of major decisions and played its strategic role over the bank. The directors have diligently performed their duties. The members of the senior management, together with all the staffs, exerted their capacities and potentials to successfully fulfill the tasks planned for the year 2005. While marked a new record, it also realized a balanced growth in all businesses throughout the Bank.

In 2005, the Bank made positive efforts in developing financing channels and successfully issued financial corporate bonds worth of RMB 10 billion yuan. Through in-depth communication with the shareholders, the Bank succeeded in its reform of the shareholder structure. The business strategy adjustment has significantly contributed to the optimization of the Bank's assets, liability and income structures. As a result of these efforts, the year 2005 saw a synchronized growth in the scale of assets and profitability, while a significant decline in the non-performing loans, ratios of risk-weighted assets and the capital occupancy. The Bank's comprehensive competitiveness, the brand recognition and social reputation have seen continuously growing and the performance of the Bank in various aspects have been well recognized and highly appraised by society, building a positive image of the Bank as a listed company in the capital market.

The Bank should owe all its achievement of 2005 to the firm support from all parties of the society. I would very much like to extend our sincere thanks to the government at all levels, to all parties from the society, to our shareholders and to other financial institutions who have been continuously caring and supporting the Bank's development.

The year 2006 is the first year of the 11th Five-year Plan and the last year when the financial market of China will be fully opening up to the outside world. With the increase of control and supervision over capital and the market-oriented reform in deregulation of interest rates, the financial industry will meet with unprecedented challenges in China. In order to take an upper hand in the face of the challenges, the Bank will continue its business guideline of balanced development, implement the business strategy adjustment, and enhance the management skill constantly. With the view of ensuring further success in the reform and development of the Bank, we will focus our efforts on further improvement of the corporate governance structure and the rewarding incentive and supervising mechanism, upgrade our risk management and enhance our practical prevention of all kinds of risks and launch the issuance of H-share at a proper time.

I firmly believe that in the coming years, with the collective efforts of all the members of the Bank, we can overcome any difficulties and meet with any challenges. We will certainly be able to fulfill the work plan and goals, and create more value for our shareholders and the society.

Chairman



President's Statement

The year 2005 has witnessed an abundant harvest for the Bank. During the year, we have broken through a series of challenges and tests, a more sophisticated business environment, lower enterprise effective credit demand, accelerated deregulation of interest and exchange rates, sharp increase in corporate's direct financing and more fierce competition environment in the market. However, with the combined efforts of all staff under the direction of the Board, we have implemented the business guideline of "Quickening the reform, optimizing the structure, upgrading the management and controlling risks", we have realized the goals we set forth for the reported year by further adjustment of our business strategy and moving forward to management internationalization.

By the end of 2005, the gross assets of the bank reached RMB 734 billion, up 25.13% over that of the previous year, a total deposits of RMB 634.4 billion, up 23.7% over that of the previous year, and a total loans amounting to RMB 472.2 billion, up 26.61% over that of the previous year. We realized a net profit of RMB 3.93 billion, with an increase of 25%. Non-performing loan ratio was 2.58%, dropped by 0.29 percentage point.

Our business development featured five significant characteristics in 2005. Firstly, we further improved our general profitability. Our return on total assets has reached 1%, 0.07 percentage point higher than that of the previous year, our return on average risk-weighted assets reached 1.57%, 0.21 percentage point higher than that of the previous year; our return on equity was 16.31%, 0.25 percentage point higher than that of the previous year. Secondly, we further improved our assets structure. The ratio of

bills discounting and bond investment over total assets has increased by 2.5 percentage points and the ratio of weighted risk assets was reduced by 5.26 percentage points. Thirdly, we realized a significant reduction in capital consumption. The assets growth of 25.13% was achieved with only a drop of 0.45 percentage point in the capital adequacy ratio. Fourthly, our retail banking business grew rapidly. We realized an addition of RMB 54.832 billion to our RMB-denominated savings deposits, the total savings deposit increased by RMB54.832 billion and accounted for 46.87% of total deposits of the Bank, representing an increase of 29 percentage points than that of the previous year. We also realized an increase of RMB 19.24 billion in retail loans, with a balance of RMB 73.67 billion, accounting for 19.8% of total loans, and a rise of 2.4 percentage points over that at the beginning of the year. Fifthly, we realized a rapid growth in the fee-base business. The Bank realized a fee-base income of RMB 2.407 billion, an increase of RMB 820 million, up 51.3% over that of the previous year. The fee and commission business income accounted 8.46% of the total business operating income, realizing an increase of 1.39 percentage points.

In 2005, we practically strengthened the research into the credit policy and the industry risks, improved our loan review system and quickened our pace in the credit ranking mechanism, while further improved our credit approval mechanism, accelerated the formation of credit rating system. These efforts ensured the rational appropriation of loans, effective prevention of credit risks and improvement in assets quality. We faced with the

challenges of interest and exchange rates fluctuation with timely measures, avoided the loss arising from RMB appreciation and succeeded in issuing financial corporate bonds worth RMB 100 billion to the inter-bank market at a relatively lower interest rate. At the same time, we strengthened the internal control mechanism, focused on the individual major cases and succeeded in monitoring operational risks. The Bank saw no major case with a loss exceeding RMB 1 million in the year.

In 2005, we made greater efforts in innovation, and continuously developed and put onto market with many kinds of new products, including the co-branded Credit Cards, the Platinum Credit Card, revolving credit facility for personal household mortgage, online banking (version 5.0), and cash pooling management of foreign currencies, etc. These operations were attributed to our marketing achievements. We issued 3.6 million new All-in-one cards, realizing a total issuance of nearly 37 million, with an average deposit in each card amounting to RMB 5,400, which was RMB 1,000 more than that in the previous year. We issued 2.34 million new credit cards, realizing a total issuance nearly 5 million. The POS consumption reached RMB 30 billion, realizing an increase of 140%. We have so far had 79,000 Gold Sunflower clients and 70,000 "Wealth Management Accounts". The number of transactions and penetration rate in terms of total transaction volume through our online banking services rose by 5% and 7%, respectively. The Bank-Custom Express transaction volume amounted to RMB 23 billion, with an increase of 70.4% over the last year.

In 2005, we continued to invest in the construction

of our new system. The application of our new system has been launched in four branches including Hefei, Qingdao Branch and so on, and the preparatory work has been done by more branches including Harbin, Nanjing and Shenzhen branches. With the improved project management process aiming at promoting the efficiency of project development, the Bank completed the development of 728 projects. We have begun the construction of data warehouse and management information system and also basically completed the development of CBRC 1104 project reporting system and established a framework of management information platform. Shenzhen Financial Electronics Development & Research Center has been put into use as scheduled, which has greatly improved the working conditions for IT research and development.


In 2005, thanks to the understanding and support of the Board of Directors and the Shareholders, we smoothly implemented the reform of our shareholder structure, and our proposal was widely recognized by the society. The network development of the Bank expanded furtherly, with Foshan, Quanzhou and Changzhou Branches successively opened for business, and Ningbo and Suzhou sub-Branch were successfully upgraded into tier-one branches. Shenzhen Management Department was formally renamed as Shenzhen Branch. In the evaluations held by various organizations and media, we won the many honours including "the Most Respected Enterprises of China" and "Top 10 Valued Listed Companies of China". In a recently published ranking list as of integrated core competitiveness among domestic banks, the Bank was ranked the

first among 13 national commercial banks that participated in the ranking. The Bank was also well recognized for its achievement in investment value. In 2005, while the general stock index fell down by 0.47%, the price of our Bank rose by 19.85%.

The above mentioned achievements were the result of the collective efforts of the all staff and firm support from our clients, investors and our friends from the society. I would very much like to extend our sincere thanks, on behalf of the management of the Bank, to our friends who have cared and supported us all the time.

The year 2006 will be a critical year for the Bank to continue the adjustment of business strategy and the internationalization of management, and to prepare for the 20th anniversary of the Bank. We will abide by the guideline of “Updating the mindset, deepening the reform, strengthening innovation and preventing risks”. We will challenge the existing mindset of business philosophy and operation modes, speed up the reform of organizational structure, increase our innovation efforts in business operations, products, technology and management. I strongly believe that China Merchants Bankers will present you again with an encouraging and satisfying results in the coming years.

President



Section I Important Notice

The Board of Directors and the directors of the Company hereby warrant that there are no false records, misleading representation, or material omissions in this report, and are jointly and severally responsible for its authenticity, accuracy and completeness of the information contained in this annual report.

The Company's Annual Report 2005 and its abstract were approved in the 24th meeting of 6th session of Board of Directors on April 10th 2006. The Board gave 10 days' prior notice to all the directors for this meeting. The meeting should have been attended by 17 directors, and was in fact attended by 13 directors. The Directors, Mr. Fu Yuning, Mr. Huang Dazhan, Mr. Wang Daxiong, and Independent Director Mr. Lin Chuxue authorized the Directors, Mr. Qin Xiao, Mr. Tan Yueheng, Mr. Fu Junyuan and Independent Director Mr Ding Huiping, to vote on his behalf, respectively. The seven Supervisors of the Company were presented at this meeting.

This Annual Report has been audited by KPMG Huazhen Certified Public Accountants and KPMG Certified Public Accountants in accordance with PRC Accounting Rules and Regulations (Hereinafter referred to as 'PRC ARR') and International Financial Reporting Standards (Hereinafter referred to as 'IFRS') respectively. Both firms have issued their standard without reserve opinion on the financial reports contained herein.

THE BOARD OF DIRECTORS
CHINA MERCHANTS BANK CO., LTD.

Mr. Qin Xiao, Chairman of the Board, Mr. Ma Weihua, President of the Bank, Ms. Chen Wei, Executive Vice President of the Bank in charge of accounting affairs, and Mr. Fan Xiangyan, Head of Accounting Department, hereby warrant the authenticity and completeness of the financial statements contained in this annual report.

Section II Company Profile

1. Legal Chinese Name: 招商银行股份有限公司

(Chinese Abbreviation: 招商银行)

Legal English Name: China Merchants Bank Co., Limited, hereinafter referred to as “the Company”.

(English Abbreviation: China Merchants Bank)

2. Legal Representative: Qin Xiao

3. Secretary Of the Board of Directors: Lan Qi

Representative of security affairs: : Wu Jianbing

Address: No. 7088, Shennan Boulevard, Futian District, Shenzhen, China

Tel: 0755-83198888

Fax: 0755-83195109

E-mail: cmb@cmbchina.com

4. Registered Address:

No. 7088, Shennan Boulevard, Futian District, Shenzhen, China

Office Address

No. 7088, Shennan Boulevard, Futian District, Shenzhen, China

Post Code: 518040

Website: www.cmbchina.com

E-mail: cmb@cmbchina.com

5. Newspapers designated for information disclosure

China Securities Journal, Shanghai Securities News, and Securities Times

Website designated by China Securities Regulatory Commission (CSRC) for publishing the

Annual Report: <http://www.sse.com.cn>

Places where the annual report is available for inspection: Office of the Board of Directors, China Merchants Bank

6.Places of Listing the Shares: Shanghai Stock Exchange
Stock Abbreviation: China Merchants Bank
Stock Code: 600036
Abbreviation of Convertible Bonds: CMB Convertible Bonds
Code of Convertible Bonds: 110036

7.Other Related Information:

First registration date of incorporation: March 31st 1987
First registration place of incorporation: Shenzhen Administration Bureau for Industry And Commerce, Shekou Branch
Business license registration No: 1000001001686
Taxation registration No: Guo Shui Shen Zi:44030110001686X
Shen Di Shui Deng Zi: 44030410001686X
Custodian for uncirculated shares: China Securities Depository & Clearing Corporation Limited, Shanghai Branch
Domestic auditing firm: KPMG Huazhen Certified Public Accountants
Office Address: 8/F, Oriental Plaza East Tower 2, No. 1 East Chang An Avenue, Beijing

International auditing firm: KPMG Certified Public Accountants
Office address: 8th Floor Prince's Building Central, Hong Kong

8.This annual report is published in Chinese and in English.

In the event of any discrepancy in interpretation,the Chinese version shall prevail.

Section III Financial and Business Highlights

I. Major financial data and indicators during the reported period

(Expressed in thousands of RMB)

Item	Under PRC ARR	Under IFRS
Total profit	6,633,537	6,462,079
Net profit	3,930,383	3,748,794
Net profit after non-operating profit & loss	3,852,792	3,748,794
Profit from principal operations	6,555,946	6,462,079
Operating Profit	6,555,946	6,462,079
Investment Income	3,387,498	3,138,164
Subsidy income	0	0
Net non-operating income/expense	77,591	0
Net cash flow from operating activities	27,294,077	34,573,001
Net Increase in cash and cash equivalent	19,772,803	25,094,419

Note:

(1) The non-operating profit and loss is determined and calculated in accordance with Questions and Answers No.1 concerning standards on Information Disclosure by Companies Issuing Securities to the public: Non-operating Profit & Loss (revised in 2004). The deducted non-recurring profit & loss is the net non-operating income/expense with

the amount of RMB 77,591 thousand.

(2) Operating Profit = Total Profit – Net Non-operating Incomes and Expenses

II. Key accounting data and financial indicators of the previous financial years before the end of the reported period.

(Expressed in thousands of RMB unless otherwise stated)

Item	2005		2004		2003
	Under PRC ARR	Under IFRS	Under PRC ARR	Under IFRS	Under PRC ARR
Income from principal operations	28,446,146	28,737,698	22,494,817	22,762,008	16,246,326
Net profit	3,930,383	3,748,794	3,144,087	3,276,182	2,229,910
Total assets	733,983,030	734,612,864	586,574,233	586,714,567	493,909,442
Shareholders' equity (Excluding minority interests)	24,670,546	25,997,468	20,880,950	21,958,287	18,261,438
Earning per share –fully diluted (yuan)	0.38	0.36	0.46	0.48	0.39
Earning per share on the latest share capital (yuan) (Ended on March 31st 2006)	0.32	0.31	/	/	/
Earning per share–weighted average (yuan)	0.38	0.36	0.46	0.48	0.39
Earning per share after non– operating profit & loss (yuan)	0.37	0.36	0.45	0.48	0.39
Net asset per share (yuan)	2.38	2.51	3.05	3.21	3.20
Adjusted Net Asset per share (yuan)	2.37	2.50	3.03	3.19	3.10
Net cash flow per share from operating activities (yuan)	2.63	3.33	0.98	2.65	3.21
Return on Net Asset (%)	15.93	14.42	15.06	14.92	12.21
Fully diluted return on net asset after non–operating profit & loss (%)	15.62	14.42	14.66	14.92	12.20
Weighted average return on net asset after non–operating profit or loss (%)	17.16	16.00	15.68	16.68	12.79

Note:

(1) The indicators were calculated in accordance with Article 21 of Standard No. 2 on the Content and Format of Information Disclosure regarding the Companies issuing securities to the public: Content and Format of Annual Report (revised in 2004), and Standard No. 9 on Information Disclosure of the Companies issuing securities to the public: Calculation and Disclosure of Return on Net Assets and Earning per Share.

(2) According to the Share Changes Notice announced by the Company on April 4th, 2006, Upon Market Closed on Mar. 31, 2006, “CMB Convertible Bonds” (100036) issued by the Company with total amount of RMB 6,453,076,000.00 has been converted into “GCMB” (600036) issued by the Company. Wherein, the accumulated shares converted (including the surplus of converted shares) were

1,035,826,579. Whereby the total equity of the Company had been added up to 12,279,328,860 shares, increased by 1,904,985,046 shares comparing with that of the end of the reported period, therefore, the earning per share on the basis of latest share capital was RMB 0.32.

(3) The total assets in 2005 did not include “Entrusted loan and Entrusted investment”, and the figures of 2004 and 2003 have been re-adjusted.

(4) During the reported period, according to the standards for International Financial Reporting Standard (IFRS), the Company accounted the changes in the fair value of bonds available-for-sale into Shareholder’s equity, and made adjustment to the figures of 2004 under IFRS. As a result, the Net profit of 2004 has been adjusted to RMB3,276,182 thousand instead of RMB3,240,834 thousand.

III. Major financial data prepared under PRC ARR and IFRS and defferences herein

(Expressed in thousands of RMB)

	Net Profit for 2005	Net asset as of the end of 2005	Net profit for 2004	Net asset as of the end of 2004
Stated in accordance with China Enterprise Accounting Standard, Accounting Regulations for Financial Institutions and other related supplementary provisions	3,930,383	24,670,546	3,144,087	20,880,950
Adjustment: net investment income	34,215	639,746	109,280	136,722
Adjusted net value of bonds issued	-177,759	687,176	22,815	940,615
Foreign currency translation	-38,045			
Stated according to IFRS	3,748,794	25,997,468	3,276,182	21,958,287

Note:

(1) According to IFRS, the investments of the Company were categorized into the investments accounted by its fair value and with changes recorded into the Profit & Loss of reported period, investment held-to-maturity, investment available-for-sale and investment fund receivable. After preliminary confirmation, the investment fund receivable and investment held-to-maturity were recorded and by amortized cost and by actual interest rate. The profit or loss caused by the changes in the fair value of the investment was accounted into the profit and loss of the current period by its fair value and with its changes and was recorded in the consolidated income statement. Except the depreciation loss and the loss from foreign currency should be directly recorded in the consolidated Income statement. The profit or loss generated from the changes in the fair value of the investment available-for-sale should be recorded into the equity, and would be recorded in the consolidated Income statement until the termination of confirmation for this investment or depreciation loss has been occurred. While, in accordance with PRC ARR, the investment of the Company was categorized into short-term investment and long-term investment. The short-term investment was accounted by the actual cost when it was purchased. The short-term investment value at the end of reported period was determined by the lower value either at the actual cost or at the market value, and the difference of the single investment between the market value and the actual cost should be calculated and made as provision for short-term investment depreciation recorded in the Income Statement. Upon the disposal of the short-term Investment,

the difference between the book value and actual disposal value was accounted as the investment return in the reported period. The investment of long-term bond was accounted by the actual cost when it was purchased, and the difference between the actual cost and the par value of the bond was deemed as a premium or a discount, and amortized within the tenor of the bond on the basis of straight-line method. The interest income of the long-term bond investment was accounted on the accrual basis.

(2) According to IFRS, when the Company issued convertible corporate bonds, the fair values of the principal to be repaid to the holders upon expiry date and the interest to be paid to the holders are calculated at the market interest rate for the bonds of the its kind excluding convertible options, and were recorded as amortized cost before bond conversion or expiry. The value of the convertible options is recorded separately in the shareholders' equity. However, according to China's accounting standards, the convertible bonds issued by the Company were recognized as liabilities at total value of actual issuing prices. The difference between total value of actual issuing prices and par values of bonds was counted by straight line method as the premium or discount of the bonds and was amortized pursuant to the term of bonds.

(3) According to IFRS, the foreign exchange transactions of the Company, would be converted into USD and then into RMB using the foreign exchange rate of the trading day. The monetary asset and liability on the basis of the historical cost were converted into USD and then into RMB according to the foreign exchange rate of the date of balance sheet; and

the profit and loss from the foreign exchange translation was recorded into the consolidated Profit and Loss accounts. The non-monetary asset, liability and equity of foreign exchange on the basis of the historical cost was converted into USD and then into RMB according to the foreign exchange rate of trading day. While, in accordance with the China's accounting standard, the transaction was recorded in the original currency when it was done, and was reported into the financial statement in a single currency equivalent, i.e. RMB, at the end

of the period. For foreign exchange translations, the category of equity items were converted according to the historical foreign exchange rate, while other items were converted according to the rate at the end of the period; the differences arise from using various rates were reflected as the difference of foreign exchange translation under the item of the "capital reserve". The items in profit and loss accounts were converted into RMB using foreign exchange rate at the end of the period.

IV. Provisions for idle loans under PRC ARR and IFRS

(Expressed in thousands of RMB)

	Under PRC ARR	Under IFRS
Balance at the beginning of the reported period	10,920,000	10,920,000
Provisions during the reported period	3,787,565	4,031,158
Provisions write-back during the reported period	-456,575	-456,575
Reversal of interests on devalued loan	0	-243,593
Recoveries of Loans written-off in previous years	83,959	83,959
Write-offs during the Reported period	-744,909	-744,909
Change in foreign exchange Rate	-78,053	-78,053
Transfer-out during the reported period	-1,658	-1,658
Balance at the end of the reported period	13,510,329	13,510,329

Note:

Provision write-back during the reported period, refers to the reduced provision for bad the debts due to improved loan quality. 'Transfer-out during the reported period'

means the provision for idle loans was transferred into 'debt-paying assets to be disposed', and the corresponding provision for loss is transferred to 'provisions for depreciation of debt-paying assets' at the same time.

V. Supplementary financial data for previous three financial years

(Expressed in thousands of RMB)

Item	2005		2004	2003
	Under PRC ARR	Under IFRS	Under PRC ARR	Under PRC ARR
Total liabilities	709,312,484	708,615,396	565,693,283	475,648,004
Total deposits	634,403,552	634,403,552	512,586,194	406,885,855
of which: long-term deposits	29,877,649	29,877,649	23,358,440	21,222,564
Total loans	472,185,004	472,185,004	374,017,058	307,480,056
of which: short-term loans	204,229,615	204,229,615	193,387,400	159,878,044
Import & Export negotiation	12,215,497	12,215,497	8,086,945	6,333,791
Bills discounting	99,526,919	99,526,919	60,885,590	62,224,462
Mid and long-term loans	145,839,238	145,839,238	102,200,025	70,295,648
Overdue loans	10,373,735	10,373,735	9,457,098	8,748,111

Note:

(1) The total liabilities for 2005 did not include “Entrusted funds”, and the adjustment has been made to the result of 2004 and 2003.

(2) The total deposits included short-term deposits, short-term saving deposits, structured deposits, fiscal deposits, outward remittance, remittance payable, long-term deposits,

long-term saving deposits and guarantee margin deposits.

(3) The long-term deposits included the long-term deposits and long-term saving deposits.

(4) The balance of discount for 2005 did not include the purchase of Repo bills, and the adjustment has been made to the result of 2004.

VI. Supplementary financial indicators of the previous 3 years before the end of reported period

Key indicators (%)	Standard rate	Dec. 31 st 2005		Dec. 31 st 2004		Dec. 31 st 2003		
		Year end	Average	Year end	Average	Year end	Average	
Capital adequacy ratio	≥8	9.10	9.47	9.55	8.69	9.49	11.16	
Non-performing loan ratio	≤15	2.58	2.64	2.87	2.91	3.15	4.18	
Loan to deposit ratio	RMB	≤75	59.23	62.09	62.58	63.69	61.74	62.47
	Foreign Currency	≤85	55.58	55.71	49.62	54.42	54.68	48.46
	RMB Equivalent	≤85	58.91	61.37	61.18	62.67	60.96	60.56
Asset liquidity ratio	RMB	≥25	56.52	57.71	55.36	55.92	58.7	55.96
	Foreign Currency	≥60	81.29	64.27	83.45	92.34	103.77	113.34
Inter-bank placement ratio (RMB)	Borrow in	≤4	0	0.16	0.29	0.31	0.02	0.4
	Lend out	≤8	1.08	0.98	1.17	1.74	3.36	3.33
International commercial loan ratio	≤100	0.89	0.85	0.84	1.83	2.55	0.49	
Interest receipt ratio	-	98.93	98.92	98.91	99.11	99.3	98.31	
Proportion of loans granted to single largest customer	≤10	7.79	6.33	4.81	5.93	5.96	6.1	
Proportion of loans granted to top ten largest customers	≤50	42.37	41.50	37.90	46.87	48.26	43.26	

Note:

The capital adequacy ratio for 2004 and 2005 was calculated according to the Management Guidelines on Capital Adequacy

Ratio for Commercial Banks that promulgated by China Banking Regulatory Commission on February 23rd 2004.

VII. Appendix of Income statement

(1) Under PRC ARR

Items	Profit in the reported Period (in thousands of RMB)	Return on net assets (%)		Earning per share (yuan)	
		Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from principle operations	6,555,946	26.57	29.20	0.63	0.64
Operating profit	6,555,946	26.57	29.20	0.63	0.64
Net profit	3,930,383	15.93	17.51	0.38	0.38
Net profit after non-operating profits and losses	3,852,792	15.62	17.16	0.37	0.37

(2) Under IFRS

Items	Profit in the reported Period (in thousands of RMB)	Return on net assets (%)		Earning per share (yuan)	
		Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from principle operations	6,462,079	24.86	27.57	0.62	0.63
Operating profit	6,462,079	24.86	27.57	0.62	0.63
Net profit	3,748,794	14.42	16.00	0.36	0.36
Net profit after non-operating profits and losses	3,748,794	14.42	16.00	0.36	0.36

VIII.Changes in shareholders' equity during the reported period

(1) Under PRC ARR

(Expressed in thousands of RMB)

Items	Share capital	Capital reserve	Surplus reserve	General reserve	Undistributed profit	Total shareholders' equity
Balance at the beginning of the year	6,848,182	8,128,383	1,591,086	0	4,313,299	20,880,950
Increase	3,526,162	548,518	786,076	3,000,000	3,930,383	11,791,139
Decrease		-3,424,122			-4,539,376	-7,963,498
Exchange gain/loss		-38,045				-38,045
Balance at the end of the year	10,374,344	5,214,734	2,377,162	3,000,000	3,704,306	24,670,546

Note:

The increase of "share capital" was the result of an increase of 3,424,122,000 shares converted by the rate of increasing 5 shares to each 10 shares according to the Company's 2004 profit distribution scheme, and 102,040,000 shares increased from the convertible corporate bonds during the reported period. The reduce of the "capital reserve" of RMB 3,424,122,000 was resulted from a conversion to shares at a rate of 5 shares to each 10 shares as set forth by the Company's 2004 profit distribution Scheme. During the reported period, the capital reserve recorded an increase of RMB 548,518,000 due to the conversion from the convertible bonds to equity. The increase of the "surplus reserve" by RMB 393,038,000 was the provision for statutory public welfare made by the Company with 10% of the net profit in 2005. The increase of the "general reserve" by RMB 3 billion was the provision made from undistributed profits according to the Administrative Measures on provision for idle loan for Finance Enterprises [CAIJIN

(2005) No.49]] promulgated by Ministry of Finance. The change of the "undistributed profit" was the result of increase of net profit during the reported period, provision for statutory surplus reserve and public welfare, provision for general reserve of 2005, as well as payout of dividend for 2004.

(2) Under IFRS

(Expressed in thousands of RMB)

Items	Share capital	Capital reserve	Surplus reserve	Investment revaluation	General reserve	Undistributed profit	Proposed profit for distribution	Total share-holders' equity
Balance at the beginning of the year	6,848,182	9,046,183	962,268	-65,317		3,784,853	1,382,118	21,958,287
Increase	3,526,162	472,838	628,818	468,809	3,000,000	3,748,794	1,616,024	13,461,445
Decrease		-3,424,122				-4,616,024	-1,382,118	-9,422,264
Balance at the end of the year	10,374,344	6,094,899	1,591,086	403,492	3,000,000	2,917,623	1,616,024	25,997,468

Note:

The increase of "Share Capital" by 3,526,162 thousand shares was the result of the conversion from capital reserve into equity by the rate of 5 shares to each 10 shares according to the Company's 2004 profit distribution scheme and Convertible corporate bonds are converted into share capital of 102,040,000 shares. The increase of "capital reserve" by RMB 472,838 thousand resulted from the conversion of convertible corporate bonds into shares; and the decrease of the "capital reserve" by RMB 3,424,122 thousand was the result of conversion of capital reserve into shares at the rate of 5 shares to each 10 shares according to the Company's 2004 Profit distribution scheme. The increase of the "surplus reserve" of RMB 628,818 thousand came from the provision of the statutory surplus reserve & public welfare according to the Company's 2004 profit distribution scheme. The increase of "investment revaluation" of RMB 468,809 thousand came from the change in fair value of available-for-sale financial assets by RMB 359,313 thousand and the sale of RMB 109,496,000 of available-for-sale financial assets which has been recorded in the consolidated Income statement.

The increase of "general reserve" by RMB 3 billion was provision made from undistributed profits according to the Administrative Measures on provision for idle loan for Finance Enterprises [CAIJIN (2005) No.49] promulgated by Ministry of Finance. The increase of the "undistributed profit" of RMB 3,748,794 thousand came from the net profit of 2005. The decrease of the "undistributed profit" of RMB 4,616,024 thousand was a result from provision of RMB 786,076 thousand made for statutory surplus reserve and public welfare, provision of RMB 3 billion for general reserve for 2005, as well as the proposed cash dividend of RMB 829,948 thousand for 2005.

The increase of "proposed profit for distribution" by RMB 1,616,024 thousand included a proposed provision of RMB 786,076 thousand for statutory surplus reserve and public welfare for 2005, as well as the proposed cash dividend of RMB 829,948 thousand for 2005. The decrease of "proposed profit for distribution" by RMB 1,382,118 thousand came from the provision of RMB 628,818 thousand made for statutory surplus reserve and public welfare for 2004, as well as the payout of cash dividend of RMB 753,000 thousand for 2004.

IX. Capital composition and the changes

(Expressed in thousands of RMB)

	Dec. 31st 2005	Dec. 31st 2004	Dec. 31st 2003
Net capital	38,531,479	35,245,650	27,740,735
Of which, net core Capital	23,786,429	20,096,650	18,026,382
Net risk weighted capital	423,312,444	369,130,931	292,222,168
Capital adequacy ratio	9.10%	9.55%	9.49%
Core capital adequacy ratio	5.62%	5.44%	6.17%

Note:

The capital adequacy ratios and core capital adequacy ratios on Dec. 31st 2004 and Dec. 31st 2005 was calculated

according to the Management Guidelines on Capital Adequacy Ratio for Commercial Banks that promulgated by China Banking Regulatory Commission on February 23rd 2004.

Section IV Changes in Share Capital and Information on Shareholders

I. Change in shares

Changes in the Company's shares during the reported period were as follows:

(Unit: Share)

	Before changes		Increase /decrease (+, -)			After changes	
	Number of shares	Percentage (%)	Conversion from public reserves	Conversion from convertible bond	Subtotal	Number of shares	Percentage (%)
I. Un-listed shares	5,048,181,636	73.72	2,524,090,818		2,524,090,818	7,572,272,454	72.99
1. Founder's shares	2,679,696,893	39.13	1,339,848,447		1,339,848,447	4,019,545,340	38.74
Of which,							
State-owned shares	2,679,696,893	39.13	1,339,848,447		1,339,848,447	4,019,545,340	38.74
Shares held by domestic legal entities							
Shares held by overseas legal entities							
Others							
2. Shares raised by legal person	2,368,484,743	34.59	1,184,242,371		1,184,242,371	3,552,727,114	34.25
3. employee shares							
4. Preference shares or others							
II. Shares listed and in circulation	1,800,000,000	26.28	900,031,890	102,039,470	1,002,071,360	2,802,071,360	27.01
1. common shares in RMB	1,800,000,000	26.28	900,031,890	102,039,470	1,002,071,360	2,802,071,360	27.01
2. Foreign shares listed domestically							
3. Foreign shares listed overseas							
4. Others							
III. Total shares	6,848,181,636	100.00	3,424,122,708	102,039,470	3,526,162,178	10,374,343,814	100.00

II.Share issuance and public listing of shares

1.Share issuance in the past three years before the end of reported period

Approved by China Securities Regulatory Commission's document Zheng Jian Fa Xing Zi [2002]No. 33, the Company launched an Initial Public Offering of 1.5 billion common shares at RMB 7.30 per share on March 27th 2002 in Shanghai

Stock Exchange through a combination of off-line allocation to legal person investors and on-line cumulative bid offering to individual investors. The information regarding listing and circulation of the shares was shown as follows:

Type of shares	Date of listing	Number of shares approved to be listed for trading
Ordinary investors	April 9th 2002	600,000,000 Shares
Class-C ordinary legal person investors	July 10th 2002	53,655,400 Shares
Class-B ordinary legal person investors	August 12th 2002	133,791,005 Shares
Class-A ordinary legal person	December 10th 2002	282,753,595 Shares
Strategic investors	April 10th 2003	429,800,000 Shares
Total		1,500,000,000 Shares

2.Changes in the number of shares and equity structure during the reported period

Approved by Shareholders' General Meeting for 2004 which was held on May 17th 2005, the Company's 2004 Profit distribution scheme and Capital reserve conversion scheme were set forth as follows: on the basis of the total share capital on equity registration date, each 10 shares are subject to a cash dividend of RMB 1.1 (tax included); and the capital reserves was converted to shares at a rate of 5 shares to every 10 shares. The Company's total share capital is to be increased to 10,272,368,123 shares on June 20th 2005 after the conversion of the capital reserves completed.

The "CMB Convertible Bonds" (110036) issued by the Company has come into the conversion term since May 10th 2005. A total of 102,071,360 shares (including converted shares of "CMB Convertible Bonds" with amount of RMB 635,905,000 have been converted into The Company's shares of "China Merchants Bank" (600036) by the end of the reported period.

The changes of the convertible bonds during the reported period was shown as follows:

(Expressed in RMB)

	Before changes	Increase/decrease (Conversion)	After change
Convertible bonds	6,500,000,000	-635,905,000	5,864,095,000

Regarding to the changes of the Company's share structure during the reported period, please refer to the above "4.1 Change in Shares" for details.

3.The Company had no employee shares during the reported period.

III.The Issuance of Convertible bonds and its listing

Approved by China Securities Regulatory Commission's document Zheng Jian Fa Xing Zi[2004] No. 155, the Company issued 65

million pieces of convertible bonds on November 10, 2004, of which 100 yuan par value with total value at Rmb6.5 billion yen. After approved by Shanghai Stock Exchange's document Shang Zheng Shang Zi [2004] No.165, the 65 million pieces of convertible bonds are listed and traded on November 29, 2004 in the name of 'China Merchants Bank Convertible Bond's (Bond code 110036) in Shanghai Stock Exchange. The validity for the convertible bonds to be listed was from November 29, 2004 to November 10, 2009. The Prospectus

and listing announcement of convertible bonds have been published on the China Securities Journal, Securities Times and Shanghai Securities on October 29, 2004 and November 23, 2004, respectively.

IV. Adjustment on the price of convertible bonds

As per the issuing terms in the Prospectus and the related regulations on the issuance of convertible bonds stipulated by China Securities Regulatory Commission, the Company implemented its 2004 Profit Distribution Scheme on June 20th 2005 and distributed a cash dividend of RMB 1.1 (tax included) for each 10 shares and converted the capital reserves into shares at a rate of 5 shares to each 10 shares. The Conversion price of "CMB Convertible Bond" was adjusted from RMB 9.34 to RMB 6.32 per share accordingly. For details, please refer to the Special Announcement on Convertible Price Adjustment for Convertible Bonds Issued by China Merchants Bank Co., Ltd. published on China Securities Journal, Shanghai Securities News and Securities Times on June 14th 2005.

V. The Issuance of subordinated debts

In accordance with Yin Jian Fu No. [2004] 36 Document – 'Approval of issuing

Subordinated Debts by China Merchants Bank' issued by the China Banking Regulatory Commission, the Company has issued Rmb3.5 billion subordinated debts, of which, China Pacific Insurance (Group) Co., Ltd. subscribed Rmb2.5 billion subordinated debts on March 2004, with the term of 5 years and 1 month, fixed annual rate at 4.59% and the interest to be paid once a year. China Ping An Life Insurance Co., Ltd. and Tai Kang Life Insurance Co., Ltd. subscribed Rmb700 million and Rmb300 million subordinated debts in June 2004, respectively, with the term of 5 years and 1 month, fixed annual rate at 5.10%, and the interest to be paid once a year.

VI. Information on Shareholders

1. Share transfer during the reported period

Shenzhen Zhongda Investment & Management Co., Ltd. sold

their 3,534,390 shares of the Company's to Shenzhen Yingxin Venture Capital Co., Ltd. through auction, and relevant transfer procedure has been completed at China Securities Depository and Clearing Corporation Limited, Shanghai branch (hereinafter refer to as 'CSDCC') during the reported period.

Wuxi Guolian Development (Group) Co., Ltd. was assigned with 18,208,755 shares of the Company by Shenzhen Hongji (Group) Co., Ltd., and the relevant transfer procedure has been completed at CSDCC during the reported period.

Shenzhen Yanqing Investment & Development Co., Ltd. was assigned with 7,200,000 shares of the Company by Zhejiang Zhongda Group Co., Ltd., and the relevant transfer procedure has been completed at CSDCC during the reported period.

CNOOC Investment Co., Ltd. was assigned with 159,075,489 shares and 53,453,925 shares of the Company by China Petroleum South China Sea East Corp. and China National Offshore Oil Corp., respectively, and the relevant transfer procedure has been completed at CSDCC during the reported period.

Shanghai Yige Asset Management Co., Ltd purchased 10 million shares of the Company from Jilin Communication Investment Corp. through auction, and the relevant transfer procedure has been completed at CSDCC during the reported period.

Shenzhen Songzhu Industrial Co., Ltd purchased 2,650,794 shares of the Company from Shenzhen Guangxin Industrial Co., Ltd. through auction, and the relevant transfer procedure has been completed at CSDCC during the reported period.

Shandong Communication Investment & Development Co., Ltd was renamed as Shandong State-owned Asset Investment Holdings Co., Ltd in Dec. 2005.

2. Information about top ten shareholders

(Unit: Share)

Total number of shareholders	150,832	Number of convertible bond holders	8,562		
Top 10 largest shareholders					
Name of shareholders	Nature of shareholder	Percentage of share held %	Total number of shares held	Number of non-circulated shares held	Number of shares pledged or frozen
China Merchants Steam Navigation Co., Ltd.	State-owned shareholder	17.78	1,844,371,997	1,844,371,997	0
China Ocean Shipping (Group) Company	State-owned shareholder	8.53	884,419,548	884,419,548	0
Guangzhou Maritime Transport (Group) Co., Ltd.	State-owned shareholder	5.64	585,253,656	585,253,656	0
Yiu lian Dockyard Ltd.	State-owned shareholder	3.16	327,722,400	327,722,400	0
Shanghai Automotive Industry Corporation	State-owned shareholder	2.50	259,381,962	259,381,962	0
CNOOC Investment Co., Ltd.	State-owned shareholder	2.05	212,529,414	212,529,414	0
China Harbor Engineering (Group) Company	State-owned shareholder	1.95	201,855,701	201,855,701	0
Shenzhen Yanqing Investment & Development Co., Ltd.	State-owned shareholder	1.93	200,453,514	200,453,514	0
Qin Huangdao Port (Group) Co., Ltd.	State-owned shareholder	1.76	182,141,550	182,141,550	0
Shandong State-owned Assets Investment Holdings Co., Ltd.	State-owned shareholder	1.76	182,141,550	182,141,550	0
Guangdong Provincial Highway Administration Bureau	State-owned shareholder	1.76	182,141,550	182,141,550	0
China Shipping (Group) Company	State-owned shareholder	1.76	182,141,550	182,141,550	0
top ten shareholders of circulated shares					
Name of shareholders	Number of circulated shares held		Type of shares		
SSE 50 Exchange Traded Open-ended Index Securities Investment Fund	76,701,253		RMB common share		
Yifangda 50 Index Securities Investment Fund	59,159,522		RMB common share		
Jiashi Value-Added Service Industry Securities Investment Fund	54,899,980		RMB common share		
Shenwan Paris Shengli Selected Securities Investment Fund	40,045,220		RMB common share		
Haifutong Income Growth Securities Investment Fund	32,278,161		RMB common share		
Pufeng Securities Investment Fund	28,980,000		RMB common share		
China National Cereals, Oil & Foodstuffs Imp. & Exp. Corp.	28,800,000		RMB common share		
Ping An Life Insurance Company of China, Ltd. - Traditional, General Insurance Product	27,493,991		RMB common share		
Galaxy Yinhe Yintai Financial Dividend Securities Investment Fund	25,398,394		RMB common share		
Fenghe Value Securities Investment Fund	23,497,768		RMB common share		

Note:(1) Of the aforesaid top ten shareholders, China Merchants Steam Navigation Co., Ltd., Yiu lian Dockyards Ltd., Shenzhen Yanqing Investment & Development Co., Ltd.

are the wholly owned Subsidiaries of China Merchants (Group) Co., Ltd.. Guangzhou Maritime Transport (Group) Co., Ltd. is a wholly owned subsidiary of China shipping (Group) Company

Limited. Other shareholders are not related.

(2) During the reported period, there is no strategic investor or common legal person listed as became the top 10 shareholders of the Company due to the new share placement.

(3) Among the top ten shareholders of circulated shares, both

Jiashi Value-added Service Industry Securities Investment Fund and Fenghe Value Securities Investment Fund belongs to Jiashi Fund Management Co. Ltd. The Company has no knowledge of the co-relationship among other circulated shareholders.

3. Top 10 largest convertible corporate bond holders

(Unit: RMB)

No	Name of bond holders	Type of securities	Amount of the bond held at the end of reported period	Proportion to total issuance(%)
1	China Ping An Insurance (Group) Company, Ltd.	Convertible Bond	389,374,000	5.99%
2	Jiashi Value-added Service Industry Securities Investment Fund	Convertible Bond	344,783,000	5.30%
3	Xingye Convertible Mixed Securities Investment Fund	Convertible Bond	332,785,000	5.12%
4	Haifutong Revenue Growth Securities Investment Fund	Convertible Bond	300,000,000	4.62%
5	Shenyin Wanguo CITibank- UBS LIMITED	Convertible Bond	187,660,000	2.89%
6	China Southern Fund Management Ltd. - Risk-mitigated Value -added Securities Investment Fund	Convertible Bond	156,206,000	2.40%
7	National Social Security Fund 102 Complex	Convertible Bond	153,140,000	2.36%
8	Guotai Junan Allianz Fund Management Co., Ltd.-Small Cap Selective Securities Investment Fund	Convertible Bond	149,848,000	2.31%
9	Jinghong Securities Investment Fund	Convertible Bond	148,550,000	2.29%
10	Tianyuan Securities Investment Fund	Convertible Bond	147,735,000	2.27%
Total			2,310,081,000	35.54%

Note: Among the top ten convertible bond holders both Nanfang Risk-mitigated and Value added Securities Investment Fund and Tianyuan Securities Investment Fund belongs to South Fund Management Corp., Ltd; and the co-relationship among other holders of convertible bonds are unknown to the Company. The co-relationships among the top ten convertible bond holders and the top ten largest shareholders are unknown to the Company.

4. Information about the Company's largest shareholder and its parent company

(1) China Merchants Steam Navigation Co., Ltd., the Company's largest shareholder, China Merchants Steam Navigation Co., Ltd. was founded on October 11th 1948. The legal representative is Mr. Qin Xiao. It is a wholly owned subsidiary of China Merchants Group Co., Ltd. The company is mainly engaged in passenger and cargo shipping business;

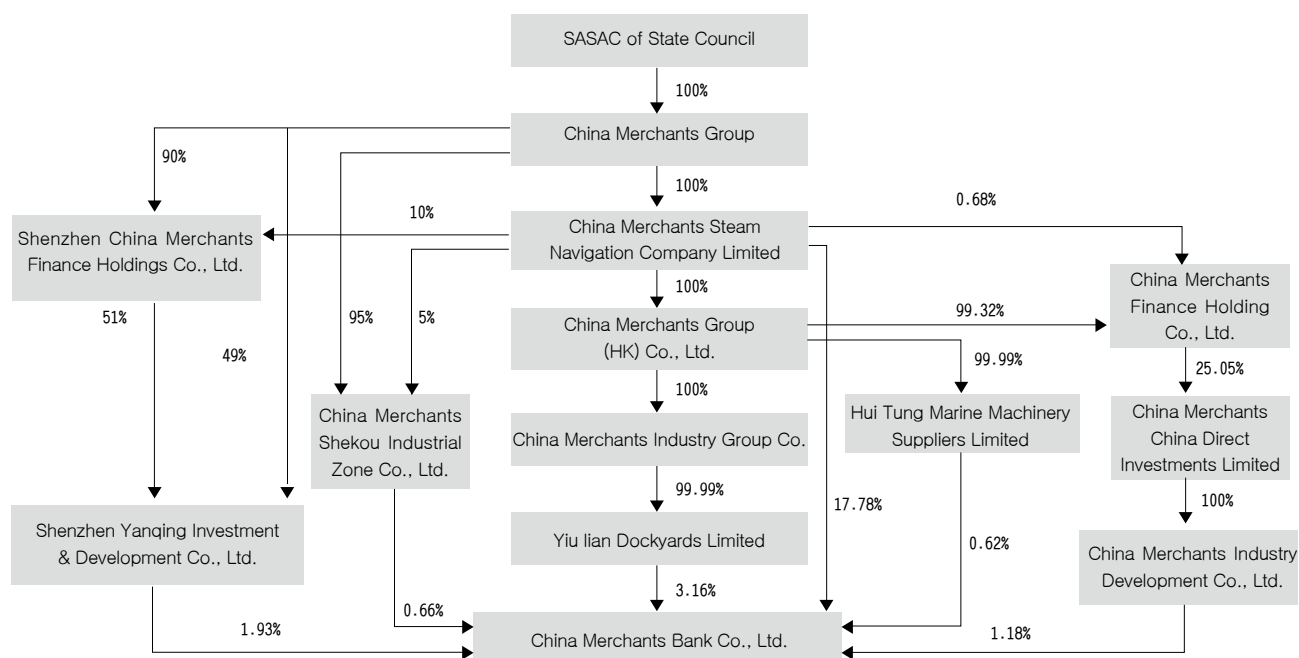
dockyard, warehouse and vehicle transportation; sale, purchase and supply of various transport equipments, spare parts and materials; ship and passenger/goods shipping agency, international maritime cargo; as well as finance, insurance and trust business related to transportation.

(2) China Merchants Group Co., Ltd. Is direct parent company of China Merchants Steam Navigation Co., Ltd. With 100% equity interest, and is the parent company of the Company's largest shareholder. The legal representative is Mr. Qin Xiao. China Merchants (Group) Co., Ltd., formerly known as 招商局, is a state-owned backbone enterprise under direct control of Central Government. It was incorporated in 1872 and was one of the enterprises that play vitally important roles in promoting the modernization of China's national industrial & commercial era at that time. Nowadays, the company has developed into a conglomerate, specialized in transportation infrastructure, industry zone development, port, finance, property and

logistics businesses etc.

The Company has no controlling shareholder or actual controlling party. The equity interest relationship between the

Company and its largest shareholder is illustrated as follows:



Note:

China Merchants Shekou Industrial Zone Co., Ltd. has transferred its 68,284,415 shares of the Company to Shenzhen Yanqing Investment & Development Co., Ltd., and finished relevant transfer procedure at China Securities Depository and Clearing Corporation Limited, Shanghai branch (hereinafter refer to as 'CSDCC') in February 2006. Yiu lian Dockyards Ltd. and Hoi Tung Marine Machinery Suppliers Limited have transferred their 182,068,000 and 35,733,250 shares of the Company to Shenzhen Chuyuan Investment & Development Co., Ltd. respectively, and finished relevant transfer procedure at the CSDCC in February 2006. Shenzhen Chuyuan Investment & Development Co., Ltd. is a wholly owned subsidiary of China Merchants Finance Holdings Co., Ltd., which is a direct wholly owned subsidiary of China Merchants Group Co., Ltd.

5. Information about other shareholders with more than 5% equity interests

(1) China Ocean Shipping (Group) Company

China Ocean Shipping (Group) Company was founded on April 27, 1961 with a registered capital of RMB1.9 billion.

The legal representative is Mr. Wei Jiafu. he Company is one of the backbone enterprises directly under the central government, a large-sized multinational conglomerate with international shipping as its core business and encompassing international passenger and goods shipping, leasing, building, trading and maintenance of ships and containers, equipment manufacturing, domestic coastal goods freight and ship administration, communication services, ship and cargo agency services at major domestic harbours.

(2) Guangzhou Maritime Transport (Group) Co., Ltd.

Guangzhou Maritime Transport (Group) Co., Ltd. was founded on October 22, 1949 with a registered capital of Rmb3.075 billion. Its legal representative is Mr. Yao Zuozhi. Guangzhou Maritime Transport (Group) Co., Ltd. is the wholly owned subsidiary of China Sea Transportation (Group) Company. The Company is specialized in cargo shipping, agency service on ships and cargo, wholesale and retail trade, human resource development and training for shipping industry, communication between foreign and domestic ports and ships, leasing houses and cars, custodian of automobiles, consultation services on maritime affairs and business, etc.

Section V Directors, Supervisors, Senior Executives and Employees

I. Directors, Supervisors and Senior Executives

1. Basic Information

Name	Gender	Birth (M/Y)	Title	Term of employment	Share Held at Jan. 1, 2005	Share Held at Dec. 31, 2005	Total after Tax Remuneration during Reported period	Paid by Shareholder or Other Related Insitutions
Qin Xiao	Male	Apr. 1947	Chairman	Jun.2004–Jun.2007	0	0	0	Yes
Wei Jiafu	Male	Dec.1949	Vice Chairman	Jun.2004–Jun.2007	0	0	0	Yes
Fu Yuning	Male	Mar.1957	Director	Jun.2004–Jun.2007	0	0	0	Yes
Li Yinquan	Male	Apr.1955	Director	Jun.2004 –Jun.2007	0	0	0	Yes
Huang Dazhan	Male	Jul.1958	Director	Jun.2004 –Jun.2007	0	0	0	Yes
Tan Yueheng	Male	Nov.1962	Director	Jun.2004 –Jun.2007	0	0	0	Yes
Sun Yueying	Female	Jun.1958	Director	Jun.2004–Jun.2007	0	0	0	Yes
Wang Daxiong	Male	Dec.1960	Director	Jun.2004 –Jun.2007	0	0	0	Yes
Fu Junyuan	Male	May.1961	Director	Jun.2004 –Jun.2007	0	0	0	Yes
Ma Weihua	Male	Jun.1948	Director & President	Jun.2004 –Jun.2007	0	0	2,678.3	No
Chen Wei	Female	Nov.1959	Director & Executive Vice President	Jun.2004 –Jun.2007	0	0	1,370.4	No
Wu Jiesi	Male	Oct.1951	Independent Director	Sept.2005–Jun.2007	0	0	21.8 ^注	No
Lin Chuxue	Male	Mar.1959	Independent Director	Jun.2004 –Jun.2007	0	0	67.2	No
Hu ChangTau	Male	Jun.1948	Independent Director	Jun.2004 –Jun.2007	0	0	67.2	No
Yang Jun	Male	May.1958	Independent Director	Jun.2004 –Jun.2006	0	0	67.2	No
Lu Renfa	Male	Jun.1938	Independent Director	Jun.2004 –Jun.2006	0	0	67.2	No
Ding Huiping	Male	Jun.1956	Independent Director	Jun.2004 –Jun.2006	0	0	67.2	No
Wang Qiyan	Male	Jun.1937	Chairman of BOS & External Supervisor	Jun.2004–Jun.2006	0	0	67.2	No
Zhu Genlin	Male	Sep.1955	Supervisor	2004.6 –2007.6	0	0	0	Yes
Chen Haoming	Male	Mar.1966	Supervisor	2004.6 –2007.6	0	0	0	Yes
Li Yi	Male	Jan. 1944	Supervisor	Jun.2004 –Jun.2007	0	0	0	Yes
Lu Yuhuan	Female	Dec.1971	Supervisor	May.2005 –Jun.2007	0	0	0	Yes
Zhang Yuqing	Male	Jul.1947	External Supervisor	Jun.2004–Jun.2006	0	0	67.2	No
Lin Rongguang	Male	Nov.1961	Employee Supervisor	Jun.2004–Jun.2007	0	0	824	No
Xiang Youzhi	Male	Feb.1964	Employee Supervisor	Jun.2004 –Jun.2007	0	0	398.6	No
Zhou Wenqiong	Female	May.1963	Employee Supervisor	Jun.2004 –Jun.2007	0	0	354.6	No
Li Hao	Male	Mar.1959	Executive Vice President	Jun.2004 –Jun.2007	0	0	135,3.1	No
Lan Qi	Male	Jun.1956	Secretary of BOD	Jun.2004 –Jun.2007	0	0	690.8	No

Note:(1)The remuneration for the independent directors and external supervisors were determined according to the Proposal on Allowance Standard and Expenses of Independent Directors approved by the Annual Shareholders'

General Meeting in 2001, as well as the Proposal on Allowance Standard and Expenses of External Supervisors approved by the Annual Shareholders' General Meeting in 2002. The salaries for the Senior Executives and Employee Supervisors

were determined and paid according to the existing remuneration and welfare mechanism of the Company.

(2) The Directors and Supervisors with an official appointment in shareholder's institution would not be paid by

the Company, and should have remuneration and allowance from the company where he is employed.

(3.) Mr. Wu Jiesi started his term of Independent Director from September 2005.

II.Appointment of Directors and Supervisors in shareholder Institutions

Name	Name of unit	Title	Term of office
Qin Xiao	China Merchants Group Ltd.	Chairman of BOD	From Jan. 2001 up to now
Wei Jiafu	China Ocean Shipping (Group) Company	President	From Jun. 2000 up to now
Fu Yuning	China Merchants Group Ltd.	President	From Apr. 2000 up to now
Li Yinquan	China Merchants Group Ltd.	Vice President & Chief Finance Officer	From Jul. 2002 up to now
Huang Dazhan	China Merchants Finance Holdings Co., Ltd.	General Manager	From Jun. 1999 up to now
Tan Yueheng	China Merchants Finance Holdings Co., Ltd.	Deputy General Manager	From Jul. 2002 up to now
Sun Yueying	China Ocean Shipping (Group) Company	Chief Accountant	From Dec. 2000 up to now
Wang Daxiong	China Shipping (Group) Company	Vice President & Chief Accountant	From Mar. 2001 up to now
Fu Junyuan	China Harbor Engineering Company (Group)	Chief Accountant	From Oct. 1998 up to now
Li Yi	Shandong State-owned Asset Investment Holdings Co., Ltd.	General Manager of Original Shandong Communication Development & Investment Co., Ltd.	From May 1998 to Dec. 2005
Lu Yuhuan	Guangdong Provincial Highway Administration Bureau	Accountant	From Feb. 2002 up to now
Zhu Genlin	Shanghai Automotive Industry Corporation (Group)	Chief Finance Officer	From Feb. 2002 up to now
Chen Haoming	China Shipping Trust & Investment Co., Ltd.	Deputy General Manager	From Nov. 2000 up to now

3 Major working experiences and appointment & concurrent-appointment

(1) Directors

Qin Xiao, Doctor of Economics (University of Cambridge, UK) and Senior Economist. Dr. Qin Xiao is a member of the Tenth Chinese People's Political Consultative Conference, the Chairman of BOD of China Merchants Group Ltd., and a guest professor at the School of Economics and Management of Tsinghua University and Graduate School of the People's Bank of China. He had once served as General Manager and Vice Chairman of BOD China International Trust and Investment Corporation (CITIC); Chairman of CITIC Industrial Bank; Foreign Exchange Policy Advisor of State Administrative of Foreign Exchange; Vice Chairman of ICC China; Chinaman of APEC Business Advisory Council (ABAC) for the Year 2001; and a deputy to the Ninth National People's Congress of Communist Party of China.

Wei Jiafu, Master of Shipping Management Engineering (Dalian Maritime University) and Doctor (Tianjin University). Mr. Wei Jiafu is a member of the Central Commission for Discipline Inspection of the CPC, and President of China Ocean Shipping (Group) Company. He has concurrently served as Chairman of China Group Companies Promotion Association (CGCPA), Chairman of China Shipowners' Association (CSA), Executive Chairman of Chair of China Federation of Industrial Economics (CFIE), Director of BOAO Forum for Asia (BFA), as well as an advisor at Harvard Business School, USA and Panama Canal Authority (PCA). He had once served as President of COSCO Investment (S) Ltd, General Manger of China-Tanzania United Ocean Shipping Corporation, Tianjin Ocean Shipping Co. and COSCO Bulk Carrier Co., Ltd. He had once won the Hall of Fame Award presented by Llyod's List and Maritime Asia and the Port Pilot Award presented by the Port of Long Beach, USA.

Fu Yuning, Ph. D., and Post-Ph. D (Brunel University, UK). Dr. Fu Yuning is the Chairman of China Merchants Holdings (International) Co., Ltd. and China Merchants China Direct Investments Limited; as well as Director and President of China Merchants Group Ltd. He serves concurrently as Non-executive Independent Director of Lihe Trading Co., Ltd, and Director of Hong Kong Port Development Council. He had once served as Director & General Manager of Shenzhen Chiwan Petroleum Supply Base Co., Ltd, General Manager of China Nanshan Development (Group) Inc, Chairman of BOD of Chiwan Wharf Holdings Ltd., as well as President of Union Bank of Hong Kong Limited.

Li Yinquan, Master of Economics, Master of Finance, and Senior Economist. Mr. Li Yinquan is Vice President and Chief Finance Officer of China Merchants Group Ltd. He had once served as Division Chief of the General Office of Agriculture Bank of China, Assistant to General Manager of the International Business Department of Agriculture Bank of China with concurrent appointment of Chief of the Preparatory Group of Agriculture Bank of China (New York Branch) , General Manager of the Human Resource and Education Department of Agriculture Bank of China, Deputy General Manager of Agriculture Bank of China (Hong Kong), as well as General Manager of the Finance Department of China Merchants Group Ltd.

Huang Dazhan, Doctor of Economics (University of Manchester, UK). Dr. Huang Dazhan is Director & General Manager of China Merchants Finance Holdings Co., Ltd., and concurrently serves as Director of China Merchants Group (HK) Co., Ltd., China Merchants Securities Co., Ltd., Huatai Insurance of China, Limited, China Merchants China Direct Investments Limited, BOC China Investment Managers and China Merchants Financial Service Co., Ltd, as well as Independent Director of China Wireless Technology Co., Ltd., Supervisor of Industrial Bank Co., Ltd. and Chairman of BOD of Union Holdings Co., Ltd., China Merchants China Investment Management Co., Ltd., Houlder Insurance Broker Far East Co., Ltd., China Merchants Insurance Holdings Co., Ltd., China Merchants Holdings (UK) Limited, Houlder Insurance Broker (UK) Holdings Co., Ltd., Houlder China Insurance Brokers Ltd., and Shenzhen China Merchants Finance Holdings Co., Ltd. He had once served as Executive Director, a member of Execution Commission and Chairman of Auditing Board of Union Bank of Hong Kong Limited, as well as Financial Advisor of China Merchants Group Ltd.

Tan Yueheng, Doctor of Economics, Senior Economist and

Senior Visit Scholar at University of California, USA. Dr. Tan Yueheng is General Manager of China Merchants Finance Holdings Co., Ltd., and serves concurrently as BOS Chairman of BOD of China Merchants Securities Co., Ltd. He had once worked for the State Planning Commission, and served as General Manager of International Department of China Southern Securities Co., Ltd., Chairman of BOD and General Manager of China Southern Securities Consulting Co., Ltd., Deputy General Manager of Jiangnan Finance Co., Ltd. and General Manager of New Jiannan Investment Co., Ltd.

Sun Yueying, Batchelor and Senior Accountant. Ms. Sun Yueying is Chief Accountant of China Ocean Shipping (Group) Company. She had once served as Division Chief of the Finance Division of Tianjin Ocean Shipping Co, and Director of the General Manager Department of COSCO Japan Co., Ltd., Deputy General Manager of the Planning and Accounting Division of China Ocean Shipping (Group) Company, General Manager of the Finance & Funds Division of China Ocean Shipping (Group) Company, as well as Chief Accountant of China Ocean Shipping (Group) Company.

Wang Daxiong, Batchelor and Senior Accountant. Mr. Wang Daxiong is Vice President and Chief Accountant of China Shipping (Group) Company. He has concurrently served as Director of China Shipping Container Lines Company, Director of China Shipping Development Co., Ltd., Chairman of BOD of China Shipping (Hainan) Haisheng Shipping and Enterprise Co., Ltd., China Zhonghai Investment (Group) Co., Ltd., Shanghai Inchon International Ferry Co., Ltd. He once served as Chief Accountant of China Shipping (Group) Company, and Chief Account and Division Chief of the Finance Division of Guangzhou Maritime Transportation Group Co., Ltd.

Fu Junyuan, Master of Business Administration and Senior Accountant. Mr. Fu Junyuan is Chief Accountant of China Harbor Engineering Company (Group). He had once served as Deputy Division Chief and Division Chief of the Division of Infrastructure Business Auditing of Bureau of Audit of Ministry of Communication, as well as Division Chief of the General Office of Bureau of Audit of Ministry of Communication.

Ma Weihua, Doctor of Economics and Senior Economist. Dr. Ma Weihua is a deputy to the Tenth National People's Congress of Communist Party of China, and a member of the Standing Committee of the Fourth Shenzhen Chinese People's Political Consultative Conference. He is Director and President of China Merchants Bank, and concurrently serves as Chairman of the BOD of China Merchants Finance Holdings Co., Ltd., Chairman of the BOD of CIGNA & CMC Life Insurance Co.,

Ltd., Director of China Merchants Group Ltd., and Independent Director of TOM Online Inc. At the same time, he serves as Vice President of the China Enterprise Directors Association (CEDA), President of the Association of Shenzhen Domestic Bank, President of the Listed Companies Association of Shenzhen, Standing Director of Chinese financial Society, Standing Director of the Eighth Council of Red Cross Society of China, as well as a guest professor at over ten universities including Beijing University, Nanjing University, Jilin University and Southwest University of Finance and Economics, etc. He had once served as Deputy Director of the General Office of the People's Bank of China, Deputy Director for the Planning and Funds Management Department of the People's Bank of China, President of the People's Bank of China, Hainan Branch, and Director of State Administration of Foreign Exchange, Hainan Branch. He had once won awards of "CCTV China Economic Person of the Year 2001" presented by CCTV and the "Rising Stars of Banking of the Year 2004" presented by The Banker, UK.

Chen Wei, Master of Economics and Senior Economist. Ms. Chen Wei is Director and Executive Vice President of China Merchants Bank. She had once served as Division Chief of the Funds and Planning Division of Funds and Planning of the People's Bank of China, Shenzhen Special Economic Zone Branch, and Division Chief of Finance Management Division of the People's Bank of China, Shenzhen Special Economic Zone Branch.

Wu Jiesi, Doctor of Economics (Institute of Finance of the People's Bank of China), Post Doctor of Theoretic Economics (School of Economics of Nankai University), Senior Economist and Tutor of Doctor. Dr. Wu Jiesi is Director General Manager and Chief Executive of Officer of Hopson Development Holding Limited., and concurrently serves as Independent Director of Beijing Holdings Limited, China Insurance International Holdings Co., Ltd., and China Water. He had once served as Division Chief of the Department of Investigation and Research of the Industrial and Commercial Bank of China General, Vice President of the Industrial and Commercial Bank of China Wuxi Branch, Division Chief of the Department of Investigation and Research of the Industrial and Commercial Bank of China General, Vice Director of the Office of System Reform of Industrial and Commercial Bank of China General, Vice Director of the Department of Funds and Planning of the Industrial and Commercial Bank of China General, Executive Vice President and President of Industrial and Commercial Bank of China Shenzhen Branch, Vice Mayor

of Shenzhen Municipal People's Government, Assistant Governor of Guangdong Provincial People's Government, Chairman of BOD of Guangdong Yuegang Investment Holdings Co., Ltd. and Guangdong Holdings Co., Ltd.

Lin Chuxue, Bachelor of Engineering (Zhejiang University), Master of Business Administration (University of Stirling, UK), and Professor Senior Engineer. Mr. Lin Chuxue is Deputy General Manager of China Three Gorges Project Corporation, and concurrently serves as Chairman of BOD of Three Gorges Finance Co., Ltd., and Director of China Yangtze Power Co., Ltd. He had once served as Deputy Division Chief of the Division of Machineries and Electrics of the Business Department of CITIC, Director of the Office of Aluminum Engineering of CITIC Bohai, Division Chief and Assistant Director of CITIC Industry Trust & Investment Co., Ltd., Vice Director of the Finance Department of CITIC, Director of the Management Information Center of CITIC, Executive Vice Director of the Office of Network Finance of CITIC, and Chairman of BOS of China Yangtze Power Co., Ltd.

Hu ChangTau, Master of Business Administration (George Washington University, District of Columbia, USA). Mr. Hu ChangTau is an academician of Senior Executive Administration Class of Woodrow Wilson University, and a senior advisor of School of Public Policy & Management Tsinghua University. He had joined in the World Bank since 1972, and led the work regarding the economic investigation & research and loan projects of the World Bank, and once served as the Deputy Representative of the World Bank Office, Beijing.

Yang Jun, Doctor of Law. Chinese Attorney and USA Attorney. Dr. Yang Jun serves concurrently as Independent Director of Zhonghai Engineering. He had once served as an attorney of Beijing Foreign Trade & Economics Law Firm, Machlos Law Firm, and American International Group, Chief Executive Officer of Goldman Sachs Asia, Vice President of Salomon Brother Co., Director General Manager of H&D Asia Pacific Co., and Director General Manager of BOC International Bank Holdings Co., Ltd.

Lu Renfa, Bachelor, and Senior Economist. Mr. Lu Renfa once served as Deputy Director General of Dalian Municipal Finance Bureau, Deputy Secretary and Deputy Director General of Dalian Municipal Administration of Taxation Finance Bureau, Director and Secretary of Party Leadership Subgroup of Liaoning Provincial Finance Bureau, Director General and Secretary of Liaoning Provincial Auditing Bureau, Deputy Director of the State Administration of Taxation,

Deputy Secretary of the Party Leadership Group of the State Administration of Taxation and Deputy Director of the State Administration of Taxation General.

Ding Huiping, Master (Engineering, Sweden), Doctor and Post Doctor of Enterprise Economics (Linko Ping University). Dr. Ding Huiping is a professor and tutor of doctor at the School of Economics & Management of Beijing Jiaotong University (Former Northern Jiaotong University), and a guest professor of the School of Economics & Management of Duquesne University, USA. He concurrently serves as Independent Director of Huadian Power International Corporation Limited and SEPCO. He had once served as Engineering of Northwest Ferro-alloy Factory and Engineer of the Division of Patent Results of the Gansu Municipal Science & Technology Commission.

(2) Supervisors

Wang Qiyang, College graduated and Senior Economist. Mr. Wang Qiyang had once served as Division Chief and Vice President of the People's Bank of China Shenzhen Special Economic Zone Branch.

Zhu Genlin, Master of Economics, Senior Economist and Deputy Research Fellow. Mr. Zhu Genlin is Chief Finance Officer of Shanghai Automotive Industry Corporation (Group). He had once served as Manager of the Planning Department and the Fund Investment Department of Shanghai International Trust & Investment Co. He had concurrently served as General Manager and Legal Representative of SITVC Investment Management Co., General Manager of Shanghai Automotive Group Finance Co., Ltd., and Deputy Chief Accountant of Shanghai Automotive Industry Corporation (Group).

Chen Haoming, Master of Economics (Central University of Finance and Economics). Mr. Chen Haoming is Deputy General Manager of Zhonghai Trust & Investment Co., Ltd. He had once served as Division Chief of Assets Division of the Finance Department of China National Offshore Oil Corp., and General Manager of CNOOC Investment Co., Ltd.

Li Yi, Bachelor, and Senior Economist. Mr. Li Yi concurrently serves as Chairman of BOD of Hong Kong Tonggai Development Co., Ltd., and Independent Director of Shandong Infrastructure Company Limited. He had once served as Division Chief of the Division of Planning & Finance and the Division of Planning and Infrastructure of Shandong Provincial Communication Bureau, as well as General Manager of Shandong Communication Development and Investment Co.

Lu Yuhuan, Bachelor. Ms. Lu Yuhuan is Accountant of Highway Administration of Guangdong Province. She once served as Accountant of Highway Certificate Bureau of Guangdong Province, and Accountant of the Road & Bridge Management Center of Accountant of Highway Administration of Guangdong Province.

Zhang Yuqing, Bachelor, Senior Economist, and Certified Public Accountant. Mr. Zhang Yuqing is Deputy Director of the CFO Department of China Worldbest Group Co., Ltd. He had once served as Division Chief of the Finance Division and the Auditing Division of Shanghai Port Bureau, Chief Finance Officer of Shanghai Huayan Industry Development Co., Ltd., Chief Finance Officer of CWGC Wuxi Life Technology Development Co., Ltd.

Lin Rongguang, Bachelor, and Economist. Mr. Lin Rongguang is Deputy Branch General Manager of China Merchants Bank Shenzhen Branch. He had once served as Deputy Sub-Branch manager of China Merchants Bank Shenzhen Futian Sub-Branch, Sub-Branch manager of China Merchants Bank Shenzhen, Baoan Sub-Branch, General Manager of the Risk Control Department and Assistant manager of Shenzhen Management Department of China Merchants Bank

Xiang Youzhi, Ph. D. in Accounting Administration (Xiamen University), and Senior Accountant. Mr. Xiang Youzhi is Deputy General Manager of the Accounting Department of China Merchants Bank. He had once served as Assistant General Manager of the Accounting Department of China Merchants Bank.

Zhou Wenqiong, Bachelor, and Accountant. Ms. Zhou Wenqiong is Deputy General Manager (Executive) of the Auditing & Supervising Department of China Merchants Bank, Shanghai Branch. She had once served as Assistant General Manager of the Accounting Department of China Merchants Bank, Shanghai Branch, and Assistant General Manager (Executive) of the Auditing & Supervising Department of China Merchants Bank.

(3) Other Senior Executives

Li Hao, Master of Business Administration, and Senior Accountant. Mr. Li Hao is Executive Vice President of China Merchants Bank. He had once served as Deputy Division Chief and Division Chief of the corporate Finance Division of the Finance & Accounting Department of the Ministry of Communication, Assistant Director and Deputy Director of the Finance & Accounting Department of the Ministry of Communication, Executive Vice president of China Merchants

Bank, and Branch General manager of China Merchants Bank, Shanghai Branch.

Lan Qi, Master of Monetary Banking (Graduate School of the People's Bank of China). Mr. Lan Qi is Secretary to the BOD and Office Chief of the BOD of China Merchants Bank. He had once served as Deputy Division Chief of the Finance Administration Division of the People's Bank of China, Jiangxi Branch, Deputy Branch General manager of the People's Bank of China, Jiangxi Pingxiang Branch. He has worked for China Merchants Bank Since 1993, and successively served as Deputy General Manager and General Manager of the Development and Research Department of China Merchants Bank, Deputy General Manager of the Securities Department of China Merchants Bank, Deputy General Manager of CMB Securities Co., Ltd., General Manager of the Human Resource Department, Investigation & Research Department, and Merchant Banking Department of China Merchants Bank, General Manager of CMB International Finance Co., Ltd., and General manager of China Merchants Bank, General Affair office.

4. Resigned personnel and reasons for resignation during reporting period

During the reported period, Mr. Wu Jiaqi, the former Supervisor of the Company resigned his appointment. Ms. Lu Yuhuan was selected as Supervisor of the Sixth session of the BOS of the Company according to the approval of the Annual Shareholders' General Meeting 2004 held on May 17th 2005. The relative announcement was published on China Securities, Shanghai Securities News and Securities Times on May 17th 2005.

Mr. He Di, the former Independent Director of the Company had fulfilled his current term, and will not serve as Independent Director any longer. Mr. Wu Jiesi was selected as Independent Director of the Sixth session of the BOS of the Company according to the approval of the First

II. Employees

By the end of the reported period, the Company had 20,653 employees, including 2,117 management employees, 15,779 business employees, and 2,757 administration employees, of which 17,438 have college diploma or higher degrees, accounting for 84.4% of the total employees. The Company currently has 53 retired employees.

VI. Section XI Corporate Governance Structure

I. Corporate Governance Overview

During the reported period, the Company has consistently improved its corporate governance structure in strict accordance with the relevant laws such as the Company Law and the Law of Commercial Banks, etc., as well as relevant regulations stipulated by the regulatory authorities, with reasonable consideration of the Company's actual situation. Within the reported period, the Company has made further amendment to the Articles of Association and Administrative Rules on Related Transactions and actively launched the Non-circulated shares reform. In accordance with the duties stipulated by the Articles of Association, the Shareholders' General Meeting, Board of Directors, Board of Supervisors and Senior Executives have conducted its duties independently and fulfilled their individual rights and obligations, while no violation of any laws or regulations occurred. The actual situation regarding the corporate governance was summarized as follows:

1. Shareholders and Shareholders' General Meeting

The Company held the 2004 Shareholders' Annual General Meeting and the First 2005 Temporary Shareholders' General Meeting during the reported period. These two meetings were noticed, convened, presented and voted, and followed the relevant procedures in accordance with the criteria of Company Law and the Articles of Association of the Company. Effective communication channel has been established for shareholders, i.e. to actively listen to their opinions and advices, and to ensure that all shareholders have the rights to know the facts, to participate, to vote, and to fully exert their rights as shareholders on the major events of the Company.

2. Directors and Board of Directors

The Board of the Directors currently have 17 members, including 6 Independent Directors, 9 Directors as the shareholders' representative, 2 Directors from the Senior Executives of the Company. The Board of Directors is constituted with a satisfactory number of members and its structure fulfills the regulatory requirements as well as the stipulations of the Articles of Association of the Company.

During the reported period, The Board of Directors has called for 14 meetings to review and to approve more than 30 proposals. All Directors have devoted to their duties, to actively participate in decision-making of the Company's important events by way of getting sufficient knowledge of the situation, in order to protect the interests of the Company and all shareholders.

All specialized committees under the Board of Directors have made relevant investigation and research for the special issues. The Risk Management Committee has listened to the Report for Assets Quality Status of Credit Assets (2004), Report for Assets Quality Status of Credit Assets (First Half Year of 2005), and Report for Transactions of Derivative Products (First Half Year of 2005), and elected the new headmaster of the Risk Management Committee. The Remuneration and Assessment Committee has set out the principles and approaches regarding to purchasing commercial insurance for employees. The Audit Committee and the Related Transaction Controlling Committee has revised the Company's Related Transactions Management Guidelines, and listened to the Report for Major Related Transactions in 2005. The Nomination Committee has made a preliminary examination for appointment qualification of the Independent Director candidates.

3. Supervisors and the Board of Supervisors

The Board of Supervisors currently is composed of 9 members, including 2 External Supervisors, 4 Shareholders' Supervisors, and 3 Employee Supervisors. The Board of Supervisors is constituted with a satisfactory number of members and its structure fulfills the regulatory requirements as well as the stipulations of the Articles of Association of the

Company. The Board of Supervisors calls for regular meetings, reviews and examines the Company's various documents and reports, listening to the work reports and special reports from the management, and making investigation and research if necessary. All supervisors have had a high sense of responsibility to the shareholders and creditors, and have well performed their duties of inspecting and supervising the Company's operational and financial status.

During the reported period, the Company has called for two Shareholders' General Meetings and fourteen Meetings of the Board of Directors. The Supervisors have presented the Shareholders' General Meetings and attended the meetings of the Board of Directors, and supervised the voting procedures, the validity and legitimacy of the meetings as well as the performance of directors.

The Nomination Committee under the Board of Supervisors has made a preliminary assessment of appointment qualification of the Supervisor candidates. The Audit Committee has communicated with KPMG Certified Public Accountants regarding to the auditing work of 2004.

4. Information disclosure and transparency

The Company has disclosed all of its material information and endeavored to maintain the authenticity, accuracy, completeness and punctuality of information disclosure according to the prescriptions of relevant laws, regulations and the Articles of Association, ensuring that all shareholders have equally accessed to information, in order to fulfill the requirements of information disclosure as a listed company. During the reported period, the Company has released 43 announcements.

The Company has been actively involved in promotion activities of the capital market, and continuously focused on the improvement of the investor relationship. During the reported period, the Company has been invited to participate in over ten promotion seminars held by the overseas and domestic investment institutions. The Company also received investigation visits from both domestic and overseas investment institutions for more than 120 times, as well as

participated in one-to-one communication activities around 400 times and one-to-many communication activities for 21 times. Moreover, the Company has co-sponsored the “Special Action of joint Investigation & Research for Approaching SSE 50 Index” with Shanghai Stock Exchange and Shanghai Securities News and the Company management team has had on-spot interaction with the research group of institutional investors. The Company has also participated the activity of “March 15 Day of Investors’ interactive relationship with Top Ten Listed Companies” jointly held by Shanghai Stock Exchange and Shanghai Securities News, and initiated mutual communication through online communication with investors; and made internet road show for its non-circulated shares reform. Through many kinds of investor relationship activities, the Company has moved forward towards a better investor relationship. During the reported period, the Company has been honorably ranked the Third of in the 2nd “2005 China’s Top 10 List Companies” election. In the First Annual Forum of Investor Relationship of China and the Selection of 2004 outstanding A-share companies of China, the Company has won the “the Best Large Company Award”. Mr. Qin Xiao, Chairman of the Board of Directors, and Mr. Lan Qi, Secretary of the Board of Directors have won “the Best Investor Relationship Leader Award” and “the Best Investor Relationship Execution Award”, respectively. Furthermore, the Company has been ranked the First of “Top10 Most valueable Investment of the Listed Companies” in the first session of investigation and selection of China’s Top10 Listed Companies in terms of Competitive Strength and Public Trust”.

II. Performance of Independent Directors

The Company’s Board of Directors currently has 6 Independent Directors. The number and proportion of Independent Director has fulfilled the requirements of China Securities Regulatory Commission and China Banking Regulatory Commission. The Independent Directors have comprised of a majority in the Audit Committee & Related Transactions Controlling Committee, Nomination Committee, and Remuneration &

Assessment Committee under the Board of Directors. The Independent Directors in the Sixth Board of Directors are Mr. Wu Jiesi, Mr. Lin Chuxue, Mr. Austin Hu Changtau, Mr. Yang Jun, Mr. Lu Renfa, and Mr. Ding Huiping. These six Independent Directors have diligently participated and played an active role in the meetings of the Board of Directors and meetings of various specialized committees. They have actively expressed relative comments, as well as paid much attention to the interest of small and medium shareholders, and fully performed their duties as an Independent Director.

1. Independent opinions from Independent Directors

In the reported period, the Independent Directors have given special statement and independent opinion the Company’s external guarantee to other entities.

2.Independent Directors' presence of Board meetings

Name	Required presence for board meeting	Actual presence	presence by agent	Absence	Remarks
Wu Jiesi	6	5	0	1	/
Lin Chuxue	14	12	1	1	Authorized Mr. Ding Huiping, Independent Director to execute the vote in the 12th Meeting of Six Session of the Board of Directors.
Austin Hu ChangTau	14	10	2	2	Authorized Mr. Lin Chuxue, Independent Director, and Mr. Ding Huiping, Independent Director to execute the vote respectively in the 15th and 9th meeting of Six Session the Board of Directors.
Yang Jun	14	13	1	0	Authorized Mr. Ding Huiping, Independent Director to execute the vote in the 12th Meeting of Six Session Board of Directors.
Lu Renfa	14	13	0	1	/
Ding Huiping	14	14	0	0	/

3.Objections proposed by Independent Directors on relevant issues

In the reported period, the Independent Directors have presented without disagreement on the Board of Directors proposals and other non-Board of Directors proposals in 2005.

personnel, assets, organization and finance under the supervision of the People's Bank of China and China Banking Regulatory Commission. The Company is an independent legal entity, which is to make its own operational decisions as well as to take full responsibility for its profits and losses, with independent, complete business and self-operating capability.

III.Company independent operations

The Company has no controlling shareholder or actual controlling party. As a commercial bank, the Company has maintained an operation with full independence of business,

IV. Assessment and Incentive Mechanism for senior executives

During the reported period, the Company has appointed a specialized institution to improve and to perfect the assessment and incentive mechanism for Senior Executives. This project was still in process by the end of the reported period.

The Company has carried out the plan of Non-circulated Shares Reform in December 2005 in accordance with the

relevant policies and regulations, of which, the non-circulated shareholders have committed to suggest the Board of Directors, after such reform was completed, to implement a long-term incentive scheme including equity rewards, which shall be implemented by the Board of Directors according to relevant rules and regulations, or shall be submitted to the Shareholders' General Meeting for approval and then implemented by the Board of Directors.

Section XII Shareholders' General Meeting

The 2004 Annual Shareholders' General Meeting was held on May 17th 2005 in Shenzhen. The relevant resolutions were published on China Securities Journal, Shanghai Securities News and Securities Times, as well as on the website of Shanghai Stock Exchange on May 18th 2005.

The First 2005 Temporary Shareholders' General Meeting was held on September 20th 2005 in Shenzhen. The relevant resolutions were published on China Securities Journal, Shanghai Securities News and Securities Times, as well as on the website of Shanghai Stock Exchange on September 21st 2005.

Section VIII. Report from the Board of Directors

I. Operation Discussion and Analysis

1. Principle Business Activities

Main business scope of our Bank includes, public deposits; granting short-term, medium-term and long-term loans; settlement services; bills discounting; issuing financial bonds; acting as an agent for the issue, encashment and underwriting of government bonds; government bond trading, inter-bank lending and borrowing; letter of credit services and guarantee services; collection and payment, bancassurance, safe-box services; foreign currencies' deposits, loans, remittance, foreign exchange; purchase and sale of foreign exchange, trading and consigned trading of securities denominated in foreign currency except stock trading, proprietary and agency trading of foreign exchange; financial standing inquiries, consultation and authentication; offshore financial services; credit card business; custody of securities investment funds; custody of qualified foreign institutional investors (QFII); custody and account management of corporate annuity fund; custody of social securities fund; underwriting of short-term financing debts; trading of derivative products, and other businesses approved by China Banking Regulatory Commission.

2. Management Discussion and Analysis

(1) Main operation indicators and completion of the Company
 In 2005, the Company has well completed all work plan of the year by strictly implementing macroeconomic policies of the State, fulfilling the requirements of regulatory authorities, pushing forward its operation strategy adjustment and management internationalization process, and making efforts to realize the coordinated development of profitability, quality and scale. By the end of 2005, the total assets of the Company were RMB 733.983 billion, up 25.13% year-on-year. The total deposits were RMB 634.404 billion, up 23.77% year-on-year. The total loan was RMB 472.185 billion, up 26.25% year-on-year. The non-performing loan ratio based on Five-Tier Loan Classification was 2.58%, 0.29 percentage point lower than the beginning of the year. The before-tax profit was RMB 6.634 billion, up 32.35% year-on-year; The Company realized the net profit of RMB 3.93

billion, up 25.01% year-on-year.

The operational strategy adjustment of the Company has had initial results during the reported period. First, the asset structure of the Company was improved significantly. In its total assets, loan proportion was reduced, and the proportion of discount and investment on bonds was increased. In its total loans, general loan proportion was reduced and personal loan proportion was increased. In general loans, the proportion of trade finance was increased. During the reported period, daily average loan-to-deposit ratio of the Company was reduced by 3.35 percentage points, and the proportion of bills discounting and investment on bonds was increased by 2 percentage points. In the total assets, the growth rate of risk assets was 10.45 percentage points lower than the growth rate of total assets, the proportion of risk-weighted assets was decreased by 5.26 percentage points, and the capital adequacy ratio was decreased by 0.45 percentage point. Second, the retail banking business of the Company developed rapidly. The balance of saving deposits was RMB 243.524 billion, up 29.06% year-on-year and representing 45% of the deposit increase; the increase in personal loans amounted to RMB 19.274 billion, ranking first among the joint-stock banks. The balance of personal loans was 19.88% of general loans, up 2.39 percentage points year-on-year. Third, the fee-base business went up fast. The Company realized income from fee-base business of RMB 2.407 billion in 2005, up 51.29% year-on-year, and represented 8.46% of its business income, up 1.39 percentage points year-on-year.

(2) Overview of the operation and management of the Company

(a) Great efforts have been made to develop its retail business and fee-base business

In 2005, the Company issued 2,340,000 new credit cards, with accumulatively over 5,000,000 credit cards issued, and the consumption on POS exceeded RMB 30 billion. The Company has realized fee income from credit cards of RMB 410 million in 2005, up 104% year-on-year, of which, POS consumption fee income of RMB 230 million, up 140%, annual fee income of over RMB 50 million, up 8.4%, and the incomes from the charge of cash advance, overdue fine, consigned insurance sales, shopping by mail order and at

the stores by installments also went up significantly. Besides, risk management of credit cards was highly effective, and by the end of the report period, percentage of the accumulated bad loans was 1%, the best in banking sector.

In 2005, nearly 3,600,000 All-in-One Cards were issued, with accumulative issuance of nearly 37,000,000. The All-in-One cards average deposit per card was over RMB 5,400. The Company had 79,000 Sunflower clients, increased by 22,000 clients. The proportion of deposit amount of Sunflower card holders in the total saving deposits was increased from 32.9% at the year beginning to 36.1% at the end of the reported period. The Wealth Management Account Service launched at the end of 2004, and had 70,000 new clients in 2005. The fee income of consumption on POS including credit cards amounted to RMB 350 million, increased by nearly 100% year-on-year; the sales of financial service products was RMB16.2 billion; income from consigned insurance sales was RMB 27 million, up nearly 300% year-on-year. The transaction volume of Bank-Securities Express business was nearly RMB 80 billion and its income was RMB 47 million, up 40% year-on-year. Management fees from personal accounts amounted to RMB 29 million.

The international business of the Company maintained high-speed growth for the past three years. During 2005, the Company achieved international settlement volume of US\$74.2 billion, up 40% year-on-year. The volume of purchase and sale of foreign exchange was US\$39.3 billion, up 43% year-on-year. The Company realized income of US\$100 million from international fee-base business, up 52.4% year-on-year. The year 2005 saw a breakthrough in the wholesale fee-base business. The over-the-counter transaction replacement ratio in respect of transaction quantity and volume through the Internet Banking was 22% and 38% respectively, up 5 and 7 percentage points year-on-year. According to the statistical data of General Administration of Customs and China Electronic Port, during the reported period, the transaction volume of Bank-Customs Express(the online duty payment system) was RMB 23.7 billion, occupying 55% of market shares. The Company has upgraded the group-based local and foreign currency cash pooling product and the bills discounting system. General Electric USD cash pooling product was formally online and the system has run normally, The custodian fee income was RMB 62.89 million, up 59% year-on-year. The Company signed corporate annuity agreements with nearly 50 enterprises and managed nearly 100,000 personal accounts with the funds of over RMB1.5

billion.

(b) Strengthened risk management and ensured the asset quality

Faced with adverse effects of the State's macro-regulation on the asset quality of banks, the Company further strengthened its research on credit policies, monitored its asset quality and risk pre-warning, managed the credits that had granted to group clients, and supported the loans provided to small and medium sized enterprises. Besides that, the Company pushed the construction of its credit rating system and took more effective measures to terminate business cooperation with high risk clients. At the end of the reported period, the provision coverage ratio reached 111%, up 10 percentage points year-on-year.

The Company successfully coped with the challenges from market changes and the deregulation reforms of interest rate and exchange rate. Correct judgment and effective measures led to fewer losses due to Renminbi appreciation. The Company actively initiated proactive liabilities channels and issued finance debt of RMB10 billion in the year. While the interest rate of the money market continuously went down, the Company's yield rate on its bills discounting business was 3.33%, 200bp higher than that of the Central Bank during the same period. The annual returns on the investment of bonds in both domestic currency and foreign currency were 3.0% and 3.43% respectively, up 14 basis point and 81 basis point respectively year-on-year.

The Company carried out effective treatment and governance on special cases, and continued to establish and to improve its internal control mechanism. It strengthened the inspection on its business compliance and management on the unusual conducts of its employees. It widely carried out the activities of observing the disciplines and laws by using internal and external cases, which effectively prevented from the crime occurrence. No major crime cases involving 1 million or more in the Company during the whole year.

(c) Steadily pushed forward the reforms of management system and speeded up the construction of its network. During the reported period, Foshan Branch, Quanzhou Branch and Changzhou Branch were formally opened. Ningbo Branch and Suzhou Branch were upgraded to Tier 1 branch. Shenzhen Management Department was re-named to Shenzhen Branch, and Preparatory Group of Taiyuan Branch was formed. Besides, the Company has completed its reform on its audit system, and the four audit branches were established in Beijing, Shanghai, Shenzhen and Xi'an.

(d) The Company was well recognized by the regulatory authorities and the public. During the reported period, the Company was granted more than 60 awards, including “the Most Respected Enterprise of China”, “Top 10 Listed Companies”, and “China’s Best Bank”. The Company was in the first place of the total scores, which was ranking first in three single items in China’s Magazine, Banker in terms of the bank’s core competitiveness for 2004.

(3) Changes in the Company’s operational environment and the corresponding strategies

At present, great changes have taken place in the Company’s operational environment. First, changes in social demands. With rapid growth of modern consumers, increasingly concentration of people’s wealth, fast coming of aged society and strong emerging of small and medium sized enterprises, the social financial demands are becoming increasingly diversified and individualized, and such demands as personal wealth management, consumption credit, corporate finance, and small and medium sized enterprises financing, were growing up at unexpected speed, which provided huge market opportunities for the commercial banks. Second, changes in the governmental policies. Domestic commercial banks have experienced dramatic changes in both the regulatory policies and market rules, varying from macro-regulation to liberalization of interest rates and reforms of exchange rates, from rapid expansion of direct financing to continuous enhancing of capital restrictions, and from opening of proactive liabilities channels to experiment of comprehensive operation. Thus the traditional management means and methods were difficult to adapt to the new environment. Third, fierce competition in banking industry. Considering that the reforms on the state-owned banks are being accelerated, and China would fully open its banking market to foreign banks, the competition in domestic banking industry is getting increasingly fierce. Especially the competition in wealth management, deposit and clients’ market was getting stronger and stronger, which would necessarily enable domestic banks to accelerate their reforms on the traditional concept, institutional system and business mode.

The Company always paid close attention to the trend of development and reform of banks’ operational environment, and was pushing forward its reforms in various field. Since 2004, the Company has been making great efforts to promote its operational strategy adjustment and management internationalization, and planned to concentrate its efforts to implement its fortified reforms in next 2~3 years, in order to

establish its new operation and management system that will be focused on the clients and oriented to the market.

Main guidelines of the new system were “Ten Changes”, i.e. changes from scale-oriented to value-oriented; from book value profit to economic profit, from extensive marketing to intensive target marketing; from size-based excellence to quality-based excellence, from risk control to risk management, from profitability of a single form to profitability of various forms; from passive pricing to active pricing; from proportional management to capital management; from departmental bank to procedural bank, and from administrative adjustment to profit adjustment.

The connotation of the new system is to enable the corporate governance structure to effectively stimulate and constrain the interested parties and to define express rights, responsibilities and benefits, to enable the organizational structure to strengthen and optimize the bankwide resource allocation, to enable the business process and management process to further improve the working efficiency, reduce cost and control the risks, to enable the product innovation and the R&D mechanism to identify and respond quickly to the changes in market demands and customer demands, to enable the product pricing system to fully cover the fund cost, operation cost, risk cost and capital cost, to enable the performance evaluation and distribution system to accurately evaluate the efficiency and benefits of the institutions, persons, clients and products and with the core of RAROC and EVA, to build up an equilibrium business structure to considerably reduce the capital consumption, decrease risk concentration, and maintain steady growth of profits, and to build up a centralized, professional and vertical risk management system to manage various risks, and the stimulation mechanism be able to absorb and retain talented people.

3. Liabilities, Changes in Credit Standing, and Cash projection of the Company for Repaying Convertible Bonds in the Future years

China Chengxin International Credit Rating Co. Ltd. has rated the amount of RMB 6.5 billion China Merchants Bank’s convertible bonds issued on November 10th 2004, and determined that the rating of these convertible bonds is AAA. One-year tenor of “China Merchants Bank Convertible Bond” expired on November 9th 2005, and the Company paid the interests for the year to the bond holders according to the clauses of “Prospectus for Issuance of Convertible Corporate

Bonds” on November 10th 2005.

As of March 31st 2006, “China Merchants Bank’s convertible bonds” equaled to RMB 6,453,076,000 (110036) were converted into the “G CMB” shares (600036) issued by the Company, and cumulative converted shares amounted to 1,035,826,579 shares (including shares converted into capital stock). There are still RMB 46,924,000 “China Merchants Bank’s convertible bonds” left unconverted into shares, accounting for 0.72% of total number of the issued “China Merchants Bank’s convertible bonds”. In order to ensure that the Company is able to pay the principal and interests of the convertible bonds in the future, the Company carried out the calculation and prediction of the cash position in advance and took necessary measures.

4 Composition of the income and profit from main business during the reported period

(1) By business types

(Expressed in thousands of RMB)

Business types	Income
Loans	20,814,002
Interbank lending and deposits	1,838,111
Investment on bonds	3,387,498
Other businesses	2,406,535
Total	28,446,146

(2) By region

(Expressed in thousands of RMB)

Region	Income from principle business	Profit from principle business
South China and Central South China	11,297,881	1,401,082
East China	9,193,606	3,165,849
North China and Northeast China	5,026,101	1,878,989
Southwest China and Northwest China	2,705,743	131,603
Other Regions	222,815	-21,577
Total	28,446,146	6,555,946

(3) Market shares of main products or services

According to the bank credit income and expenditure statement for December 2005 issued by the People’s Bank of China, the market shares and ranking as to the total deposits and loans of the Company at the end of the reported period among the 12 joint-stock banks were shown as follows.

(Expressed in thousands of RMB)

Items	Market Shares	Ranking
Total deposits (all converted into RMB)	12.73%	2
Total saving deposits (all converted into RMB)	22.41%	2
Total loans (all converted into RMB)	13.51%	2
Total loans of personal consumption in RMB	17.80%	1

(4) Comparison of principle business or its structure with previous reported period

During the reported period, there were no other business activities materially affecting the profitability and there were no material changes in the principle business in the Company.

5. Business Performance of Major shareholding and affiliated shareholding companies

(Expressed in thousands of RMB)

Names of holding and Associated Companies	Term of Investment	Proportion of share held	Investment by the End of the Reported period
CMB International Capital Corporation Limited	N/A	100%	99,855
China UnionPay Co., Ltd	N/A	4.8%	38,016
Xuntong Electronic Service (HK) Co., Ltd.	N/A	0.7%	8,482

Note:

(1) CMB International Capital Corporation Limited formerly named 'Jiangnan Financial Co., Ltd.' which is the Company's wholly owned subsidiary approved by PBOC (Yin Fu [1998] No. 405). It was renamed CMB International Capital Corporation Limited according to People Bank of China's document Yin Fu [2002] No. 30 on February 22, 2002. Since the impact of its total assets, and its principal business income and net profit of 2002 and 2003 on the Company's financial statements was relatively small, its financial statements were not consolidated, and were accounted on cost basis. In the reported period, the Company made the record of this undistributed profit of Rmb5.18 million into investment income on equity basis.

(2) According to the People's Bank of China's Approval of the establishment of China UnionPay Co., Ltd. (Yin Fu [2001] No. 234), the Company invested RMB80 million to participate in promoting the founding of China UnionPay Co., Ltd. The investment included RMB41.984 million's evaluated net value of investments of former bankcard network service centers in various cities and RMB38.016 million's supplementary cash investment. China UnionPay Co., Ltd. was founded on March 26, 2002. The Company recorded RMB38.016 million cash investment into the entry of long-term equity investment since 2002.

(3) Xuntong Electronics Services (Hong Kong) Co., Ltd was founded in 1984 by a number of licensed banks in Hong Kong to provide electronic settlement services for customers and companies based in Hong Kong, Macao and Shenzhen.

6. Problems and Difficulties Occured in the Operation and Solutions

During the report period, the company was confronted with the following problems and difficulties. First, due to macro-control, more direct financing channels, and other factors,

the demand for loans was reduced. Second, the enterprises have excessive production capacity and higher deficits, thus the credit risks were exposed faster. Third, liberalization of interest rates has been accelerated, which provided higher requirements for the capability of deposit and loan pricing and risk identification of banks. Fourth, influenced by the expectations of the gains in RMB appreciation and the reforms of exchange rate formation mechanism, exchange rate risks started to emerge. Fifth, the state-owned banks were injected with large capital, peeled off their bad debts, transformed into joint-stock banks through share reforms, and went to public listed one after another, while foreign banks were accelerating their expansion, the interbank competition is getting further fiercer.

To cope with aforesaid problems and difficulties in the operation, the Company adopted the following measures:

(1) Established complete assessment measures and strengthened the optimization of the resource allocation. According to the guidelines and requirements of the operation strategy adjustment, the Company highlighted the benefit orientation and economic adjustment, implemented the compensated capital application scheme, and reformed the distribution methods. The Company allowed that the book profits of its branches could be used for distribution of the wages based on the profits earned after deduction of the capital cost, thus to optimize the resource allocation, and adjustment of business structure was promoted. Besides that, the Company increased its input in retail business, fee-base business, and other strategic key fields, thus ensured the fulfillment of all the operational objectives.

(2) Strengthened risk management and improved asset quality. The Company strengthened its study and research on credit policy, further pushed forward credit assessment by industries and accelerated the progress of loan review officer system. It

enhanced the management on group clients, supervision on its asset quality, risk precautionary measures, strengthened and detailed the loan classification and management. It also strengthened the due diligence and accountability, as well as NPL assessment and accountability, and took effective measures to liquidate and dispose of the non-performing assets.

The Company strengthened the research and judgment on the trend of interest rates, and adjusted the interest rate on the internal funds at due time in order to lead the funds towards the high-yield assets. The Company paid great attention to and effectively prevented the impacts of exchange-rate reforms on the Company. It conducted special research and defined effective exchange rate risk prevention plan and took many corresponding measures.

(3) Made greater efforts in product sales and developed business market. The Company smoothly implemented the organizational and management system reforms for retail banking business, executed the direction, management and training for each business line. By the launch of “Wealth Management Account”, group-based cash management and other niche featured products, the Company strengthened the establishment of its brands “Sunflower Wealth Management” and “Go Fortune”, upgraded the service quality and standard of credit cards and thus promoted the rapid development of retail banking businesses, corporate banking businesses and

interbank businesses.

(4) Strengthened assessment, stimulation, organization and promotion of fee-base business. The Company formulated development plan and assessment measures for fee-base business, and broke down the account title bookkeeping to the related departments, and the tasks were broken down and allocated to the business lines. These proactive measures stimulated all the departments and business lines to develop fee-base businesses. Meanwhile, by holding training classes and forums, the Company enhanced the bank staff’s understanding of making great efforts to develop Fee-base business.

7. Main Factors Leading to Over-fulfillment of the Main Operation and Financial Indicators:

First, the Company continued to uphold the strategic guidelines of balanced development of profitability, quality and scale, and enhanced the knowledge of capital constraint. Second, the Company strengthened asset risk control and the ratio of non-performing loans continued to go down. Third, the Company adjusted its asset structure and increased the proportion of profit earning assets in total assets. Fourth, it improved the income structure and increased the contribution of the income from fee-base business to its total income. Fifth, operating expenses were controlled effectively.

(Expressed in thousands of RMB)

Item	Reported Period	Compared with previous year		Increase from the Beginning of the year
		Increase	Growth Rate%	
Total assets	733,983,030	147,408,797	25.13	13,983,030
Total deposits	634,403,552	121,817,358	23.77	4,403,552
Total loans	472,185,004	98,167,946	26.25	22,185,004
Total profit	6,633,537	1,621,315	32.35	---

II. Major Business Highlights

1. Basic Information of Branches

Name of Organization	Office Address	Post Code	Network	Employee Number	Asset Size (Million yuan)
Head Office	No. 7088 Shennan Boulevard, Shenzhen	518040	1	2528	291,846
Shenzhen Branch	No. 2 Shennan Road C., Shenzhen	518001	63	2304	59,654
Shanghai Branch	No. 161, Lu Jia Zui East Road, Pudong District, Shanghai	200120	40	1589	53,855
Wuhan Branch	No.518 Jianshe Road. Hankou, Wuhan	430022	20	902	18,046
Beijing Branch	No. 156 Fuxingmen Nei Street, Beijing	100031	31	1417	55,299
Shenyang Branch	No.12, Shi Yi Wei Road, Heping District, Shenyang	110003	17	912	19,794
Guangzhou Branch	No.138 Ti Yu Dong Road, Tianhe District, Guangzhou	510620	27	1013	15,287
Chengdu Branch	No.9 Zhong Xi Shuncheng Street, Qingyang District, Chengdu	610016	15	586	8,264
Lanzhou Branch	No.9 Qingyang Road. Chengguan District, Lanzhou	730000	14	400	8,100
Xi'an Branch	No.107 Heping Road, Xi'an	710001	15	736	12,850
Nanjing Branch	No.1, Hanzhong Road, Nanjing	210005	13	587	19,085
Wuxi Branch	No. 128 Renmin Road C., Wuxi	214002	8	218	5,348
Changzhou Branch	No.125 Heping Road S., Changzhou	213003	1	63	474
Suzhou Branch	No.128 San Xiang Road., Suzhou	215004	6	197	5,151
Chongqing Branch	No.2 Linjiang Zhi Road, Yu Zhong District, Chongqing	400010	16	693	11,898
Dalian Branch	No.17 Renmin Road. Zhongshan District, Dalian	116001	12	496	7,652
Hangzhou Branch	No.310 Zhongshan Bei Road, Hangzhou	310001	15	579	16,067
Ningbo Branch	No.938, Bai Zhang Dong Road, Ningbo	315041	8	242	6,195
Wenzhou Branch	Jinglong Mansion, Chezhan Avenue, Wenzhou	325000	7	184	3,399
Shaoxing Branch	Jindun Building, No. 60 Shengli Road E., Shaoxing	312000	3	98	2,631
Nanchang Branch	No. 162, Ba Yi Da Dao, Nanchang	330003	10	492	7,194
Changsha Branch	No.24, Cai E Zhong Road, Furong District, Changsha	410005	11	460	6,077
Fuzhou Branch	No.60 Gu Ping Road., Fuzhou	350003	11	416	5,287
Quanzhou Branch	Huangxing Building, No.301 Fengze Road, Quanzhou	362000	1	57	316
Qingdao Branch	No.36 Hongkong Road C., Shinan District, Qingdao	266071	10	435	10,075
Tianjin Branch	No. 55 Youyi Road North., Hexi District, Tianjin	300204	14	503	10,871
Jinan Branch	No. 21, Chao Shan Street, Li Xia District, Jinan	250011	12	408	19,094
Yantai Branch	China Merchants Bank Tower, No. 237 Nan Da Street, Yantai	264000	2	76	2,469
Urumchi Branch	No.80 Xinhua Road North Urumqi	830002	7	308	3,607
Kunming Branch	No.48 Dongfeng Road East, Kunming	650051	10	330	11,977
Hefei Branch	No. 436 Changjiang Road central, Hefei	230061	9	357	7,301
Xiamen Branch	No.862 Xiahe Road, Xiamen	361004	5	202	3,466
Harbin Branch	No.3 Zhong Yang Road, Daoli District, Harbin	150001	7	255	4,822
Zhengzhou Branch	No.68 Jingsan Road, Zhengzhou	450008	7	283	7,588
Dongguan Branch	Yujing New Times Plaza, Dongcheng Avenue, Dongguan	523129	4	184	2,767
Foshan Branch	F/1~F/3 Hongye Building, No.5 Jihua Road, Foshan	528000	1	86	3,686
Hong Kong Branch	12 Harcourt Road, Hong Kong		1	50	6,491
Beijing Rep.Office	No. 35 Finance Street, Xicheng District, Beijing	100005	1	5	----
USA Rep. Office	509 Madison Avenue, Suite 306, New York, NewYork10022,U.S.A		1	2	----
Total	---	---	456	20653	733,983

Note: at the end of the reported period, the asset size of Beijing Rep.Office and US Rep.Office were both less than RMB 1 million.

2. Five-Tier Loan Classification Descriptions and Provisions Made for Loan Loss at the End of Reported Period

(Expressed in Millions of RMB)

	Amount	Proportion(%)
Normal	445,503.31	94.35
Of which: Loan	345,976.39	73.27
Discount	99,526.92	21.08
Special Mention	14,514.23	3.07
Substandard	4,923.87	1.04
Doubtful	4,752.83	1.01
Loss	2,490.76	0.53
Total Loans	472,185.00	100.00

Note:

- Total loans included the balance of the loans in terms of discounts and credit cards.
- Provisions made for loan loss at the end of reported period were in accordance with the requirements of the regulatory authorities.

At the end of the reported period, the balance of the provisions made for loan loss was RMB 13.51 billion and the provision coverage rate (balance of the provisions for loan loss/balance of non-performing loans) was 111.04%.

3. Loans Granted to Top Ten borrowers at the End of the Reported Period

(Expressed in 100 millions of RMB)

Top Ten Borrowers	Industry	Loan Balance	Proportion of Net Capital (%)
Department of Communication of Shandong Province	Transportation	30.00	7.79
Department of Communication of Jilin Province	Transportation	22.00	5.71
Department of Communication of Liaoning Province	Transportation	19.75	5.13
China Shenhua Energy Co. Ltd	Energy & Raw Material	15.56	4.04
Highway Administration Bureau, Department of Communications of Henan Province	Transportation	15.00	3.89
Shanghai Out Ring Tunnel Construction Development Co., Ltd.	Transportation	13.30	3.45
China Netcom Group Corporation Limited Liaoning Branch	Post & Communication	13.00	3.37
Shanghai Urban Construction Investment and Development Company	Transportation	12.70	3.30
Lanzhou Railway Bureau	Transportation	10.99	2.85
Inner Mongolia Power Group Co., Ltd.	Energy & Raw Material	10.95	2.84
Total		163.25	42.37
Net Capital		385.31	

At the end of the reported period, the net capital of the Company was RMB 38.531 billion. Its top borrower is Department of Communication of Shandong Province, with its loan balance of RMB 3 billion and accounting for 7.79% of its net capital, which complies with the requirement of regulatory authorities that the ratio of the balance of loans provided to a single client and net capital incurred must not exceed 10%.

4. Interest Discounted Loan and its composition

There was no interest discounted loan during the reported period.

5. Loan Restructured

At the end of the reported period, the balance of the corporate restructured loans (the loans that had to be extended and borrowed for repaying previous loans and bill purchased) was RMB 4.269 billion, of which RMB1.448 billion loans were overdue for more than 90 days.

6. Major types of Loan, monthly average balance and annual average interest rate of loans

(Expressed in millions of RMB)

Average interest rate (local and foreign currencies)	4.80%
Average monthly balance of total loan	433,016.78
Of which: 1. by tenor	
Short-term loans below 1 year	297,268.49
Medium/long-term loans over 1 year	124,760.96
Overdue loans	10,987.33
2. by type	
Guaranteed loan	143,000.56
Collateral loan	87,473.25
Pledged loan (including discount)	109,265.36
Clean loan (on credit basis)	93,277.61

7. Major type of deposits, monthly average balance, and annual average interest rates of Main Deposits

(Expressed in thousands of RMB)

Type	Monthly Average Balance	Annual Average Interest Rates (%)
Corporate demand deposit	191,978,045	0.89
Corporate time deposit	131,584,224	2.21
Demand savings deposit	106,283,884	0.67
Time savings deposit	109,401,132	1.84
Total	539,247,285	1.48

8. Government Bonds of significant value held at the Year End

(Expressed in ten thousands of RMB)

Bond	Balance of par value	Maturity	Interest rate (%)
1996 registered (China Government Bonds, CGBs)	87,746	2006.06	11.83
1997 registered CGBs	40,097	2007.09	9.78
1998 registered CGBs	9,000	2008.09	5.5
1999 registered CGBs	221,840	2006.02---2009.04	2.88---4.88
2000 registered CGBs	277,586	2007.02---2010.09	2.72---3.50
2001 registered CGBs	1,089,000	2006.07---2021.10	2.77---3.85
2002 registered CGBs	148,800	2007.04---2009.12	2.22---2.93
2003 registered CGBs	568,188	2006.06---2013.04	2.32---3.50
2004 registered CGBs	302,700	2006.06---2011.08	3.20---4.89
2005 registered CGBs	24,000	2006.03---2008.8	1.40---2.12
2001 certificate CGBs	10,869	2006.04---2006.10	3.14
2002 certificate CGBs	112,490	2007.03---2007.11	2.29---2.74
2003 certificate CGBs	106,237	2006.3---2008.11	2.32---2.63
2004 certificate CGBs	1,275	2007.03---2009.10	2.96---3.53
2005 certificate CGBs	23,461	2008.4---2008.9	3.24---3.37
G7 Government bonds	44,836	2006.12---2013.5	2.25---3.63
Overseas CGBs	72,971	2006.05---2027.10	3.75---7.75

9. Provisions for interest receivable and other receivable bad debts

(Expressed in thousands of RMB)

Item	Amount	Provision for Loss	Methodology of Provision
Interests receivable	1,924,612	-----	Identified individually
Other receivables	704,707	32,299	Identified individually

10. Non-performing loans and countermeasures to be taken

At the end of reported period, the non-performing loans of the Company were equivalent to RMB 12,167million an increase of RMB 1,393million over that of the beginning of the year. The non-performing loan ratio was 2.58%, down 0.29 percentage point from the year beginning.

In connection with the credit assets quality situation, the Company has taken several major measures to resolve the non-performing loans including: (1) further promoting the credit system reform and improve construction of

organizational structure, while enhancing the management of the loan disbursement center to strictly minimize credit operational risk; (2) further perfecting the credit withdrawal mechanism, especially applying an initiative and proactive withdrawal strategy for loan clients in overheat industry with significant effect from macro-control policies, in order to effectively release various potential risks in the loan stock; (3) further establishing an effective credit management system, and speeding up the improvement of the existing rules and regulations on credit management of the new credit business and monitoring requirements; (4) actively promoting

application of the post disbursement direct inspection system from head quarter to each branch; as well as conducting special inspections for those loans granted to a hot industry and high-risk field to enhance the post disbursement management; (5) applying a detail-oriented classification system for credit assets so as to improve an inquiry and claim for any new non-performing loans, as well as improving the capability of prompt pre-warning and risk resolving; (6) further perfecting the credit informalization system and enhance the information quality management; (7) initiatively promoting a centralized recovery strategy for non-performing loan, and perfect the recovery incentive mechanism to speed up the recovery of non-performing loans. By the end of 2005, the non-performing loans recovered in cash reached a total sum of RMB 1,578,000,000 for a whole year, an increase of RMB 762,000,000.00 comparing to the pervious year.

Faced with the new challenges and difficulties in the credit asset quality, the Company plans to take several major measures as follows: (1) further perfecting credit risk management system and mechanism, as well as initiatively develop and establish a practical, scientific and comprehensive credit risk management system which is up to international banking practices combined with the Company's actual situation; (2) consistently improving the development, research and application of the bank risk quantified technics, expediting the establishment of its relative auxiliary system to gradually improve the risk management; (3) continuing the "double excellence" credit direction policy, and restrict the standards for loan access permission to control the quality of newly-granted loans; (4) continuing the credit direct inspection system, improve a puntuality, consistence and systematic credit inspection through better process management including loan inspection, rectification requirement, due diligence inquiry, category adjustment, prompt withdrawal and full provision to be made, so as to effectively prevent an impact from any unexpected credit risks; (5) establishing a post disbursement management and control mechanism which is suitable for the diversified equity relations and systematic risks of group clients, so as to effectively minimize effects from the systematic risks; (6) further promoting the detail-oriented management based on the asset classification, and gradually convert the credit asset classification management from a qualitative mode into a qualitative and quantitative integrated mode; (7) establishing and perfecting a credit risk pre-warning system including pre-warning organization, pre-warning system, analysis and collection of pre-warning

signals, as well as standardized pre-warning actions, in order to enhance the capability of risk prediction and risk prevention; (8) continuously promoting the target plan management for non-performing loans, as well as carrying out the reform and perfection of recovery & resolution system to enhance the efficiency of the idle loan collection.

11. Overdue unpaid debts

During the reported period, the Company has no overdue unpaid debts.

12. Balance of off-Balance Sheet items and other important issues that may have significant impact on the Company's financial and business performance

(1) Off-Balance Sheet interest receivable

The balance at the end of the reported period was RMB 5,131,000,000. The profit of the current period shall be increased if it was recovered.

(2) Guarantee and Letter of Credit

The balance was Rmb57.149 billion as of the end of the reported period. The company has to fulfill the payment obligation only when the applicant for guarantees or L/Cs was unable to fulfill the contractual obligations and therefore the profit would be affected.

(3) Accepted Bills

The balance was Rmb123.525 billion at end of the reported period. The company would have to fulfill the payment obligation only when the applicants were unable to fulfill the contractual obligations of the bills and therefore the profit would be affected.

13. Various risks and countermeasures

The risk factors that the Company will encounter mainly include credit risk, liquidity risk, interest risk, exchange rate risk and operational risk, etc. Since the Company is fully aware of these risks, and has taken appropriate and effective measures to prevent various risks, there is no significant impact on the Company's operations and no material damages and losses brought into the Company in this year. The major measures taken by the Company include:

For credit risks: The Company has further improved the credit risk management system according to the strategy of balanced development of profitability, quality and scale of the Company; on a basis of an enhanced predictive analysis and studying on the maicro-economic situation and

industry development; made further adjustments for the credit direction policy, optimized the portfolios of credit structure and assets, and effectively improved the quality of newly-granted loans; expedited the establishment and perfection of the client credit ranking system and debt ranking system; improved the quantitative management; and enhanced the detail-oriented management based on the asset classification, and discovered the internal risks of the credit assets more effectively.

For liquidity risks: The Company has strengthened the guidance and supervision to each branch through consistently improving the control of the main business indicators, such as loan/deposit ratio, mid-term loan ratio and payment provision ratio, etc.; continued the liquidity management through a professional-team-based management for daily money supply and internal & external funding transactions; perfected the plan and relevant operation instructions of liquidity emergency to define the appropriate countermeasures under an emergent situation more clearly; strived continuously for a better business structure with interaction of front desk, middle desk and back desk; adjusted the portfolios of assets and liabilities flexibly and stucked to a diversified configuration for adaptation of changeable market environment; and maintained a smooth financing channel to fulfill the requirements of liquidity management.

For interest rate risks: The Company has established an effective asset and liability management and interest rate risk management based on an enhanced concentration of identification, prediction and analysis for trends of interest rate and exchange rate as well as their relative effects; optimized the configuration of asset and liability through an active management on the portfolios of asset and liability; initiatively developed and improved the interest rate risk management mechanism; tried to apply an asset transfer pricing system to establish a profit-oriented, sound and scientific pricing mechanism for assets and liabilities; promoted application of the development results on asset & liability management system, developed more channels for funding utilization, and hedged interest rate risk through derivative products in financial market; as well as promoted less interest rate sensitive business to mitigate and minimize interest rate risks.

For exchange rate risks: The Company has continued to

improve the square position mode for sale and purchase of RMB and foreign exchange, applied a quotation mechanism to enable multi-price per day, and strictly controlled the risk exposures to mitigate exchange rate risk; continuously perfected various relevant regulation system and operation instructions, conducted a real-time monitoring for the key indicators such as exposure limit, stop loss point and so on in order to minimize the exchange rate risk, attached great attentions to and made regular checks to ensure the type of foreign currency matched with an appropriate term structure, and limited a minimum overall risk exposure for the bank as a whole; researched, designed and developed various derivative instruments for risk mitigation purpose within the range of relevant policies, positively carried out financial innovations, and utilized various instruments to control the exchange rate risk.

For operational risks: The Company has positively made and perfected the relevant policies and procedures for risk management; further updated the business regulations, procedures and systems; focused on identification and control for high-risk business and process; organized and carried out the correct measures for special cases; and strengthened the control and supervision over fundamental business outlets. Meanwhile, the Company has spread an education system regarding the operational risk among the employees to enhance the anti-risk awareness and relevant capabilities; maximized the functions of internal audit, supervision and evaluation throughout the internal control departments; and focused on the perfection of the self-examination and correction mechanism for any potential operational risk.

For technology risks: The Company has always put the Information Technology security as an a focal point in daily risk management. The head quarter and each branch have established their Information Technology Security Work Teams responsible for the problems arise from IT security. The Company has taken proper measures in every major steps regarding organization structure, personnel allocation, technical solution, regulation, as well as education and training system to ensure a reliable and safe operation of the IT system.

14. Notes to completeness, rationality, and effectiveness of the internal control system

The company's organization structure, mainly composed by Shareholders' General Meeting, the Board of Directors, the Board of Supervisors, and the senior executives, has been set up in compliance with the relevant laws and regulations, under which the concept of independence and the balance between ownership and operation, management and supervision has been realized. In addition, for the purpose of risk prevention and prudent operation, the Company developed systematic regulations and improved internal control systems in such aspects as credit business management, funding business management, finance and accounting management, human resource management, information system management, branch operation management, anti-money laundering management and internal audit supervision and security protection. At present, the completeness, rationality and effectiveness of the internal control system, which covers almost every process and operation, is embodied in the aspects of strengthening supervision and control, regulating operation compliance, preventing and hedging risks, and safeguarding the assets. It also promoted the efficient running of the company's internal organization and guaranteed the prudent operation to be carried out in compliance with relevant laws and regulations.

Audited by KPMG and KPMG Huazhen, the internal control system is free from material defects with respect to completeness, rationality, and effectiveness.

III. Investment in the reported period

1 Use of fund raised and its result

(I) RMB common stock

The company launched IPO of 1.5 billion common stocks on 1 April 2002, at 7.30 yuan per share, and raised Rmb10.769 billion in net value, all paid up by 2 April 2002. As committed in the prospectus, all raised funds were used to supplement the capital to enhance capital adequacy ratio so as to strengthen its anti-risk capacity. The Company

has strictly abided by the commitment

and made good use of the raised fund with details as follows :

(a) Expansion of business network: Planned investment was Rmb3.5 billion, and the total operational capital of Rmb3.5 billion has been invested as of the end of 2004.

(b) Improvement of electronic infrastructure: Planned investment was Rmb2.3 billion, and Rmb2.3 billion has been invested as of the end of 2004.

(c) Human resources training: planned investment is Rmb200 million, and Rmb169 million has been invested as of the end of the reported period

(d) Purchase and construction of fixed assets: planned investment was Rmb1 billion, and Rmb1 billion has been invested as of the end of the reported period

(e) The remaining funds are to be used in daily operation of the Company.

(2) Convertible bonds

The Convertible bonds of Rmb6.5 billion was successfully issued by the Company in

November, 2004, as approved by the China Banking Regulatory Commission, booked as affiliated capital of the Company. As committed in the prospectus, the 50% fund raised by issuing convertible debt should be used in loans supporting project of high quality enterprise, while the others purchased the treasury bonds and other financial products. As of the end of 2005, the large portion of Convertible bonds has been concerted into shares. After conversion, all the fund was to be used to supplement the core capital of the company. The capital thus added should be used as operation fund for new branches, payment for IT system, and purchase of fixed asset, with others to be used in operations, supporting the loan to high quality enterprises, bills financing and investment of treasury bonds.

(3) Subordinated debts

Subordinated debts of Rmb3.5 billion was issued by the Company in first half year of 2004, as approved by the China Banking Regulatory Commission, booked as subordinated capital. At present this fund was mainly used in supporting loan project of high quality enterprises and treasury bonds.

2. Major projects invested with non-raised funds

As of end of the reported period, the company paid Rmb387 million in developing Lujiazui

Project in Shanghai, of which, Rmb1 million was paid during the reported period; Rmb294 million was being used to develop its Electronic Research & Development Center Project, of which Rmb167 million was paid during the reported period.

IV. Financial and business performance

1. Significant changes in financial and business performance compared with that of the previous year and relevant causes

(1) Major financial indicators and the causes

(Expressed in thousands of RMB)

Key financial indicators	At the end of reported period	Increase/decrease	Main causes
Total assets	733,983,030	25.13	Growth in loan, investment, inter-bank lending and borrowing, etc.
Total liabilities	709,312,484	25.39	Growth in deposits etc.
Of which : long-term debt	50,452,274	45.82	Growth in long-term deposits, long-term saving deposit and issuance of long term debt
Shareholders' equity	24,670,546	18.15	Growth in net profit of the current year, and share capital converted from convertible bonds in the current year
Principle operating profit	6,555,946	32.99	Growth in business size and structure improvement
Net profit	3,930,383	25.01	Growth in business size and structure improvement
Net increase of cash and cash equivalent	19,772,803	----	Increase of cash and cash equivalent in the current year, while decrease in the previous year

(2) Items with changes of 30% or above in comparative financial statements

(Expressed in thousands of RMB)

Key financial indicators	At the end of reported period	Increase/decrease	Main causes
Due from inter-banks and financial companies	18,576,302	62.52	Growth in due from banks and financial institutions loans
Placement of inter-banks and financial companies	22,708,285	43.75	Growth in placement in inter-banks and financial institutions loans
Inward & outward bills negotiation	12,215,497	51.05	Business growth of inward & outward bills negotiation
Discounting	99,526,919	63.47	Growth of discount business
Short-term investment	40,640,277	34.97	Growth of short-term investment business
Purchase of Resale items	24,274,400	86.41	Business growth of purchase of Resale items
Mid and long-term loan	145,839,238	42.70	Growth of mid and long-term loan business
Construction in-process	1,121,045	38.50	Increase of construction in-process
Structured deposit	13,367,005	36.31	Growth of structured deposit
Fiscal deposit	8,224,729	33.00	Growth of fiscal deposit
Bills financing	107,931	-96.19	Decline of bills financing business
Due to inter-banks and financial institutions	39,673,505	58.36	Growth of due to inter-banks and financial institutions
Due from inter-banks and financial companies	424,219	-71.84	Decline of placement of inter-banks and financial institutions
Interest payable	2,705,110	34.45	Increase of interest payable
Margin deposit	61,405,497	32.91	Increase of margin deposit
welfare expense payable	821,317	35.34	Increase of welfare expense payable
Tax payable	3,290,411	33.45	Increase of tax payable
Dividend payable	21,515	104.32	Increase of dividend payable, small base of last year
Other long term debt issued	10,000,000	----	Issuance of other long term debt
Paid-in share capital	10,374,344	51.49	Capital converted according to Proposal for Profit distribution 2004, and also from convertible bonds
Capital reserve	5,214,734	-35.85	Capital converted according to Proposal for Profit distribution 2004
Surplus reserve	2,377,162	49.40	Growth of net profit
Statutory general provision	3,000,000	----	General provision made
Commission and fee levied	1,855,993	56.39	Growth of business volume
Gains from foreign exchange	550,542	36.20	Growth of gain from foreign exchange
Interest expenses	7,963,648	51.35	Increase of liability scale and interest rate of liabilities
Loss from foreign exchange	41,371	-34.00	Smaller loss from foreign exchange
Income from Investment	3,387,498	31.38	Expansion of investment business
Non-operating expenses	37,928	67.64	Increase of non-operating expenses
Income tax	2,703,154	44.70	Growth of pre-tax profit and increase of income for tax calculation base

2. The Company has written off RMB 913,000,000 of bad debts upon approval in the reported period.

211 related responsible persons have been investigated and determined for their relative liabilities. Of which, 11 persons were subject to a discipline punishment, 70 persons to be given economical penalty, 3 persons to be dismissed, and 127 persons to be notified criticism and file record. In the reported period, the Company has also investigated and determined the relative liabilities of 132 responsible persons related with written-off bad debts in 2004 as per the aforesaid procedures. Wherein, 16 persons were subject to a discipline punishment, 54 persons to economical penalty, 4 persons to be at deposal and demotion, 3 persons to struck off and dismissed, 3 persons to remove the job position, and 52 persons to be notified criticism and file record.

V. Changes and effects of operational environment and macro policies and regulations

1. Issuance of financial bonds

The Administrative Measures of Financial Bonds in National Inter-bank Bond Market was issued by the People's Bank of China on April 27th 2005, and became effective officially on June 1st 2005. The Company issued its initial financial bonds equivalent to RMB 10,000,000,000 in the inter-bank bond market on October 13th 2005, of which including two types, i.e. three-year bond and five-year bond equivalent to RMB 5,000,000,000, respectively. Since this issuance was very popular in the market; the cost of the financial bonds was at very low level, that is, the interest of three-year bonds was 2.13%, lower 1.11 percentage point than the deposit interest rate of the corresponding period, even 0.12 percentage point lower than the one-year deposit interest rate; and the interest of five-year bonds was 2.56%, 1.04 percentage points lower than the deposit interest rate of the corresponding period.

This issuance of financial bond is a successful step for the Company to initiatively adapt the changing trend of the market financing structure, expand the financing channel, and strive for a construction of long-term reliable market-oriented financing mechanism. It has yielded positive effects and encouraging results for reduction of the Company's fund costs, improvement of operation efficiency, management of market risks as well as optimization of asset & liability structure.

2. Reform of exchange rate

The People's Bank of China issued a notification on July 21st 2005 to implement a floating exchange rate system based on the market supply and demand with reference of a basket of currencies for adjustment and management, which resulting 2% appreciation of RMB since that day.

The Company has made an accurate prediction and full preparations for such exchange rate reform. The Company has taken relevant steps in advance to increase the liquidity reserve for foreign currencies, further minimize the risk exposure of exchange rate, reducing the ratio of mortgage loans with foreign currency assets, and at the same time converted the profit of the pervious year into HK dollars, and requested a prompt settlement of foreign exchange to minimize the loss causing from the exchange rate reform.

In the future, the Company will further follow up the analysis and study the exchange rate risk: enhance the risk quantitative system for foreign exchange risk management and asset and liability management; promote the application of analysis tools; expedite the integration of transaction information processing platform; strengthen the risk exposure management for exchange rate; establish and perfect the exchange rate risk management mechanism under the leadership of the Board of Directors.

3. Policy adjustment on Household Mortgage loans

The People's Bank of China decided to adjust the policy of commercial banks on self-operated individual mortgage loans from March 17th 2005: cancelled the preferential interest for individual mortgage loans, opened the upper limit and set the lower limit as 0.9 times of basic interest rate at the corresponding level; increase the minimum down payment from 20% up to 30% for the cities or regions with too-fast increase of the housing price; and change the modes of calculation and settlement of interests and repayment of mortgage loans to be determined through consultation between borrowers and lenders. A higher interest rate of individual mortgage loan and greater interest rate risk restrained the demand for new mortgage loans to a certain extent, and resulted in an increase of repayment for individual mortgage loans. Price drop of the real estate in some areas also implies a certain ethical risk.

For this policy adjustment, the Company has taken appropriate steps to perfect the relevant regulation and measures:

strengthen the interest rate management and product innovation. Although the Company has been effected some impacts on mortgage loan business so far, the overall development was still healthy and steady, and the market share gained a consistent growth for the Company.

4. Policy adjustment for excessive deposit reserves

The Peoples' Bank of China decreased the interest rate for excessive deposit reserves from 1.62% to 0.99% on March 17th 2005. The major purpose for this adjustment is to optimize the deposit interest rate structure for reserves, improve the scientificity and efficiency of monetary policies, as well as speed up the marketization of interest rates. Meanwhile, it is also helpful to encourage the commercial banks to adjust their own asset structure, and maintain a steady and balanced growth of financing business.

The declined interest rate of excessive deposit reserves presents a new and greater challenge for bank liquidity management; and requests a reasonable liquidity and efficiency management as well as a dynamic balance for both through an improved management skill, therefore, the Company has strengthened funding management and allocation, as well as taken active operations in bills discounting market and bond market. Furthermore, the Company has also taken cautions to prevent mid and long term interest rate risk, strived to minimize the negative effects from this policy adjustment and grasped the opportunity hidden in the consequent fluctuation of interest rate to earn the income from price difference.

5. Policy adjustment for inter-bank deposit interest rate

The People's Bank of China decided to open the inter-bank deposit interest rate of the financial institutions from March 17th 2005. The maximum interest rate, which originally would not exceed the excessive deposit reserves interest rate, will be negotiated and determined by both related parties.

For this adjustment of inter-bank deposit interest rate, the Company has strengthened the pricing guidance for inter-bank deposits and carried out a classification management for inter-bank deposit interest rate. On one hand, the Company has developed the products of inter-bank deposits, and set up an upper limit for the interest rate. On other hand, the Company has implemented a classification management for

inter-bank deposit interest rate, and applied different pricing mechanism, based on the consideration of the deposits with different resources such as settlement fund among commercial banks, deposit margins of security companies, current reserves of fund companies, working capital of foreign banks, etc. based on mutual cooperation and market competition. The policy implementation has yielded an encouraging result. Although the interest rate is declined, the Company has obtained an increase of inter-bank deposit volume instead of a decrease, and developed the business more rapidly.

6. Short-term financ bond for enterprises

The People's Bank of China issued the Administrative Measures on Short-term Financing Bonds for Enterprises on May 24th 2005, and allowed the qualified enterprises to issue short-term financing bonds in the inter-bank bond market. In 2005, the issuance of domestic short-term financing bonds reached approximately RMB140 billion. The effective demand for loans, especially from the large qualified clients has slowed down readily.

For such influence on the loan demand due to an expansion of direct financing channel, the Company has strengthened the asset & liability management, and optimized the portfolios of asset and business. While continuously insisted on the "Double excellence" credit policy, the Company has increased the support to develop loans for small and medium sized enterprises, as well as the investment on key strategic fields such as fee-base business etc. During the reported period, the Company has obtained a qualification of lead underwriter for short-term financing bonds, and successfully handled business with total value of RMB 15.2 billion.

VI. Major work plan for the coming year

Having taken into consideration the present economic and financial situation and the needs of accelerating the adjustment of operational strategy and internationalization of the management, the Company has established the guidelines for the work plan of 2006: Updating concepts, deepening the reform, strengthening the innovation and preventing risks. To update concepts is to break through from the tradition, break down the extensive management mode so as to establish new outlooks of profit, risk, market and clients of a modern

commercial bank. To deepen the reform is to accelerate the reform of organization management system, further optimize the resource allocation and improve the operation efficiency. To strengthen innovation is to increase efforts in operation, product and technical innovations and updating management and procedures following the dictation of market and clients, to improve the capacity of product research and development and client services with the view of taking a greater share of the market. To prevent risks is to sharpen the awareness of risks, strengthening credit discipline, promote modern risk management techniques and raise the capacity of credit risk, market risk and operational risk management.

To achieve the above related goals, the Company shall focus on the following seven tasks:

(1) Further assets liability management reform and optimizing resources allocation; (2) strengthening innovation and market development and focusing on building niche feature services and competing advantages; (3) maintaining rapid development of fee-base business and raising the percentage of income from non-interest income; (4) strengthening risk prevention awareness and raising the level of risk management; (5) Putting greater efforts in implementing talent strategy and reinforce human resource management; (6) Quickening the pace of information system development and reinforcing Information Technology support; and (7) improving organizational development and management and ensuring client service quality.

VII. Daily work of the Board of Directors (hereinafter as 'BOD')

1. Meetings of the BOD and Resolutions during the reported period

(1) The Company held the 8th session of the 6th meeting of BOD in Shenzhen on March 29th 2005 and published the resolution announcement in China Securities Journal, Shanghai Securities News and Securities Times on March 31st 2005 and on the website of Shanghai Stock Exchange.

(2) The Company held the 9th session of the 6th meeting of BOD by means of voting through telecommunication on April 25th 2005 and published the resolution announcement in China Securities Journal, Shanghai Securities News and Securities Times of April 27th 2005 and on the website of

Shanghai Stock Exchange.

(3) The Company held the 10th session of the 6th meeting of BOD by means of voting through telecommunication on April 29th 2005 and published the resolution announcement in China Securities Journal, Shanghai Securities News and Securities Times of April 30th 2005 and on the website of Shanghai Stock Exchange.

(4) The Company held the 11th session of the 6th meeting of BOD by means of voting through telecommunication on June 22nd 2005.

(5) The Company held the 12th session of the 6th meeting of BOD in Shenzhen on July 12th 2005.

(6) The Company held the 13th session of the 6th meeting of BOD by means of voting through telecommunication on July 22nd 2005.

(7) The Company held the 14th session of the 6th meeting of BOD by means of voting through telecommunication on July 28th 2005 and published the resolution announcement in China Securities Journal, Shanghai Securities News and Securities Times of June 29th 2005 and on the website of Shanghai Stock Exchange.

(8) The Company held the 15th session of the 6th meeting of BOD in Dalian on August 17th 2005 and published the resolution announcement in China Securities Journal, Shanghai Securities News and Securities Times of August 19th 2005 and on the website of Shanghai Stock Exchange.

(9) The Company held the 16th session of the 6th meeting of BOD by means of voting through telecommunication on October 26 th 2005 and published the resolution announcement in China Securities Journal, Shanghai Securities News and Securities Times of October 28 th 2005 and on the website of Shanghai Stock Exchange.

(10) The Company held the 17th session of the 6th meeting of BOD by means of voting through telecommunication on November 22nd 2005.

(11) The Company held the 18th session of the 6th meeting of BOD by means of voting through telecommunication on December 13, 2005.

(12) The Company held the 19th session of the 6th meeting of BOD in Beijing on December 18 th 2005 and published the resolution announcement in China Securities Journal, Shanghai Securities News and Securities Times on December 19th 2005 and on the website of Shanghai Stock Exchange.

(13) The Company held the 20th session of the 6th meeting

of BOD by means of voting through telecommunication on December 28 th 2005 and published the resolution announcement in China Securities Journal, Shanghai Securities News and Securities Times on December 30 th 2005 and on the website of Shanghai Stock Exchange.

(14) The Company held the 21st session of the 6th meeting of BOD by means of voting through telecommunication on December 29 th 2005 and published the resolution announcement in China Securities Journal, Shanghai Securities News and Securities Times on December 30 th 2005 and on the website of Shanghai Stock Exchange.

2. Implementation by the Board of Directors as to the resolutions of the Shareholders' General Meeting

(1) In accordance with the Solutions on Profit Distribution and Conversion of Capital Surplus into Shares for 2004 reviewed and approved by the Shareholders' General Meeting 2004 of the Company, the after-tax profit in the domestically audited accounting statement of 2004 was RMB 3,144,087,000 and overseas audited accounting statement of 2004 was RMB 3,240,834,000 . The profit distribution plan for 2004 was as follows: 10% of the after-tax profit stated in the domestically audited accounting statement shall be withdrawn as statutory surplus reserves, equaling RMB 314,409,000; 10% of the after-tax profit stated in the domestically audited accounting statement shall be withdrawn as statutory public welfare fund, equaling RMB 314,409,000 . The distributable profit of the year in the domestic accounting statement was RMB 2,515,269,000 and that in the overseas accounting statement was RMB 2,612,016,000 . According to the stipulations of CSRC Zheng Jian Kuai Zi [2001] No. 58, the profit for distribution shall be the lower stated in the domestically and overseas audited accounting statements. In this case, the profit shall be distributed according to the amount of distributable profit stated in the domestically audited accounting statement. With the total shares as the base for distribution, RMB 1.10 was distributed to each share. The accumulated capital was converted into share capital at the rate of 5 to each 10 original shares. The above related profit distribution and conversion of accumulated capital into right shares have been implemented by the Board of Directors of the Company.

(2) In accordance with the Resolutions on Employment of Accounting Firms and its Remuneration for 2005 reviewed and

approved by the Shareholders' General Meeting 2005 of the Company, the BOD of the Company has continued to employ KPMG Huazhen Certified Public Accountants and KPMG Certified Public Accountants as the Company's auditors.

(3) In accordance with the Resolution on the Change of Independent Directors reviewed and approved by the 1st Temporary Shareholder's General Meeting of 2005, the newly elected independent directors started performing their duties.

(4) In accordance with the Resolution on Financial Bonds Issuance reviewed and approved by the 1st Temporary Shareholder's General Meeting of 2005, and authorized by the Shareholders' General Meeting, the BOD of the Company processed relevant formalities concerning financial bond issuance. PBOC and CBRC have authorized the Company to issue financial bonds worth RMB 15 billion in 2005 with YinFu [2005] No. 75 and Yinjianfu [2005] No. 252 reply documents, respectively.

VIII. The plan for profit distribution for 2005

According to Questions and Answers No. 4 Concerning the Standards of Information Disclosure for Companies Issuing Securities to the Public: the Difference between Accounting under PRC ARR and that under IFRS for Financial Institutions and the Benchmark for Profit Distribution (Zheng Jian Kuai Zi [2001] No. 58), statutory profit reserve and statutory public welfare funds should be based on the net profit audited by a domestic accounting firm, and the benchmark of dividend to be distributed should be the lower one of the distributed profits audited by domestic and foreign accounting firms.

The after-tax profit in the domestically audited accounting statement of 2005 was RMB 3.93 billion and the overseas audited accounting statement of 2005 was RMB 3.749 billion. The profit distribution plan for 2005 is as follows: 10% of the after-tax profit stated in the domestically audited accounting statement shall be withdrawn as statutory reserves, equaling RMB 393,038,000; 10% of the after-tax profit stated in the domestically audited accounting statement shall be withdrawn as statutory public welfare fund, equaling RMB 393,038,000 . The distributable profit of the year in the domestic accounting statement was RMB 3,144,307,000 and that in the overseas accounting statement was RMB 2,962,718,000. According to the stipulations of CSRC Zheng Jian Kuai Zi [2001] No. 58, the profit for distribution shall be the lower stated in the

domestically and overseas audited accounting statements. In this case, the profit shall be distributed according to the amount of distributable profit stated in the domestically audited accounting statement. With the total shares as the base for distribution, the Company plans to distribute the profit at the rate of RMB 0.80 for each share. RMB 3 billion shall be withdrawn as general reserve in accordance with the Administrative Measures on the Withdrawal of Bad Debt Reserve for Financial Enterprises (Caijin [2005] No. 49) promulgated by the Ministry of Finance. The undistributed profit shall be carried down to next year.

Whereas the convertible bonds (CMB Convertible Bond 110036) issued by the Company have not been completely converted into share capital or accumulated capital of the Company and it is impossible to determine the total share capital on the stock ownership on share registration date, the cash bonus total cannot be determined at this meeting. Therefore, the Company will implement the profit distribution plan on the base of the total capital at the closing of the stock ownership registration date after Proposed Profit Distribution Plan was approved by the Shareholders' General Meeting.

The above proposed Profit Distribution Plan shall be implemented within two months of approval from the Shareholders' General Meeting 2005.

IX. Other issues to be disclosed

On February 18th 2005, the State Administration of Foreign Exchange formally approved the Company's application for forward exchange settlement operations with the Reply of State Administration of Foreign Exchange on the Company's Application for Forward Exchange Settlement Operations (Huifu [2005] No. 29).

On July 11th 2005, the Company was permitted to engage in short-term financing debt underwriting operations according to the People's Bank of China's Circular on the Industrial and Commercial Bank of China and other 11 Financial Institutions Engaging in the short-term financing debt underwriting operations (Yinfa [2005] No. 133) from the People's Bank of China. On July 13th 2005, the Company was permitted to engage in short-term financing debt lead underwriting operations according to the People's Bank of China's Circular on the Bank of Communications and other 5 Financial Institutions Engaging in the short-term financing debt lead underwriting operations (Yinfa [2005] No. 174) from the People's Bank of China.

On August 4th 2005, the Company obtained the qualifications for corporate annuity fund account manager and corporate annuity fund custody according to the Circular on Publishing the First Corporate Annuity Fund Account Management Institutions (No. 5) from the Ministry of Labor and Social Security.

On October 11th 2005, in accordance with The People's Bank of China's Reply to China Merchants Bank's Application for Issuance of Financial Bonds (Yinfa [2005] No. 75) from the People's Bank of China and China Banking Regulatory Commission's Reply on China Merchants Bank's Application for Issuance of Financial bonds (Yinjianfu [2005] No. 252) from CBRC, the Company issued financial bonds worth RMB 15 billion in the interbank bond market.

On December 13th 2005, according to the Reply to CMB's Application for Purchasing Part of the Stock Right of China Merchants Fund Management Co. Ltd. (Yinjianfu [2005] No. 323) from China Merchants Fund Management Co. Ltd., which agreed that the Company purchased 30.1% of the stock right of China Merchants Fund Management Co., Ltd. The Company has submitted to CSRC a formal application for purchase partial stock right of China Merchants Fund Management Co., Ltd.

On December 2005, the Company launched a share reform program in accordance with the State policies and regulations. The main points of the program were as follows: The Company shall use the accumulated capital to increase 0.8589 shares on each 10 shares, with the total number of shares on the stock right registration date on which the share reform program was launched. Non-circulated share holders participating in the reform shall pay to circulated shareholders who registered on the registration date on which this program by implementing 1.7374 shares for each 10 shares according to the transferred right share capital they acquired in exchange for the listing right for the non-circulated shares. The Company shall also distribute 6 put warrants with duration of 18 months per 10 shares and an initial right of exercise price of RMB 5.65. The put liability shall be borne in proportion by the 13 non-circulated shareholders including China Merchants Steam Navigation Co., Ltd. See the part of shareholder's commitments in Section X: Major Procedures for details of the non-circulated shareholders' commitments during the lock-up period and commitments to propose to the BOD to formulate the long-term incentive plan covering stock options.

X. Independent directors' special statement and independent opinions on the provision of external guarantees of the Company

China Merchants Bank Co., Ltd.

Independent directors' special statement and independent opinions on the provision of external guarantees of the Company

According to the Decree Zheng Jian Fa [2003] No. 56 and Zheng Jian Fa [2005] No. 120 issued by China Securities Regulatory Commission and relevant provisions prescribed by Shanghai Stock Exchange, as the independent directors of China Merchants Bank Co., Ltd, we have carried out careful inspection of the Company's provision of external guarantee in 2005 based on the principle of openness, fairness and objectiveness. With regard to the Company's provision of external guarantee and violations as well as the implementation of relevant regulations of Shanghai Stock Exchange, we hereby publish this special statement and our independent opinions as follows:

As competition between amongs banks is becoming more and more fierce and China Banking Regulatory Commission is increasing its monitoring and control of risk capitals of banks, the Company has been actively adjusting its operational strategy, promoting fee-base business that requires less or no capital and improving the revenue structure. Guarantee is an important fee-base operation of the Company. In recent years, the Company has seen experienced rapid development in guarantee business.

According to the inspection, the external guarantee businesses carried out by China Merchants Bank Co., Ltd. has been approved by the People's Bank of China and China Banking Regulatory Commission and it is a regular business of the Company. Currently, the external guarantee business provided by the Company mainly includes: irrevocable financing letters of guarantee, irrevocable non-financing letters of guarantee and shipping guarantee, of which, non-financing letters of guarantee such as investment guarantee, performance guarantee, project advance payment guarantee, etc. are the important parts of the business.

As of the end of December 2005, the Company's guarantee balance (including irrevocable financing guarantees, irrevocable non-financing guarantees and shipping guarantees) was RMB 34.713 billion, an increase of 42.9%

over that of the beginning of the year. The total balance included a balance from irrevocable financing guarantee was RMB 8.391 billion, an increase of 34.9% over that of the beginning of the year and a balance from irrevocable non-financing guarantee of RMB 26.3 billion, an increase of 45.67% over that at the beginning of the year.

The Company has been making continuous efforts in improving its credit risk culture and risk management system and closely observing the principle of prudence. To strengthen its quality control over credit capital, the Company has implemented a series of effective measures, including detailed classification, on the balance-sheet credit capital. Meanwhile, the Company has also further increased the efforts in risk monitoring and management over off-balance sheet operations. With on-site and off-site inspection and other technical methods, the Company seeks to locate signs of potential risk, issue risk warnings and take preventive measures in a timely manner. Within this year, under the effective monitoring and management of BOD, the guarantee business of the Company are operating smoothly. As of the end of the reported period, the balance of the Company's advanced payment was USD1.09 million, realizing a highly effective control of the fund loss ratio incurred by guarantee operations.

Independent Directors of China Merchants Bank Co., Ltd.
He Di, Lin Chuxue, Austin Hu Changtau, Yang Jun,
Lu Renfa, and Ding Huiping

Section IX Report from the Board of Supervisors

I. Work of the Board of Supervisors

1. During the reported period, the Board of Supervisors has convened two meetings as follows:

(1) The Third Session of the Sixth Meeting of the BOARD OF SUPERVISORS was held from March 28th to 29th, 2005 in Shenzhen, which required a presence of 9 Supervisors, and 7 Supervisors were actually present. This meeting reviewed and approved Work Report of Board of Supervisors for 2004, Work Report of President for 2004, and the text and abstract of Annual Report 2004. It reviewed and approved the Report on Year 2004 Final Accounts & Year 2005 Financial Budget, Preliminary Proposal for Profit Distribution and Share increase with Capital Reserve Conversion for 2004, Proposal for Employment of Accounting Firm and its Remuneration for 2005, and Proposal for Replacement of Supervisors.

(2) The Fourth meeting of the Sixth session of the BOARD OF SUPERVISORS was held on August 17th 2005 in Dalian, which required a presence of 9 Supervisors, and 7 Supervisors were actually present. This meeting reviewed and approved the text and abstract of Interim Work Report of President for 2005 as well as Interim Report 2005.

2. Investigation & research work of the Board of Supervisors

(1) The Board of Supervisors visited CMB Changsha Branch and made investigation and research for internal control management of CMB from May 23rd to 25th, 2005. The members of the Board of Supervisors listened to the Special Report of the Auditing Department of head office, reviewed the Audit Opinion of head office on Changsha Branch for 2004, and all previous Minutes of Internal Control Audit of Changsha Branch since 2004; They listened to Changsha Branch's report on its internal control work. Moreover, they initiated discussions with the senior management, heads of relative departments, the general manager of branch as well as the front-line employees; and communicated with managers and employees from various levels to know their knowledge, practice, comment and suggestion on internal control work. Then they formulated the Circular of Investigation & Research

on Changsha Branch, and submitted to Board of Directors and the Company's management for information.

(2) The Board of Supervisors visited Urumchi Branch and made investigation and research for risk control of credit assets business from September 12th to 16th 2005. The members of the Board of Supervisors reviewed all previous Minutes of Internal Control Audit of Urumchi Branch in 2005, and the Report of Urumchi Branch on Five-tier Classification for 2004 & 2005. They also reviewed the relevant systems and regulations of Urumchi Branch regarding the credit assets business, and the relevant documents including the Audit Report of Head Office on Urumchi Branch 2005, as well as listened to Urumchi Branch's report on its internal control work. Furthermore, they initiated discussions with the senior management, middle-level managers, and business experts of the branch, and communicated with the managers and employees from various levels to know their knowledge, practice, comment and suggestion regarding the internal control work. Then they formulated the Circular of Investigation & Research on Urumchi Branch, and submitted to Board of Directors and the Company management for information.

II. Independent opinions of Board of Supervisors on relevant issues

1. Legitimate of the Company Operation

During the reported period, the Company has followed legal operations and valid decision-making procedures in compliance with relative laws and regulations. The Director or Senior Executives have been deemed to have no behavior against any relevant laws, regulations and the Articles of Association, or impairing the interests of the company and shareholders when performing their duties.

2. Authenticity of financial statements

KPMG Huazhen Certified Public Accountants and KPMG Certified Public Accountants have audited the Company's annual financial statements in accordance with domestic and international auditing standards, respectively, and issued their standard auditing reports without reserved opinions. The financial statements have truly, objectively, and accurately reflected the Company's financial status and operation results.

3. Usage of raised funds

During the reported period, the Company has processed the investment projects of the raised funds in consistent with the commitment stated in the prospectus.

4. Acquisition and sales of assets

During the reported period, the Company has not involved in any procedures related with purchase or sale of assets, merge or acquisitions.

5. Related transactions

During the reported period, the related transactions of the Company have been made in a fair and sound manner without impairing interests of the Company and shareholders.

6. Internal control system

During the reported period, the Company has formulated an integrated, sound and effective internal control system.

7. Implementation of resolutions of Shareholders' General Meeting

The Board of Supervisors has presented no disagreement on all reports and proposals submitted by the Board of Directors to the Shareholders' General Meeting for review and approval. The Board of Supervisors has conducted supervision for the implementation of resolutions made by the Shareholders' General Meeting, and deemed that the Board of Directors had diligently performed their duties of implementing the relevant resolutions of the Shareholders' General Meeting.

Section X Important Events

I. Significant legal actions and arbitrations

During the reported period, the Company has not involved in legal actions and arbitrations that had significant impact on its operations. By end of the reported period, the Company had 380 cases of unfinalized legal actions and arbitrations, with a total objects of principal value amounted to RMB 2.03064 billion , USD 4.2273 million, HKD 30 million and INR 8.7669 million, respectively; and interest value was RMB 312.1654 million, USD 2.5922 million and HKD 15.38 million. of which, there are 31 cases of unfinalized defendant legal actions, whose objects had a total principal value of RMB 190.88 million, USD 1.0663 million, HKD 30 million, and INR 8.7669 million as well as a total interest value of RMB 221,900 , USD 375,200 and HKD15.38 million. There are 3 unfinalized cases with an individual object principal value more than RMB 100 million. The said 3 unfinalized cases have a total principle value of RMB 642.986 million, and USD 2.787 million respectively as well as a total interest value of RMB 198.7407 million and USD 2.208 million.

II. Purchase & sale of assets and merges & acquisitions

During the reported period, the Company has not involved in procedures related with acquisition and sale of asset, or merge and consolidation of companies.

III. Significant related transactions

The Company has consistently abided by a commercial principle of good faith and fairness to process related transactions with related parties. By the end of reported period, the Company has obtained a total balance of related loans in a sum of RMB 5,629,000,000, decreasing by RMB 1,949,000,000 and representing a decrease of 25.72% when comparing to the beginning of the year. At the same time, it has obtained a total balance of related deposits in sum of RMB 3,922,000,000 , increasing by RMB 466,000,000 and the growth rate is 13.48% when comparing to the beginning of the year. The Company's related parties' loans are all loans with guarantees and categorized as normal. The sum of the current related transactions will not bring significant effects on the Company's normal operations.

The loans to shareholders with 5% or more of the Company's shares at the end of the reported period are as follows:

(Expressed in ten thousands of RMB)

Name of Shareholder	Equity held (Share)	Balance of Related Loan at Dec 31, 2005	Balance of Related Loan at Dec 31, 2004
China Merchants Steam Navigation Company Limited	1,844,371,997	2,600	26,700
China Ocean Shipping (Group) Company	884,419,548	-	165,530
Guangzhou Maritime Transportation Group Co., Ltd.	585,253,656	10,000	10,000
Subtotal	3,314,045,201	12,600	202,230

The accumulated balance of related transaction accounts at the end of the reported period was shown as follows:

(Expressed in ten thousands of RMB)

Transaction account	Balance	Proportion
Related loans	562,924.40	1.20% of Total Loans
Related deposits	392,235.20	0.61% of Total Deposits

The Company's net equity value was RMB38.531billion. By the end of the reported period, there are six related parties

whose related loans from the Company were more than 1% of the net equity. Their total balance for related loans was RMB 300.2 million and accounted for 0.64% of the Company's total loans. The Company has no funds transfers or funds usage violating the regulations stipulated in the Decree Zheng Jian Fa [2003]No. 56, Zheng Jian Fa [2005] No.120.

By the end of the reported period, China Merchants Steam Navigation Co., Ltd, the Company's largest shareholder, had a balance of related loans of RMB 26 million. The companies

held by the largest Shareholder had a total balance of related loans of RMB 756 million. The sum of above two items is RMB 782 million and accounted for 0.17% of the Company's total loans. The related loans to China Merchants Steam Navigation Co., Ltd, i.e. the largest Shareholder of the Company, as well as its affiliates had result no negative effects on the Company's operation results and financial status.

IV. Significant contracts and their performance

1. Significant events concerning custody, contract, and leasing

During the reported period, the Company has no custodian or contractor of other companies' assets or vice versa.

2. Major guarantee procedures

The guaranty business was a normal off-balance sheet item of the Company. During the reported period, except the financial guarantee business approved by the People's Bank of China, the Company has no significant guarantee information to be disclosed, and has no guarantee business with its holding subsidiaries either.

3. Major entrustment of cash assets management or entrusted loans

During the reported period, the Company has not dealt with any entrustment of cash assets management business or entrusted loan business.

V. Information of material changes on profitability, assets and credit standing of guarantor of the Company's convertible bonds

The guarantor of the Company's convertible bonds is Industrial and Commercial Bank of China. In 2005, the Industry and Commercial Bank of China has no major changes in its profitability, asset status and credit standing.

VI. Commitments of the Company or shareholders holding 5% or more shares

In December 2005, the Company formulated the Plan of share reform in accordance with the relative national policies and regulations. The share reform has stated the commitments of the shareholders with non-circulated shares as follows: the shareholders with non-circulated shares shall not trade or a transfer their shares within 36 or 24 months as from their obtaining of right to trade their shares on Stock Exchange depending on whether to undertake the put liability or not.

Some of shareholders with non-circulated shares undertaking the put liability have further committed not to trade or transfer their previously non-circulated shares before the price of the Company's stock rises up to or exceed RMB 8.48 for the first time within 12 months upon the expiration of the lock-in term. The shareholders with non-circulated shares undertaking the put liability have committed to suggest the Company's Board of Directors, after such share reform was completed, to make a long-term incentive plan including share option incentive plan, which shall be implemented by the Board of Directors, or first submitted to the Company's Shareholders' General Meeting for approval and then implemented by the Board of Directors according to the relevant regulations.

VII. Appointment and Dismissal of Accounting Firms

With the resolution of the Company's Annual Shareholders' General Meeting 2004, the Company has appointed KPMG Huazhen Certified Public Accountants and KPMG Certified Public Accountants as the accounting firms respectively for domestic audit and overseas audit in 2005. The expenses for these two audit items (total general expenses including but not limited to business travel expenses, accommodation expenses and communication expenses etc.) were RMB 4.3 million in total. KPMG Huazhen Certified Public Accountants and KPMG Certified Public Accountants have offered an audit service to the Company for five years. The certified public accountants signed in the Company Annual Audit Report 2005 are Ms. Jin Naiwen and Ms. Li Jia in accordance with the requirements of the Regulations on Alternation of Certified Public Accountants' Signatory for Securities and Futures Audit (CSRCA N [2003] No.13).

	2005	2004
Expenses for financial audit	RMB 4.3 million	RMB 3.5 million
Out of pocket expenses excluding financial audit expenses	----	----

VIII. During the reported period, neither the Company, the Board of Directors nor the directors was subject to the CSRC's inspection, administrative penalty, circular comments and criticism, public condemnation from the Stock Exchange, or penalty from any other regulatory authorities or judicial authorities.

Selection XI Financial Statements

KPMG Huazhen Certified Public Accountants and KPMG Certified Public Accountants have audited the Company's annual financial statements 2005 in accordance with domestic and international auditing standards, respectively. The certified public accountants, Ms. Jin Naiwen and Ms. Li Jia, have issued their standard auditing reports without reserved opinions.

Section XII Documents for Inspection

- 1.The original annual report signed by the Directors and Senior Executives of the Company.
- 2.The financial statements signed and sealed by the Legal Representative, President and Head of Accounting Department of the Company.
- 3.The original audit report signed and sealed by the accounting firm and the certified public accountants.
- 4.All original documents and notices disclosed on the newspapers designated by CSRC during the reported period.
- 5.The Articles of Association of China Merchants Bank Co., Ltd.

Section XIII Exhibits

I. Auditors' Report


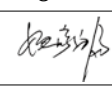



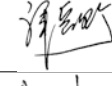
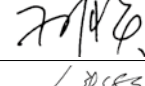
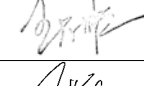
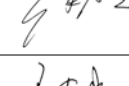
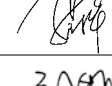


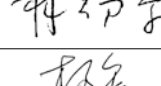
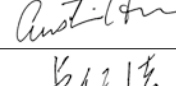





II. Statement of Provision for Asset Impairment of China Merchants Bank Co., Ltd.

Acknowledging Comments of Directors and Senior Executives on Annual Report 2005 of China Merchants Bank Co., Ltd.

In accordance with the relevant regulations and requirements stipulated in the Securities Law and the Standard No. 2 on the Content and Format of Information Disclosure regarding Companies having Public Offering: Content and Format of Annual Report (Revised in 2005), we, as Directors and Senior Executives of China Merchants Bank Co., Ltd., hereby present the following comments upon understanding and reviewing the Company's Annual Report 2005 and its abstract at all aspects:

1. The company has been operated in strict compliance with the relevant enterprise accounting standards, enterprise accounting system as well as accounting regulations for financial institutions. The Company's Annual Report 2005 and its abstract have fairly reflected the company's financial status and operation results in 2005.
2. KPMG Huazhen and KPMG have audited the Company's annual financial & accounting statements 2005 in accordance with domestic and international auditing standards, respectively, and issued their standard auditing reports without reserved opinions.
3. We deem that the Company's Annual Report 2005 and its abstract included no false records, misleading representations or material omissions, and hereby warrant a joint and several responsibility for its authenticity, accuracy and completeness.

The Board Of Directors, China Merchants Bank Co., Ltd.
April 10th 2006

Name	Title	Signature	Name	Title	Signature
Qin Xiao	Chairman of BOD		Wei Jiafu	Vice Chairman of BOD	
Fu Yuning	Director		Li Yinquan	Director	
Huang Dazhan	Director		Tan Yueheng	Director	
Sun Yueying	Director		Wang Daxiong	Director	
Fu Junyuan	Director		Ma Weihua	Director, President	
Chen Wei	Director & Executive Vice President		Wu Jiesi	Independent Director	
Lin Chuxue	Independent Director		Austin Hu Changtau	Independent Director	
Yang Jun	Independent Director		Lu Renfa	Independent Director	
Ding Huiping	Independent Director		Li Hao	Executive Vice President	
Lan Qi	Secretary of BOD				

Auditors' report

KPMG-AH (2006) AR No. 0014

The Shareholders of China Merchants Bank Co., Limited (the "Bank"),

We have audited the Bank's balance sheet as at 31 December 2005, and the related income statement, statement of changes in equity and cash flow statement for the year then ended. The preparation of these financial statements is the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with China's Independent Auditing Standards of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Bank's management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the above-mentioned financial statements comply with the requirements of the Accounting Standards for Business Enterprises and the Accounting Regulations for Financial Institutions issued by the Ministry of Finance of the People's Republic of China and present fairly, in all material respects, the financial position of the Bank as at 31 December 2005, and the results of operations and cash flows of the Bank for the year then ended.

KPMG Huazhen

Certified Public Accountants
Registered in the People's
Republic of China

8/F Office Tower E2
Oriental Plaza
No. 1, East Chang An Avenue
Beijing, The People's Republic of China
Post code 100738

Jin Naiwen

Li Jia

10 April 2006

Balance sheet as at 31 December 2005

(Expressed in thousands of Renminbi unless otherwise stated)

ASSETS	Note	2005	2004
Current assets			
Cash	7	3,899,528	3,924,454
Balances with central bank	8	62,101,886	54,986,875
Balances with banks and other financial institutions	9	18,576,302	11,429,815
Placements with banks and other financial institutions	10	22,708,285	15,797,310
Short-term loans	11	204,229,615	193,387,400
Trade bills	12	12,215,497	8,086,945
Interest receivable	13	1,924,612	1,668,729
Other receivables	14	672,408	628,315
Discounted bills	15	99,526,919	60,885,590
Short-term investments	16	40,640,277	30,111,199
Amounts held under resale agreements	17	24,274,400	13,022,216
Long-term debt investments maturing within one year	18	13,786,760	13,763,016
Total current assets		504,556,489	407,691,864
Long-term assets			
Medium and long-term loans	19	145,839,238	102,200,025
Overdue loans	20	10,373,735	9,457,098
Less: Provision for loan losses	22	-13,510,329	-10,920,000
Long-term debt investments	23	76,893,870	68,897,024
Long-term equity investments	24	146,353	143,464
Fixed assets, at cost	25	9,298,250	8,582,476
Less: Accumulated depreciation	25	-3,691,016	-3,026,066
Fixed assets, at net book value	25	5,607,234	5,556,410
Construction in progress	26	1,121,045	809,446
Total long-term assets		226,471,146	176,143,467
Other assets			
Long-term deferred expenses	27	83,793	91,245
Repossessed assets	28	579,602	677,657
Total other assets		663,395	768,902
Deferred taxation			
Deferred tax assets	29	2,292,000	1,970,00
Total assets		733,983,030	586,574,233

The notes form part of these financial statements.

Balance sheet as at 31 December 2005

(Expressed in thousands of Renminbi unless otherwise stated)

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	2005	2004
Current liabilities			
Short-term deposits	30	293,053,802	248,211,330
Short-term savings deposits	31	224,093,755	173,454,001
Structured deposits	32	13,367,005	9,806,673
Fiscal deposits		8,224,729	6,183,983
Rediscounted bills	33	107,931	2,831,718
Deposits from banks and other financial institutions	34	39,673,505	25,053,158
Placements from banks and other financial institutions	35	424,219	1,506,311
Amounts sold under repurchase agreements	36	3,041,930	3,605,121
Outward remittances		2,185,799	2,950,145
Inward remittances		2,195,316	2,419,887
Interest payable	37	2,705,110	2,012,037
Pledged deposits	38	61,405,497	46,201,735
Salaries payable		1,180,598	949,031
Accrued welfare expenses		821,317	606,858
Tax payable	39	3,290,411	2,465,677
Accrued expenses		72,454	56,950
Dividends payable		21,515	10,530
Other liabilities	40	2,995,317	2,768,223
Total current liabilities		658,860,210	531,093,368
Long-term liabilities			
Long-term deposits		10,447,469	8,121,242
Long-term savings deposits		19,430,180	15,237,198
Certificates of deposit issued	41(a)	1,210,530	1,241,475
Convertible bonds issued	41(b)	5,864,095	6,500,000
Subordinated notes issued	41(c)	3,500,000	3,500,000
Other debts issued	41(d)	10,000,000	-
Total long-term liabilities		50,452,274	34,599,915
Total liabilities		709,312,484	565,693,283
Shareholders' equity			
Paid-in capital	42	10,374,344	6,848,182
Capital reserve	43	5,214,734	8,128,383
Surplus reserve	44	2,377,162	1,591,086
Regulatory general reserve	3(u)	3,000,000	-
Retained profits		3,704,306	4,313,299
Of which: proposed dividends		829,948	753,300
Total shareholders' equity		24,670,546	20,880,950
Total liabilities and shareholders' equity		733,983,030	586,574,233

The notes form part of these financial statements.

Qin Xiao	Ma Weihua	Chen Wei	Fan Xiangyan	(Company Stamp)
Legal Representative	President	Vice President	Chief Accountant	

Date: 10 April 2006

Income statement for the year ended 31 December 2005

(Expressed in thousands of Renminbi unless otherwise stated)

ASSETS	Note	2005	2004
Operating income		25,058,648	19,916,459
Interest income	45	20,814,002	16,781,562
Interest income on balances and placements with financial institutions	46	1,838,111	1,543,902
Fee and commission income		1,855,993	1,186,786
Foreign exchange gains		550,542	404,209
Operating expenses		9,370,021	7,116,021
Interest expense	47	7,963,648	5,261,852
Interest expense on deposits and placements from financial institutions	48	1,076,057	1,493,383
Fee and commission expense		288,945	298,100
Foreign exchange losses		41,371	62,686
General and administrative expenses		7,908,583	6,514,204
Investment income	49	3,387,498	2,578,358
Business taxes and surcharges	50	1,218,809	976,564
Operating profit		9,948,733	7,888,028
Add: Non-operating income		115,519	105,244
Less: Non-operating expenses		37,928	22,624
Profit before provisions for losses and impairment		10,026,324	7,970,648
Less: Provisions for losses and impairment	51	3,392,787	2,958,426
Profit after provisions for losses and impairment		6,633,537	5,012,222
Less: Income tax	52	2,703,154	1,868,135
Net profit		3,930,383	3,144,087
Earnings per share			
Fully diluted	53	0.38	0.31
Weighted average	53	0.38	0.31
Return on net assets			
Fully diluted	53	15.93%	15.06%
Weighted average	53	17.51%	16.10%

The notes form part of these financial statements.

Qin Xiao	Ma Weihua	Chen Wei	Fan Xiangyan	(Company Stamp)
Legal Representative	President	Vice President	Chief Accountant	

Date: 10 April 2006

Statement of changes in shareholders' equity for the year ended 31 December 2005

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	Paid-in capital	Capital reserve	Surplus reserve	Regulatory general reserve	Retained profits	Of which: proposed dividends	Total
At 1 January 2005		6,848,182	8,128,383	1,591,086	-	4,313,299	753,300	20,880,950
Net profit for the year		-	-	-	-	3,930,383	-	3,930,383
Dividends declared for the year 2004	4(b)	-	-	-	-	-753,300	-753,300	-753,300
Appropriation to regulatory general reserve		-	-	-	3,000,000	-3,000,000	-	-
Capital reserve transferred to share capital		3,424,122	-3,424,122	-	-	-	-	-
Convertible bonds converted to share capital and capital reserve		102,040	548,518	-	-	-	-	650,558
Differences arising from translation of foreign currency capital			-38,045	-	-	-	-	-38,045
Appropriations to statutory surplus reserve and statutory welfare fund for the year 2005	4(a)	-	-	786,076	-	-786,076	-	-
Proposed dividends for the year 2005	4(a)	-	-	-	-	-	829,948	-
At 31 December 2005		10,374,344	5,214,734	2,377,162	3,000,000	3,704,306	829,948	24,670,546
At 1 January 2004		5,706,818	9,269,295	962,268	-	2,323,057	525,027	18,261,438
Net profit for the year		-	-	-	-	3,144,087	-	3,144,087
Dividends declared for the year 2003		-	-	-	-	-525,027	-525,027	-525,027
Capital reserve transferred to share capital		1,141,364	-1,141,364	-	-	-	-	-
Differences arising from translation of foreign currency capita		-	452	-	-	-	-	452
Appropriations to statutory surplus reserve and statutory welfare fund for the year 2004	4(b)	-	-	628,818	-	-628,818	-	-
Proposed dividends for the year 2004	4(b)	-	-	-	-	-	753,300	-
At 31 December 2004		6,848,182	8,128,383	1,591,086	-	4,313,299	753,300	20,880,950

The notes form part of these financial statements.

Qin Xiao	Ma Weihua	Chen Wei	Fan Xiangyan	(Company Stamp)
Legal Representative	President	Vice President	Chief Accountant	

Date: 10 April 2006

Cash flow statement for the year ended 31 December 2005

(Expressed in thousands of Renminbi unless otherwise stated)

Notes to the cash flow statement	2005
Cash flows from operating activities	
Repayment of medium and long-term loans	51,154,117
Net amount of current deposits taken	47,547,801
Non-current deposits taken	91,358,485
Original maturity over 3 months:	
Net balances with banks and other financial institutions	8,808,149
Net placements with other financial institutions	26,146
Interest received	22,506,912
Fee and commission income received	1,855,993
Recoveries of loans written off in prior years	83,959
Cash received from other operating activities	1,179,488
Sub-total of cash inflows	224,521,050
Medium and long-term loans drawn	94,793,330
Net amount of short-term loans drawn	55,351,695
Withdrawal of non-current deposits	17,088,928
Statutory deposit reserve funds with central bank	7,367,314
Net balances from central bank and takings from financial institutions	4,369,070
Interest paid	8,075,203
Fee and commission expense paid	288,945
Cash paid to and on behalf of employees	3,795,151
Income tax paid	2,405,453
Payment of taxes other than income tax	1,070,009
Cash paid for other operating activities	2,621,875
Sub-total of cash outflows	197,226,973
Net cash inflow from operating activities	27,294,077
(1)	

The notes form part of these financial statements.

Cash flow statement for the year ended 31 December 2005(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

Notes to the cash flow statement	2005
Cash flows from investing activities	
Cash received from redemption/disposal of debt investments	113,997,443
Cash received from interest on debt securities	3,273,927
Cash received from disposal of fixed assets and other assets	43,663
Sub-total of cash inflows	117,315,033
Cash paid for purchase of fixed assets and other assets	1,256,022
Cash paid for purchase of investments in debt securities	132,114,429
Sub-total of cash outflows	133,370,451
Net cash outflow of investing activities	-16,055,418
Cash flows from financing activities	
Cash received from other debts issued	10,000,000
Sub-total of cash inflows	10,000,000
Expenses on other debts issued	18,620
Dividends paid and profits distributed	742,315
Interest paid on long-term debts issued	256,776
Sub-total of cash outflows	1,017,711
Net cash inflow from financing activities	8,982,289
Effect of foreign exchange rate changes on cash	-448,145
Net increase in cash and cash equivalents	(3) 19,772,803

The notes form part of these financial statements.

Cash flow statement for the year ended 31 December 2005(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

Notes to the cash flow statement	2005
(1) Reconciliation of net profit to cash flows from operating activities:	
Net profit	3,930,383
Adjustments: Provision for impairment on other assets	-54
Provision against doubtful deposits and placements with banks and other financial institutions	61,851
Net provision for loan losses	3,330,990
Depreciation of fixed assets	853,828
Amortisation of long-term deferred expenses	21,125
Investment income	-3,387,498
Net gain on disposal of fixed assets and other assets	-3,892
Increase in operating receivables	-109,548,024
Increase in operating payables	132,035,368
Net cash inflow from operating activities	27,294,077
(2) Cash and cash equivalents include:	
Cash	3,899,528
Cash equivalents with original maturity within 3 months:	
- Balances with central bank	22,992,876
- Balances with banks and other financial institutions	10,481,370
- Placements with banks and other financial institutions	18,425,883
- Amounts held under resale agreements	19,973,592
- Short-term debt investments	5,701,430
	77,575,151
Total cash and cash equivalents	81,474,679
(3) Net increase in cash and cash equivalents:	
Cash at the end of the year	3,899,528
Less: Cash at the beginning of the year	-3,924,454
Cash equivalents at the end of the year	77,575,151
Less: Cash equivalents at the beginning of the year	-57,777,422
Net increase in cash and cash equivalents	19,772,803

The notes form part of these financial statements.

Qin Xiao	Ma Weihua	Chen Wei	Fan Xiangyan	(Company Stamp)
Legal Representative	President	Vice President	Chief Accountant	

Date: 10 April 2006

Notes to the financial statements

(Expressed in thousands of Renminbi unless otherwise stated)

1 Company status

China Merchants Bank Co., Limited (the “Bank”) is a commercial bank established by China Merchants Steam Navigation Company Limited in the Shenzhen China Merchants Shekou Industrial Zone on 31 March 1987, as approved by the People’s Bank of China (the “PBOC”) (Yin Fu [1986] No. 175 and Yin Fu [1987] No. 86). The Bank had a registered capital of RMB100 million, and obtained a business licence (She Qi Zi No. 0345) and an approval certificate for financial institutions (Yin Zheng Zi No. 0497).

With the PBOC’s approval ([1989] No. 12), the Bank’s capital increased by contributions from six new investors in 1989. The registered capital and paid-in capital increased to RMB400 million. A new business licence (She Qi Zi No. 0025) and an approval certificate for financial institutions (Yin Jin Guan Zi No. 9-0006) were obtained.

In 1994, the Bank obtained an approval from the Economic Restructuring Office of Shenzhen’s Municipal Government (Shen Gai Fu [1993] No. 73) and Shenzhen Securities Regulatory Office (Shen Zheng Ban Fu [1994] No. 90, 132 and 133) to undertake a capital restructure, and to adjust the amount of new issued shares and the capital structure. After the restructuring, the Bank’s capital was RMB1.123 billion and a revised business licence (Ref. No. 1000001001686 (4-4)) was obtained.

In 1996, with the PBOC’s approval (Yin Fu [1996] No. 93) on the Bank’s capitalisation of capital reserve, the Bank’s registered capital increased to RMB2.807 billion and its business licence was revised (Ref. No. 1000001686-X).

In 1998, the Bank increased its share capital by RMB1.4 billion after obtaining the PBOC’s approval (Yin Fu [1998] No. 173). Shares were issued in 1999 and the Bank’s registered capital increased to RMB4.207 billion. A revised approval certificate for financial institutions (Ref. No. 11115840001) and a business licence (Ref. No. 1000001001686) was obtained.

During the period from 19 March 2002 to 1 April 2002, with the approval from the China Securities Regulatory Commission (the “CSRC”) (Zheng Jian Fa Xing Zi [2002] No. 33), the Bank issued 1.5 billion ordinary A shares at RMB7.30 each, with a

par value of RMB1 each. The net proceeds after deducting issuing expenses and interest income were RMB10.769 billion. These shares have been traded on the Shanghai Stock Exchange since 9 April 2002. On 2 April 2002, the Bank’s registered capital changed to RMB5.707 billion.

In 2004, with the approval from the China Banking Regulatory Commission (the “CBRC”) (Yin Jian Fu [2004] No. 106), the Bank’s registered capital increased by RMB1.141 billion, from RMB5.707 billion to RMB6.848 billion.

In 2005, with the CBRC’s approval (Yin Jian Fu [2005] No. 331), the Bank’s registered capital increased by RMB3.424 billion from RMB6.848 billion to RMB10.272 billion.

As at 31 December 2005, apart from the head office, the Bank had branches in Shenzhen, Shanghai, Beijing, Shenyang, Nanjing, Guangzhou, Wuhan, Lanzhou, Xi’an, Chengdu, Chongqing, Hangzhou, Fuzhou, Jinan, Tianjin, Dalian, Urumqi, Kunming, Hefei, Zhengzhou, Harbin, Nanchang, Changsha, Xiamen, Ningbo, Wenzhou, Wuxi, Suzhou, Hong Kong, Qingdao, Dongguan, Shaoxing, Yantai, Quanzhou, Changzhou and Foshan. In addition, the Bank has two representative offices in Beijing and New York.

The Bank provides the following services:

(1) deposits taking; provision of short-term, medium-term and long-term loans; clearing services; bills discounting; financial debt securities issuing; acting as issuing agent, redemption intermediary and underwriter for government bonds; purchase and sale of government bonds; inter-bank borrowings; provision of letter of credit and guarantee services; provision of collection and payment of funds and insurance agent services; provision of safety deposit box services;

(2) foreign currency deposits taking; provision of foreign currency loans; foreign currency remittance services; foreign currency exchange, international clearing services, inter-bank foreign currency borrowings, acceptance and bills discounting in foreign currency, foreign currency guarantees, issuance and dealings in foreign currency marketable securities other than shares, proprietary and customer-driven foreign currency

Notes to the financial statements(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

dealings, provision of credit, advisory and certifying services; off-shore financial services; and- (3) other businesses approved by the PBOC and the CBRC.

2 Basis of preparation

The principal accounting policies adopted by the Bank are in conformity with the Accounting Standards for Business Enterprises, the Accounting Regulations for Financial Institutions and other relevant regulations issued by the Ministry of Finance (the “MOF”) of the People’s Republic of China (the “PRC”) (collectively named as “PRC Accounting Standards”). For the reconciliation of differences between the financial statements prepared under PRC Accounting Standards and International Financial Reporting Standards (“IFRSs”) applicable to the Bank, please refer to note 69 to these financial statements.

3 Significant accounting policies

(a) Accounting year

The accounting year of the Bank is from 1 January to 31 December.

(b) Reporting currency

The Bank’s reporting currency is Renminbi (“RMB”).

(c) Basic of preparation and measurement basis

The financial statements of the Bank have been prepared on an accruals basis. Unless otherwise stated, the measurement basis used is historical cost.

(d) Translation of foreign currencies

The Bank’s foreign currency transactions are recorded in multi-currency ledgers. The Bank’s business operations denominated in different currencies are recorded in separate accounts according to the original currency and are translated into RMB equivalents at the balance sheet date. For the purpose of preparing financial statements in RMB at the balance sheet date, foreign currency transactions are translated into United States dollar and then into RMB, and consolidated with relevant balances in RMB.

All balance sheet items denominated in foreign currencies, other than shareholders’ equity, are translated into RMB at the exchange rates ruling at the balance sheet date. Shareholders’ equity denominated in foreign currencies is translated into RMB at the historical exchange rates. The resulting exchange differences are dealt with as a movement in capital reserve. The income statement is translated into RMB at the exchange rates ruling at the balance sheet date.

The Bank adopts the exchange rates published by the PBOC and other recognised exchange rates.

(e) Cash equivalents

Cash equivalents comprise balances with banks and the PBOC, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(f) Basis of preparation of the Bank’s financial statements

The Bank’s financial statements are prepared based on the individual financial statements of various units including the head office, branches, special business units and representative offices, with material internal transactions and balances eliminated on combination.

For subsidiaries with total assets and operating results considered as insignificant to the Bank’s financial statements, the financial statements of which have not been consolidated with the Bank but are equity accounted for as long-term equity investments.

(g) Accounting for bad debts

Bad debts are recognised when the receivables cannot be recovered either through the repossession of the estate of a deceased debtor or the liquidated assets of a bankrupt debtor, or when the receivables are overdue and show signs of uncollectibility.

Losses resulting from bad debts are accounted for through provisioning. Bad debt losses are estimated and identified individually. For receivables which show signs of uncollectibility, specific provision is made according to

Notes to the financial statements(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

their recoverability.

(h) Loans, provision for loan losses and write-off of loans

(i) Loan classification

–Short-term, medium and long-term loans: the Bank classifies loans according to the original maturity. Loans with original maturity within one year are classified as short-term loans, and those with original maturity after one year are classified as medium and long-term loans.

–Overdue loans: loans unsettled on due dates (including rescheduled loans); or advances resulting from discounted bills or bill acceptances with insufficient collateralised deposits and remain unsettled on due dates; or overdue import and export bills; or advances made for off-balance sheet items such as letters of credit and guarantees, are regarded as overdue loans.

–Discounted bills: bank acceptance bills or commercial acceptance bills discounted by the Bank for customers or other financial institutions or bills rediscounted with the central bank.

(ii) Accrual and non-accrual loans

Loans are classified as non-accrual loans when the principal or interest is overdue for more than 90 days and the related interest is recorded off-book. Amounts received subsequently will first be offset against outstanding loan principals and are recognised as interest income when the loan principal is fully recovered. Loans were classified as accrual loans before they are transferred to non-accrual loans.

(iii) Loans are stated at amounts actually drawn. Discounted bills are stated at the face value. Interest income on discounted bills is recognised on an accruals basis based on funds provided and at an applicable interest rate over the term of the bills. At the balance sheet date, the face value of discounted bills and the relevant unrealised interest income are shown on the balance sheet separately.

(iv) Provisions for loan losses are accounted for through provisioning. The loan provision covers short-term loans, import and export bills, discounted bills (excluding bills rediscounted by banks), medium and long-term loans, as well as overdue loans. The Bank has set aside provisions for loan losses in accordance with the “Administrative Measures on Provisioning for Doubtful Debts by Financial Institutions” (Cai Jin [2005] No. 49) issued by the MOF and the “Accounting Regulations for Financial Institutions”.

In accordance with the “Guidelines on Risk-Based Loan Classification” (Yin Fa [2001] No. 416) issued by the PBOC, the Bank classifies its loans into five categories: pass, special-mention, substandard, doubtful and loss. For loans in the pass category, borrowers can honour the terms of the contracts, and there is no reason to doubt their ability to repay principal and interest in full and on a timely basis; for special-mention loans, borrowers are still able to service the loans currently, but there are factors which may affect the principal repayment; for substandard loans, borrowers’ ability to service loan repayment is apparently in question, their normal business might not be relied upon to generate sufficient income to repay the principal and interest in full and losses might incur even when guarantees are executed; for doubtful loans, borrowers cannot repay principal and interest in full and significant losses will incur even when guarantees are executed; for loans in the loss category, principal and interest cannot be recovered or only a small portion can be recovered after taking all possible measures and necessary legal proceedings.

When there is objective evidence that a loan is impaired, provisions for loan losses including specific provision, general provision for non-individually identified losses and special provisions for sovereignty risk, geographic risk or industry risk, are made based on the estimated losses. At each year end, the Bank will assess the recoverability of each type of loans and estimates the amount of potential losses. The amount of provision for loan losses

Notes to the financial statements(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

is the difference between the carrying amount and the estimated recoverable amount. In arriving at the provision for loan losses, factors such as the loan's risk grading, the borrowers' repayment ability and willingness to repay, repayment record of principal and interest, the market value of the collateral and the support from guarantors are considered to determine the overall risk and recoverability and to ensure any impairment loss is provided adequately. When borrowers or guarantors fail to repay the loan principal and interest, and use the collaterals to settle the debts, the respective loan principal together with the recognised interest are transferred to repossessed assets with the corresponding loan losses provision transferred to provision for impairment on repossessed assets at the same time.

When a loan is still uncollectible after the Bank has completed all the necessary legal procedures, the loan is written off against the provision for loan losses with the approval of management. If the loan written off is recovered subsequently, the amount recovered is written back to the income statement.

(i) Entrusted business

The Bank undertakes entrusted business, including entrusted loans and entrusted investments.

Entrusted loans are funded by entrusted deposits and are granted to designated borrowers for specific purposes at terms specified by entrustors.

The Bank is responsible for managing entrusted loans. Entrusted investments are funded by entrusted deposits, and investment decisions are made by the Bank in accordance with the scope defined by the entrustors. Entrusted loans and entrusted investments are shown at their granted or invested amounts.

The risks, gains or losses and responsibilities of all entrusted business are borne by entrustors and the Bank only receives handling fees.

(j) Accounting for investments

(i) Short-term investments

Short-term investments are stated at acquisition costs.

They are stated at the lower of the cost and market value at the balance sheet date. Should the market value be lower than the cost, the difference will be recognised as provision for diminution in value in the income statement. The profit or loss on disposal is the difference between the carrying amount and the net disposal proceeds of the investments and is accounted for in the income statement as it arises.

(ii) Long-term equity investments

Where the Bank has the power to control, jointly control or exercise significant influence over an investee enterprise, the investment is accounted for under the equity method of accounting and is initially recorded at cost and subsequently adjusted based on its percentage share of the owners' equity.

Where the Bank does not control, jointly control or exercise significant influence over an investee enterprise, the investment is accounted for under the cost method, stating it at the initial investment cost. Investment income is recognised in the income statement when the investee enterprise declares a cash dividend or distributes profits.

Upon the disposal of long-term equity investments, the difference between the proceeds received and the carrying amount of the investments is recognised in the income statement.

(iii) Long-term debt investments

Long-term debt investments are stated at acquisition costs. Where long-term debt investments have been purchased at a premium or discount, those premiums and discounts are amortised through the income statement over the period from the date of acquisition to the date of maturity.

Profits or losses on disposal of long-term debt investments are determined as the difference between the net disposal proceeds and the carrying amount of the long-term debt investments and is recognised in the income statement.

(iv) Provision for impairment losses on long-term investments

The Bank reviews the carrying amount of long-term

Notes to the financial statements(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

investments regularly to determine whether the recoverable amount has declined below the carrying amount. Where changes in events or circumstances indicate that the carrying amount may not be recovered, impairment tests will be performed on long-term investments. If an impairment exists, the carrying amount will be reduced to the recoverable amount and the difference will be accounted for as an impairment loss on assets. The Bank measures impairment losses of long-term investments on an individual basis and such losses are dealt with in the income statement.

(k) Accounting for fixed assets

Fixed assets are stated at acquisition costs. All direct and indirect costs that are related to the acquisition or construction of fixed assets and incurred before the assets are ready for their intended use are capitalised as fixed assets.

Depreciation is calculated to write off the costs of fixed assets over their estimated useful lives, after taking into account an estimated residual value at 3% of the cost of each asset, on a straight-line basis. The respective estimated useful lives and estimated depreciation rates for fixed assets are as follows:

Category	Useful life	Annual depreciation rate
Buildings	20 years	4.85%
Computer equipment	5 years	19.4%
Motor vehicles and other equipment	5 years	19.4%

Fixed assets are stated at the lower of their carrying amount and recoverable amount at the balance sheet date. Should the recoverable amount be lower than the carrying amount due to obsolescence, damage or idleness, provision for impairment on fixed assets will be made for individual asset.

Subsequent expenditure relating to a fixed asset is capitalised only when future economic benefits flow to the Bank are higher than originally expected. However,

the amount capitalised should not exceed the recoverable amount of the relevant fixed asset. Other subsequent expenses on fixed assets are recognised in the income statement as expenses when incurred.

(l) Accounting for construction in progress

Construction in progress is stated at cost less provision for impairment loss. The amount of construction in progress to be capitalised includes all direct and indirect costs incurred to bring the project to its expected usage, these include the borrowing costs and related exchange difference on specific loans borrowed for construction. Construction in progress is transferred to fixed assets when it is ready for its intended use.

At each period end, provision is made for impairment of construction in progress based on the difference between the estimated recoverable amounts and carrying amounts if any of the following circumstances exist:

- (i) the project has been suspended for a considerable period of time and is expected to remain so for the coming 3 years;
 - (ii) the functions of or the technology involved in the project is considered outdated and the economic benefit to the Bank is uncertain; and
- any other indication of impairment exists for the construction in progress.

(m) Long-term deferred expenses

Long-term deferred expenses represent expenses already incurred but will be amortised over a period of more than one year (excluding those of one year). They are recorded at the amounts incurred and amortised as follows:

Prepaid operating lease charges are amortised on a straight-line basis over the terms of the respective leases. Other capital expenditure is amortised on a straight-line basis over their respective useful lives.

For other long-term deferred expenses which are unlikely to generate economic benefits in subsequent periods, the unamortised balances will be charged to the income statement.

(n) Accounting for repossessed assets

Notes to the financial statements(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

- (i) Repossessed assets are assets effectively controlled or taken by the Bank through debt restructuring process and the Bank can legally realise the properties through auction, transfer or other means.
- (ii) The costs of repossessed assets are recorded at the value of recovered loan principal and the related interest income. The corresponding loan provisions are transferred to provisions for impairment losses on repossessed assets.
- (iii) Provisions for impairment losses on repossessed assets. The assets are stated at the lower of the carrying value and recoverable amount at each period end. Should the recoverable amount be lower than the carrying value, the difference should be recorded as provisions for impairment losses.
- (iv) Disposal of repossessed assets
If the proceeds received from the disposal of repossessed assets exceed the corresponding carrying value, the difference will be recognised as non-operating income. If the amount falls short of the carrying value, the difference will be recognised as non-operating expenses.
- (o) Accounting for amounts held under repurchase or resale agreements**
Amounts held under resale agreements are stated at transaction amount less provisions for bad debts whereas amounts held under repurchase agreements are stated at transaction amount. The interest income and expense from such transactions are recognised on an accruals basis.
- (p) Debts issued**
- (i) Recognition and measurement
Debts issued are recognised as liabilities at their actual issuance amounts. The difference between the issued amount and the face value is treated as the discount or premium of the debts, and is amortised on a straight-line basis over the terms of the debts.
Interest expense on debts issued is accrued based on the coupon rate. Interest expense together with the amortisation of discount or premium and issuance costs are charged to the income statement as finance costs when incurred.
- (ii) Convertible bonds
On conversion of convertible bonds issued, the amount of shares issued is recognised as share capital. The difference between the book value of the bonds converted and the par value of the shares is accounted for in the capital reserve.
The amount of interest payable on redemption is accrued from the issue date to the maturity date of the bonds.
- (q) Income recognition**
Revenue is recognised in the income statement as follows:
- (i) Interest income
–Interest income on loans is accrued on a time-apportioned basis with reference to the principal outstanding and the interest rates applicable. For loans overdue of more than 90 days (including rescheduled loans), interest ceases to be accrued and the interest income should be reversed in the income statement. Such interest receivable will be recorded as an off-balance sheet item until it is received or written off. Amount received subsequently will first be offset against the loan principal. When the loan principal is fully recovered, the excess amount will be recognised in the income statement:
–For discounted bills, interest income is recognised on an accruals basis based on funds provided and at an applicable interest rate over the discounting period; and
–Other interest income is recognised on an accruals basis.
- (ii) Short-term investment income
Cash dividends and interest income on short-term investments will be deducted from the carrying value of the related investments when received, except for amounts already recognised as dividends receivable and interest receivable.
Other income
Other income is recognised on an accruals basis.
- (r) Expenses recognition**

Notes to the financial statements(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

Expenses are recognised on an accruals basis.

(s) Derivative financial instruments

The Bank's derivative financial instruments include spots, forward and foreign currency swaps, interest rate swaps and option contracts undertaken in response to customers' needs or for the Bank's own asset and liability management purposes. To hedge against risks arising from derivative transactions undertaken for customers, the Bank enters into similar derivative contracts with banks and other financial institutions which are approved by the PBOC to conduct derivative business.

Derivative financial derivatives are stated at fair value, with gains and losses arising recognised in the income statement.

(t) Income tax

Income tax is calculated using the tax effect accounting method. It includes current tax and deferred tax.

Income tax charged is calculated at the applicable income tax rate on taxable income.

Deferred taxation is provided using the liability method for the differences between the accounting profits and the taxable profits arising from the timing differences in recognising income, expenses or losses between the accounting and tax regulations. When the tax rate changes or a new type of tax is levied, adjustments are made to the amounts originally recognised for the timing differences under the liability method. The current tax rates are used in arriving at the reversal amounts when the timing differences are reversed.

Deferred tax assets arising from tax losses, which are expected to be utilised against future taxable profits, are set off against the deferred tax liabilities (only for the same taxpayer within the same jurisdiction). When it is not probable that the tax benefits of deferred tax assets will be realised, the deferred tax assets are reduced to the extent that the related tax benefits are expected to be realised.

(u) Regulatory general reserve

Pursuant to the "Administrative Measures on Provisioning for Doubtful Debts by Financial Institutions" (Cai Jin [2005]

No. 49) issued by the MOF on 17 May 2005 and other related rules, the Bank in 2005 has set up a regulatory general reserve calculated as a percentage of the total risk assets at the balance sheet date, through appropriation of profit after tax, to cover their potential losses that are not yet identified. The general reserve forms part of the shareholders' equity of the Bank.

(v) Dividends appropriation

Cash dividends are appropriated from retained profits upon the declaration of distribution. Cash dividends proposed or declared after the balance sheet date but before the approval of the financial statements are disclosed on the face of the balance sheet as a separate component under the shareholders' equity.

(w) Related parties

Parties are considered to be related to the Bank if the Bank has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decision, or vice versa, or where the Bank and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(x) Recently issued accounting regulations

The MOF has issued the "Provisional Regulations (Trial) on the Recognition and Measurement of Financial Instruments" (Cai Kuai [2005] No. 14) on 25 August 2005. Such regulations will be implemented on commercial banks listed and proposed to be listed on a trial basis with effect from 1 January 2006. The Bank has commenced assessment of the effect of the adoption of these recently issued accounting regulations.

4 Profit appropriations

In accordance with the "Questions and Answers on the Preparation of Information Disclosures of Companies Offering Public Shares No. 4 – Differences between Domestic and Overseas Audits and Profit Appropriation Criteria for Financial Institutions" (Zheng Jian Kuai Ji Zi [2001] No. 58), listed financial institutions are required to appropriate the statutory surplus reserve and the

Notes to the financial statements(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

statutory public welfare fund based on the audited net profit calculated under PRC Accounting Standards, whilst the discretionary surplus reserve and dividends should be appropriated based on the lower of the distributable profit calculated under PRC Accounting Standards and IFRSs.

- (a) The Bank's audited net profit of 2005 calculated under PRC Accounting Standards is RMB3.93 billion while the audited net profit calculated under IFRSs is RMB3.75 billion (see note 69). As a result, the statutory surplus reserve and the statutory public welfare fund should be determined with reference to the audited net profit calculated under PRC Accounting Standards, and the discretionary surplus reserve and dividends should be determined with reference to the audited net profit calculated under IFRSs.

The proposed appropriation plan for the net profit of 2005 is as follows:

	Proportion	Amount appropriated
Statutory surplus reserve	10%	393,038
Statutory public welfare fund	10%	393,038
Dividends (RMB0.8 for every 10 shares held)		829,948
Total		1,616,024

The above appropriation plan has been passed at the twenty-fourth meeting of the sixth board of directors on 10 April 2006 and will be submitted to the 2005 annual general meeting for approval.

- (b) The Bank's audited net profit of 2004 calculated under PRC Accounting Standards was RMB3.14 billion while the audited net profit calculated under IFRSs was RMB3.28 billion (see note 69). As a result, the statutory surplus reserve, the statutory public welfare fund, the discretionary surplus reserve and dividends should all be determined with reference to the audited net profit calculated under PRC Accounting Standards.

The appropriation plan for the net profit of 2004 is as follows:

	Proportion	Amount appropriated
Statutory surplus reserve	10%	314,409
Statutory public welfare fund	10%	314,409
Dividends (RMB1.10 for every 10 shares held)		753,300
Total		1,382,118

The above appropriation plan was passed on the eighth meeting of the sixth board of directors on 29 March 2005 and the annual general meeting held on 17 May 2005. During the year, the Bank distributed RMB753 million as dividends from the net profit of 2004, and 5 bonus shares were issued for every 10 shares held through the capitalisation of capital reserve (see note 42(h)).

5 Taxation

Types of tax and tax rates applicable to the Bank are as follows:

(a) Business taxes

In accordance with the "Notice on the Reduction of the Business Tax Rates Applicable to the Financial and Insurance Industry" (Cai Shui [2001] No. 21), business tax is charged at 5% of the operating income less interest income from deposits with other financial institutions, investment income and income derived from offshore business activities.

On 25 April 1997, the Shenzhen Municipal Tax Bureau confirmed (Shen Di Shui Fa No. 192) that in accordance with Article 7 of the "Implementation Rules on the Provisional Regulations for Business Tax", no business tax would be levied on the income derived from the Bank's offshore financial business activities.

(b) City construction tax

City construction tax is calculated at 1% to 7% of the business tax.

(c) Education surcharge

Education surcharge is calculated at 3% of the business tax.

(d) Income tax

Notes to the financial statements(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

Onshore: The income tax rate applicable to offshore business activities is 10%. For business income other than offshore financial business income, the applicable tax rates in special economic zones (“SEZs”) and non-SEZs are 15% and 33% respectively.

Offshore: Taxation on offshore branches is charged at the prevailing tax rates of the relevant jurisdictions.

(e) Relevant approvals are summarised as follows:

(i) In accordance with Article 6 of the “Administrative Measures (Trial) for the Collection of Income Tax on Offshore Financial Business Activities Conducted by Enterprises within the Shenzhen Special Economic Zone”, the applicable tax rate is 10% for taxable net income arising from off-shore financial business activities, which is determined with reference to the prevailing income tax regulations and “Provisional Regulations on the Calculation of Income Tax on Enterprises within the Shenzhen Special Economic Zone”. The tax rate has been effective since 31 July 1989.

In accordance with documents issued by the State Administration of Taxation (“SAT”) (Guo Shui Fa [2001] No. 13 and Guo Shui Han [2004] No. 1113), income tax of the Bank is calculated on a consolidation basis, administered locally and settled centrally at the head office. At present, the Bank does not prepay income tax locally.

Notes to the financial statements(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

6 Controlled subsidiary

As at 31 December 2005, the Bank's had the following subsidiary:

Company name	Registered address	Registered capital	Percentage of holding	Principal activity	Form of business structure	Legal representative
China Merchants Bank International Capital Company Limited ("CMBIC")	Hong Kong	HK\$50 million	100%	Financial consultancy	Limited company	Ma Weihua

CMBIC, previously known as Jiangnan Finance Company Limited, is solely owned and managed by the Bank as approved by the PBOC (Yin Fu [1998] No. 405). With the PBOC's approval (Yin Fu [2002] No. 30), the name of the company changed to China Merchants Bank International Capital Company Limited on 22 February 2002.

As the total assets and operating results of CMBIC were considered insignificant to the Bank's consolidated financial statements, its financial results were not consolidated but were equity accounted for under long-term equity investments.

7 Cash

	2005	2004
Cash on hand	3,834,774	3,644,110
Cash in transit	64,754	280,344
Total	3,899,528	3,924,454

8 Balances with central bank

Balances with central bank includes RMB39.1 billion (2004: RMB31.7 billion) statutory deposit reserve funds as required by the PBOC for the Bank's deposits. The statutory deposit reserve funds are not available for the Bank's daily operation. The statutory deposit reserve funds are calculated at 7.5% and 3% for eligible Renminbi deposits and foreign currency deposits respectively (2004: 7.5% for eligible Renminbi deposits and 2% for eligible foreign currency deposits).

Deposits include deposits from government authorities and other organisations, fiscal deposits (other than budgets), retail deposits, corporate deposits, net credit balances of entrusted business and other deposits.

9 Balances with banks and other financial institutions

	2005	2004
Balances with onshore banks	15,921,515	3,872,608
Balances with offshore banks	2,651,912	7,557,207
Balances with offshore other financial institutions	2,875	-
Total	18,576,302	11,429,815

10 Placements with banks and other financial institutions

	2005	2004
Placements with onshore banks	6,680,307	3,919,355
Placements with onshore other financial institutions	22,722	22,921
Placements with offshore banks	16,249,968	12,020,279
Total	22,952,997	15,962,555
Less: Provision for bad debts	-244,712	-165,245
Net amount	22,708,285	15,797,310

Notes to the financial statements(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

11 Short-term loans

	2005	2004
Unsecured loans	67,765,150	57,229,130
Guaranteed loans	101,824,397	107,305,069
Loans secured by tangible assets	20,430,430	17,294,033
Loans secured by monetary assets	14,209,638	11,559,168
Total	204,229,615	193,387,400

12 Trade bills

	2005	2004
Inward bills	8,974,257	5,962,437
Outward bills	1,890,798	1,080,107
Packing loans	507,254	617,504
Payment made on import letters of credit	843,188	426,897
Total	12,215,497	8,086,945

13 Interest receivable

(a) Ageing analysis

Ageing	2005		2004	
	Amount	Proportion(%)	Amount	Proportion(%)
Within one year	1,920,731	99.80	1,663,916	99.71
After one year but within two years	397	0.02	848	0.05
After two years but within three years	60	0.00	115	0.01
After three years	3,424	0.18	3,850	0.23
Total	1,924,612	100.00	1,668,729	100.00

Ageing refers to the period between the date of recording the interest receivable and the balance sheet date.

(b) By nature

	2005	2004
Interest receivable on loans	704,936	568,468
Interest receivable on debt securities	1,156,995	1,037,572
Other interest receivable	62,681	62,689
Total	1,924,612	1,668,729

Notes to the financial statements(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

14 Other receivables

(a) Ageing analysis

Ageing	2005				2004			
	Amount	Proportion(%)	Provision	Net	Amount	Proportion(%)	Provision	Net
Within one year	614,542	87.21	-	614,542	566,992	85.72	-	566,992
After one year but within two years	29,738	4.22	-	29,738	34,359	5.20	-	34,359
After two years but within three years	14,520	2.06	-	14,520	11,774	1.78	-	11,774
After three years	45,907	6.51	32,299	13,608	48,315	7.30	33,125	15,190
Total	704,707	100.00	32,299	672,408	661,440	100.00	33,125	628,315

(b) By nature

	2005	2004
Amounts pending for settlement	184,681	187,508
Overdue accounts receivable	33,048	33,106
Operating funds	5,996	24,859
Prepaid lease payments	88,885	70,172
Pledged deposits	39,219	38,913
Deferred interest expense on discounted bills	5,810	8,032
Derivative financial instruments at fair value	86,258	65,451
Others	260,810	233,399
Total	704,707	661,440
Less: Provisions for bad debts	-32,299	-33,125
Net amount	672,408	628,315

(c) Movements in provision for bad debts

	1 January 2005	Charge for the year	Release for the year	Write-offs	Exchange differences	31 December 2005
Provision for bad debts	33,125	-	-	-	-826	32,299

15 Discounted bills

	2005	2004
Bankers' bills of acceptance	88,564,639	53,259,329
Commercial bills of acceptance	10,962,280	7,626,261
Total	99,526,919	60,885,590

Notes to the financial statements(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

16 Short-term investments

	2005	2004
PRC national bonds	369,690	343,028
Bonds issued by PRC central bank	27,630,907	21,404,435
Debt securities issued by PRC policy banks	3,820,150	5,546,285
Other debt securities	7,664,393	1,533,690
Other investments	1,210,530	1,340,570
Total	40,695,670	30,168,008
Less: Provision for impairment losses on short-term investments	-55,393	-56,809
Net amount	40,640,277	30,111,199

(a)The Bank's holdings in PRC national bonds, bonds issued by the PRC central bank and debt securities issued by PRC policy banks are traded in inter-bank bond markets. As at 31 December 2005, the Bank considered that other than those short-term investments that provision for impairment losses was made, there was no other indication of impairment.

(b)Other debt securities are denominated in foreign currencies and issued by Hong Kong and overseas capital markets.

(c)Other investments are investment funds issued and managed by financial institutions in Hong Kong or other countries.

17 Amounts held under resale agreements

	2005	2004
Securities held under resale agreements		
- PRC national bonds	10,564,800	3,087,200
- Bonds issued by PRC central bank	1,322,381	977,750
- Debt securities issued by PRC policy banks	2,353,798	2,212,351
- Other debt securities	274,013	-
	14,514,992	6,277,301
Loans held under resale agreements	5,629,000	4,854,700
Bills held under resale agreements	4,130,408	1,890,215
Total	24,274,400	13,022,216

Notes to the financial statements(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

18 Long-term debt investments maturing within one year

Categories	Annual coupon rate(%)	Maturity date	Initial investment cost	Nominal value	Premium/discount	Accrued interest	Total
PRC national bonds	2.00 – 11.83	1 February 2006	6,055,394	5,963,550	29,853	79,782	6,073,185
Debt securities issued by		to 30 November 2006					
PRC policy banks	Discounted and	26 May 2006	3,365,252	3,368,961	-633	-	3,368,328
Other debt securities	2.41 – 3.92	to 21 December 2006					
	0.70 – 7.38	15 January 2006	4,351,074	4,348,887	-3,640	-	4,345,247
		to 31 December 2006					
Total			13,771,720	13,681,398	25,580	79,782	13,786,760

For debt securities with interest paid by instalments, the accrued interest is included in interest receivable.

19 Medium and long-term loans

By original maturity:

	2005			Total
	After one year but within two years	After two yearsbut within five years	After five years	
Unsecured loans	6,454,330	19,605,119	5,831,567	31,891,016
Guaranteed loans	7,620,971	15,631,699	7,389,311	30,641,981
Loans secured by tangible assets	2,593,759	8,381,365	63,490,131	74,465,255
Loans secured by monetary assets	1,194,083	2,545,423	5,101,480	8,840,986
Total	17,863,143	46,163,606	81,812,489	145,839,238

	2005			Total
	After one year but within two years	After two yearsbut within five years	After five years	
Unsecured loans	4,049,003	12,648,322	5,144,160	21,841,485
Guaranteed loans	3,638,869	13,635,675	5,116,932	22,391,476
Loans secured by tangible assets	1,762,088	6,307,089	45,455,649	53,524,826
Loans secured by monetary assets	747,613	1,717,345	1,977,280	4,442,238
Total	10,197,573	34,308,431	57,694,021	102,200,025

Notes to the financial statements(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

20 Overdue loans

	2005	2004
Unsecured loans	452,869	412,582
Guaranteed loans	4,725,499	3,417,493
Loans secured by tangible assets	4,539,613	4,915,510
Loans secured by monetary assets	655,754	711,513
Total	10,373,735	9,457,098

21 Accrual and non-accrual loans

Accrual and non-accrual loans include short, medium and long-term loans and overdue loans, import and export bills and discounted bills as follows:

	2005	2004
Accrual loans	462,018,547	365,117,876
Non-accrual loans	10,166,457	8,899,182
Total	472,185,004	374,017,058

22 Provisions for loan losses

Movements in provisions for loan losses:

	2005	2004
Balance at the beginning of the year	10,920,000	8,520,000
Charge for the year	3,787,565	2,990,230
Releases for the year	-456,575	-334,341
Recoveries of loans previously written off	83,959	45,998
Write-offs during the year (note 1)	-744,909	-302,845
Transfer out during the year (note 2)	-1,658	-
Exchange differences	-78,053	958
Balance at the end of the year	13,510,329	10,920,000

Notes: (1) Non-performing loans written off are those loans for which the Bank considered that they were irrecoverable after taking all possible recovery actions and the write-offs were approved in directors' meetings.

(2) Provisions for loan losses were transferred to the provision for impairment loss on repossessed assets when the corresponding loan balances were transferred to repossessed assets.

23 Long-term debt investments

(a) Movements during the year

	1 January 2005			Net increase during the year	31 December 2005		
	Amount	Provision for impairment losses	Net amount		Net amount	Provision for impairment losses	Net amount
Long-term debt investments	68,916,569	-19,545	68,897,024	7,996,434	76,913,003	-19,133	76,893,870

Notes to the financial statements(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

(b) Type of debt investments

Type of debt investments	Annual coupon rate(%)	Maturity date	Initial investment cost	31 December 2005			Total
				Nominal value	Premium/discount	Accrued interest	
PRC national bonds	Discounted and 1.75 – 9.78	24 February 2007 to 28 October 2027	27,393,373	27,387,491	-5,467	237,112	27,619,136
Bonds issued by the PRC central bank	3.00 – 4.11	10 December 2007 to 27 May 2008	5,859,369	5,860,380	-896	-	5,859,484
Debt securities issued by PRC policy banks	Discounted and 2.05 – 7.38	1 February 2007 to 9 May 2022	29,439,934	29,426,003	9,644	-	29,435,647
Other debt securities	2.15 – 6.38	18 January 2007 to 30 December 2044	14,047,447	13,991,801	6,935	-	13,998,736
Total			76,740,123	76,665,675	10,216	237,112	76,913,003

For debt securities with interest paid by instalments, the accrued interest is included in interest receivable.

24 Long-term equity investments

(a) Movements during the year

	1 January 2005	Additions during the year	Disposals during the year	31 December 2005
Items				
Long-term equity investments	143,464	2,889	-	146,353

(b) Long-term equity investments

Name of investee company	Initial investment cost'000	Balance at 31 December 2005 RMB equivalents ('000)	Percentage of equity interest in the investee company's registered capital
China Merchants Bank International Capital Company Limited (note (1))	HK\$50,000	99,855	100.0%
China UnionPay (note (2))	RMB80,000	38,016	4.8%
EPS Company (Hong Kong) Limited (note (3))	HK\$8,150	8,482	0.7%

Notes: (1) The Bank has equity accounted for the retained profits of China Merchants Bank International Capital Company Limited of RMB5.18 million (2004: RMB43.7 million) as investment income in the current year (see note 6).

(2) The Bank has invested in the nationwide interbank card data sharing network project since 1995. The initial investment cost recognised was RMB41.98 million which was determined by an independent revaluation when China UnionPay was established. In 2002, the Bank contributed additional cash amounting to RMB38.02 million, with a cumulative investment amounting to RMB80 million. China UnionPay was established on 26 March 2002. The Bank has recorded RMB38.02 million investments made in 2002 as long term equity investments.

(3) EPS Company (Hong Kong) Limited is established by a consortium of major banks in Hong Kong in 1984 to provide electronic fund transfers services for entities and individuals in Hong Kong, Macau and Shenzhen.

Notes to the financial statements(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

25 Cost of fixed assets and accumulated depreciation

	Buildings	Computer equipment	Leasehold improvement	Motor vehicles and other equipment	Total
Cost:					
At 1 January 2005	4,479,972	2,311,077	952,368	839,059	8,582,476
Additions	68,304	497,243	168,437	120,215	854,199
Transfer from construction in progress	89,578	–	–	–	89,578
Disposals/write-offs	-42,555	-135,233	-747	-49,468	-228,003
At 31 December 2005	4,595,299	2,673,087	1,120,058	909,806	9,298,250
Accumulated depreciation:					
At 1 January 2005	881,333	1,190,510	459,833	494,390	3,026,066
Depreciation	217,710	367,054	150,659	118,405	853,828
Written back on disposal/ write-off	-13,409	-134,427	–	-41,042	-188,878
At 31 December 2005	1,085,634	1,423,137	610,492	571,753	3,691,016
Net book value:					
At 31 December 2005	3,509,665	1,249,950	509,566	338,053	5,607,234
At 31 December 2004:					
At 1 January 2004	3,910,964	1,863,252	899,878	940,423	7,614,517
Additions	300,109	520,066	187,789	132,388	1,140,352
Transfer from construction in progress	307,664	–	753	–	308,417
Disposals/write-offs	-38,765	-72,241	-136,052	-233,752	-480,810
At 31 December 2004	4,479,972	2,311,077	952,368	839,059	8,582,476
Accumulated depreciation:					
At 1 January 2004	699,026	969,037	458,030	560,239	2,686,332
Depreciation	192,928	281,739	136,064	120,627	731,358
Written back on disposal/ write-off	-10,621	-60,266	-134,261	-186,476	-391,624
At 31 December 2004	881,333	1,190,510	459,833	494,390	3,026,066
Net book value:					
At 31 December 2004	3,598,639	1,120,567	492,535	344,669	5,556,410

As at 31 December 2005, the net book value of buildings which have not yet completed the registration procedures was approximately RMB1.22 billion (2004: RMB1.28 billion).

As at 31 December 2005, the Bank considered that there was no impairment loss on fixed assets (2004: nil).

As at 31 December 2005, there was no material temporary idle fixed assets (2004: nil).

Notes to the financial statements(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

26 Construction in progress

	1 January 2005	Additions during the year	Transfer out during the year	Disposals during the year	31 December 2005
Construction in progress	809,446	401,823	-89,578	-646	1,121,045

As at 31 December 2005, the Bank considered that there was no impairment loss on construction in progress.

27 Long-term deferred expenses

Category	Original amount	1 January 2005	Additions during the year	Transfer out during the year	Amortisation during the year	31 December 2005
Prepaid lease payment	158,512	67,108	5,993	-702	-16,977	55,422
Others	37,855	24,137	12,106	-3,724	-4,148	28,371
Total	196,367	91,245	18,099	-4,426	-21,125	83,79

28 Repossessed assets

	2005	2004
Repossessed assets	1,450,835	1,797,657
Less: Provision for impairment losses	-871,233	-1,120,000
Net amount	579,602	677,657

29 Deferred tax assets

Deferred tax assets in the balance sheet are analysed as follows:

	2005	2004
Provisions for loan losses and impairments		
losses on other assets	2,292,000	1,884,000
Adjustment for suspended interest	-	86,000
Total	2,292,000	1,970,000

The deferred taxation above is recognised based on the Bank's estimation as to whether taxation benefits will arise from provisions for loan losses and impairment losses on other assets, and suspended interest that have been accounted for as an off-balance sheet item. In determining the value of deferred tax assets, the relevant tax regulations prevailing were taken

Notes to the financial statements(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

into account for prudence purpose. In the opinion of the Bank, the above provisions for loan losses and impairment losses on other assets and suspended interest can be crystallised in the foreseeable future. As a result, deferred tax assets have been recognised.

At the balance sheet date of each accounting period, the following conditions are taken into account when the Bank analyses the deferred tax assets and identifies the amount to be written back:

(a) Deferred tax assets relating to provision for loan losses

(i) Loan losses are deducted from tax computation with the approval of the tax bureau and charged against profit before tax for the year. Income tax provision for the year is then adjusted by the related deferred tax asset.

(ii) If, due to changes in market conditions, risk of default relating to loans reduces, leading to an increase in the recoverable amount, income tax provision for the year is adjusted by the related deferred tax asset written back.

(b) In accordance with the “Notice on the Taxation Issues Regarding Financial Institutions’ Interests Receivable” promulgated by the SAT (Guo Shui Fa [2001] No. 69), off-balance sheet interest receivable can be deducted from taxable income over a period of five years. With the approval of the tax bureau, when these items are deducted from profit before tax for taxation purposes and are charged against profit before tax, income tax provision for the year is adjusted by the relevant deferred tax assets.

Based on the conditions stated above, the Bank adjusts the income tax charged for the year based on the difference between the deferred tax assets recognised at the current balance sheet date and those recognised at the previous balance sheet date.

30 Short-term deposits

	2005	2004
Current deposits	193,584,704	173,371,775
Term deposits maturing within one year	98,978,646	74,271,214
Credit card deposits	362,963	332,919
Deposits from military entities	127,489	235,422
Total	293,053,802	248,211,330

31 Short-term savings deposits

	2005	2004
Current savings deposits	117,916,678	96,493,501
Term savings deposits maturing within one year	93,849,485	70,476,573
Individual call deposits	11,744,503	5,832,808
Combined fixed/current deposits	583,089	651,119
Total	224,093,755	173,454,001

Notes to the financial statements(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

32 Structured deposits

Structured deposits are customer deposits with embedded financial derivatives. The embedded financial derivatives are mainly interest rate swap and option contracts.

33 Rediscounted bills

	2005	2004
Bills rediscounted to banks and other financial institutions	107,931	2,831,718

34 Deposits from banks and other financial institutions

	2005	2004
Deposits from onshore banks	8,589,084	4,203,388
Deposit from onshore other financial institutions	30,745,633	20,616,562
Deposits from offshore banks	338,788	233,208
Total	39,673,505	25,053,158

35 Placements from banks and other financial institutions

	2005	2004
Placements from onshore banks	80,702	1,300,000
Placements from offshore banks	343,517	206,311
Total	424,219	1,506,311

36 Amounts sold under repurchase agreements

	2005	2004
Securities sold under repurchase agreements:		
– National bonds issued by the PRC	2,062,400	2,719,020
– Other debt securities	683,520	866,101
	2,745,920	3,585,121
Loans held under repurchase agreements	296,010	20,000
Total	3,041,930	3,605,121

The assets subject to the above repurchase agreements are debt securities or loans to customers of equivalent amount.

Notes to the financial statements(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

37 Interest payable

Ageing analysis	2005	2004
Within one year	2,491,180	1,867,293
After one year but within two years	118,749	66,115
After two years but within three years	47,096	43,940
After three years	48,085	34,689
Total	2,705,110	2,012,037

Ageing refers to the period between the date of recording the interest payable and the balance sheet date.

38 Pledged deposits

	2005	2004
Pledged deposits on acceptance	48,204,428	34,251,351
Pledged deposits on loans and advances	3,146,431	2,745,770
Pledged deposits on letters of credit	3,458,529	3,780,309
Pledged deposits on letters of guarantee	5,118,937	4,294,272
Other pledged deposits	1,477,172	1,130,033
Total	61,405,497	46,201,735

39 Tax payable

	2005	2004
Income tax	2,714,702	2,095,000
Business tax and surcharges	425,160	307,329
Individual income tax	28,623	31,873
Stamp duty	4,638	3,588
Property tax	751	320
Others	116,537	27,567
Total	3,290,411	2,465,677

Notes to the financial statements(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

40 Other liabilities

(a) Ageing analysis

	2005	2004
Within one year	2,922,457	2,638,043
After one year but within two years	52,629	119,582
After two years but within three years	12,194	4,080
After three years	8,037	6,518
Total	2,995,317	2,768,223

Ageing refers to the period between the transaction date of the liability and the balance sheet date.

(b) By nature

	2005	2004
Intra-city bills pending for clearing	183,970	166,798
Settlement accounts	330,556	356,489
Deferred interest income on discounted bills	583,375	574,862
Payable for trade union fund and medical insurance	365,160	281,843
National bonds interest and principal	57,194	63,833
Repayment pending for settlement	297,631	386,555
Education fund payable	108,579	60,356
Cheques and remittances returned	105,897	49,546
Pledged deposits	28,001	26,077
Construction payment payables	26,541	23,428
Unclaimed deposit accounts	46,328	6,495
Derivative financial instruments at fair value	85,875	74,684
Others	776,210	697,257
Total	2,995,317	2,768,223

41 Issued debt securities

(a) Certificates of deposit issued

On 21 June 2004, the Bank issued a 3-years certificates of deposit at a nominal value of US\$150 million with interest at LIBOR+0.35% per annum payable quarterly.

(b) Convertible bonds issued

On 10 November 2004, the Bank issued a 5-years convertible bond with a nominal value of RMB6.5 billion. The interest rates are 1.0% for the first year, 1.375% for the second year, 1.75% for the third year, 2.125% for the fourth year and 2.5% for the fifth year, repayable on 10 November every year. According to the terms, the convertible bonds can be converted into the Bank's shares at the holder's option at RMB9.34 per share during the period from 10 May 2005 to 10 November 2009. An additional 6% interest

Notes to the financial statements(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

will be given to bond holders who have not converted the bonds into shares up to the maturity date.

On 17 June 2005, the ex-dividend date, the Bank executed the resolution passed in the 2004 annual general meeting to issue 5 bonus shares for every 10 existing shares from the capital surplus (note 42(h)). Accordingly, the conversion price of the bonds changed from RMB9.34 per share to RMB6.23 per share.

The Bank has an early redemption option which commences after six months of the bonds' issuance date until the maturity date. If the closing traded price of the Bank's listed A shares is 125% higher than the conversion price for 20 consecutive trading days, the Bank has the option to redeem all or a portion of the outstanding bonds at 103% of the nominal value of convertible bonds plus accrued interest.

During the final year before the maturity date of the convertible bonds, if the last traded price of the Bank's A shares falls below 75% of the conversion price for 20 consecutive trading days, the bondholders can exercise the put option to sell all or a portion of the outstanding bonds at 108.5% of the nominal value of convertible bonds plus accrued interest to the Bank.

(c) Subordinated notes issued

Type of note	Terms	Date of issue	Annual interest rate (%)	Total nominal value
Fixed rate notes	61 months	31 March 2004 and 10 June 2004	4.59-5.1	3,500,000

On 19 March 2004, the shareholders' meeting passed a resolution to issue RMB3.5 billion subordinated notes. The CBRC has approved the Bank's issuance of subordinated notes on 30 March 2004 (Yin Jian Fu [2004] No. 36), and the amount was included as supplementary capital in calculating the Bank's capital adequacy ratio. Interest is payable annually.

(d) Other debts issued

Type of note	Terms	Date of issue	Annual interest rate (%)	Total nominal value
Fixed term notes	36 months	From 13 October 2005 to 26 October 2005	2.13	5,000,000
Fixed term notes	60 months	From 13 October 2005 to 26 October 2005	2.56	5,000,000

On 17 August 2005, the shareholders' meeting passed a resolution to issue RMB15 billion fixed rate term notes. The CBRC and PBOC approved the Bank's issuance of a total of RMB15 billion notes on 29 September 2005 (Yin Jian Fu [2005] No. 252) and 9 October 2005 (Yin Fu [2005] No. 75) respectively. The Bank issued a total of RMB10 billion fixed rate term notes during the period from 13 October 2005 to 26 October 2005. Interest is payable annually.

Notes to the financial statements(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

42 Share capital

Paid-in capital	No. of shares (‘000)	Total (RMB’000)
At 1 January 2005	6,848,182	6,848,182
Capital reserve transferred to share capital	3,424,122	3,424,122
Conversion of convertible bonds	102,040	102,040
At 31 December 2005	10,374,344	10,374,344
At 1 January 2004	5,706,818	5,706,818
Capital reserve transferred to share capital	1,141,364	1,141,364
At 31 December 2004	6,848,182	6,848,182

By type of share:

	2005	2004
Unlisted shares	7,572,272	5,048,182
Listed shares	2,802,072	1,800,000
Total	10,374,344	6,848,182

(a) The Bank was formerly a commercial bank established by China Merchants Steam Navigation Company Limited in Shenzhen China Merchants Shekou Industrial Zone on 31 March 1987 with the approval of the PBOC (Yin Fu [1986] No. 175 and Yin Fu [1987] No. 86). The registered capital and share capital of the Bank were both RMB100 million.

(b) With the approval of the PBOC ([1989] No. 12), the registered capital and share capital both increased to RMB400 million. Paid-in capital of RMB285 million was verified by the Branch of the PBOC in the Shenzhen Special Economic Zone; the foreign currency paid-in capital equivalent to RMB115 million was verified by Zhong Hua (Shekou) Certified Public Accountants which issued capital verification reports, Yanzi Bao Zi [1988] No. 51 and Nei Yan Zi Bao Zi [1991] No. 29.

(c) In 1994, the Bank obtained the approval of the Economic Restructuring Office of Shenzhen’s Municipal Government (Shen Gai Fu [1993] No. 73) and the Shenzhen Securities Regulatory Office (Shen Zheng Ban Fu [1994] Nos. 90, 132 and 133) to undertake a share restructure and to adjust the amount of new issued shares and the capital structure. On 30 April 1993, the balance of verified net assets after provision for capital reserve was RMB600,727,212, which

was translated into 600,727,212 shares. A placement of 522,000,000 shares was offered. The restructured Bank had a total of 1,122,727,212 shares of par value RMB1 each. The share capital of the Bank RMB1,122,727,212 was verified by Shenzhen Zhong Zhou Certified Public Accountants which issued a capital verification report, Shen Zhong Zhou [1994] Yan No. 413.

(d) In 1996, the Bank obtained the approval of the PBOC (Yin Fu [1996] Nos. 93 and 156) to increase its registered capital by RMB1,684,000,000 through a capitalisation of capital reserve of the same amount, and the share capital of the Bank increased from RMB1,123,000,000 to RMB2,807,000,000. The share capital of the Bank after the increase was RMB2,806,818,030 which was verified by Shenzhen Zhong Zhou Certified Public Accountants which issued capital verification reports, Shen Zhong Zhou [1996] Yan Nos. 027 and 054.

(e) In 1998, the Bank obtained the approval of the PBOC (Yin Fu [1998] No. 173) to increase the share capital from RMB2,806,818,030 to RMB4,206,818,030. On 18 March 1999, a resolution was passed at the 1999 general meeting to capitalise RMB500,000,000 from the surplus reserve as

Notes to the financial statements(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

part of the increased share capital. The increased shares were allotted to registered shareholders as at 30 June 1998 proportionately to their shareholding. With the approval of the PBOC (Yin Guan Er [1999] No. 42), the Bank offered 900,000,000 new shares of par value RMB1 each and issue price of RMB3.5 each to all shareholders. The increased share capital was verified by Zhong Hua (Shekou) Certified Public Accountants which issued a capital verification report, She Zhong Yan Zi Bao Zi [1999] No. 13.

(f) From 19 March to 1 April 2002, with the approval of the CSRC (Zheng Jian Fa Xing Zi [2002] No. 33), the Bank issued 1.5 billion ordinary A shares at RMB7.3 with a par value of RMB1 each. Proceeds of RMB10.95 billion was raised. These shares commenced trading on 9 April 2002 on the Shanghai Stock Exchange. On 2 April 2002, the Bank's registered capital changed to RMB5,706,818,030. The newly issued share capital was verified by KPMG Huazhen, for which a capital verification report was issued (KPMG [2002] No. 6).

(g) According to the resolution of the Bank's annual general meeting held on 19 March 2004, 2 bonus shares were issued from the capital reserve for every 10 shares. With effect from 10 May 2004 (the shares registration date), the registered capital of the Bank increased to RMB6,848,181,636. The increase in share capital was verified by KPMG Huazhen, for

which a capital verification report was issued (KPMG [2004] No. 59).

(h) According to the resolution of the Bank's annual general meeting held on 17 May 2005, the Bank announced and approved the issue of 5 bonus shares for every 10 shares from the capital reserve, resulting in a transfer of RMB3,424,122,708 to the share capital. That amount comprised RMB3,424,090,818 arising from the transfer and RMB31,890 arising from the conversion of convertible bonds. Upon the said new issue on 17 June 2005, the share registration date, the Bank's paid-up capital increased to RMB10,272,304,344.

In respect of the bonus issue, the Bank applied to the CBRC for an increase of registered capital in the amount of RMB3,424,090,818. As a result, the Bank's registered capital increased to RMB10,272,272,454. The increase in registered capital was verified by KPMG Huazhen, for which a capital verification report was issued (KPMG [2005] No. 20).

(i) As at 31 December 2005, the Bank had a total of RMB102,039,470 converted to share capital pursuant to the Explanatory Note on Issue of Convertible Bonds for Subscription. The Bank's paid-up capital increased to RMB10,374,343,814.

43 Capital reserve

	2005	2004
At 1 January	8,128,383	9,269,295
Capital reserve transferred to share capital (Note 42)	-3,424,122	-1,141,364
Conversion of convertible bonds	548,518	-
Exchange differences	-38,045	452
At 31 December	5,214,734	8,128,383

Notes to the financial statements(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

44 Surplus reserve

	Surplus reserve	Of which:public welfare fund
At 1 January 2005	1,591,086	655,073
Transfers during the year	-	-67,276
Proposed appropriations to statutory surplus reserve and statutory public welfare fund	786,076	393,038
At 31 December 2005	2,377,162	980,835
At 1 January 2004	962,268	471,155
Transfers during the year	-	-130,491
Appropriations to statutory surplus reserve and statutory public welfare fund	628,818	314,409
At 31 December 2004	1,591,086	655,073

45 Interest income

	2005	2004
Interest income on loans	17,109,667	13,552,724
Interest income on discounted bills	2,948,842	2,854,073
Interest income on inward and outward bills receivable	491,002	231,009
Interest income on credit cards	219,624	113,934
Other interest income	44,867	29,822
Total	20,814,002	16,781,562

46 Interest income on balances and placements with financial institutions

	2005	2004
Interest income on balances with central bank	835,736	745,663
Interest income on balances with banks and other financial institutions	190,689	67,284
Interest income on placements with banks and other financial institutions	811,686	730,955
Total	1,838,111	1,543,902

47 Interest expense

	2005	2004
Customer deposits	7,557,808	5,116,384
Debts issued	405,840	145,468
Total	7,963,648	5,261,852

Notes to the financial statements(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

48 Interest expense on deposits and placements from financial institutions

	2005	2004
Interest expense on borrowings from central bank	4	19,475
Interest expense on deposits and placements from banks	411,586	913,366
Interest expense on deposits and placements from other financial institutions	664,467	560,542
Total	1,076,057	1,493,383

49 Investment income

	2005	2004
Net income from short-term debt investments	474,166	162,868
Net income from long-term debt investments	2,897,563	2,380,242
Others	15,769	35,248
Total	3,387,498	2,578,358

50 Businesses taxes and surcharges

	2005	2004
Business taxes	1,113,558	894,277
City construction tax	67,450	53,220
Education surcharge	37,801	29,067
Total	1,218,809	976,564

51 Provisions for losses and impairments

	2005	2004
Provisions for loan losses	3,330,990	2,655,889
Provisions for doubtful deposits and placements with banks and other financial institutions	61,851	-14,798
Provisions for impairment losses on other assets	-54	317,335
Total	3,392,787	2,958,426

Notes to the financial statements(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

52 Income tax

	2005	2004
Income tax	3,025,154	2,321,135
Deferred tax	-322,000	-453,000
Total	2,703,154	1,868,135

Reconciliation of expected income tax to effective income tax:

	2005	2004
Profit before tax	6,633,537	5,012,222
Notional tax on profit before tax, calculated at the applicable rate of 33%	2,189,067	1,654,033
Add/(deduct) the tax effect of the following items:		
- Non-deductible expenses	826,313	497,859
- Non-taxable income	-236,911	-286,726
- Different income tax rate applicable to various regions (note)	-163,658	-28,298
- Others	88,343	31,267
	2,703,154	1,868,135

Note: Income taxes of the Bank for different regions are calculated in accordance with the local tax rules and implementation guideline by using the tax rates and tax basis applicable to the relevant tax jurisdictions. Please refer to note 5(d) on the financial statements for details.

53 Earnings per share and return on net assets

Earnings per share and return on net assets are calculated in accordance with the basis set out in "Preparation of Information Disclosure of Companies Offering Public Share No. 9 - Calculation and Disclosure of Earnings Per Share and Return on Net Assets" (Zheng Jian Fa [2001] No. 11) issued by the CSRC.

(a) Earnings per share are calculated based on the net profit, number of shares at the year-end and weighted average for the year stated below:

	2005	2004
Net profit (RMB'000)	3,930,383	3,144,087
Number of shares at the year-end ('000)	10,374,344	10,272,273
Fully diluted earnings per share (RMB)	0.38	0.31
Weighted average number of paid-in capital ('000)	10,283,117	10,272,273
Weighted average earnings per share (RMB)	0.38	0.31

Both the year-end number and weighted average number of paid-in capital for the year ended 31 December 2004 have been re-computed after taking into account the number of new shares being transferred to the share capital.

Notes to the financial statements(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

(b) Return on net assets is calculated based on the net profit, the basic and weighted average net assets stated below:

	2005	2004
Net profit (RMB'000)	3,930,383	3,144,087
Year-end net assets (RMB'000)	24,670,546	20,880,950
Fully diluted return on net assets	15.93%	15.06%
Weighted average net assets (RMB'000)	22,448,916	19,527,216
Weighted average return on net assets	17.51%	16.10%

54 Capital adequacy ratio

The Bank's capital and core capital adequacy ratios were calculated in accordance with the "Notice on Issuing Guidelines Regarding Regulation Governing Capital Adequacy of Commercial Banks" (Yin Jian Fa [2004] No. 18) as promulgated by the CBRC are as follows:

	2005	2004
Total capital	38,531,479	35,245,650
Of which: core capital	23,786,429	20,096,650
Risk weighted assets	423,312,444	369,130,931
Capital adequacy ratio	9.10%	9.55%
Core capital adequacy ratio	5.62%	5.44%

Notes to the financial statements(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

55 Related party relationships and transactions

(a) Particulars of related parties

(1) Particulars of the Bank's major shareholders and its holding company and the Bank's subsidiary in 2004 and 2005 are as follows:

Details of each company

Name of enterprise	Registered address	Registered capital	Percentage of investment	Principal activities	Relationship with the Bank	Form of business structure	Legal representative
China Merchants Holdings Company Limited	Beijing	RMB 800 million		Transport, agency, leasing, storage services, manufacturing, repair, subcontracting, sales and corporate management	Holding company of the major shareholder	Limited company	Qin Xiao Qin Xiao
China Merchants Steam Navigation Company Limited	Beijing, HongKong	RMB 200 million	17.78%	Transport, repair, construction, sales, purchases and supply, and agency	Major shareholder	Joint stock limited company	
CMB International Capital Corporation Limited	Hong Kong	HK\$ 50 million	100%	Financial advisory services	Subsidiary	Limited company	Ma Weihua

Note: The sole investor of China Merchants Steam Navigation Company Limited ("CMSNC") is China Merchants Holdings Company Limited. China Merchants Steam Navigation Company Limited holds a 17.78% equity interest in the Bank and is the Bank's largest shareholder.

Registered capital of each company and its movements (Amount: in RMB or HK\$):

Name of related party	2005	2004
China Merchants Holdings Company Limited	RMB800,000,000	RMB800,000,000
China Merchants Steam Navigation Company Limited	RMB200,000,000	RMB200,000,000
CMB International Capital Corporation Limited	HK\$50,000,000	HK\$50,000,000

Notes to the financial statements(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

Movements in shareholdings of the major shareholder and the Bank's shareholdings in its subsidiary

	China Merchants Steam Navigation Company Limited		CMB International Capital Corporation Limited	
	Amount(RMB)	Proportion(%)	Amount (HK\$)	Proportion (%)
At 1 January 2005	1,229,581,331	17.95	50,000,000	100.00
Additions	614,790,666	–	–	–
At 31 December 2005	1,844,371,997	17.78	50,000,000	100.00

(2) Other shareholders of the Bank

As at 31 December 2005, other than China Merchants Steam Navigation Company Limited, the ten largest shareholders together with a shareholder having the same shareholding of the tenth largest shareholder were as follows:

Name of related party	No. of shares held	Percentage of shareholding
COSCO Group	884,419,548	8.53%
Guangzhou Maritime Transport (Group) Co., Ltd.	585,253,656	5.64%
Yiu Lian Dockyards Limited	327,722,400	3.16%
Shanghai Automobile Industrial Corporation	259,381,962	2.50%
China Shipping Petroleum Investment Holding Co., Ltd	212,529,414	2.05%
China Harbour Engineering (Group) Company	201,855,701	1.95%
Shenzhen Yanqing Investment Development Co.,Ltd.	200,453,514	1.93%
Qinghuangdao Harbour Administration (Group) Co., Ltd.	182,141,550	1.76%
Shandong Transportation and Development Investment Co.	182,141,550	1.76%
Guangzhou Highway Administration Bureau	182,141,550	1.76%
China Sea Transportation (Group) Company	182,141,550	1.76%

(3) There are total 32 enterprises in which China Merchants Holdings Company Limited and China Merchants Steam Navigation Company Limited have control or significant influence and have equity investments.

(4) Except for those related parties mentioned above, there are 19 enterprises which the directors of the Bank have direct controlling interests.

Notes to the financial statements(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

(b) Balances of related party transactions

Transactions between the Bank and the related companies are entered in the ordinary course of business.

(1) Loans

Name of related party	2005		2004	
	Amount	Proportion(%)	Amount	Proportion(%)
China Merchants Steam Navigation Company Limited	26,000	0.01	267,000	0.07
Sub-total of loans to the major shareholder	26,000	0.01	267,000	0.07
COSCO Group	-	-	1,655,300	0.44
Guangzhou Maritime Transport (Group) Co., Ltd.	100,000	0.02	100,000	0.03
Other shareholders	4,289,048	0.91	4,784,160	1.28
Sub-total of loans to major shareholders (except CMSNC)	4,389,048	0.93	6,539,460	1.75
Loans to companies controlled by China Merchants Holdings Company Limited	755,792	0.16	119,434	0.03
Loans to companies controlled by directors	458,404	0.10	652,208	0.17
Total	5,629,244	1.20	7,578,102	2.02

As at 31 December 2005, total loans granted to shareholders holding 5% interest or more in the Bank amounted to RMB126 million (2004: RMB2.022 billion), with no overdue loans.

(2) Deposits and takings

Name of related party	2005		2004	
	Amount	Proportion(%)	Amount	Proportion(%)
Deposits with companies controlled by China Merchants Holdings Company Limited	-	-	-	-

Notes to the financial statements(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

(3) Customer deposits

Name of related party	2005		2004	
	Amount	Proportion(%)	Amount	Proportion(%)
China Merchants Steam Navigation Company Limited	155	0.00	10	0.00
CMB International Capital Corporation Limited	8,055	0.00	147	0.00
Sub-total of deposits of the major shareholder and the Bank's subsidiary	8,210	0.00	157	0.00
COSCO Group	146,141	0.02	17,805	0.00
Guangzhou Maritime Transport (Group) Co., Ltd.	82,935	0.01	726	0.00
Other shareholders	2,581,543	0.41	2,820,527	0.55
Deposits from shareholders other than China Merchants Steam Navigation Company Limited	2,810,619	0.44	2,839,058	0.55
Deposits from companies controlled by China Merchants Holdings Company Limited (excluding the major shareholder)	658,324	0.10	443,237	0.09
Deposits from companies controlled by directors	445,199	0.07	173,246	0.03
Total	3,922,352	0.61	3,455,698	0.67

(4) Deposits from banks

Name of related party	2005		2004	
	Amount	Proportion(%)	Amount	Proportion(%)
Deposits from shareholders other than China Merchants Steam Navigation Company Limited	-	0.00	277,575	1.11
Deposits from companies controlled by China Merchants Holdings Company Limited	-	0.00	854,813	3.41
Deposits from companies controlled by directors	337,017	0.85	375,180	1.50
Total	337,017	0.85	1,507,568	6.02

(5) As at 31 December 2005, the Bank issued RMB0.54 billion, RMB1.81 billion and RMB0.68 billion (2004: RMB0.34 billion, RMB1.82 billion and RMB0.43 billion), letters of credit, letters of guarantee and bills of acceptances to other shareholders. They are mainly shareholders with less than 5% shareholding.

(6) For shareholders that are controlled by China Merchants Holdings Company Limited, their relevant balances are grouped under China Merchants Holdings Company Limited.

Notes to the financial statements(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

56 Segmental analysis

(a) Loans (including short, medium and long-term loans, overdue loans, import and export bills and discounted bills) by geographical location:

Locations	2005	2004
Eastern China	145,287,340	120,718,119
Southern and central China	192,616,713	132,641,698
South-western and north-western China	49,085,050	45,130,537
Northern and north-eastern China	82,655,961	73,816,233
Others	2,539,940	1,710,471
Total	472,185,004	374,017,058
Less: Provisions for loan losses	-13,510,329	-10,920,000
Net loan amount	458,674,675	363,097,058

(b) Loans (including short, medium and long-term loans, overdue loans, import and export bills and discounted bills) by industry sector:

	2005	2004
Industrial sector		
Transport and telecommunications	66,154,531	59,967,254
Manufacturing	75,734,843	61,620,737
Energy and raw materials	44,819,783	39,291,832
Construction	11,305,012	8,702,740
	198,014,169	169,582,563
Commercial sector		
Trading	33,965,535	32,081,109
Property development and investment	20,089,332	17,970,662
Investment management	16,604,020	15,024,317
Hospitality	7,512,747	9,647,739
Conglomerates	2,622,395	3,524,966
	80,794,029	78,248,793
Others	19,814,154	10,538,422
Corporates	298,622,352	258,369,778
Individuals	74,035,733	54,761,690
	372,658,085	313,131,468
Discounted bills	99,526,919	60,885,590
Total	472,185,004	374,017,058
Less: Provisions for loan losses	-13,510,329	-10,920,000
Net loan amount	458,674,675	363,097,058

Notes to the financial statements(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

(c) Deposits (including long and short-term deposits, long and short-term saving deposits, structural deposits, fiscal deposits, inward and outward remittances as well as pledged deposits) by geographical location:

Locations	2005	2004
Eastern China	207,412,140	160,490,459
Southern and central China	189,717,163	150,537,242
South-western and north-western China	77,352,360	68,957,867
Northern and north-eastern China	154,110,061	129,095,602
Others	5,811,828	3,505,024
Total	634,403,552	512,586,194

57 Entrusted loan business

	2005	2004
Entrusted loans	28,488,598	16,191,254
Entrusted deposits	28,488,598	16,191,254

The Bank undertakes entrusted loan business. Entrusted loans are funded by entrusted deposits and are granted to designated borrowers for specific purposes at terms specified by entrustors. The Bank is responsible for managing entrusted loans. The risks, gains or losses and responsibilities of entrusted business are borne by the entrustors and the Bank only earns handling fees. Therefore the Bank does not recognise the entrusted business as its loans, investments and deposits. At the balance sheet date, there was no balance with any single major entrustor in the outstanding entrusted business.

58 Off-balance sheet items

(a) Credit commitments

	2005	2004
Bills of acceptances	123,524,968	86,716,069
Irrevocable financial guarantees	8,391,350	6,219,926
Irrevocable non-financial guarantees	26,300,127	18,053,974
Irrevocable forward bills	13,957,298	12,326,025
Irrevocable sight bills	8,478,228	8,731,765
Loan commitments	23,064,111	10,276,001
Shipping guarantees	21,869	16,001
Total	203,737,951	142,339,761

Loan commitments only include the credit limits granted to credit card holders and offshore customers. The directors are of the opinion that the Bank will not assume any risks on the unused credit limits as such limits are revocable. As a result, such balances are not included in the above contingent liabilities/commitments. As at 31 December 2005, the credit card limit granted

Notes to the financial statements(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

was RMB19.7 billion (2004: RMB9.2 billion).

These commitments and contingent liabilities have off-balance sheet credit risk. Before the commitments are fulfilled or expire, management assess and make allowances for any probable losses accordingly. As the facilities may expire without being drawn upon, the total of the contractual amounts is not representative of expected future cash outflows.

(b) Off-balance sheet contingent income

Contingent income mostly consists of interest receivable. The ageing analysis is as follows:

Ageing	2005	2004
Within one year	758,214	594,561
One to two years	524,686	612,952
Two to three years	544,545	667,125
Over three years	3,303,814	3,195,652
Total	5,131,259	5,070,290

(c) Operating lease commitments

Total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2005	2004
Within one year	539,107	408,879
After one year but within two years	478,969	431,670
After two years but within three years	390,035	381,578
After three years	942,607	1,024,151
Total	2,350,718	2,246,278

(d) Capital commitments

Capital commitments made but not provided for in the financial statements were as follows:

	2005	2004
Authorised and contracted for		
–Committed amount for purchase of fixed assets	466,722	170,306

(e) Outstanding litigations

As at 31 December 2005, the Bank was the defendant in certain pending litigations with gross claims of RMB250 million (2004: RMB130 million). The directors considered that no losses would be incurred by the Bank as a result of these pending litigations and no provision has been made in the financial statements.

Notes to the financial statements(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

59 Credit risk management

Credit risk represents the potential loss that may arise from the failure of a debtor to meet its obligation or commitment to the Bank. Credit risk increases when all counterparties are concentrated in a single industry or a geographical region, as different counterparties in the same region or industry may be affected by the same economic development, which may eventually affect their repayment abilities.

To identify, evaluate, monitor and manage credit risk, the Bank designs the particular organisation framework, credit policies and processes required for effective credit risk management, which have been implemented in the whole Bank upon approval of the Risk Management and Internal Control Committee and of the President. The Risk Management and Internal Control Committee is responsible for supervising and evaluating the set-up, organisational structure, work process and effectiveness of various risk management functions. To mitigate risk, the Bank may obtain collaterals and guarantees where appropriate.

With respect to daily operations, the Risk Management Department, as directed by the Risk Management and Internal Control Committee, monitors, shares and coordinates the work of other risk management functions, including the Corporate Banking Department, the Special Assets Resolution Department and the Legal Department.

In respect of the loans portfolios, the Bank adopts a risk based loan classification methodology and classifies loans into five categories: normal, special mention, substandard, doubtful and loss. The last three categories are considered as impaired loans and advances for which objective evidence of impairment exists based on a loss event or several events and which bear significant impairment losses. The allowances for impairment losses for the impaired loans and advances are assessed collectively or individually as appropriate.

Concentration of credit risk: when certain numbers of customers are in the same business, locate in the same geographical region or their industries share similar economic characteristics, their abilities to meet their obligations may be affected by the same economic changes. The level of concentration of credit risk reflects the sensitivity of the Bank's operating result to a specific industry or geographical region.

Analyses of loans and advances by industries, customer natures, loan portfolio and geographical locations have been disclosed in previous notes to the financial statements.

The Bank's credit risk management policy for financial derivatives is the same as that for other transactions. In order to mitigate the credit risk arising from the financial derivatives, the Bank has signed netting

agreements with certain counterparties.

60 Market risk management

Market risk is the risk of loss arising from movements in observable market variables such as interest rates, exchange rates and equity markets. The Bank is exposed to market risk primarily through its proprietary investments held and balance sheet assets and liabilities other than the proprietary investment book. The Asset and Liability Management Committee ("ALCO") of the Bank is responsible for formulating market risk management policies, supervising implementation of the policies and performing independent assessments of the risk status. The Risk Management Department is responsible for managing risks arising from the day to day operation of Treasury division.

61 Interest rate risk management

The Bank's interest rate exposures primarily comprise those arising from mismatches in durations and structures of assets and liabilities originating in its banking operations; and that from positions undertaken for trading purposes by treasury operation.

Interest rate risk in banking operations is inherent in many business segments of the Bank, and arises from several factors including time gap of contract maturities as well as repricing of assets and liabilities. Similar risk in trading positions arises mainly from investment portfolio undertaken by treasury operation.

The ALCO regularly monitors such interest rate risk positions. In terms of measuring and managing the risk, the Bank regularly calculates interest rate gap, and market value effect of these interest rate positions in different interest rate scenarios. The primary objective of such interest rate risk management is to limit potential adverse impacts of movements in interest rate on net interest income.

As the base rates for Renminbi loans and deposits are determined by the PBOC, the Bank follows the interest rates set by the PBOC when carrying out lending and deposits

Notes to the financial statements(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

taking activities. The Bank's monetary assets and liabilities are mainly denominated in Renminbi.

At each of the balance sheet date, the annual interest rates of Renminbi loans and deposits were as follows:

	From 29 October 2004 to 31 December 2005	From 1 January 2004 to 28 October 2004
Transactions with customers:		
Short-term loans	5.22% to 5.58%	5.04% to 5.31%
Medium to long-term loans	5.76% to 6.12%	5.49% to 5.76%
Overdue loans	6.79% to 9.18%	7.56%
Individual and corporate current deposits	0.72%	0.72%
Individual and corporate term deposits	1.71% to 3.60%	1.71% to 2.79%
Corporate call deposits (1 day or 7 days)	1.08% to 1.62%	1.08% to 1.62%
Corporate agreement deposits	1.44%	1.44%
Transactions with central bank:		
Deposits (Note)	0.99% to 1.89%	1.62% to 1.89%
Rediscounted bills	3.24%	3.24%

Note: Starting from 17 March 2005, the minimum interest rate for current account balance with the PBOC is set as the rate on excess reserve, reducing it from 1.62% to 0.99% per annum.

According to the PBOC's regulations, there is no ceiling set for loans interest rates, (2003: 30%) while floor rate is set at 10%.

Interest rates for discounted bills are based on the interest rates of rediscounted bills to the PBOC, but the maximum could not exceed the interest rates (including floating rates) of loans in the same categories.

Interest rates for placements to and takings from banks and other financial institutions are agreed between them according to the liquidity market forces. There are minimal differences in interest rates for placements and takings in the money market.

Deposits rates can be adjusted downwards within the base rate of each deposits category, but cannot be adjusted upward.

62 Exchange rate risk management

The Bank's foreign exchange exposure mainly comprises foreign exchange dealing by Treasury and is mitigated primarily by matching spot and forward foreign exchange contracts with foreign currency borrowings.

The Bank's reporting currency is Renminbi. Foreign currencies transactions are mainly in US dollar and HK dollar. The exchange rates between Renminbi and US dollar and HK dollar are controlled by the PBOC, and there have been small fluctuations during 2005. The Bank's assets and liabilities are mainly denominated in Renminbi, with the rest being in US dollar and HK dollar.

The Bank closely monitors the daily transaction volume and ending balances of each currency. The following table shows the Bank's assets and liabilities by major currencies as at 31 December 2005 and exposures of all major currencies.

The State of Council has announced change of currency control: effective from 21 July 2005, the adjustment of exchange rate for RMB is referenced to a basket of foreign currencies. The Bank has reviewed the exposures and has taken appropriate measures to mitigate currency risks.

Notes to the financial statements(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

2005	As at 31 December 2005				
	Renminbi (in millions)	US dollar (in millions)	HK dollar (in millions)	Renminbi equivalent of other currencies (in millions)	Total Renminbi equivalent (in millions)
Assets :					
Cash	3,016	40	197	358	3,899
Balances with central bank, banks and other financial institutions	73,322	528	610	2,456	80,678
Loans	430,037	3,065	2,858	931	458,675
Placements with banks and other financial institutions	6,143	714	7,534	2,967	22,709
Investments	109,919	2,239	2,901	460	131,467
Amounts held under resale agreements	24,274	–	–	–	24,274
Other assets	11,399	41	536	–7	12,281
Total assets	658,110	6,627	14,636	7,165	733,983
Liabilities :					
Customer deposits	570,621	5,521	11,481	7,277	634,404
Rediscounted bills	108	–	–	–	108
Deposits from banks and other financial institutions	35,274	484	452	28	39,673
Placements from banks and other financial institutions	–	53	–	–	424
Amounts sold under repurchase agreements	2,905	17	–	–	3,042
Certificates of deposit	–	150	–	–	1,211
Convertible bonds	5,864	–	–	–	5,864
Subordinated notes issued	3,500	–	–	–	3,500
Other debts issued	10,000	–	–	–	10,000
Other liabilities	7,594	81	2,908	–187	11,086
Total liabilities	635,866	6,306	14,841	7,118	709,312
Net assets/liabilities	22,244	321	–205	47	24,671
Net off-balance sheet positions (Note)	111,825	3,521	1,823	2,911	145,054
Net short position	–89,581	–3,200	–2,028	–2,864	–120,383

Note: Derivatives are mainly customer driven and the open positions are offset by similar positions with other financial institutions. The Bank does not have significant open positions. The above net off-balance sheet positions do not include all closed positions and back-to-back positions.

In addition, off-balance sheet business generally expires before it is drawn, therefore the above net positions (net of pledged deposits) do not represent the cash flows need.

Notes to the financial statements(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

63 Liquidity risk management

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due, and it results from amount and maturity mismatches of assets and liabilities. The Bank's liquidity is managed through ALCO. ALCO is responsible for managing liquidity in prudence to meet regulatory requirement. The day to day monitoring of future cash flows and the maintenance of suitable levels of liquefiable assets by business units are the responsibility of the head office.

The Bank's loans-to-deposits ratio is maintained within 75%. 7.5% of total Renminbi deposits and 3% of foreign currencies deposits are required to be deposited with the PBOC. As at 31 December 2005, RMB326 billion of loans balance or 71% of total loans and advances balance were short-term loans maturing within 1 year. The following table provides an analysis of the assets and liabilities of the Bank as at 31 December 2005 by remaining maturity:

Notes to the financial statements(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

2005	As at 31 December 2005						
	Repayable on demand (in millions)	Within 3 months (in millions)	After 3 months but within 1 year (in millions)	After 1 year but within 5 years (in millions)	After 5 years (in millions)	Overdue (in millions)	Total (in millions)
Assets :							
Cash	3,899	-	-	-	-	-	3,899
Balances with central bank, banks and other financial institutions	72,717	915	7,046	-	-	-	80,678
Loans	-	121,985	204,031	67,524	61,538	3,597	458,675
Placements with banks and other financial institutions	-	19,370	1,873	1,320	146	-	22,709
Investments	1,212	15,044	34,677	56,973	23,561	-	131,467
Amounts held under resale agreements	-	21,836	2,278	160	-	-	24,274
Other assets	744	800	902	4,199	5,616	20	12,28
Total assets	78,572	179,950	250,807	130,176	90,861	3,617	733,983
Liabilities :							
Customer deposits	387,152	89,840	129,347	27,104	961	-	634,404
Rediscounted bills	-	68	40	-	-	-	108
Deposits from banks and other financial institutions	23,336	4,581	2,214	9,142	400	-	39,673
Placements from banks and other financial institutions	-	263	-	161	-	-	424
Amounts sold under repurchase agreements	-	2,608	296	138	-	-	3,042
Certificates of deposit	-	-	-	1,211	-	-	1,211
Convertible bonds	-	-	-	5,864	-	-	5,864
Subordinated notes issued	-	-	-	3,500	-	-	3,500
Other debts issued	-	-	-	10,000	-	-	10,000
Other liabilities	8,791	1,293	705	268	29	-	11,086
Total liabilities	419,279	98,653	132,602	57,388	1,390	-	709,312
Off balance sheet positions (Note)	-	62,117	39,913	41,395	1,629	-	145,054
Net long/(short) position	-340,707	19,180	78,292	31,393	87,842	3,617	-120,383

Note: Derivatives are mainly customer driven and the open positions are offset by similar positions with other financial institutions. The Bank does not have significant open positions. The above net off-balance sheet positions do not include all closed positions and back-to-back positions.

Notes to the financial statements(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

In addition, off-balance sheet business generally expires before it is drawn, therefore the above net positions (net of pledged deposits) do not represent the cash flows need. The above maturity analysis is grouped in accordance with the contractual maturity date.

The above analysis was prepared by matching the remaining maturities of assets and liabilities. Due to uncertainties in different types of transactions, maturities of assets and liabilities are usually not fully matched. Resulting mismatches may enhance the Bank's profits or increase its losses.

64 Use of derivatives

Derivatives are off-balance sheet financial instruments which include forward, swap and option transactions undertaken by the Bank in the foreign exchange and interest rate markets.

The Bank enters into financial derivative transactions for treasury business and its assets and liabilities management purpose.

Treasury business includes the formation and sale of financial derivatives to enable customers to transfer, change or mitigate the existing or anticipated risks.

When there are mismatches in the interest rates of assets and liabilities, the Bank will use interest rate swaps to swap fixed interest rates into floating interest rates.

For assets and liabilities denominated in foreign currencies, the Bank will be exposed to risks due to fluctuations of exchange rates. The Bank will use currency swaps and forward contracts to mitigate these risks.

The following table shows the notional amounts and the corresponding fair values of the Bank's financial derivatives as at 31 December 2005 and 31 December 2004. Notional amounts of the derivatives indicate the transaction volume outstanding at the balance sheet date; they do not represent amounts at risk.

	2005		
	Notional amount (RMB'000)	Fair value	
		Assets (RMB'000)	Liabilities (RMB'000)
Interest rate swaps	10,422,079	39,297	-50,624
Exchange rate contracts:			
– spot	2,825,983	1,091	-686
– forward	3,845,012	38,733	-34,565
– swap	1,069,834	7,137	–
Option contracts	–	–	–
	18,162,908	86,258	-85,875

Notes to the financial statements(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

	2004		
	Notional amount (RMB'000)	Fair value	
		Assets (RMB'000)	Liabilities (RMB'000)
Interest rate swaps contracts	7,391,658	41,478	-51,064
Exchange rate contracts:			
- spot	1,917,155	4,450	-2,720
- forward	388,428	8,870	-8,811
- swap	2,001,270	10,365	-12,089
Option contracts	248,295	288	-
	11,946,806	65,451	-74,684

The above derivative contracts were mainly originated from transactions with customers.

65 Operational risk management

Operational risk includes the risk of direct or indirect loss due to an event or action causing failure of technology, processes, infrastructure and personnel, and other risks having an operational impact.

The Bank manages this risk through a controls-based environment by establishing a framework of policies and procedures in order to identify, assess, control, manage and report risks. The framework covers all business functions ranging from finance, credit, accounting, settlement, savings, treasury, intermediary business, computer applications and management, special assets resolution and legal affairs. This has allowed the Bank to identify and address comprehensively the operational risk inherent in all key products, activities, processes and systems.

66 Non-operating income and expenses

In accordance with the "Q&A on the Preparation of Information Disclosure of Companies Offering Public Share No. 1 - Extraordinary Gain and Loss" (2004 revised) issued by the CSRC, the Bank's non-operating income and expenses are as follows:

	2005	2004
Rental income	59,192	54,697
Net gain on disposal of fixed assets	3,892	9,266
Indemnity for litigations	-4,931	-
Other net gain/losses	19,438	18,657
Total	77,591	82,620

67 Post balance sheet events

Status of share reform and convertible notes

Subsequent to the balance sheet date, the Bank implemented its State Share Reform Plan (the "Plan") pursuant to the provisions

Notes to the financial statements(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

of the “Certain Opinions Regarding the Promotion of Further Reform and Stable Development of the Capital Market” issued by the State Council, the “Guidelines on State-owned Share Reform of Listed Companies” jointly issued by the CSRC, the State-owned Assets Supervision and Administration Commission of the State Council, the Ministry of Finance, the People’s Bank of China and the Ministry of Commerce, as well as the “Administration Procedures for the Implementation of State-owned Share Reform for Listed Companies” issued by the CSRC. Upon delegation in writing by holders of more than two-thirds of its combined non-freely transferable shares, the Board of Directors (the “Board”) of the Bank engaged a sponsor to assist in formulation of its Plan. The salient points of the Plan are as follows:

Based on its total shareholding against as recorded in the members’ register at the share registration date as defined by the Plan, the Bank issued 0.8589 new shares for every 10 shares to all shareholders through funding from its capital reserve. The holders of non-freely transferable shares opted for the Plan had contributed 1.7374 shares for every 10 shares to the holders of freely transferable shares based on the register of members kept as at the share registration date following the implementation of the Plan to obtain the listing rights of the non-freely transferable shares. In addition, the holders of non-freely transferable shares also issued, at nil consideration, 6 put warrants for every 10 shares prior to issue of new shares to the holders of freely transferable shares. The warrants were set at an initial exercise price of RMB5.65 for a duration of 18 months. The obligation of the put warrants rests with 13 holders of non-freely transferable shares including China Merchants Steam Navigation Co., Ltd. on a proportion basis.

Subject to the obligations of the put warrant, the holders of non-freely transferable shares have undertaken to observe a 24-month or 36-month trading moratorium period from the date its non-freely transferable shares become freely transferable. Certain shareholders assuming the put obligation undertook that within 12 months after expiry of the 36-month trading moratorium period, the shares held by them will not

be traded or transferred when the trading price of each freely transferable share has not reached RMB8.48.

The holders of non-freely transferable shares assuming the put obligation have undertaken to make recommendation to the Board for drawing up a long-term incentive plan with share incentives following completion of the share reform, and implementing the incentive plan under the relevant state regulations or subject to the approval of shareholders’ general meeting of the Bank.

The Plan was approved by shareholders at the first extraordinary general meeting in 2006 and a relevant shareholders’ meeting for the share reform held on 20 January 2006. The effective date of the Plan was 27 February 2006, when the issued shares (“G CM”) (Code: 600036) of the Bank and its convertible notes in issue (“CM Notes”) (Code: 110036) resumed trading. The Bank’s put warrants (“CMP1”) (Code: 580997) commenced trading on 2 March 2006.

Up to 24 January 2006, the trading day immediately before implementation of the share reform, there was a conversion of the CM Notes in the amount of RMB6,451,552,000 into 1,035,561,132 shares of the Bank. There were still CM Notes tradable in the amount of RMB48,448,000, representing 0.75% of the original amount of CM Notes issued.

Upon completion of the share reform on 27 February 2006, the entire share capital of the Bank has increased to 12,279,063,413 shares, comprising 7,573,629,579 freely transferable shares under sale limitations and 4,705,433,834 freely transferable shares without sale limitations.

Issue of H shares

On 14 March 2006, the sixth Board of the Bank passed the “Resolution on Approval of Issue of H Shares and Listing of China Merchants Bank Co., Limited” at its 23rd meeting, allowing the Bank to issue overseas-listed foreign shares (H Shares) for listing on the Hong Kong Stock Exchange and subscription by foreign investors. The Bank has planned to issue a total of 2.2 billion H shares, representing no less than 15% of its entire share capital upon issue, in addition to an over-allotment option (covering no more than 15% of the said

Notes to the financial statements(continued)

(Expressed in thousands of Renminbi unless otherwise stated)

aggregate H Shares) to joint global book runners. The offer will be open to foreign institutional investors, corporates, individuals and other investors. The Bank will select appropriate timing and channels for the completion of H Share issue as and when the resolution of its shareholders at general meetings is still valid. Any concrete timetable of issue depends on the international capital market situation and approval progress of regulatory bodies. The intended issue will be by way of a public offer in Hong Kong and an international placing under Rule 144A as well as a private offer without listing (POWL) in Japan.

Other than the aforesaid events and those as disclosed in note 58(e) in the financial statements of the Bank, there were no additional material post balance sheet events to be disclosed.

68 Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation

69 Reconciliation of financial statements prepared in accordance with PRC Accounting Standards and IFRSs:

	2005		2004	
	Net profit	Net asset	Net profit (as adjusted)	Net asset
Based on financial statements prepared under IFRSs	3,748,794	25,997,468	3,276,182	21,958,287
Adjustments:				
Net gains on investments,	-34,215	-639,746	-109,280	-136,722
Net effects of adjustments on convertible bonds	177,759	-687,176	-22,815	-940,615
Exchange differences	38,045	-	-	-
Based on financial statements prepared under PRC Accounting Standards for Business Enterprises, Accounting Regulations for Financial Institutions, and other relevant supplementary provisions	3,930,383	24,670,546	3,144,087	20,880,950

Statement of Provision for Asset Impairment of China Merchants Bank Co., Ltd.

(Expressed in thousands of Renminbi unless otherwise stated)

Item	As of Jan.1, 2005	Provisions Made for Current Year	Reversal for Current Year	Repossessed Assets for Current Year	Written-off Amount for Current Year	Transferred Out for Current Year	Change of Exchange Rate	As of Dec. 31, 2005
Provision for bad debts	33,125						-826	32,299
Provisions for loss on decline in value of short-term investments	56,809						-1,416	55,393
Provision for loss on decline in value of long-term investments	19,545						-412	19,133
Provision for doubtful debts due from the banks and finance companies	284,343	62,615	-764				-3,274	342,920
Provision for loan loss	10,920,000	3,787,565	-456,575	83,959	-744,909	-1,658	-78,053	13,510,329
Provision for impairment of settled assets in suspense	1,120,000		-54		-243,129	1,658	-7,242	871,233
Provision for impairment of other assets	8,375			11				8,386
Total	12,442,197	3,850,180	-457,393	83,970	-988,038		-91,223	14,839,693

Legal Representative: Qin Xiao President: Ma Weihua Executive Vice President in charge of Accounting Dept : Chen Wei
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ANNUAL REPORT 2005

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