

# Significant Events



## Listing of H Shares and A Shares

The H Shares of the Bank was listed on the Hong Kong Stock Exchange on 1 June 2006. 25,568,590,000 H Shares were issued at the initial public offering. Following the exercise of the over-allotment option on 9 June 2006, a further 3,835,288,000 H Shares were issued. The issuance of H Shares accounted for 11.9% of the total enlarged share capital at an issue price of HKD2.95 per share. With the issuance of the shares, USD11.2 billion was raised.

The Bank conducted a public offer of its A Shares in the domestic market from 19 to 23 June 2006. These shares were issued at RMB3.08 per share and commenced trading on the Shanghai Stock Exchange on 5 July 2006. 6,493,506,000 A Shares were offered, representing 2.56% of the fully diluted share capital. A total of RMB20 billion was raised.



The IPOs of H Shares and A Shares accounted for 14.14% of the total enlarged share capital of the Bank. After the IPOs, the share capital of the Bank increased to RMB253,839,162,009 or 253,839,162,009 shares.

## Acquisition and Disposal of Asset

On 15 December 2006, the Bank completed its first post-IPO overseas acquisition with the purchase of Singapore Aircraft Leasing Enterprise Pte. Ltd. ("SALE") for USD965 million after several rounds of international competitive bidding.

The selling shareholders are Singapore Airlines Limited (56.67%<sup>1</sup> held by Temasek Holdings (Private) Limited) (35.5%), WestLB AG (35.5%), Apfarge Investment Pte. Ltd. (an investment

<sup>1</sup> As of 30 May 2006, the share volume held by Temasek Holdings (Private) Limited in Singapore Airlines Limited derives from the 05/06 Annual Report of Singapore Airlines Limited.

vehicle of Singapore government's Special Investments Pte. Ltd.) (14.5%), and Seletar Investments Pte. Ltd. (a wholly-owned subsidiary of Temasek Holdings (Private) Limited) (14.5%).

On 31 December 2005, Temasek Holdings (Private) Limited indirectly held 5% shares of the Bank via its wholly owned subsidiary, AFH. Its shareholding proportion declined to 4.805% after the NCSSF completed its investment in the Bank on 13 March 2006. According to the register maintained by the Bank pursuant to Section 336 of the SFO, the shares held by Temasek Holdings (Private) Limited in the Bank accounted for 4.65% of the Bank's total issued share capital on 31 December 2006. According to the opinions of the Bank's domestic and overseas legal advisors, the transaction did not constitute a connected transaction of the Bank.

SALE has been profitable since its establishment in 1993. After-tax profit reached USD4.7 million, USD5.2 million and USD34.7 million respectively in 2004–2006. It is a leading Asia-based aircraft leasing company, with a fleet of modern Airbus and Boeing aircraft, offering services to almost 27 airlines in 20 countries worldwide. The acquisition price represents 1.8 times of SALE's book value in September 2006, determined after taking into account its competitive aircraft orders, purchase price as well as its management teams which is well recognized by the market and its international platform.

Following the acquisition, SALE became the 205th subsidiary of the Group and the first Chinese-owned international aircraft leasing company. The acquisition provides the Bank with a well-established platform to expand into the global leasing business.

## Major Contracts and the Performance Thereof

During the report period and except as disclosed, the Bank did not take custody of or sub-contract the operation or lease any material business assets from third parties or allowed its material business assets being subject to such arrangements. No material cash assets of the Bank were entrusted to others for management.

The guarantee business is one of our off-balance sheet items in the ordinary course of business. The Bank operates guarantee business in a prudent manner and adopt credit risk management approach.

During the report period, the Bank or (to the Bank's best knowledge) shareholders holding 5% or more shares in the Bank have not made undertakings that might have significant adverse impact on the operational results and financial position of the Bank.

## Related Party Transactions

Please refer to Note V.40 to the Financial Statements for related party transactions during the report period.

## Internal Control

Please refer to Management Discussion and Analysis for details.

## Material Litigation and Arbitration

During the report period and except as disclosed herein, there were no material litigation and arbitration proceedings that might have significant adverse impact on the operation of the Bank.

The Bank has been involved in certain litigation and arbitration cases in the ordinary course of business. After consulting professional legal firms, the Management considers that these litigation and arbitration cases will not have a significant adverse impact on the operation of the Bank.

## Handling of Cases

In 2006, the Bank investigated and dealt with 30 cases of offences relating to breaches of laws and regulations, representing a decrease of 42.31% compared to 52 cases in the previous year. These cases involved a total of RMB806 million, 25.37% less than last year. The Bank recovered RMB391 million, which represents 48.51% of the total amount involved, with the remaining RMB415 million at risk.

The Bank adopts a strict accountability system with regard to cases relating to breaches of laws and regulations. In every case, not only persons directly responsible will be held liable, those that are indirectly involved, such as supervisors in the relevant business unit, and management of the business line at one or even two levels above as well as the key management personnel of the relevant entity, will also be held accountable. Where the case involves more than RMB1 million, the person in charge of the business unit will be held accountable and be allowed to resign or be removed from such position. The occurrence of such an event will have a significant adverse impact on the

performance evaluation of the relevant entity. In 2006, a total of 10,413 persons have been held accountable for breach of laws and regulations, of which 97 directors of tier two branches or sub-branches have been removed from their positions or summarily dismissed. 119 of the management personnel directly involved and 114 of those indirectly involved were also held accountable.

## Convergence of Enterprise Income Tax and Income Tax on Foreign Invested Enterprises and Foreign Enterprises

On 16 March 2007, the National People's Congress enacted the new PRC Enterprise Income Tax Law. The enterprise income tax rate applicable to the Bank will decline from 33% to 25% taking effect from 2008. The Bank will benefit from the reduction of tax rates prospectively from 2008. Meanwhile, the Bank will adjust the deferred income tax assets according to the new tax rate. Please refer to Note V.43(1) to the Financial Statements for detailed information.

## Penalty Imposed on Directors, Supervisors and Senior Management Personnel

During the report period, none of the directors, supervisors or any member of senior management was subject to any investigation or administrative punishment from the CSRC, nor were they publicly reprimanded by any stock exchange.

