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Web Proof Information Pack of



中國民生銀行股份有限公司

CHINA MINSHENG BANKING CORP., LTD.*

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

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CONTENTS

This Web Proof Information Pack contains the following information relating to the Company extracted from the draft document:

- Warning
- Contents
- Summary
- Definitions
- Forward-Looking Statements
- Risk Factors
- Exemptions from the Companies Ordinance and Waivers from Strict Compliance with the Hong Kong Listing Rules
- Directors
- Corporate Information
- Banking Industry in the PRC
- Supervision and Regulation
- Corporate History and Organizational Structure
- Business
- Risk Management
- Directors, Supervisors, Senior Management and Staff
- Substantial Shareholders
- Share Capital
- Description of Our Assets and Liabilities
- Financial Information
- Future Plans
- Appendix I — Accountant’s Report
- Appendix II — Unaudited Interim Financial Report
- Appendix III — Unaudited Supplementary Financial Information
- Appendix V — Profit Forecast
- Appendix VI — Property Valuation
- Appendix VII — Summary of Principal Legal and Regulatory Provisions
- Appendix VIII — Summary of Articles of Association
- Appendix IX — Taxation and Foreign Exchange
- Appendix X — Statutory and General Information

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SUMMARY

OVERVIEW

We are the first and largest national joint stock commercial bank in the PRC primarily founded by non-state-owned enterprises. Since our establishment in 1996, we have grown significantly and, as of September 30, 2009, we ranked fourth among the Other Joint Stock Commercial Banks in terms of total assets. As of September 30, 2009, we had total assets of RMB1,402.9 billion, total loans to customers of RMB893.5 billion and total deposits from customers of RMB1,099.5 billion.

We have expanded our business at a rapid pace. From December 31, 2006 to December 31, 2008, our total assets, total loans to customers and total deposits from customers grew at a CAGR of 20.6%, 18.1%, and 16.1%, respectively. From 2006 to 2008, our net profit grew at a CAGR of 44.9% from RMB3.8 billion to RMB7.9 billion. We had profit before tax of RMB13.5 billion for the nine months ended September 30, 2009 (which includes a non-recurring gain on disposal of Haitong securities of RMB4.9 billion). Although our business has grown rapidly during this period, we have maintained our discipline at risk management, and thereby also maintained high asset quality. As of September 30, 2009, our non-performing loan ratio⁽¹⁾ was 0.82%, compared with the industry's average of 1.66% in China.

In recent years, we have taken a number of measures to rationalize our business mix, strengthen our risk management system and upgrade our information technology system in order to improve our overall competitiveness. Since late 2007, we have carried out a SBU reform to align our internal structure with our key industries, customers and products, which we believe will strengthen our ability to better take advantage of market opportunities, serve customers and manage risk. We believe that we were the first PRC bank to implement wide-ranging SBU reform. We have received a number of honors and awards for our business performance, management capability and corporate governance. For example:

- in 2009, The Chinese Banker (《銀行家》) magazine named us the "Best Corporate Governance Bank of 2008;"
- in 2008, we were named one of the "Best Risk Management Banks" in the PRC in the annual Best PRC Financial Institutions League Table Awards organized by the Financial News (《金融時報》);
- in 2008, a panel led by the Development and Research Center of the State Council and various other organizations ranked us third among its "100 Most Dynamic PRC Enterprises of 2008;"
- in 2008, The Chinese Banker (《銀行家》) magazine named us the "Best Corporate Governance Bank of 2007" and "Best Management Practices Innovation Bank of 2007;"
- in 2008, we were recognized as having the "Best Customer Service Center in Finance" by the Financial News (《金融時報》);
- in 2008, we were named "Best Online Bank" by the China Electronic Commerce Association and the China Payment Systems Research Center and we received the "2008 Award for the PRC Online Bank with the Best Risk Prevention" from the Chinese Finance Certification Agency; and
- in 2007, Forbes Magazine listed us as one of the "Top 50 Largest Listed Enterprises in the Asia Pacific Region."

Note:

(1) Our non-performing loan ratio is identical to our impaired loan ratio as such term is read in this document.

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SUMMARY

We are headquartered in Beijing. All of our branches and sub-branches are in the PRC and concentrated in 40 cities throughout China. Through our network, we provide a broad range of corporate and retail banking products and services. We also conduct treasury operations for our own account and on behalf of our customers. In 2008, our corporate banking, retail banking and treasury operations accounted for approximately 75.5%, 17.7%, and 6.3%, respectively, of our total operating income.

For the nine months ended September 30, 2009, our total operating income was RMB31.3 billion, which includes an amount of RMB5.6 billion that was not allocated to our three main lines of business. Such amount mainly related to a RMB4.9 billion gain on disposal of interest in Haitong Securities, see “Financial Information — Results of Operations — Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008 — Net gain/(loss) on Disposal of Available-for-sale Securities”. Excluding such RMB4.9 billion gain, our total operating income for the nine months ended September 30, 2009 would have been RMB26.4 billion and contribution to such total operating income by corporate banking, retail banking and treasury business would have been 70.9%, 13.4% and 13.1%, respectively. We completed the domestic initial public offering and listing on the Shanghai Stock Exchange of our A shares in December 2000.

OUR STRENGTHS

- *Since our establishment, we have followed a market-oriented and profit-driven business model with a corporate culture that encourages innovation.*
- *We are a fast growing national joint stock commercial bank in the PRC that has sound corporate governance, well-established compliance practices and transparent disclosure systems.*
- *Our outstanding corporate banking business, coupled with the SBU reform, has further strengthened our competitive position.*
- *We have a distinct retail banking business model that has contributed to the strong growth of our retail banking business.*
- *We have built a fast growing fee and commission-based business by leveraging product and service innovation and our high-quality customer base.*
- *We have prudent and comprehensive risk management.*
- *We have an advanced information technology system.*
- *We have an experienced senior management team and skilled workforce.*

OUR STRATEGIES

- *Maintaining and expanding our existing high quality large corporate customer base by providing innovative products and high quality services and refining our SBU operations.*
- *Striving to become a leader in the SME financial services business in the PRC by leveraging our diverse customer base and knowledge of the SME financial services sector.*
- *Actively expanding our retail banking business and consolidating our strengths in medium and high-end customers and wealth management.*
- *Maintaining the rapid growth of our fee and commission-based business.*

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SUMMARY

- *Strategically expanding and improving our branch networks and other distribution channels.*
- *Continuing to maintain our competitive strength in information technology.*
- *Further strengthening our risk management and internal control.*
- *Continuing to improve our financial and operational efficiency and enhancing our capital management capabilities.*
- *Further strengthening the competitiveness of our talented workforce.*
- *Selectively entering into other areas of financial services when appropriate business opportunities arise.*

RISK FACTORS

There are certain risks relating to (i) our loan portfolio; (ii) our business; (iii) the banking industry in the PRC; and (iv) the PRC in general.

Risks Relating to Our Loan Portfolio

- *If we are unable to effectively maintain the quality of our loan portfolio, our business could be materially and adversely affected.*
- *We may have to increase our provisions for impaired loans.*
- *A large portion of our loan portfolio is made to corporate customers, customers in certain industries and regions and certain single borrowers, and any economic downturn impacting such industries, regions or customers could materially and adversely affect our business.*
- *The collateral or guarantees securing our loans may not be sufficient, and we may be unable to realize the value of the collateral or guarantees in a timely manner or at all.*

Risks Relating to Our Business

- *We may not be able to satisfy the capital adequacy requirement established by the CBRC.*
- *We may not be able to successfully maintain growth or otherwise obtain sufficient resources to support such growth.*
- *If we are unable to maintain our growth rate in customer deposits or if there is a significant decrease in our customer deposits, our business operations and our liquidity may be adversely affected.*
- *We will be exposed to various risks as we expand our range of products and services.*
- *Our business operation reform and organizational restructuring may not be as effective as we expected.*
- *We are subject to a number of risks, including credit risk, market risk, liquidity risk and operational risk, and cannot assure you that our risk management and internal control policies and procedures can protect us against such risks.*
- *We are subject to counterparty risks in our derivative transactions.*
- *We are subject to risks associated with off-balance-sheet commitments.*

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SUMMARY

- *We may not be able to detect and prevent fraud or other misconduct committed by our employees or third parties.*
- *We are subject to PRC regulatory requirements, and our failure to fully comply with such requirements could materially and adversely affect our business, financial condition, results of operations and our reputation.*
- *We may not be able to hire, train or retain a sufficient number of qualified staff.*
- *Our business is highly dependent on the proper functioning and improvement of our information technology systems.*
- *We may not be able to detect money laundering and other illegal or improper activities fully or on a timely basis, which could expose us to additional liability and harm our business or reputation.*
- *We do not possess title certificates in respect of some of the properties we own, and some of our landlords lack relevant title certificates for properties leased to us, which may materially and adversely affect our right to use such properties.*
- *Our business, financial condition, results of operations and prospects and the value of your investment may be materially and adversely affected as a result of negative media coverage relating to us, our personnel or the PRC banking industry.*

Risks Relating to the Banking Industry in the PRC

- *The increasingly competitive nature of the PRC banking industry, as well as competition for funds which may arise from the developing PRC capital markets, could materially and adversely affect our business, financial condition, results of operations and prospects.*
- *The growth of the PRC banking industry may not be sustainable.*
- *Our business and operations are highly regulated, and our business, financial condition, results of operations and prospects may be materially and adversely affected by regulatory changes or other governmental policies, including their interpretation and application.*
- *We are subject to changes in interest rates and other market risks.*
- *PRC regulations impose certain limitations on the types of investments we may make and, as a result, our ability to seek higher investment returns and our ability to diversify our investment portfolio or hedge the risks relating to our RMB-denominated assets are limited.*
- *The effectiveness of our risk management system is affected by the quality and scope of information available in the PRC.*
- *Our loan classification and provisioning policies may be different from those applicable to banks in certain other countries or regions.*
- *Future amendments to IAS 39 and interpretive guidance on its application may require us to change our practice for making provisions to impairment of financial assets.*
- *The ability of our shareholders to pledge their shares is limited by applicable PRC legal and regulatory requirements.*
- *Investments in commercial banks in the PRC are subject to ownership restrictions that may materially and adversely affect the value of your investment.*

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SUMMARY

- *We cannot assure you of the accuracy or comparability of facts, forecasts and statistics contained in this document with respect to the PRC, its economy or the PRC and global banking industries.*

Risks Relating to the PRC

- *Our business, earnings, assets quality and financial condition have been and will continue to be affected by the deterioration in the global economy and the slowdown of China's economic growth, as well as the changes in PRC government's policies.*
- *The interpretation and enforcement of the PRC laws and regulations may limit the protection available to you.*
- *You may experience difficulties in effecting service of legal process or enforcing foreign judgments against us and our management.*
- *Government control of currency conversion and the fluctuation of the Renminbi may materially and adversely affect our operations.*
- *Payment of dividends is subject to restrictions under PRC law.*
- *Changes in tax incentives may materially and adversely affect our business and results of operations.*
- *Any future outbreaks of contagious diseases in the PRC may have a material adverse effect on our business operations, financial condition and results of operations.*

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SUMMARY

SUMMARY FINANCIAL AND OPERATING INFORMATION

Selected Audited Financial Data

You should read the summary financial and operating information set forth below in conjunction with the Accountant's Report set out in Appendix I and the sections headed "Description of Our Assets and Liabilities" and "Financial Information." The selected income statement information for the three years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2008 and 2009, and the selected balance sheet information as of December 31, 2006, 2007 and 2008 and June 30, 2009 set forth below are derived from the Accountant's Report set out in Appendix I.

Selected Consolidated Income Statement Data

	For the year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
				(unaudited)	
	(in millions of RMB)				
Interest income	27,361	40,070	56,311	27,259	24,634
Interest expense	(11,193)	(17,490)	(25,931)	(12,563)	(10,684)
Net interest income	16,168	22,580	30,380	14,696	13,950
Fee and commission income	1,224	2,665	4,755	3,211	2,442
Fee and commission expense	(197)	(274)	(294)	(139)	(144)
Net fee and commission income	1,027	2,391	4,461	3,072	2,298
Net trading income	202	425	185	(155)	23
Net gain/(loss) on disposal of available-for-sale securities	44	(124)	(53)	27	4,959
Impairment losses on assets	(2,214)	(2,265)	(6,518)	(1,615)	(2,851)
Operating expenses	(9,717)	(13,752)	(17,817)	(7,868)	(8,378)
Other operating expenses	(273)	(43)	(150)	(1)	(415)
Profit before income tax	5,237	9,212	10,488	8,156	9,586
Income tax expense	(1,479)	(2,877)	(2,595)	(2,110)	(2,207)
Net profit	3,758	6,335	7,893	6,046	7,379
Dividends ⁽¹⁾	—	3,620	1,506	—	—

Note:

(1) Represents the final dividend proposed after the respective balance sheet date.

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SUMMARY

Selected Consolidated Balance Sheet Data

	As of December 31,			As of June 30,
	2006	2007	2008	2009
	(in millions of RMB)			
Cash and due from banks and other financial institutions	11,564	11,986	17,648	24,080
Balances with central banks	105,205	106,992	181,878	134,641
Placements with banks and other financial institutions	32,148	80,235	52,408	174,595
Loans and advances to customers	465,671	547,296	646,475	890,678
Investment securities:				
- available-for-sale	50,162	60,715	53,597	65,042
- held-to-maturity	40,302	45,816	38,716	46,494
- loans and receivables	10,228	47,449	37,066	38,516
Total assets	725,087	918,837	1,054,350	1,410,014
Deposits from customers	583,315	671,219	785,786	1,075,309
Due to and placements from banks and other financial institutions	91,821	150,253	160,248	221,090
Total liabilities	705,776	868,650	999,678	1,351,962
Total equity	19,311	50,187	54,672	58,052

Selected Financial Ratios

	As of or for the year ended December 31,			For the six months ended June 30,	
	2006	2007	2008	2008	2009
	(in percentages)			(unaudited)	
Profitability ratios					
Return on total asset ⁽¹⁾⁽²⁾	0.52%	0.69%	0.75%	1.14%	1.05%
Return on average assets ⁽²⁾⁽³⁾	0.58%	0.77%	0.80%	1.22%	1.20%
Return on equity ⁽²⁾⁽⁴⁾	19.46%	12.62%	14.44%	21.90%	25.42%
Return on average equity ⁽²⁾⁽⁵⁾	21.61%	18.23%	15.05%	22.94%	26.18%
Net interest spread ⁽²⁾⁽⁶⁾	2.64%	2.84%	3.00%	3.20%	2.31%
Net interest margin ⁽²⁾⁽⁷⁾	2.70%	2.93%	3.15%	3.22%	2.43%
Non-interest income to operating income	7.30%	10.65%	13.13%	16.69%	34.29%
Operating expenses to operating income ⁽⁸⁾	57.28%	54.59%	51.37%	44.61%	41.42%
Cost-to-income ratio ⁽⁹⁾	49.30%	46.49%	43.04%	36.60%	35.45%
Asset quality ratios					
Impaired loan ratio ⁽¹⁰⁾	1.25%	1.22%	1.20%	1.21%	0.86%
Allowance to impaired loans ⁽¹¹⁾	108.89%	113.14%	150.04%	114.19%	169.93%
Allowance to total loans ⁽¹²⁾	1.36%	1.38%	1.81%	1.38%	1.47%
Other ratios					
Core capital adequacy ratio	4.40%	7.40%	6.60%	6.75%	5.90%
Capital adequacy ratio	8.20%	10.73%	9.22%	9.21%	8.48%
Total equity to total assets ⁽¹³⁾	2.66%	5.46%	5.19%	5.20%	4.12%
Cash dividend payout ratio ⁽¹⁴⁾	—	11.43%	19.23%	—	—

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SUMMARY

Notes:

- (1) Calculated by dividing net profit for the period by the balance of total assets at the end of the period.
- (2) Ratios for the six months ended June 30, 2008 and 2009 are calculated on an annualized basis
- (3) Calculated by dividing net profit for the period by the average balance of total assets at the beginning and end of the period.
- (4) Calculated by dividing net profit for the period by the balance of total equity at the end of the period.
- (5) Calculated by dividing net profit for the period by the average balance of total equity at the beginning and end of the period.
- (6) Calculated as the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities.
- (7) Calculated by dividing net interest income for the period by the average balance of total interest-earning assets for the period.
- (8) Calculated by dividing (i) operating expenses and other operating expenses by (ii) net interest income, net fee and commission income, net trading income, and net gain/(loss) on disposal of available-for-sale securities for the period.
- (9) Calculated by dividing (i) operating expenses and other operating expenses minus business tax and surcharges by (ii) net interest income, net fee and commission income, net trading income, and net gain/(loss) on disposal of available-for-sale securities for the period.
- (10) Calculated by dividing impaired loans to customers by gross loan and advances to customers at the end of the period.
- (11) Calculated by dividing the allowance for impairment losses on gross loan and advances to customers by total impaired loans to customers at the end of the period. Allowance to impaired loans increased from 108.89% to 113.14% and further to 150.04% as of December 31, 2006, 2007 and 2008, respectively, primarily due to an increase in our allowance for impairment losses on gross loan and advances to customers as a result of (i) an increasing loan balance over the period and (ii) increased provisions reflecting the economic downturn in the PRC starting in 2008. See "Description of Our Assets and Liabilities — Allowance for Impairment Losses on Loans to Customers — Changes to Allowances for Impairment Losses".
- (12) Calculated by dividing the allowance for impairment losses on gross loan and advances to customers by gross loan and advances to customers at the end of the period. Allowance to total loans increased from 1.36% to 1.38% and further to 1.81% as of December 31, 2006, 2007 and 2008, respectively, primarily due an increase in our allowance for impairment losses on gross loan and advances to customers as a result of increased provisions reflecting the economic downturn in the PRC starting in 2008. See "Description of Our Assets and Liabilities — Allowance for Impairment Losses on Loans to Customers — Changes to Allowances for Impairment Losses".
- (13) Calculated by dividing the balance of total equity at the end of the period by the balance of total assets at the end of the period.
- (14) Calculated by dividing cash dividends declared per share in respect of the period by net profit per share for the period.

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SUMMARY

Selected Unaudited Financial Data

As required by the Shanghai Listing Rules, we published on October 21, 2009 our quarterly report containing our unaudited consolidated financial information as of and for the nine months ended September 30, 2009 prepared in accordance with PRC GAAP. We have included our unaudited consolidated financial statements as of and for the nine months ended September 30, 2009, in condensed form, in the Unaudited Interim Financial Report in Appendix II to this document. The unaudited consolidated financial statements were prepared in accordance with IFRS so that such information is comparable to our audited consolidated financial statements. The unaudited consolidated financial statements have been reviewed in accordance with International Standards on Review Engagements 2410. The following selected unaudited financial data are derived from, and should be read in conjunction with, our unaudited consolidated financial statements included in Appendix II to this document.

There is no difference in the net profit for the nine months ended September 30, 2009 or net assets as at September 30, 2009 between the Group's unaudited condensed consolidated financial statements prepared under PRC GAAP and the Group's unaudited condensed consolidated financial statements prepared under IFRS.

Selected Unaudited Income Statement Data for the Nine Months Ended September 30, 2008 and 2009

	Nine months ended September 30,	
	2008	2009
	(unaudited)	
	(in millions of RMB)	
Interest income	42,286	38,743
Interest expense	(19,480)	(16,053)
Net interest income	22,806	22,690
Fee and commission income	4,495	3,785
Fee and commission expense	(213)	(233)
Net fee and commission income	4,282	3,552
Net trading income	89	84
Net gain/(loss) on disposal of available-for-sale securities	47	5,003
Impairment losses on assets	(3,028)	(3,383)
Operating expenses	(12,262)	(14,047)
Other operating expenses	(83)	(426)
Profit before income tax	11,851	13,473
Income tax expense	(3,177)	(3,260)
Net profit	8,674	10,213
Dividends	—	—

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SUMMARY

Selected Consolidated Balance Sheet Data as of December 31, 2008 and September 30, 2009

	As of December 31, 2008	As of September 30, 2009
		(unaudited)
		(in millions of RMB)
Cash and due from banks and other financial institutions . .	17,648	53,517
Balances with central banks	181,878	164,538
Placements with banks and other financial institutions . . .	52,408	114,381
Loans and advances to customers	646,475	880,008
Investment securities:		
- available-for-sale	53,597	52,265
- held-to-maturity	38,716	53,671
- loans and receivables	37,066	42,587
Total assets	1,054,350	1,402,936
Deposits from customers	785,786	1,099,483
Due to and placements from banks and other financial institutions	160,248	182,729
Total liabilities	999,678	1,342,525
Total equity	54,672	60,411

Selected Unaudited Financial Ratios as of or for the Nine Months Ended September 30, 2008 and 2009

	As of or for the nine months ended September 30,	
	2008	2009
	(in percentages)	
Profitability ratios		
Return on total asset ⁽¹⁾⁽²⁾	1.09%	0.97%
Return on average assets ⁽²⁾⁽³⁾	1.17%	1.11%
Return on equity ⁽²⁾⁽⁴⁾	20.06%	22.54%
Return on average equity ⁽²⁾⁽⁵⁾	21.45%	23.67%
Net interest spread ⁽²⁾⁽⁶⁾	2.90%	2.38%
Net interest margin ⁽²⁾⁽⁷⁾	3.17%	2.49%
Non-interest income to operating income	16.23%	27.58%
Operating expenses to operating income ⁽⁸⁾	45.35%	46.20%
Cost-to-income ratio ⁽⁹⁾	37.38%	39.74%
Asset quality ratios		
Impaired loan ratio ⁽¹⁰⁾	1.22%	0.82%
Allowance to impaired loans ⁽¹¹⁾	123.78%	185.75%
Allowance to total loans ⁽¹²⁾	1.52%	1.51%
Other ratios		
Core capital adequacy ratio	6.47% ⁽¹³⁾	6.02%
Capital adequacy ratio	8.85% ⁽¹³⁾	8.57%
Total equity to total assets ⁽¹⁴⁾	5.42%	4.31%
Cash dividend payout ratio ⁽¹⁵⁾	0.00%	0.00%

Notes:

(1) Calculated by dividing net profit for the period by the balance of total assets at the end of the period.

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SUMMARY

- (2) Ratios for the nine months ended September 30, 2008 and 2009 are calculated on an annualized basis
- (3) Calculated by dividing net profit for the period by the average balance of total assets at the beginning and end of the period.
- (4) Calculated by dividing net profit for the period by the balance of total equity at the end of the period.
- (5) Calculated by dividing net profit for the period by the average balance of total equity at the beginning and end of the period.
- (6) Calculated as the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities.
- (7) Calculated by dividing net interest income for the period by the average balance of total interest-earning assets for the period.
- (8) Calculated by dividing (i) operating expenses and other operating expenses by (ii) net interest income, net fee and commission income, net trading income, and net gain/(loss) on disposal of available-for-sale securities for the period.
- (9) Calculated by dividing (i) operating expenses and other operating expenses minus business tax and surcharges by (ii) net interest income, net fee and commission income, net trading income, and net gain/(loss) on disposal of available-for-sale securities for the period.
- (10) Calculated by dividing impaired loans to customers by gross loan and advances to customers at the end of the period.
- (11) Calculated by dividing the allowance for impairment losses on gross loan and advances to customers by total impaired loans to customers at the end of the period.
- (12) Calculated by dividing the allowance for impairment losses on gross loan and advances to customers by gross loan and advances to customers at the end of the period.
- (13) Calculated using our Bank data, as the relevant Group data for September 30, 2008 is not available.
- (14) Calculated by dividing the balance of total equity at the end of the period by the balance of total assets at the end of the period.
- (15) Calculated by dividing cash dividends declared per share in respect of the period by net profit per share for the period.

PROFIT FORECAST FOR THE YEAR ENDING DECEMBER 31, 2009⁽¹⁾

All statistics in this table are based on the assumption that [●].

Forecast consolidated net profit attributable to shareholders⁽¹⁾. . . not less than RMB[●] billion

Notes:

(1) The bases and assumptions on which the profit forecast has been prepared are set out in Appendix V to this document.

DIVIDEND POLICY

Our Board is responsible for submitting proposals in respect of dividend payments, if any, to the shareholders’ general meeting for approval. The determination of whether to pay a dividend and in what amount is based on our results of operations, cash flow, financial condition, capital adequacy ratios, future business prospects, statutory and regulatory restrictions on the payment of dividends by us and other factors that our Board deems relevant. Under the Company Law and our articles of association, all of our shareholders holding the same class of shares have equal rights to dividends and other distributions proportionate to their shareholding. We generally pay dividends out of our distributable profit, which is our net profit as determined under PRC GAAP or IFRS, whichever is lower, less:

- recovery of any accumulated losses;
- appropriations we are required to make to the statutory surplus reserve, which is currently 10% of our net profit available for appropriation as determined under PRC GAAP, until such reserve reaches an amount equal to 50% of our registered capital;
- a regulatory general reserve we are required to set aside; and

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SUMMARY

- appropriations to a discretionary surplus reserve as approved by the shareholders in an annual general meeting.

According to our Articles of Association, the accumulative profit distribution in cash for the last three years shall be no less than 30% of the annual average distributable profit realized for the last three years. See "Financial Information — Dividend Policy."

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DEFINITIONS

In this document, unless the context otherwise requires, the following terms shall have the meanings set out below:

"A Shares"	ordinary shares issued by our Bank in the PRC with a nominal value of RMB1.00 each, which are subscribed for or credited as paid up in Renminbi and are listed for trading on the Shanghai Stock Exchange
"Articles of Association" or "Articles"	the articles of association of our Bank, the current version of which was adopted by our shareholders at the extraordinary shareholders' meeting on June 22, 2009 and was approved by the CBRC on July 17, 2009 and as amended from time to time
"ATM"	automated teller machine
"Bank"	中國民生銀行股份有限公司, China Minsheng Banking Corp., Ltd., a joint stock limited company incorporated in the PRC with limited liability in accordance with PRC laws.
"Banking Disclosure Rules"	the Banking (Disclosure) Rules, Chapter 155M of the Laws of Hong Kong, as the same may be amended, supplemented or otherwise modified from time to time
"Banking Ordinance"	the Banking Ordinance, Chapter 155 of the Laws of Hong Kong, as the same may be amended, supplemented or otherwise modified from time to time
"Banking Regulatory Law"	中華人民共和國銀行業監督管理法, the Banking Regulatory Law of the PRC promulgated by the Standing Committee of the NPC on December 27, 2003 which became effective on February 1, 2004
"Basel I"	1988 Basel Capital Accord
"Basel II"	the Revised Basel Capital Framework promulgated in June 2004
"Board"	the board of Directors of our Bank
"Bohai Rim"	for purpose of this document, Beijing Municipality, Tianjin Municipality, Hebei Province and Shandong Province
"building ownership certificates"	中華人民共和國房屋所有權證, building ownership certificates in the PRC
"Business Day"	a day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
"CAGR"	compound annual growth rate
"CEPA"	the Closer Economic Partnership Arrangement entered into between the Hong Kong government and the PRC government on June 29, 2003 and any supplemental arrangements pursuant thereto and as the same may be amended, supplemented or otherwise modified from time to time
"CBRC"	中國銀行業監督管理委員會, China Banking Regulatory Commission, a regulatory body primarily responsible for the

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DEFINITIONS

	supervision and regulation of banks, asset management companies, trust and investment companies and other deposit-taking institutions in the PRC to safeguard the legitimate and sound functioning of the banking industry
"CDM"	cash deposit machine
"China UnionPay"	中國銀聯, China UnionPay Co., Ltd., a bank card association in the PRC established in March 2002 under the approval of the State Council and the PBOC
"CIETAC"	中國國際經濟貿易仲裁委員會, China International Economic and Trade Arbitration Commission
"CIRC"	中國保險監督管理委員會, China Insurance Regulatory Commission
"Company Law"	中華人民共和國公司法, the Company Law of the PRC, as enacted by the Standing Committee of the NPC on December 29, 1993, which became effective on July 1, 1994, as the same may be amended by the Standing Committee of the NPC on October 27, 2005, which became effective on January 1, 2006
"Companies Ordinance"	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong, as the same may be amended, supplemented or otherwise modified from time to time
"Commercial Banking Law"	中華人民共和國商業銀行法, the Commercial Banking Law of the PRC, which was promulgated by the Standing Committee of the NPC on May 10, 1995 and became effective on July 1, 1995, and as amended by the Standing Committee of the NPC on December 27, 2003, which amendment became effective on February 1, 2004
"Conversion Scheme"	the scheme undertaken by the Bank in October 2005 to convert the non-tradable shares of the Bank into tradable shares pursuant to the "Administrative Measures on the Split Share Structure Reform of Listed Companies" (上市公司股權分置改革管理辦法) promulgated by the CSRC on September 4, 2005, as further described in the section headed "Corporate History and Organizational Structure"
"Convertible Bonds"	convertible bonds issued by our Bank on February 27, 2003 in the aggregate principal amount of RMB4.0 billion, carrying a coupon interest at the rate of 1.5% per annum and due February 26, 2008 and listed on the Shanghai Stock Exchange
"Core Indicators (Provisional)"	商業銀行風險監管核心指標(試行), the Core Indicators for Risk Supervision of Commercial Bank (Provisional), as promulgated by the CBRC on December 31, 2005 and effective on January 1, 2006
"Corporate Governance Guidelines"	股份制商業銀行公司治理指引, the Corporate Governance Guidelines for Joint Stock Commercial Banks, as promulgated by the PBOC on May 23, 2002 and effective on the same date

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DEFINITIONS

"CSRC"	中國證券監督管理委員會, China Securities Regulatory Commission, a regulatory body responsible for the supervision and regulation of the PRC national securities markets
"Director(s)"	the director(s) of our Bank
"Eastern China"	the area serviced by including, for the purpose of this document, Cixi Minsheng Township Bank Co., Ltd. and the following branches: Shanghai, Hangzhou, Ningbo, Nanjing, Jinan, Suzhou, Wenzhou, Qingdao, Hefei and Nanchang
"GDP"	gross domestic product (all references to GDP growth rates are to real as opposed to nominal growth rates of GDP)
"GFA"	gross floor area
"Group," "we" or "us"	our Bank and all of its subsidiaries
"Guidelines of Risk-based Classification of Loans"	貸款風險分類指引, (Guidelines of Risk-based Classification of Loans) as promulgated by the CBRC on July 3, 2007 and effective on July 3, 2007
"HK\$" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, as the same may be amended and supplemented or otherwise modified from time to time
"IAS"	International Accounting Standards
"IFRS"	International Financial Reporting Standards
"land use rights certificates"	中華人民共和國國有土地使用證, land use rights certificates in the PRC
"Large Commercial Banks"	Agricultural Bank of China, Bank of China, Bank of Communications, China Construction Bank, Industrial and Commercial Bank of China and their respective predecessors, collectively
"Latest Practicable Date"	[●], 2009 being the latest practicable date for ascertaining certain information in this document before its publication
"Macau"	the Macau Special Administrative Region of the PRC
"Mandatory Provisions"	到境外上市公司章程必備條款, the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas, for inclusion in the articles of association of companies incorporated in the PRC to be listed overseas, which were promulgated by the State Council Securities Commission and the State Restructuring Commission on August 27, 1994, as the same may be amended and supplemented or otherwise modified from time to time

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DEFINITIONS

“MOF”	中華人民共和國財政部, the Ministry of Finance of the PRC, a department of the State Council responsible for the administration of state revenues and expenditures, financial and taxation policies, and management of state-owned capital
“NDRC”	中華人民共和國國家發展和改革委員會, the National Development and Reform Commission of the PRC
“New Capital Adequacy Regulations”	商業銀行資本充足率管理辦法, the Administrative Measures on the Capital Adequacy Ratio of Commercial Banks, as promulgated by the CBRC on February 23, 2004 and effective on March 1, 2004
“non-performing loans”	for the purpose of this document, is used synonymously to refer to the loans identified as “impaired loans” in Note 3.(2).f.(iii) to the Accountant’s Report in Appendix I to this document
“Northern China”	the area serviced by including, for the purpose of this document, Minsheng Financial Leasing Co., Ltd., our headquarters in Beijing and the following branches: Beijing, Taiyuan, Shijiazhuang and Tianjin
“NPC”	中華人民共和國全國人民代表大會, the National People’s Congress of the PRC
“Other Joint Stock Commercial Banks”	for the purpose of this document, PRC’s national commercial banks excluding the Large Commercial Banks and the Postal Savings Bank of China, namely China Everbright Bank, China Bohai Bank, China CITIC Bank, China Merchants Bank, China Zheshang Bank, Evergrowing Bank, Guangdong Development Bank, Huaxia Bank, Industrial Bank, Shanghai Pudong Development Bank, Shenzhen Development Bank and our Bank
“PBOC”	中國人民銀行, the People’s Bank of China, the central bank of the PRC
“PBOC Law”	中華人民共和國中國人民銀行法, the Law of the People’s Bank of China of the PRC, which was promulgated by the Standing Committee of the NPC on March 18, 1995 and became effective on the same date, and was subsequently amended by the Standing Committee of the NPC, which amendment became effective on December 27, 2003
“Pearl River Delta”	for the purpose of this document, Guangdong Province and Fujian Province
“Personal Data (Privacy) Ordinance”	the Personal Data (Privacy) Ordinance, Chapter 486 of the Laws of Hong Kong, as the same may be amended, supplemented or otherwise modified from time to time
“PRC” or “China”	the People’s Republic of China, but, for the purposes of this document only, excluding Hong Kong, Macau and Taiwan, unless otherwise indicated
“PRC GAAP”	generally accepted accounting principles in the PRC

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DEFINITIONS

"Pre-provision Operating Profit"	calculated by the aggregate of (i) net interest income, net fee and commission income, net trading income, net gain/(loss) on disposal of available-for-sale securities minus (ii) operating expenses and other operating expenses
"Promoters"	the promoters that established our Bank in February 1996
"Related Party Transactions Measures"	商業銀行與內部人和股東關聯交易管理辦法, the Administrative Measures on Transactions with Insiders and Shareholders of Commercial Banks, as promulgated by the CBRC on April 2, 2004 and effective on May 1, 2004
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"SAFE"	中華人民共和國國家外匯管理局, the State Administration of Foreign Exchange of the PRC, responsible for matters relating to foreign exchange administration
"SAIC"	中華人民共和國國家工商行政管理總局, the State Administration of Industry and Commerce of the PRC, responsible for the supervision and administration of the market and the enforcement of the relevant administrative laws
"SASAC"	中華人民共和國國務院國有資產監督管理委員會, the State-owned Assets Supervision and Administration Commission of the State Council, responsible for matters relating to state-owned assets administration
"SAT"	中華人民共和國國家稅務總局, the State Administration of Taxation of the PRC, the PRC central government tax authority
"SBU"	strategic business unit
"Securities Law"	中華人民共和國證券法, the Securities Law of the PRC enacted by the Standing Committee of the NPC on December 29, 1998, which became effective on July 1, 1999, as amended by the Standing Committee of the NPC on October 27, 2005, which became effective on January 1, 2006
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as the same may be amended, supplemented or otherwise modified from time to time
"Shanghai Listing Rules"	上海證券交易所股票上市規則, the Stock Listing Rules of the Shanghai Stock Exchange
"Shanghai Stock Exchange"	上海證券交易所, the Shanghai Stock Exchange
"Shares"	ordinary shares in the capital of our Bank with a nominal value of RMB1.00 each
"Shenzhen Stock Exchange"	深圳證券交易所, the Shenzhen Stock Exchange
"SMEs"	small- and medium-sized enterprises

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DEFINITIONS

"Southern China"	the area serviced by including, for the purpose of this document, Minsheng Royal Fund Management Co., Ltd. and the following branches: Fuzhou, Guangzhou, Shenzhen, Quanzhou, Shantou and Xiamen
"SSF"	全國社會保障基金, the social security funds managed by the National Council for Social Security Fund, which comprise funds arising from disposal of state-owned shares and other equity assets, funds allocated by the central government, funds raised from other sources approved by the State Council and other investment income held by the PRC central government
"State Council"	中華人民共和國國務院, the State Council of the PRC
"Supervisors"	the members of the Supervisory Board of our Bank
"Supervisory Board"	the supervisory board of our Bank established pursuant to the Company Law, as described in Appendix VIII — Summary of the Articles of Association
"Track Record Period"	the period comprising the three years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009
"U.S.", "U.S.A." or "United States"	the United States of America
"US\$", "USD" or "U.S. dollars"	United States dollars, the lawful currency of the United States
"WTO"	the World Trade Organization
"Yangtze River Delta"	for the purpose of this document, Shanghai Municipality, Jiangsu Province and Zhejiang Province

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FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our business strategies and our various initiatives to implement these strategies;
- the future competitive environment in the PRC banking industry;
- our dividend policy;
- our development plans for our existing and new products;
- our existing risk management system and our ability to improve such system;
- the regulatory environment as well as the general industry outlook for the PRC banking industry; and
- future developments in the PRC banking industry.

The words "anticipate," "believe," "could," "estimate," "predict," "potential," "continue," "expect," "intend," "may," "plan," "seek," "will," "would," "should," and the negative of these terms and other similar expressions identify a number of these forward-looking statements. Some of these forward-looking statements relate to future events or our future financial, business or other performance and development and are subject to a number of uncertainties that may cause actual results to differ materially. We have highlighted these uncertainties in the section headed "Risk Factors," including but not limited to:

- general economic, market and business conditions in the PRC, including the sustainability of high economic growth in the PRC;
- any changes to the laws, rules and regulations of the central and local governments in the PRC and the rules, regulations and policies of the CBRC, the PBOC and other relevant government authorities relating to all aspects of our business;
- macroeconomic policies of the PRC government;
- changes or volatility in interest rates, inflation rates, foreign exchange rates, equity prices, commodity prices or other rates or prices;
- the effects of intensifying competition in the PRC banking industry on the demand for and price of our products and services, including potentially from foreign banks as a result of the PRC's entry into the WTO;
- our ability to identify, measure, monitor and control risks in our business, including our ability to improve our overall risk profile and risk management practices; and
- our ability to successfully implement our business strategy.

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this document might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this document are qualified by reference to the cautionary statements set out in this section.

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RISK FACTORS

RISKS RELATING TO OUR LOAN PORTFOLIO

If we are unable to effectively maintain the quality of our loan portfolio, our business could be materially and adversely affected.

Our results of operations could be materially and adversely affected by deterioration in the quality of our loan portfolio. Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in a wide range of our businesses. Our impaired loans represented 1.25%, 1.22%, 1.20% and 0.82% of our total loans to customers as of December 31, 2006, 2007 and 2008 and September 30, 2009, respectively. See "Description of Our Assets and Liabilities — Assets — Asset Quality of Our Loan Portfolio". We may not be able to effectively control the level of impaired loans in our current loan portfolio or effectively control the level of new loans that may become impaired in the future. In particular, the amount of our impaired loans may increase in the future due to our substantial increase in new loans over the Track Record Period and/or a deterioration in the quality of our loan portfolio. Our gross loans to customers have increased from RMB472.1 billion as of December 31, 2006 to RMB658.4 billion as of December 31, 2008 and have further increased to RMB893.5 billion as of September 30, 2009. The increase in the first nine months of 2009 was largely attributable to the increased demand for loans as a result of the PRC government's fiscal stimulus measures to boost economic growth.

Deterioration in the quality of our loan portfolio may occur for a variety of reasons, including factors which are beyond our control, such as a continuing slowdown in growth of the PRC or global economies due to the recent financial crisis, a relapse of a global credit crisis, and other adverse macroeconomic trends in the PRC and other parts of the world, which may cause operational, financial and liquidity problems for our borrowers as well as materially and adversely affect their ability to service their outstanding debt. Actual or perceived failure or worsening credit of counterparties, declines in residential and commercial property prices, higher unemployment rates and reduced profitability of corporate borrowers may deteriorate our asset quality and may lead to a significant increase for our allowance in our impaired loans. If the level of our impaired loans increases, our business, financial condition and results of operations may be materially and adversely affected.

We may have to increase our provisions for impaired loans.

We make provisions for impaired loans in accordance with IFRS. Our allowance for impairment losses amounted to RMB6.4 billion, RMB7.7 billion, RMB11.9 billion and RMB13.5 billion, representing 108.9%, 113.1%, 150.0% and 185.8% of our total impaired loans as of December 31, 2006, 2007 and 2008 and September 30, 2009, respectively. This reflected not only the growth of our loan portfolio but also our more conservative approach to provisions in response to the adverse macroeconomic environment. Our allowance for impairment losses may continue to increase in the future, which may have a material adverse effect on our results of operations. We perform individual assessments of loans of significant value, which include corporate loans and discounted bills, if there is objective evidence of impairment of such loans. The allowance for impairment losses is measured as the difference between the carrying amounts and the estimated recoverable amounts of the loans. Corporate loans for which no evidence of impairment has been individually identified are assessed on a collective basis for the purpose of determining the allowance for impairment losses, and retail loans are also assessed collectively. As our provisions under IFRS require significant judgment and estimation, we cannot assure you that our assessments are always accurate. Furthermore, the adequacy of our allowance for impairment losses depends on a significant extent on the reliability of, and our skills in utilizing, our model for determining the

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RISK FACTORS

level of allowance, as well as our system of data collection. The limitations of our model, our experience in using the model and our data collection system may result in inaccurate and insufficient allowance for impairment losses. If our allowance for impairment losses proves insufficient to cover actual losses, we may need to make additional allowance for losses, which could significantly reduce our profit and materially and adversely affect our business, financial condition, results of operations and prospects.

A large portion of our loan portfolio is made to corporate customers, customers in certain industries and regions and certain single borrowers, and any economic downturn impacting such industries, regions or customers could materially and adversely affect our business.

Our loans to corporate customers are concentrated in industries that we believe have strong growth potential and are important to our business. As of September 30, 2009, our corporate loans represented 76.8% of our total loans. Our loans to borrowers in the (i) manufacturing, (ii) real estate, (iii) transportation, storage and post services, (iv) leasing and commercial services, (v) water, environment and public utility management, and (vi) production and supply of electric power, gas and water industries were approximately (i) 18.5%, (ii) 13.6%, (iii) 10.8%, (iv) 12.8%, (v) 8.6% and (vi) 7.0% of our corporate loans, respectively as of September 30, 2009. In particular, our corporate loans of RMB138.0 billion to the manufacturing industry, (primarily to export and outsourcing type businesses), represented 15.4% of our total loans to customers as of September 30, 2009. Moreover, our corporate loans to the real estate industry of RMB101.4 billion and retail loans to residential mortgage borrowers of RMB98.1 billion represented approximately 11.4% and 11.0%, respectively, of our total loans to customers as of September 30, 2009. Any deterioration of the manufacturing or real estate industries in the PRC as a result of the global economic downturn or the PRC government's macroeconomic control measures relating to the manufacturing or real estate industries may have an adverse impact on the value of loans made to these customers. Moreover, deterioration in the financial condition of our borrowers in any of the aforementioned industries, as well as any industry-specific difficulties in these sectors, could materially and adversely affect the quality of our existing loans and our ability to generate new loans, and could have a material adverse effect on our business, financial condition and results of operations.

As of September 30, 2009, loans that originated from our branches in Northern China, Eastern China and Southern China represented approximately 33.5%, 34.9% and 11.0%, respectively, of our total loans to customers. We have been focused, and will continue to focus on these regions, particularly in the Yangtze River Delta, Bohai Rim and Pearl River Delta regions. Any adverse change in the economic development of any of these regions may materially and adversely affect the quality of our existing loans and our ability to generate new loans, and may materially and adversely affect our business, financial condition and results of operations.

Moreover, as of September 30, 2009, our loans to the largest single borrower were RMB7.6 billion, which represented approximately 0.8% of our total loans to customers, and the aggregate amount of our loans to the ten largest single borrowers was RMB39.8 billion, which represented approximately 4.4% of our total loans to customers. In addition, the aggregate amount of loans to our ten largest group borrowers (excluding single borrowers) represented 3.6% of our total loans to customers as of September 30, 2009. Deterioration in the financial condition of these borrowers could have a material adverse effect on our business, financial condition and results of operations.

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RISK FACTORS

The collateral or guarantees securing our loans may not be sufficient, and we may be unable to realize the value of the collateral or guarantees in a timely manner or at all.

As of September 30, 2009, 34.7% of our loans were secured by real estate and other tangible assets (other than monetary assets) in the PRC, the value of which may fluctuate and decline due to various factors, including those affecting the PRC economy in general. For example, a slowdown in the PRC economy may lead to a downturn in the real estate market, which may in turn result in declines in the value of the real estate properties securing our loans to levels below the outstanding principal balance of such loans. Moreover, the growth of the real estate industry and price of real estate properties in the PRC are significantly influenced by macroeconomic policies of the government, such as interest rate and credit policies. We mainly rely on internal re-evaluations of collateral periodically for impairment testing purposes, rather than periodic re-evaluations by independent appraisers. This in turn could affect the accurate assessment of the values of collateral. Should our collateral prove to be insufficient to cover the related loans, we may have to obtain additional collateral from the borrowers and there is no assurance that we could do so. Declines in the price of our collateral or our inability to obtain additional collateral may result in loan impairment and require us to make additional provisions for loan impairment, and may materially and adversely affect our business, financial condition and results of operations.

In the PRC, the procedures for liquidating or otherwise realizing the value of collateral in the form of tangible assets may be protracted and it may be difficult in practice to implement the realization of the value of collateral. For example, in accordance with the Directive on Foreclosure of Mortgage on Residential Properties (最高人民法院關於人民法院執行設定抵押的房屋的规定) issued by the PRC Supreme People’s Court, effective December 21, 2005, we cannot evict a borrower from his or her principal or sole residence for six months or at all even after a court approves our petition to foreclose, auction off or otherwise liquidate such property. In addition, under PRC law, in certain circumstances, our rights to the collateral securing our loans may be subordinated to other claims. Also, as some of our loans are secured by unlisted securities, it is difficult to assess the realizable value of such collateral or to dispose of them. All the foregoing factors could adversely affect our ability to realize the value of the collateral securing our loans in a timely manner or at all.

As of September 30, 2009, 23.1% of our loans were secured by guarantees. Such guarantees are generally not backed by collateral or other security interests. A significant deterioration in the financial condition of a guarantor may significantly decrease the amount we could recover under such guarantee.

RISKS RELATING TO OUR BUSINESS

We may not be able to satisfy the capital adequacy requirements established by the CBRC.

We are subject to capital adequacy guidelines set by the CBRC, which require us to maintain a minimum capital adequacy ratio of 8% and a minimum core capital adequacy ratio of 4%. Our inability to maintain these capital adequacy ratios may result in the CBRC taking corrective measures against us, including restricting our ability to distribute cash dividends and/or open new branches, which may affect our business expansion or otherwise materially and adversely affect our business. See “Supervision and Regulation — PRC Banking Supervision and Regulation — Supervision Over Capital Adequacy — CBRC Supervision of Capital Adequacy.”

Our capital adequacy could be negatively affected by deterioration in our financial condition, including an increase in the level of our impaired loans, or if our growth places capital demands on us in excess of what we are able to generate internally or raise in the capital markets or through alternative means. See “— Risks Relating to Our Loan Portfolio — If we are unable to effectively

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RISK FACTORS

maintain the quality of our loan portfolio, our business could be materially and adversely affected." As of December 31, 2006, 2007 and 2008 and as of September 30, 2009, our core capital adequacy ratio was 4.40%, 7.40%, 6.60% and 6.02%, respectively, and our capital adequacy ratio was 8.20%, 10.73%, 9.22% and 8.57%, respectively, all calculated in accordance with and complying with the relevant CBRC requirements at such dates. Moreover, we cannot assure you that our capital will not be affected in the future by developments that will prevent us from satisfying the current capital adequacy requirements, including:

- increase of our risk-weighted assets as a result of the rapid expansion of our business;
- our inability to timely supplement or increase our capital;
- losses resulting from deterioration in asset quality;
- changes in accounting rules or in the guidelines regarding the calculation of the capital adequacy ratios of commercial banks; and

Furthermore, our ability to raise additional capital in the future may be limited by numerous factors, including:

- our future financial condition, results of operations and cash flows;
- conditions prescribed by PRC law and regulatory approvals;
- our credit rating;
- general market conditions for capital-raising activities by commercial banks and other financial institutions; and
- domestic and international economic, political and other conditions.

If we require additional capital in the future, we cannot assure you that we will be able to obtain such capital in a timely manner or at all. Accordingly, although we currently meet the applicable capital adequacy requirements, we may face difficulties in meeting these requirements in the future. If we are unable to meet the capital adequacy requirements for any reason, such as our inability to secure additional capital or an increase to the capital adequacy requirements by the CBRC, the CBRC may take corrective measures against us. These measures could materially and adversely affect our reputation, financial condition and results of operations.

We may not be able to successfully maintain growth or otherwise obtain sufficient resources to support such growth.

In recent years, our growth rates of total assets, total loans to customers, total customer deposits, net interest income, net fee and commission income and net profit have been higher than the overall economic growth in the PRC. From December 31, 2006 to December 31, 2008, our total assets, total loans to customers, total customer deposits, net interest income, net fee and commission income and net profit each grew at a CAGR of 20.6%, 18.1%, 16.1%, 37.1%, 108.4% and 44.9%, respectively. Moreover, our net profit increased by 17.7% to RMB10.2 billion for the nine months ended September 30, 2009 compared to RMB8.7 billion for the same period in 2008 and our loans and advances to customers increased by 36.1% to RMB880.0 billion as of September 30, 2009 compared to RMB646.5 billion as of December 31, 2008. However, our growth has been and will continue to be affected by macroeconomic factors affecting the PRC such as GDP growth, changes in law or regulations concerning banking and financial products, changes in implementation of macro economic control policies, changes in market liquidity and credit policies, changes in demand for loans, changes to interest rates and competition. We may not be able to

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RISK FACTORS

successfully maintain our growth rates due to the unfavorable change in one or more of the above factors or other factors, which may materially and adversely affect our financial condition and results of operations. For example, our total operating income and profit before income tax (excluding the non-recurring gain on disposal of available-for-sale securities of RMB5.0 billion and RMB47 million for the nine months ended September 30, 2009 and 2008, respectively) decreased by 3.1% and 28.2%, respectively for the nine months ended September 30, 2009 compared to the same period in 2008, mainly due to an economic slowdown and a less favorable interest rate environment in the PRC during the first nine months of 2009. See "Financial Information — General Factors Affecting Our Results of Operations." The aforementioned factors may affect our ability to grow and compete effectively in the PRC banking industry, and as a result, our business, financial condition and results of operations may be materially and adversely affected.

If we are unable to maintain our growth rate in customer deposits or if there is a significant decrease in our customer deposits, our business operations and our liquidity may be adversely affected.

Although we have started to issue debt securities to diversify our funding sources, customer deposits remain our primary funding source. From December 31, 2006 to September 30, 2009, our total deposits from customers grew from RMB583.3 billion to RMB1,099.5 billion, and our retail deposits grew from RMB94.7 billion to RMB192.6 billion. However, there are many factors affecting the growth of deposits, some of which are beyond our control, such as economic and political conditions, the availability of alternative investment choices and retail customers' changing perceptions toward savings. As a result, we cannot assure you that we will be able to grow our customer deposits at a pace sufficient to support our expanding business.

In addition, as of September 30, 2009, 92.3% of our total customer deposits had remaining maturities of one year or less, or were payable on demand. A substantial proportion of our assets have longer-term maturities, resulting in a mismatch between the maturities of our liabilities and the maturities of our assets. In our experience, due in part to the lack of alternative investment products in China, our short-term customer deposits have generally not been withdrawn upon maturity and have represented a relatively stable source of funding. However, we cannot assure you that this will continue to be the case, particularly as the domestic capital market in China continues to develop.

If we are unable to maintain our growth rate in deposits or if a substantial portion of our depositors withdraw their demand deposits or do not roll over their time deposits upon maturity, we may need to seek more expensive sources of funding to meet our funding requirements. In case of such events, our liquidity position, financial condition and results of operations may be materially and adversely affected.

We will be exposed to various risks as we expand our range of products and services.

We have expanded and will continue to expand our products and services to customers. Our expansion of the range of products and services has and will expose us to new and potentially increasingly challenging risks, including the following:

- we may have insufficient experience or expertise in certain new products and services, which may, among other things, lead to insufficient disclosure of all risks associated with our products and services to our customers;
- we may be unable to provide customers with sufficient customer service for our new products and services, including the handling of customer complaints;

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RISK FACTORS

- our new products and services may not be accepted by our customers or meet our expectations for profitability;
- our new products and services may be duplicated by our competitors;
- we may need to hire additional qualified personnel and be unable to do so;
- we may be unable to obtain or maintain regulatory approval for our new products and services; and
- we may not be successful in enhancing our risk management capabilities or information technology systems to support a broader range of products and services.

If we are unable to achieve the intended commercial results with respect to our new products and services, our business, financial condition, results of operations and prospects could be materially and adversely affected. Furthermore, if we are unable to provide sufficient information to our customers or otherwise comply with relevant banking regulations in the sales and marketing of our financial products and services, we may be subject to legal proceedings or regulatory sanctions, which in turn could lead to significant financial losses and reputational damages.

Our business operation reform and organizational restructuring may not be as effective as we expected.

Over the Track Record Period, we have been developing and reforming our organizational structure with a view to promote specialization in our management and improve decision making. As part of this process, we have:

- established the new SBU business model to promote a high degree of specialized expertise within each of the eight designated business areas. See “Business — Strategic Business Units”;
- implemented an organizational restructuring pursuant to which we established several new commissions responsible for the overall management of various aspects of our businesses, reallocated functions among our business departments and established new departments to enhance our capabilities in certain areas. See “Corporate History and Organizational Structure — Our Organizational Structure — Organizational Restructuring”; and
- undertaken a program to upgrade our business operations, including our information technology systems, in several areas that we had identified as important to our future success, including credit risk management, product pricing and customer relationship management.

However, the aforementioned reforms to our business are not without risk. Some of these new business processes, models and structures have been put in place only recently. For example, we continue to strive to improve the efficiency and effectiveness between our specialized sales branches under the SBU business model and pre-existing bank branches. Our staff needs to adjust to new or prospective controls and compliance practice relating to such new processes and operations. As a result, we cannot assure you that our business operations reforms and organization restructuring will bring about their desired benefits and objectives. If our business operations reform and organizational restructuring do not turn out to be as effective as we expected, our business, results of operations and financial condition may be materially and adversely affected.

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RISK FACTORS

We are subject to a number of risks, including credit risk, market risk, liquidity risk and operational risk, and cannot assure you that our risk management and internal control policies and procedures can protect us against such risks.

We have in the past suffered from internal control deficiencies and operational problems as a result of weaknesses in our risk management. Certain of our external advisors, including our independent auditors in connection with their audits of our financial statements, have provided us with certain observations and recommendations with respect to our internal controls over financial reporting. The observations and recommendations related to issues with, among others, our risk management systems, classification of risks associated with corporate lending, management of loans, management of our corporate lending database, management of branches, transactions between related parties, including identification of group borrowers, determination of fair-value of certain financial instruments and our development and design of our wealth management products. The deficiencies in our systems and practices could adversely affect our ability to timely and accurately record, process, summarize and report financial and other data, as well as adversely impact our efficiency, undermine the effectiveness of our risk management process and increase the potential for financial reporting errors and non-compliance with regulations. Moreover, certain weaknesses in our internal controls were identified by the CBRC during its inspection and review our business between 2006 and 2008. See "Business — Legal Proceedings and Compliance."

In addition, many of our methods of managing risks and exposures are based upon observed market behavior and statistics based on historical models. Over our operating history, we have never faced a global financial crisis or prolonged economic downturn in the PRC. Consequently, our systems and tools we use to manage credit, market and liquidity risks have not been fully tested under such circumstances and may not take into account all potential trends during an economic downturn or those of the recent financial crisis.

We have significantly revamped and enhanced our risk management and internal control policies and systems in recent years in a continual effort to improve our risk management capabilities and enhance our internal controls. See "Risk Management — Overview" and "Risk Management — Multi-layered Risk Management System." However, these improvements to our policies and systems are relatively new and are evolving, additional time may be required to implement them and test their effectiveness. In addition, their implementation is ongoing and we may not be able to accurately predict the length of time required to successfully complete the adoption of these new systems or effectively monitor our compliance with them. Our employees may also require a longer period of time to adjust to these new or prospective controls and compliance practices, and we cannot assure you that these controls and compliance practices will be followed consistently. Moreover, there are areas within our risk management and internal control system that require further improvements to be initiated and we may face additional challenges to our risk management and internal controls. For example, given that identifying affiliation among entities in the PRC can be very complicated, coupled with limited or incomplete information in analyzing borrowers' profile, despite significant improvement in our loan monitoring system, we may still continue to face potential issues on the concentration of borrowers.

If we are unable to address our internal control and other deficiencies, this may result in loss and inaccuracies in our financial statements and may also impair our ability to comply with applicable financial reporting requirements and related regulatory filings on a timely basis. As a result, our asset quality, business, financial condition and result of operations may be materially and adversely affected.

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RISK FACTORS

We are subject to counterparty risks in our derivative transactions.

We act primarily as an intermediary in domestic and international foreign exchange and derivative markets, and we currently have foreign currency forward and swap arrangements with a number of domestic and international banks, financial institutions and other entities. We have also entered into interest rate swap arrangements. Although a substantial majority of our derivative transactions are conducted on behalf of our customers, we are still subject to counterparty risks. As of September 30, 2009, we had derivative contracts with a net fair value gain of RMB16 million. We cannot assure you that counterparties with significant exposures will not face difficulty in paying the amounts on derivative contracts when due, which may result in financial losses to us.

We are subject to risks associated with off-balance-sheet commitments.

In the ordinary course of business, we make commitments and guarantees that are not reflected on our balance sheet, including the provision of financial guarantees and letters of credit to guarantee the performance of our customers to third parties and bank acceptances. See "Financial Information — Off-balance Sheet Commitments." We are subject to credit exposure associated with our credit commitments. If we are not able to obtain payment from our customers in respect of these commitments and guarantees, our financial condition and results of operations may be adversely affected.

We may not be able to detect and prevent fraud or other misconduct committed by our employees or third parties.

We are exposed to fraud or other misconduct committed by our employees, agents, customers or other third parties that could subject us to financial losses and sanctions imposed by governmental authorities as well as seriously harm our reputation. For example, in January 2006, the former deputy manager of the corporate banking department of the Jing Shi Lu sub-branch of our Jinan Branch was detained by the police for fraud and other misconduct. See "Business — Special Incidents."

Our management information systems and internal control procedures are designed to monitor our operations and overall compliance. However, they may be unable to identify non-compliance and/or suspicious transactions in a timely manner or at all. See "— We are subject to a number of risks, including credit risk, market risk, liquidity risk and operational risk, and cannot assure you that our risk management and internal control policies and procedures can protect us against such risks." Further, it is not always possible to detect and prevent fraud and other misconduct, and the precautions we take to prevent and detect such activities may not be effective. There will therefore continue to be the risk that fraud and other misconduct may occur, including negative publicity as a result, which may have an adverse effect on our business reputation, financial condition and results of operations.

We are subject to PRC regulatory requirements, and our failure to fully comply with such requirements could materially and adversely affect our business, financial condition, results of operations and our reputation.

We are currently only subject to PRC regulatory requirements. As a result, we are subject to periodic inspections, examinations and inquiries in respect of our compliance with such requirements by PRC regulatory authorities, including the CBRC, the CSRC, the CIRC, the PBOC, the MOF, the SAIC, and the SAFE, the state tax bureau and local tax bureau, and their respective local offices. These inspections, examinations and inquiries have from time to time revealed weaknesses

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RISK FACTORS

in certain areas of our operations, such as risk management and internal controls. The CBRC identified certain weaknesses in our internal controls and issued certain recommendations requiring us to take measures to improve our internal control system. In addition, the CSRC, SAFE and CIRC have found certain deficiencies and made certain recommendations to us. Furthermore, we have been subject to fines and other penalties as a result of our failure to comply with certain laws and regulations discovered by regulatory inspections and examinations. See “Business — Legal Proceedings and Compliance — Regulatory Proceedings.” We have not been able to fully comply with some guidelines or provisional regulations of the PRC authorities including, without limitation, the CBRC’s requirements on loan-to-deposits ratio and core liabilities ratio, certain requirements under the Guidelines on Internal Audit for Banking Institutions and the Corporate Governance Guidelines. See “Business — Legal Proceedings and Compliance — Compliance.” In addition, if we expand our business to other jurisdictions outside the PRC, we will be subject to such jurisdiction’s laws and regulatory requirements as well. If sanctions, fines and other penalties are imposed on us for failing to comply with applicable PRC requirements, guidelines or regulations, our business, financial condition, results of operations and our reputation may be materially and adversely affected.

We may not be able to hire, train or retain a sufficient number of qualified staff.

We rely upon the continued service and performance of our employees, including our senior management, as most aspects of our business depend on the quality of our professional staff. Therefore, we devote considerable resources to recruiting and training these personnel. However, we face increased competition in recruiting and retaining these individuals, including our senior management, as other banks are competing for the same pool of potential employees. In addition, our employees may resign at any time and may seek to divert customer relationships that they have developed while working for us. Some of our employees are not subject to long-term employment contracts. The loss of members of our senior management team may have a material adverse effect on our business and results of operations.

Our business is highly dependent on the proper functioning and improvement of our information technology systems.

Our business is highly dependent on the ability of our information technology systems to accurately process a large number of transactions across numerous and diverse markets and our broad range of products in a timely manner. The proper functioning of our financial control, risk management, accounting, customer service and other data processing systems, together with the communication networks between our various branches and sub-branches and our main data warehouse, are critical to our business and our ability to compete effectively. We have established back-up centers in Beijing and Shenzhen to carry on principal functions in the event of a catastrophe or a failure of our systems. However, we cannot assure you that our operations will not be materially disrupted if any of our systems fail, which could be caused by, among other things, software bugs, computer virus attacks or conversion errors due to system upgrading, or security breaches.

As part of our continual effort to upgrade our information technology systems, we plan to implement our new core banking system. This system is intended to help us, among other things, reduce operational risks by monitoring credit risks, market risks and liquidity risks in real time. However, we cannot assure you that this and other software systems we implement will allow us to avoid all material credit, market, liquidity or operational risks, nor can we assure you that the systems we have integrated will interact successfully and function as intended. Any substantial failure to improve or upgrade our information technology systems effectively or on a timely basis,

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RISK FACTORS

any substantial problem arising from our data migration or from the interaction between multiple software systems, or any significant human error caused by having new systems, could materially and adversely affect our competitiveness, financial condition and results of operations.

We may not be able to detect money laundering and other illegal or improper activities fully or on a timely basis, which could expose us to additional liability and harm our business or reputation.

We are required to comply with applicable anti-money laundering, anti-terrorism laws and other regulations in the PRC and other jurisdictions where we have operations. The PRC Anti-money Laundering Law requires financial institutions to establish sound internal control policies and procedures with respect to anti-money laundering monitoring and reporting activities. Such policies and procedures require us to, among other activities, establish or designate an independent anti-money laundering department, establish a customer identification system in accordance with relevant rules, record the details of customer activities, and report suspicious transactions to relevant authorities. See "Supervision and Regulation — Anti-money Laundering Regulation."

While we have adopted policies and procedures aimed at detecting and preventing the use of our banking network for money laundering activities and by terrorists and terrorist-related organizations and individuals generally, such policies and procedures in some cases have only been recently adopted and may not completely eliminate instances where our Group may be used by other parties to engage in money laundering and other illegal or improper activities. To the extent we fail to fully comply with applicable laws and regulations, the relevant government agencies to whom we report have the power and authority to impose fines, to freeze our assets and to impose other penalties on us. During the Track Record Period, we have been subject to fines as a result of our failure to comply with certain laws and regulations discovered by regulatory inspections, including for our anti-money laundering reporting activities. Although we have since remedied our policies and procedures to be in compliance with applicable rules, we cannot assure you that there will not be future failures in detecting money laundering, or other illegal or improper activities which may adversely affect our business reputation and operations.

We do not possess title certificates in respect of some of the properties we own, and some of our landlords lack relevant title certificates for properties leased to us, which may materially and adversely affect our right to use such properties.

As of September 30, 2009, we had not obtained full ownership title certificates to approximately 14.6% of the properties, in terms of GFA, that we occupied and used. We may not transfer, lease, mortgage or otherwise dispose of such properties until we obtain the relevant land use right certificates and/or building ownership certificates. We will also need to pay transfer fees and incur other relevant expenses in order to obtain the full title certificates to such properties. Our failure to obtain the full title certificates to such properties may require us to seek alternative premises for our business operations, which may lead to disruptions in our business operations.

As of September 30, 2009, we leased 1,025 properties with an aggregate GFA of approximately 634,158.51 sq.m. in the PRC. In respect of 370 properties with an aggregate GFA of approximately 100,854.29 sq.m. leased to us, our landlords have not provided us with the relevant property title certificates. If any of our leases were terminated as a result of being challenged by third parties or failure of the lessors to renew upon expiration, we may need to seek alternative premises and incur additional costs relating to such relocations. In addition, the relevant lease agreements in respect of 994 properties with a GFA of 606,032.19 sq.m., have not been registered with local authorities. See "Business — Properties".

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RISK FACTORS

In addition, although we are in the process of obtaining the missing title certificates in respect of properties we own, we cannot ascertain the timeframe in which we will successfully obtain such certificates nor can we assure you that we would be able to obtain such certificates at all.

Our business, financial condition, results of operations and prospects and the value of your investment may be materially and adversely affected as a result of negative media coverage relating to us, our personnel or the PRC banking industry.

The PRC banking industry continues to be covered extensively and critically by various media. We have also been subject to and associated with negative media coverage, including those on the Internet, with respect to our corporate affairs and misconduct related to our personnel. For example, there have been allegations in the media and on the Internet that certain of our employees had previously conducted fraud, theft, forgery and bribes, whether or not within or outside their employment capacity with us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. Nonetheless, negative coverage regarding us or our employees, whether or not accurate or applicable to us, may have a material adverse effect on our reputation and consequently may undermine depositor and investor confidence. As a result, our business, financial condition, results of operations and prospects and the value of your investment may be materially and adversely affected.

RISKS RELATING TO THE BANKING INDUSTRY IN THE PRC

The increasingly competitive nature of the PRC banking industry, as well as competition for funds which may arise from the developing PRC capital markets, could materially and adversely affect our business, financial condition, results of operations and prospects.

The PRC banking industry is becoming increasingly competitive. We compete primarily with the Large Commercial Banks and the Other Joint Stock Commercial Banks. The Large Commercial Banks generally have much larger customer and deposit bases, more extensive distribution networks and more capital than we have. The Large Commercial Banks were historically wholly owned by the PRC government, and some of them have in the past received equity contributions or other support from the PRC government in connection with the disposal of non-performing loans. All of these banks have been restructured to become joint stock companies and some are currently listed on the Hong Kong Stock Exchange and/or the Shanghai Stock Exchange. As a result, the Large Commercial Banks may enjoy significant competitive advantages over us.

We also compete with Other Joint Stock Commercial Banks, which have smaller customer and deposit bases compared with the Large Commercial Banks but are more comparable to us in their management style and business strategies. Some of these banks are owned or controlled by the PRC government and may have greater financial, managerial and technical resources than we do. Certain of these banks have also obtained investments from foreign investors and entered into commercial cooperation agreements with foreign investors. We compete with these banks in respect of the range, price and quality of product and service offerings and geographical coverage, among other factors. See "Banking Industry in the PRC — Current Competitive Landscape."

We compete with our competitors for substantially the same loan, deposit and fee customers. Such competition may materially and adversely affect our business and future prospects by, for example:

- reducing our market share in our principal products and services;
- affecting the growth of our loan or deposit portfolios and other products and services;

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RISK FACTORS

- decreasing our interest income or increasing our interest expense, thereby decreasing our net interest margin;
- reducing our fee and commission income;
- increasing our non-interest expenses, such as marketing expenses; and
- increasing competition for senior management and qualified professional personnel.

If we do not successfully compete against other banks and financial institutions, our results of operations would be materially and adversely affected.

In addition to competition from other banks and financial institutions, we also face competition from other forms of investment alternatives as the PRC capital markets continue to develop. For example, as the PRC stock and bond markets continue to develop and become more viable and attractive investment alternatives, our deposit customers may elect to transfer their funds into stocks and bonds, which may reduce our deposit base and materially and adversely affect our business, financial condition and results of operations.

The growth of the PRC banking industry may not be sustainable.

The PRC banking industry has experienced rapid growth, consistent with the economic development of the PRC financial system. Banks have historically been, and are likely to remain, the principal financing channel for enterprises and the primary choice for domestic savings. We expect the banking industry in the PRC to expand as a result of continued growth in the PRC economy, increases in household income, deregulation of interest rates, further loosening of exchange restrictions on the Renminbi and further expansion into fee and commission-based businesses, among other factors. However, since the second half of 2008, global markets have experienced tremendous volatility as a result of the turmoil originating from the United States sub-prime mortgage crisis, which has brought about a global economic downturn. China's GDP is expected to grow at a slower rate of 8.4% in 2009 and 8.7% in 2010, according to the World Bank, as compared to a CAGR of real GDP of 11.0% from 2006 to 2008, according to the International Monetary Fund. According to the National Bureau of Statistics of China, China's real GDP grew at a 7.7% annual rate over the first nine months of 2009. Although the PRC was somewhat less affected by the global financial crisis as compared to many other major economies, in part due to its highly regulated financial and banking system, and because the PRC government has implemented both fiscal and monetary measures to stimulate the economy, it is uncertain whether the PRC economy and the banking industry can return to previous levels of growth. In addition, the PRC banking industry has historically been burdened with a high level of non-performing loans. Even with the PRC government's measures to dispose the non-performing loans of the Large Commercial Banks and to recapitalize these banks, we cannot assure you that the banking industry in the PRC is free from systemic risks. Consequently, we cannot assure you that the growth and development of the PRC banking industry will be sustainable. If the rate of growth of the PRC banking industry continues to slow down, our business, financial condition and results of operations may be materially and adversely affected.

Our business and operations are highly regulated, and our business, financial condition, results of operations and prospects may be materially and adversely affected by regulatory changes or other governmental policies, including their interpretation and application.

Our business could be materially affected by changes in the policies, laws and regulations relating to the PRC banking industry, such as those affecting the extent to which we can engage in, or charge

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RISK FACTORS

fees for, specific businesses, as well as changes in other governmental policies. The bank regulatory regime in the PRC has been undergoing significant changes, some of which are applicable to us and may result in additional costs or restrictions on our activities. Since its establishment in 2003, the CBRC has promulgated a series of bank regulations and guidelines aimed at improving the operations and risk management of the PRC commercial banks. For example, in 2008, the CBRC undertook several regulatory measures in response to the global financial crisis, including requiring the banking industry to enhance analysis and reporting methods and strengthen information disclosure. In 2007, the PRC Anti-money Laundering Law went into effect, setting out new requirements regarding the monitoring and reporting of money laundering activities. See "Supervision and Regulation — PRC Banking Supervision and Regulation". In addition, other PRC regulatory authorities have also imposed various macroeconomic measures that affect the banking industry. For example, the PBOC raised the required reserve ratio by ten instances in 2007 and four instances in 2008 prior to the global financial crisis and cut such ratio by four instances in 2008 since the global financial crisis. We cannot assure you that the policies, laws and regulations governing the banking industry will change favorably for us or will not change in the future or that any such changes will not materially and adversely affect our business, financial condition and results of operations, nor can we assure you that we will be able to adapt to all such changes on a timely basis. Moreover, there may be uncertainties regarding the interpretation and application of new policies, laws and regulations. Failure to comply with the applicable policies, laws and regulations may result in fines and restrictions on our activities, which could also have a significant impact on our business.

We are subject to changes in interest rates and other market risks.

As with most PRC commercial banks, our results of operations depend, to a great extent, on our net interest income. Our net interest income represented 86.9% and 72.4% of total operating income in 2008 and in the nine months ended September 30, 2009, respectively. Our net interest income is significantly affected by changes in interest rates. Interest rates applicable to us are sensitive to many factors over which we have no control, including the regulatory framework of the banking and financial sectors in the PRC, domestic and international economic and political conditions, and competitive pressures. For example, the PBOC adjusted the benchmark rates upwards by several instances in 2006 and 2007 as the PBOC attempted to prevent overheating in the economy. However, due to the onset of the global financial crisis, the PBOC cut rates by five instances during late 2008, reducing the one-year benchmark lending rate by a total of 216 basis points and the deposit rate by a total of 189 basis points. In addition, although the PBOC controls benchmark interest rates in the PRC, increasing competition in the banking industry and further liberalization of the interest rate regime may result in more volatility in market interest rates. The constraints on our ability to set the interest rates we pay on deposits or charge on loans and our relative lack of experience in reflecting interest rates in our pricing decisions may materially and adversely affect our ability to react to changes in market conditions, our lending operations, our results of operations and our financial condition. Furthermore, we cannot assure you that we will be able to adjust the composition of our asset and liability portfolios and our product pricing to enable us to effectively respond to the further liberalization of interest rates. See "Risk Management — Market Risk Management — Interest Rate Risk."

We also conduct trading and investment activities involving certain financial instruments both in the PRC and abroad. As of September 30, 2009, our investment securities and trading assets portfolio constituted approximately RMB154.1 billion, or 11.0% of our total assets. Our income from trading and investment activities is subject to volatility caused by, among other things, changes in interest rates, foreign currency exchange rates, and other market risks. We cannot assure you that we would not incur losses as a result of our trading and investment activities, nor that our

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RISK FACTORS

investment securities portfolio will not be subject to write-downs as a result of volatility caused by market risks that may materially and adversely affect our financial position and results of operations.

PRC regulations impose certain limitations on the types of investments we may make and, as a result, our ability to seek higher investment returns and our ability to diversify our investment portfolio or hedge the risks relating to our RMB-denominated assets are limited.

As a result of PRC regulatory restrictions, substantially all of our RMB-denominated investment assets are concentrated in a limited number of investments permitted for PRC commercial banks, such as, among others, government bonds issued by the MOF, finance bonds issued by PRC policy banks, notes issued by the PBOC, debt securities issued by other PRC commercial banks, commercial papers issued by eligible PRC corporate entities, derivative products and domestic corporate bonds traded in the inter-bank market. These restrictions on our ability to diversify our investment portfolio limit our ability to seek returns on our investments which are comparable with those of banks in other countries or to manage our liquidity in the same manner as banks in other countries. In addition, we are exposed to a certain level of risk as a result of the concentration of our RMB-denominated investment assets and a lack of hedging instruments. For example, any deterioration of the financial condition of commercial banks in the PRC would increase the risks associated with holding their bonds and subordinated notes. A decrease in the value of any of our investments could have a material adverse effect on our results of operations and financial condition.

The effectiveness of our risk management system is affected by the quality and scope of information available in the PRC.

Recently, the PBOC developed and put into operation a nationwide individual and corporate credit information database. China UnionPay also maintains an individual credit blacklist. However, due to their short operational history, limitations in the availability of information and the developing information infrastructure in the PRC, these nationwide credit information systems are relatively undeveloped. Therefore, our assessment of the credit risks associated with particular customers may not be based on complete, accurate or reliable information. Until these unified nationwide credit systems become more fully developed, we have to rely on other publicly available resources and our internal resources, which are not as extensive or as effective as a unified, nationwide credit information system. In addition, loan contracts in the PRC may not contain the same type of financial and other covenants as elsewhere to allow us to effectively monitor, timely detect or take action regarding our customers’ creditworthiness. Furthermore, as affiliation among borrowers can be complex and is difficult to determine in the PRC, our ability to collect accurate and complete information or analyze our borrower concentration based on such information is limited. As a result, our ability to effectively manage our credit risk may be materially and adversely affected.

Our loan classification and provisioning policies may be different from those applicable to banks in certain other countries or regions.

We classify our loans using a five-category loan classification system, which complies with the PRC regulatory guidelines. The PRC guidelines may be different from those applicable in other countries and regions, such as the United States. Our loan classification and provision policies may be different in certain respects from those of banks subject to regulations in certain other countries or regions. As a result, our loan classification may differ from those that would be reported if we were subject to regulations in those countries or regions.

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RISK FACTORS

Future amendments to IAS 39 and interpretive guidance on its application may require us to change our practice for making provisions to impairment of financial assets.

We follow the guidance of IAS 39 in determining impairment of financial assets. The determination of impairment requires a high level of management judgment. In making this judgment, we evaluate, among other factors, the duration and extent to which the fair value of an investment is less than its cost and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, technological changes, credit ratings, delinquency rates, consideration on impairment on loans. IAS 39 has been amended for periods starting July 1, 2009. Although these amendments are not expected to have a material effect on our operating results or financial position, we cannot assure you that future changes will not have a material effect on us. The International Accounting Standards Board (“IASB”), which has the responsibility for developing and changing accounting standards under IFRS, currently has plans to further change its impairment requirements under IAS 39. Furthermore, the IASB recently set out a detailed six-month timetable for publishing a proposal to replace IAS 39, consistent with the recommendations and timetable set out by the group of 20 (G20) nations at their meeting in early April 2009. We cannot assure you that these and any other future amendments to IAS 39 or similar standards, including any authoritative interpretive guidance on the application of such new or revised standards, will not require us to change our current provisioning practice, which may in turn materially affect our financial condition and results of operations.

The ability of our shareholders to pledge their shares is limited by applicable PRC legal and regulatory requirements.

According to current PRC banking regulations, a shareholder of a commercial bank may not use its shares in the bank as collateral for loans from such bank. Although a shareholder may procure a loan from the bank, the terms of such loan may not be more favorable than those offered to other borrowers. Moreover, any shareholder of a commercial bank who owns 5% or more of our shares must give a written notice to the board of directors of such bank before pledging its shares in the bank as collateral for or to guarantee loans from other banks. If a shareholder of a bank has a loan from such bank in excess of the audited net value of its shares in the bank for the immediately preceding year, the shareholder may not use its shares in the bank as collateral for borrowings at other banks unless certificates of deposit with a PRC bank or PRC government bonds are provided as additional collateral to the bank in which the shareholder holds its shares. See “Supervision and Regulation.”

Investments in commercial banks in the PRC are subject to ownership restrictions that may materially and adversely affect the value of your investment.

Investments in commercial banks in the PRC are subject to a number of ownership restrictions. For example, prior approval from the CBRC is required for any person or entity to hold 5% or more of the registered capital or total issued shares of a commercial bank in the PRC. If a shareholder of a commercial bank in the PRC increases its shareholding above the 5% threshold without obtaining the CBRC’s prior approval, the shareholder will be subject to CBRC sanctions, which include, among other things, correction of such misconduct, fines and confiscation of related earnings. As a result, if one of your investment goals is to acquire a substantial equity interest in us, your goal may not be achieved unless you are able to obtain the prior approval of the CBRC. See “Supervision and Regulation — PRC Banking Supervision and Regulation — Ownership and Shareholder Restrictions — Shareholder Restrictions.” In addition, future changes in ownership restrictions imposed by the PRC government may materially and adversely affect the value of your investment.

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RISK FACTORS

We cannot assure you of the accuracy or comparability of facts, forecasts and statistics contained in this document with respect to the PRC, its economy or the PRC and global banking industries.

Facts, forecasts and statistics in this document relating to the PRC, the PRC economy and the PRC and global banking industries, including our market share information, are derived from various governmental and quasi-governmental sources, such as the PBOC, CBRC, World Bank or International Monetary Fund, or other public sources, which are generally believed to be reliable. However, we cannot guarantee the quality, comparability and reliability of such material. In addition, these facts, forecasts and statistics have not been independently verified by us and may not be consistent with information available from other sources, and may not be complete or up to date. We have taken reasonable care in reproducing or extracting the information from such sources. However, because of potentially flawed methodologies, discrepancies in market practice and other problems, these facts, forecasts and other statistics may be inaccurate or may not be comparable from period to period or to facts, forecasts or statistics of other economies.

RISKS RELATING TO THE PRC

Our business, earnings, assets quality and financial condition have been and will continue to be affected by the deterioration in the global economy and the slowdown of China’s economic growth, as well as the changes in PRC government’s policies.

Our performance has been and will continue to be affected by the economic conditions of China, which in turn is influenced by the global economy. As a result of the recent financial crisis, recessionary conditions are present in many economies globally and such conditions may persist over the near to medium term. The deterioration in the global economy has added greater downward pressure to China’s economic growth. The PRC economy is expected to grow at a slower pace of 8.4% in 2009 and 8.7% in 2010, according to the World Bank, as compared to between 9.0% and 13.0% annually between 2002 and 2008, according to the International Monetary Fund. Many of our customers and counterparties in the ordinary course of our business are companies operating in industries that have been exposed to the impact of the downturns of China and global economies, such as real estate, energy, transportation and export related sectors including raw materials, manufacturing and processing industries. Our asset quality may deteriorate and our provisions for impaired loans may have to be increased if our major customers or counterparties fail or are otherwise unable to meet their obligations. The value of the collateral or guarantees provided to us may be changed adversely and we may be unable to realize the full value of our collateral or guarantees. We may also face difficulties in expanding our businesses due to the lack of confidence in the economic growth and the declines in investments and spending. See “— Risks Relating to Our Business — We may not be able to successfully maintain growth or otherwise obtain sufficient resources to support such growth” and “— Risks Relating to the Banking Industry in the PRC — The growth of the PRC banking industry may not be sustainable.” Any of the above situations may have a material adverse affect on our business, results of operations and financial condition. The precise nature of all the risks and uncertainties that we face as a result of current economic conditions cannot be predicted precisely and many of these risks are outside our control.

In response to the deterioration of the global economy and downward pressure to China’s economic growth, the PRC government has adopted fiscal and monetary stimulus measures to increase domestic demand and boost economic growth, including implementing a RMB4 trillion fiscal stimulus package, of which a major component is reserved for public infrastructure spending. Moreover, the PBOC undertook a series of five interest rate cuts in less than three months following the outbreak of the global financial crisis, decreasing the benchmark interest rates for loans from

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RISK FACTORS

7.47% to 5.31% and for deposits from 4.14% to 2.25%. While we may benefit from valuable opportunities presented by such measures, we are also facing certain unfavorable factors including a lower interest rate environment and more supply of liquidity by our competitors.

Moreover, as substantially all of our businesses, assets and operations and revenues are in or derived from our operations in the PRC, our financial condition, results of operations and business prospects are subject, to a significant degree, to the economic, political and legal developments in the PRC. The economy of the PRC differs from the economies of most developed countries in many respects, including, among others, the extent of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. For example, the PRC government also exercises significant control over economic growth by allocating resources, setting fiscal and monetary policy and providing preferential treatment to particular industries or companies. Thus any significant change to the political, economic and social conditions, as well as government policies of the PRC may materially and adversely affect our business, financial condition, results of operations and future business prospects.

The interpretation and enforcement of the PRC laws and regulations may limit the protection available to you.

We are organized under, and our operations are governed by, the PRC laws. The PRC government has promulgated laws and regulations over the past 20 years regarding matters such as corporate organization and governance, issuance and trading of securities, shareholders' rights, foreign investment, commerce, taxation and trade. However, many of these laws and regulations are relatively new and will continue to evolve, are subject to different interpretations and may be inconsistently enforced. In addition, there is only a limited volume of published court decisions which may be cited for reference, but such cases have limited precedential value as they are not binding on subsequent cases. These uncertainties relating to the interpretation of PRC laws and regulations can affect the legal remedies and protections that are available to you and can materially and adversely affect the value of your investment.

PRC laws, rules and regulations applicable to companies listed overseas do not distinguish between minority and controlling shareholders in terms of their rights and protections. However, we cannot guarantee that you will have the same protections afforded to a minority shareholder by companies incorporated under the laws of the United States, certain member states of the European Union or Hong Kong.

You may experience difficulties in effecting service of legal process or enforcing foreign judgments against us and our management.

We are a joint stock company incorporated under the laws of the PRC and substantially all of our businesses, assets and operations are located in the PRC. In addition, a substantial majority of our directors, supervisors and senior management reside in the PRC and substantially all of their assets are located in the PRC. As a result, it may not be possible to effect service of process within the United States or elsewhere outside the PRC upon us or such directors, supervisors or executive officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. Moreover, the PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom, Japan and many other countries. In addition, Hong Kong has no arrangement with the United States for reciprocal enforcement of judgments. As a result, recognition and enforcement in the PRC or Hong Kong of judgments of a court in the United States and any of the other jurisdictions mentioned above in relation to any matter may be difficult or impossible.

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RISK FACTORS

Government control of currency conversion and the fluctuation of the Renminbi may materially and adversely affect our operations.

The Renminbi currently is not a freely convertible currency. We receive almost all of our revenues in Renminbi and will have to convert the Renminbi to foreign currency in order to meet our foreign currency obligations.

Under the relevant PRC regulations, foreign exchange transactions under the capital account, including principal payments in respect of foreign currency-denominated obligations are subject to limitations and require prior approval of the SAFE. These restrictions could affect our ability to obtain foreign currency through debt financing, or to obtain foreign exchange needed for our capital expenditures, and could materially and adversely affect our business, financial condition and results of operations.

The value of the Renminbi against the U.S. dollar and other currencies fluctuates and is affected by, among other things, changes in domestic and international political and economic conditions. Since mid-2005, the PRC government has adopted a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band that is based on market supply and demand and reference to a basket of currencies. Subsequent to mid-2005, the Renminbi appreciated significantly against the U.S. dollar but since mid-2008, the exchange rate between the Renminbi and U.S. dollar has remained relatively stable. The PRC government has since made, and in the future may make, further adjustments to the exchange rate system. Any appreciation of the Renminbi against the U.S. dollar or any other foreign currencies may result in the decrease in the value of our foreign currency-denominated assets. As of June 30, 2009, approximately 1.5% of our financial assets and 1.5% of our financial liabilities were denominated in foreign currencies. See "Financial Information — Quantitative and Qualitative Analysis of Market Risks — Currency Risk" and "Risk Management — Market Risk Management — Exchange Rate Risk." We are also currently required to obtain the approval of SAFE before converting significant sums of foreign currencies into Renminbi. All of these factors could materially and adversely affect our financial condition, results of operations and compliance with capital adequacy ratios and operational ratios.

Payment of dividends is subject to restrictions under PRC law.

Under the PRC law, dividends may be paid only out of distributable profits. Distributable profits means, as determined under PRC GAAP or IFRS, whichever is lower, the net profits for a period, plus the distributable profits or net of the accumulated losses, if any, at the beginning of such period, less appropriations to statutory surplus reserve (determined under PRC GAAP), general reserve, and discretionary surplus reserve (as approved by our shareholders' meeting). As a result, we may not have sufficient distributable profits, if any, to make dividend distributions to our shareholders in the future, including in respect of periods where we register an accounting profit. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years.

In addition, the CBRC has the discretionary authority to restrict dividend payments and other distributions by any bank that has a capital adequacy ratio below 8% or a core capital adequacy ratio below 4%, or that has violated certain other PRC banking regulations. See "Supervision and Regulation — PRC Banking Supervision and Regulation — Supervision Over Capital Adequacy — CBRC Supervision of Capital Adequacy."

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RISK FACTORS

Changes in tax incentives may materially and adversely affect our business and results of operations.

Our effective income tax rate depends on the availability of tax incentives, which may vary depending on the location or nature of our operations in China. The current maximum corporate income tax rate in China is 25%. However, we currently are entitled to an incentive income tax rate of 20% for our Shenzhen branch which will increase gradually to the maximum rate of 25% by 2012. All of our other operations are currently subject to the 25% income tax rate. We cannot assure you, however, that such tax incentives will be available in the future or that existing tax incentives will not be modified or revoked. If the tax incentives are modified or revoked, our results of operations may be materially and adversely affected.

Any future outbreaks of contagious diseases in the PRC may have a material adverse effect on our business operations, financial condition and results of operations.

Any future outbreaks of contagious diseases, including avian influenza, H1N1 influenza A, severe acute respiratory syndrome, or SARS, may materially and adversely affect our business and results of operations. There have been recent reports of outbreaks of a highly pathogenic influenza caused by H1N1 virus in certain regions and countries. The World Health Organization and other agencies have issued and continue to issue warnings on a potential Influenza A (H1N1) pandemic if there is sustained human-to-human transmission. An outbreak of an Influenza A (H1N1) in the human population could result in a widespread health crisis that could materially and adversely affect the economies and financial markets of many countries, particularly in Asia. Additionally, a recurrence of SARS, a highly contagious form of atypical pneumonia, similar to the occurrence in the first half of 2003, which affected the PRC, Hong Kong and certain other areas, could have similar adverse effects. There is no guarantee that any future outbreak of Influenza A (H1N1), avian influenza, SARS or other epidemics or pandemics, or the measures taken by the PRC government or other countries in response to a future outbreak of Influenza A (H1N1), avian influenza, SARS or other epidemics, will not seriously interrupt our operations or those of our suppliers or customers, which may have a material adverse effect on our results of operations.

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**EXEMPTIONS FROM THE COMPANIES ORDINANCE AND WAIVERS FROM STRICT COMPLIANCE
WITH THE HONG KONG LISTING RULES**

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DIRECTORS

DIRECTORS

<u>Name</u>	<u>Residential Address</u>	<u>Nationality</u>
Executive Directors		
Mr. DONG Wenbiao, Chairman	Room 602, Unit 1, Building No. 2, Yuan No. 48 Tiantandongli, Chongwen District, Beijing, PRC	Chinese
Mr. HONG Qi, President	Unit 117B, Zhong Hai Zi Jin Yuan, Haidian District, Beijing, PRC	Chinese
Mr. LIANG Yutang, Vice President	Unit 2013, No. 1 North Building, Haiya Garden, Beiwa Road Middle, Haidian District, Beijing, PRC	Chinese
Non-executive Directors		
Mr. ZHANG Hongwei, Vice Chairman . . .	No. 3 Chaoyangmen Beidajie, Dongcheng District, Beijing, PRC	Chinese
Mr. LU Zhiqiang, Vice Chairman	Room 1806, West Division, No. 9 West Gongyuan Street, Dongcheng District, Beijing, PRC	Chinese
Mr. LIU Yonghao, Vice Chairman	4/F, No. 9 New Hope Road, Chengdu, Sichuan, PRC	Chinese
Mr. WANG Yugui	Unit 705, 3/F, No. 123, Zhong Guan Cun East Road, Haidian District, Beijing, PRC	Chinese
Mr. CHEN Jian	A23, Fuxing Road, Haidian District, Beijing, PRC	Chinese
Ms. WONG Hei	8/F, Yin Hang Zhong Xin, No. 189 Xia He Road, Xiamen, Fujian, PRC	Hong Kong
Mr. SHI Yu Zhu	Unit 2604, Jinyulan Square, No. 1 Dapu Road, Shanghai, PRC	Chinese
Mr. WANG Hang	Room 4-2-102, No. 12 New Hope Road, Chengdu, Sichuan, PRC	Chinese
Mr. WANG Junhui	Unit 1088, Building 9, Guangda Garden, Quanzong Road, Haidian District, Beijing, PRC	Chinese

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DIRECTORS

<u>Name</u>	<u>Residential Address</u>	<u>Nationality</u>
Independent Non-executive Directors		
Mr. Andrew WONG	Flat 1, 20/F, Block C, Coral Court, No. 51-67 Cloud View Road, North Point, Hong Kong	Hong Kong
Mr. WANG Songqi	Room 9B, Unit 2, Building No. 6, Guanshan Garden, Landianchang Residential Area, Haidian District, Beijing, PRC	Chinese
Mr. LIANG Jinqun	No. 802-803, Unit 5, Building 1, Third District, Guanyuan South Lane, Xicheng District, Beijing, PRC	Chinese
Mr. WANG Lihua	Unit 305, Building 505, Zhongguan Yuan, Peking University, Haidian District, Beijing, PRC	Chinese
Mr. QIN Rongsheng	Unit 5-908, Guoxing Jiayuan, Shouti Nanlu, Haidian District, Beijing, PRC	Chinese
Mr. HAN Jianmin	Room 84902, Wanliu Xingbiao Jiayuan, Wanliu Zhonglu, Haidian District, Beijing, PRC	Chinese

SUPERVISORS

<u>Name</u>	<u>Residential Address</u>	<u>Nationality</u>
Chairman		
Mr. QIAO Zhimin	Unit 1105, No. 1 Chegongzhuang Avenue, Xicheng District, Beijing, PRC	Chinese
Members		
Mr. XING Jijun	No. 168 Xuanhua Street, Nangang District, Harbin, Heilongjiang, PRC	Chinese
Mr. LU Zhongnan	No. 6 Xibahe South Road, Beijing, PRC	Chinese
Mr. ZHANG Disheng	Unit 201, Building 36, Zhongguancun, Haidian District, Beijing, PRC	Chinese
Ms. XU Rui	Unit 503, Building 7, Taiping Garden, No. 10 Taipingmen Street, Xuanwu District, Nanjing, Jiangsu, PRC	Chinese

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DIRECTORS

<u>Name</u>	<u>Residential Address</u>	<u>Nationality</u>
Mr. WANG Liang	Unit 1403, Building D, No. 21, Suiyuan Garden East Street, North Longkou West, Tianhe District, Guangzhou, Guangdong, PRC	Chinese
Mr. CHEN Jinzhong	No. 18 Hongjunying East Road, Chaoyang District, Beijing, PRC	Chinese
Ms. WANG Lei	Lane 149, Dong’An Road, Xuhui District, Shanghai, PRC	Chinese

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CORPORATE INFORMATION

Registered Address and Address of Head Office	No. 2 Fuxingmennei Avenue Xicheng District, Beijing PRC
Representative Office and Place of Business in Hong Kong	3207-08, Bank of America Tower 12 Harcourt Road Central Hong Kong
Website Address	www.cmbc.com.cn
Joint Company Secretaries	Mr. Mao Xiaofeng Ms. Soon Yuk Tai, ACS, ACIS
Authorized Representatives	Mr. Andrew Wong Flat 1, 20/F, Block C Coral Court No. 51-67 Cloud View Road North Point, Hong Kong Ms. Soon Yuk Tai Level 28 Three Pacific Place 1 Queen's Road East Hong Kong

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BANKING INDUSTRY IN THE PRC

This section contains information and statistics on the industry in which our Group operates. We have extracted and derived such information and statistics, in part, from various official or publicly available sources. We believe that the use of such financial data is appropriate for the section below and have taken reasonable care in including such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that render such information false or misleading.

OVERVIEW

China's economy has grown significantly over the past three decades largely as a result of the PRC government's extensive economic reforms. At the outset, these reforms focused on transforming China from a centrally planned economy to a more market-based economy. More recently, particularly following China's accession to the WTO in 2001, such economic reforms have also aimed, among other things, to enhance the competitiveness of Chinese enterprises. As a consequence of these reforms, China's nominal GDP grew at a CAGR of 16.5% between 2002 and 2008, according to the National Bureau of Statistics of China, and, as of December 31, 2008, China was the third largest economy in the world, with a GDP of RMB30,067.0 billion in 2008. Despite the adverse effects of the global financial crisis, the Chinese economy has remained relatively stable in 2009. China's real GDP grew at a 7.7% annual rate over the first nine months of 2009. The following table sets forth China's GDP and total import and export volume and the respective CAGR from 2002 to 2008.

	As of and for the year ended December 31,							CAGR (2002-2008)
	2002	2003	2004	2005	2006	2007	2008	
GDP (RMB billions) ⁽¹⁾	12,033.3	13,582.3	15,987.8	18,321.8	21,192.4	25,730.6	30,067.0	16.5%
GDP per capita (in RMB)	9,398	10,542	12,336	14,053	16,165	19,524	22,698	15.8%
Total import and export (US\$ billions)	620.8	851.0	1,154.6	1,421.9	1,760.4	2,173.7	2,561.6	26.6%

Source: National Bureau of Statistics of China.

(1) Based on current prices.

As an important component of the country's overall economic system, the Chinese financial system has also grown rapidly. According to the National Bureau of Statistics of China, M2 money supply of China grew at a CAGR of 16.9% from December 31, 2004 to December 31, 2008. The following table sets forth China's M2 money supply and its CAGR as of the dates indicated.

	As of December 31					CAGR (2004-2008)
	2004	2005	2006	2007	2008	
	(in billions of RMB, except percentages)					
M2 money supply	25,410.7	29,875.6	34,560.4	40,344.2	47,516.7	16.9%

Source: National Bureau of Statistics of China and PBOC.

China's banking industry has experienced rapid growth, consistent with the economic development of the Chinese financial system. Banks have historically been, and are likely to remain, the principal provider of capital for enterprises and the primary choice for domestic savings in China. According to information published by PBOC, bank loans accounted for 83.1% of total financing by

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BANKING INDUSTRY IN THE PRC

non-financial institutions in 2008 with the remaining 16.9% raised through bond and equity issuances.

Total RMB-denominated loans and RMB-denominated deposits of China’s banking industry have increased at a CAGR of 14.2% and 17.9%, respectively, from December 31, 2004 to December 31, 2008. The following table sets forth total RMB-denominated loans, total RMB-denominated deposits, and the respective CAGR of banking institutions in China as of the dates indicated.

	As of December 31,					CAGR (2004-2008)
	2004	2005	2006	2007	2008	
	(in billions of RMB, except percentages)					
Total RMB-denominated loans . . .	17,819.8	19,469.0	22,534.7	26,169.1	30,339.5	14.2%
Total RMB-denominated deposits	24,142.4	28,716.3	33,546.0	38,937.1	46,620.3	17.9%

Source: National Bureau of Statistics of China.

China’s eastern coastal areas, which consist of the Yangtze River Delta, the Bohai Rim and the Pearl River Delta, have historically been a focus of the PRC government’s economic development policies and account for a relatively higher percentage of China’s GDP. According to the China Statistical Abstract 2009, eastern coastal areas accounted for 54.3% of the total GDP of the PRC in 2008, with a combined GDP of RMB17,580 billion. Residents of these areas tend to be more affluent than those in the rest of the country as evidenced by a higher GDP per capita of RMB37,213 in 2008, compared to the national average of RMB22,698. In light of the faster growth in income levels and corporate activities in the eastern coastal areas, the banking industry in such areas is also more developed in comparison with that in other parts of China. According to the PBOC, deposits and loans of banking institutions in the eastern coastal areas accounted for 60.3% and 61.3%, respectively, of total deposits and loans in the PRC in 2008.

Since the second half of 2008, global capital markets have experienced tremendous fluctuation as a result of the financial turmoil originating from the United States sub-prime mortgage crisis. This financial upheaval has brought about a worldwide economic downturn. Economists and other observers remain uncertain as to when a general recovery will take place. In response to the economic crisis, many governments around the world have adopted recovery programs. China was somewhat less affected by the crisis as compared to many of the world’s other major economies in part due to its highly regulated financial and banking system. Nonetheless, the PRC government has implemented a series of measures to mitigate the impact of the financial crisis. This includes a four-trillion Renminbi fiscal stimulus program to stimulate domestic demand, of which a major component is public infrastructure spending. To implement China’s pro-growth policies, the PBOC decreased interest rate five times in less than three months following the outbreak of the global financial crisis. One-year benchmark interest rate for RMB loans was slashed by an aggregate of 216 basis points to 5.31% and remained unchanged since December 23, 2008. In addition, the PBOC decreased the required reserve ratio a total of four instances in the second half of 2008 to improve liquidity of the market.

In addition, the CBRC has promulgated a series of measures to encourage banking institutions to implement the PRC government’s macroeconomic policies, and, in particular, to support healthy economic growth by increasing lending activities on the precondition of effective risk control. See “— Industry Trends — Enhanced Regulation and Supervision.” New RMB loans made in China in the first nine months of 2009 soared to RMB8,701.3 billion, which is about 2.5 times of the total value of new RMB loans made in the first nine months of 2008.

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BANKING INDUSTRY IN THE PRC

HISTORY AND DEVELOPMENT OF CHINA'S BANKING SECTOR

Between 1949 and 1970, the PRC's banking industry operated primarily as a centrally controlled system in which the PBOC served as China's central bank as well as the primary deposit taking and lending institution. Since the late 1970s, the banking industry underwent a significant transformation as many of the PBOC's commercial banking functions were separated from its central bank function. Some of the Large Commercial Banks, namely Bank of China, Industrial and Commercial Bank of China, China Construction Bank and Agricultural Bank of China, assumed the role of state-operated specialized banks, while the PBOC remained China's central bank and the principal regulator of the Chinese banking system.

In the late 1980s, new commercial banks and non-bank financial institutions were established. Some of these commercial banks, known as the Other Joint Stock Commercial Banks, were permitted to offer nationwide commercial banking services, while others were permitted to operate generally only in local markets. Since the mid-1990s, the PRC government has taken a series of measures to reform the commercial banking sector, including the establishment of three policy banks in 1994 to undertake most policy lending functions. In 2003, the CBRC was established to serve as the primary banking industry regulator and assumed the majority of regulatory functions from the PBOC.

China's banking industry has historically been burdened with large portfolios of non-performing loans. From 1998 to 2003, the PRC government undertook numerous initiatives to improve asset quality and strengthen the capital base of the Large Commercial Banks by the issuance of special government bonds, acquisition of non-performing loans and equity injections. Further, in 2008, the PRC government, through China SAFE Investments Limited (also known as "*Huijin*"), contributed RMB130.0 billion as equity into Agriculture Bank of China after the latter's conversion into a joint stock limited liability company.

On the other hand, many Other Joint Stock Commercial Banks have relied on their own resources to improve asset quality and reduce non-performing loan ratios. Most of the Other Joint Stock Commercial Banks have not received government assistance and have raised asset quality through such measures as strengthening credit risk management and writing off or transferring non-performing loans. Furthermore, over the past decade, numerous PRC commercial banks have listed their shares on domestic or overseas stock markets to strengthen their capital base and have adopted international best management practices, which in turn have contributed to an improvement in asset quality. For instance, as the first and largest nationwide joint stock commercial bank in the PRC primarily founded by non-stated-owned enterprises, we listed our shares on the Shanghai Stock Exchange in December 2000. See "Industry Trends — Listing of China's Commercial Banks."

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BANKING INDUSTRY IN THE PRC

CURRENT COMPETITIVE LANDSCAPE

China's banking institutions are generally divided into seven broad categories: the Large Commercial Banks, the Other Joint Stock Commercial Banks, city commercial banks, rural cooperative financial institutions, urban credit cooperatives, foreign-invested banks and other banking institutions. The following table sets forth, as of December 31, 2008, certain information relating to the total assets, loans, deposits and the number of outlets of each category.

	As of December 31, 2008						
	Total assets		Total loans ⁽⁴⁾		Total deposits		
	Total amount	Market share	Total amount	Market share	Total amount	Market share	Number of outlets
	(in billions of RMB, except number of institutions and percentages)						
Large Commercial Banks . . .	33,961.6	52.5%	16,090.8	48.5%	27,664.6	58.2%	5
Other Joint Stock Commercial Banks	9,045.9	14.0%	4,961.4	15.0%	6,641.5	14.0%	12
City commercial banks	4,132.0	6.4%	2,079.8	6.3%	3,316.5	7.0%	136
Rural cooperative financial institutions ⁽¹⁾	7,143.6	11.0%	3,726.9	11.2%	5,642.6	11.9%	5,150
Urban credit cooperatives . .	80.4	0.1%	43.5	0.1%	76.2	0.2%	22
Foreign-invested banks ⁽²⁾ . . .	1,344.8	2.1%	728.6	2.2%	562.8	1.2%	311
Other banking institutions ⁽³⁾	9,041.9	14.0%	5,546.0	16.7%	3,666.4	7.7%	277
Total	64,750.2	100%	33,177.0	100%	47,570.6	100%	5,913

Sources: PBOC, CBRC and annual reports of relevant banks.

(1) Consist of rural cooperative banks, rural commercial banks and rural credit cooperatives.

(2) Consist of head offices, branches and subsidiaries of locally incorporated foreign banks and foreign bank branches.

(3) Consist of policy banks, the Postal Savings Bank of China and other non-bank financial institutions including asset management companies, finance companies, trust and investment companies, financial leasing companies, money brokerage firms, auto financing companies, village or township banks, lending companies and rural mutual credit cooperatives. Data of the total loans and total deposits consists of data relating to the policy banks, the Postal Savings Bank of China, finance companies, trust and investment companies and financing leasing companies.

(4) Amounts shown are before allowances for impairment losses.

Large Commercial Banks

The Large Commercial Banks play a major role in China's banking market. All of them have undergone restructuring to become joint stock companies. Bank of Communications, China Construction Bank, Bank of China, and Industrial and Commercial Bank of China are listed on both the Hong Kong Stock Exchange and the Shanghai Stock Exchange. As of December 31, 2008, the total assets and the total loans of the Large Commercial Banks represented 52.5% and 48.5% of the total assets and the total loans of banking institutions in China, respectively.

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BANKING INDUSTRY IN THE PRC

The following table sets forth, as of December 31, 2008, total assets, loans, deposits and the number of outlets of each of the Large Commercial Banks.

	As of December 31, 2008						Approximate number of outlets
	Total assets		Total loans ⁽²⁾		Total deposits		
	Amount	% of total	Amount	% of total	Amount	% of total	
	(in billions of RMB, except percentages and number of outlets)						
Industrial and Commercial Bank of China ⁽¹⁾	9,757.1	28.7%	4,572.0	28.4%	8,223.4	29.7%	16,386
China Construction Bank ⁽¹⁾	7,555.5	22.2%	3,793.9	23.6%	6,375.9	23.0%	13,383
Agricultural Bank of China	7,014.4	20.7%	3,100.2	19.3%	6,097.4	22.0%	24,064
Bank of China ⁽¹⁾	6,951.7	20.5%	3,296.1	20.5%	5,102.1	18.4%	10,789
Bank of Communications ⁽¹⁾	2,682.9	7.9%	1,328.6	8.3%	1,865.8	6.7%	2,749
Total	33,961.6	100%	16,090.8	100%	27,664.6	100%	67,371

Sources: Banks' annual reports.

(1) Listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange.

(2) Amounts shown are before allowance for impairment losses.

Other Joint Stock Commercial Banks

As at the date of this document, there were 12 Other Joint Stock Commercial Banks in China. These Other Joint Stock Commercial Banks are licensed to engage in commercial banking activities nationwide and have played an increasingly important role in China's banking industry. See "— Industry Trends — Increasing Role of Other Joint Stock Commercial Banks in China's Banking Industry." Established predominantly in the late 1980's and early 1990's, the Other Joint Stock Commercial Banks have gradually increased their collective market share while the market share of the Large Commercial Banks has gradually decreased. The total assets of the Other Joint Stock Commercial Banks represented 14.0% of the total assets of banking institutions in China as of December 31, 2008, compared to 11.6% as of December 31, 2005. As of December 31, 2008, total loans of China Minsheng Bank accounted for 13.3% and 2.0% of total loans of the Other Joint Stock Commercial Banks and banking institutions respectively.

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BANKING INDUSTRY IN THE PRC

The following table sets forth, as of December 31, 2008, the total assets, loans, deposits, and the number of outlets of the Other Joint Stock Commercial Banks.

	As of December 31, 2008						
	Total assets		Total loans ⁽⁴⁾		Total deposits		Approximate number of outlets
	Amount	Ranking	Amount	Ranking	Amount	Ranking	
	(in billions of RMB, except number of outlets)						
China Merchants Bank ⁽¹⁾⁽²⁾	1,571.8	1	874.4	1	1,250.6	1	674
Shanghai Pudong Development Bank ⁽²⁾	1,309.4	2	697.6	2	947.3	2	491
China CITIC Bank ⁽¹⁾⁽²⁾	1,188.2	3	664.9	3	945.8	3	544
China Minsheng Bank ⁽²⁾	1,054.4	4	658.4	4	785.8	4	374
Industrial Bank ⁽²⁾	1,020.9	5	499.4	5	632.4	5	441
China Everbright Bank	851.8	6	464.6	6	605.2	6	457
Huaxia Bank ⁽²⁾	731.6	7	355.5	7	485.3	7	313
Guangdong Development Bank	546.4	8	311.0	8	420.4	8	511
Shenzhen Development Bank ⁽³⁾	474.4	9	283.7	9	360.5	9	282
Evergrowing Bank	151.0	10	65.8	10	88.1	10	N/A
China Zheshang Bank	83.8	11	51.4	11	71.5	11	31
China Bohai Bank	62.2	12	34.7	12	48.6	12	24
Total	9,045.9		4,961.4		6,641.5		4,140

Sources: Banks' annual reports and websites. Data related to our Group are derived from audited consolidated financial statements included in the Accountant's Report in Appendix I prepared in accordance with IFRS.

(1) Listed on the Hong Kong Stock Exchange.

(2) Listed on the Shanghai Stock Exchange.

(3) Listed on the Shenzhen Stock Exchange.

(4) Amounts shown are before allowance for impairment losses, except for Guangdong Development Bank of which only net loans balance is reported.

City Commercial Banks

City commercial banks are permitted to engage in commercial banking activities, primarily within specific geographic areas. Some city commercial banks have undergone restructuring, introduced strategic investors and sought initial public offerings in recent years to further enhance capitalization and increase management capabilities. Bank of Nanjing and Bank of Beijing completed their listing on the Shanghai Stock Exchange in July 2007 and September 2007 respectively while Bank of Ningbo also completed its listing on the Shenzhen Stock Exchange in July 2007. As of December 31, 2008, the total assets and the total loans of city commercial banks represented 6.4% and 6.3% of the total assets and the total loans of banking institutions in China, respectively.

Rural and Urban Cooperative Institutions

Rural and urban cooperative institutions include rural commercial banks, rural cooperative banks, rural credit cooperatives and urban credit cooperatives. They provide a limited range of banking products and services, including personal deposit, lending and settlement services, to small enterprises and local residents in rural and urban areas, respectively. Due to the rapid growth of other banking institutions in the urban areas, in particular the establishment of city commercial banks, the total assets of urban credit cooperatives as a percentage of the total assets of banking institutions in China have declined in recent years. As of December 31, 2008, the total assets of rural credit cooperative financial institutions (including rural commercial banks, rural cooperative banks and rural credit cooperatives) and urban credit cooperatives represented 11.0% and 0.1%, respectively, of the total assets of banking institutions in China.

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BANKING INDUSTRY IN THE PRC

Foreign-Invested Banks

Foreign-invested banks include head offices, branches and subsidiaries of locally incorporated foreign banks and foreign bank branches. As with other types of banking institutions in China, foreign-invested banks are subject to the supervision of and regulation by the CBRC. See “Supervision and Regulation—PRC Banking Supervision and Regulation—Regulation of Foreign-invested Banks in the PRC.” Pursuant to its WTO accession commitments, China has progressively opened RMB-denominated banking activities to foreign-invested banks. Effective from December 11, 2006, all restrictions on the geographic presence, customer base and operational licenses of foreign-invested banks have been lifted although some other restrictions continue to exist. As a result, there has been an increase in investments by foreign investors in Chinese commercial banks which has helped to strengthen the capital base of Chinese commercial banks in the past few years. By the end of 2008, 196 banks from 46 countries and regions had set up 237 representative offices in China, while 28 foreign-owned banks have incorporated in China. The total assets and the total loans from these banking institutions represented 2.1% and 2.2% of the total assets and the total loans of banking institutions in China.

Other Banking Institutions

Other banking institutions include policy banks (i.e., PRC government-established banks focusing on policy lending, such as the China Development Bank, the China Export and Import Bank and the Agriculture Development Bank of China), the Postal Savings Bank of China and other non-bank financial institutions including asset management companies, finance companies, trust and investment companies, financial leasing companies, money brokerage firms, automobile finance companies, village or township banks, lending companies and rural mutual credit cooperatives. As of December 31, 2008, other banking institutions represented 14.0% of the total assets and 16.7% of the total loans of banking institutions in China.

INDUSTRY TRENDS

Increasing Role of Other Joint Stock Commercial Banks in China’s Banking Industry

While the Large Commercial Banks have historically dominated the banking industry in China, their market share has declined over the past few years. The aggregate market share of the Other Joint Stock Commercial Banks has increased from 11.6% in 2005 to 14.0% in 2008 in terms of total assets. Other Joint Stock Commercial Banks generally focus their operations on the relatively more economically developed regions of China and have gained market share by providing innovative products and high-quality customer service. Moreover, as compared with most other regional banking institutions, the Other Joint Stock Commercial Banks enjoy certain competitive advantages such as a national distribution network, a larger capital base, access to more resources, more diverse product and service offerings and more advanced information technology infrastructure.

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BANKING INDUSTRY IN THE PRC

The following table sets forth the respective market share based on the total assets of each category of China's banking institutions as of the dates indicated.

	As of December 31,		
	2006	2007	2008
Large Commercial Banks	56.3%	53.8%	52.5%
Other Joint Stock Commercial Banks	12.1%	13.7%	14.0%
City commercial banks	5.8%	6.3%	6.4%
Rural cooperative institutions	9.8%	10.5%	11.0%
Urban credit cooperatives	0.4%	0.2%	0.1%
Foreign-invested banks	2.1%	2.3%	2.1%
Other banking institutions	13.6%	13.2%	14.0%
Total	100%	100%	100%

Source: PBOC, CBRC and annual reports of relevant banks.

Generally, Other Joint Stock Commercial Banks have higher asset quality compared to the Large Commercial Banks due to their relatively smaller exposure to policy lending and have fewer legacy non-performing loans given their shorter operating history. As compared to the city commercial banks and rural cooperatives financial institutions, the Other Joint Stock Commercial Banks also have generally higher asset quality due to their lower geographic concentration. The non-performing loan ratios of the Other Joint Stock Commercial Banks have historically been lower than other categories of banking institutions in the PRC. As of September 30, 2009, the non-performing loan ratios of Large Commercial Banks and Other Joint Stock Commercial Banks were 1.9% and 0.99% respectively.

Enhanced Regulation and Supervision

In recent years, the CBRC and other PRC regulatory authorities have promulgated a number of regulations in an effort to enhance supervision in the banking industry. Such measures include the following:

- *Improving corporate governance.* The CBRC has encouraged banks to establish a corporate governance structure that includes a board with independent directors, audit, compensation and other board committees, as well as a supervisory board. Additionally, banks have been instructed to create an independent internal audit function that is supported by clearly defined policies and procedures;
- *Enhancing risk management.* The CBRC has promulgated a series of risk management guidelines and undertaken measures to more closely monitor and enforce the adoption and implementation of the five-category loan classification system and the risk rating system, compliance with due diligence requirements during the credit extension process, as well as enhanced management of market, liquidity, and operational risks in addition to credit risks by banking institutions;
- *Strengthening supervision over capital adequacy.* In March 2004, the CBRC implemented a set of new and more stringent capital adequacy guidelines which were based on Basel I and also took into consideration Basel II. Under these guidelines, all banks in China are required to comply with these new capital adequacy requirements as of January 1, 2007;
- *Enhancing supervision over information disclosure.* The CBRC has required commercial banks to enhance disclosure in their annual reports; and

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BANKING INDUSTRY IN THE PRC

- *Improving regulation of related-party transactions of commercial banks.* In April 2004, the CBRC promulgated guidelines on related-party transactions between a bank and its insiders or shareholders, in an attempt to control the risks represented by such transactions and to ensure the orderly operation of commercial banks.

In 2008, the CBRC undertook several regulatory measures in response to the global financial crisis, including the following:

- *Optimizing risk management for foreign currency assets.* Since August 2008, the CBRC has required that banking institutions to closely monitor market changes by re-assessing losses generated through trading with high-risk international financial counterparties for each account and for each trade on a daily basis. The CBRC has also required banks to improve risk management over offshore correspondent banks and adjust their credit risk exposure to foreign currency bonds issuers. Banks are also required to adjust their portfolio structure of foreign currency bonds promptly;
- *Strengthening information disclosure.* The CBRC has required banking institutions to disclose to customers the performance of their QDII products and the impact of the global financial crisis on their operations and financial positions accurately and on a timely and ongoing basis; and
- *Implementing the PRC government’s pro-growth policies.* The CBRC promulgated a series of measures including the Guidance of Risk Management on Merger and Acquisition Loans of Commercial Banks and the Guidance on Issues Relevant to Establishing Special Agencies for Small Business Lending by Banks to encourage banking institutions to implement the state’s macroeconomic policies, and, in particular, to proactively support continued healthy economic growth by increasing lending activity while effectively controlling risk.

See “Supervision and Regulation — PRC Banking Supervision and Regulation” for more information regarding PRC regulations affecting banking institutions. PRC regulatory authorities are expected to continue to promulgate new regulations in an effort to enhance the risk management capabilities of China’s commercial banks and to ensure the healthy development of the Chinese banking industry.

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BANKING INDUSTRY IN THE PRC

Improvement of Asset Quality

Since the late 1990s, the PRC government has taken various measures to improve the asset quality and strengthen the capital base of the Large Commercial Banks. See "— History and Development of China's Banking Sector." In an effort to enhance and standardize non-performing loan disclosure by banks and to allow regulators to better monitor banks' asset quality in accordance with international practices, the CBRC formally implemented a five-category classification system in 2002. In addition, pursuant to the PRC government's regulatory requirements, PRC commercial banks have adopted various measures designed to enhance risk management capabilities and improve asset quality. The following table sets forth certain information regarding non-performing loans in China's banking industry as a whole, the Large Commercial Banks and Other Joint Stock Commercial Banks as of the date indicated:

	As of December 31, 2008		As of September 30, 2009	
	Amount	% total loans	Amount	% total loans
(in billions of RMB, except percentages)				
Non-performing loans by categories				
Substandard	224.9	1.1%	214.1	0.7%
Doubtful	212.2	1.1%	229.5	0.8%
Loss	49.5	0.2%	61.0	0.2%
	<u>486.5</u>	<u>2.4%</u>	<u>504.5</u>	<u>1.7%</u>
Non-performing loans by types of banks				
Large Commercial Banks	420.8	2.8%	364.2	1.9%
Other Joint Stock Commercial Banks	65.7	1.3%	65.5	1.0%

Source: CBRC.

Listing of China's Commercial Banks

In an effort to accelerate the development of China's banking industry, China's commercial banks have increasingly sought to list their shares on domestic and overseas stock markets to enhance capitalization, increase internationalization and improve management capabilities. In June 2005, Bank of Communications became the first Chinese bank to conduct an initial public offering on the Hong Kong Stock Exchange, followed by China Construction Bank, Bank of China, China Merchants Bank, Industrial and Commercial Bank of China and China CITIC Bank.

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BANKING INDUSTRY IN THE PRC

Bank Lending Remains the Most Important Source of Financing

The Chinese economy has historically relied on bank loans as the primary source of financing. Despite the development of domestic capital markets since the late 1980s and the emergence of other direct financing channels, commercial banks remain the principal provider of financing to businesses in China. On the other hand, direct financing channels (such as the issuance of bonds or commercial paper) have become an increasingly important source of financing for enterprises in the PRC. The following table sets forth the relative proportion of bonds issued, equity raised and bank loans by non-financial institutions in China between 2004 and 2008:

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Bank loans	82.9%	80.2%	82.0%	78.7%	83.1%
Corporate bonds	1.1%	6.6%	5.7%	4.6%	9.1%
Equity	5.2%	3.4%	5.6%	13.1%	6.1%
Government bonds	10.8%	9.8%	6.7%	3.6%	1.7%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Source: PBOC.

Interest Rate Deregulation

Historically, interest rates on deposits and loans were set by and subject to restrictions established by the PBOC. Thus, the interest spread in China is generally wider than other less regulated markets. In recent years, as part of the overall reform of the banking system, the PBOC has implemented a series of initiatives designed to gradually liberalize interest rates and promote a more market-oriented interest rate regime. See “Supervision and Regulation — PRC Banking Supervision and Regulation — Pricing of Products and Services — Interest Rates for Loans and Deposits.” In addition, the interbank interest rates have been largely liberalized. Since its establishment in January 2007, Shanghai Interbank Offered Rate has become an independent benchmark in the interbank market in China. The on-going interest rate liberalization is likely to facilitate the ability of banks to develop and market innovative products and services and adopt risk-based pricing.

Further Globalization of Renminbi

According to the National Bureau of Statistics of China, from 2004 to 2008, China’s foreign trade volume nearly doubled, reaching approximately US\$2,561.6 billion at the end of 2008, representing a CAGR of 22.0%. This soaring foreign trade and increasing inflow of foreign investment into China created greater demand for further globalization of Renminbi. Under the CEPA, banks in Hong Kong are allowed to provide RMB-denominated services to individuals, including RMB deposits, remittances, exchange business and issuance of RMB bank cards in the territory since early 2004. RMB deposits in Hong Kong rose from RMB12.0 billion in 2004 to RMB56.1 billion in 2008. To facilitate more efficient settlement with trading partners, China has signed several currency swap contracts with the central banks of Hong Kong, South Korea, Malaysia, Belarus, Indonesia and Argentina since late 2008. In April 2009, China’s State Council further announced a pilot program to allow exporters and importers in Shanghai and the southern Chinese cities, namely Guangzhou, Shenzhen, Zhuhai and Dongguan, to settle cross-border trade deals in Renminbi.

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BANKING INDUSTRY IN THE PRC

Increasing Focus on SME Banking

Historically, SME banking activities were primarily the focus of city commercial banks and rural cooperative financial institutions. However, given the gradual liberalization of interest rates and the growing bargaining power of large corporate borrowers resulting from the increasing availability of alternative financing sources, the Large Commercial Banks and the Other Joint Stock Commercial Banks have put increasing focus on SME banking to diversify their corporate banking business. SME banking grew rapidly in recent years and represented the majority of corporate lending business. As of December 31, 2008, RMB-denominated loans issued to SMEs amounted to RMB10,310.6 billion, accounting for 53.1% of all corporate loans in China.

Increasing Demand for Retail Banking Products and Services

Although corporate banking continues to be the predominant business for most commercial banks in China, demand for retail banking products and services has grown significantly due to rising income among China's households. The following table sets forth, for the periods indicated, key personal income data for China and their respective CAGR.

	For the year ended December 31,					CAGR (2004-2008)
	2004	2005	2006	2007	2008	
	in RMB, except percentages					
Per capita GDP	12,336	14,053	16,165	19,524	22,698	16.5%
Per capita annual disposable income of urban households	9,422	10,493	11,760	13,786	15,781	13.8%
Per capita annual net income of rural households	2,936	3,255	3,587	4,140	4,761	12.8%

Sources: National Bureau of Statistics of China.

The anticipated rapid increase in personal income in China will likely continue to drive demand for retail banking products, especially wealth management services. The number of relatively affluent individuals in China is expected to grow as a result of China's growing economy. Such trend is likely to increase the demand for more comprehensive and personalized wealth management advice in addition to traditional banking products and services.

Further Expansion of Fee and Commission-based Business

As the domestic PRC economy has become increasingly sophisticated, Chinese commercial banks have increased their efforts to provide diversified financial products and services, especially fee and commission-based products and services.

Historically, commercial banks in China were restricted in their ability to provide fee and commission-based products and services. Since 2001, however, the PRC government has promulgated regulations permitting banks to charge for certain fee and commission-based products and services. See "Supervision and Regulation—PRC Banking Supervision and Regulation—Pricing of Products and Services." Fee and commission income accounted for less than 10% of the total income of PRC banks in 2008, substantially lower than the ratio in more mature markets. This ratio is expected to increase as domestic banks continue to expand their product and service offerings in response to demands for increasingly sophisticated financial products and services by corporate and retail customers.

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BANKING INDUSTRY IN THE PRC

Expansion of Overseas Presence

In recent years, China’s banking institutions have accelerated the pace of their overseas expansion, as evidenced by their active engagement in mergers and acquisitions, strategic investment and the establishment of their presence abroad. For example, following the acquisition of a 90% stake in PT Bank Halim Indonesia in December 2006, the Industrial and Commercial Bank of China purchased Macao’s Seng Heng Bank in August 2007 and 20% of Standard Bank, South Africa’s largest banking group, in October 2007.

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SUPERVISION AND REGULATION

PRC BANKING SUPERVISION AND REGULATION

Overview

The banking industry is highly regulated in the PRC, with the CBRC and the PBOC acting as the principal regulatory authorities. The CBRC is responsible for supervising and regulating banking institutions, and the PBOC, as the central bank of the PRC, is responsible for formulating and implementing monetary policies. The principal laws and regulations relating to PRC banking industry are the PBOC Law (中國人民銀行法), the Commercial Banking Law (商業銀行法) and the Banking Regulatory Law (銀行業監督管理法), and the rules and regulations promulgated thereunder.

History and Development of the Regulatory Framework

Established on December 1, 1948, the PBOC was initially the only regulator of the financial industry in the PRC. In January 1986, the State Council promulgated the Interim Regulation of the PRC on the Supervision of Banks (中華人民共和國銀行管理暫行條例), which explicitly provided, for the first time, that the PBOC was the central bank of the PRC and the regulatory authority for the PRC financial industry.

The current regulatory framework of the PRC banking industry began to emerge in 1995 with the enactment of the Commercial Banking Law and the PBOC Law. The Commercial Banking Law was enacted in May 1995 and laid down the fundamental principles of operations for PRC commercial banks. The PBOC Law, which was enacted in March 1995, provided for the scope of responsibilities and the organizational structure of the PBOC, and authorized the PBOC to administer the Renminbi, implement monetary policies and regulate and supervise the PRC financial industry.

Since then, the regulatory regime of the PRC banking industry went through further significant reform and development in 2003. The CBRC was established in April 2003 and took over from the PBOC its role as the primary regulator of the PRC banking industry. The CBRC was given the mandate to implement reforms, minimize overall risks, promote stability and development and enhance the international competitiveness of the PRC banking industry. In December 2003, the Commercial Banking Law and the PBOC Law were amended, and the Banking Regulatory Law was enacted. The Banking Regulatory Law sets out the regulatory functions and responsibilities of the CBRC.

Principal Regulators

CBRC

Functions and Powers

The CBRC is the principal regulatory authority responsible for the supervision and regulation of banking institutions operating in the PRC, including commercial banks, urban credit cooperatives, rural credit cooperatives, other deposit-taking financial institutions and policy banks, as well as certain non-banking financial institutions, such as financial asset management companies, trust and investment companies, financial companies, financial leasing companies and other financial institutions which establishment is subject to the CBRC's approval. According to the Banking Regulatory Law, the CBRC's primary bank regulatory responsibilities include:

- formulating and promulgating rules and regulations governing banking institutions and their activities;

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SUPERVISION AND REGULATION

- examining and approving the establishment, change and dissolution of banking institutions and their scope of business, as well as granting banking licenses for commercial banks and their branches;
- regulating the business activities of banking institutions, including their product and service offerings;
- setting qualification requirements for, and approving or overseeing the nomination of, directors and senior management personnel of banking institutions;
- setting guidelines and standards for the internal controls, risk exposure and corporate governance of, and disclosure requirements for, banking institutions;
- conducting on-site inspection and off-site surveillance of the business activities and risk levels of banking institutions;
- monitoring the financial condition of banking institutions, including establishing standards or requirements for capital adequacy, asset quality and other financial ratios; and
- imposing corrective and punitive measures for violations of applicable banking regulations, including suspending the operations of banking institutions.

Examination and Supervision

The CBRC, through its head office in Beijing and its branches in various provinces, municipalities directly under the central government and autonomous regions, monitors the operations of commercial banks and their branches through on-site examinations and off-site surveillance. On-site examinations generally include inspecting a bank’s business premises and interviewing its employees, and asking its senior management and directors to explain significant issues relating to its operations and risk management, as well as reviewing relevant documents and materials kept by the bank. Off-site surveillance generally includes reviewing various business reports, financial statements and other reports regularly submitted by banks.

PBOC

As the central bank of the PRC, the PBOC is responsible for formulating and implementing monetary policies and maintaining the stability of PRC financial markets. According to the PBOC Law, the PBOC is empowered to:

- formulate and implement monetary policies by establishing benchmark interest rates, setting the deposit required reserve ratios for commercial banks, extending loans to commercial banks, accepting discounted bills and conducting open market operations;
- issue PRC treasury bills and other government bonds to financial institutions, as the agent of the MOF;
- regulate the domestic inter-bank lending market and the trading by institutional investors in the inter-bank bond market of debt instruments issued by the PRC government and its agencies and by financial institutions;
- determine foreign exchange rate policies and manage the foreign exchange reserves and gold reserves of the PRC;
- regulate and examine foreign exchange activities; and

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SUPERVISION AND REGULATION

- establish anti-money laundering guidelines and monitor fund transfers for compliance with anti-money laundering regulations.

Other Regulatory Authorities

In addition to the CBRC and the PBOC, commercial banks in the PRC are also subject to supervision and regulation by other regulatory authorities, including the SAFE, the CSRC and the CIRC.

Licensing Requirements

Basic Requirements

The Commercial Banking Law and the Measures of CBRC for the Implementation of Administrative Licensing Matters Concerning Chinese-funded Commercial Banks effective from February 1, 2006 set out the permitted scope of business, licensing standards and other requirements in respect of commercial banks. The establishment of a commercial bank requires the CBRC's approval and issuance of an operating license. In general, the CBRC will not approve an application to establish a commercial bank unless certain conditions are satisfied, including, among others, that:

- the articles of association of the proposed commercial bank must comply with relevant requirements of the Commercial Banking Law and the Company Law;
- the registered capital of the proposed commercial bank must meet the minimum requirement under the Commercial Banking Law, which is RMB1.0 billion, RMB100 million and RMB50 million for a national commercial bank, a city commercial bank and a rural commercial bank, respectively;
- the directors and senior management of the proposed commercial bank must possess the requisite qualifications;
- the organizational structure and management system of the proposed commercial bank must be properly established; and
- the safety and security of the business premises and other facilities of the proposed commercial bank, as well as their security measures must comply with relevant requirements.

Significant Changes

Banks are required to obtain the CBRC's approval to undertake significant changes, including, among others:

- change of name;
- change of registered capital;
- change of the location of the head office or a branch;
- change of business scope;
- purchase of an equity interest in the bank that results in the purchaser becoming a holder of 5% or more of the bank's shares, and any change of shareholders holding 5% or more of the bank's total capital or shares;

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SUPERVISION AND REGULATION

- amendment to the articles of association;
- merger or division; and
- dissolution and liquidation.

Establishment of Branches

Domestic Branches

A commercial bank must apply to the CBRC (or its local offices) for approval and issuance of a business license and banking license to establish a branch. To obtain such business license and banking license, the branch must have sufficient operating funds commensurate with its scale and must meet other operating requirements. A commercial bank is required to allocate a minimum amount of operating funds for each branch, and the total of the operating funds provided to all branches of a commercial bank may not exceed 60% of its regulatory capital.

Overseas Branches

The establishment of overseas branches by a PRC commercial bank is subject to the CBRC’s approval in addition to compliance with all applicable regulations in the relevant foreign jurisdiction. The applying bank must comply with the following conditions:

- its capital adequacy ratio should not be lower than 8%;
- in principle, the balance of equity investment should not exceed 50% of its net assets;
- it generated profits in latest three consecutive fiscal years;
- the balance of its assets was no less than RMB100 billion as at the end of the year immediately prior to the application;
- it has legal and sufficient foreign exchange sources;
- it has a good corporate governance system as well as sound and efficient internal control measures in place;
- the major indicators for its prudential control and management fulfill regulatory requirements; and
- other prudential conditions required by the CBRC are satisfied.

Scope of Business

Under the Commercial Banking Law, commercial banks in the PRC are permitted to engage in any or all of the following activities:

- taking deposits from the public;
- making short-term, medium-term and long-term loans;
- effecting domestic and overseas payment settlements;
- accepting and discounting instruments;
- issuing bonds;
- acting as agents to issue, honor and underwrite government bonds;

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SUPERVISION AND REGULATION

- trading government bonds and financial institution bonds;
- engaging in inter-bank lending;
- trading foreign exchange as principal or as agent;
- engaging in bank card business;
- providing letters of credit and guarantee services;
- collecting and making payment as agents and acting as insurance agents;
- providing safe deposit box service; and
- other businesses approved by the CBRC.

Commercial banks in the PRC are required to stipulate their scope of business in their articles of association and submit their articles of association to the CBRC for approval.

Regulation of Principal Commercial Banking Activities

Lending

To control credit risks relating to the extension of credit, PRC banking regulations require that commercial banks should, among other things: (1) establish a strict and unified credit risk management system; (2) establish standard operation procedures for each step in the extension of credit, including conducting due diligence investigations before granting credit facilities, monitoring borrowers’ repayment ability and preparing credit assessment reports on a regular basis; and (3) make arrangements to appoint qualified risk control personnel.

To control market risks relating to related party loans, the CBRC issued corresponding guidelines and measures. See “— Corporate Governance — Transactions with Related Parties.”

In addition, the CBRC issued regulations regulating loans and credit granted to certain specific industries and customers in an effort to control the credit risk of PRC commercial banks. These include:

- the Guidelines on the Management of Risks of Credit Granted by Commercial Banks to Group Clients (商業銀行集團客戶授信業務風險管理指引);
- the Guidelines on the Management of Risks of Real Estate Credit Granted by Commercial Banks (商業銀行房地產貸款風險管理指引);
- the Automobile Loan Measures (汽車貸款管理辦法); and
- the Interim Measures for the Administration of Fixed Asset Loans (固定資產貸款管理暫行辦法).

Foreign Exchange Business

Commercial banks are required to obtain approvals from the CBRC and the SAFE to conduct foreign exchange businesses. Under the PRC’s anti-money laundering laws and regulations, PRC financial institutions are required to report to the SAFE on a timely basis any large or suspicious foreign exchange transactions which they encounter.

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SUPERVISION AND REGULATION

Securities and Asset Management Businesses

Commercial banks in the PRC are generally prohibited from trading and underwriting equity securities. Commercial banks in the PRC are permitted to:

- underwrite and deal in PRC government bonds and financial institution bonds, and starting from May 2005, commercial bonds issued by qualified non-financial institutions;
- act as agents in transactions involving securities, including bonds issued by the PRC government, financial institutions and other corporate entities;
- provide institutional and individual investors with comprehensive asset management advisory services;
- act as financial advisors in connection with large infrastructure projects, mergers and acquisitions transactions and bankruptcy reorganizations; and
- act as custodians for funds, including securities investment funds and corporate annuity funds.

Under the Administrative Measures on Qualifications for Securities Investment Fund Custodianship (證券投資基金託管資格管理辦法) promulgated jointly by the CSRC and the CBRC on November 29, 2004 and effective on January 1, 2005, a commercial bank is permitted to apply for the qualification to engage in fund custodian business of securities investment funds, if, among other requirements, such commercial bank has net assets at the year-end totaling no less than RMB2 billion for each of the latest three fiscal years and its capital adequacy ratio fulfills the relevant regulatory requirement. The fund custodian must ensure the separation of its custodian business from its other businesses, as well as the independence of its fund assets. The CSRC and the CBRC are jointly responsible for examining and approving the qualifications and supervising the activities of fund custodians. In addition, the senior manager of a commercial bank's fund custody department must have certain qualifications and be approved by the CSRC.

Insurance

Commercial banks in the PRC are not permitted to underwrite insurance policies, but are permitted to act as agents to sell insurance products through their distribution network. Commercial banks that conduct agency sales of insurance products are required to comply with applicable rules issued by the CIRC. Pursuant to the Interim Measures on the Administration of Ancillary Agency Insurance Business (保險兼業代理管理暫行辦法) promulgated by the CIRC on August 4, 2000, commercial banks are required to obtain licenses from the CIRC before conducting agency insurance business. Pursuant to the Notice Regarding Standardization of Agency Insurance Business Conducted by Banks (保險規範銀行代理保險業務的通知) issued jointly by the CIRC and the CBRC on June 15, 2006, such licenses are required for all main branches of commercial banks conducting such business.

Personal Wealth Management Services

In September 2005, the CBRC issued the Provisional Administrative Measures on the Personal Wealth Management Business of Commercial Banks (商業銀行個人理財業務管理暫行辦法). Under these measures, commercial banks are required to obtain CBRC approval to provide certain wealth management services whereas in respect of certain other wealth management services, they are only required to submit a report to the CBRC. Commercial banks are also subject to certain restrictions on offering products under personal wealth management plans. In addition, under

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SUPERVISION AND REGULATION

the Guidelines on Risk Management Regarding Personal Wealth Management Services of Commercial Banks (商業銀行個人理財業務風險管理指引) issued by the CBRC in September 2005, commercial banks are required to establish an auditing and reporting system in respect of their wealth management services and to report to the relevant authorities any material risk management problems. Thereafter, the CBRC issued a series of documents, including the Notice on Risk Alert for Personal Wealth Management Services Provided by Commercial Banks (關於商業銀行開展個人理財業務風險提示的通知) on June 13, 2006, Notice on Adjusting the Relevant Provisions on the Administration of the Personal Wealth Management Business of Commercial Banks (關於調整商業銀行個人理財業務管理有關規定的通知) on January 28, 2007, Notice on Issues Relating to Further Regulating Personal Wealth Management Services Provided by Commercial Banks (關於進一步規範商業銀行個人理財業務管理有關問題的通知) on April 3, 2008, Notice on Issues Relating to Further Regulating Investment Management of Personal Wealth Management Services Provided by Commercial Banks (關於進一步規範商業銀行個人理財業務投資管理有關問題的通知) on July 6 2009 and Notice on Issues Relating to Further Regulating Report Management of Personal Wealth Management Services Provided by Commercial Banks (關於進一步規範商業銀行個人理財業務報告管理有關問題的通知) on April 28, 2009, in an effort to further improve the reporting mechanism and risk control for personal wealth management services provided by commercial banks.

Electronic Banking

In January 2006, the CBRC issued Administrative Measures Regulating Electronic Banking Business (電子銀行業務管理辦法) and Security Evaluation Guidelines on Electronic Banking (電子銀行安全業務管理辦法) in an effort to enhance risk management and security standards in this sector. All banking institutions applying to establish an e-banking business are required to have sound internal control and risk management systems and should not have had any major incidents relating to their primary information management and operations processing systems in the year immediately prior to the application. In addition, all banking institutions conducting e-banking business must adopt security measures to maintain information confidentiality and prevent the unauthorized use of e-banking accounts.

Proprietary Investments

In general, commercial banks in the PRC are prohibited from making domestic investments other than in debt instruments issued by the PRC government and financial institutions, short-term commercial paper and corporate bonds issued by qualified non-financial institutions, and certain derivative products. Unless approved by the PRC government, commercial banks are prohibited in the PRC from engaging in trust investment and securities operation business, investing in real property (other than for their own use) and investing in non-banking financial institutions and enterprises.

Derivatives

On February 4, 2004, the CBRC issued the Provisional Administrative Measures on Derivative Business of Financial Institutions (金融機構衍生產品交易業務管理暫行辦法), which set out, among other things, detailed regulations on market access and risk management of derivatives business conducted by financial institutions. In accordance with the provisional measures, commercial banks in the PRC seeking to conduct derivatives business must meet relevant qualification requirements and obtain prior approval from the CBRC. On March 22, 2005, the CBRC issued the Circular on Risk Alert Regarding Trading of Derivative Products by Domestic Banks

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SUPERVISION AND REGULATION

(關於對中資銀行衍生產品交易業務進行風險提示的通知), and amended the Tentative Administrative Measures on the Management of the Dealings in Derivative Products of Financial Institutions (金融機構衍生產品交易業務管理暫行辦法) on December 28, 2006 (effective from July 3, 2007), issued the Notice to Further Strengthen Risk Management of Derivative Product Transaction between Banking Financial Institutions and Institutional Customer on July 31, 2009 (關於進一步加強銀行業金融機構與機構客戶交易衍生產品風險管理的通知) in an effort to further strengthen the risk management of derivatives business conducted by commercial banks in the PRC.

Support for, and Encouragement of, Financial Innovation by PRC Commercial Banks

In December 2006, the CBRC promulgated the Guidelines on Financial Innovation of Commercial Banks (商業銀行金融創新指引), the purpose of which is to encourage PRC commercial banks to engage prudently in financial innovation-related activities, including developing new businesses and products and improving existing businesses and products, expanding their scope of business, improving cost efficiency and profitability, and reducing their reliance on lending business for profits. To facilitate financial innovation by PRC commercial banks, the CBRC has indicated that it will streamline the examination and approval procedures for business entry and increase the efficiency of the examination and approval process.

Pricing of Products and Services

Interest Rates for Loans and Deposits

Interest rates for RMB-denominated loans and deposits were historically set by the PBOC. In recent years, the PBOC has been gradually liberalizing its regulation of interest rates, allowing banks more discretion to determine the interest rates for RMB-denominated loans and deposits. The following table sets forth, for the periods indicated, the permitted range of interest rates for RMB-denominated loans and deposits.

	Loans		Deposits	
	Between 1/1/04 and 10/28/04 ⁽¹⁾	Since 10/29/04 ⁽²⁾	Between 1/1/04 and 10/28/04	Since 10/29/04 ⁽³⁾
Maximum interest rates	Up to 170% of the PBOC benchmark rate (up to 200% for rural credit cooperatives)	No cap (up to 230% of the PBOC benchmark rate for rural and urban credit cooperatives)	PBOC benchmark rate, except for negotiated deposits	PBOC benchmark rate, except for negotiated deposits
Minimum interest rates	Not lower than 90% of the PBOC benchmark rate	Not lower than 90% of the PBOC benchmark rate	PBOC benchmark rate, except for negotiated deposits	No minimum

Notes

- (1) Interest rates for residential mortgage loans, public assistance loans, policy loans and certain other loans specified by the State Council may not exceed the PBOC benchmark rate.

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SUPERVISION AND REGULATION

- (2) From March 17, 2005 to August 18, 2006, interest rates for residential mortgage loans were regulated in the same way as most other types of loans. Since October 27, 2008, the minimum interest rates for commercial personal residential mortgage loans have been changed to 70% of the PBOC loan benchmark rate.
- (3) Beginning on October 29, 2004, commercial banks in the PRC are permitted to set their own interest rates on Renminbi deposits so long as such interest rates are not higher than the relevant PBOC benchmark rates. However, these restrictions do not apply to interest rates on negotiated deposits, which are deposits by domestic insurance companies in amounts of RMB30 million or more or deposits by the SSF in amounts of RMB500 million or more, both with a term longer than five years, or deposits by China Postal Savings Bank in amounts of RMB30 million or more with a term longer than three years.

From April 28, 2006 to December 23, 2008, the PBOC adjusted the RMB loan benchmark interest rate and RMB deposit benchmark interest rate by 13 instances and 11 instances respectively.

The following table sets forth the PBOC benchmark rates for RMB loans during the Track Record Period.

(interest rate per annum:%)

<u>Date of adjustment</u>	<u>Six months or less</u>	<u>Six months to one year (inclusive of one year)</u>	<u>One to three years (inclusive of three years)</u>	<u>Three to five years (inclusive of five years)</u>	<u>More than five years</u>
2006.04.28	5.40	5.85	6.03	6.12	6.39
2006.08.19	5.58	6.12	6.30	6.48	6.84
2007.03.18	5.67	6.39	6.57	6.75	7.11
2007.05.19	5.85	6.57	6.75	6.93	7.20
2007.07.21	6.03	6.84	7.02	7.20	7.38
2007.08.22	6.21	7.02	7.20	7.38	7.56
2007.09.15	6.48	7.29	7.47	7.65	7.83
2007.12.21	6.57	7.47	7.56	7.74	7.83
2008.09.16	6.21	7.20	7.29	7.56	7.74
2008.10.09	6.12	6.93	7.02	7.29	7.47
2008.10.30	6.03	6.66	6.75	7.02	7.20
2008.11.27	5.04	5.58	5.67	5.94	6.12
2008.12.23	4.86	5.31	5.40	5.76	5.94

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SUPERVISION AND REGULATION

The following table sets forth the PBOC benchmark rates for RMB deposits during the Track Record Period.

Date of adjustment	Demand deposits	(interest rate per annum:%)					
		Time deposits					
		Three months	Six months	One year	Two years	Three years	Five years
2006.08.19.	0.72	1.80	2.25	2.52	3.06	3.69	4.14
2007.03.18.	0.72	1.98	2.43	2.79	3.33	3.96	4.41
2007.05.19.	0.72	2.07	2.61	3.06	3.69	4.41	4.95
2007.07.21.	0.81	2.34	2.88	3.33	3.96	4.68	5.22
2007.08.22.	0.81	2.61	3.15	3.60	4.23	4.95	5.49
2007.09.15.	0.81	2.88	3.42	3.87	4.50	5.22	5.76
2007.12.21.	0.72	3.33	3.78	4.14	4.68	5.40	5.85
2008.10.09.	0.72	3.15	3.51	3.87	4.41	5.13	5.58
2008.10.30.	0.72	2.88	3.24	3.60	4.14	4.77	5.13
2008.11.27.	0.36	1.98	2.25	2.52	3.06	3.60	3.87
2008.12.23.	0.36	1.71	1.98	2.25	2.79	3.33	3.60

The PBOC generally does not regulate interest rates for both foreign currency-denominated loans and deposits, except for U.S. dollar, Hong Kong Dollar, Japanese Yen and Euro-denominated deposits of less than US\$3 million (or the equivalent), the interest rates on which may not exceed the maximum interest rates based on the PBOC benchmark rates.

Pricing for Fee and Commission-based Products and Services

Under the Tentative Administrative Measures on Pricing of Commercial Banking Services (商業銀行服務價格管理暫行辦法) jointly promulgated by the CBRC and the NDRC on June 26, 2003 and effective on October 1, 2003, services which are subject to government price guidelines include basic RMB settlement services, such as bank drafts, bank acceptance drafts, promissory notes, checks, remittances and entrusted collection, and other services specified by the CBRC and the NDRC. Fees for other products and services are determined based on market conditions. Commercial banks are also required to report to the CBRC at least 15 business days prior to the implementation of new fee schedules and to post such fee schedules on their business premises at least ten business days prior to such implementation.

Required Deposit Reserve and Surplus Deposit Reserve

Commercial banks are required to maintain a percentage of their total deposits as reserves with the PBOC to ensure they have sufficient liquidity to meet customer withdrawals. Currently, the Other Joint Stock Commercial Banks are required to maintain a deposit reserve equal to 13.5% of their total outstanding Renminbi deposits according to the relevant requirements of the PBOC.

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SUPERVISION AND REGULATION

The following table sets forth, for the Track Record Period, the historical values of the Renminbi required reserve ratios applicable to us. Throughout the Track Record Period, we have complied with the relevant requirements of the PBOC.

<u>Date of adjustment</u>	<u>Renminbi required reserve ratios</u>
2006.07.05	8.0%
2006.08.15	8.5%
2006.11.15	9.0%
2007.01.15	9.5%
2007.02.25	10.0%
2007.04.16	10.5%
2007.05.15	11.0%
2007.06.05	11.5%
2007.08.15	12.0%
2007.09.25	12.5%
2007.10.25	13.0%
2007.11.26	13.5%
2007.12.25	14.5%
2008.01.25	15.0%
2008.03.25	15.5%
2008.04.25	16.0%
2008.05.20	16.5%
2008.06.15	17.0%
2008.06.25	17.5%
2008.09.25	16.5%
2008.10.15	16.0%
2008.12.05	14.0%
2008.12.25	13.5%

From January 15, 2005 to September 14, 2006, both domestic and foreign-invested banks were required to maintain a reserve with the PBOC equal to at least 3% of their total foreign currency-denominated deposits at the end of the previous month, which was increased to 4% beginning September 15, 2006 and further increased to 5% on September 15, 2007.

Supervision Over Capital Adequacy

Capital Adequacy Guidelines

Prior to March 1, 2004, commercial banks were required to maintain a minimum capital adequacy ratio of 8% and a minimum core capital adequacy ratio of 4%, each calculated based on the following formula under PRC GAAP:

$$\begin{aligned} \text{Capital adequacy ratio} &= \frac{\text{Regulatory capital}}{\text{On- and off-balance sheet risk weighted assets}} \times 100\% \\ \text{Core capital adequacy ratio} &= \frac{\text{Core capital}}{\text{On- and off-balance sheet risk weighted assets}} \times 100\% \end{aligned}$$

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SUPERVISION AND REGULATION

On February 23, 2004, the CBRC promulgated the New Capital Adequacy Regulations, which became effective on March 1, 2004. On July 3, 2007, the CBRC promulgated a decision to make certain amendments to the New Capital Adequacy Regulations. While the New Capital Adequacy Regulations did not change the preexisting requirements of an 8% capital adequacy ratio and a 4% core capital adequacy ratio, it amended the risk weighting for various assets, adjusted the components of capital and included capital charge for market risk in the calculation of capital adequacy ratios. In addition, the New Capital Adequacy Regulations require commercial banks to make adequate allowances for various impairment losses, including those associated with loans, before calculating their capital adequacy ratios. These changes resulted in a more stringent capital adequacy requirement.

In accordance with the New Capital Adequacy Regulations, capital adequacy ratio and core capital adequacy ratio are calculated based on the following formula under PRC GAAP:

$$\begin{aligned} \text{Capital adequacy ratio} &= \frac{\text{Regulatory capital}}{\text{Risk-weighted assets} + (12.5 \times \text{capital charge for market risk})} \times 100\% \\ \text{Core capital adequacy ratio} &= \frac{\text{Core capital} - \text{core capital deductions}}{\text{Risk-weighted assets} + (12.5 \times \text{capital charge for market risk})} \times 100\% \end{aligned}$$

Components of Capital

Regulatory capital is composed of core capital and supplementary capital after subtracting relevant capital deductions. Supplementary capital may not exceed core capital.

Core capital includes the following:

- paid-in capital or common shares;
- capital reserves;
- surplus reserves;
- retained earnings; and
- minority interests.

Supplementary capital includes the following:

- up to 70% of the revaluation reserve;
- the general allowances for impairment losses under the CBRC’s requirements. See “— PRC Banking Supervision and Regulation — Loan Classification, Allowances and Write-offs — Loan Classification” and “— PRC Banking Supervision and Regulation — Loan Classification, Allowances and Write-offs — Loan Allowances”;
- preference shares;
- qualifying bonds convertible into common shares;
- qualifying subordinated debt, but not exceeding 25% of core capital;
- hybrid capital bonds; and
- changes in fair value (the positive alteration, but no more than 50%, to the fair value of available-for-sale bonds that have been calculated as part of the owners’ interests may be

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SUPERVISION AND REGULATION

calculated into the supplementary capital; and the negative alteration to the fair value shall be deducted from the supplementary capital. When a commercial bank calculates the capital adequacy ratio, it shall transfer the fair value of available-for-sale bonds that have been calculated into the capital reserves from the core capital into the supplementary capital).

Capital deductions consist of the following:

- goodwill;
- equity investments in non-consolidated financial institutions; and
- capital investments in real estate not used for the bank's own operations or equity investments in non-banking financial institutions and enterprises.

Core capital deductions consist of the following:

- goodwill;
- 50% of equity investments in non-consolidated financial institutions; and
- 50% of capital investments in real estate not used for the bank's own operations or equity investments in non-banking financial institutions and enterprises.

Risk-weighted Assets

The New Capital Adequacy Regulations provide that, for on-balance sheet items, risk-weighted assets should be calculated by deducting any allowances for impairment losses and then multiplying the amount by their corresponding risk weighting (after taking into account risk mitigating factors). For off-balance sheet items, including foreign exchange contracts, interest rate contracts and other derivative contracts, the nominal principal amount should be first converted to balance sheet credit-equivalent amounts by multiplying such amount by a credit conversion factor. In addition, assets secured by certain types of pledges or guarantees are allocated the risk weighting applicable to the pledges or guarantors. Partially pledged or guaranteed loans receive such lower risk weighting only

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SUPERVISION AND REGULATION

on the portion of the loan that is pledged or guaranteed. The following table sets forth risk weightings for different assets.

<u>Risk Weighting</u>	<u>Assets</u>
0%	• cash on hand • gold • claims on PRC incorporated commercial banks with an original maturity of four months or less • claims on the PRC central government or deposits at the PBOC • claims on the PBOC • claims on PRC policy banks • bonds issued by PRC financial asset management companies for the purpose of acquiring non-performing loans from state-owned banks • claims on non-PRC central governments or central banks in countries or regions where the sovereign or region is rated AA– or above⁽¹⁾ • claims on multilateral development banks
20%	• claims on PRC incorporated commercial banks with an original maturity of more than four months • claims on non-PRC commercial banks and securities companies incorporated in other countries or regions where the sovereign or region is rated AA– or above⁽¹⁾
50%	• personal residential mortgages • claims on PRC public-sector entities invested by the PRC central government • claims on non-PRC public-sector entities invested by governments of countries or regions where the sovereign or region is rated AA– or above⁽¹⁾
100%	• all other assets

Note:

(1) These ratings refer to credit ratings of Standard & Poor's or the equivalent thereof.

Market Risk Capital

Since the first quarter of 2005, domestic accounts with trading books greater than the lower of RMB8.5 billion and 10% of the bank's total on- and off-balance sheet assets are required to take into consideration market risk arising from trading activities when determining capital adequacy. Market risk capital refers to the capital reserve that a bank is required to maintain for the market risks relating to its assets. Market risk refers to the risk of losses in on- and off-balance sheet asset value arising from movements in market prices and includes risks relating to interest rate-sensitive financial instruments and securities under trading accounts, foreign exchange risk and commercial banking product-related risks.

Issuance of Subordinated Debt and Subordinated Bonds

Since November 26, 2003, pursuant to the Notice of Including the Fixed-term Subordinated Debt in the Supplementary Capital (關於將次級定期債務計入附屬資本的通知) issued by the CBRC, PRC commercial banks have been permitted to issue fixed-term debt where the repayment of the principal and interest is subordinated to the bank's other liabilities but is senior to the bank's equity capital. PRC commercial banks may include such fixed-term subordinated debt in the bank's supplementary capital. To qualify for inclusion in supplementary capital, the subordinated debt must have a minimum term of five years and the proceeds must not be used to offset a bank's

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SUPERVISION AND REGULATION

operating losses. Subordinated debt can be issued only through private placements to certain legal person institutions. Moreover, subordinated debt cannot be issued to other commercial banks. The issuance of subordinated debt by PRC commercial banks is subject to the approval of the CBRC.

Since June 17, 2004, PRC commercial banks have been permitted to issue bonds which are subordinated to the bank's other liabilities but are senior to the bank's equity capital, according to the Measures for Administration on Issuance of Subordinated Bonds of Commercial Banks (商業銀行次級債券發行管理辦法) jointly issued by the PBOC and the CBRC. PRC commercial banks may, upon approval by the CBRC, include such subordinated bonds in the bank's supplementary capital. Subordinated bonds can be issued either in a public offering in the inter-bank bond market or in a private placement. PRC commercial banks may not hold an aggregate amount of subordinated bonds issued by other banks in excess of 20% of their core capital. The issuance of subordinated bonds by PRC commercial banks is subject to the approval of the CBRC. The PBOC regulates the issuance and trading of subordinated bonds in the inter-bank bond market.

On December 12, 2005, the CBRC issued the Notice Regarding the Issuance of Hybrid Capital Bonds by Commercial Banks for the Replenishment of Supplementary Capital (關於商業銀行發行混業資本債券補充附屬資本有關問題的通知), permitting eligible commercial banks to issue hybrid capital bonds in the inter-bank market and include such bonds in their supplementary capital. The introduction of hybrid capital bonds in the PRC has opened a new channel for commercial banks to replenish their supplementary capital and improve their capital adequacy ratio.

CBRC Supervision of Capital Adequacy

The CBRC is responsible for supervising the capital adequacy of banking institutions in the PRC. It reviews and evaluates banking institutions' capital adequacy through both on-site examination and off-site surveillance. Commercial banks are required to report to the CBRC their period-end unconsolidated capital adequacy ratios on a quarterly basis and their consolidated capital adequacy ratios on a semiannual basis. Commercial banks are classified into three categories based on their capital adequacy ratios as follows:

<u>Category</u>	<u>Capital adequacy ratio</u>		<u>Core capital adequacy ratio</u>
Adequately capitalized banks	not less than 8%	and	not less than 4%
Undercapitalized banks	less than 8%	or	less than 4%
Significantly undercapitalized banks.	less than 4%	or	less than 2%

If a bank is not in compliance with the capital adequacy requirement, depending on the degree of its undercapitalization, the CBRC may take various actions, including:

- issuing a supervisory notice letter;
- requiring the bank to submit and implement an acceptable capital restoration plan within two months;
- restricting asset growth;
- reducing higher-risk assets;
- restricting the purchase of fixed assets; and
- restricting dividends and other forms of distributions.

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SUPERVISION AND REGULATION

In addition, depending on the risk level of the bank and its implementation of the capital restoration plan, the CBRC may prohibit such bank from establishing new branches or launching new services or suspend the bank's entire business (except for low-risk activities).

The CBRC may require significantly undercapitalized banks to take further actions, including changes to senior management, transfer of control, restructuring of operations, or, in the most severe case, closure in accordance with relevant laws and regulations.

We have satisfied the relevant regulatory requirements on capital adequacy since the relevant requirements became effective on January 1, 2007. For example, as of December 31, 2007, our capital adequacy ratio was 10.73%, while our core capital adequacy ratio was 7.40%; as of December 31, 2008, our capital adequacy ratio was 9.22%, while our core capital adequacy ratio was 6.60%. In light of the growth of our assets, we have implemented various capital management measures. In addition to issuing new shares by private placement and issuing hybrid capital bonds, we have taken the following measures: (1) monitoring the capital market for opportunities to raise funds; (2) evaluating the performance of our branches based on their risk capital returns; (3) reducing higher risk-weighting assets; (4) increasing the proportion of fee and commissioned-based business; and (5) adjusting the risk portfolio of our business by gradually decreasing the proportion of higher-risk assets and increasing the proportion of our lower-risk business, such as retail banking.

Loan Classification, Allowances and Write-offs

Loan Classification

Banks in the PRC are currently required to classify loans under a five-category loan classification system based on the estimated likelihood of repayment of principal and interest according to Guidelines of Risk-based Classification of Loans. The Guidelines of Risk-based Classification of Loans was issued by CBRC on July 30, 2007. The five-category classification was initially promulgated by the PBOC in 1999 on a trial basis and in 2002 banks were formally required to adopt it under the PBOC's Loan Classification Principles. The primary factors for evaluating the likelihood of repayment include the borrower's cash flow, financial conditions and credit history.

Loan Allowances

According to the according to Loan Risk Classification Guidelines a loan classified as substandard, doubtful or loss is considered to be non-performing, and commercial banks are required to make provisions based on a reasonable estimate of the probable loss on a prudent and timely basis. Allowance for impairment losses consists of general allowance, specific allowance and special allowance. General allowance refers to the allowance for all unidentified but possible losses, which are made based on certain percentages of the balance of total outstanding loans; specific allowance refers to the allowance made for specific losses in connection with an individual loan based on its categorization under the according to Loan Risk Classification Guidelines; and special allowance refers to the allowance made for the risks specifically related to certain countries, regions, industries, or certain types of loans.

Under the Guidelines on Loan Loss Provisions (貸款損失準備計提指引) (the "**Provisioning Guideline**"), commercial banks are required to make provisions for impairment losses on a quarterly basis and to have a general allowance of not less than 1% of the total loans outstanding as of December 31 of any year. The guidelines further provide guidance on the level of specific provisions as a percentage of the outstanding amount of loans for each loan category: 2% for special mention loans; 20%-30% for substandard loans; 40%-60% for doubtful loans and 100% for loss loans. Commercial banks may make special provisions in accordance with special risk factors (including

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SUPERVISION AND REGULATION

risks in association with certain industries and countries), probability of losses and historical experience.

The PBOC issued a notice with the promulgation of the Guidelines on Loan Loss Provisions, permitting banks to increase (or decrease) their loan loss provisions gradually to meet the loan loss provision requirement, but the requirement must be met no later than 2005. The Guidelines on Loan Loss Provisions further provide that banks are not permitted to distribute profit after tax if they do not have sufficient loan loss provisions. As of the date of this document, the Bank is in full compliance with the Provisioning Guideline.

CBRC Supervision of Loan Classification and Loan Allowances

Commercial banks are required to formulate detailed internal procedures that clearly define the responsibilities of each relevant department with respect to loan classification, approval, review and related matters. In addition, beginning in 2002, commercial banks have been required to submit quarterly and annual reports to the CBRC on the classification of their loan portfolios and their allowances for loan losses. Based on a review of these reports, the CBRC may require commercial banks to explain significant changes in loan classification and loan loss allowance levels, or may carry out further inspections.

Loan Write-offs

Under the regulations issued by the PBOC and the MOF, commercial banks are required to establish a strict audit and approval process to write off loan losses. In order to be written off, a loan needs to meet the standards set by the MOF. Losses realized upon writing off loans are deductible for tax purposes, but such deduction is subject to the review and approval of the tax authorities as to whether the loans written off were in compliance with the MOF's standards.

Allowance and Statutory General Reserve for Impairment Losses

Pursuant to the Administrative Measures for the Withdrawal of Reserves for Non-performing Debts of Financial Enterprises (金融企業呆賬準備提取管理辦法) and the subsequent Notice on Relevant Issues Concerning the Withdrawal of Reserves for Non-performing Debts (關於呆賬準備提取有關問題的通知), both issued by the MOF, financial institutions in the PRC are required to maintain adequate allowance for impairment losses. In addition, financial institutions are also required to set up a statutory general reserve to cover potential impairment losses that have yet to be identified. Financial institutions are required to assess the risk profile of their assets in determining the statutory general reserve level. In principle, such level shall not be less than 1% of the aggregate amount of each financial institution's risk-bearing assets before allowance for impairment losses at the balance sheet date. Financial institutions are not allowed to make profit distribution to shareholders until adequate allowance for impairment losses and statutory general reserve has been made. Financial institutions, which could not meet these requirements on July 1, 2005 were required to take necessary steps to ensure that they could fulfill such requirements within approximately three years, but in any case by no later than five years, from July 1, 2005. As of December 31, 2008, the aggregate amount of our risk-bearing assets before allowance for impairment losses amounted to RMB800.0 billion, and we have set aside RMB8.0 billion as our statutory general reserve.

Other Operational and Risk Management Ratios

The Core Indicators for the Risk Management of Commercial Banks (for Trial Implementation) (the "**Core Indicators (Provisional)**") (商業銀行風險監管核心指標(試行)) promulgated by the CBRC

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SUPERVISION AND REGULATION

became effective on January 1, 2006, superseding the Examination Measures and Supervision Indicators Relating to the Administration of Assets and Liabilities Ratios of Commercial Banks (the "**Examination Measures**") (資產負債比率管理監控、監測指標和考核辦法) issued by the PBOC in 1996. The Core Indicators (Provisional) amended certain liquidity and operating ratios required under the Examination Measures and introduced certain new ratios. The Core Indicators (Provisional) are implemented on a trial basis in 2006, and the CBRC has encouraged commercial banks to submit suggestions for amending the Core Indicators (Provisional) to the CBRC.

The following table sets forth the required ratios as provided in the Core Indicators (Provisional) and our Bank's ratios as of September 30, 2009, which were calculated based on our unaudited balance sheet data prepared in accordance with PRC GAAP. Although the CBRC has not requested commercial banks to report these ratios, it has requested commercial banks to submit certain data that are used to calculate some of these ratios.

Risk level	Primary indicators	Secondary Indicators	Requirement	As of September 30, 2009	
Risk Level					
Liquidity risk	Liquidity ratio ⁽¹⁾		≥25%	Renminbi	32.46%
				Foreign	96.85%
	Core liabilities ratio ⁽²⁾		≥60%	Currency	55.34%
	Liquidity gap ratio ⁽³⁾		≥ − 10%		− 7.93%
Credit risk	Non-performing asset ratio ⁽⁴⁾		≤4%		0.60%
		Non-performing loan ⁽⁵⁾ ratio	≤5%		0.82%
	Credit concentration to a single group customer ⁽⁶⁾		≤15%		7.81%
		Loan concentration to a single customer ⁽⁷⁾	≤10%		9.30%
	Overall credit exposure to related parties ⁽⁸⁾		≤50%		1.82%
Market risk	Cumulative foreign currency exposure ratio ⁽⁹⁾		≤20%		5.34%
Risk Cushion					
Profitability	Cost to income ratio ⁽¹⁰⁾		≤45%		36.24%
	Return on assets ⁽¹¹⁾		≥0.6%		1.13%
	Return on capital ⁽¹²⁾		≥11%		23.08%
Allowance adequacy	Allowance adequacy ratio for asset impairment ⁽¹³⁾	≥100%			unable to calculate ⁽¹⁴⁾
		Allowance adequacy ratio for loan impairment ⁽¹⁵⁾	≥100%		142.54%
Capital adequacy . .	Capital adequacy ratio ⁽¹⁶⁾		≥8%		8.38%
		Core capital adequacy Ratio ⁽¹⁶⁾	≥4%		5.91%

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SUPERVISION AND REGULATION

Notes:

- (1) Calculated as follows: Liquidity ratio = Current assets/Current liabilities. Current assets include cash, gold, surplus deposit reserve, net inter-bank money market placement with maturities of one month or less, interest receivable and other receivables due within one month, qualified loans with maturities of one month or less, investment in debt securities with maturities of one month or less, debt securities that can be liquidated in the international secondary market any time and other liquid assets with maturities of one month or less (excluding the non-performing portion of such assets). Current liabilities include demand deposits (excluding policy deposits), time deposits with remaining maturities of one month or less (excluding policy deposits), inter-bank borrowing due within one month, issued debt securities with maturities of one month or less, interest payable and other payables due within one month, borrowings from the PBOC due within one month and other liabilities due within one month.
- (2) Calculated as follows: Core Liabilities ratio = Amount of core liabilities/amount of total liabilities. Core liabilities refer to the combined amount of time deposit with remaining maturities of three months or longer, issued debt securities and 50% of demand deposits. Total liabilities refer to total liabilities on the balance sheet prepared under PRC GAAP.
- (3) Calculated as follows: Liquidity gap ratio = Liquidity gap/Amount of on- or off-balance sheet assets with maturities of 90 days or less. Liquidity gap refers to the amount of on- or off-balance sheet assets with maturities of 90 days or less subtracted by the amount of on- or off-balance sheet liabilities.
- (4) Calculated as follows: Non-performing asset ratio = Amount of non-performing assets/Amount of assets subject to credit risk. Non-performing assets include non-performing loans and other assets categorized as non-performing. The categorization of non-loan assets is in accordance with relevant CBRC regulations.
- (5) Calculated as follows: Non-performing loan ratio = Amount of non-performing loans/Amount of total loans. Non-performing loans refer to loans in the substandard, doubtful and loss categories according to the PBOC and CBRC's five-category loan classification system.
- (6) Calculated as follows: Credit concentration to a single group customer = Total credit granted to the largest group customer/Regulatory capital. Largest group customer refers to the single group customer granted with the highest credit limit at the end of the period.
- (7) Calculated as follows: Loan concentration to a single customer = Total loans to the largest customer/Regulatory capital. Largest customer refers to the customer with the highest amount of loans outstanding at the end of the period.
- (8) Calculated as follows: Overall credit exposure to related parties = Total granted credit limit to all related parties/Regulatory capital. Related parties refer to parties defined in the Related Party Transactions Measures. Total granted credit limit to all related parties refers to total credit limit granted to such parties subtracted by cash deposit guarantees and collateral in the form of bank deposits and PRC government bonds.
- (9) Calculated as follows: Cumulative foreign currency exposure ratio = Amount of cumulative foreign currency exposure/Regulatory capital. Cumulative foreign currency exposure refers to interest sensitive foreign currency assets subtracted by interest sensitive foreign currency liabilities.
- (10) Calculated as follows: Cost to income ratio = Operating expenses (including amortization)/Operating income.
- (11) Calculated as follows: Return on assets = Net profit/Average balance of total assets for the period.
- (12) Calculated as follows: Return on capital = Net profit/Average balance of shareholders' equity for the period.
- (13) Calculated as follows: Allowance adequacy ratio for asset impairment = Actual amount of allowance for assets subject to credit risk/Required amount of allowance for assets subject to credit risk.
- (14) As the CBRC has not provided the required level of allowance for assets subject to credit risk other than loans, we were not able to calculate our ratio.
- (15) Calculated as follows: Allowance adequacy ratio for loan impairment = Actual amount of allowance for loans/required amount of allowance for loans.
- (16) See “— PRC Banking Supervision and Regulation — Supervision Over Capital Adequacy.”

As of September 30, 2009, we did not comply with certain regulations of the Core Indicators (Provisional), including regulations regarding the core liabilities dependency. Also, as the CBRC has yet to specify the required level of allowance for assets subject to credit risk other than loans, thus we were unable to calculate our allowance adequacy ratio for asset impairment. According to the Core Indicators (Provisional) regulations, the CBRC may issue risk alerts to banks based on their analysis of data submitted by commercial banks.

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SUPERVISION AND REGULATION

In addition, the Core Indicators (Provisional) defined certain other ratios without providing the regulatory requirement for those ratios, including ratios relating to interest rate risk sensitivity, operational risk and loan migration. The CBRC may provide the regulatory requirement for those ratios in the future.

Before the Trial Regulations on Core Regulatory Ratios taking effect, commercial banks are required to calculate some operating ratios in accordance with PBOC regulations issued in 1996.

The following table sets forth, at the dates indicated, these required operational ratios for commercial banks. Unless otherwise indicated, such ratios are calculated in accordance with the formula promulgated by the PBOC in 1996 and based on our unaudited balance sheet data prepared in accordance with the applicable PRC GAAP.

		As of December 31,			As of September 30,
	Requirement	2006	2007	2008	2009
Liquidity ratios					
RMB current assets to Renminbi current liabilities	≥25.0%	51.42%	34.94%	45.50%	32.46%
Foreign currency current assets to foreign currency current liabilities	≥60.0%	66.15%	97.37%	119.16%	96.85%
Loan-to-deposit ratios					
Renminbi loans to Renminbi deposits	≤75.0%	69.72%	74.44%	75.00%	78.75%
Foreign currency loans to foreign currency deposits	≤85.0%	51.52%	61.67%	38.98%	56.31%
Borrower concentration ratios					
Total loans to one single borrower to regulatory capital	≤10.0%	5.88%	3.75%	4.49%	9.30%
Total loans granted to top ten borrowers to regulatory capital	≤50.0%	43.74%	28.17%	27.34%	48.93%
Inter-bank ratios					
Total RMB inter-bank borrowings from other banks and financial institutions to total RMB deposits	≤4.0%	0.19%	0.29%	0.04%	0.48%
Total RMB inter-bank lending to other banks and financial institutions to total RMB deposits	≤8.0%	1.70%	2.54%	2.11%	2.09%

Corporate Governance

Corporate Governance

The Company Law of the People's Republic of China (中華人民共和國公司法), the Commercial Banking Law of the People's Republic of China (中華人民共和國商業銀行法) and other laws, regulations and regulatory documents provided for specific requirements for corporate governance, of which the Guidelines on Corporate Governance of Other Joint Stock Commercial Banks (股份制商業銀行公司治理指引) provide for the best practice of corporate governance for PRC joint stock companies. Under the Guidelines on Corporate Governance of Other Joint Stock Commercial Banks, PRC Other Joint Stock Commercial Banks should establish a sound corporate governance system and a clear organizational structure, with management and supervisory powers, functions and responsibilities being clearly divided among the board, the supervisory board and the senior management. In addition, the Guidelines on Independent Directors and External Supervisor of Other Joint Stock Commercial Banks (股份制商業銀行獨立董事及外部監事指引) recommend that

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SUPERVISION AND REGULATION

the board of directors of a commercial bank should have at least two independent directors, and the Guiding Opinions on the Establishment of Independent Director Systems by Listed Companies (關於在上市公司建立獨立董事制度的指導意見) requires that at least one-third of the board members of a PRC listed company should be independent directors, while the Guidelines on Corporate Governance of Joint Stock Commercial Banks recommend that senior management should comprise at least one-quarter but not more than one-third of the board of directors.

Internal Controls

Under the Internal Control Guidelines for Commercial Banks (商業銀行內部控制指引) issued by the PBOC and the CBRC in 2002 and 2007 respectively, commercial banks are required to establish internal controls to ensure effective risk management for their business activities. PRC commercial banks are also required to establish a risk management department that formulates and implements risk management policies and procedures. In addition, PRC banks are required to establish an internal audit department that can independently supervise and evaluate all aspects of their operations.

On December 25, 2004, the CBRC published the Interim Measures for the Evaluation of the Internal Control Systems of Commercial Banks (商業銀行內部控制評價試行辦法) which set forth the procedures, measures and ranking standards for the CBRC's internal control evaluation of commercial banks. The CBRC can, based on its evaluation of the performance of PRC commercial banks' internal control system, take various supervisory measures, such as interviewing the person in charge of internal controls or the chairman of the board, issuing warnings, and increasing the scope and frequency of on-site examinations. In the event of non-compliance with the Interim Measures for the Evaluation of Internal Controls, the CBRC may impose sanctions including, among others, requesting a change of the bank's senior management, suspending the bank's business, revoking the practice license of persons involved, or delaying approval or not accepting applications for the establishment of new branch outlets or new business. Since February 2005, the CBRC has been conducting such evaluations periodically and has taken regulatory actions based on the results of its evaluations.

On June 27, 2006, the CBRC issued the Guidelines on Internal Audit for Banking Financial Institutions (銀行業金融機構內部審計指引) which became effective on July 1, 2006. Pursuant to the guidelines, banks are required to establish an audit committee of the board with at least three members, a majority of whom must be non-executive directors. Banks are also required to have an internal audit department with employees who meet certain qualifications, which shall in principle represent 1% of the bank's total number of employees. The guidelines set forth the required scope of the internal audit. Banks are required to evaluate the risk of each business unit at least once per year and conduct internal audit of each business unit at least once every two years. The number of employees responsible for our internal auditing function is based on our risk management demand. As of September 30, 2009, we had 115 internal audit employees, representing 0.5% of our total number of employees. Although the 1% requirement set forth in the above guidelines was not met, it fulfilled our risk management demand. Such guidelines do not specify any penalties or disciplinary measures for banks that do not fulfill the 1% requirement. Our Directors confirm that such non-compliance will not have a material adverse effect on our business and financial condition.

Information Disclosure Requirements

On July 3, 2007, the CBRC issued the Measures for the Information Disclosure of Commercial Banks (商業銀行信息披露辦法) which became effective the same day. Under the measures, a PRC commercial bank is required to publish an audited annual report within four months after the end

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SUPERVISION AND REGULATION

of each financial year, disclosing its financial position and operational results. The only exception is, for a commercial bank with assets of less than RMB1 billion or a deposit balance of less than RMB500 million, if it encounters difficulties while conducting information disclosure in accordance with the provisions of the Measures on the Information Disclosure of Commercial Banks, it may provide explanations to the CBRC and submit its future information disclosure plan to the CBRC for approval. Upon the CBRC’s approval, such commercial bank may be exempted from the information disclosure requirements.

Apart from the disclosure requirements of the CBRC, PRC commercial banks listed on a stock exchange in the PRC are also required to comply with the disclosure requirements imposed by the CSRC and the relevant stock exchanges.

Transactions with Related Parties

In April 2004, the CBRC promulgated the Administrative Measures for Connected Transactions between the Commercial Banks and their Insiders or Shareholders (“**Connected Transactions Measures**”) (商業銀行與內部人和股東關聯交易管理辦法), which provided more stringent and detailed requirements on connected transactions of PRC commercial banks. The measures require PRC commercial banks to adhere to the principles of honesty and fairness in conducting connected transactions. PRC commercial banks are not allowed to grant unsecured loans to related parties or grant secured loans to related parties on terms more favorable than those offered to other borrowers.

The Connected Transactions Measures also set out detailed provisions on the definition of a related party, the form and content of a connected transaction as well as the procedures and principles which must be followed for connected transactions.

Pursuant to the Connected Transactions Measures, commercial banks must submit to the CBRC, on a quarterly basis, status reports regarding their connected transactions, as well as disclose matters relating to related parties and connected transactions in their financial statements. Furthermore, the board of directors is required to report connected transactions and the implementation of mechanisms to monitor and approve such transactions annually at shareholder meetings. The CBRC has the power to request the rectification of transactions that violate the Connected Transactions Measures and to impose sanctions on the bank and/or the related parties.

We have established the Related Party Transactions Supervision Committee under our Board and have adopted approval procedures for connected transactions in August 2004 in accordance with the Connected Transactions Measures and other applicable laws and regulations. In addition, we have adopted a tiered system for the approval of connected transactions by setting out in our Articles of Association the relevant approval requirements in accordance with the applicable laws and regulations.

Risk Management

Since its inception, the CBRC has published numerous risk management guidelines and rules in an effort to improve risk management of PRC commercial banks. For example, CBRC published guidelines in an effort to control credit risk relating to real estate loans, loans to group borrowers, automobile loans and derivatives transactions. See “— PRC Banking Supervision and Regulation — Regulation of Principal Commercial Banking Activities.” The CBRC also promulgated the Core Indicators (Provisional) as a basis of supervising the risks of PRC commercial banks. The CBRC established requirements for certain ratios relating to risk levels and risk provisions in the Core Indicators (Provisional) and is expected to establish requirements for certain ratios relating to risk

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SUPERVISION AND REGULATION

migration for the purpose of evaluating and monitoring the risks of PRC commercial banks. See "— PRC Banking Supervision and Regulation — Other Operational and Risk Management Ratios." The CBRC periodically collects data through off-site surveillance to analyze such indicators, and evaluate and issue early warnings of the risks, on a timely basis. The CBRC also published regulations concerning operational risk management, market risk management and risk rating.

Operational Risk Management

On March 22, 2005, the CBRC issued the Circular on Strengthening Control of Operational Risk (關於加大防範操作風險工作力度的通知) to further strengthen PRC commercial banks' ability to identify, manage and control operational risk. Under this circular, commercial banks are required to establish internal policies and procedures specifically for the management and control of operational risk. A bank's internal audit department and business operations departments are required to conduct independent and ad hoc reviews and examinations of the bank's business operations from time to time, and ongoing reviews and examinations for business areas involving a greater degree of operational risk. Moreover, a commercial bank's head office is required to assess the implementation of, and compliance with, its internal policies and procedures on operational risk.

In addition, the circular sets out detailed requirements relating to, among other things, establishing a system under which branch officers responsible for business operations are required to rotate on a regular basis; establishing a system to encourage employees to fully comply with applicable regulations and internal rules and policies; improving the regular checking of account balances between PRC commercial banks and their customers; improving the timely checking of banks' internal accounting; segregating persons responsible for book-keeping from those responsible for account reconciliation; and establishing a system to strictly control and manage chops, specimen signatures and evidential vouchers.

Market Risk Management

On December 29, 2004, the CBRC promulgated the Market Risk Management Guidelines for Commercial Banks (商業銀行市場風險管理指引), which became effective on March 1, 2005, to strengthen the market risk management of PRC commercial banks. These guidelines address, among other things, (i) the responsibilities of the board of directors and senior management in supervising market risk management, (ii) the policies and procedures for market risk management, (iii) the detection, quantification, monitoring and control of market risk, and (iv) the responsibilities for internal controls and conducting external audits.

Compliance Risk Management

In order to strengthen the compliance risk management of commercial banks and maintain the safety and stability of the operations of PRC commercial banks, the CBRC promulgated the Guidelines for Compliance Risk Management of Commercial Banks (商業銀行合規風險管理指引) on October 25, 2006. These guidelines have clarified the responsibilities of the board of directors and senior management of a PRC commercial bank with respect to compliance risk management, have standardized the organizational structure for compliance risk management and have set out the regulatory mechanisms for a bank's risk management.

To meet the regulatory requirements in respect of compliance risk management, we established a special compliance management department in 2005 to manage all our compliance issues to prevent the occurrence of any material compliance risks.

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SUPERVISION AND REGULATION

Risk Rating System

All Other Joint Stock Commercial Banks in the PRC are subject to evaluation by the CBRC based on a provisional risk rating system. Under this system, the capital adequacy, asset quality, management quality, profitability, liquidity and exposure to market risk of PRC Other Joint Stock Commercial Banks are evaluated and scored by the CBRC on a continuous basis. Each bank is classified into one of five risk rating categories based on the scores. The CBRC’s supervisory activities in respect of a certain bank, including the frequency and scope of its on-site examinations, depend on such bank’s risk rating category. Such risk rating also forms the basis for the CBRC’s evaluation of a bank’s applications for new business licenses and the evaluation of its senior management. These risk ratings are currently not publicly available.

Ownership and Shareholder Restrictions

Regulations on Equity Investment in Banks

Any natural or legal person intending to acquire 5% or more of the total equity interest of a commercial bank is required to obtain prior approval by the CBRC. If any existing shareholder of a commercial bank increases its shareholding in excess of the 5% threshold without obtaining the CBRC’s prior approval, that shareholder will be subject to CBRC sanctions, which include, among others, rescission of the acquisition and disgorgement of profits by that shareholder, if any, and fines.

Under the Measures for the Administration of the Investment and Shareholding in Chinese-funded Financial Institutions by Foreign Financial Institutions (境外金融機構投資入股中資金融機構管理辦法), certain foreign financial institutions may make equity investments in domestic commercial banks, subject to the CBRC’s approval. However, no single foreign financial institution may own 20% or more of the equity of such a bank. In addition, if foreign investment in the aggregate exceeds 25% of the total equity interest in a non-listed domestic commercial bank, such bank will be regulated as a foreign-invested bank. A listed PRC domestic commercial bank is regulated as a PRC domestic bank even if foreign investment in the aggregate exceeds 25% of its total equity interest.

Restrictions on Shareholders

The Guidelines on Corporate Governance of Other Joint Stock Commercial Banks impose certain additional requirements on shareholders of PRC Other Joint Stock Commercial Banks. For example:

- in the event that a PRC commercial bank encounters liquidity problems, its shareholders are required to immediately repay outstanding loans due and repay in advance outstanding loans not yet due from the bank;
- if a PRC commercial bank fails to meet the required capital adequacy ratios, its shareholders are obligated to support measures determined by the bank’s board of directors that are aimed at increasing the capital adequacy level; and
- if shareholders of a PRC commercial bank fail to repay outstanding loans when due, their voting rights will be restricted for the period during which the relevant loan is overdue.

In addition, the Company Law and relevant CBRC rules and regulations impose certain restrictions on the ability of a commercial bank’s shareholders to pledge their shares. For example, a Other Joint Stock Commercial Bank may not accept its own shares as collateral.

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SUPERVISION AND REGULATION

Anti-money Laundering Regulation

The PRC Anti-money Laundering Law (中華人民共和國反洗錢法), which became effective on January 1, 2007, sets out the responsibilities of the relevant financial regulatory authorities regarding anti-money laundering, including participating in the formulation of the rules and regulations regarding anti-money laundering activities of the financial institutions which they regulate and requiring financial institutions to establish sound internal control systems regarding anti-money laundering. To facilitate the implementation of the PRC Anti-money Laundering Law, the PBOC promulgated the Anti-money Laundering Regulations for Financial Institutions (金融機構反洗錢規定) which became effective on January 1, 2007. According to those regulations, PRC commercial banks are required to establish an internal anti-money laundering procedure and either establish an independent anti-money laundering department or designate a relevant department to implement their anti-money laundering procedures. PRC commercial banks are required to establish a customer identification system in accordance with the Measures on the Administration of Client Identity Identification and Materials and Transaction Recording of Financial Institutions (金融機構客戶身份識別和客戶身份資料及交易記錄保存管理辦法) promulgated jointly by the PBOC, CBRC, CSRC and CIRC which became effective on August 1, 2007. PRC commercial banks are also required to record the identities of all customers and the information relating to each transaction, and keep retail transaction documents and books. In accordance with the Administrative Measures for the Financial Institutions' Report of Large-sum Transactions and Doubtful Transactions (金融機構大額交易和可疑交易報告管理辦法) promulgated by the PBOC which became effective on March 1, 2007, upon the detection of any suspicious transactions or transactions involving large amounts, PRC commercial banks are required to report the transactions to the PBOC or the SAFE, as applicable. Where necessary and pursuant to appropriate judicial proceedings, PRC commercial banks are required to cooperate with government authorities in preventing money laundering activities and in freezing assets. The PBOC supervises and conducts on-site examinations of PRC commercial banks' compliance with its anti-money laundering regulations, and may impose penalties for any violations thereof in accordance with the PRC Anti-money Laundering Law.

Regulation of Foreign-invested Banks in the PRC

Starting from December 11, 2006, the PRC government has lifted the restrictions regarding the geographic presence and customer base for RMB-denominated businesses by foreign-invested banks. Pursuant to the relevant provisions of the Regulations on the Administration of Foreign-invested Banks (外資銀行管理條例) promulgated by the State Council and the related implementation rules, foreign-invested banks may extend their RMB-denominated businesses to Chinese citizens and there shall be no restriction on the geographic presence of foreign-invested banks operating in the PRC in respect of RMB-denominated businesses. However, wholly-foreign-owned banks and Sino-foreign joint venture banks are currently not allowed to issue financial bonds in the PRC, while branches of foreign banks in the PRC are only allowed to take RMB-denominated deposits from PRC citizens with each transaction of no less than RMB1 million. The PRC government allows foreign banks to submit applications for the establishment of wholly foreign-owned banks and Sino-foreign joint venture banks, as well as the establishment of their branches and representative offices in the PRC subject to the satisfaction of statutory conditions. Upon their establishment, any such institutions may conduct financial business in accordance with applicable laws and regulations and subject to the CBRC's supervision and inspection in accordance with the law.

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SUPERVISION AND REGULATION

Other Requirements

Use of Funds

Under the PRC Commercial Banking Law, commercial banks are not permitted to engage in trust investment or securities investment business, or invest in real property other than for their own use, or invest in non-banking financial institutions and enterprises, unless otherwise approved by the relevant government authorities. The use of funds by commercial banks is limited to the following:

- short-term, medium-term and long-term loans;
- discounts on negotiable instruments;
- inter-bank loans;
- trading of government bonds;
- trading of bonds from financial institutions;
- investment in banking institutions; and
- other uses as may be approved by the relevant government authorities.

PRC SECURITIES LAWS AND REGULATIONS

As our A Shares have been listed on the Shanghai Stock Exchange since December 19, 2000, we are subject to Securities Law and the Shanghai Listing Rules. The Shanghai Listing Rules regulate share listing and information disclosure by the listed companies, including us, and seek to maintain the orderly operation of the stock exchange market and protect the interests of the investors. As a company with A Shares listed on the Shanghai Stock Exchange, we are subject to a number of obligations under the Shanghai Listing Rules, including:

- publishing annual, semiannual and quarterly reports;
- disclosing all information that may have a material impact upon our share price;
- making announcements in relation to certain corporate matters; and
- appointing a secretary to the board of directors, who is responsible for, among other things, certain corporate administration matters and information disclosure matters.

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CORPORATE HISTORY AND ORGANIZATIONAL STRUCTURE

OUR HISTORY

In May 1995, the State Council granted the approval for the establishment of our Bank. We were founded in early 1996 in Beijing by 59 Promoters through the coordination of the All-China Federation of Industry and Commerce (中華全國工商業聯合會), a liaison association between non-state-owned enterprises and governmental agencies in the PRC. The 59 Promoters were non-state-owned enterprises in the PRC. In January 1996, the PBOC granted us a financial institution license to commence commercial banking activities as a joint stock limited company with a registered share capital of RMB1,380,248,376. On February 7, 1996, the SAIC issued us a business license, which enabled us to conduct commercial banking business in the PRC. As of September 30, 2009, we had 29 branches in 29 cities across the PRC, 387 sub-branches and a representative office in Hong Kong.

As of September 30, 2009, we had a total share capital of approximately RMB18.8 billion and 1,088,025 shareholders on record.

A Share Listing

On November 27, 2000, we issued 350 million A Shares upon our initial public offering. These shares were listed on the Shanghai Stock Exchange on December 19, 2000.

Reform of Non-tradable Shares

Pursuant to the “Administrative Measures on the Split Share Structure Reform of Listed Companies” (上市公司股權分置改革管理辦法) promulgated by the CSRC on September 4, 2005, we completed the reform of our non-tradable shares in October 2005.

Immediately after the completion of the Conversion Scheme, we had a total of 7,258,592,412 A Shares outstanding, of which 4,345,670,605 shares were A Shares which were subject to certain trading restrictions, and the remaining 2,912,921,807 shares were freely tradable A Shares. All the A Shares which were previously subject to certain trading restrictions became freely tradable A Shares on October 26, 2007.

Private Placing of A Shares

On June 22, 2007, we issued 2.38 billion A Shares to seven domestic institutional investors, raising net proceeds of approximately RMB18.2 billion to strengthen our capital base. These A Shares were subject to lock-up periods, and the longest lock-up period attached to these A Shares expired on August 23, 2009.

Convertible Bonds

On February 27, 2003, we issued RMB4.0 billion of convertible bonds, which became listed on the Shanghai Stock Exchange on March 18, 2003. Each convertible bond could be converted into one A Share at a conversion price of RMB10.11 (subject to adjustment) from August 27, 2003 to February 26, 2008.

As of February 26, 2008, the last day of the conversion period, an aggregate of 1,616,729,400 A Shares (including bonus issue) were issued pursuant to the exercise of the conversion rights under the convertible bonds, representing approximately 11.17% of our then total share capital. Convertible bonds in the amount of RMB329,000 were outstanding, representing approximately 0.008% of the convertible bonds, and such amount, including all accrued interest, was repaid in full on February 26, 2008.

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CORPORATE HISTORY AND ORGANIZATIONAL STRUCTURE

Subordinated Bonds

On November 8, 2004, we completed the issue of subordinated bonds in the principal amount of RMB5.8 billion, comprising RMB4.3 billion bonds at a fixed rate of 5.1% per annum and RMB1.5 billion floating rate bonds, both for a term of ten years, which interest is paid on a yearly basis. In instances where PBOC revises its benchmark interest rate, the interest rate of the floating rate bonds for that year is revised accordingly.

On December 26, 2005, we completed another issue of subordinated bonds in the principal amount of RMB1.4 billion for a term of ten years. Such bonds are redeemable in full at our discretion at the end of the fifth year, at an initial interest rate of 3.68% per annum. Failing any redemption at the end of the fifth year, the interest rate will be increased by 300 basic points per annum for the remaining five years with interest to be paid on a yearly basis.

Financial Bonds

On May 22, 2006, we completed the issue of fixed-income financial bonds in the principal amount of RMB10.0 billion at a fixed interest rate of 2.88% per annum for a term of three years.

On June 22, 2007, we completed the issue of financial bonds with floating interest rate for an aggregate amount of RMB12.0 billion in two tranches. The first tranche was in the principal amount of RMB6.0 billion at an initial interest rate of 3.67% per annum for a term of three years. The second tranche was in the principal amount of RMB6.0 billion at an initial interest rate of 3.82% per annum for a term of five years.

Hybrid Capital Bonds

On December 28, 2006, we completed the issue of hybrid capital bonds in the principal amount of RMB4.3 billion for a term of 15 years. Subject to approval by the CBRC, we may redeem all or part of the bonds at par after the expiry of the tenth year before the expiry of these bonds. The bonds comprise of RMB3.3 billion fixed rate bonds and RMB1.0 billion floating rate bonds. The fixed rate bonds have an initial interest rate of 5.05% per annum and failing any redemption, the interest rate will increase by 300 base points per annum for the remaining five years. The initial interest rate of the floating rate bonds is based on a premium of 2% per annum above the one-year time deposit savings rate, and failing any redemption, an extra premium of 100 base points will apply to each year from the 11th year.

On March 26, 2009, we completed the issue of hybrid capital bonds in the principal amount of RMB5.0 billion for a term of 15 years. Subject to approval by the CBRC, we may redeem all or part of the bonds at par after the expiry of the tenth year before the expiry of these bonds. The bonds comprise of RMB3.3 billion fixed rate bonds and RMB1.7 billion floating rate bonds. The fixed rate bonds have an initial interest rate of 5.70% per annum and failing any redemption, the interest rate will increase by 300 base points per annum for the remaining five years. The initial interest rate of the floating rate bonds is based on a premium of 3% per annum above the one-year time deposit savings rate, and failing any redemption, an extra premium of 300 base points will apply to each year from the 11th year.

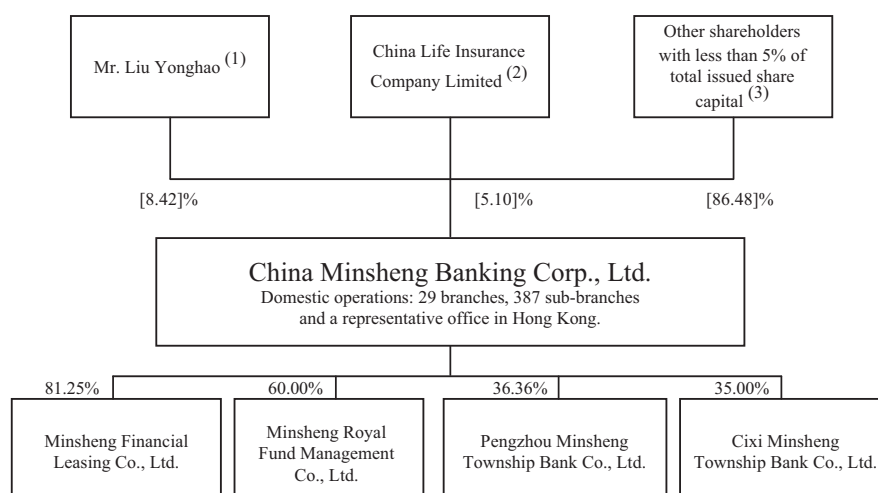
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CORPORATE HISTORY AND ORGANIZATIONAL STRUCTURE

OUR SHAREHOLDING AND GROUP STRUCTURE

The following chart sets out our shareholding and group structure, to the best knowledge of our Directors, prior to the Global Offering as of the Latest Practicable Date:

Prior to the Global Offering



Notes:

- (1) Mr. Liu Yonghao and his spouse holds an aggregate of 63.65% of the issued share capital of New Hope Group Co. Ltd. (新希望集團有限公司), which in turn holds 45.70% of the issued share capital of New Hope Agricultural Co. Ltd. (四川新希望農業股份有限公司). New Hope Agricultural Co. Ltd. holds 75% of the issued share capital of New Hope Investment Co. Ltd. (新希望投資有限公司). New Hope Group Co. Ltd. also directly holds 25% of the issued share capital of New Hope Investment Co. Ltd. New Hope Group Co. Ltd. also holds 100% of the issued share capital of Sichuan South Hope Industrial Co. Ltd. (四川南方希望實業有限公司). Accordingly, under the SFO, Mr. Liu Yonghao is deemed to be interested in the 1,111,322,354 A Shares held by New Hope Investment Co. Ltd. and the 474,035,782 A Shares held by Sichuan South Hope Industrial Co. Ltd.
- (2) These A Shares are held by China Life Insurance Company Limited under a fund, Traditional-Ordinary Insurance Products -005L-CT001 Shanghai.
- (3) Shares held by other shareholders with less than 5% of total share capital are freely tradable.

Our Subsidiaries

Minsheng Financial Leasing Co., Ltd.

On March 26, 2008, we obtained approval from the CBRC to establish Minsheng Financial Leasing Co., Ltd., which is a non-banking financial institution formed by us and Tianjin FTZ (Free Trade Zone) Investment Co., Ltd.. The registered capital of Minsheng Financial Leasing Co., Ltd. is RMB3.2 billion, of which we contributed RMB2.6 billion, representing 81.25% of the equity interest of Minsheng Financial Leasing Co., Ltd. and Tianjin FTZ (Free Trade Zone) Investment Co., Ltd. contributed RMB600 million, representing 18.75% of the equity interest. Minsheng Financial Leasing Co., Ltd. is principally engaged in financial leasing activities for aircrafts, vessels, commercial buildings for financial institutions and machinery and equipment. To the best of the knowledge, information and belief of our Directors, Tianjin FTZ (Free Trade Zone) Investment Co., Ltd. is an independent third party to us.

Minsheng Financial Leasing Co., Ltd. commenced operations on April 18, 2008. The establishment of Minsheng Financial Leasing Co., Ltd. is a strategic step for our business diversification.

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CORPORATE HISTORY AND ORGANIZATIONAL STRUCTURE

Minsheng Royal Fund Management Co., Ltd.

On December 27, 2007 and October 15, 2008, we obtained approvals from the CBRC and the CSRC to establish Minsheng Royal Fund Management Co., Ltd., which commenced operations on November 18, 2008. The registered capital of Minsheng Royal Fund Management Co., Ltd. is RMB200 million, of which we contributed RMB120 million, representing 60% of the equity interest, The Royal Bank of Canada contributed RMB60 million, representing 30% of the equity interest and Three Gorges Finance Company Limited contributed RMB20 million, representing 10% of the equity interest. Minsheng Royal Fund Management Co. Ltd., is principally engaged in fund management business. To the best of the knowledge, information and belief of our Directors, each of The Royal Bank of Canada and Three Gorges Finance Company Limited is an independent third party to us.

Pengzhou Minsheng Township Bank Co., Ltd

On July 17, 2008, we obtained approval from the Sichuan Regulatory Office of the CBRC for the establishment of Pengzhou Minsheng Township Bank Co., Ltd. (彭州民生村镇银行有限责任公司). The registered capital of Pengzhou Minsheng Township Bank Co., Ltd. is RMB55 million. Our shareholding is 36.36% and the remaining equity is held by 46 other shareholders. Pengzhou Minsheng Township Bank Co., Ltd. commenced operations on September 12, 2008, and is principally engaged in commercial banking business in Sichuan Province. To the best of the knowledge, information and belief of our Directors, other than New Hope Investment Co., Ltd., which is controlled by our Director Mr. Liu Yonghao, holding approximately 3.64% of Pengzhou Minsheng Township Bank Co., Ltd. and 29 members of our staff, holding an aggregate of approximately 16.44% thereof, each of the 17 other shareholders is an independent third party to us.

Since we are able to exercise control over more than half of the voting rights of the board of directors of Pengzhou Minsheng Township Bank Co., Ltd. and can thereby control the company's major operating decisions, Pengzhou Minsheng Township Bank Co., Ltd is accounted for as our subsidiary.

Cixi Minsheng Township Bank Co., Ltd.

On December 5, 2008, we obtained approval from the Ningbo Regulatory Office of the CBRC for the establishment of Cixi Minsheng Township Co., Ltd. (慈溪民生村镇银行股份有限公司). The registered capital of Cixi Minsheng Township Bank Co., Ltd. is RMB100 million. Our shareholding is 35% and the remaining equity is held by 14 other shareholders. Cixi Minsheng Township Bank Co., Ltd. commenced operations on December 26, 2008, and is principally engaged in commercial banking business in Ningbo. To the best of the knowledge, information and belief of our Directors, each of the 14 other shareholders is an independent third party to us.

Since we are able to exercise control over more than half of the voting rights of the board of directors of Cixi Minsheng Township Bank Co., Ltd. and can thereby control the company's major operating decisions, Cixi Minsheng Township Bank Co., Ltd. is accounted for as our subsidiary.

Our Investment in Other Financial Institutions

UCBH Holdings, Inc.

We completed the acquisition of an aggregate of 9.9% stake in UCBH Holdings, Inc. ("UCBH") at US\$125,631,018.9 (equivalent to approximately RMB887 million) on March 5, 2008 and December 23, 2008 respectively. The consideration was determined by reference to the average closing price of the shares of UCBH for certain period prior to the acquisitions. The investment was recorded as an available-for-sale financial asset, which is accounted for at fair value. UCBH was established in 1998 with its headquarters in San Francisco, U.S., and its shares are listed on the U.S. NASDAQ market under the symbol "UCBH". UCBH is a bank holding company that conducts its

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CORPORATE HISTORY AND ORGANIZATIONAL STRUCTURE

principal business through its wholly owned banking subsidiary, United Commercial Bank ("UCB"). UCB is a bank in the United States serving the Chinese communities and American companies doing business in greater China. As of December 31, 2008, UCBH operated approximately 70 branches and offices in the United States with 51 of them in California. We made the investment in UCBH with an intention to expand our business network in the United States.

We have the right, but not an obligation to acquire. A further 10.1% stake in UCBH by giving written notice to the other party on or prior to December 31, 2009. Unless otherwise agreed, the consideration of such acquisition shall be determined by reference to the average closing price of the shares of UCBH in the 90 trading days preceding the fifth business day prior to the relevant closing date, to be adjusted by reference to the fluctuations of the Keefe, Bruyette & Woods Regional Banking Index since the day before the date of the investment agreement. In the event our interest in UCBH reaches 20% or more, the equity method of accounting for the investment will be used whereby our share of UCBH's profits or losses post acquisition would be generally recognised in our statement of income. As at the Latest Practicable Date, we have not exercised such right to top up our shareholding in UCBH. Our Bank will take into account various factors including the general economic atmosphere and the operational performance of UCBH before deciding whether or not to exercise such right.

Losses recognized are generally limited to the cost of our investment. As of September 30, 2009, the net book value of our investment in UCBH was RMB63.08 million. The financial condition of UCBH has further deteriorated since our investment in UCBH. The share price of UCBH has since declined to approximately US\$0.80 per share as of September 30, 2009 and consequently, the book value of our investment in UCBH decreased to RMB63 million as of the same date, representing aggregate loss of approximately RMB824 million. See "Financial Information — Selected Unaudited Financial Information as of and for the Nine Months Ended September 30, 2009 — Condensed Results of Operations for the Nine Months Ended September 30, 2009 and 2008.

China UnionPay

As of the Latest Practicable Date, we own 80 million shares of China UnionPay, representing approximately 2.77% of its entire share capital. China Unionpay is a bankcard association established under the approval of the State Council and the PBOC and operates an inter-bank transaction settlement system through which the connection and switch between banking systems and the inter-bank, cross-region and cross-border usages of bankcards issued by associate banks could be realized.

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CORPORATE HISTORY AND ORGANIZATIONAL STRUCTURE

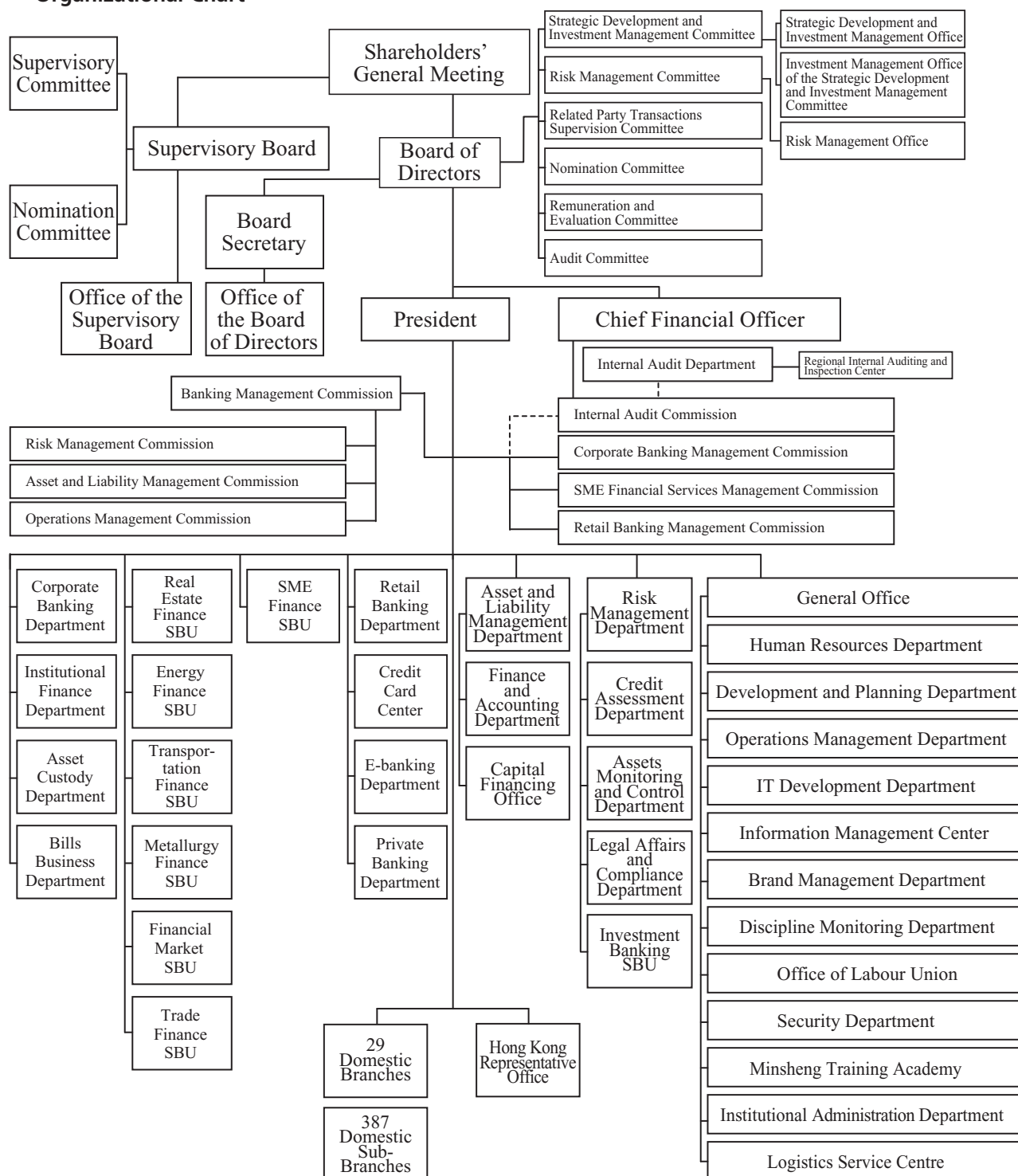
OUR ORGANIZATIONAL STRUCTURE

The following chart sets forth our current principal organizational and management structure as at the Latest Practicable Date:

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CORPORATE HISTORY AND ORGANIZATIONAL STRUCTURE

Organizational Chart



Note: The Internal Audit Department reports to the Internal Audit Commission only on major internal audit matters for the commission. Likewise the Internal Audit Commission reports to the President only on such matters.

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CORPORATE HISTORY AND ORGANIZATIONAL STRUCTURE

Currently, our Board has established the Strategic Development and Investment Management Committee, the Risk Management Committee, the Related Party Transactions Supervision Committee, the Audit Committee, the Compensation and Remuneration Committee and the Nomination Committee. We also have established seven management commissions, namely the Corporate Banking Management Commission, the SME Financial Services Management Commission, the Retail Banking Management Commission, the Risk Management Commission, the Asset and Liability Management Commission, the Operations Management Commission and the Internal Audit Commission, all of which are under the supervision of the President.

Organizational Restructuring

During the Track Record Period, we had been developing and reforming our organizational structure with a view to promoting specialization in our management and improving decision-making. We believe that this effort will also streamline our operations, eliminate functional overlaps between our departments, and meet the organizational needs brought on by our growth. For details, please refer to "Business — Our Principal Business Activities — Corporate Banking — Strategic Business Units."

We will continue to evaluate ways to modify our organizational structure to better implement our strategy and meet the needs of our business.

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BUSINESS

OVERVIEW

We are the first and largest national joint stock commercial bank in the PRC primarily founded by non-state-owned enterprises. Since our establishment in 1996, we have grown significantly and, as of September 30, 2009, we ranked fourth among the Other Joint Stock Commercial Banks in terms of total assets. As of September 30, 2009, we had total assets of RMB1,402.9 billion, total loans to customers of RMB893.5 billion and total deposits from customers of RMB1,099.5 billion.

We have expanded our business at a rapid pace. From December 31, 2006 to December 31, 2008, our total assets, total loans to customers and total deposits from customers grew at a CAGR of 20.6%, 18.1%, and 16.1%, respectively. From 2006 to 2008, our net profit grew at a CAGR of 44.9% from RMB3.8 billion to RMB7.9 billion. We had profit before tax of RMB13.5 billion for the nine months ended September 30, 2009 (which includes a non-recurring gain on disposal of Haitong securities of RMB4.9 billion). Although our business has grown rapidly during this period, we have maintained our discipline at risk management, and thereby also maintained high asset quality. As of September 30, 2009, our non-performing loan ratio⁽¹⁾ was 0.82%, compared with the industry's average of 1.66% in China.

In recent years, we have taken a number of measures to rationalize our business mix, strengthen our risk management system and upgrade our information technology system in order to improve our overall competitiveness. Since late 2007, we have carried out a SBU reform to align our internal structure with our key industries, customers and products, which we believe will strengthen our ability to better take advantage of market opportunities, serve customers and manage risk. We believe that we were the first PRC bank to implement wide-ranging SBU reform. We have received a number of honors and awards for our business performance, management capability and corporate governance. For example:

- in 2009, The Chinese Banker («銀行家») magazine named us the "Best Corporate Governance Bank of 2008;"
- in 2008, we were named one of the "Best Risk Management Banks" in the PRC in the annual Best PRC Financial Institutions League Table Awards organized by the Financial News («金融時報»);
- in 2008, a panel led by the Development and Research Center of the State Council and various other organizations ranked us third among its "100 Most Dynamic PRC Enterprises of 2008;"
- in 2008, The Chinese Banker («銀行家») magazine named us the "Best Corporate Governance Bank of 2007" and "Best Management Practices Innovation Bank of 2007;"
- in 2008, we were recognized as having the "Best Customer Service Center in Finance" by the Financial News («金融時報»);
- in 2008, we were named "Best Online Bank" by the China Electronic Commerce Association and the China Payment Systems Research Center and we received the "2008 Award for the PRC Online Bank with the Best Risk Prevention" from the Chinese Finance Certification Agency; and

Note:

(1) Our non-performing loan ratio is identical to our impaired loan ratio as such term is read in this document.

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BUSINESS

- in 2007, Forbes Magazine listed us as one of the “Top 50 Largest Listed Enterprises in the Asia Pacific Region.”

We are headquartered in Beijing and had 29 branches and 387 sub-branches throughout the PRC as of September 30, 2009. Through our network, we provide a broad range of corporate and retail banking products and services. We also conduct treasury operations for our own account and on behalf of our customers. In 2008, our corporate banking, retail banking and treasury operations accounted for approximately 75.5%, 17.7%, and 6.3%, respectively, of our total operating income. For the nine months ended September 30, 2009, our total operating income was RMB31.3 billion, which includes an amount of RMB5.6 billion that was not allocated to our three main lines of business. Such amount mainly related to a RMB4.9 billion gain on disposal of interest in Haitong Securities, see “Financial Information — Results of Operations — Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008 — Net gain/(loss) on Disposal of Available-for-sale Securities”. Excluding such RMB4.9 billion gain, our total operating income for the nine months ended September 30, 2009 would have been RMB26.4 billion and contribution to such total operating income by corporate banking, retail banking and treasury business would have been 70.9%, 13.4% and 13.1%, respectively. We completed the domestic initial public offering and listing on the Shanghai Stock Exchange of our A shares in December 2000.

OUR STRENGTHS

Our principal strengths include:

Since our establishment, we have followed a market-oriented and profit-driven business model with a corporate culture that encourages innovation

Since our establishment in 1996, we have continuously adjusted our operational model and strategies in response to changing market conditions, thereby allowing us to grow our business and enhance shareholders’ return. Since our listing on the Shanghai Stock Exchange in 2000, we took advantage of the rapid overall growth of the PRC banking industry and have quickly expanded our size while maintaining our profitability, achieving a CAGR of 52.5% from 2000 to 2006 in terms of total loans. From 2006 to 2008, in response to intensifying market competition, we proactively adjusted our loan portfolio by offering innovative products and services that generate higher profit. From December 31, 2006 to December 31, 2008, the CAGR for our total loans to customers was 18.1%. Our Pre-provision Operating Profit and our profit before tax increased at even faster rates, with a CAGR of 51.1% and 41.5%, respectively, for the same period. We also expanded our fee and commission-based business to enhance profitability and diversify our revenue sources. Our net fee and commission income accounted for 11.3%, 12.8%, 9.5% and 5.9% of our total operating income for the nine months ended September 30, 2009, and the three years ended December 31, 2008, 2007 and 2006 and the respectively.

We continue to innovatively adjust our operational model, management practices, product offerings and infrastructure to improve our profitability.

- *Operational model innovation.* We have a proven track record of innovating and adjusting our operational model in response to changing market conditions. In 2002, we implemented a performance-based grading system of sub-branches to better allocate resources and incentivize employees. We started our SBU reform in late 2007 and believe that we were the first PRC commercial bank to implement wide-ranging SBU reform. Such reform transforms our operational structure in accordance with, and allows us to reallocate our resources to, those key industries, products and customers that make up our strategic

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BUSINESS

focus. As a result, we have improved our resource allocation efficiency, our customer service quality and our risk management.

- *Management practices innovation.* We continuously monitor and improve our management practices, particularly with respect to our credit approval, risk management and personnel performance appraisal to effectively manage our business in response to changing market conditions.
- *Product innovation.* Since our establishment, we have been striving to continually innovate our product offerings. We began offering discounted bills with interest payments payable by buyers, rather than sellers, in 2002. In 2009, we launched "Shang Dai Tong" (商貸通), a line of new loan products specifically designed for individual businesses, small business owners and micro-enterprises. Our provision of innovative new products has become an important driver to our growth and enables us to continuously achieve high customer satisfaction.
- *Infrastructure upgrade.* We have continued to develop and enhance our infrastructure. We believe we were one of the first in the PRC banking sector to adopt a centralized system for our accounting and financial information in 2002. We have also begun to roll out a new core banking system in the fourth quarter of 2009, which seeks to transform our previously accounting-focused core system into a customer-focused core system. We were the first bank in the Asia Pacific region to adopt a SAP core banking system and a SAP financial management solution.

We are a fast growing national joint stock commercial bank in the PRC that has sound corporate governance, well-established compliance practices and transparent disclosure systems

We are the first and the largest national joint stock commercial bank primarily founded by non-state owned enterprises. As one of the first commercial banks listed on the Shanghai Stock Exchange in 2000, we are committed to achieving sound corporate governance and cultivating a corporate culture that encourages compliance practices. We have also sought to improve our financial transparency and strengthen our corporate governance in accordance with the Shanghai Listing Rules. As part of our commitment to improve the transparency of our disclosure to investors, our accounting reports have been prepared based on IFRS and audited by an internationally recognized accounting firm since 1996.

We believe that by leveraging our sound corporate governance, compliance oriented operations and market-oriented and profit-driven business model, we will be able to maintain sustainable growth and achieve higher returns for our shareholders, as demonstrated by our fast growing track record. After only thirteen years of operations, we have successfully grown to become one of the leading Other Joint Stock Commercial Banks in the PRC. As of September 30, 2009, we became the fourth largest Other Joint Stock Commercial Bank in the PRC in terms of total assets.

Our outstanding corporate banking business, coupled with the SBU reform, has further strengthened our competitive position

We believe that we have an outstanding corporate banking franchise with a high quality corporate customer base. Corporate banking represented 75.5% of our total operating income for the year ended December 31, 2008. Excluding the RMB4.9 billion gain on disposal of interest in Haitong Securities, our total operating income for the nine months ended September 30, 2009 would have been RMB26.4 billion and corporate banking would have represented 70.9% of such

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BUSINESS

total operating income. According to the PBOC, as of September 30, 2009, we ranked second and first, respectively, among Other Joint Stock Commercial Banks in the PRC in terms of increase in corporate loans (excluding discounted bills) and corporate deposits since the beginning of the year. We have accumulated a large number of high quality corporate customers, many of whom are leaders in their respective industries.

Aside from our traditional corporate lending businesses, we have a strong presence in trade finance, discounted bills and financial advisory services and our services in these areas are well-recognized in the market. In 2008, we were the leader in international factoring in the PRC, by number of international factoring transactions, according to the International Factors Group, an international association of factoring companies. In 2009, we received the “PRC Region Trade Finance Achievement Award” from the Asian Banker magazine (《亞洲銀行家》), becoming the only PRC bank to have received this award. We are also an active participant in the bill discounting market by providing innovative products and services. For example, in 2002, we began offering discounted bills with interest paid by buyers rather than sellers and, in 2009, we launched the “Kuaiyitie” (快易貼) product, which utilizes our proprietary system that improves the effectiveness of our risk control and the efficiency of our bill discounting operations. We also received the “Best Performance Award for Syndicated Loans” from the Syndicated Loan and Trade Professional Committee of the China Banking Association in 2009, becoming the only Other Joint Stock Commercial Bank to receive this award.

In order to further strengthen our corporate banking business, in late 2007, we established SBUs to transform our operational structure in accordance with, and to reallocate resources to, our key industries, customers and products that make up our strategic focus. We believe that the establishment of the SBUs strengthens our ability to capture market opportunities, better serve customers and manage risks. For the nine months ended September 30, 2009, the total loans and total deposits of our four industry-specific SBUs increased by 40.9% and 48.8%, respectively, as compared to December 31, 2008. Over the same period, the proportion of loans with higher-than-benchmark interest rates for our industry-specific SBUs was higher than that for our Bank as a whole. In 2008 and the nine months ended September 30, 2009, our industry specific SBUs also maintained relatively low levels of non-performing loans. See “— Our Principal Business Activities — Corporate Banking — Strategic Business Units.”

We have a distinct retail banking business model that has contributed to the strong growth of our retail banking business

Our retail banking business has grown rapidly in recent years. From 2006 to 2008, our retail loans and retail deposits have increased at a CAGR of 25.8% and 20.0%, respectively. Our operating income from retail banking business increased at a CAGR of 60.0% from 2006 to 2008. In 2008, we received the “Best Retail (Wealth Management) Bank in China” award from the organizing committee of the China International Finance Forum, the “2008 Retail Financing Service Brand” award from CBN Financial Value Ranking 2008 and the “2008 Best Business Innovation Award (Most Innovative Retail Bank)” from Sina.com.

This strong growth is attributable to our distinct retail banking business model which features the following strengths:

- *Attracting medium- and high-end retail customers.* By focusing on product and service innovation, we continue to attract medium and high-end retail customers whose deposits represent a large proportion of our total retail deposits. As of September 30, 2009, deposits

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BUSINESS

from our customers with daily average financial assets of more than RMB500,000 accounted for 53.8% of our total retail deposits.

- *Penetrating new markets through clear market segmentation.* In addition to offering traditional retail banking products, we began proactively marketing standardized and targeted loan products specifically to individual businesses, small business owners and micro-enterprises, i.e., through our “Shang Dai Tong” (商貸通) brand, in early 2009 to enable us to access a market with high growth potential.
- *Focusing on sales and marketing.* In order to allow our sub-branches to focus on sales and marketing, we reallocated a large portion of our non-customer service work from our sub-branches to the processing centers at the branch and headquarters level by leveraging our account settlement and service platform of our retail banking. In addition, we have also implemented standard operating procedures across our sub-branches to further improve the quality of our customer service and raise customer satisfaction and loyalty.

Since we began issuing credit cards in June 2005, our credit card business has developed rapidly. We believe we were one of the few PRC banks that have announced profitability in the credit card business. We believe we achieved profitability in a relatively shorter period of time than most of our peers. We have received various awards from international and national credit card organizations, including the “2008 Best Platinum Credit Card” by Master Card Worldwide.

We have built a fast growing fee and commission-based business by leveraging product and service innovation and our high-quality customer base

From 2006 to 2008, our fee and commission income has grown rapidly at a CAGR of 97.1% from leveraging our continuous introduction of innovative products and services. Our “Favorite Wealth Management” (非凡理財) line of products received various international and national awards including the “Chinese Banking Industry Best Individual Financial Product Brand Award” in the 2007 Sohu Business Financial Management Network Award Ceremony (搜狐財經2007金融理財網絡) and the “China Banking Industry Most Influential Wealth Management Innovative Brand” in 2008 awarded by the People’s Daily, the China International Market Association and other relevant organizations. In 2005, we were one of the first financial institutions in the PRC to be permitted by the CBRC to conduct derivative transactions. In 2005, we were one of the first financial institutions permitted by the CBRC and the SAFE to conduct structured RMB financial services including exchange rate-linked and interest rate-linked structured financial services. Leveraging these innovations as well as our high-quality customer base, our net fee and commission income increased from 5.9% to 12.8% of our total operating income from 2006 to 2008. Excluding the RMB4.9 billion gain on disposal of interest in Haitong Securities, our total operating income for the nine months ended September 30, 2009 would have been RMB26.4 billion and net fee and commission income would have accounted for 13.4% of such total operating income.

We have prudent and comprehensive risk management

Our experienced risk management team continuously develops and improves our risk management structure, procedures, tools and technology to monitor, assess and manage credit, market, liquidity and operational risks. Our risk management team has extensive risk management experience. We are one of the first banks in the PRC banking industry to have established a comprehensive integrated risk management system. We continue to improve our risk management in order to improve our asset quality. As of September 30, 2009, December 31, 2008, 2007 and 2006 and our impaired loan ratio was 0.82%, 1.20%, 1.22% and 1.25%, respectively, with a coverage ratio

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BUSINESS

of our total allowance for impairment losses to total impaired loans of 185.8%, 150.0%, 113.1% and 108.9%, respectively. In 2008, we were honored as the "Annual Best Risk Management Bank" by the Financial News in conjunction with the Institute of Finance and Banking at the Chinese Academy of Social Sciences.

We have always focused on asset quality in assessing the performance of our business. We have established independent credit assessment, approval and monitoring procedures, and rationalize our loan asset portfolio by establishing procedures to identify and limit our exposure to high credit risk areas. We strive to resolve our impaired loans through internal controls. We currently use advanced market risk and liquidity risk monitoring and analysis tools in order to identify, measure and manage liquidity risk and market risk. Through this process we have sought to cultivate a culture of prudent and comprehensive risk management across our business.

We have an advanced information technology system

We believe we are a leader in adopting and implementing advanced IT systems. We believe that we were one of the first PRC banks to adopt a combined accounting and business system in 2001. In 2003, we became the first bank in the PRC to use SAP financial management software. Also in 2003, we established eight centralized IT systems to manage our major internal business functions, for which we were recognized as a Computerworld Honors Laureate for our "visionary use of information technology in business" by the Computer World Honors Program in 2004. In 2004, we began to develop our new core banking system, commenced its construction in 2007 and began rolling it out in 2009. We are the first bank in the Asia Pacific region to use a SAP core banking system and a SAP financial management solution. The new core banking system improves customer service, allows for more comprehensive risk management and increases the efficiency of our business operations.

We have an experienced senior management team and skilled workforce

We have an experienced senior management team, with an average of 20 years of PRC financial industry and managerial experience. Our chairman of the Board, Mr. Dong Wen Biao, has more than 29 years of financial industry experience and has been with us since our establishment in 1996. He was named "Chairman of the Board with Most Strategic Vision," by the Board Magazine, and received the "2008 Most Innovative Banker Award," by 21st Century Business Herald, the "Bank Innovative Person of the Year Award" by Sina.com and the "Special Contribution to Construction of the PRC Economy Award" from the China Business Times and the Renmin University of China Chinese Private Enterprise Research Center. Mr. Hong Qi, appointed as our President in March 2009, has more than 24 years of financial industry experience and has been with us since our establishment. He has held key senior positions in various important departments at the Bank. He gained extensive regulatory and managerial experience in the banking industry prior to joining us and was awarded as one of the top ten "Responsible Leaders" at the first Enterprise Social Responsibility annual meeting in 2009.

We rely on advanced human resources management principles, including a competitive incentive scheme and an advanced training system to motivate our workforce and attract and retain qualified personnel. We maintain a highly skilled workforce. For example, as of September 30, 2009, more than 60% of our workforce have bachelor's degrees and more than 11% have masters or higher level degrees. In addition, we have a formalized college recruitment program to attract talented employees and we have established the Minsheng Bank Training Institute to improve the quality of our workforce. In 2005, The Chinese Banker («銀行家») magazine ranked us first in terms of human resource competitiveness in their PRC Commercial Bank Competitiveness Report.

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BUSINESS

OUR STRATEGIES

Our strategic goal is to become an internationally competitive and the best PRC commercial bank. We aim to become the bank of choice for private-owned enterprises, SMEs and high net worth individuals. We will achieve a distinctive bank with strong profitability, and this strategic goal through further leveraging our advantages including being a non-state-owned enterprise with sound corporate governance, a market-oriented and profit-driven business model, an innovative corporate culture, a highly skilled workforce and an advanced IT system. We also plan to establish a banking-focused integrated financial services platform. Our detailed strategies include:

Maintaining and expanding our existing high quality large corporate customer base by providing innovative products and high quality services and refining our SBU operations

Corporate banking is our core business and we believe it will remain our main source of profit in the future. We intend to develop our fee and commission income through product and service innovation and continue to consolidate our customer base and our presence in key industries through refining our SBU operations. We plan on maintaining and expanding our existing corporate banking business for our large corporate customers by implementing the following customer, product and marketing strategies:

Customer Strategy

- Continuing to refine our SBU operations in order to strengthen specialization and business development for the identified industries and customers;
- Encouraging each SBU and branch to develop its business according to its respective industry or geographic characteristics;
- Actively seeking to adjust our customer composition by focusing on customers from whom we could generate higher risk-adjusted returns;
- Identifying and focusing on industries with high growth potential;
- Continuing to improve the quality of our customer service, raise customers satisfaction and build customer loyalty;

Product Strategy

- Improving our research and product development capabilities to provide comprehensive financial solutions;
- Focusing on the expansion of transaction financing and cash management product, the expansion of financial consulting services as our primary investment banking product, and the development of our syndicated and other loans;
- Continuing to maintain our strength in trade finance business;

Marketing Strategy

- Building up comprehensive, customer-oriented marketing and increasing overall sales and operational efficiency.
- Encouraging internal cross-selling;
- Sharing distribution channels and customer resources among SBUs and branches to generate synergies; and

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BUSINESS

Striving to become a leader in the SME financial services business in the PRC by leveraging our diverse customer base and knowledge of the SME financial services sector

As the first and largest national joint stock commercial bank established by non-state-owned enterprises ourselves, we maintain inherent relationships with privately owned SMEs. We believe that the SME financial services sector will be one of our key business drivers and we intend to become a leader in the domestic SME financial services business by:

- Developing our SME loan business and increasing loan yields, by continuing to develop standardized products to better manage risks and increase our risk-adjusted yields;
- Progressively developing our operations in strategic regions such as the Yangtze River Delta, Bohai Rim and Western Taiwan Straits Economic Zone, and other regions;
- Improving service efficiency and developing customized financial services for SMEs; and
- Optimizing our operational and management processes for SME financial services.

Actively expanding our retail banking business and consolidating our strengths in medium and high-end customers and wealth management

We aim to accelerate the development of our retail banking business by providing high-quality products and services including “Shang Dai Tong” (商貸通), private banking, wealth management and credit cards to our medium and high-end customers. We believe that the retail banking business will be one of our key business drivers and we intend to become a leader in the domestic retail banking business by:

- Encouraging our internal cross-selling and expanding our high-end customer base by providing our targeted customers with comprehensive financing services that meet their requirements.
- Growing our medium and high-end customer base by providing comprehensive services and encouraging internal cross-selling;
- Further developing the “Shang Dai Tong” (商貸通) brand for individual businesses, small business owners and micro-enterprises;
- Developing our private banking business by providing customized and integrated financial solutions;
- Expanding our credit card business by focusing on medium and high-end customers; and
- Enhancing the competitiveness of our retail wealth management business.

Maintaining the rapid growth of our fee and commission-based business

We intend to grow our fee and commission-based business through the following:

- promoting cooperation with insurance companies, securities firms, fund management firms and trust companies to grow our custody and agency businesses;
- encouraging product and service innovation to provide more customer-oriented services; and
- encouraging the development of our fee and commission-based business through the optimization of internal policies, such as employee incentive schemes that are more closely linked to performance.

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BUSINESS

Strategically expanding and improving our branch networks and other distribution channels

We intend to pursue profitable growth by expanding our branch network in economically developed and key strategic regions, which include provincial capital cities and certain tier-two cities of economically developed regions. We intend to selectively expand our branch network to increase our customer base and capture business opportunities. In addition, we plan to allocate additional resources to expand our self-service banking centers and ATMs. By further promoting customer use of our electronic distribution channels, we expect to achieve greater operational efficiency and improve our customer coverage.

Continuing to maintain our competitive strength in information technology

We believe that our advanced IT system will continue to form a solid foundation for sustainable development in an increasingly competitive industry. We will continue to allocate significant resources to roll out our new core banking system. We expect that this new core banking system will greatly enhance our current IT system by consolidating our operations, increasing efficiency and improving system and data reliability. Additionally, we expect the new core banking system to enhance our customer relationships, and provide us with more comprehensive risk management and improved operational management. We also intend to strengthen the application of IT in our business and continually optimize our IT systems to maintain our competitive strength.

Further strengthening our risk management and internal control

Our risk management objectives include pursuing growth while maintaining prudent risk management, establishing and continuing to improve an integrated risk management system that is in compliance with applicable regulatory requirements and protecting the interests of our shareholders, customers and employees. To achieve these objectives, we intend to:

- *Improve our credit risk management.* Along with our existing credit risk management procedures including centralized credit approval and assessment systems, we also plan to refine our internal credit risk rating system and further emphasize on these ratings within the credit management process. We intend to continue to migrate our risk management structure and practices towards international best practices including Basel II. In particular, we will seek to implement new tools to more accurately measure and assess the credit risk of our customers such as the internal rating approval system under Basel II.
- *Leverage our extensive experience and expertise to improve our ability to manage market risk and liquidity risk.* In addition to the quantitative tools we currently use, we plan to increase the use of advanced market risk and liquidity risk monitoring and analysis tools, including gap analysis, duration analysis, scenario simulation and stress testing, in order to improve our ability to identify, measure and manage market risk and liquidity risk.
- *Reduce operational risk and strengthen internal legal compliance.* Along with the continuous implementation of effective guidelines and systems to manage and mitigate our operational risk, we also intend to establish an operational risk incident assessment database that uses our customized operational risk indicators. We also plan to consolidate our risk classification standards to more effectively monitor and reduce our operational risk. Additionally, we intend to further strengthen the management of our legal compliance and the independent assessment mechanism of our internal audit department.

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BUSINESS

Continuing to improve our financial and operational efficiency and enhancing our capital management capabilities

We intend to improve our financial efficiency by:

- adjusting our asset composition to achieve higher yields;
- adjusting our liability composition to lower our cost of funds; and
- continuing to apply internal funds transfer pricing to ensure efficient allocation of resources to businesses with higher profit margins.

We intend to improve our operational efficiency by:

- allocating our resources to enhance areas of our distribution network where there is significant business potential;
- increasing the utilization of cost-effective electronic distribution channels, including our telephone banking, internet banking and mobile banking channels; and
- aligning the interests of our personnel with our business performance by establishing incentive schemes that are more closely linked to performance.

We also intend to strengthen our capital management capabilities by:

- adopting broader parameters in defining business performance by focusing on risk-adjusted return on capital;
- managing our balance sheet more prudently by gradually transitioning from regulatory capital measurement to economic capital measurement as we believe by focusing on economic capital management, we could more accurately assess the risk of each individual business; and
- managing and adjusting our capital allocation in a dynamic manner in line with changes in our internal and external business environments.

Further strengthening the competitiveness of our talented workforce

We plan to further strengthen our workforce to meet our strategic goals. We will continue to recruit, train and retain talented employees to expand our quality workforce in line with our strategic business objectives. In order to optimize our workforce composition, we intend to adopt international best practices in human resources management. For example, we intend to establish sophisticated career advancement management systems with a more refined hierarchy of ranks and positions and to strengthen our ability to counsel our employees on career development issues. We will continue to rely on an incentive-based compensation structure to better align employees' compensation with their contribution to our business. We will continue to improve our human resources policies to attract, train, incentivize and retain our employees.

Selectively entering into other areas of financial services when appropriate business opportunities arise

In order to supplement our existing banking business, we intend to selectively enter into other areas of financial services as permitted by applicable laws and regulations. Currently, we have established Minsheng Financial Leasing Co., Ltd. and Minsheng Royal Fund Management Co., Ltd. to expand our financial leasing and fund management businesses. When appropriate opportunities

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BUSINESS

arise, we will by collaborating with domestic and international organizations, enter into non-banking financial services businesses that involve greater synergies with commercial banks.

OUR PRINCIPAL BUSINESS ACTIVITIES

We operate three principal lines of business: corporate banking, retail banking and treasury operations. The following table sets forth the contribution of each line of business to our total operating income for the periods indicated:

	For the year ended December 31,						For the nine months ended September 30,			
	2006		2007		2008		2008		2009	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(unaudited)									
	(RMB in millions, except percentages)									
Total operating income										
Corporate banking business	12,143	69.6%	18,509	73.3%	26,410	75.5%	19,068	70.0%	18,729	59.8%
Retail banking business	2,415	13.9%	4,024	15.9%	6,183	17.7%	4,449	16.4%	3,532	11.3%
Treasury business	2,725	15.6%	2,351	9.3%	2,195	6.3%	3,430	12.6%	3,464	11.0%
Unallocated ⁽¹⁾	158	0.9%	388	1.5%	185	0.5%	277	1.0%	5,604 ⁽²⁾	17.9%
Total	<u>17,441</u>	<u>100%</u>	<u>25,272</u>	<u>100%</u>	<u>34,973</u>	<u>100%</u>	<u>27,224</u>	<u>100%</u>	<u>31,329</u>	<u>100%</u>

Notes:

- (1) Includes businesses such as financial leasing, investment fund management and income that is not directly attributable to a segment or cannot be allocated on a reasonable basis.
- (2) Amount primarily relates to our disposal of interest in Haitong Securities in the first half of 2009, see “Financial Information — Results of Operations — Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008 — Net gain/(loss) on disposal of available-for-sale securities”.

Corporate Banking

Overview

We offer a broad range of products and services, including corporate loans, trade finance, bill discounting, corporate deposits, fee and commission-based services, which comprise settlement, guarantees, custody and corporate annuities, foreign exchange services, entrusted loans and cash management services. As of September 30, 2009, we had over 6,000 corporate borrowers (excluding bill discounting) with total outstanding loans of RMB686.0 billion and over 137,000 corporate deposit customers with total deposits of RMB906.8 billion.

Corporate banking accounted for 75.5%, 73.3% and 69.6% of our total operating income for the three years ended December 31, 2008, 2007 and 2006, respectively. Excluding the RMB4.9 billion gain on disposal of interest in Haitong Securities, our total operating income for the nine months ended September 30, 2009 would have been RMB26.4 billion and corporate banking would have represented 70.9% of such total operating income. Our corporate loans accounted for 76.8%, 73.8%, 75.8% and 73.2% of our total loans, and our corporate deposits accounted for 82.5%, 82.6%, 84.0% and 83.8% of our total deposits from customers as of September 30, 2009, December 31, 2008, 2007 and 2006 and, respectively. See “Description of Our Assets and Liabilities.”

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BUSINESS

Corporate Banking Products and Services

Corporate Loans

Corporate loans have historically comprised the largest portion of our loan portfolio and substantially all of our corporate loans are made to customers in the PRC. Our corporate loans include short-term, medium- and long-term loans. Our corporate loans reached RMB686.0 billion, RMB485.9 billion, RMB420.8 billion and RMB345.5 billion as of September 30, 2009, December 31, 2008, 2007 and 2006, respectively. The CAGR of our corporate loans was 18.6% from December 31, 2006 to December 31, 2008. Our corporate loans consist primarily of RMB-denominated loans, with a small portion of foreign currency-denominated loans. The following sets forth our corporate loans by maturity for the periods indicated.

	As of December 31,						As of September 30,	
	2006		2007		2008		2009	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)						(unaudited)	
Short-term loans	210,908	61.0%	238,016	56.6%	272,301	56.0%	319,867	46.6%
Medium- and long-term loans	134,636	39.0%	182,821	43.4%	213,557	44.0%	366,149	53.4%
Total corporate loans . . .	345,544	100%	420,837	100%	485,858	100%	686,016	100%

Short-term loans. Under the PBOC guidelines, short-term loans are loans with maturities of one year or less. As of September 30, 2009, our short-term corporate loans totaled RMB319.9 billion, representing 46.6% of our total corporate loans. Our short-term loan products consist primarily of working capital loans. The majority of our short-term loans are secured by either real property or securities, or guaranteed by a third party.

Medium- and long-term loans. Under PBOC guidelines, medium- and long-term loans are loans with maturities that are more than one year. As of September 30, 2009, our medium- and long-term loans totaled RMB366.1 billion, representing 53.4% of our total corporate loans. We offer various types of medium-term and long-term loans for a wide range of business purposes, including capital expenditure, infrastructure development and real estate development. We also act as arranger, manager and/or lender of syndicated loans to our customers to meet their needs for larger loans.

Trade Finance

We offer a comprehensive range of trade finance products and services to our customers that engage in international and domestic trade. We provide our customers with specialized trade finance solutions, including those relating to accounts receivable, import trade chain, letters of guarantee, structured financing and other value-added services. For the nine months ended September 30, 2009 and 2008 and three years ended December 31, 2008, 2007 and 2006, our trade finance transaction volume amounted to USD12.8 billion, USD13.0 billion, USD15.3 billion, USD11.5 billion and USD3.7 billion, respectively.

Our domestic trade finance products and services mainly include accounts receivable financing, factoring, logistics financing and other asset financing, foreign exchange services and settlement. We provide various forms of short-term financing known as "Chang Shang Yin" (廠商銀) in the PRC,

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BUSINESS

particularly to manufacturers and distributors in the oil and gas, automobile and steel industries. This financing is primarily in the form of bank acceptance bills provided for the purchase of inventory from manufacturers.

We also provide import and export trade finance products and services. Our primary import trade finance products and services include letter of credit issuance, import bill purchasing, indemnities for non-bill of lading delivery, import refinancing and import factoring. Our primary export trade finance products and services include packing loans, export bill purchasing, export bill discounting, export bill financing, export factoring, credit insurance financing, export credit, accounts receivable pooling, purchase order financing and forfeiting. We also offer various guarantee services and import export business related domestic letter of credit financing to our customers. In particular, in 2008, we were the leader in international factoring in the PRC factoring industry, by number of international factoring transactions, according to the International Factors Group, an international association of factoring companies.

To improve our ability to provide specialized trade finance products and further strengthen our trade finance business, in September 2007, we transformed our Trade Finance Department into the Trade Finance SBU. The Trade Finance SBU currently oversees, among others, our trade finance and settlement businesses. See “— Our Principal Business Activities — Corporate Banking — Strategic Business Units — Trade Finance SBU.”

Our trade finance business has received many honors and awards in recent years. Most notably:

- in 2009, we received the “PRC Region Trade Finance Achievement Award” from the Asian Banker magazine (《亞洲銀行家》), becoming the only PRC bank to have received this award; and
- in 2007, we received the “Best Trade Finance Bank Award” in the “2007 Asian Banks Competitive Rankings” organized by the 21st Century Business Herald (《21世紀經濟報道》), the Faculty of Business Administration of Chinese University of Hong Kong and the Graduate School of the PBOC.

Bill Discounting

Bill discounting involves the purchase of bank and commercial acceptance bills at a discount. We provide bill discounting as a form of short-term financing for our corporate customers. We also purchase discounted bills from other financial institutions or transfer discounted bills at a further discount to the PBOC or other financial institutions authorized to conduct bill discount business. By transferring these discounted bills, we can increase our liquidity.

The bank acceptance bills and commercial acceptance bills which we purchase have a remaining maturity of generally not more than six months. When we conduct bill discounting for our corporate customers, we primarily purchase bank acceptance bills and commercial acceptance bills from companies that meet our credit requirements. We also purchase bills from other financial institutions. The interest rate we charge for discounted bills varies according to the banking market’s overall liquidity and the demand for discounted bills. As of September 30, 2009, we had a balance of approximately RMB61.3 billion in discounted bills.

We are also an active participant in the bill discounting market by providing innovative products and services. For example, in 2002 we began offering discounted bills with interest payments payable by buyers as early as 2002. Our online bank electronic bill processing service provides our customers with an efficient platform for managing bank acceptance bills and commercial acceptance bills. In addition, we recently launched the “Kuaiyitie” (快易貼) product.

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BUSINESS

The *Kuaiyitie* (快易貼) product utilizes a system that is able to systematically collate information from enterprise value-added tax invoices. This product eliminates the need for manual collection of hard copy enterprise value-added tax invoices to verify our customers’ trading history, thereby improving the effectiveness of our risk control and efficiency of our bill discounting operations. We believe that we are the first bank in the PRC to develop this type of product.

Corporate Deposits

Corporate deposits include demand deposits and time deposits, denominated predominantly in Renminbi but also in major foreign currencies. We accept short-term, medium- and long-term deposits from our corporate customers. We also offer certain negotiated deposit products for which we are permitted to negotiate interest rates. The negotiated deposits include deposits by insurance companies and the SSF, and generally bear terms of around five years. Our corporate deposits increased to RMB906.8 billion as of September 30, 2009, from RMB649.5 billion as of December 31, 2008, RMB563.7 billion as of December 31, 2007, and RMB488.6 billion as of December 31, 2006. The CAGR of corporate deposits was 15.3% from December 31, 2006 to December 31, 2008. As of September 30, 2009, we had RMB68.2 billion in RMB-denominated negotiated deposits, representing 6.2% of our total customer deposits.

Fee and Commission-based Corporate Banking

We offer a wide range of fee and commission-based products and services, mainly including settlement services, guarantee services, custody and corporate annuity services, foreign exchange services, consulting and financial advisory services, entrusted loans and cash management services. Our net fee and commission income has grown significantly in recent years.

Settlement Services. We provide settlement services in connection with our domestic and international corporate banking businesses. Our domestic settlement services include settlement through cash, drafts, promissory notes, checks and other negotiable instruments. We also offer entrusted collection, payment, and disbursement services to our corporate customers. Our international settlement services include remittance, collection and the provision of letters of credit. We processed total transaction volumes in our international settlement business of USD16.4 billion, USD35.6 billion, USD44.8 billion, USD57.3 billion and USD46.6 billion for the nine months ended September 30, 2009 and 2008 and the three years ended December 31, 2008, 2007 and 2006 and, respectively.

Guarantee Services. We provide bank guarantee services to our corporate customers. Such services include, among others, the provision of tender guarantees, performance guarantees, advance payment guarantees, customs guarantees and loan guarantees, and the processing of trade tariff payment guarantees. We also require our customers to provide various forms of security for the provision of such guarantees, as part of our risk management for our guarantee services. As of September 30, 2009, the balance of guaranteed amounts under letters of guarantee totaled RMB49.4 billion. These obligations are reflected as off-balance sheet items. See Note 34 to the Accountant’s Report set out in Appendix I.

Custody and Corporate Annuity Services. We act as a custodian bank for fund companies, insurance companies, trust companies, PRC social security fund management institutions, asset-backed security management institutions and QDII. We also work closely with pension fund companies and other corporate annuity management institutions to provide corporate annuity services to our clients.

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BUSINESS

Our custody services include safekeeping, fund settlement, asset valuation, investment monitoring and certain related value-added services. As of September 30, 2009, the total net asset value of securities investment funds under custody reached RMB20.3 billion and the total net asset value of corporate annuity funds under custody reached RMB1.4 billion.

Foreign Exchange Services. We provide Renminbi and major foreign currency exchange services on a spot and forward basis. We settle our open positions created by such foreign exchange services in the inter-bank market on a daily basis to minimize our exposure to Renminbi and foreign currency exchange rate fluctuations and risks.

Consulting and Financial Advisory Services. We provide our corporate customers with consulting and financial advisory services. These services include formulating overall financing plans, structuring financing solutions as well as arranging credit provided to our customers. We also provide project management services to our customers to ensure that funds are allocated and used in accordance with their relevant financing plans. In addition, we advise on mergers and acquisitions, capital raising, investments, restructuring, asset management, business integration and private equity financing.

Entrusted Loans. We provide entrusted lending services to our customers who elect to make loans on an entrusted basis through commercial banks. We extend entrusted loans and collect payments on behalf of our customers. Our customers assume the credit risks of these loans, and we charge an agency fee based on the size of the entrusted loan.

Cash Management Services. We provide customized cash management services to our corporate customers to assist them in managing their cash flows, including collection, payment, transfers, investments and financing.

Strategic Business Units

The continuing development of the PRC economy and its transition into a market economy bring different challenges and opportunities to our business development. To better respond to these challenges and opportunities, we established SBUs in eight business areas in late 2007. These include four industry-specific SBUs, namely the Real Estate Finance SBU, the Energy Finance SBU, the Transportation Finance SBU and the Metallurgy Finance SBU, in addition to the SME Finance SBU, the Trade Finance SBU, the Investment Banking SBU and the Financial Market SBU. We have chosen these eight business areas because each of these business areas has distinct characteristics, and we believe that there is significant potential for business development in these areas through the adoption of the SBU business model. The SBU business model allows each of these business areas to be operated relatively independently, and enables us to provide our customers in such business areas with highly tailored and integrated products and services that fully take into account the unique characteristics of these business areas. We believe that we are a pioneer among PRC banks in adopting such a business model.

The SBU framework is designed to enhance our competitiveness and improve the quality of our customer service within each of the eight business areas. We have allocated professional teams with specific industry, products, services and business expertise to the SBUs. These teams are responsible for nationwide business management, sales and marketing and providing customized and integrated financial products and services to clients. They are also responsible for their own and specific risk management, market and industry research, human resource and financial management. We believe that this structural framework could in turn facilitate the effective management of our businesses.

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BUSINESS

The four Industry Specific SBUs and Transport Finance SBU have established specialized sales branches in strategic locations throughout the PRC. Our bank branches provide these SBU branches with on-the-ground services including public relations coordination, personnel management and assistance in building client relationships. The bank branches and the SBU branches can also generate significant business synergies by conducting collaborated marketing and cross-selling.

We believe that we have benefited and will continue to benefit from the SBU organizational structure in the following ways:

- **Ability to specialize in relevant business areas and provide integrated services and products to satisfy customer needs.** The SBUs have dedicated market research analyst teams, sales staff and risk management staff in their respective business areas. These teams are capable of designing customized and integrated financial products and services for our customers based on due consideration of the relevant market characteristics, customer needs, financial product and service features as well as risk management requirements. For example, based upon our specialized industry knowledge, our Metallurgy Finance SBU has identified that for large customers within the metallurgy industry, the need for financing is largely concentrated at the point of sale. As a result, the Metallurgy Finance SBU focuses its specialized resources on developing targeted services and product offerings such as supply chain financing. This in turn could facilitate the consolidation of a quality customer base.
- **Resource and operational management efficiency and effectiveness.** The SBUs' overall management of particular business areas on a nationwide basis has enabled us to effectively direct our resources towards the regions and clients that make up our strategic focus. For example, the Energy Finance SBU has been strategically located in branch divisions at or near the 13 largest national-level coal mining sites in the PRC, the key sites of the PRC national electricity grid and the main electricity source points of the five largest electricity companies in the PRC. This allows us to provide on-the-ground coverage for our most important customers in the sector. At the same time, the concentration of specialized industry knowledge and expertise within specific business units allows them to devise strategies and actions more efficiently in response to changes in their business environment. Under our SBU organizational structure, supporting functions such as risk management, research, human resources and financial management operate relatively independently within our Bank. As a result, the SBUs perform their duties more efficiently and effectively with sufficient attention to the unique issues arising from specific business areas.
- **Ability to better manage and control risks.** The SBUs perform a wide array of risk management functions under the guidance of a risk officer assigned to each of them, and have established their own multi-layered risk prevention and control systems with respect to target customer determination, customer induction, rating monitoring and control, post-loan disbursement management and risk management decision-making. This setup allows the SBUs to achieve centralized and standardized management of similar risk assets. In addition, because the markets and customer types that the SBUs evaluate, monitor and control are similar, the SBU risk management teams are able to develop a deeper understanding of the overall market situation and of customer operating behaviors than otherwise would be the case. For example, the Real Estate Finance SBU has established regional supervision centers in the areas where most of its lending occurs. As a result of the enhanced ability in market research and analysis attributable to such centers, the Real Estate Finance SBU shifted the focus of business towards the Eastern China and other

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BUSINESS

regions and minimized negative exposure in certain other regions with higher risks. See "Risk Management — Risk Management Structure."

Real Estate Finance SBU

The Real Estate Finance SBU specializes in providing financing to mainstream customers such as developers. It combines its own banking capabilities with other different financing sources such as trust fund companies, real estate investment funds and other commercial banks to provide its customers with a wide range of financial services, including structured finance, project evaluation, mergers and acquisitions advisory services, asset custody and finance planning. As of September 30, 2009, it had established 30 branch divisions in 24 cities throughout China.

As of September 30, 2009, the Real Estate Finance SBU had a total loan balance and deposit balance of RMB73.4 billion and RMB49.6 billion, representing an increase of 32.8% and 154.5% since January 1, 2008, respectively. As of September 30, 2009, the impaired loan ratio of loans granted by Real Estate SBU was 0.89%.

Energy Finance SBU

The Energy Finance SBU provides comprehensive financial services to mid-to-large size companies in the coal, electricity and petroleum industries. Currently, it mainly provides settlement and financing solutions for coal-powered electricity businesses, and mining rights-backed finance to coal production companies. As of September 30, 2009, it had established 24 branch divisions in 21 cities throughout China.

As of September 30, 2009, the Energy Finance SBU had a total loan balance of and deposit balance of RMB94.9 billion and RMB38.1 billion, representing an increase of 56.8% and 98.9% since January 1, 2008, respectively. The impaired loan ratio of loans granted by Energy Finance SBU was 0.10%.

Transportation Finance SBU

The Transportation Finance SBU specializes in providing a wide array of customized financial services within industries relating to transportation infrastructure equipment, particularly mid-to-high end customers in the rail, automobile, public road, airline, airport, port and shipping industries. The Transportation Finance SBU offers these customers integrated financial solutions encompassing services and products such as group company loans, bill discounting, trade finance, commercial paper, medium-term notes, entrusted fund management, and consulting and financial advisory services. As of September 30, 2009, it had established 23 branch divisions throughout 29 cities in China.

As of September 30, 2009, the Transportation Finance SBU had a total loan balance of and deposit balance of RMB44.7 billion and RMB46.9 billion, representing an increase of 99.2% and 74.9% since January 1, 2008, respectively. The impaired loan ratio of loans granted by Transportation Finance SBU as of September 30, 2009 was 0.11%.

Metallurgy Finance SBU

The Metallurgy Finance SBU specializes in providing comprehensive financial services to ferrous and non-ferrous mining enterprises, smelting and metal rolling industrial enterprises and related trade and distribution enterprises. In addition to traditional banking services, the Metallurgy Finance SBU provides its customers with services such as project finance, transaction finance, cash

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BUSINESS

management, financial advisory services and debt issuance services. As of September 30, 2009, it had established 24 branch divisions in 21 cities throughout China.

As of September 30, 2009, the Metallurgy Finance SBU had a total loan balance and deposit balance of RMB33.2 billion and RMB37.3 billion, representing an increase of 89.3% and 85.5%, since January 1, 2008, respectively. As of September 30, 2009, the impaired loan ratio of loans granted by Metallurgy Finance SBU was 0.5%.

SME Finance SBU

The SME Finance SBU specializes in providing comprehensive financial services to small and medium-sized enterprises that have total assets of RMB200 million or less and apply for a line of credit of RMB50 million and less. The SME Finance SBU provides flexible, customized financing solutions designed especially for SME customers, including liquidity loans, bills, international services and advisory services etc., according to their respective financing needs at different stages of development. As of September 30, 2009, the SME Finance SBU had established 14 branch divisions in 14 cities throughout China.

As of September 30, 2009, the SME Finance SBU had a total loan balance of and deposit balance of RMB28.1 billion and RMB18.9 billion, representing an increase of 326.4% and 117.9%, since January 1, 2008, respectively.

On June 30, 2009, the CBRC issued an approval permitting us to set up an independent legal entity to specialize in SME finance business. We are currently in the process of establishing such an entity.

Trade Finance SBU

The Trade Finance SBU specializes in providing import and export trade services, as well as domestic and international trade financing, settlement and other related services. The SBU also focuses on shipping finance, financing for outsourced overseas construction and trade finance for commodities. See "— Our Principal Business Activities — Corporate Banking — Corporate Banking Products and Services — Trade Finance," "— Our Principal Business Activities — Corporate Banking — Corporate Banking Products and Services — Fee and Commission-based Corporate Banking — Settlement Services" and "— Our Principal Business Activities — Corporate Banking — Corporate Banking Products and Services — Fee and Commission-based Corporate Banking — Foreign Exchange Services." As of September 30, 2009, the Trade Finance SBU had established 21 branch divisions and 13 market divisions, as well as a secondary division, the factoring business division.

For the nine months ended September 30, 2009, the Trade Finance SBU had fee, commission and foreign exchange sale and settlement income of RMB681 million. As of September 30, 2009, the Trade Finance SBU had a total RMB-denominated loan balance of RMB3.3 billion and a total foreign currency-denominated loan balance of USD1.5 billion.

Financial Market SBU and Investment Banking SBU

See "— Our Principal Business Activities — Treasury Operations" and "Risk Management — Credit Risk Management — Credit Risk Management for Corporate Loans — Recovery of Problem Loans."

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BUSINESS

Customer Base

We have an extensive customer base in the PRC, particularly in the more economically developed or industrialized cities, such as Beijing, Shanghai, Guangzhou, Shenzhen, Hangzhou, Nanjing, Wuhan and Taiyuan. As of September 30, 2009, we had over 137,000 corporate deposit customers, over 6,000 corporate customers with loans outstanding with us.

Our focus is on developing long-term relationships with, and providing professional and highly tailored and integrated services to, customers which we believe have strong growth potential and with which we believe we can achieve higher risk-adjusted profit. As of September 30, 2009, our major corporate loan customers were mainly in manufacturing, real estate, leasing and commercial services, transportation, storage and post services, and water, environment and public utility management industries, which accounted for approximately 17.3%, 14.8%, 13.6%, 11.7% and 9.3%, respectively, of our total corporate loans at that date. As of September 30, 2009, December 31, 2008, 2007 and 2006, the percentage of interest income attributable to our five largest corporate borrowers and the percentage of interest expense attributable to our five largest corporate depositors were less than 30%, respectively.

The majority of our corporate loan customers are large companies as defined by national standards. However, we have been actively developing our corporate banking business with SMEs, particularly through the establishment of our SME Finance SBU. See "— Our Principal Business Activities — Corporate Banking — Strategic Business Units — SME Finance SBU."

Marketing

We have established an integrated marketing system. Our headquarters develops overall marketing strategies and industry policies, which are implemented by our account managers at our SBUs and branches. Our account managers are responsible for developing and maintaining ongoing relationships with specific customers. They also work together with our product managers who specialize in particular products and services to cross-sell our products and expand our customer relationships. As of September 30, 2009, we had 4,824 employees who have marketing functions. We believe our client-focused account manager system has helped us to identify and target prospective clients and improve the quality of our services.

Retail Banking

Overview

The expansion of our retail banking business is a core part of our growth strategy. We offer a wide range of products and services to retail customers, including loans, deposits, debit cards, credit cards, wealth management and other services. As of September 30, 2009, we had over 267,000 retail borrowers (excluding credit card customers) and approximately 17.8 million retail deposit customers. As of September 30, 2009, the total outstanding loans of our retail borrowers was RMB146.2 billion and the deposit balance of our retail deposit customers was approximately RMB192.6 billion. Our retail banking business contributed 17.7%, 15.9% and 13.9% of our total operating income for the three years ended December 31, 2008, 2007 and 2006, respectively. For the nine months ended September 30, 2009, our total operating income of RMB31.3 billion included a RMB4.9 billion gain on disposal of interest in Haitong Securities. Excluding such RMB4.9 billion gain, our total operating income for the nine months ended September 30, 2009 would have been RMB26.4 billion and retail banking would have represented 13.4% of our total operating income. As of September 30, 2009 and December 31, 2008, 2007 and 2006 and, our retail loans accounted for 16.4%, 16.5%, 17.9% and 14.5%, respectively, of our total loans and our retail deposits accounted

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BUSINESS

for 17.5%, 17.4%, 16.0% and 16.2%, respectively, of our total deposits from customers. See "Description of Our Assets and Liabilities."

Retail Banking Products and Services

Retail Loans

Our retail loans consist primarily of property mortgage loans, individual business loans through our loan product "Shang Dai Tong" (商貸通) and other loans to individuals.

Property mortgage loans. We entered the property mortgage loan business in 1998, and since then, our business has grown substantially, corresponding to the general increase in private home ownership in the PRC. We offer mortgage loans in both the primary and secondary real estate markets. As of September 30, 2009, our total outstanding mortgage loans represented 67.1% of our total retail loans and 11.0% of our total loans. Typically, our mortgage loans have terms of five to 30 years, and we offer both standard fixed and flexible repayment schedules. In addition to traditional mortgage lending services, we have developed various innovative mortgage loan products. For example, we offer an "Open-End Housing Mortgage Loan" service whereby savings, residential mortgage and other loans are combined in a single account and deposit balances above a specified amount can be used to reduce the loan outstanding and therefore increase the credit available to mortgage loan customers. Our "Open-End Housing Mortgage Loan" service was named "The Most Creative Mortgage Product of 2006" by Sina.com.

"Shang Dai Tong" (商貸通) Through our "Shang Dai Tong" (商貸通) brand, we offer individual businesses, small business owners and micro-enterprises a wide array of financial services to support their production or investment operating activities. Such services include RMB-denominated credit extension, settlement, deposit and withdrawal, wealth management, consumer credit, and consulting and financial advisory services. We have an expedited approval procedure for the applicants of "Shang Dai Tong" (商貸通) so that qualified applicants can obtain a loan generally within seven days of their application. Under "Shang Dai Tong" (商貸通), we allow borrowers to provide many different types of collateral and guarantees to secure their loans. As of September 30, 2009, we had an outstanding balance of RMB32.1 billion of "Shang Dai Tong" (商貸通) loans.

Other loans to individuals. We also provide other retail loan products, including automobile loans and consumer loans. We provide other loans to individuals with terms of five years or less for home renovation, purchase of durable consumer goods, education and other purposes. We require guarantees or collateral to secure most of these loans. Our other loans to individuals represent a relatively small portion of our total retail loans.

Retail Deposits

Our retail deposits include demand deposits and time deposits, denominated in both Renminbi and foreign currency. Substantially all of our retail deposits are denominated in Renminbi. As of September 30, 2009, our time deposits and demand deposits accounted for 77.1% and 22.9%, respectively, of our total retail deposits of RMB192.6 billion, which in aggregate represented 17.5% of our total customer deposits.

Debit Cards

We began offering debit card services in 1998. Currently, our debit card products include UnionPay, international, VIP, as well as special feature and co-branded debit cards. Our UnionPay debit cards may be used in 61 countries through our network and the China UnionPay network. Our

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BUSINESS

international debit cards may be used throughout the VISA International bank card network to conduct operations such as ATM enquiries, withdrawals and point-of-sale spending, and cardholders are also entitled to services such as overseas emergency assistance. Our international VIP debit cards are classed into diamond, gold and silver levels, and we provide VIP services to our different levels of customers. From time to time, we also introduce various types of special feature or co-branded cards together with our alliance partners. For example, as the only bank partner of the 11th National Games of the PRC, we have introduced the "Minsheng National Games Card" (民生全運會卡). Cardholders of this type of debit card are entitled to various promotional benefits provided by other cooperating parties. In 2008, our debit cards were granted the "Product Innovation Award" by China UnionPay. As of September 30, 2009, we had approximately 22 million debit cards.

Credit Cards

We have issued credit cards to customers since June 2005. As of September 30, 2009, we have issued a total of 7.2 million credit cards with total accumulated credit card spending reaching RMB181.9 billion. As of September 30, 2009, we had 34 credit card marketing centers located in 28 cities throughout the PRC and close to 3,000 account managers dedicated to the marketing and sales of our credit cards.

We offer both dual-currency and single-currency credit cards, although substantially most of our credit cards are dual-currency credit cards, which primarily include China UnionPay, VISA, MasterCard and JCB brands. To further expand our credit card business and improve our competitiveness, we have developed dual-currency credit cards encompassing currencies such as the Renminbi, US dollar, Euro, British pound, Australian dollar, Canadian dollar and Japanese yen.

We offer regular, gold, platinum, diamond and infinite credit cards. Our credit cards target different customer groups and provide different value-added services. The value-added services we provide primarily include airport VIP lounge access, medical appointments, golf course access, roadside rescue, business travel reservations and personal legal assistance. As of September 30, 2009, we had 24 types of co-branded credit cards, primarily including the Air China Companion Card, AUPRES Products Co-branded Card and Pacific Far Eastern Department Store Co-branded Card. In addition, we also issue credit cards with various themes targeted at different categories of customers, such as the Minsheng ID Card which is targeted at young customers and allows cardholders to personalize the design of their own credit cards, the dual-currency Overseas Student Card which is primarily targeted at our student customers studying abroad and allows cardholders to choose from different currencies, and the Lady Flower Card series which offers cardholders services specially tailored to females.

Income from our credit card business consists primarily of interest income from interest bearing balances, cash advance fees, commissions from merchants and annual fees. For the nine months ended September 30, 2009 and 2008, and year ended December 31, 2008, operating income from our credit card business was approximately RMB1.6 billion, RMB1.1 billion and RMB1.6 billion respectively, and earnings before tax from our credit card business were approximately RMB277 million, RMB88 million and RMB43 million, respectively. As of September 30, 2009, our outstanding credit card advances totaled RMB13.7 billion.

As of December 31, 2008, we have received more than 30 awards from domestic and international credit card organizations, financial industry organizations and the media, among which include the "2007 Credit Card Marketing Excellence Award" by VISA International, the "2008 Best Platinum Credit Card" by MasterCard Worldwide and the "2008 Attractive Design Golden

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BUSINESS

Award" by JCB International. In addition, our Minsheng ID Credit Card and Minsheng Lady Flower Credit Card was awarded the "Most Popular Credit Card Award" in the Wisemoney Financial Management Rankings' ceremony in 2007 and 2008 respectively. The Minsheng Lady Flower Credit Card was named "2008 Women's Most Loved Card" in an event organized by the All-China Women's Federation, Brand China Industry Union and ChinaWomen's News.

Fee and Commission-based Retail Banking Business

We offer a number of fee and commission-based retail banking services, with a strategic focus on wealth management services.

Wealth Management Services. We began our wealth management business under the brand "Favorite Wealth Management" (非凡理财) in 2008. We offer a number of wealth management services and products, including foreign currency wealth management services and Renminbi wealth management services, both aimed at offering our customers a higher rate of return than those received on ordinary savings deposits. In 2008, our "Favorite Wealth Management" (非凡理财) brand was named as one of the "Retail Financial Services Branch of the Year" by CBN in its CBN Financial Value Ranking 2008.

In addition, we offer integrated banking or "VIP" services to our customers whose average quarterly financial asset balances exceed RMB100,000. These services include priority banking services provided by our dedicated customer service representatives, discounted bank charges, insurance, mutual fund and bond brokerage services. We offer additional "VIP" services to our customers whose average quarterly financial asset balances exceed RMB1 million, including value-added wealth management services, airport VIP lounge access, golf club membership privileges and medical and health services. As of September 30, 2009, approximately 331,500 individuals or 1.9% of our retail deposit customers enjoyed access to our "VIP" services.

We established the Private Banking Department in 2008. This department focuses on promoting our private banking brand image among high net worth individuals and increasing our competitiveness in the private banking business. Through our dedicated one-on-one service model, we provide consulting and financial advisory services as well as wealth management products denominated in Renminbi and foreign currencies. The Private Banking Department also offers high-end value-added services to our high net worth customers, such as private medical services and customized travel and private jet services.

Other Services. We offer a number of other fee and commission-based banking products and services to meet the diverse needs of our retail customers, including agency services for a wide range of insurance products and other asset management products, government and corporate bond trading services, foreign currency exchange services, remittances, direct payment services and safe deposit boxes.

In addition, we provide customers of other banks access to our ATMs for a fee. We also offer our retail customers bill payment services for water, electricity, telephone, mobile phone and Internet service bills. In 2002, we launched our "real-time account information" service, which, for a fee, provides real time account information to our clients by sending a short message to their mobile telephones whenever there is a change in their account balances.

Customer Base

As of September 30, 2009, we had approximately 17.8 million retail deposit customers. As of the same date, we had over 267,000 retail loan customers, including individual retail customers, micro-

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BUSINESS

enterprises and individual businesses, of which approximately 23,600 are "Shang Dai Tong" (商貸通) borrowers. As of September 30, 2009, December 31, 2008, 2007 and 2006 and the percentage of interest income attributable to our five largest retail borrowers and the percentage of interest expense attributable to our five largest retail depositors were less than 30%, respectively. We have built a relatively affluent customer base. As of September 30, 2009, we had approximately 71,800 customers with daily average financial assets of RMB500,000 or more and a total deposit balance of approximately RMB103.7 billion, representing 53.8% of our total retail deposits.

To improve our services to retail customers, we have entered into various alliances with other financial institutions to expand our distribution network. In addition to our membership in China UnionPay, we currently have agreements with the branches of a number of banks in Shanghai, Guangzhou, Chongqing, Xi'an, Jinan, Ningbo, Nanjing and Chengdu to provide counter services for cash withdrawal, deposit and/or account inquiry for our debit card customers at these other bank branches. Moreover, we have upgraded our online banking and customer service centers, added more ATMs and opened more banking outlets, which we believe offer greater convenience to customers.

Marketing

We market our retail products and services through our branch and sub-branch network. Our branches and sub-branches are strategically located in regions where our key target customers are located, such as the Yangtze River Delta, Bohai Rim and the Pearl River Delta. In addition to our branch and sub-branch network, we seek to rely on online banking, telephone banking and mobile phone banking extensively to market our products and services. We also advertise our services through television, print and other media and conduct promotional activities on a national or regional basis. In addition, customer service managers in our Retail Banking Department often work with account managers in our Corporate Banking Department to cross-sell our products.

We have a "Favorite Wealth Management" (非凡理財) team that mainly services our VIP customers. The team is made up of more than 800 wealth managers, of which 167 have obtained the Certified Financial Planner certification and 455 have obtained the Associate Financial Planner certification.

We have also built a VIP service system, which effectively integrates our customer services, including our "3+N" VIP service (which consists of the three VIP services of VIP airport lounge services, VIP medical services and golf club membership privileges, together with other medical, restaurant, hotel, travel and lifestyle benefits), customer care and customer feedback services, with the simultaneous marketing of other financial services that we offer.

Treasury Operations

Overview

Our treasury operations primarily consist of money market transactions, investment portfolio management, treasury transactions, notes and debt securities underwriting and trading of bullion and other precious metal, conducted on our account and on behalf of our customers. For the year ended December 31, 2008, our treasury operations accounted for approximately 6.3% of our operating income. Excluding the RMB4.9 billion gain on disposal of interest in Haitong Securities, our total operating income for the nine months ended September 30, 2009 would have been RMB26.4 billion and treasury operations would have represented 13.1% of our total operating income. In September 2007, we transformed our financial markets department into the Financial Market SBU, which is primarily responsible for our treasury operations bank-wide.

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BUSINESS

Money Market Transactions

We generally conduct money market transactions to manage our liquidity. Our money market transactions primarily consist of: (i) short-term borrowings from and lending to other domestic and foreign banks and non-bank financial institutions ("***inter-bank money market activities***"); (ii) sales of securities under repurchase agreements ("***repurchase transactions***"); and (iii) purchases of securities under resale agreements ("***reverse repurchase transactions***"). Most securities underlying our repurchase and reverse repurchase transactions are PRC government bonds. Most of our reverse repurchase transactions have a maturity ranging from one to 14 days from the original purchase date.

Investment Portfolio Management

We invest in debt securities for our own account, including primarily government and quasi-government bonds, financial institution bonds and corporate bonds which accounted for 75.5%, 12.6% and 11.9%, respectively, of our total debt investment portfolio as of September 30, 2009.

In addition to high quality domestic bonds, we also invest in foreign currency bonds. When making our investment decisions, we generally invest in foreign currency bonds with at least an investment grade, i.e. a "BBB" rating by Standard & Poor's or an equivalent rating by another internationally recognized rating agency. Due to the recent global financial crisis, the ratings of certain of the foreign currency bonds we hold have fallen below investment grade. As of September 30, 2009, the foreign currency bonds held by us with a rating lower than investment grade amounted to approximately US\$35 million, representing 3.9% of the total value of our foreign currency bonds. We have made provisions for the potential losses that we may suffer from these foreign currency bonds and have implemented stricter and more specific limits and guidelines in allocating our foreign currency investments than we had previously employed.

We also hold a limited number of derivative financial instruments, including foreign currency interest rate and currency swaps, currency forwards and credit default swaps. A substantial majority of these derivative instruments was contracted to provide hedges to structured deposit liabilities, which are deposit contracts with embedded derivatives of mainly foreign currency interest rate swaps, bond options and currency options. We also conduct spot and forward foreign exchange trading, and enter into foreign currency swap and option transactions. See "Description of Our Assets and Liabilities — Assets — Investment Securities Portfolio."

Treasury Transactions Conducted on Behalf of Customers

Our treasury operations also engage in designing investment products for our corporate and retail customers. For the nine months ended September 30, 2009, we designed and issued 167 products to our clients under the "Favorite Wealth" (非凡財富) brand, including investments in agency planning, bonds, notes and foreign currencies in a combined investment portfolio. In 2008, our product series under "Favorite Wealth" (非凡財富) brand was named as one of the "Best Wealth Management Brands" by 21st Century Business Herald (《21世紀經濟報道》). In 2008, "Favorite Wealth" (非凡財富) was also named as the "Most Influential Brand in Creative Wealth Management in the PRC Banking Industry" in the Ten Most Influential Brands in China Awards (《中國十大影響力品牌》) organized by, among other, the People's Daily (《人民日報》) and the China International Market Association.

Having been licensed as a QDII since September 2006, we have also designed investment products comprising, among others, such as fund portfolios and trust product portfolios, for our customers.

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BUSINESS

Through our treasury operations, we provide currency exchange services between Renminbi and foreign currencies, and trade, on behalf of our customers, spot and forward foreign currency contracts and other financial derivatives. We generally hedge the risks of such transactions by entering into financial derivative instruments on a back-to-back basis in the international market.

Notes and Debt Securities Underwriting

We underwrite notes and debt securities for our clients in the domestic market. As part of our strategic focus, we intend to grow our debt underwriting business. In 2008, the amount of debt finance leasing tools underwritten by us reached RMB31.4 billion, representing an increase of 66.7% as compared to 2007. The securities we underwrote consisted of 17 commercial paper issues and one subordinated bond issue for a total of 15 companies. In the nine-month period ended September 30, 2009, the amount of debt finance leasing tools underwritten by us reached RMB11.4 billion. The securities we underwrote consisted of 11 commercial paper issues, four medium-term note issues and one subordinated bond product issue for a total of 14 companies.

We will continue to expand our underwriting business in commercial paper, medium-term notes and other direct financing instruments. We also seek to expand our city commercial bank and insurance company customer base, by underwriting other types of debt securities, such as subordinated bonds and financial institutional debts.

Trading of Bullion and Other Precious Metal

Bullion trading is also one of our key treasury operation activities. According to the Shanghai Gold Exchange, we were the third largest bullion trader at the Shanghai Gold Exchange in terms of transaction volume for 2008. The total volume of our bullion trading on the Shanghai Gold Exchange increased from 27 tons in 2007 to 206 tons in 2008 including trading for our clients and for our own account. For the nine months ended September 30, 2009, the total volume of our bullion trading on the Shanghai Gold Exchange was 83.5 tons and the total volume of our silver trading was 375 tons.

Other Selected Business

Minsheng Financial Leasing Co., Ltd. and Minsheng Royal Fund Management Co., Ltd. are important elements in the Bank's diversification strategy. The objective of the establishment of these companies is to realize cross-marketing of the Bank's businesses and to develop and provide a more profound level of customer service, thereby providing the Bank with the benefits of integrated operations. Specifically, as Minsheng Financial Leasing Co., Ltd. and Minsheng Royal Fund Management Co., Ltd. strive to become leading enterprises within the industry, the Bank also gradually intensifies its efforts in developing its services. We also invest in township banks, namely the Pengzhou Minsheng Township Bank Co., Ltd. and Cixi Minsheng Township Bank Co., Ltd. both engaged in commercial banking business. Please see "Corporate History and Organizational Structure" for more information.

Financial Leasing. Our subsidiary, Minsheng Financial Leasing Co., Ltd., was established in April 2008. It primarily offers financial leasing for aircrafts, vessels, commercial properties for financial institutions, as well as large-scale facilities.

The financial leasing industry is relatively new in the PRC, and we believe that it provides significant growth opportunities. We believe that we are currently one of the pioneers in the vessel financial leasing market in China. We also believe that we are one of the first banks in the PRC to

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BUSINESS

offer operating leases for executive jet planes. Given our unique position in the financial leasing industry, we believe that we are well-placed to continue our expansion in this industry.

For the nine months ended September 30, 2009, and the year ended December 31, 2008, Minsheng Financial Leasing Co., Ltd. realized revenue of RMB476.5 million and RMB264.7 million, respectively and net profit of RMB148.8 million and RMB77.8 million, respectively.

Investment Fund Management. In November 2008, we founded Minsheng Royal Fund Management Co., Ltd., a Sino-foreign joint venture fund management company, together with the Royal Bank of Canada and Three Gorges Financial Company. Minsheng Royal Fund Management Co., Ltd. was established with a registered capital of RMB200 million, and we hold 60% of the total shares of the joint venture. We expect that our investment fund management business operated by this joint venture will benefit from the international experience of Royal Bank of Canada in professional investment.

For the nine months ended September 30, 2009, and in 2008, Minsheng Royal Fund Management Co., Ltd. realized revenue of RMB22.5 million and RMB0.3 million, respectively and net loss of RMB38.6 million and RMB14.5 million, respectively.

Please also see “Corporate History and Organizational Structure” in relation to our township commercial banking business.

PRICING

Loans

The PBOC regulates prices for certain commercial banking products and services such as our RMB-denominated loans. For RMB-denominated corporate loans and retail loans (other than residential mortgage loans and credit card advances), we are not permitted to set the interest rate lower than 90% of the relevant PBOC benchmark rate, but there has been no upper limit since October 29, 2004. Since October 27, 2008, the lowest interest rate we can charge on residential mortgage loans has been changed to 70% of the PBOC benchmark interest rate of the same term. Since December 1, 1997, the PBOC has set the upper limit on interest rate for credit cards at 18.25%. See “Supervision and Regulation — PRC Banking Supervision and Regulation — Pricing of Products and Services — Interest Rates for Loans and Deposits.” Interest rates for foreign currency-denominated loans are generally not subject to PRC regulatory restrictions, and we are permitted to negotiate the interest rates on such loans.

We price our products based on various criteria, such as the borrower’s risk profile, the value of any collateral provided, the intended use of the loan, market conditions and the term of the loan. We also consider, among other things, the cost of providing the loan, our expected rates of return, the associated risks, general market conditions, our market position, as well as the pricing of our competitors. We have also started to use the fund transfer pricing method to calculate the cost of our funds in connection with credit extension. Based on these considerations, we seek to match risks with returns and are generally able to charge higher interest rates to our customers with higher risk profiles. As interest rates on loans are increasingly liberalized, we expect to rely more on our ability to accurately calculate our expected risk-adjusted return on capital and further differentiate our loan prices based on our internal analyzes.

Deposits

Under current PRC regulations, interest rates on our RMB-denominated demand and regular time deposits cannot be higher than the relevant PBOC benchmark rate. We generally price our

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BUSINESS

demand and regular time deposits at the relevant PBOC benchmark rate. However, we are permitted to provide negotiated time deposits to insurance companies and the SSF. See "Supervision and Regulation — PRC Banking Supervision and Regulation — Pricing of Products and Services — Interest Rates for Loans and Deposits." The PBOC has liberalized interest rates charged for lending and deposits between financial institutions, and we determine such rates based primarily on our assets and liabilities management policies and the market interest rate. In addition, we are permitted to negotiate the interest rate on foreign currency deposits other than those denominated in U.S. dollars, Euros, Japanese Yen and Hong Kong dollars for amounts less than US\$3 million. Interest rates on inter-bank foreign currency deposits and foreign currency deposits by non-PRC residents are generally not subject to PRC regulatory restrictions, and we are permitted to negotiate the interest rates on such deposits.

Fee and Commission-based Business

We generally determine fees and commissions for other products and services based on market conditions, except for Renminbi settlement services which are subject to the PRC government's guideline prices. See "Regulation and Supervision — PRC Banking Supervision and Regulation — Pricing of Products and Services — Pricing for Fee and Commission-based Products and Services."

DISTRIBUTION NETWORK

We deliver our products and services through a variety of distribution channels, including branches, sub-branches, SBUs, self-service banking centers, ATMs, customer service centers and telephone banking, Internet banking and mobile phone banking. As of September 30, 2009, we had 29 branches, 387 sub-branches and a representative office in Hong Kong, 2,695 ATMs and 1,058 CDMs. We also utilize online banking, telephone banking and mobile phone banking to serve our customers.

Branch Network

Most of our branches are organized in a hub and spoke structure, with 29 branches, as of September 30, 2009. As at the same date, we had a total of 387 sub-branches reporting to the branches. Our branches are responsible for operations within a geographical area, such as a province or a major metropolitan area. Each sub-branch covers several geographical sub-areas within a branch's coverage area and functions as a full-service banking outlet for our customers.

As of September 30, 2009, our branches and sub-branches are located in 40 cities throughout strategic locations in China. 148 of our banking outlets were concentrated in four major cities: Beijing, Shanghai, Guangzhou and Shenzhen. We had correspondent banking relationships with over 1,128 banks in over 94 countries and regions as of September 30, 2009. We established a representative office in Hong Kong in early 2004. Our SBUs also have branch divisions throughout the PRC.

Self-Service Banking Centers and ATMs

We believe self-service banking centers and ATMs provide cost-efficient alternatives to branches and sub-branches. As of September 30, 2009, we had approximately 1,600 self-service banking centers and 2,695 ATMs. Our self-service banking centers typically have several ATMs and inquiry machines, and offer withdrawal, account inquiry, bill payment, deposit, passcode changing, foreign currency exchange and/or fund transfer services. Our ATMs and self-service banking centers are situated at various locations, including shopping malls, supermarkets, airports, residential areas,

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BUSINESS

hospitals, schools or on major streets in metropolitan areas, to provide convenient access to our customers and to supplement our branches and sub-branches.

We hold 2.8% of the issued and paid up capital of China UnionPay, which operates the bank card and electronic inter-bank information exchange and transaction network in the PRC. Our membership in China UnionPay significantly broadens our distribution network by allowing our customers to use any ATMs within the network in China and overseas.

Customer Service Centers and Telephone Banking

Our individual branches have been providing telephone banking services since 1999. In 2002, we commenced an initiative to integrate our telephone banking services on a nationwide basis by launching a single nationwide customer service number 95568. We have standardized our services, such as financial and other business enquiries on a 24 hours a day, seven days a week basis.

We currently provide nationwide telephone banking service coverage, which includes both automated voice and teller-operated services. These services include business enquiry, account information checking, inter-account transfers, funds transfers, bill payments, wealth management and appointment bookings.

In April 2008, we launched our "e-Line" (e線通) online customer service system, which allows our customers to contact our customer service representatives via internet voice calling, instant messaging, or by a message through the internet. In May 2009, we launched a dedicated corporate customer service telephone line "4006895568," further upgrading our corporate customer services.

Internet Banking

In 2001, we commenced our internet banking services, which have since then grown rapidly. As of September 30, 2009, we had approximately 2.8 million retail customers and 93,000 corporate banking customers using our internet banking services.

Currently, our corporate internet banking service includes an enquiry version, a standard version and an SME "e-Housekeeper" (e管家) version. These three versions of corporate internet banking service provide approximately 200 functions under ten different service categories, including among others, account enquiry, fund transfer and settlement, integrated wealth management, corporate group services, electronic bills, cash management and internet letter of credit issuance.

Our personal internet banking service includes a mass version and a VIP version, which provide approximately 200 functions under 25 different service categories, including account enquiry, savings, electronic fund transfers, bill payment, funds, government bonds, wealth management, foreign currency exchange transactions, safe deposit boxes and retail loans.

For the nine months ended September 30, 2009 and in 2008, 2007 and 2006 and the total transaction volume through our online banking service was RMB870.2 billion, RMB766.6 billion, RMB470.0 billion and RMB130.8 billion, respectively, for our individual customers and RMB2,598.4 billion, RMB3,711.1 billion, RMB1,652.9 billion and RMB702.2 billion, respectively, for our corporate customers.

We seek to continually enhance the security of our internet banking systems. We actively manage the opening of online banking accounts and ensure that our internet operations strictly comply with our security standards. We maintain the use of third-party digital security certificates, actively conduct searches for phishing websites, and have launched an internet banking

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BUSINESS

transactional risk monitoring platform. Further, we continually publicize internet banking security education, and have added tips on internet transactional risks on our website and internet banking interfaces.

From January 2008, we started providing our customers with "U Key" (U寶), a security token that contains authentication digital certificates. Customers are required to enter a security code generated by this device in addition to their user name and password each time they log onto their online banking account, thereby preventing authentication digital certificates from being duplicated, modified or extracted. In 2008, "U Key" (U寶) was named one of the "Financial Institutions Ten Most Creative IT Examples of 2008" and awarded the "Best Security Performance" prize by the Securities Times (《證券時報》).

In the same year, we were named "Best Online Bank" by the China E-Commerce Association and the China Payment System Research and "Most Trusted Online Bank" by Sina.com.

Mobile Phone Banking

In 2004, we launched our mobile phone banking services, offering five main functions — account enquiry, bill payment, other payment, foreign currency exchange and account management, allowing our customers with mobile phones to access personalized financial services whenever and wherever they want.

In 2002, we launched our instant notification short message service, which timely sends our customers information about any movement of their account balances via a short messaging service. As of September 30, 2009, customers using our short messaging service notification service reached approximately 1.3 million customers.

We believe that we are one of the first banks in the PRC to provide customer service through a wide range of communication channels, including telephone, facsimile, short message service, mobile phone and internet. The use of these multiple channels makes it more convenient for our customers to bank with us and further solidifies our reputation for first-class customer service.

INFORMATION TECHNOLOGY

Our information technology ("IT") systems are integral to many aspects of our business operations, including customer services, transaction processing, risk management and financial management. We believe that the establishment of advanced IT systems that complement our overall business strategies will greatly improve our efficiency, the quality of our customer service, as well as risk and financial management. We have invested and continue to invest heavily in our IT systems. We have recruited global experts such as the Germany-headquartered world specialist provider of business software SAP AG, the France-headquartered global provider of consulting, technology, outsourcing and professional services CapGemini Group and the U.S.-headquartered global management consulting firm Boston Consulting Group, all of which are independent third parties, to work with us to improve our IT systems. We also use a wide variety of well-known brands in our IT systems, including IBM and HP mainframes, Unix operating system, Cisco Systems, Inc. and Huawei network products, SAP and Oracle software and EMC² storage. For nine months ended September 30, 2009 and the three years ended December 31, 2008, 2007 and 2006, our electronic facilities and IT-related expenses were RMB654 million, RMB735 million, RMB598 million and RMB591 million, respectively.

We have begun to roll out our new core banking system in stages in the fourth quarter of 2009. The system is the result of a special project launched with SAP and other IT suppliers to transform our

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BUSINESS

previously accounting-focused system into a business-focused system, to promote our objective to be a customer-focused and process-oriented bank. Since 2004, we have committed to an investment of approximately RMB1 billion on this project and other relevant supporting systems.

Our new core banking system features:

- a suite of SAP and other IT supplier software which have been adapted to our specific operating needs in the PRC but still enables us to benefit from system technologies used internationally;
- a service-oriented architecture that enhances the ability of our business systems to process data and exchange data with each other;
- individual modular software components that can be upgraded independently, thereby increasing the scalability and flexibility of the system;
- applications and templates that standardize the elements that constitute our products and services, for example, contract terms, while allowing for the combination of these elements to provide customized product and service solutions for our customers;
- IT functionalities that are closely aligned with our business unit functions;
- streamlined IT system processes for our product and service development, customization and actual provision that increase the efficiency and scale of our business operations; and
- 162 business modules under 11 system categories, including, but not limited to, customer interfaces, distribution channels, payment, general ledger, finance, risk management, back-office operations and security system categories, covering almost all aspects of our Bank’s business.

Our new core banking system by SAP is expected to greatly enhance our current IT systems through the use of new technologies which will help consolidate our operations and thereby helping us control costs, increase efficiency and improve system and data reliability. We expect the new system will provide us with various business benefits, including:

Customer Relationship

- Improved customer responsiveness, and a more customer-focused transaction processing environment. Our systems now include a specially designed front office system that enables our sub-branch tellers to transfer business processing functions to our back office, thereby allowing such sub-branch tellers to focus mainly on marketing and providing customer service;
- a cross-bank platform that consolidates customer information from our various business systems, providing us with a more unified and comprehensive view of each customer. The application of specialized analytical tools to such information could enhance the customization of our products, improve customer service and increase the effectiveness of our marketing; and
- greater flexibility to adapt processes and business practices to meet customer expectations.

Financial and Risk Management

- Quicker and more comprehensive identification of risks through risk management tools embedded within our business modules;

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BUSINESS

- more comprehensive risk information and increased transparency, thereby allowing us to make better risk management decisions; and
- ability to freely combine or pick out different business unit or geographical reports, thereby providing us with a clearer and more detailed understanding of our financial condition.

Operational and Transactional Management

- Faster and more cost-efficient real-time processing of financial transactions;
- improved understanding of the profitability of our business units and products;
- expansion of our ability to conduct multidimensional analyzes of our operations through having a centralized data source;
- enhanced ability to identify, measure, and manage market and default risk across our Bank;
- provision of financial modeling for our transactional business; and
- improved development and promotion of new products and services using a wide array of distribution channels.

We have adopted a variety of security measures, including, advanced firewall technologies, digital security certificates, intruder detection software and internet security strategies to provide a high level of network security. To enhance the reliability of our operations, we have also established operational disaster recovery centers in Beijing away from our headquarters as well as in Shenzhen to support business continuity in the event of major disruption or failure of our main data centers. The Bank did not suffer any major IT systems failure and related losses during the Track Record Period.

We have an experienced IT team. As of September 30, 2009, we had 407 employees with IT-related positions and responsibilities. Currently, we do not outsource any of our IT development. Instead, we cooperate with external experts to improve our systems, in order to leverage our substantial industry knowledge and ensure best practices can be implemented.

In recognition of our efforts and innovation in our IT systems, we have won a number of awards. In 2008, we received the "2008 Best IT Project Implementation in Information-oriented Systems" award from CIO magazine. In 2008, we received the "Best Informatization Strategy Award" from the CECA National Informatization Evaluation Center ("**NEIC**"). In 2006 and 2007, the NEIC also gave us the "Award for Best IT Governance Among Information-oriented Companies". In 2006, we also received the "Award for Best IT Structure Among Information-oriented Companies". In addition, in 2004, we were recognized as a Computerworld Honors Laureate by the Computerworld Honors Program for our "visionary use of information technology in business". Our case study, detailing our information technology, has been accepted into the Computerworld Honors Program Global Archives which is accessed by researchers, students and scholars in over 100 universities, museums and research institutions around the world.

COMPETITION

We believe that competition in the PRC banking industry is based on the following principal factors:

- the types and sophistication of the products and services offered;

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BUSINESS

- the size and location of the branches and ATM network, as well as the scope of services offered by the branches and ATM network;
- brand recognition;
- service quality; and
- product pricing.

We compete principally with the Large Commercial Banks and the Other Joint Stock Commercial Banks. We also face increasing competition from other industry participants, including city commercial banks and foreign banks with a presence in the PRC, and in particular from other financial institutions that provide wealth management products and services.

Additionally, we may face competition for funds from other forms of investment alternatives as the PRC capital markets continue to develop. See "Banking Industry in the PRC—Current Competitive Landscape" and "Risk Factors—Risks Relating to the Banking Industry in the PRC—The increasingly competitive nature of the PRC banking industry, as well as competition for funds which may arise from the developing PRC capital market, could materially and adversely affect our business, financial condition, results of operations and prospects."

EMPLOYEES

As of September 30, 2009, and December 31, 2008, 2007 and 2006 we had 21,020, 19,853, 17,766 and 13,831 regular employees, respectively. The table below includes a breakdown of all our regular employees by function as of September 30, 2009:

	<u>Number of persons</u>	<u>Approximate percentage</u>
Headquarters and Branches		
Corporate banking ⁽¹⁾⁽²⁾	4,824	23.0%
Retail banking ⁽¹⁾⁽²⁾	10,866	51.7%
Treasury operations ⁽¹⁾⁽²⁾	219	1.0%
Finance and accounting	2,017	9.6%
Risk Management internal audit, and legal and compliance	1,492	7.1%
Information technology	407	1.9%
Management ⁽³⁾	281	1.3%
Others ⁽⁴⁾	914	4.4%
Total	<u>21,020</u>	<u>100%</u>

Notes:

- (1) Includes account managers at branches, sub-branches and our headquarters.
- (2) Includes our employees at the SBUs.
- (3) Includes our bank presidents, branch presidents, headquarters general managers, deputy general managers, general manager assistants and other members of our senior management.
- (4) Includes human resource, administrative and support staff, as well as employees with business management, customer service and product development functions.

We believe we have a young work force, with more than 60% having bachelor's degrees and more than 11% having masters or higher level degrees. As of September 30, 2009, the average age of our regular employees was 31.

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BUSINESS

We believe we are an employer of choice in the PRC banking industry and in 2005, we were ranked by The Chinese Banker («銀行家») magazine as first among commercial banks in the PRC in terms of human resource competitiveness. We have been able to attract and retain high-quality employees and have had a relatively low employee turnover. For the year ended December 31, 2008, our annual turnover rate was 5.0%. We have established effective employee incentive schemes to correlate the remuneration of our employees with their performance, and have established a performance-based incentive system. Performance awards, when granted, may account for up to 70% of the employee's total compensation, depending on the employee's position and assessed performance. We participate in various defined contribution benefit plans organized by the municipal and provincial governments, including retirement, medical, industrial injury and unemployment insurance plans, as well as housing funds. We also provide top-up medical insurance and corporate annuity plans for our formal employees.

We have established a sophisticated training system and encourage our employees to attend various professional training. In addition, we have sought to effectively integrate our employees' training development as part of their personal career advancement. Currently, we have developed close to 300 training courses targeted at different audiences, including overseas training, advanced professional training and general training. We have gradually expanded the scope of our employee training over the years. In 2008, we conducted 29 bank-wide training sessions participated by approximately 18,000 employees and had close to 1,000 training sessions organized by our branches and SBUs.

We have not experienced any strikes or other material labor disturbances that have interfered with our operations, and we believe our management, the labor union and employees have maintained good relationships with each other.

PROPERTIES

Our head office is located at No. 2 Fuxingmennei Avenue, Xicheng District, Beijing, China. As of September 30, 2009, we owned 177 properties and leased 1,025 properties in the PRC. In addition, we owned a property in Japan and leased a property in Hong Kong.

Owned Properties

As of September 30, 2009, we owned and occupied 177 properties in the PRC with an aggregate GFA of approximately 289,022.0 sq.m. Among the 177 properties, 101 owned properties with an aggregate GFA of 253,471.9 sq.m. are commercial properties used as office or business premises, and 76 properties with an aggregate GFA of 35,550.1 sq.m. are residential properties. In addition, we owned a property with a GFA of approximately 1,315.6 sq.m. in Japan.

Among our 177 owned properties, we have not obtained the relevant building ownership certificates and/or land use rights certificates for 28 properties with a GFA of approximately 42,226.1 sq.m., accounting for 14.6% of the aggregate GFA of our owned properties. Of these properties, ten are residential premises and 18 are commercial properties, including office and business premises.

- We have obtained the relevant building ownership certificates and administrative allocated land use rights certificates in respect of two commercial properties and three residential properties with an aggregate GFA of approximately 5,296.7 sq.m. representing 1.8% of the aggregate GFA of the properties that we currently own. We have been advised by Grandall Legal Group (Beijing), our PRC legal advisors, that we can legally occupy, use and lease the above properties, but our rights to mortgage, transfer and dispose of the

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BUSINESS

properties are restricted unless we obtain the granted land use rights certificates by paying the relevant land premium. We currently have no plans to mortgage, transfer or dispose of these properties and accordingly, we are not required to pay the relevant land premiums. We are unable to ascertain the relevant land premiums until, and if, we apply for rights to mortgage, transfer and dispose of the properties. However, we believe that the payment of any such land premiums, if required, will not have a material effect on our financial condition or results of operation.

- We have obtained the building ownership certificates, but have not obtained the land use rights certificates, in respect of four commercial properties and one residential property with an aggregate GFA of approximately 6,372.99 sq.m., representing 2.2% of the aggregate GFA of properties that we currently own. We have been advised by our PRC legal advisors, that (i) we can legally occupy, use and lease the above properties, but our rights to mortgage, transfer and dispose of the properties are restricted unless we obtain the granted land use rights certificates; and (ii) there are no material legal impediments for us to obtain the relevant land use rights certificates. We currently have no plans to mortgage, transfer or dispose of these properties and accordingly, we are not required to pay the relevant land premiums. We are unable to ascertain the relevant land premiums until, and if, we apply for rights to mortgage, transfer and dispose of the properties. However, we believe that the payment of any such land premiums, if required, will not have a material effect on our financial condition or results of operation. We are also in the process of applying for the relevant land use certificates.
- We have not obtained the building ownership certificates and land use rights certificates in respect of 12 commercial properties and six residential properties with an estimated aggregate GFA of 30,556.42 sq.m. representing 10.6% of the aggregate GFA of properties that we currently own. Of these properties, (i) we purchased four properties with an aggregate GFA of approximately 4,081.52 sq.m. in recent months and are in the process of obtaining the relevant title certificates; (ii) we have not obtained the relevant title certificates for two properties with an aggregate GFA of approximately 3,000.02 sq.m. due to problems with the developers, which we have now settled; (iii) we purchased one property, a portion of a building, with a GFA of approximately 13,240.35 sq.m. from a state-owned enterprise and expect to be able to obtain the relevant title certificate for such property after the seller obtains the title certificates in respect of the whole building; and (iv) we are currently in the process of obtaining the relevant title certificates for the remaining six commercial properties and five residential properties, which represent only 3.5% of the aggregate GFA of our owned properties. We have been advised by our PRC legal advisors, that there are no material legal impediments for us to obtain the relevant title certificates. While we are using our best endeavours to obtain the relevant title certificates for all the commercial properties, we are unable to ascertain when the relevant authorities will grant us the relevant title certificates.

We believe that the above 28 defective owned properties are not crucial to, and will not have a material impact on, our Group's operations because: (i) we have obtained the relevant valid building ownership certificates and/or land use rights certificates for majority of our owned properties, accounting for 85.4% of the aggregate GFA of our owned properties; (ii) for 10 of the defective owned properties, we have been advised by our PRC legal advisors that we can legally occupy, use and lease the properties and therefore there is no impact on our operations; (iii) for the remaining 18 properties, six are residential properties, 12 are commercial properties for which we are currently in the process of obtaining the relevant title certificates; and (iv) if necessary, we would be able to

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BUSINESS

replace these properties with comparable alternative buildings without any material adverse effect to our Group's operations.

Properties under Construction

As of September 30, 2009, we held two properties under construction in the PRC, for which we have obtained the relevant construction-related permits as required by PRC laws for the two properties.

Property Contracted to be Acquired

We have entered into agreements with some real estate developers or sellers to purchase a parcel of land with a site area of 5,058.4 sq.m. and seven properties with an estimated aggregate GFA of 155,927.78 sq.m. As of September 30, 2009, the properties above are vacant or under construction and the ownership to such properties has not been transferred to us, so Jones Lang LaSalle Sallmanns Limited has attributed no commercial value to these properties.

Leased Properties

As of September 30, 2009, we leased 1,025 properties with an aggregate GFA of 634,158.51 sq.m. in the PRC. Of these leased properties, an aggregate GFA of approximately 627,442.09 sq.m. is mainly used as office or business premises of the branches and/or self-service banking centers and the remaining 6,716.42 sq.m. are for residential use. In addition, we also leased a property in Hong Kong with a GFA of 294 sq.m. for office purposes.

Of those 1,025 leased properties, we have not been provided by the relevant landlords with any relevant valid property title in respect of 370 properties, representing an aggregate GFA of approximately 100,854.29 sq.m. Of these properties, eight are residential properties and 362 are commercial properties, including business and office premises and self-service banking premises. As advised by our PRC legal advisors, Grandall Legal Group (Beijing), the validity of the lease agreements of the properties will not be affected by the fact that valid title documents of the properties have not been obtained.

In addition, as of September 30, 2009, the relevant lease agreements in respect of 994 properties with a GFA of 606,032.2 sq.m., had not been registered with local authorities. As advised by our PRC legal advisors, the lack of registration of the lease agreements will not affect the validity of such lease agreements. However, relevant PRC authorities are entitled to order us to post register the leasing agreement and may impose penalties (the amount of penalties has not been specified by relevant laws and regulations) on us for such lack of registration.

We believe that the leased properties for which we have not been provided with any relevant valid property title documents and those with unregistered lease agreements are not crucial to, and will not have a material impact, on our Group's operations because (i) we have been advised by our PRC legal advisors that the validity of the lease agreements will not be affected by the fact that valid title documents of the properties have not been obtained or by the fact that the lease agreements have not been registered; and (ii) each of the leased commercial premises is part of our larger network of self-service banking centers and ATMs, branches and offices and we believe that we can relocate to alternative and comparable premises in the nearby vicinity of the relevant property to ensure that our larger network of branches and offices is maintained and our commercial operations will not be affected. We anticipate that there will not be significant practical difficulties in relocating to such premises, especially for the premises occupied as our self-service banking

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BUSINESS

premises. Accordingly, any disruption to the use of these premises is likely to be transient and have minimal impact on our operations and profitability.

TRADEMARKS

We conduct our business under “China Minsheng Bank” and “民生銀行.” Our bank logo, “” has been registered in the PRC with the Trademark Office under the SAIC, and we have also registered the trademarks “” in ten other countries and regions. We are the registered owner of the domain name of our website www.cmbc.com.cn. See “Appendix X — Statutory and General Information — Further Information about Our Business — Our Intellectual Property Rights.”

LEGAL PROCEEDINGS AND COMPLIANCE

Claims and Legal Proceedings

We are subject to certain claims and are a party to a number of legal proceedings arising from the ordinary course of our business. Most of these claims and legal proceedings involve enforcement claims initiated by us to recover repayment of our loans. The claims and legal proceedings against us mainly include actions relating to customer disputes. As of September 30, 2009, we were involved in 67 and 34 outstanding lawsuits as plaintiff and defendant, respectively, with total potential amount of claims of approximately RMB746 million and RMB116 million, respectively. We have been advised by our PRC legal counsel, Grandall Legal Group (Beijing), that none of the legal proceedings to which we are a party, individually or in the aggregate, will have a material effect on our financial condition or results of operations. As of September 30, 2009, we made a provision of RMB5.9 million for our outstanding lawsuits as a defendant. In making such provision, we assessed each of the claims, based on the likelihood of success of each claim as advised by our legal advisors handling such claims.

Allegations from a promoter in relation to a previous share transfer

We note from certain recent press articles that one of the promoters of our Bank (the “Complainant”) has alleged that the Bank unlawfully transferred the Complainant’s promoter shares in our Bank.

The relevant share transfer was made pursuant to a mediation agreement between our Bank and the Complainant, on the settlement of our claim against the Complainant for due and unpaid loan repayments. The relevant share transfer, as well as the qualification of the transferee of such promoter shares, were approved by the PBOC.

The Complainant brought several lawsuits in relation to its allegation in different PRC courts of law, and the decisions by all such courts on the lawsuits support our position that the share transfer was lawful. The Complainant has also applied to the PBOC, the SAIC and the State Council for administrative reconsideration of matters relating to the share transfer. The decisions by all three administrative bodies also support our position.

Our Directors consider that such share transfer is legal and valid. Grandall, our PRC legal adviser, has confirmed such view.

Regulatory Proceedings

We are subject to inspections, examinations, inquiries and audits by PRC regulatory authorities, such as the CBRC, the PBOC, the CSRC, the MOF, the SAIC, the SAFE, the CIRC and tax authorities and

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BUSINESS

their respective local offices. As of the Latest Practicable Date, we were not subject to the audit of the National Audit Office of the PRC.

Administrative Penalties

We have been subject to fines and other penalties as a result of our failure to comply with certain laws and regulations discovered by regulatory inspections and examinations. From January 1, 2006 to September 30, 2009, we were subject to 55 fines, totaling approximately RMB5.8 million. These mainly included fines imposed by the PBOC in relation to non-compliance with respect to reporting requirements for suspicious large RMB amount transactions and anti-money laundering procedures; fines imposed by the CBRC in relation to loans to related parties; fines imposed by the SAFE in relation to non-compliance with relevant regulations when conducting settlement or foreign exchange business and with reporting requirements; fines imposed by tax authorities in relation to late payments; and fines imposed by the MOF in relation to tax and accounting-related review. None of these administrative penalties has resulted in any material adverse effect on our financial condition and results of operations. We have paid all the fines in full and have taken steps to address the issues described above, including increasing awareness of our reformed procedures among our employees by providing more training and emphasizing the importance of legal compliance; improving our measures for managing related party transactions; and reforming our systems to prevent recurrence of non-compliance.

Findings from the CBRC

The CBRC conducts formal and/or informal off-site and/or on-site examinations of our Bank's operations at our headquarters, branches and/or sub-branches on an ad hoc basis throughout each year. The CBRC then issues its findings and recommendation in the following year. For the three years ended December 31, 2008, 2007 and 2006, the CBRC identified certain incidents of non-compliance and weaknesses in our, among other things, business operations, internal audit, internal control and risk management, including weakness relating to our management of related party transactions, concentration of our non-performing loans in the real estate industry, failure to comply with all necessary regulations when issuing and renewing certain loans and the transfer of credit assets. Following these examinations, the CBRC issued certain recommendations requiring us to take measures to prevent and remedy the incidents of non-compliance and improve our internal controls and risk management systems.

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BUSINESS

The following table sets forth all the key recommendations and the corresponding measures we have taken to address those recommendations.

Recommendations	Measures taken by us
that we improve our management of related party transactions and eliminate non-compliant related party loans	improved our measures for managing related party transactions; established a related party information system; and widened the scope for checks on related party transactions to eliminate non-compliant related party loans;
that we strengthen our management and control of credit risks and compliance with loan issuance and renewal regulations	continued to improve our credit risk management systems; further clarified the responsibilities of the general management of our lending business, customer due diligence checks, and credit review and approval; and strengthened our overall credit management, including standardizing our credit granting procedures, improving the quality of the management of our credit checks, credit rating and credit review, enhancing the effectiveness of our risk alerts and strictly enforcing the terms on which credit was granted enhanced the effectiveness of our post-loan disbursement management;
that we strengthen our management of our credit asset transfer business and establish standardised operating procedures for such business	clarified the responsibilities of various departments for management of credit asset transfer business; established and implemented management systems for credit asset transfer business; recovered certain transferred assets; and implemented targeted audit checks on credit asset transfer business
that we strengthen the development and management of wealth management products and improve our management of the legal and reputational risks associated with our sale of wealth management products	strengthened our management, research and market analysis abilities, including establishing a specialist team to evaluate, our wealth management product design; established financial engineering laboratories to enhance our pricing and valuation capabilities; and enhanced our management of wealth management product sales

As of the Latest Practicable Date, we have not received any further comment from the CBRC requiring us to adopt further rectification measures and there have been no subsequent inspections and examinations by the CBRC.

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BUSINESS

Findings from the CSRC

The Beijing branch office of the CSRC (the "**Beijing CSRC**") conducted an examination of our Shanghai Zhongshang Plaza investment project on February 13, 2007. The Beijing CSRC identified certain deficiencies in terms of the approval and disclosure procedures involved in this project. Following the examination, the Beijing CSRC issued certain recommendations, which are set forth in the following table, along with the corresponding measures we have taken to address those recommendations.

Recommendations	Measures taken by us
• that we improve our relevant approval and disclosure procedures	• amended our Articles of Association, our procedural rules for Board meetings and our "Information Disclosure Management Systems" and "Material Information Internal Reporting Systems" in accordance with the newly published rules of the CSRC
• that our Directors, Supervisors and senior management re-report all their related party relationships in the last five years and disclose such information in our annual report in 2006	• submitted report on all related party relationships of the Directors, Supervisors and senior management in the last five years and disclosed such information in accordance with the CSRC requirements
• that our Supervisory Board organize a team to conduct a full audit of the Zhongshan Plaza project and submit the results of the audit to the Beijing CSRC	• engaged PricewaterhouseCoopers to conduct certain agreed-upon procedures regarding the project and submitted the results to the Beijing CSRC
• that we strengthen our capital management and increase our capital adequacy ratio	• strengthened our capital risk management; established a special team to prepare for the implementation of Basel II; conducted a private placement of our A Shares in 2007 and issued hybrid bonds in 2006 and 2009;

As of the Latest Practicable Date, we have not received any further comment from the Beijing CSRC requiring us to adopt further rectification measures and there have been no subsequent inspections and examinations by the Beijing CSRC.

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BUSINESS

Findings from the SAFE

The SAFE conducted on-site examinations at certain of our branches between January and October 2006. The SAFE identified certain incidents of non-compliance with respect to our foreign exchange business, with an aggregate transaction amount of approximately US\$12 million. Following the examinations, the SAFE issued certain recommendations requiring us to take measures to prevent the incidents of non-compliance and to improve the management of our foreign exchange business.

The following table sets forth the SAFE's recommendations and the corresponding measures we have taken to address those recommendations.

Recommendations	Measures taken by us
that we supervise our branches to ensure that the non-compliance incidents are rectified	convened a meeting of our sub-branches' foreign exchange personnel to conduct a factual analysis of the incidents identified in the examination; carried out comprehensive reform of our foreign exchange policies; and established clear requirements for our settlement, sale and payment review processes, key review areas, record-keeping and account management
that we increase our training in respect of foreign exchange management policies, laws and regulations	organized training for all document processing personnel of the relevant branches, focusing on the relevant rules and operational procedures regarding foreign exchange settlement, sale and payment management and training for all staff at the relevant branches on the relevant foreign exchange policies;

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BUSINESS

Recommendations	Measures taken by us
that we strengthen operational risk control and prevent recurrence of non-compliance with foreign exchange rules	reformed our systems in view of the findings by the SAFE and established standardized operational procedures, including establishing foreign exchange policy positions at each branch to monitor policy changes and conduct timely training of foreign exchange policies and guidelines; incorporated foreign exchange business operational error as one of the indicators reviewed by our accounts personnel, thereby emphasizing their accountability for execution of foreign exchange policies and improving compliance; emphasized communication between the sub-branches and operational lawyers to ensure any problems arising out of daily operations can be reported and handled on a timely basis; established weekly meetings to raise any foreign exchange issues and improvement suggestions; and carrying out bank-wide publicity of the relevant incidents to strengthen our bank-wide operational risk control and prevent recurrence of non-compliance with foreign exchange rules

We have taken the steps suggested by the SAFE and believe that we now comply with the relevant rules and regulations. As of the Latest Practicable Date, we have not received any further comment from the SAFE requiring us to adopt further rectification measures and there have been no subsequent inspections and examinations by the SAFE.

Findings from the CIRC

The Guangzhou branch office of the CIRC (the "**Guangzhou CIRC**") conducted on-site examination at our Guangzhou branch in mid-2009. The Guangzhou CIRC identified that certain terms of insurance products published by our Guangzhou branch in an advertisement in the Guangzhou Daily «廣州日報» newspaper on June 18, 2009 was confusing in its comparison of insurance products with bank time deposit products. Following the examination, the Guangzhou CIRC issued certain recommendations to our Guangzhou branch on July 16, 2009, requiring us to improve our internal controls and compliance with relevant laws, regulations and guideline documents, take measures to minimize the negative impact of the advertisement and increase training of our sales agents on laws and regulations, professional ethics and business knowledge to prevent such incidents from recurring.

Following the examination, our Guangzhou branch convened a meeting to request that all relevant departments and sub-branches strictly comply with the relevant regulations of the CIRC and the CBRC as well as our "Notice Regarding Strengthening Management of our

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BUSINESS

Insurance Business Sales and Further Clarification on Related Work Requirements”
《關於加強保險業務銷售管理和進一步明確相關工作要求的通知》。

In respect of the advertisement, we also published an urgent statement in the Guangzhou Daily newspaper on June 25, 2009 to clarify the terms of the relevant insurance products. On July 28, 2009, our Guangzhou branch submitted a report on remedial measures in response to the recommendations to the Guangzhou CIRC on July 28, 2009 and commenced implementing the remedial measures. These include: (i) improving external publicity management operating procedures; (ii) ensuring that all enquiries on the relevant insurance products are directed to our wealth managers who are qualified insurance agents to explain in full detail the terms of such products; (iii) disciplining the relevant employees responsible for the advertisement and conducting corresponding talks with our employees to prevent such incidents from recurring; and (iv) conducting strict review of publicity materials to ensure compliance with the relevant laws and regulations.

As of the Latest Practicable Date, we have not received any further comment from the CIRC requiring us to adopt further rectification measures and there have been no subsequent inspections and examinations by the CIRC.

Save as disclosed above, we have not received any recommendation from any other regulators in the PRC in respect of our main operating business. We do not believe that the relevant PRC regulatory authorities' findings described above revealed any material deficiencies in our internal controls and risk management systems. To the extent that any of the findings did suggest any such deficiencies, we believe we have taken the necessary steps to correct them. Furthermore, we have reported the status of our implementation of these remedial measures to the relevant regulatory authorities following the inspections by such authorities. None of these findings and administrative penalties has resulted in any material adverse effect on our financial condition or results of operations. We have been advised by Grandall Legal Group (Beijing) that, as of the date of this document, nothing has come to their attention that would indicate that the relevant PRC regulatory authorities will impose any further administrative penalties in relation to these incidents. See "Risk Factors — Risks Relating to Our Business — We are subject to PRC regulatory requirements, and our failure to fully comply with such requirements could materially and adversely affect our business, financial condition, results of operations and our reputation."

Compliance

We have not fully followed the following regulatory guidelines or provisional rules of the relevant PRC authorities:

- On June 27, 2006, the CBRC issued the Guidelines on Internal Audit for Banking Financial Institutions (銀行業金融機構內部審計指引), which became effective on July 1, 2006. Pursuant to the guidelines, banks are required to have an internal audit department with employees with certain qualifications, whose number shall in principle represent 1% of the bank's total number of employees. As advised by our PRC legal advisors, Grandall Legal Group (Beijing), such guideline does not specify any penalties or disciplinary measures for non-compliance with the 1% requirement or any expected timeframe for compliance, and the 1% requirement is not mandatory. As of September 30, 2009, we had 115 internal audit employees, representing 0.5% of our total number of employees. Although the 1% requirement set forth in the guidelines was not met, we believe that the combined use of measures such as establishing IT business processes controls and on-site and off-site audits by the current number of our internal audit employees has fulfilled our risk

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BUSINESS

management demand. We currently do not intend to recruit more audit staff but may recruit more internal audit employees in accordance with the need of our business expansion.

- Pursuant to the Corporate Governance Guideline (股份制商業銀行公司治理指引) issued by the CBRC on June 4, 2002, senior management should comprise at least one-quarter but not more than one-third of the board of a joint stock commercial bank. Such requirement is not mandatory and the guideline does not specify any penalties or disciplinary measures for non-compliance. Our Articles of Association provide that at least two Directors should be our senior management members. We currently have 18 Directors, two of which are also our senior management members pursuant to our Articles of Association. Our Articles of Association and the appointment of our Directors and senior management were approved by the CBRC. We believe that the composition of our Board meets our current corporate governance needs and will increase the number of directors who are senior management only if mandatorily required by the CBRC.
- In addition, as of September 30, 2009, we did not comply with certain requirements of the Core Indicators (Provisional) (商業銀行風險監管核心指標(試行)), including the requirements regarding the loan-to-deposit ratio and the core liabilities ratio. According to the Core Indicators (Provisional), the CBRC may issue risk alerts to banks based on their analysis of data submitted by the commercial banks.
 - With regards to the loan-to-deposits ratio, we received a notice issued by the CBRC — "CBRC Notice Regarding the Current Adjustment of Certain Credit Regulatory and Supervisory Policies to Promote Stable Development of the Economy" 《中國銀監會關於當前調整部分信貸監管政策促進經濟穩健發展的通知》 on January 10 (the "**CBRC Notice**"), 2009. The notice permits certain banks which meet capital adequacy requirements and have good coverage ratios to appropriately exceed the loan-to-deposit ratio in 2009. Since March 2009, our loan-to-deposit ratio has exceeded the 75% loan-to-deposit ratio requirement. We report our loan-to-deposit ratios to the CBRC on a monthly basis and as of the Latest Practicable Date, we have not been notified by the CBRC that the CBRC Notice is not applicable to us, nor have we been notified of any potential penalties or subject to any actual penalties for exceeding the 75% requirement. We intend to adjust our ratio in accordance with the then effective requirements of the CBRC applicable to us or as specifically required by the CBRC after 2009 by slowing down the growth of our loans. While we are encouraged to follow the Core Indicators (Provisional), our PRC legal advisors, Grandall Legal Group (Beijing), have confirmed that the provisional rules do not specify any penalties for non-compliance.
 - With regards to the core liabilities ratio, as disclosed in the section "Supervision and Regulation — PRC Banking Supervision and Regulation — Other Operational and Risk Management Ratios", the Core Indicators (Provisional) promulgated by the CBRC is being implemented on a trial basis. We currently do not comply with the core liabilities ratio as to do so would require us to increase our core liabilities, mainly time deposits with maturities of three months or longer, or issue debt securities. The increase in time deposits is mainly dependent on our customers' decisions and the issue of debt securities requires CBRC's approval. As of the Latest Practicable Date, though our PRC legal advisors, Grandall Legal Group (Beijing) have confirmed that the core liabilities ratio requirement is not currently mandatory, we do not know when the requirement will officially and mandatorily be implemented and we have not been

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BUSINESS

notified of any potential penalties or been subject to any actual penalties for non-compliance. See "Supervision and Regulation — PRC Banking Supervision and Regulation — Other Operational and Risk Management Ratios."

Our Directors have confirmed that none of the above non-compliance has any material adverse effect on our business and financial condition. Save as disclosed in the section headed "Supervision and Regulation — PRC Banking Supervision and Regulation — Other Operational and Risk Management Ratios" and "Supervision and Regulation — PRC Banking Supervision and Regulation — Corporate Governance — Internal Controls" in this document, and according to the legal opinion issued by our PRC legal advisors, Grandall Legal Group (Beijing), as of the Latest Practicable Date, we have complied with the relevant PRC regulatory requirements in all material respects and obtained all permits and licenses necessary for our operations. We have adopted, among others, the following measures to enhance our on-going compliance with the relevant regulatory requirements:

- We have established legal affairs and compliance departments at our headquarters and at 21 branches, other branches have also established departments with risk management functions which are responsible for carrying out legal affairs and compliance duties. One of the responsibilities of the departments is to monitor any change in the relevant laws, regulations and policies applicable to us. The Legal Affairs and Compliance Department at our headquarters is responsible for the preparation of our internal rules and regulations in accordance with the latest requirements of the applicable laws, regulations and policies. Our departments with legal affairs and compliance functions are also responsible for monitoring the implementation of such internal rules and regulations from time to time. As of September, 2009, we had approximately 110 employees who specialize in legal affairs and compliance work.
- We have maintained the effectiveness of our compliance internal controls and risk management system by establishing comprehensive policies, mechanisms and procedures, as well as independent internal audit departments. See "Risk Management — Overview." In particular, our departments with legal affairs and compliance functions at our headquarters and branches are responsible for addressing compliance issues discovered by our internal audit department, the CBRC and other PRC regulators.
- We periodically conduct compliance training on a bank-wide basis to strengthen our employees' awareness on compliance issues. We also treat compliance results as one of the performance criteria in evaluating our employees.

SPECIAL INCIDENTS

We and other commercial banks in the PRC have been, from time to time, subject to fraud and other misconduct committed by the employees, customers and other third parties. For example, in January 2006, the former deputy manager of the corporate banking department of the Jing Shi Lu sub-branch of our Jinan Branch was detained by the police for allegedly misappropriating customers' deposits and committing fraud and forgery in inducing a corporate customer to transfer funds to accounts designated by such deputy manager. In connection with such misconduct, the corporate customer and five individual customers brought claims against us, which involve approximately RMB57 million. In December 2006, we reached a settlement with the plaintiffs and paid them approximately RMB10 million in aggregate for the settlement. We also dismissed the former deputy manager as a result of this incident. We have dealt strictly with the perpetrators to

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BUSINESS

the extent of our authority and adopted tailored corrective measures as necessary to address any operational or internal control-related weaknesses evidenced by these cases.

We have also taken a series of measures to enhance our internal controls to avoid future occurrences of similar incidents. For example, we have implemented a policy requiring report of suspicious activities of employees. The policy requires our employees to report certain suspicious activities of other employees to the relevant staff of our discipline monitoring department and other relevant departments. We will conduct further investigation with respect to the relevant employee(s) and the suspicious activities and provide guidance to the relevant employee(s). We may assign the relevant employee(s) to other position(s) according to the investigation results. We currently have separate departments responsible for the investigation, approval, monitoring and collection of loans and have strengthened our account management and internal audit system to prevent the misappropriation of client account details. We also currently have separate officers responsible for handling account statements and signature cards of our customers, to which we restrict access by our account managers. We have also imposed stricter procedures in approving fund transfers. See "Risk Management — Credit Risk Management."

We believe that the financial losses and other negative factors resulting from these irregular incidents have not resulted in, either individually or in aggregate, any material adverse effect on our business, financial condition and results of operations. None of our Directors, Supervisors or members of our senior management was involved in these incidents. We have continued to strengthen our internal controls and risk management system to prevent such kind of incidents from recurring in the future. See, however, "Risk Factors — Risks Relating to Our Business — We may not be able to detect and prevent fraud or other misconduct committed by our employees or third parties."

In addition, we have established procedures in place for the monitoring and handling of negative reports in the media regarding our employees or incidents of non-compliance with any regulations. This includes a news affairs monitoring and assessment team that collects news at least twice a day from various media sources to ensure timely responses to material negative reports when they are published. We take negative reports seriously and have personnel assigned to identify material negative reports daily. We then analyze the relevant facts to verify the accuracy of such reports and to determine an appropriate response if necessary. Where the report is found to be incorrect and material, we will promptly contact the publisher of such report to point out the inaccuracy of the report and to request that the publisher to rectify such article to minimize any further negative impact. See, however, "Risk Factors — Risks Relating to Our Business — Our business, financial condition, results of operations and prospects and the value of your investment may be materially and adversely affected as a result of negative media coverage relating to us, our personnel or the PRC banking industry."

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RISK MANAGEMENT

OVERVIEW

We are subject to a number of risks, principally credit risk, market risk, liquidity risk and operational risk. Our objectives in risk management include the following:

- pursue growth while maintaining prudent risk management;
- establish and continue to improve an integrated risk management system that is in compliance with applicable regulatory requirements; and
- protect the long term interest of our shareholders, customers and employees.

We plan to continue to enhance our risk management organizational structure, improve our risk management policies mechanism and procedures and implement advanced risk measurement and management tools in order to effectively manage risk. To achieve our objective, we have undertaken, or have plans to undertake, various initiatives, including the following:

- Optimizing our risk management organizational structure and clarifying the allocation of risk management responsibilities of our respective levels and internal subdivisions, including:
 - clearly defining the allocation of responsibilities between the Board and the senior management so that the Risk Management Committee and the other relevant committees of the Board, the Risk Management Commission and the Assets and Liabilities Management Commission of the senior management and other relevant departments can perform their respective risk management responsibilities;
 - establishing a multi-layered risk management system consisting of “three lines of defense,” which includes our operating units (including our departments, SBUs and branches), risk management function departments and independent internal audit departments. See “— Risk Management Structure — Multi-layered Risk Management System”; and
 - clearly defining the vertical reporting procedures of each specialized management commission and department and implementing a vertical and independent oversight.
- Establishing customer-focused risk management policies, mechanisms and procedures, including:
 - having the Risk Management Commission formulate credit policy guidelines for our Bank, the SBUs and the branches on an annual basis and provide guidance on credit granting direction for the year, thereby reducing the possibility of involvement with high risk industries or customers;
 - separating the loan origination, credit approval and post loan disbursement processes to increase the specialization of these functions, as well as to maintain internal checks and balances;
 - establishing clear credit approval limits which reflect the risk management capabilities of the various levels within our organization;
 - aligning our risk management innovation with our product innovation, such that our risk management teams participate in, and provide suggestions during, the early development process for products and services, and simultaneously design complementary risk management procedures and requirements, which will be applied to these new products and services; and

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RISK MANAGEMENT

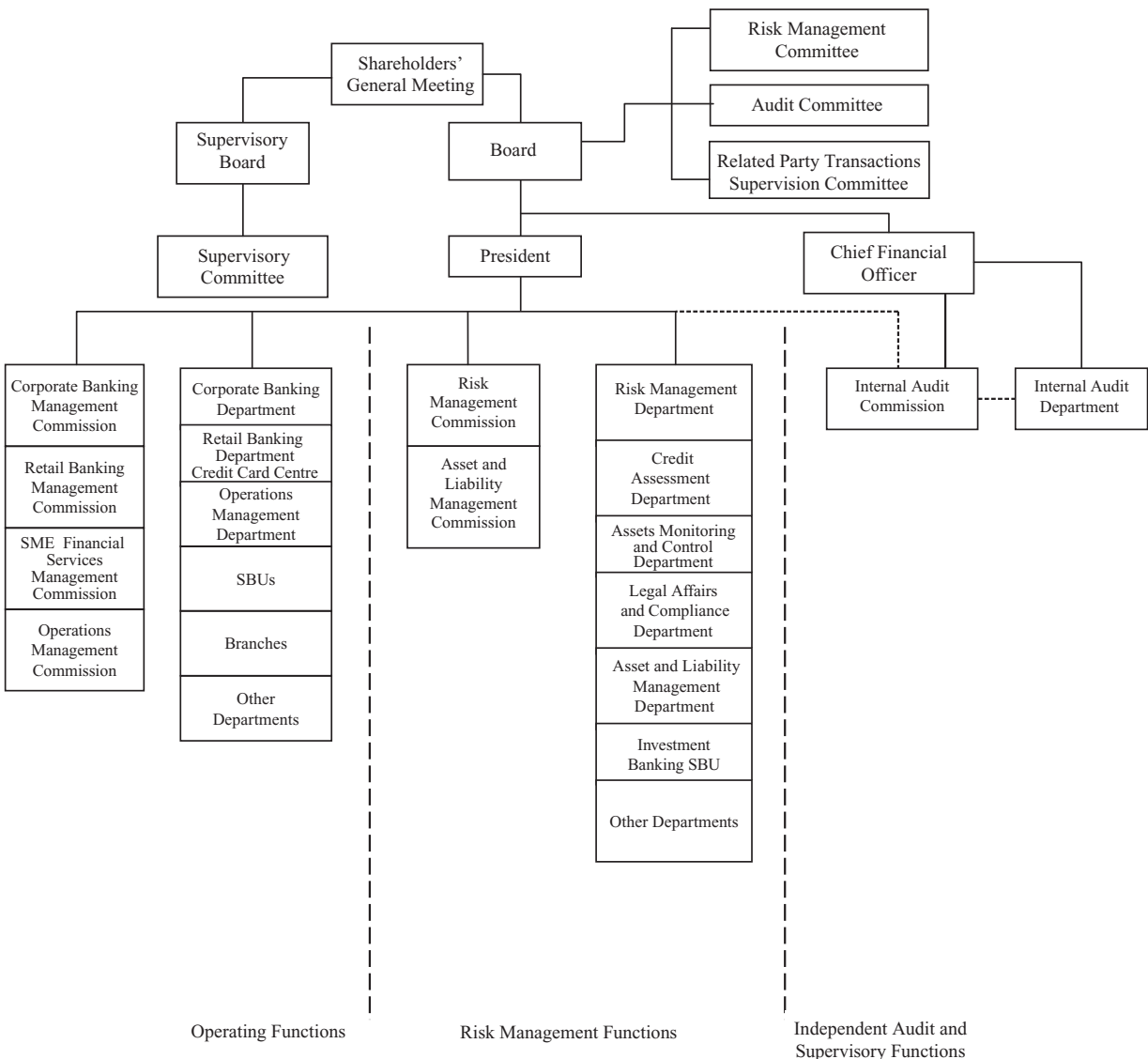
- continuously improving our risk management processes and credit risk assessment methods;
- Utilizing advanced information technology systems and sophisticated risk management tools, including:
 - reducing operational risks, monitor credit risks, market risks and liquidity risks in real time and enhance our ability to develop products and services with lower risks utilizing the operating and financial data collected and analyzed by the new core system;
 - expanding our use of Fund Transfer Pricing (or FTP) through which we can conduct in-depth analysis of our operating and financial data and adjust the internal pricing of various products to better control and manage market risk and liquidity risk;
 - conducting more comprehensive analysis with respect to interest rate sensitivity and liquidity shortfalls by using our asset and liability management system. The system enables us to forecast the impact of cashflow fluctuation and interest rate variation and adopt more market risk management strategy accordingly; and
 - developing risk management models with respect to the extension of credit to SMEs and micro-enterprises;
- Promoting a corporate culture that emphasizes prudent risk management, including:
 - emphasizing our principles of professionalism and specialization, and encouraging each employee to produce high-quality work, thereby reducing operational risk;
 - conducting bank-wide risk management training for all employees to strengthen our employees' risk management awareness and capabilities in performing their daily work, as well as enabling them to more easily identify and manage the risks that we face; and
 - including stringent risk management capability as an important performance criterion in our evaluation of our operating units, thereby instilling responsibility for risk management from the basic operational levels of the Bank upwards.

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RISK MANAGEMENT

RISK MANAGEMENT STRUCTURE

The following chart sets forth our multi-layered risk management structure.



Note:

The Internal Audit Department reports to the Internal Audit Commission only on major internal audit matters for the commission. Likewise the Internal Audit Commission reports to the President only on such matters.

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RISK MANAGEMENT

Board and its Committees

The Board has ultimate responsibility for our risk management, including formulating our risk management strategies and policies and establishing our overall risk tolerance levels. The Risk Management Committee, the Audit Committee and the Related Party Transactions Supervision Committee assist the Board in performing its risk management functions.

Risk Management Committee of the Board

The Risk Management Committee of the Board is responsible for advising on our overall risk management, monitoring risk controls as well as for evaluating our overall risk exposure. It is also responsible for risk management research and planning. The Risk Management Committee has five members: Mr. Wang Yugui and Mr. Wang Hang, our non-executive directors, Mr. Wang Lianzhang, our independent non-executive director, Mr. Wang Songqi, our independent non-executive director and Mr. Liang Yutang, our executive director. Mr. Wang Songqi currently serves as the Chairman of the Risk Management Committee. The Risk Management Committee convenes regularly each year, and more frequently if necessary to discuss significant issues relating to risk management.

Audit Committee and Related Party Transactions Supervision Committee

We have established an Audit Committee and a Related Party Transactions Supervision Committee, both of which report to the Board. See “Directors, Supervisors, Senior Management and Staff — Board Committees” for a detailed description of the responsibilities of these committees.

Supervisory Board and Supervisory Committee

The primary responsibilities of the Supervisory Board are monitoring the actions taken by the Directors and senior management in the performance of their respective duties for legal and regulatory compliance, examining our financial and accounting affairs and supervising our operational decisions, risk management and internal controls. The Supervisory Board meets at least once every six months. The Supervisory Committee is controlled by the Supervisory Board and routinely assists the Supervisory Board in discharging its duties. The Supervisory Committee consists of seven members: Mr. Qiao Zhimin, Mr. Xing Jijun, Mr. Lu Zhongnan, Ms. Xu Rui, Mr. Wang Liang, Mr. Chen Jinzhong and Ms. Wang Lei, with Mr. Qiao Zhimin as the Convener of the Committee. See “Directors, Supervisors, Senior Management Staff — Supervisors” for a detailed description of the responsibilities of the Supervisory Board.

Multi-layered Risk Management System

We have established a multi-layered risk management system composed of “three lines of defense,” which includes our operating units (including our departments, SBUs and branches), risk management function departments and independent internal audit departments.

The operating units, including the departments, the SBUs and the branches, serve as the first line of defense for risk management. At their respective levels, they undertake risk management in the course of their operations in accordance with our risk management policies and requirements.

Each of our SBUs has established its own risk management division to focus on specific risks relating to its business. These risk management divisions report to the relevant risk management departments at our headquarters. Our Risk Management Commission assigns a chief risk management officer to each of the SBUs to manage the risk with the risk management divisions

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RISK MANAGEMENT

of the SBUs. The chief risk management officer reports to the head of the SBU as well as separately to the Risk Management Commission.

We believe that the establishment of the SBUs and their respective risk management division has enhanced our bank-wide risk management function. The risk management division of a SBU has the expertise to assess the risks associated with the relevant industry, client type or product, thereby improving the quality and accuracy of the risk evaluation. One important criterion of the internal appraisal of a particular SBU's performance is the effectiveness of its risk management function. As a result, the staff of each of the SBUs have a strong incentive to implement and operate a robust risk management function. In addition, the SBUs' risk management divisions cooperate closely with their respective chief risk management officers to ensure effective risk management.

The risk management departments within the branches are responsible for assessing the implementation of the risk management policies and providing suggestions for improvement. It reports to both the headquarters and the branch monthly or when serious problems arise. The key responsibilities of these departments include risk management responsibilities such as preliminary credit reviews and approvals for low-risk loans, loan disbursement examination, post-loan management, and legal affairs and compliance.

The Risk Management Department at our headquarters serves as the second line of defense. It is responsible for determining risk management and policies, mechanisms and procedures, and supervision and enforcement. In addition, it is responsible for developing our risk management systems.

The Internal Audit Commission and the internal audit department(s) serves as the third line of defense, the Internal Audit Commission and the internal audit department(s) conduct independent audit and monitoring and provides follow-up risk management assessment feedback evaluations.

Commissions at the Senior Management Level

Risk Management Commission

The Risk Management Commission is responsible for detailed matters of our overall risk management and internal control, including formulating our bank-wide risk management strategies and policy guidelines. The Risk Management Commission reports to the President and the Risk Management Committee of the Board. The risk management strategies and policy guidelines formulated by the Risk Management Commission are reviewed by the President and submitted to the Risk Management Committee of the Board for its approval. The Risk Management Committee of the Board may then submit the risk management strategies and policy guidelines to the Board in situations where the Risk Management Committee believes it is appropriate to do so. The Risk Management Commission supervises the implementation of our risk management strategies and policy guidelines by the branches, the SBUs and operating departments, analyzes our risk exposure and oversees our risk management functions.

The Risk Management Commission is chaired by one of our vice-presidents who is responsible for risk management work. The other members of the Commission consist of the heads of each of the following departments: the Risk Management Department, the Credit Assessment Department, the Assets Monitoring and Control Department, the Legal Affairs and Compliance Department, the Asset and Liability Management Department, the Finance and Accounting Department, the Internal Audit Department, the Corporate Banking Department, the Retail Banking Department, the Operations Management Department and the Development Planning Department. The Risk Management Commission meets at least once every quarter to review and discuss the previous

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RISK MANAGEMENT

quarter's risk reports, before reporting risk management issues to the Risk Management Committee. The Risk Management Commission also holds ad hoc meetings as necessary.

Asset and Liability Management Commission

The Asset and Liability Management Commission is responsible for managing the scale and composition of our assets and liabilities, our capital and capital adequacy ratio, interest rate risk, exchange rate risk and liquidity risk in accordance with regulatory requirements and our internal requirements. The Asset and Liability Management Commission is responsible for monitoring our on- and off-balance sheet assets and liabilities in order to ensure that we maintain adequate levels of liquidity. It is also responsible for pricing our assets and liabilities and adjusting our internal transfer pricing to achieve an appropriate balance between our assets and liabilities.

The Asset and Liability Management Commission is chaired by one of our vice-presidents and comprises nine members, including various experts such as risk management experts, and capital and pricing experts. The Asset and Liability Management Commission generally meets once every month.

Risk Management Related Departments

Various departments implement risk management functions under the supervision of our senior management and its commissions.

Risk Management Department

The Risk Management Department is responsible for coordinating the Bank's overall risk management work. It undertakes the secretarial duties of the Bank's Risk Management Commission, it is also responsible for risk management planning, policy setting, research and analysis, risk measurement technical support, risk management process quality control evaluation, risk-related office management and results evaluation.

Credit Assessment Department

The Credit Assessment Department is responsible for review and approval of our corporate credit business. It is also responsible for formulating and implementing credit policies, procedures and assessment standards, as well as product risk management for our businesses bank-wide.

Assets Monitoring and Control Department

The Assets Monitoring and Control Department formulates and implements our credit assets risk monitoring and control system and its operating process within our organization. In doing so, the Assets Monitoring and Control Department monitors, analyzes, evaluates and reports on the operational and risk situation of our accumulated credit assets bank-wide.

Legal Affairs and Compliance Department

The Legal Affairs and Compliance Department is responsible for guiding, monitoring, investigating, analyzing and evaluating our legal and compliance risks, as well as reviewing legal compliance risks of major systems and products. It is also responsible for education and training on our legal compliance culture. The Legal Affairs and Compliance Department draws up, and organizes the implementation of, the Bank's legal compliance risk management (including anti-

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RISK MANAGEMENT

money laundering) control policies, in accordance with the requirements of law, regulations and regulatory policies as well as the business development needs of our Bank.

Asset and Liability Management Department

The Asset and Liability Management Department is responsible for managing the scale and structure of our assets and liabilities, monitoring relevant liquidity and market risk indicators and implementing strategies to reduce our liquidity and market risks.

Other Departments

In addition to the departments listed above, other departments such as the Investment Banking SBU, Information Management Center and Technology Development Department assume risk management roles within their respective areas.

CREDIT RISK MANAGEMENT

Our credit risk arises principally from our activities relating to our loan and investment portfolios, and it is realized when a customer or counterparty is unable or unwilling to meet a commitment that it has entered into with us. With respect to corporate lending, separate departments in our credit risk management system are independently responsible for pre-approval investigation, credit approval, loan disbursement examination, post-loan management, legal affairs and compliance, and recovery of impaired or non-performing loans. We have also developed separate credit risk management procedures with respect to retail lending. See "— Credit Risk Management for Non-Credit Card Retail Loans" and "— Credit Risk Management for Credit Cards."

Credit Risk Management for Corporate Loans

Credit Policy Guidelines

At the beginning of each year, the Risk Management Commission promulgates credit policy guidelines setting out credit principles for different industries, regions, types of loans and types of customers for our Bank, the SBUs and each of our 29 branches. Such annual guidelines are set in accordance with the external operating environment as well as our internal operation goals. Each SBU and branch may establish its own credit policies to incorporate its development needs as well as regional and/or industry economic conditions, as long as such policies are consistent with the Risk Management Commission's credit policy guidelines. Each quarter, we, consider recommendations from the SBUs and the branches, and adjust our credit policy guidelines based on an assessment of quarterly credit policy performance as well as any changes in our operating environment.

Pre-Approval Investigation

All applications for corporate loans are subject to credit investigation before approval. All applicants for corporate loans must receive initial endorsement by a customer manager before it may submit an application to our Bank. Applicants for corporate loans are generally required to submit financial statements audited by designated auditors as well as other materials including authorization documentation, board resolutions and, if applicable, collateral appraisal reports.

Each pre-approval investigation is ordinarily conducted by one customer manager and one risk manager, both of whom are trained and certified by our headquarters. The customer manager is responsible for undertaking a factual investigation of the applicant. The risk manager is responsible for verifying the results of the investigation performed by the customer manager as well as for

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RISK MANAGEMENT

undertaking an initial risk assessment. We conduct site checks as well and review publicly available information with respect to the applicant. We also use the Enterprises' Credit Information Database of the PBOC to perform background checks on the credit history and the indebtedness level of our corporate clients.

The investigation process includes an analysis of the purpose and structure of the loan, the applicant's sources of income, financial condition, cash flow, credit history and repayment ability, as well as the identity, credit history and collateral coverage of any guarantor. The credit investigation also involves a qualitative analysis of the applicant's industry risks and market position, together with other relevant factors. If a borrower wishes to renew, or amend the terms of, an existing loan, we apply the same standards as we would in granting a new loan.

After the pre-approval investigation process has been completed, the customer manager prepares a credit investigation report and conducts a preliminary assessment of the customer's credit rating, while the risk manager prepares a risk evaluation report. These two reports are submitted to the regional credit approval centers.

Customer Ratings

In 1999, we began to use the manual scorecard method to determine the credit risk ratings of our corporate customers. Initially we employed a four-level rating system, but in 2002, we adjusted this to a six-grade rating system.

In April 2005, we established an 11-level credit rating system for our corporate customers. Under such system, we classify our customers into 11 credit levels ranging from A1 to D, based on the overall score results of various quantitative and qualitative factors. The quantitative factors primarily include the customer's financial situation, profitability, repayment ability and liquidity, while the qualitative factors primarily include the sector in which the customer operates, the quality of its management, its market position and the geographic areas in which the customer is located and operates. Non-defaulting customers are classed into the ten levels of A1, A2, A3, A4, B1, B2, B3, C1, C2, and C3, of which A1 represents the best credit rating and C3 represents the worst credit rating. The levels A1 to A4 represent excellent ratings, B1 to B3 represent good ratings, C1-C3 represent inferior ratings and D represents a defaulted rating.

The following table sets forth our 11-level credit rating system and the corresponding credit scores and descriptions of the risk related financial condition of the customer represented by such ratings.

Credit Rating	Credit Score	Definition	Description
A1	91-100	Excellent	Excellent creditworthiness and extremely low credit risk. The borrower has excellent operating condition, strong profitability, is highly competitive or holds a monopolistic position in its market and it has broad development prospects. The borrower has an excellent credit record, with the probability of it defaulting being extremely low. The borrower also has very strong repayment ability. The impact of any uncertainties on the borrower's operations and development is likely to be extremely small. The borrower is highly valuable to the Bank's business development.

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RISK MANAGEMENT

Credit Rating	Credit Score	Definition	Description
A2	86-90	Very good	Very high creditworthiness and very low credit risk. The borrower has very good operating condition, high profitability, its various business and financial indicators are advanced and it has relatively fairly broad development prospects. The borrower has very strong repayment ability and has no historical record of default. The probability of it defaulting is very low. The impact of any uncertainties on the borrower's operations and development is likely to be very small.
A3	81-85	Good	High creditworthiness and low credit risk. The borrower has good operating condition, fair profitability, its various business and financial indicators are good and it has good development prospects. The borrower has strong repayment ability and has no historical record of default. The probability of it defaulting is low. The impact of any uncertainties on the borrower's operations and development is likely to be fairly small.
A4	71-80	Fair	Fairly high creditworthiness and fairly low credit risk. The borrower has fair operating condition, stable economic results, and its various business and financial indicators are at fair levels. The borrower has fairly strong repayment ability and has no historical record of default or has record of default but no loss arose from such default. The probability of it defaulting is fairly low. There will be certain impact of any uncertainties on the borrower's operations and development but without any large risks.
B1	61-70	Above average	Generally good creditworthiness. The borrower has stable operating condition, and its various business and financial indicators are at above average levels. The borrower has acceptable repayment ability and can provide sufficient protection for its debt obligations. The borrower has record of default but the loss from such default was small. The probability of it defaulting is fairly low. The borrower's operations and development will be easily impacted by any uncertainties.
B2	51-60	Average	Average creditworthiness. The borrower has average operating and financial condition. The borrower has fairly weak repayment ability and can provide some protection for its debt obligations. The borrower has record of default but the loss from such default was fairly small. There is certain risk of default. The impact of any uncertainties on the borrower's operations and development is likely to be fairly large.

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RISK MANAGEMENT

Credit Rating	Credit Score	Definition	Description
B3	41-50	Below average	Fairly low creditworthiness. The borrower has fairly poor operating condition. The borrower has the ability to repay capital and interest but such ability is unstable. The borrower has a record of more frequent default and the risk of default is fairly large. The impact of any uncertainties on the borrower's operations and development may cause its financial condition to gradually worsen.
C1	21-40	Poor	Poor creditworthiness. The borrower has poor operating condition and weak financial condition. The borrower has insufficient repayment ability and has a record of more frequent default and the probability of default is fairly high. The impact of any uncertainties on the borrower's operations and development may cause its credit risk, but there are more factors that may improve the borrower's business and prospects.
C2	11-20	Very poor	Very poor creditworthiness. The borrower has very poor operating condition and very weak financial condition, and is essentially in a loss-incurring state. The borrower lacks repayment ability. However, there are still factors that may improve the borrower's business and prospects.
C3	0-10	Extremely poor	No creditworthiness. The borrower has extremely weak financial condition, with basically no ability to pay capital or interest. The borrower has sustained serious losses and is close to insolvency. There are very few factors that may improve the borrower's business and prospects.
D	N/A	In default	In default according to the Bank definitions.

We require all corporate customers who have credit balances with us to be rated regularly. In principle, credit rating results are valid for one year. We preliminary rate new customers before they can apply for credit. Where there is a major change in the customer's financial condition, business operations or compliance with its contractual obligations, we will require the customer to be rated again.

Rating results take into account, and are adjusted for, differences between industries and geographical regions. We use other rating methods to conduct credit risk analysis for government departments, business development organizations and customers who do not meet the criteria for being rated under the above-mentioned rating system (i.e. they have been established for less than three years).

The customer managers are responsible for processing customer rating applications and conducting preliminary ratings. The Credit Assessment Department then examines and verifies such preliminary rating and finally determines the rating result. We continue to reinforce credit rating training for our staff and supervision of credit ratings, to ensure that the credit rating system is used consistently.

Generally, we only grant credit loans to customers with category A ratings and require guarantees for loans for customers with other ratings. We implement differentiated marketing

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RISK MANAGEMENT

and pricing for our corporate customers and conduct portfolio risk management based on their credit ratings. We believe that the use of credit ratings helps to increase the efficiency of our credit approval process, enable effective risk measurement and enhance the efficiency of our capital allocation.

Our customer rating system operates through the use of a credit management information system rating model. We are committed to continuing to improve our internal rating system and process and are currently planning to launch a new internal rating model that fulfills the requirements of the Basel II Accord. Such model could increase the accuracy and validity of ratings, and further improve our risk measurement and capital allocation.

In addition, the customer's credit rating is one of the factors we will consider when classifying a loan according to the five-category loan classification in accordance with the CBRC's guidelines, even though the five-category loan classification system is a regulatory requirement and is different from our internal customers' credit rating system, and the two systems cannot be reconciled to each other. For further information on the five-category loan classification system, see "— Post-Disbursement Management — Post-Disbursement Monitoring."

Collateral Appraisal

The majority of our loans are secured by guarantees, collateral or pledges. See "Description of Our Assets and Liabilities — Assets — Loans to Customers — Distribution of Loans by Collateral." For corporate credit applications that involve collateral, we generally require collateral appraisal reports from certified third-party valuers to ascertain the value of the collateral. Collateralized loans are generally subject to loan-to-value ratio limits based on the type of collateral. The maximum loan-to-value ratios of our principal types of collateral for corporate loans are as follows:

<u>Principal types of collateral</u>	<u>General maximum loan-to-value ratio</u>
City land use rights	60%
City real estate	70%
Property under construction	60%
Corporate production facilities	40%
Motor vehicles and ships	50%
Certificates of deposit	90%
Government bonds	90%
Bank acceptance bills	based on discount rate

Credit Approval Procedures

We have established a multi-tiered corporate loan approval system under which loan approval authorization limits are centralized at the headquarters level and various credit approval limits are granted to authorized staff at different levels. Loan applications are processed by the relevant regional credit approval center and the risk management division of the SBUs, depending on the product type, the region of the originating branch and the industry categories of such loan applications.

Credit Approval Process

Our branches may only approve corporate loan applications for certain low-risk loans such as those fully backed by evidence of actual deposits, sovereign bonds or foreign exchange deposits. Other corporate loan applications submitted to our branches are forwarded to our regional credit approval centers.

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RISK MANAGEMENT

At the regional credit approval centers, we apply different approval procedures for different types of loan applications:

- Loan applications are initially reviewed by the assistant assessors at the regional credit approval centers. The assistant assessors conduct analysis of the applications in specific areas, such as the applicant's financial information, industry condition and prevailing government policies.
- After the initial review, loan applications are submitted to the chief credit reviewer at the regional credit approval centers, who may approve loan applications within his or her authorized credit approval limits. Such approvals become effective if the credit review supervisor from the Credit Assessment Department does not raise any objections within a day.
- Where the credit review supervisor raises any objection, the loan application is forwarded to the regional credit committee for deliberation on whether the chief credit reviewer should approve the loan application.
- Loan applications which exceed the authorized credit approval limits of the chief credit reviewer are transferred direct to the credit assessment officer at the regional credit approval centers. If the loan application is within his or her authorized credit approval limits, under our dual signing responsibility system, the credit assessment officer has the power to reject an application outright. Approval is only possible if both the credit assessment officer and the credit assessment assistant agree.
- Where the credit assessment officer wishes to approve the loan application, but the secretariat-general of the relevant credit committee disagrees, the loan application is submitted to the regional credit committee for deliberation on whether the credit assessment officer should approve the loan application. The consent of at least 80% of the members of the regional credit committee is required for such committee to direct that the credit assessment officer should approve the loan application which was deliberated on.
- In addition, where the loan application exceeds the authorized credit approval limits of the credit assessment officer, involves high-risk loans, including restructured loans and extended term loans or is considered by the credit assessment officer necessary to be reviewed by the regional credit committee, it is submitted to the regional committee to decide whether the loan application is appropriate for submission to the head of our Credit Assessment Department with final approval authority at the headquarters. The head of the Credit Assessment Department may approve or reject such loan application. Though the credit assessment officers do not have the authority to approve any such loan application, they may nonetheless veto any loan application being considered by the regional committee.
- Loan applications rejected by the regional credit committee or the head of our Credit Assessment Department are returned to the branches as appropriate. The branches may appeal to the credit committee of the Credit Assessment Department at the headquarters whose decision will be final.

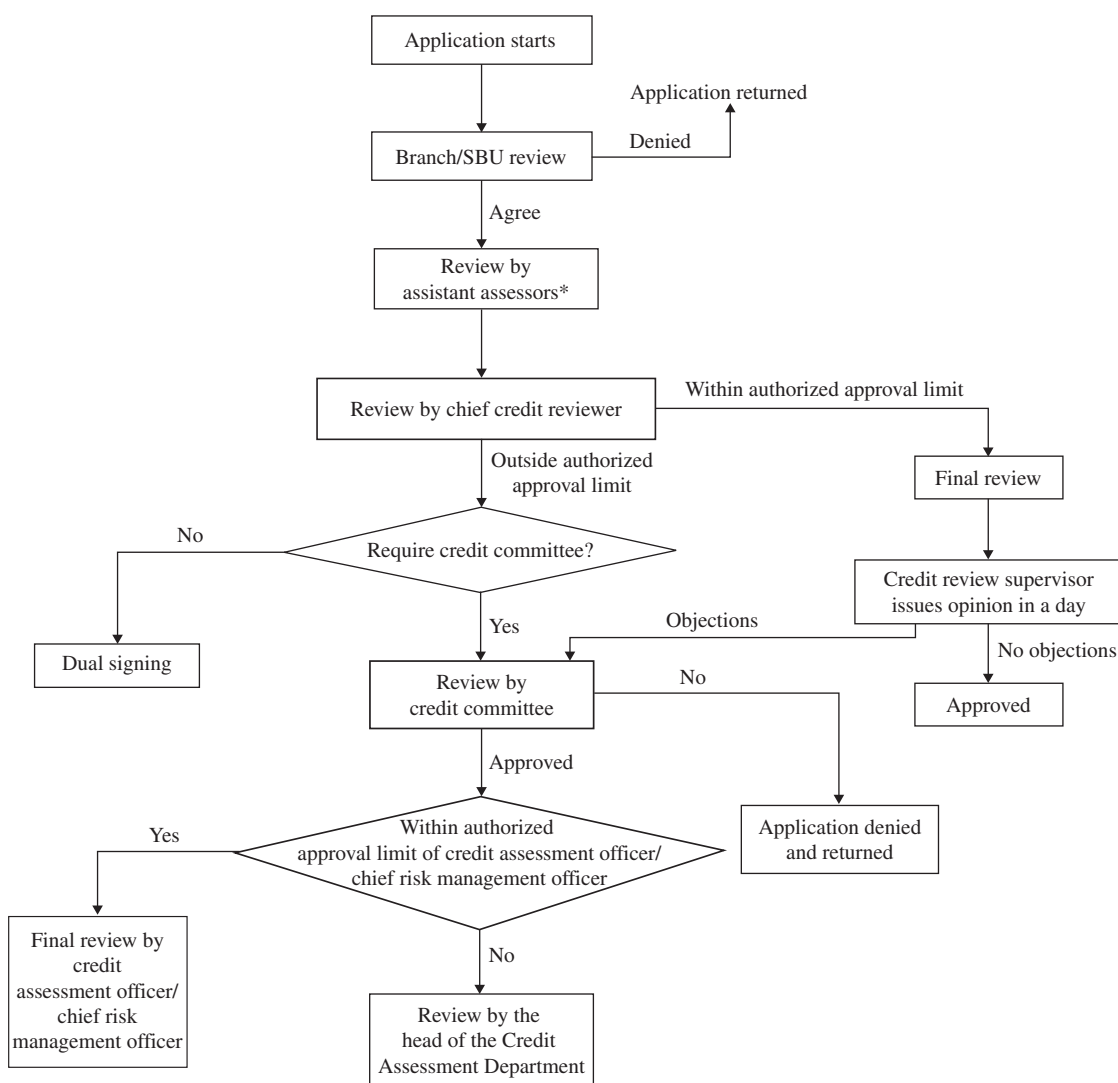
The credit approval process for our SBU risk management divisions is substantially the same as for our branches, except that there is no initial review by assistant assessors in the SBU risk management divisions.

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RISK MANAGEMENT

The following chart summarizes the approval procedures for corporate loan applications:

Credit approval process by branches/SBUs



* Not applicable to SBUs

Credit Approval Supervision

We have established a supervisory function at our headquarters to supervise the credit assessment work of the regional approval centers and the SBUs. Such supervision is conducted by credit review supervisors and covers:

- the time taken to complete credit assessments;
- the compliance of the credit assessment process with bank regulations;

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RISK MANAGEMENT

- the compliance with relevant credit policies including PRC government industrial policies, supervisory and regulatory body policies and our internal credit policies;
- the extent to which risks are discovered;
- whether credit plans have been designed reasonably, including terms such as the credit amount, term and price, as well as the guarantee and payment methods; and
- whether reasons given for rejections are ample and reasonable.

Special Procedures for Group Borrowers

We have established policies and procedures for approving the granting of credit to group entities. Group entities such as those under common control are considered to be group borrowers and are treated as a single entity for the purposes of reviewing of loan applications. Such applications are reviewed by the same reviewing body, regardless of where the loan application is originated. We also adopt an overall credit limit for customers within the same group.

Our “China Minsheng Bank Provisional Measures of the Management of Group Customers” «中國民生銀行集團客戶管理暫行辦法» (the **Group Customers Measures**) contains guidelines to help us comply with the CBRC’s requirements on the risk management of granting credit to group borrowers. In terms of reporting, our corporate banking departments, risk management departments, branches and SBUs identify our group customers and report the results to our headquarters Corporate Banking Management Commission. The Corporate Banking Management Commission confirms the status of these customers and then distributes the list of the group customers to the relevant departments, branches and SBUs. With regards to credit exposures to our group customers, our Credit Assessment Department is responsible for ratifying the credit limits to group customers. Such limits are usually reviewed annually and may be adjusted but are also adjusted as necessary, particularly if any changes occur which create a major risk to the relevant group customer’s operations or financial condition, such as credit deterioration or a change of PRC government policy on the group customer’s industry. We require our relevant departments, branches and SBUs to report all such information to the Corporate Banking Department. We also require our relevant departments, branches and SBUs to report to our Corporate Banking Management Commission any information discovered in their daily operations that may affect the group customer status of the relevant customer.

We believe that these additional cautionary measures enable us to better manage the credit risks associated with affiliated borrowers and also simplify the process for our group clients. However, we cannot ensure that these additional measures will be adequate to control risk in all cases because the effectiveness of our risk management system is affected by the quality and scope of information available on borrower affiliations available in the PRC. See “Risk Factors — Risks Relating to Our Loan Portfolio — A large portion of our loan portfolio is made to corporate customers, customers in certain industries and regions and certain single borrowers, and any economic downturn impacting such industries, regions or customers could materially and adversely affect our business” and “Risk Factors — Risks Relating to the Banking Industry in the PRC — The effectiveness of our risk management system is affected by the quality and scope of information available in the PRC.”

Processing Loan Documents and Funds Disbursement

We have established procedures for processing loan documents, including guidelines for preparing, executing, categorizing and filing such documents. Once a loan application is approved, the disbursement of funds is made by separate fund disbursement centers at the branches. The

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RISK MANAGEMENT

disbursement centers examine the documents to ensure that such documents have been validly authorized and properly executed, and that all conditions are satisfied before disbursing the funds. The disbursement centers are also responsible for categorizing, storing and managing the loan documents and for entering the relevant information into our credit management information system.

Post-Disbursement Management

Post-Disbursement Monitoring

Our monitoring process for loans to corporate customers includes verifying the borrower's ongoing compliance with the terms of the loan agreement, monitoring the use of funds, revaluating collateral, maintaining regular contact with the borrower, analyzing the borrower's financial status through periodic review of its financial statements, conducting site inspections and meetings with the borrower's management, and analyzing the condition of guarantors, if applicable, through review of their financial statements.

Typically, we check the use of funds within seven days after drawdown, or if the borrower does not intend to use the funds immediately, after notice of use of funds by the borrower or periodically after the loan has been made. We also perform quarterly credit reviews of each borrower. We generally conduct return inspections to each large borrower every quarter, and depending on the size of the borrower, the managing directors of our branches may also participate in such inspections to meet with the borrower's management. In addition, we review the financial information of our borrowers each quarter, and check the status of their borrowings and guarantees with other banks or financial institutions and their records of repayment of principal and interest through the Enterprises' Credit Information Database of the PBOC.

If potential problems are detected, we conduct a more detailed review of the credit quality of the borrower, considering factors such as the borrower's financial position, ability to repay outstanding loans in the short and long term, the value of any collateral and the ability of any guarantor to repay the loan.

Loan Classification

Before 2009, we divided our loans into five levels. In accordance with the CBRC guidance on the classification of loans into five levels, beginning in 2009, we divided our loans into ten categories which fit into five levels. We report such classification data monthly to the CBRC, as required by the CBRC. See "Supervision and Regulation." See "Description of Our Assets and Liabilities — Assets — Asset Quality of Our Loan Portfolio — Loan Classification Criteria."

Our customer managers at branches and SBUs classify outstanding loans based primarily on the borrower's repayment ability, giving consideration to other factors such as guarantees, collateral and the length of any overdue period. At the same time, the credit rating of our customers is also a determining factor in our classification. Sub-branches and branches examine and verify these classifications and report to the Assets Monitoring and Control Department at our headquarters. The Assets Monitoring and Control Department may, based on its knowledge and information obtained from loan monitoring and other channels, request branches to adjust the classification.

We conduct loan classifications every quarter or on an as needed basis. Customers who have experienced substantial changes in their operations or financial condition may also report such changes to us as they occur, and information regarding these changes is accumulated to be assessed on a monthly basis.

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RISK MANAGEMENT

Risk Alerts and Ongoing Monitoring

We have employed an eight-stage risk alert system to monitor our loans. The eight stages are: (i) collecting risk information, (ii) identifying risks, (iii), investigating and evaluating the risk(s), if any, (iv) issuing an alert if necessary, (v) formulating countermeasures as necessary, (vi) implementing any countermeasures decided, (vii) follow-up monitoring and (viii) removing the alert.

We collect the risk information primarily from our post-approval checks, our internal and external audit departments, the public media, regulatory bodies and other financial institutions in the market. Based on the severity of the risks we identify in relation to our loan customers, we classify our risk alert customers as red, yellow or blue. In principle, we would propose to withdraw from any business relationship with red alert customers. For yellow alert customers, we actively source information regarding their assets and the relevant departments re-design a credit plan for them. As for blue alert customers, we increase the frequency of post-loan disbursement checks and closely monitor the enterprise's risk signals and trends, thereby increasing the probability of repayment and the fulfillment of the customer's legal obligations.

Collateral Management

We implement centralized management of collateral, including:

- management of collateral documentation, including transferring, safekeeping and returning collateral rights documentation;
- collateral verification, including verifying the existence of the collateral, matching such collateral against the collateral described in the documentation, checking whether collateral registration or other required procedures have been conducted, checking whether the collateral has been ensured and whether insurance is renewed on a timely basis;
- collateral valuation and monitoring according to relevant laws and regulations to objectively reflect the value of the collateral; and
- internal re-evaluations of collateral periodically for impairment testing purposes.

Recovery of Problem Loans

The Assets Monitoring and Control Department is responsible for organizing, supervising, reviewing and evaluating problem loans across our Bank and makes the final determination as to whether any loan has become a problem loan. We have established a system to identify and actively manage problem loans, including non-performing loans. We consider problem loans to be: (i) loans that are overdue for an accumulated period of three months or more; (ii) loans that are identified as impaired loans under IFRS; (iii) loans that are classified as substandard, doubtful or loss; (iv) loans that involve fraud or litigation; (v) loans that become associated with risks which may potentially cause them to be classified as non-performing; (vi) restructured loans; and (vii) loans that the Assets Monitoring and Control Department at our headquarters considers as being in default based on circumstances determined on a case by case basis.

We have established a non-performing assets' steering team at our headquarters to lead the handling of major problem and non-performing asset write-offs and remissions. The headquarters non-performing assets' steering team is led by a managing vice president.

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RISK MANAGEMENT

The Investment Banking SBU concentrates on the management, recovery and collection of large-value corporate problem loans. Problem loans not transferred to the Investment Banking SBU are handled at the branch or the SBU where the loan was originated.

Measures we take to resolve problem loans include: (i) notifying the borrower of a requirement for payment; (ii) meeting with the borrower to investigate the borrower's business operations and to determine whether payment is foreseeable; (iii) commencing legal action against the borrower or guarantor; (iv) disposing of collateral by auction or sale conducted in an agreed manner; and/or (v) working with the borrower to restructure the terms of the loan.

Notice of Demand and Meeting with the Borrower. We notify problem loan borrowers and guarantors of payment defaults by telephone, in writing or in person. We may also meet with borrowers and guarantors to determine whether payments are foreseeable.

Legal Proceedings. If we are not able to recover a problem loan within a reasonable time after a notice of demand has been given, depending on the specific circumstances of the borrower, we will choose to initiate legal proceedings to enforce our rights in respect of the collateral or guarantee securing the loan (if any), to chase for repayment of the loan. Legal action with respect to an unsecured loan could involve applying to a court for preservation measures regarding the borrower's or the guarantor's assets, including seizing, attaching or freezing part or all of the borrower's or the guarantor's assets up to an amount equal to the outstanding principal amount and accrued, unpaid interest on the loan and all costs and expenses incurred in connection with the debt collection. In a legal action with respect to a guaranteed loan, we generally sue both the borrower and the guarantor. We may also apply to a court for the preservation of the assets of the borrower and guarantor during the legal proceedings. If the borrower and/or the guarantor fail to comply with any court judgment in our favor, we may apply to the court for mandatory enforcement of such judgment. During legal proceedings, we may, through the court's mediation, reach an agreement with the borrower and/or the guarantor regarding repayment terms. If the borrower or the person or entity providing security fails to perform its obligations under the mediation agreement, we may apply to the court for mandatory enforcement of such mediation agreement.

Collateral Disposal. Loan collateral may include real estate, land use rights or equipment while loan pledges may include deposits, financial instruments (including discounted bills) and rights to future cash flows. Loans supported by a pledge are generally secured by personal property. For problem loans, we may agree with the person providing the collateral or pledge to sell or auction off the collateral or pledged asset, and to apply the proceeds from the sale or auction to repay the loan. If we cannot reach an agreement with the person providing the collateral or pledge, we may sue the borrower and/or the person providing the collateral or pledge in respect of the default amounts, and may also apply to the court for seizure or attachment of the collateral or pledged asset. Once we receive a favorable judgment, we may apply to the court for mandatory enforcement, and will be entitled to payment from the proceeds of a court-mandated auction or sale of the collateral or pledged asset in priority.

Restructuring. In a small number of cases where a borrower faces financial difficulties, we may restructure our loans. We restructure our loans only if we believe that such restructuring will increase the likelihood of repayment. The restructuring may include a change in the type of credit facility and/or an extension of principal payment terms, a change of guarantors and the taking of additional collateral. All loan restructurings must be approved by our headquarters and are subject to the regular credit approval procedure.

The restructured loan may not be upgraded into a higher loan classification category until after an observation period of six months. If the principal and interest on the restructured loans are

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RISK MANAGEMENT

repaid throughout the observation period and the borrower enterprise's production and operations appear to be improving, we will review the loan's classification when the observation period ends and may upgrade the loan if appropriate. If the borrower subsequently becomes delinquent in paying the principal or interest on the restructured loan, we will downgrade the loan. Interest continue to accrues on our restructured loans during the observation period as on other loans.

Write-offs. We write off a loan as a loss once we have exhausted all potential means of recovery and the loan meets the relevant regulations for write-offs established by the MOF. All loan write-offs must first be reviewed by the Internal Audit Department and then by our senior management or the Board.

Credit Risk Management for Non-Credit Card Retail Loans

Approval Procedures for Non-Credit Card Retail Loans

The Risk Management Department and the Retail Banking Department jointly prepare and adjust credit policy guidelines for non-credit card retail loans on an annual basis. They also establish the relevant authorization limits for different types of non-credit card retail loans. For example, the guidelines impose certain limits on mortgage loans for commercial or investment purposes.

Management of the credit approvals for our non-credit card retail loans is generally handled by the risk management center within the Retail Banking Department at our headquarters and the individual loan management departments at our branches. We also have a Retail Banking Department Credit Committee and retail credit committees at our branches. The Retail Banking Department Credit Committee has at least six members, including the Retail Banking Risk Management Officer and five professionals. The qualifications required of the Retail Banking Department Credit Committee members are screened and cleared by the Retail Banking Department at our headquarters. The Retail Banking Department Credit Committee is under the supervision and follows the working procedures of the Risk Management Department and the Credit Assessment Department at our headquarters.

Generally, retail loans originating from the branch level are subject to initial reviews by reviewers within the individual loan management departments. The chief reviewer may approve a loan after a classification review and an approval process involving the head of the individual loan management department. Loan applications exceeding their authorized approval limits are passed on to the branch retail credit committee for review and approval according to its authorized approval limits. We have different approval limits for different branches based on the relevant branch's situation, risk exposure and special characteristics of the loan products provided by the branch.

Loan applications exceeding the branch retail credit committee's authorized approval limits are passed on to the Retail Banking Departmental risk management center for review and approval by the Retail Banking Department credit reviewers and the Retail Banking Chief Credit Risk Management Officer according to their authorized approval limits. Loan applications exceeding the Retail Banking Department credit reviewers and the Retail Banking Chief Risk Management Officer's authorized approval limits are passed on to the Credit Assessment Department for review and approval. Approval by 80% of the members of any retail credit committee is required for approval of retail loan applications referred to such committee.

We assess non-credit card retail loans using standards that differ from those used for corporate loans. In assessing non-credit card retail loans, we consider the borrower's income and net worth, the borrower's financial status, the purpose of the loan, the quality and value of the collateral, the

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RISK MANAGEMENT

source of repayment and other qualitative factors. To prevent fraud, we conduct pre-approval investigation of non-credit card retail loans to obtain the names and national identity card numbers of potential borrowers before loan applications are forwarded to the individual loan management department for approval.

Post-Disbursement Loan Monitoring and Management

The monitoring of non-credit card retail loans is performed by our Retail Banking Risk Management Center and the individual loan management departments at our branches. Five days before payment on a loan to an individual is due, our computer system checks whether the borrower's account has sufficient funds to make the upcoming payment. If there are insufficient funds, the system automatically generates a message to customer service center staff at the customer service center that will send a payment reminder to the borrower by a short message to the customer's mobile phone or via other communication methods. If a loan is overdue for less than 30 days, staff at the local customer service center will contact the borrower to request payment. For non-credit card retail loans that are overdue for more than 30 days but less than 90 days, the customer managers will be responsible for chasing payment such loans. Personnel of the retail banking departments at the branch level take over the responsibility for the management of non-credit card retail loans that have been overdue for more than 90 days.

Credit Risk Management for Credit Cards

Our Credit Card Center in Beijing has the authority to approve credit card applications. Credit reviewers in the Credit Card Center have different authorized approval limits according to their seniority.

Applicants for our credit cards are required to complete applications containing basic information about the applicant. In evaluating credit card applications, the Credit Card Center primarily considers such factors as an applicant's monthly income, stability of income, profession and credit information obtained from the credit information database of the PBOC or China UnionPay, if available. We provide credit lines of varying amounts, depending on the assets, cash flow, income and creditworthiness of the applicant.

Customers who fail to make minimum payments on a timely basis are sent a default notice. The collection department at our Credit Card Center generally attempts to collect balances by contacting the borrower via phone call, short message service and letters. For credit card advances that are overdue for more than 60 days or otherwise implying a high risk, we suspend the credit card and use a series of methods to pursue payment of the outstanding balance, including instituting legal proceedings.

Credit Risk Management for Treasury Operations

Our treasury operations are exposed to credit risk through our investment activities and inter-bank lending activities. We generally establish a maximum credit line for each customer in our treasury business in accordance with our credit approval procedures.

MARKET RISK MANAGEMENT

Market risks arise from movements in market variables such as interest rates, exchange rates, stock prices and commodity prices and other market changes that affect market risk-sensitive instruments. We are exposed to market risks through our on-balance sheet assets and liabilities as

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RISK MANAGEMENT

well as our off-balance sheet commitments and guarantees. The principal types of market risks affecting our business are interest rate risk and exchange rate risk.

Historically, our exposure to significant market risks was limited because interest rates and exchange rates were supervised and regulated by the PBOC. As the PBOC gradually liberalized its interest rate and exchange rate regimes, and as the financial services sector in the PRC became more market-oriented, we have increasingly become subject to market risks.

The Risk Management Department is responsible for the overall management of market risks, including, but not limited to:

- setting market risk capital adequacy ratios, overall market risk limits, stop-loss limits and other risk-limiting indicators, subject to the approval of the Board;
- assessing the market risk of the whole bank and producing market risk management reports, adjusting market risk exposure and risk-limiting indicators;
- establishing a basic system, including determining policies, risk assessment and measurement models, as well as methods of dealing with and hedging risks related to the market;
- setting risk limits for products, regions and industries that affect our various businesses and determining the control and authorization of risk exposure;
- developing and continually improving methods to predict and prevent market risk emergencies.

Interest Rate Risk

Interest rate risk is the exposure of a bank's financial condition to adverse fluctuations in interest rates. The primary interest rate risk for us is mismatches of duration or repricing periods of our assets and liabilities. Mismatches may cause net interest income or the market value of our assets to be adversely affected by changes in the prevailing level of interest rates.

We manage our interest rate risk exposure by adjusting the various components of our assets and liabilities. Since July 2005, we have begun to use the asset liability management system to conduct gap analysis, duration analysis, scenario analysis and stress testing to monitor our interest rate risk on our assets and liabilities portfolio. We also began to use earnings-at-risk, or EaR, to monitor our interest rate risk of a portion of our business since January 2006. EaR refers to the maximum income loss within a set period based on a set confidence level due to fluctuations in the market environment. It is generally used to measure interest rate risk on assets and liabilities.

Exchange Rate Risk

Exchange rate risk primarily results from mismatching of the currency denomination of our assets and liabilities and mismatching of our currency position resulting from foreign currency transactions both for our own account and on behalf of our customers. We are exposed to exchange rate risk because we hold loans, deposits and securities that are denominated in currencies other than Renminbi.

We manage our currency exposures primarily by attempting to match our assets and liabilities in each foreign currency. In addition, we mitigate exchange rate risk by establishing exposure limits and stop-loss limits.

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RISK MANAGEMENT

Market Risk Management in Our Investment and Trading Portfolio

The Financial Market SBU manages the investment and trading portfolio both for our own account and on behalf of our customers under the market risk management framework established by the Asset and Liability Management Commission. We conduct duration analysis and analysis of present value of a base point of our investment and trading portfolio. We establish exposure limits and stop-loss limits to manage our market risks associated with our investment and trading portfolio. We also plan to upgrade our computer systems to enable us to improve our convexity analysis, scenario analysis and stress testing and to further strengthen the market risk management of our investment and trading portfolio.

In addition, we monitor and conduct analysis of market risks associated with our derivative instruments, and set requirements regarding the types of derivative contracts we can enter into by considering factors such as counterparty risk, exposure size and exercise price. In accordance with the guidelines, the counterparties to these derivative contracts are primarily international banks with a rating of "A" or higher by Standard & Poor's or an equivalent rating by another internationally recognized rating agency. If the counterparty rating is downgraded, we will take measures to reduce exposure to such counterparty. For credit default swaps, our general policy is to enter into transactions where the underlying security is rated "BBB" or higher by Standard & Poor's or has an equivalent rating by another internationally recognized rating agency.

LIQUIDITY RISK MANAGEMENT

Liquidity risk refers to the risk of being unable to finance funds or liquidate a position at a reasonable cost and in a timely manner to fund our debt obligations. We are exposed to liquidity risks primarily arising from funding our lending, trading and investment activities and from the risks associated with managing our current assets. Our objective in liquidity risk management is to comply with relevant supervisory and regulatory requirements and to ensure that we are able to meet all our payment obligations and fund all of our investment operations and lending opportunities on a timely and cost-effective basis under all circumstances.

The Asset and Liability Management Commission is responsible for establishing policies and strategies relating to our overall management of liquidity risk. The Asset and Liability Management Department is responsible for implementing these policies and strategies and to monitor and assess our liquidity risk.

We manage our liquidity needs by monitoring the maturity profile of our assets and liabilities while actively monitoring various liquidity indicators, including liquidity ratios, ratios for surplus deposit reserves, loan-to-deposit ratios and inter-bank lending and borrowing ratios. Through our internal fund management system, we allocate funds within the entire bank and monitor the flow of funds to our branches so that they are able to satisfy their liquidity requirements. We cooperate with key members of the market so that there are adequate credit limits and types of collateral, ensuring an availability of financing channels to meet sudden financing needs.

See "Financial Information — Liquidity" for a detailed description of the maturity profile of our assets and liabilities.

OPERATIONAL RISK MANAGEMENT

Operational risk is the risk of loss resulting from system failure, human error or non-adherence to internal systems and procedures, or from fraud or inadequate internal controls and procedures. Controlling operational risk is important to avoiding both financial and reputational loss. The

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RISK MANAGEMENT

operational risks that we are primarily subject to include, among others, internal fraud, external fraud, business disruption or system failure, unreliability of operational processes, human error and other failures related to transaction execution and data input in our business.

We have established operational risk management policies and procedures, and we conduct regular as well as unscheduled inspections to monitor the implementation of these policies and procedures. Measures we have implemented include:

- centralizing control of risks relating to settlement;
- establishing a customer transaction risk monitoring system to identify and address risks;
- providing customers with greater online banking security;
- strengthening collaboration with the public security departments and the CFCA; and
- continuing to educate all of employees regarding risk awareness and operational risk management.

Our employee manual and various internal policies and rules also contain requirements designed to avoid financial loss and maintain our reputation. Our various departments are responsible for ensuring compliance with our operational risk procedures in their respective areas. The Internal Auditing Department also conducts on-site inspections at branches, issues periodic reports regarding our branches and reviews our branches' compliance with operational procedures.

See "Business — Legal Proceedings and Compliance — Regulatory Proceedings — Findings from the CBRC" for a description of certain weaknesses identified by the CBRC in our internal controls during its inspection and review of our business.

We have undertaken various measures to strengthen our operational risk management. For example, we have taken steps to strengthen our internal audit function, including centralizing our internal auditing system and increasing the size of our internal auditing team. See "— Internal Audit."

Other initiatives that we have adopted to manage our operational risk include the following:

- we have implemented a series of measures to further centralize the management of our operational risk — for example, the Operations Management Center in our headquarters has established three regional centers that are responsible for processing a substantial amount of business that was originally handled by our branches;
- we have adopted a series of operational risk indicators and utilized our information systems, including databases, data monitoring and reporting functions within our accounting and business technology system, to support our operational risk monitoring and management activities;
- we have established a remote backup facility for our operational data, significantly reducing the operational risks associated with any failure of our information technology systems;
- we have enhanced our information technology system to monitor and control access to and use of operational data by our employees; and
- we have conducted regular and ad hoc training sessions for management personnel in respect of operational risk management and we have compiled training handbooks for use in our various bank-wide internal training programs.

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RISK MANAGEMENT

Legal Compliance Risk Management

Legal compliance risk is the risk of legal or regulatory sanctions, financial loss or reputational damage resulting from failure to comply with applicable laws, regulations, rules or other regulatory requirements. Our legal compliance risk management system includes using standardized contracts; publishing a bank-wide product compliance operational manual; and conducting Bank-wide compliance training to promote a culture of compliance, including conducting specific training for new staff and units, skills training for professional teams and general bank-wide training.

Anti-Money Laundering

We have launched anti-money laundering operations in accordance with the Anti-Money Laundering Law of the PRC and other relevant anti-money laundering regulations promulgated by the PBOC. We have set up specific AML leadership teams at both our headquarters level and branch level. The AML leadership team at the headquarters is chaired by one of our vice-presidents. The AML leadership team members at our headquarters include the leaders of the following departments: the Legal Affairs and Compliance Department, the Operations Management Department, the Corporate Banking Department, the Retail Banking Department, the Trade Finance SBU, the Credit Card Center, the E-banking Department, the Technology Development Department, the Information Management Center and the Internal Audit Department. In accordance with rules established by PRC AML law and regulations, we fulfill our obligation to discern our customers' identities and transmit on a daily basis to the China Anti-Money Laundering Monitoring and Analysis Center any high-value transaction and a suspicious transaction report. In the event that we discover that a transaction or a customer is connected with any money laundering, terrorist activities or other illegal criminal activities, we will also make a simultaneous report to the local branch offices of the PBOC and cooperate with the PBOC's anti-money laundering administrative reporting operations.

INTERNAL AUDIT

The Internal Audit Commission is responsible for the implementation of the internal audit policies, rules and operational plans approved by the Board or the Audit Committee of the Board. The Internal Audit Commission reports to the Audit Committee of the Board periodically and can directly report to the President, the Chairman or the Board in the event it discovers any material issues or risk matters.

The Internal Audit Department is responsible for performing independent audits of the reasonableness, completeness and effectiveness of our operational management and risk controls. In the course of its audits, the Internal Audit Department is authorized to perform comprehensive audits as well as audits of any specific line of business on an on-site or off-site basis. The Internal Audit Department also undertakes follow-up tracking audits of previously identified problems to ensure that such problems are effectively corrected. The Internal Audit Department reports regularly to our Chief Financial Officer, who is in charge of the internal audit function of our Bank.

Our internal audit function is independent of our operational structure and reports to our headquarters directly. To date, we have established four regional internal audit centers for Northern China, Central China, Southern China and Eastern China and have appointed a regional chief internal audit officer for each of the internal audit centers. The regional chief internal audit officers are responsible for the internal audit of the branches and sub-branches in their respective regions.

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RISK MANAGEMENT

Following establishment of our SBUs, we have also appointed a specific internal audit officer to each SBU. Both the regional chief internal audit officers and the specific internal audit officers assigned to the SBUs are required to report to the Head of the Internal Audit Department periodically. As of September 30, 2009, we employed a total of 115 internal audit staff.

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DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Directors

The following table sets out certain information relating to our Directors. Except for Mr. Wang Lihua, Mr. Qin Rongsheng and Mr. Han Jianmin, who were elected to their current term to the Board by our shareholders on September 9, 2009 and whose terms would expire on September 9, 2012, all our other existing Directors were elected to their current term to the Board by our shareholders on March 23, 2009 and their terms would expire on March 23, 2012.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Directors		
Mr. DONG Wenbiao	52	Executive Director and Chairman of the Board
Mr. ZHANG Hongwei	55	Non-executive Director and Vice Chairman of the Board
Mr. LU Zhiqiang	58	Non-executive Director and Vice Chairman of the Board
Mr. LIU Yonghao	58	Non-executive Director and Vice Chairman of the Board
Mr. HONG Qi	52	Executive Director and President
Mr. LIANG Yutang	51	Executive Director and Vice President
Mr. WANG Yugui	58	Non-executive Director
Mr. CHEN Jian	51	Non-executive Director
Ms. WONG Hei	47	Non-executive Director
Mr. SHI Yuzhu	47	Non-executive Director
Mr. WANG Hang	38	Non-executive Director
Mr. WANG Junhui	38	Non-executive Director
Mr. Andrew WONG	52	Independent non-executive Director
Mr. LIANG Jinquan	69	Independent non-executive Director
Mr. WANG Songqi	57	Independent non-executive Director
Mr. WANG Lihua (Note)	46	Independent non-executive Director
Mr. QIN Rongsheng (Note)	47	Independent non-executive Director
Mr. HAN Jianmin (Note)	40	Independent non-executive Director

Note: Qualification subject to CBRC approval.

DIRECTORS

Executive Directors

Mr. Dong Wenbiao (董文標), aged 52, is an executive Director since April 30, 2000 and Chairman of the Board of our Bank. Mr. Dong is also a member of the tenth and eleventh Chinese People's Political Consultative Conference ("CPPCC")(全國政協). Since 2007, Mr. Dong has been a vice-chairman of Committee for Economic Affairs of the CPPCC, a member of the All-China Federation of Industry and Commerce ("ACFIC") (中華全國工商業聯合會) and the vice chairman of the All-China General Chamber of Industry and Commerce (中國民間商會). Mr. Dong joined our Bank as a vice president at the establishment of our Bank and has been an executive Director since April 2000. Mr. Dong was the President of our Bank from April 2000 to July 2006, and became the Chairman in July 2006. Mr. Dong is an independent director of Fortis Haitong Investment Management Co. Ltd. Prior to joining our Bank, Mr. Dong was the chairman and president of Haitong Securities from 1993 to 1995, a director of the Bank of Communications from 1992 to 1995, the general manager and secretary of the party committee of the Zhengzhou branch of the Bank of Communications from

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DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

1991 to 1994 and a deputy director of Henan Finance and Management College from 1988 to 1991. Mr. Dong has over 29 years of experience in banking management and the financial and securities industries. Mr. Dong obtained a master’s degree in economics from Xiamen University in 1993 and is a senior economist.

Mr. Hong Qi (洪崎), aged 52, is an executive Director since January 8, 2004 and President of our Bank. Mr. Hong is the vice president of China Chamber of International Commerce, a committee member of China Society for Finance and Banking, an executive committee member of China Society for International Finance and Banking, a council member of Financial Planning Standard Council of China, and a part-time professor of China Financial Academy. Mr. Hong has been an executive Director of our Bank since January 2004 and was a Vice President from 2000 to March 2009. Mr. Hong became the President of our Bank in March 2009. Mr. Hong was the general manager of our Beijing Administrative Department from 1998 to 2000, and a director of the Business Department, Head Office of our Bank from January 1996 to September 1996. Mr. Hong was the vice general manager of our Beijing Administrative Department from September 1996 to April 1998. Prior to joining our Bank, Mr. Hong was the managing director and secretary of the party committee of the Beihai branch of the Bank of Communications from 1994 to 1995, a deputy director of the securities research institute of the Renmin University of China from 1993 to 1994, and a section chief at the headquarters of the PBOC from 1985 to 1991. Mr. Hong has over 24 years of experience in banking management and finance. Mr. Hong obtained a doctorate degree in economics from Renmin University of China in 1996.

Mr. Liang Yutang (梁玉堂), aged 51, is an executive Director since March 23, 2009 and Vice President of our Bank. Mr. Liang joined our Bank as a deputy general manager of the funds planning department at the establishment of our Bank and was the general manager of the funds planning department and the general manager of the financial institutions department of our Bank from 1996 to 2002. Mr. Liang was an assistant to our President from 2003 to 2005 and the general manager of the Beijing Administrative Department of our Bank from 2002 to 2007. Mr. Liang became our Vice President in February 2005. Before joining our Bank, Mr. Liang was the manager of the integrated planning department of the Bank of Communications from 1994 to 1995, and the general manager of Yutong Real Estate Development and Investment Company of the Bank of Communications, Zhengzhou branch from 1992 to 1994. Mr. Liang was the deputy head of the academic secretariat of Henan Finance and Management College from 1990 to 1992, and the deputy director, director of the management teaching and researching department of Henan Finance and Management College from 1985 to 1990. Mr. Liang has over 28 years of experience in finance. Mr. Liang obtained a master’s degree in banking and finance from Xiamen University in 1993 and is a senior economist.

Non-executive Directors

Mr. Zhang Hongwei (張宏偉), aged 55, is a Vice Chairman of the Board of our Bank since April 30, 2000. Mr. Zhang is chairman of the board of Oriental Group Inc. and Oriental Group Co., Ltd. (listed on the Shanghai Stock Exchange (SSE:600811)), and Jinzhou Port Co., Ltd. (listed on the Shanghai Stock Exchange (SSE:600190/900952)) and a director of China Minzu Securities Co., Ltd. Mr. Zhang is also a member of the CPPCC, and the vice chairman of the All-China General Chamber of Industry and Commerce. Mr. Zhang was a vice chairman of the ACFIC from 1997 to 2007. Mr. Zhang was previously a member of the Standing Committee of the 10th CPPCC. Mr. Zhang obtained a master’s degree in economics from Harbin Institute of Technology in 1997 and is a senior economist.

Mr. Lu Zhiqiang (盧志強), aged 58, is a Vice Chairman of the Board of our Bank since July 16, 2006. Mr. Lu had been a Director since the establishment of our Bank until June 2003 and has been re-elected as a Director in 2006. Mr. Lu is the chairman of the board and president of China

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DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Oceanwide Holdings Group Co., Ltd. and Oceanwide Group Co. Ltd., the chairman of Oceanwide Investment Co., Ltd., Oceanwide Real Estate Group Co., Ltd. (listed on the Shenzhen Stock Exchange (SHE:000046)) and the vice chairman of Minsheng Life Insurance Co., Ltd., and a director of Haitong Securities (listed on the Shanghai Stock Exchange (SSE:600837)). Mr. Lu is also a member of the Standing Committee of the CPPCC and a vice chairman of the ACFIC. Mr. Lu was the chief Supervisor of our Bank from June 2003 to December 2004 and a deputy chief Supervisor of our Bank from December 2004 to June 2006. Mr. Lu obtained a master's degree in economics from Fudan University in 1995 and is a research fellow.

Mr. Liu Yonghao (劉永好), aged 58, is a Vice Chairman of the Board of our Bank since March 23, 2009. Mr. Liu was previously our Vice Chairman of the Board since the establishment of our Bank until 2006. Mr. Liu is currently the chairman of the board of New Hope Group Co., Ltd (新希望集團有限公司), Sichuan New Hope Agri-Business Co., Ltd. (listed on the Shenzhen Stock Exchange (SHE:000876)), New Hope Investment Co., Ltd. and Shandong Liuhe Group Co., Ltd., and the chief supervisor of Minsheng Life Insurance Co., Ltd. Mr. Liu has been a member of the CPPCC since 1993 and a vice chairman of Committee for Economic Affairs of the CPPCC since 2003. Mr. Liu was previously the vice president of the China Society for Promotion of the Guangcai Program and a vice chairman of the ACFIC.

Mr. Wang Yugui (王玉貴), aged 58, is a non-executive Director of our Bank. Mr. Wang was appointed on December 3, 1995 and has been a non-executive Director since the establishment of our Bank. He is the general manager of China Shipowners Mutual Assurance Association, an executive member of China Maritime Law Association and the China Association of Trade in Services (中國服務貿易協會), a director of Minsheng Securities Co., Ltd., and an arbitrator of the maritime arbitration committee of the China Council for the Promotion of International Trade. Mr. Wang has previously served as a director and as a supervisor of China Everbright Bank, a supervisor of Haitong Securities, and a part-time lawyer of Beijing Jingwei Law Firm. Mr. Wang graduated from the English department of Beijing International Studies University in 1977 and is a senior economist.

Mr. Chen Jian (陳建), aged 51, is a non-executive Director of our Bank. Mr. Chen was appointed on December 3, 1995 and has been a non-executive Director since the establishment of our Bank. Mr. Chen is the vice chairman of the board of China SME Investment Co. Ltd. (中國中小企業投資有限公司), the chairman of Beijing Maoyuan Real Estates Development Company Limited. Mr. Chen was previously the chairman of Beijing Huamao Entertainment Co., Ltd., a director of Hunan Laodie Agricultural Technology Co. Ltd., an editor of the Institute of Agricultural Economics of Chinese Academy of Agricultural Sciences, a reporter of the agricultural department of the People's Daily, a deputy secretary-general of China Foundation for Poverty Alleviation, and a director of the State Council's research office. Mr. Chen obtained a master's degree in administration of agricultural economics from the graduate school of Chinese Academy of Agricultural Sciences in 1985.

Ms. Wong Hei (黃晞), aged 47, is a non-executive Director of our Bank. Ms. Wong has been a non-executive Director of our Bank since June 16, 2003. Ms. Wong is the legal representative and chairman of the board of Xiamen Fuxin Group Co., Ltd. (廈門福信集團有限公司) and G-First OEIC Co., Ltd. (廈門福信光電集成有限公司). Ms. Wong was previously the financial controller of Xiamen Fuxin Property Co., Ltd. (廈門福信房地產有限公司) and Xiamen Fuxin Group Co., Ltd. (廈門福信集團有限公司). Ms. Wong graduated from the Jimei Teachers College in 1982.

Mr. Shi Yuzhu (史玉柱), aged 47, is a non-executive Director of our Bank since July 16, 2006. Mr. Shi is the chairman of the board of Giant Investment Co., Ltd and Shanghai Giant Network Science Technologies Co., Ltd., the chairman of the board and the CEO of Giant Interactive Group

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DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Inc. (listed on New York Stock Exchange (NYSE: GA)), an executive director of Stone Group Holdings Limited (listed on the Hong Kong Stock Exchange (HK:0409)), a director of Shanghai Zhengtu Information Technology Co., Ltd. (上海征途信息技術有限公司) and the ultimate controller of Shanghai Giant Lifetech Co., Ltd.. Mr. Shi was previously the chief executive officer of Stone Group Holdings Limited from 2004 to 2007. Mr. Shi obtained his bachelor’s degree in mathematics from Zhejiang University in 1984. He was also a research student from Shenzhen University in software science in 1990.

Mr. Wang Hang (王航), aged 38, is a non-executive Director of our Bank since July 16, 2006. Mr. Wang is a director and vice president of New Hope Group Co., Ltd., the president of South Hope Enterprises Co. Ltd. (南方希望實業有限公司) and the general manager of Beijing ShouWang Asset Management Co. Ltd.. Mr. Wang was previously a civil servant at the general office of the PBOC, the chairman of the board of Kunming O-Park Co., Ltd. (昆明大商滙實業有限公司), the consultant and chief operating officer of the corporate finance department of New Hope Group Co., Ltd. and the vice chairman of the board of Union Trust & Investment Ltd.. Mr. Wang has a master’s degree in economics from Peking University.

Mr. Wang Junhui (王軍輝), aged 38, a non-executive Director of our Bank since March 23, 2009. Mr. Wang is currently the vice president of China Life Asset Management Company Limited since 2007. Prior to this, Mr. Wang was the assistant to the president of China Life Asset Management Company Limited from 2004 to 2007, and an assistant to fund manager, a fund manager, director of investment department and assistant chief executive at Harvest Fund Management Co., Ltd. from 2000 to 2004. Mr. Wang is a committee member of the 10th All-China Youth Federation and the 9th Beijing Youth Federation. Mr. Wang obtained a doctorate degree in finance from Research Institute for Fiscal Science, Ministry of Finance in 2008.

Independent Non-executive Directors

Currently, our Bank has six independent non-executive Directors, namely, Mr. Andrew Wong, Mr. Liang Jinquan, Mr. Wang Songqi, Mr. Wang Lihua, Mr. Qin Rongsheng and Mr. Han Jianmin.

Mr. Andrew Wong (王聯章), aged 52, is an independent non-executive Director of our Bank since July 16, 2006. Mr. Wong is a director of Henderson China Properties Limited and the senior advisor to Mr. Lee Ka Kit who is the vice chairman of the board of Henderson Land Development Company Limited. Mr. Wong is also an external director of Yantian Port Group Co., Ltd (深圳市鹽田港集團有限公司) and an independent non-executive director of New York Life Insurance Worldwide Ltd.. Mr. Wong held various senior positions at the Royal Bank of Canada, including the assistant representative for China operations, representative of southern China, the branch manager of the Shanghai branch. Mr. Wong also held various positions at the Union Bank of Switzerland, including head of China desk and an executive director of debt capital markets. Mr. Wong previously also served as a director of China of Citicorp International Limited, a merchant banking arm of Citibank. Further, Mr. Wong was the head of Greater China business of Hang Seng Bank Limited and the managing director of corporate and investment banking — Greater China of DBS Bank Limited, Hong Kong. Mr. Wong has been a member of the CPPCC Shenzhen Committee since 2002.

Mr. Wang Songqi (王松奇), aged 57, is an independent non-executive Director of our Bank since July 16, 2006. Mr. Wang is a deputy director of the Finance Research Center of the Chinese Academy of Social Sciences, the chairman of Beijing Venture Capital Association, a member of the standing committee of China Society for Finance and Banking, an independent director of Dalian United Venture Guarantee Co., Ltd. and an independent director of Bank of Communication’s Schroder

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DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Fund Management Co., Ltd.. Mr. Wang has a doctorate degree from Renmin University of China in 1989 and is currently a supervisor for doctorate candidates at the Chinese Academy of Social Science.

Mr. Liang Jinquan (梁金泉), aged 69, is an independent non-executive Director of our Bank since July 16, 2006. Mr. Liang is a member of the Standing Committee of the CPPCC, and China Soong Ching Ling Foundation, and the secretary general of Promoting Peaceful Reunification of China. Mr. Liang was the secretary of a senior official at the Chinese Academy of Sciences, the Central Party School, the Organization Department of the Communist Party of China ("CPC") Central Committee, the Publicity Department of the CPC Central Committee, the Secretariat of the Central Committee, and the CPC Central Committee General Office. Mr. Liang was also the deputy director of Organization Department of the Party Committee for Organs Directly under the CPC, the chairman of the research office of the Party Committee for Organs Directly under CPC, a member of the standing committee of Party Committee for Organs Directly under the CPC, a member of the standing committee, the head of the publicity department and the deputy secretary, of the Party Committee of Yunnan Province, the deputy secretary general and member of the party committee of the eighth and ninth CPPCC, the secretary of the party committee and the first deputy chairman of ACFIC, the deputy general director of the United Front Work Department of CPC Central Committee and the vice chairman of China Overseas Friendship Association. Mr. Liang graduated from the leaders' class (領導班) of Party School of the Central Committee of CPC.

Mr. Wang Lihua (王立華), aged 46, is an independent non-executive Director of our Bank since September 9, 2009. Mr. Wang is currently the managing partner of Beijing Tian Yuan Law Firm and executive councillor of the All China Lawyers Association. He is also an adviser of the consultant group to the Beijing Municipal Government and the Affiliate of International Chamber of Commerce in China (國際商會中國國家委員會), a member of the 2nd session of the new series examination committee for mergers, acquisitions and restructurings of listed companies under CSRC, and an independent director of Xinjiang Chalkis Co., Ltd. (新疆中基實業股份有限公司) (listed on the Shenzhen Stock Exchange (SHE:000972)). Mr. Wang was previously the director of the research office of the law school of Peking University, the vice president of the 7th session Beijing Lawyers Association, a member of the 7th and 8th sessions examination committee for security issuance under CSRC and a member of the 3rd and 4th sessions (the 1st session of the new series) examination committee for mergers, acquisitions and restructurings of listed companies under CSRC. Mr. Wang has a master degree in economic law from Peking University in 1993.

Mr. Qin Rongsheng (秦榮生), aged 47, is an independent non-executive Director of our Bank since September 9, 2009. Mr. Qin is a professor of the Beijing National Accounting Institute (BNAI), the vice president of the China Audit Society and the vice president of the China Association of Chief Financial Officers, as well as a member of the examination committee of Chartered Public Accountants of the Ministry of Finance (財政部中國註冊會計師考試委員會委員), the Accounting Standards Committee of China (中國會計準則委員會), the Accounting Technique Consultation Committee of China (中國會計技術諮詢委員會) and the Auditing Technique Consultation Committee of China (中國審計技術諮詢委員會). Mr. Qin is also an independent director of Aisino Co., Ltd. (listed on the Shanghai Stock Exchange (SSE:600271)), Poly Real Estate Group Co., Ltd. (listed on the Shanghai Stock Exchange (SSE:600048)), China International Marine Containers (Group) Co., Ltd. (listed on the Shenzhen Stock Exchange (SHE:000039)) and Changjiang Securities Co., Ltd. (listed on the Shenzhen Stock Exchange (SHE:000783)). He is also a part-time professor of Tsinghua University, Renmin University of China, Zhongnan University of Economics and Law, Jiangxi University of Finance and Economics, Soochow University, Macau University of Science and Technology and the Australian National University, as well as a part-time supervisor for doctorate candidates at the Renmin University of China. Mr. Qin was previously a member of the examination committee for

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DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

security issuance under the CSRC and a member of the Examination Committee for Major Restructurings of Listed Companies of China (中國上市公司重大資產重組審核委員會), as well as an independent director of Tsinghua Tongfang Co., Ltd. (listed on the Shanghai Stock Exchange (SSE:600100)), China National Software and Service Co., Ltd. (listed on the Shanghai Stock Exchange (SSE:600536)), UFIDA Software Co., Ltd. (listed on the Shanghai Stock Exchange (SSE:600588)), Huaxia Bank Co., Ltd. (listed on the Shanghai Stock Exchange (SSE:600015)) and Industrial Securities Co., Ltd.. Mr. Qin has a doctorate degree from Renmin University of China in 1995 and a master degree from Zhongnan University in finance and economics in 1992.

Mr. Han Jianmin (韓建旻), aged 40, is an independent non-executive Director of our Bank since September 9, 2009. Mr. Han is currently director and managing partner of Acenda (Beijing) Accounting Firm, member of the 1st examination committee for security issuance on the growth enterprise board under CSRC, external accountant and independent member of loan committee of China Development Bank and independent director of Beijing Mainstreets Investment Group Corporation (listed on the Shenzhen Stock Exchange (SHE:000609)) and Shandong Polymer Bio-Chemicals Co. Ltd.. Mr. Han has previously served in the Mudanjiang branch of the Bank of China, and a director and deputy accountant-in-chief of Beijing Zhongzhou Accounting Firm, a part-time supervisor of Industrial and Commercial Bank of China commissioned by Finance Commission of China, and a director and partner of Beijing Zhongzhou Guanghua Accounting Firm. Mr. Han has a master degree in business administration from Peking University in 2008, and is a senior accountant, certified public accountant in PRC, certified public asset appraiser in PRC and certified tax agent in PRC.

SUPERVISORS

Supervisors	Age	Position
Mr. QIAO Zhimin	57	Chief Supervisor
Mr. XING Jijun	45	Deputy Chief Supervisor
Mr. LU Zhongnan	54	Supervisor
Mr. ZHANG Disheng	54	Supervisor
Ms. XU Rui	64	Supervisor
Mr. WANG Liang	67	Supervisor
Mr. CHEN Jinzhong	49	Supervisor
Ms. WANG Lei	48	Supervisor

Mr. Qiao Zhimin (喬志敏), aged 57, is the chief Supervisor as well as an employee representative Supervisor of our Bank. Mr. Qiao was previously a deputy chief Supervisor of the Bank and has been a Supervisor since January 15, 2007. He was the director of the finance and accounting department of the CBRC, leader of the PBOC's regulation team for the Industrial and Commercial Bank of China, (director general level official 正局級) and served concurrently as a deputy director general of the regulatory department I of the PBOC, a deputy director general and an assistant inspector of the accounting department of the PBOC, a deputy general manager of the general planning department of the head office of the Bank of China, a deputy managing director, an assistant managing director and a division director of the Bank of China Luxemburg branch, and a deputy division director of the finance and accounting department of the head office of Bank of China. Mr. Qiao has a master's degree and is a senior accountant.

Mr. Xing Jijun (邢繼軍), aged 45, is a deputy chief Supervisor of the Supervisory Board of our Bank. Mr. Xing has been our Supervisor since March 23, 2009. Mr. Xing is also the chairman of Harbin Hatou Investment Co., Ltd. (listed on the Shanghai Stock Exchange (SSE:600864)), a director of Harbin Investment Group Co., Ltd., a director of Founder Securities Co., Ltd., and the chairman of

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DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Heilongjiang Shirble Electric-Heat Co., Ltd.. Mr. Xing was previously a Director of our Bank. He also used to be the chairman of Hafa Heat Company, Harbin Hua'er Chemical Co., Ltd., Harbin Taiping Heat Supply Co., Ltd., and Harbin HI Heat Supply Co., Ltd., the vice chairman of Harbin Electric-Heat Co., Ltd., a deputy general manager and an assistant manager of Harbin Investment Group Company, a deputy director of the general office and the director of rules and regulation inspection department of the Municipal Land and Resources Bureau of Harbin. Mr. Xing has a doctorate degree and is a senior economist.

Mr. Lu Zhongnan (魯鐘男), aged 54, is a Supervisor of our Bank since January 15, 2007. Mr. Lu is currently the vice chairman and president of China Minzu Securities Co., Ltd. Prior to that, Mr. Lu was a director of New China Life Insurance Co., Ltd from 2002 to 2008, and was a director of Oriental Group Industrial Inc. from 2001 to 2002, and served at various positions at the Heilongjiang, Harbin and Shenyang branches of the PBOC from 1979 to 2001. Mr. Lu graduated from the class of graduate course for advanced studies in economics management and is a senior economist.

Mr. Zhang Disheng (張迪生), aged 54, is a Supervisor of our Bank since January 15, 2007. Mr. Zhang is currently the chief operation officer and an executive director of Stone Group Holdings Limited (listed on the Hong Kong Stock Exchange (HK:0409)). Prior to that, Mr. Zhang was the deputy executive officer and vice president of Stone Group Company from 1994 to 2000. Mr. Zhang is a director of Fairchild Investment Limited, a company listed on the NEX board of Toronto Stock Exchange venture market in Canada. Mr. Zhang obtained a master's degree from Ryutsu Keizai University in Japan and is a senior economist.

Ms. Xu Rui (徐銳), aged 64, is an external supervisor of our Bank since January 15, 2007. Ms. Xu was a consultant at the operation center of China Everbright Bank from 2006 to 2007, the chairman of the board of supervisors of China Everbright Bank from 2004 to 2006, the general manager of the internal audit department of China Everbright Holdings Company Limited from 2000 to 2004, and the head of the legal department of China Everbright Holdings Company Limited from 2000 to 2001. Prior to that, Ms. Xu served as general manager of Bank of China Nanjing branch from 1992 to 1999 and served at Bank of China Jiangsu branch from 1984 to 1992. Ms. Xu is a senior economist.

Mr. Wang Liang (王梁), aged 67, is an external Supervisor of our Bank since December 3, 1995. Mr. Wang is currently a director of Dongguan Fenggang Yantian Corporate Development Co., Ltd. (東莞市鳳崗雁田企業發展公司) and Dongguan Fenggang Yantian Enterprise Development Co., Ltd. (東莞市鳳崗雁田事業發展公司). Prior to that, Mr. Wang was the chairman of Guangzhou Xinlian Co., Ltd (廣州新聯公司), Guangzhou Shanghui Economic Development Corporation (廣州商匯經濟發展總公司) and vice chairman of the Guangzhou Federation of Industry and Commerce from 1993 to 2003. Mr. Wang also served as vice dean of the Guangzhou Academy of Economic Research (廣州市經濟研究院) from 1991 to 1993. Mr. Wang obtained a bachelor's degree in accounting from Beijing School of Posts and Telecommunications (now Beijing Jiaotong University) in 1968. Mr. Wang is a senior accountant and a certified public accountant.

Mr. Chen Jinzhong (陳進忠), aged 49, is an employee representative Supervisor of our Bank since January 15, 2007. Mr. Chen joined our Bank in 2000 and served as a division director, an assistant to the director, a deputy director and the director of the general office of our Bank from 2000 to 2007. Since 2007, Mr. Chen has been the general manager of our Beijing Administrative Department. Prior to that, Mr. Chen served as assistant branch manager at the Baoding branch of the PBOC from 1996 to 1998, and as deputy director of the finance department and director of the general office of the Baoding Finance College from 1987 to 1996. Mr. Chen has a doctorate degree in economics and is a senior economist and an associate professor.

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DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Ms. Wang Lei (王磊), aged 48, is an employee representative Supervisor of our Bank since January 15, 2007. Ms. Wang joined our Bank in 1997, starting as a deputy section chief of the internal audit department at the Shanghai branch of our Bank. Since then, Ms. Wang served as assistant to the branch manager at the Hongqiao and Huangpu branches of our Bank in Shanghai from 1999 to 2000, general manager of the risk management department of the Shanghai branch of our Bank from 2000 to 2001, general manager of the Shixi branch of our Bank in Shanghai from 2001 to 2003. Ms. Wang then served at the Credit Assessment Department of our Bank in 2003 and is currently a credit officer at the Eastern China credit assessment center of our Bank. Prior to joining our Bank, Ms. Wang worked at the Urumqi branch of the Bank of Communications from 1993 to 1996. Ms. Wang graduated from the class of graduate course in finance and is an economist.

SENIOR MANAGEMENT

Senior management	Age	Position
Mr. HONG Qi	52	Executive Director and President
Mr. LIANG Yutang	51	Executive Director and Vice President
Mr. SHAO Ping	52	Vice President
Mr. ZHAO Pinzhang	53	Vice President
Mr. MAO Xiaofeng	37	Vice President, Board Secretary and Joint Company Secretary
Ms. WU Touhong	50	Chief Financial Officer

Mr. Hong Qi (洪崎) is an executive Director and the President of our Bank. Please refer to the biography under the paragraph "Directors — Executive Directors."

Mr. Liang Yutang (梁玉堂), is an executive Director and a Vice President of our Bank. Please refer to the biography under the paragraph "Directors — Executive Directors."

Mr. Shao Ping (邵平), aged 52, is a Vice President and the chairman of the Risk Management Commission of our Bank, appointed in January 2005. Mr. Shao joined our Bank in 1995, and served as a deputy director, the deputy general manager and the general manager of our Credit Assessment Department from 1996 to 2000. Mr. Shao was the managing director of our Shanghai branch and an assistant to our President from December 2000 to February 2005. Before joining our Bank, Mr. Shao was the deputy general manager of the Federation of Urban Credit Cooperatives of Weifang City, Shandong Province from 1993 to 1995, and the general manager of the Urban Credit Cooperative of Weicheng District, Weifang City, Shandong Province from 1988 to 1993. Mr. Shao has over 21 years of experience in banking management. Mr. Shao obtained a doctorate degree in economics from Fudan University in Shanghai in 2008 and is a senior economist.

Mr. Zhao Pinzhang (趙品璋), aged 53, is a Vice President of our Bank, appointed in 2008. Mr. Zhao is also the Chairman of our Asset and Liability Management Commission. Mr. Zhao was previously an assistant to our President from 2005 to 2008, the Chief credit officer and a Supervisor of our Bank from 2003 to 2007, the general manager of the Credit Assessment Department of our Bank from 2001 to 2007, a deputy general manager of the Risk Management Department of our Bank from 2000 to 2001, and the deputy general manager of our Beijing Administrative Department from 1998 to 2000. Prior to joining our Bank, he was a deputy managing director of Liaoyuan branch of Bank of Communications, and a section chief of the Liaoyuan center sub-branch of China Construction Bank. Mr. Zhao has over 25 years of experience in banking management. Mr. Zhao has a master's degree in business and administration and is a senior economist.

Mr. Mao Xiaofeng (毛曉峰), aged 37, is a Vice President of our Bank, appointed in 2008. Mr. Mao is also the chairman of our Retail Banking Management Commission, the Board Secretary and one of

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DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

the Joint Company Secretaries of our Bank. Mr. Mao joined our Bank as a deputy director of the President's office of our Bank in 2002 and has been the Board Secretary and Company Secretary of our Bank since June 2003 and March 2004, respectively. Prior to joining our Bank, Mr. Mao was a director of the general office of the Central Committee of Youth League Central Committee ("YLCC") from 1999 to 2002, an assistant to the director of YLCC Industrial Development Center from 2003, a deputy secretary of the Party Committee of the Zhijiang Dongzu Autonomous County of Hunan Province from 1995 to 1996, an assistant to the governor of the Zhijiang Dongzu Autonomous County of Hunan Province from 1994 to 1995 and the executive vice chairman of the All- China's Students Federation from 1992 to 1993. Mr. Mao obtained a master's degree in industrial and foreign trade from Hunan University in 1995, a doctorate degree in management from Hunan University in 1998, and a master's degree in public administration from the John F. Kennedy School of Government at Harvard University in the U.S.A. in 2000.

Ms. Wu Touhong (吳透紅), aged 50, is the Chief Financial Officer of our Bank. Ms. Wu is also the secretary of the Discipline Committee of the Communist Party of our Bank. Ms. Wu joined our Bank as a deputy general manager of the Human Resources Department at the establishment of our Bank and became our Chief Financial Officer in June 2003. Ms. Wu was previously the head of the Discipline Monitoring Department of our Bank and deputy director of the Discipline Committee of our Bank from 2002 to 2003, the director of the President's office of our Bank from 1998 to 2000 and the general manager of our Beijing Administrative Department from October 2000 to January 2002, and the deputy general manager of the human resources department from January 1996 to June 1998. Prior to joining our Bank, she was a deputy general manager of the Beijing securities business department of the Industrial and Commercial Bank of China Trust and Investment Company from 1994 to 1995, and a section chief and a deputy director of the education department of the Industrial and Commercial Bank of China from 1983 to 1994. She worked at the Science and Education Bureau of the PBOC from 1981 to 1983. Ms. Wu has over 25 years of experience in banking management. Ms. Wu graduated from Hunan College of Finance and Economics in 1982 and is an economist.

JOINT COMPANY SECRETARIES

Mr. Mao Xiaofeng (毛曉峰) is the Board Secretary and one of the Joint Company Secretaries of our Bank. Please refer to the biography under the paragraph "Senior Management."

Ms. Soon Yuk Tai (孫玉蒂), aged 43, is the Joint Company Secretary of the Bank. Ms. Soon is a director of the Corporate Services Division of Tricor Services Limited, a global professional services provider specializing in integrated business, corporate and investor services. Prior to joining Tricor Group in 2002, she was a senior manager of company secretarial services at Ernst & Young and Tengis Limited in Hong Kong. Ms. Soon is a chartered secretary and an associate of both the Institute of Chartered Secretaries and Administrators in United Kingdom and the Hong Kong Institute of Chartered Secretaries. Ms. Soon has extensive experience in a diversified range of corporate services and has been providing professional secretarial services to many listed companies.

BOARD COMMITTEES

Strategic Development and Investment Management Committee

In July 2003, we established a Strategic Development and Risk Management Committee of our Board. According to the Board resolution dated February 6, 2007, this committee was divided into two separate committees: Strategic Development Committee and Risk Management Committee. According to the Board resolution dated February 29, 2008, the Strategic Development Committee

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DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

changed its name to Strategic Development and Investment Management Committee. Its primary duties are (i) to study and formulate our long-term development strategy and medium to long-term developments plan and provide advice to the Board; (ii) to supervise and evaluate the implementation of the strategic plans and provide advices; (iii) to provide advices on the amendments to the strategic plans in response to the change of the business environment; (iv) to study and formulate rules on overseas investment, provide advices and plans on the material investment decision of the Bank and implement the group management on the affiliated institutions to the Bank; (v) to study and formulate rules on overseas merger and acquisition, research on the merger and acquisition strategy and provide implementation plans; (vi) to research on the diversified development and operation pattern and formulate models for the establishment and management of the finance (group) corporation; and (vii) to study and implement other material matters related to the strategic development of the Bank. The Strategic Development and Investment Management Committee has seven members, which consists of Mr. Dong Wenbiao, chairman of such committee, who is also the Chairman of our Board; Mr. Hong Qi, our executive Director and President; Mr. Wang Songqi, our independent non-executive Director; and Mr. Zhang Hongwei, Mr. Lu Zhiqiang, Mr. Liu Yonghao and Mr. Wang Junhui, our non-executive Directors.

Audit Committee

In July 2003, we established an Audit Committee of our Board as part of the former Audit and Related Party Transactions Supervision Committee, which was separated into the Audit Committee and the Related Party Transactions Supervision Committee in August 2004. Its primary duties are (i) to provide suggestions on the appointment and change of external auditors; (ii) to supervise our internal audit system and its implementation; (iii) to be responsible for communication between our internal and external auditors; (iv) to examine and verify our financial information and their disclosure; and (v) to examine our internal control system. The audit committee has six members, which consists of Mr. Qin Rongsheng, our independent non-executive Director, as the chairman of such committee, Mr. Andrew Wong, Mr. Wang Songqi and Mr. Han Jianmin, our independent non-executive Directors, and Mr. Shi Yuzhu and Ms. Wong Hei, our non-executive Directors.

Related Party Transactions Supervision Committee

In August 2004, we established an independent Related Party Transactions Supervision Committee of our Board through the separation of the former Audit and Related Party Transactions Supervision Committee to focus on evaluating and monitoring connected transactions pursuant to the recommendations in the Corporate Governance Guidelines of the PBOC. Its primary duties are (i) to formulate the system on the management of the connected transactions and implement such management; (ii) to identify the connected parties of the Bank and report to the Board and the Supervisory Board; (iii) to identify the connected transactions of the Bank; (iv) to examine the connected transactions of the Bank in accordance with the laws and regulations and the normal business principles of fairness; (v) the independent non-executive Directors shall make written report on the fairness of the material and extraordinarily material connected transactions and their internal approval status; (vi) material connected transactions shall be submitted to the Board for approval upon the examination of the Related Party Transactions Control Committee, and in case of the extraordinarily material connected transactions or when the amount exceeds the authority of the Board, the approval from the shareholders' general meetings is also required; and (vii) to examine the information disclosure of the material connected transactions of the Bank. The Related Party Transactions Supervision Committee has eight members, which consists of Mr. Qin Rongsheng, our independent non-executive Director, as the chairman of such committee; Mr. Liang Jinquan, Mr. Wang Lihua and Mr. Han Jianmin, our independent non-executive Directors; Ms. Wong Hei,

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DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Mr. Wang Junhui, Mr. Shi Yuzhu, our non-executive Directors; and Mr. Liang Yutang, our executive Director and Vice President of our Bank.

Compensation and Remuneration Committee

In July 2003, we established a Compensation and Evaluation Committee of our Board. Its primary duties are (i) to study the standards for the evaluation of our Directors and senior management personnel, conduct such evaluations and provide suggestions; (ii) to research and review the policies and proposals for compensation for our Directors and senior management personnel; and (iii) to research and provide advice on the scheme and implementation model of share incentive plan. The Compensation and Remuneration Committee has nine members, which consists of Mr. Andrew Wong, our independent non-executive Director, as the chairman of such committee Mr. Liang Jinquan, Mr. Qin Rongsheng, Mr. Wang Lihua and Mr. Han Jianmin, our independent non-executive Directors; Mr. Chen Jian, Mr. Wang Hang and Mr. Lu Zhiqiang, our non-executive Directors; and Mr. Liang Yutang, our executive Director and Vice President.

Risk Management Committee

In February 2007, we established an independent Risk Management Committee of our Board through the separation of the former Strategic Development and Risk Management Committee. Its primary duties are (i) to study the macro economic and financial policy of the nation, analyze the market change, provide industrial risk management advices and formulate the risk constraint index system of the Bank; (ii) to study the regulations, policies and regulatory indexes promulgated by the regulatory authorities and provide advices on effective implementation; (iii) to study the developing strategy and the risk management system for the Bank and advise on the streamlining of the structure and organization, control procedure and risk disposal methods in risk management; (iv) to study the implementation steps and the mode of management for the strategic planning of the Bank, evaluate the effectiveness of risk policies and advise on dynamic risk control; (v) to study company operation and the risks and lay out the core risk issues for attention required by five levels and in accordance with the requirement of discount mode; (vi) to review the risk monitoring index system and the analysis report on risk management information and supervise the necessary measures adopted by the operation management body to identify, measure, monitor and control operational risks; (vii) to supervise and evaluate the implementation of the strategic plan, and procure the operation management body to improve its risk control capacity in a continuous manner; (viii) to research on the systems of the risk identification, managing skills, risk control and compensation in the operations management of the Bank, and review the plans on the building up of the risk control system; (ix) to review the alert and pre-caution system and emergency plans in case of material risk events in the operations management of the Bank; (x) to organize risk evaluation for material risk events, and research on and formulate plans for risk prevention; (xi) to review the information disclosures in the risk management sector of the Bank; (xii) other duties or powers granted by the Board. The Risk Management Committee has five members, which consists of Mr. Wang Songqi, our independent non-executive Director, as the chairman of such committee; Mr. Andrew Wong, our independent non-executive Director; Mr. Wang Yugui and Mr. Wang Hang, our non-executive Directors; and Mr. Liang Yutang, our executive Director and Vice President.

Nomination Committee

In July 2003, we established a Nomination Committee of our Board. Its primary duties are (i) to analyze and formulate the selection standards and procedures of our Directors and the President and provide suggestions; (ii) to identify suitable candidates for the position of our Directors and the President; and (iii) to evaluate the candidates for the position of Directors and the President and

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DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

provide suggestions. The Nomination Committee has nine members, which consists of Mr. Liang Jinquan, our independent non-executive Director, as the chairman of such committee; Mr. Andrew Wong, Mr. Qin Rongsheng, Mr. Wang Lihua and Mr. Han Jianmin, our independent non-executive Directors; Mr. Zhang Hongwei, Mr. Wang Yugui and Mr. Wang Hang, our non-executive Directors; and Mr. Hong Qi, our executive Director and President.

SUPERVISORY BOARD COMMITTEES

In December 2004, we established a Nomination Committee (subsequently renamed as the Nomination and Remuneration Committee) and a Supervisory Committee of our Supervisory Board in accordance with the Internal Control Guidelines of our Bank. The Nomination and Remuneration Committee has six members, including Ms. Xu Rui, as the convenor, and Mr. Qiao Zhimin, Mr. Xing Jijun, Mr. Wang Liang, Mr. Lu Zhongnan and Mr. Zhang Disheng. The Supervisory Committee has seven members, including Mr. Qiao Zhimin, as the convenor, and Mr. Xing Jijun, Ms. Xu Rui, Mr. Wang Liang, Mr. Lu Zhongnan, Mr. Chen Jinzhong and Ms. Wang Lei.

COMPENSATION OF DIRECTORS AND SUPERVISORS

Our executive Directors, employee Supervisors and senior management personnel receive compensation in the form of salaries, bonuses and housing allowance. As required by the PRC laws and regulations, we also participate in various defined contribution plans organized by the provincial and municipal government and welfare schemes for our employees, including mainly medical insurance, injury insurance, unemployment insurance, pension insurance and housing allowances.

For the three years ended December 31, 2008, the aggregate fees and compensation paid to all our Directors and Supervisors were approximately RMB15,997,600 (after-tax), RMB55,704,500 and RMB55,950,400, respectively. The aggregate amount of compensation paid to our five highest paid employees in those periods was referred to in Note 10 in the Accountant Report in Appendix I.

Save as disclosed above, no other emoluments have been paid or are payable in respect of the three years ended December 31, 2008 to our Directors and Supervisors. Under the current compensation, we estimate the aggregate remuneration, including benefits in kind, payable to our Directors and Supervisors for 2009 will be approximately RMB41,700,000.

Compliance Adviser

The Bank has appointed [●] to be the compliance adviser in compliance with the relevant rules and regulations. The material terms of the compliance adviser agreement are as follows:

- (i) the appointment of [●] as the compliance adviser under the relevant regulations; and
- (ii) the compliance adviser will provide us with certain services, including providing us with proper guidance and advice as to compliance with the requirements under the relevant rules and regulations.

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SUBSTANTIAL SHAREHOLDERS

As of the Latest Practicable Date, the following persons directly or indirectly control, or are entitled to exercise, or control the exercise of, 5% or more of our A Shares:

Name of Shareholder	No. of Shares directly or indirectly held	Approximate percentage of share capital (%)
Mr. Liu Yonghao ⁽¹⁾⁽⁵⁾	1,585,358,136	7.16
Ms. Li Wei (李巍) ⁽²⁾⁽⁵⁾	1,585,358,136	7.16
Ms. Liu Chang (劉暢) ⁽³⁾⁽⁵⁾	1,585,358,136	7.16
New Hope Group Co., Ltd. (新希望集團有限公司) ⁽⁴⁾⁽⁵⁾	1,585,358,136	7.16
New Hope Agricultural Co., Ltd. (四川新希望農業股份有限公司) ⁽⁴⁾⁽⁵⁾	1,111,322,354	5.02
New Hope Investment Co., Ltd. (新希望投資有限公司) ⁽⁵⁾	1,111,322,354	5.02
China Life Insurance Company Limited	959,422,762	4.33

Notes:

- (1) Mr. Liu Yonghao personally holds 62.34% of the issued share capital of New Hope Group Co. Ltd. (新希望集團有限公司). Under the SFO, Mr. Liu Yonghao is deemed to be interested in the 1,111,322,354 A Shares held by New Hope Investment Co. Ltd. and the 474,035,782 A Shares held by Sichuan South Hope Industrial Co. Ltd..
- (2) Ms. Li Wei is the spouse of Mr. Liu Yonghao. Under the SFO, Ms. Li is deemed to be interested in the 1,111,322,354 A Shares held by New Hope Investment Co. Ltd. and the 474,035,782 A Shares held by Sichuan South Hope Industrial Co. Ltd.. Ms. Li personally holds 1.31% of the issued share capital of New Hope Group Co. Ltd..
- (3) Ms. Liu Chang personally holds 36.35% of the issued share capital of New Hope Group Co. Ltd.. Under the SFO, Ms. Liu is deemed to be interested in the 1,111,322,354 A Shares held by New Hope Investment Co. Ltd. and the 474,035,782 A Shares held by Sichuan South Hope Industrial Co. Ltd.. Ms. Liu is the daughter of Mr. Liu Yonghao.
- (4) New Hope Group Co. Ltd. holds 45.70% of the issued share capital of New Hope Agricultural Co. Ltd. (四川新希望農業股份有限公司). New Hope Agricultural Co. Ltd. holds 75% of the issued share capital of New Hope Investment Co. Ltd. (新希望投資有限公司). New Hope Group Co. Ltd. also directly holds 25% of the issued share capital of New Hope Investment Co. Ltd.. New Hope Group Co. Ltd. also holds 100% of the issued share capital of Sichuan South Hope Industrial Co. Ltd. (四川南方希望實業有限公司). (Accordingly, under the SFO, New Hope Group Co., Ltd. is deemed to be interested in the 1,111,322,354 A Shares held by New Hope Investment Co., Ltd. and the 474,035,782 A Shares held by Sichuan South Hope Industrial Co., Ltd. and New Hope Agriculture Co., Ltd. is deemed to be interested in the 1,111,322,354 A Shares held by New Hope Investment Co., Ltd..)
- (5) For the avoidance of doubt and double counting, it should be noted that duplication occurs to the extent that the shareholding stated against New Hope Investment Co., Ltd. was entirely duplicated or included in that against Mr. Liu Yonghao, Ms. Li Wei, Ms. Liu Chang, New Hope Group Co. Ltd. and New Hope Agricultural Co., Ltd., with the shareholding stated against New Hope Group Co., Ltd. was entirely duplicated or included in that against Mr. Liu Yonghao, Ms. Li Wei and Ms. Liu Chang.

Except as disclosed in this document (including Appendix X—Statutory and General Information), as of the Latest Practicable Date, we are not aware of any arrangement which may on a subsequent date result in a change of control of our Bank.

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SHARE CAPITAL

As of the Latest Practicable Date, our share capital, which comprised 18,823,001,989 A Shares, is categorized as follows:

	Number of shares	Approximate percentage of share capital
A Shares	18,823,001,989	100.00%
	<u>18,823,001,989</u>	<u>100.00%</u>

Our shareholders approved at an extraordinary general meeting on October 17, 2005 a share reform plan and conversion of capital reserve fund into share capital. Pursuant to the Conversion Scheme, we issued to each shareholder 1.55 new shares for every 10 shares held by the shareholder out of our capital reserve fund, all of the new shares issued to the holders of non-tradable shares were then transferred to the holders of tradable shares, on the basis of 5.02416 new shares for every 10 shares held by the holders of tradable shares prior to the conversion. The Conversion Scheme was approved by SASAC and the CBRC and implemented in October 2005.

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

The following discussion and analysis should be read in conjunction with the Accountant's Report in Appendix I, the Unaudited Interim Financial Report in Appendix II, the unaudited supplementary financial information in Appendix III in each case together with the accompanying notes, included elsewhere in this document. The consolidated financial statements included in the Accountant's Report and the Unaudited Interim Financial Report have been prepared in accordance with IFRS.

ASSETS

As of June 30, 2009, our total assets amounted to RMB1,410.0 billion, an increase of 33.7% compared to RMB1,054.4 billion as of December 31, 2008. Our total assets increased by 14.7% to RMB1,054.4 billion as of December 31, 2008 compared to RMB918.8 billion as of December 31, 2007, which increased by 26.7% compared to RMB725.1 billion as of December 31, 2006. The growth from December 31, 2006 to June 30, 2009 was primarily due to the growth in loans to customers, a key component of our total assets, and reflected the overall growth of our business.

Our investment securities and trading assets increased by 17.6% to RMB157.3 billion as of June 30, 2009 from RMB133.8 billion as of December 31, 2008, after a decrease from RMB156.6 billion as of December 31, 2007. The decrease in 2008 reflected (i) the decrease of the value of our available-for-sale securities held by us, and (ii) our increased position in higher-yield asset categories other than debt securities. The increase of investment securities and trading assets in the first half of 2009 was primarily due to the increased liquidity resulting from a significant increase in deposits from customers.

Other important components of our assets include balances with central bank and placements with banks and other financial institutions. The following table sets forth, at the dates indicated, the components of our total assets.

	2006		As of December 31,				As of June 30,	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Loans and advances to customers, gross	472,088	65.1%	554,959	60.4%	658,360	62.4%	903,934	64.1%
Allowances for impairment losses	(6,417)	(0.9%)	(7,663)	(0.8%)	(11,885)	(1.1%)	(13,256)	(0.9%)
Loans to customers, net	465,671	64.2%	547,296	59.6%	646,475	61.3%	890,678	63.2%
Investment securities and trading assets	100,692	13.9%	156,552	17.0%	133,784	12.7%	157,313	11.2%
Balances with central bank	105,205	14.5%	106,992	11.7%	181,878	17.2%	134,641	9.5%
Placements with banks and other financial institutions, net ⁽¹⁾	32,148	4.4%	80,235	8.7%	52,408	5.0%	174,595	12.4%
Cash and due from banks and other financial institutions ⁽²⁾	11,564	1.6%	11,986	1.3%	17,648	1.7%	24,080	1.7%
Other assets ⁽³⁾	9,807	1.4%	15,776	1.7%	22,157	2.1%	28,707	2.0%
Total assets	725,087	100%	918,837	100%	1,054,350	100%	1,410,014	100%

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

Notes:

- (1) Placements with banks and other financial institutions are net of the related allowance for impairment losses of RMB96 million, RMB94 million, RMB92 million and RMB34 million as of December 31, 2006, 2007 and 2008 and as of June 30, 2009, respectively.
- (2) We did not record any related allowance for impairment losses for cash and due from banks and other financial institutions as of December 31, 2006, 2007 and 2008 and June 30, 2009, respectively.
- (3) Other assets consist primarily of property, plant and equipment, finance lease receivables, deferred income tax assets, etc.

Loans and Advances to Customers

We provide a broad range of loan products to our customers through our branch network and SBUs. Our loans to customers, net of the allowance for impairment losses, represented 63.2%, 61.3%, 59.6% and 64.2% of our total assets as of June 30, 2009 and December 31, 2008, 2007 and 2006, respectively.

Unless otherwise indicated in this document, the following discussion is based on our total loans to customers, before taking into account the related allowance for impairment losses, rather than our net loans to customers. Our loans are reported net of the allowance for impairment losses on our consolidated balance sheet.

As of June 30, 2009, our total loans and advances to customers amounted to RMB903.9 billion, an increase of 37.3% from RMB658.4 billion as of December 31, 2008. Our total loans to customers increased by 18.6% to RMB658.4 billion as of December 31, 2008 from RMB555.0 billion as of December 31, 2007, which in turn increased by 17.6% from RMB472.1 billion as of December 31, 2006.

Distribution of Loans by Product Type

For a description of the products we offer, see "Business — Our Principal Business Activities." The following table sets forth, at the dates indicated, our loans to customers by product type.

	As of December 31,						As of June 30,	
	2006		2007		2008		2009	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Corporate loans	345,544	73.2%	420,837	75.8%	485,858	73.8%	663,342	73.4%
Discounted bills	57,970	12.3%	34,662	6.3%	63,931	9.7%	115,939	12.8%
Retail loans	68,574	14.5%	99,460	17.9%	108,571	16.5%	124,653	13.8%
Total loans to customers	472,088	100%	554,959	100%	658,360	100%	903,934	100%

Corporate loans have historically been the largest component of our loan portfolio. In recent years, we have also increased our efforts to expand our business in retail loans. Both our corporate loans and retail loans grew during the Track Record Period.

Discounted bills are an important component of our total loan portfolio as well as an important instrument in managing our liquidity. We adjust the proportion of discounted bills to manage our loan scale and liquidity. When we have sufficient liquidity, we may consider to purchase discounted bills (normally with a maturity ranging from seven days to six months depending on the availability of our liquidity) from other banks to increase return. On the other hand, we may consider to sell a portion of the discounted bills to increase our liquidity when necessary.

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

Corporate Loans

Corporate loans represented 73.4%, 73.8%, 75.8% and 73.2% of our total loans to customers as of June 30, 2009 and December 31, 2008, 2007 and 2006, respectively. The following table sets forth, at the dates indicated, our corporate loans by product type.

	As of December 31,						As of June 30,	
	2006		2007		2008		2009	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Short-term loans	210,908	61.0%	238,016	56.6%	272,301	56.0%	338,404	51.0%
Medium- and long-term loans	134,636	39.0%	182,821	43.4%	213,557	44.0%	324,938	49.0%
Total corporate loans	345,544	100%	420,837	100%	485,858	100%	663,342	100%

As of June 30, 2009, corporate loans amounted to RMB663.3 billion, an increase of 36.5% from RMB485.9 billion as of December 31, 2008. Corporate loans increased by 15.5% to RMB485.9 billion as of December 31, 2008 from RMB420.8 billion as of December 31, 2007, which in turn increased by 21.8% from RMB345.5 billion as of December 31, 2006. The overall increase in corporate loans from December 31, 2006 to June 30, 2009 was in line with our continued business expansion. The growth rate from 2006 to 2007 was higher compared to the growth rate from 2007 to 2008 mainly because in 2008, (i) the demand for loans decreased due to the economic downturn, and (ii) we refrained from extending new corporate loans to borrowers in certain industries which we believe have relatively high risks of defaults in light of the global economic downturn. Corporate loans increased significantly in the first half of 2009, primarily due to increased market demand for corporate loans as a result of the PRC government's fiscal stimulus measures to boost economic growth and an anticipated economic recovery in the PRC.

As of June 30, 2009, short-term loans amounted to RMB338.4 billion, an increase of 24.3% from RMB272.3 billion as of December 31, 2008. Short-term loans increased by 14.4% to RMB272.3 billion as of December 31, 2008 from RMB238.0 billion as of December 31, 2007, which in turn increased by 12.9% from RMB210.9 billion as of December 31, 2006. As a percentage of our total corporate loan portfolio, short-term loans accounted for 51.0%, 56.0%, 56.6% and 61.0% of our total corporate loans as of June 30, 2009 and December 31, 2008, 2007 and 2006, respectively.

As of June 30, 2009, medium- and long-term loans amounted to RMB324.9 billion, an increase of 52.2% from RMB213.6 billion as of December 31, 2008. Medium- and long-term loans increased by 16.8% to RMB213.6 billion as of December 31, 2008 from RMB182.8 billion as of December 31, 2007, which in turn increased by 35.8% from RMB134.6 billion as of December 31, 2006. As a percentage of our total corporate loan portfolio, medium- and long-term accounted for 49.0%, 44.0%, 43.4% and 39.0% of our total loans as of June 30, 2009 and December 31, 2008, 2007 and 2006, respectively.

The continuous increase of medium- and long-term loans as a percentage of our total corporate loans during the Track Record Period was primarily attributable to a combination of (i) the increasing market demand for medium- and long-term loans during the Track Record Period and (ii) the increase of project loans to our corporate customers. We have adopted the following measures to manage the associated risks relating to the medium- and long-term loans:

- We actively monitor our assets quality and composition from time to time. For each year, we set a quota for the total amount of medium- and long-term loans to be granted in current year and adjust such quota from time to time during the year.

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

- The grant of medium- and long-term loans must comply with our credit policy guidelines. Our medium- and long-term loans are generally granted to infrastructure projects that are encouraged by the state, such as construction projects of railways, highways and airports. Our credit policy guidelines also set out certain industries that may involve higher credit risk in the current year and require our branches and SBUs to strengthen the risk management for medium- and long-term loans to such industries.
- In addition, we set out other conditions for granting of medium- and long- term loans, including, among others, checking the industrial policy of the state with respect to the project, the necessary approvals required for and environmental assessment results relating to the project, as well as whether the the parties to the project have made their own investment.
- We emphasize the importance of post-disbursement monitoring for medium- and long-term loans. In particular, we strictly monitor the use of loans and the process of the project. Our customers managers maintain regular contact with the borrowers by periodic visit to the borrower. We verify the borrowers' ongoing compliance with the terms of the loan agreement and their financial statements if necessary to monitor potential risks associated with the loans.

Discounted Bills

Discounted bills represented 12.8%, 9.7%, 6.3% and 12.3% of our total loans to customers as of June 30, 2009 and December 31, 2008, 2007 and 2006, respectively. The following table sets forth, at the dates indicated, our discounted bills by type of obligor.

	As of December 31,						As of June 30,	
	2006		2007		2008		2009	
	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>
	(in millions of RMB, except percentages)							
Bank acceptance bills	52,239	90.1%	29,427	84.9%	53,778	84.1%	99,014	85.4%
Commercial acceptance bills	<u>5,731</u>	<u>9.9%</u>	<u>5,235</u>	<u>15.1%</u>	<u>10,153</u>	<u>15.9%</u>	<u>16,925</u>	<u>14.6%</u>
Total discounted bills	<u>57,970</u>	<u>100%</u>	<u>34,662</u>	<u>100%</u>	<u>63,931</u>	<u>100%</u>	<u>115,939</u>	<u>100%</u>

Discounted bills increased significantly by 84.4% to RMB63.9 billion as of December 31, 2008 from RMB34.7 billion as of December 31, 2007, and further increased by 81.4% to RMB115.9 billion as of June 30, 2009. The increase was primarily attributable to a combination of (i) an overall increase in market demand for discounted bills, in particular bank acceptance bills, and (ii) our efforts to actively increase our position in discounted bills in response to the PRC government's macroeconomic policy. Discounted bills decreased to RMB34.7 billion as of December 31, 2007 from RMB58.0 billion as of December 31, 2006. The decrease reflected, among other things, our increased position in higher-yield asset categories.

In general, bank acceptance bills have lower impaired loan ratios than commercial acceptance bills, but commercial acceptance bills bear higher discount rates. While bank acceptance bills are still our major discounted bill product, we have sought to selectively increase commercial acceptance bills as a percentage of total discounted bills outstanding to increase our profitability. As a result, the bank acceptance bills as a percentage of total discounted bills decreased from 90.1% in 2006, to 84.9% in 2007 and further decreased to 84.1% in 2008. Commercial acceptance bills increased from 9.9% in 2006, to 15.1% in 2007 and further increased to 15.9% in 2008. As of June 30, 2009, the

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

proportion of bank acceptance bills increased slightly to 85.4%, while the proportion of commercial acceptance bills decreased slightly to 14.6%.

Retail Loans

Retail loans represented 13.8%, 16.5%, 17.9% and 14.5% of our total loans to customers as of June 30, 2009 and December 31, 2008, 2007 and 2006, respectively. The following table sets forth, at the dates indicated, our retail loans by product type.

	As of December 31,						As of June 30,	
	2006		2007		2008		2009	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Residential mortgage loans	65,334	95.3%	89,589	90.1%	87,401	80.5%	92,940	74.6%
Credit card advances	1,169	1.7%	5,426	5.4%	12,727	11.7%	12,755	10.2%
Others ⁽¹⁾	2,071	3.0%	4,445	4.5%	8,443	7.8%	18,958	15.2%
Total retail loans	68,574	100%	99,460	100%	108,571	100%	124,653	100%

Note:

(1) Consist primarily of "Shang Dai Tong" (商貸通), as well as personal consumption loans such as home improvement loans, education loans and automobile loans.

As of June 30, 2009, our retail loans amounted to RMB124.7 billion, an increase of 14.8% from RMB108.6 billion as of December 31, 2008. Retail loans increased by 9.2% to RMB108.6 billion as of December 31, 2008 from RMB99.5 billion as of December 31, 2007, which in turn increased by 45.0% from RMB68.6 billion as of December 31, 2006. The continuous increase of our retail loans reflects, among other things, our focus on expanding our retail loan business.

As of June 30, 2009, our residential mortgage loans amounted to RMB92.9 billion, an increase of 6.3% from RMB87.4 billion as of December 31, 2008. Residential mortgage loans decreased slightly by 2.4% to RMB87.4 billion as of December 31, 2008 from RMB89.6 billion as of December 31, 2007, which in turn increased by 37.1% from RMB65.3 billion as of December 31, 2006. The high growth rate of residential mortgage loans in 2007 reflected the boom in China's residential real estate market during that period, particularly in the affluent provinces and coastal cities where we had significant residential mortgage loan exposure. The decrease in 2008 was primarily attributable to (i) an increased rate of mortgage repayment ahead of schedule by customers in early 2008 following the PBOC's raising of the benchmark interest rate several times in late 2007; and (ii) our adoption of more prudent lending policies when the residential real estate market began to cool down in 2008. The balance of our residential mortgage loans as of June 30, 2009 increased relatively slightly because China's residential real estate market recovered and the demand for residential properties increased in the first half of 2009.

As of June 30, 2009, credit card advances amounted to RMB12.8 billion, increased slightly from RMB12.7 billion as of December 31, 2008. Credit card advances increased by 134.6% to RMB12.7 billion as of December 31, 2008 from RMB5.4 billion as of December 31, 2007, which in turn increased by 364.2% from RMB1.2 billion as of December 31, 2006. The significant growth in credit card advances from December 31, 2006 to December 31, 2008 reflected our focus on expanding our credit card business. The growth rate of the credit card advances slowed down in the first half of 2009, mainly due to the decrease of the number of newly issued credit cards same period, reflecting the more conservative consumption attitude of credit card users in China under the then economic environment.

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

Our other retail loans consist primarily of loans to "Shang Dai Tong" (商貸通), as well as personal consumption loans such as home improvement loans, education loans and automobile loans. Other retail loans increased significantly by 124.5% to RMB19.0 billion as of June 30, 2009 from RMB8.4 billion as of December 31, 2008, primarily driven by an increase in "Shang Dai Tong" (商貸通), increased by 89.9% from RMB4.4 billion and by 114.6% from 2.1 billion as of December 31, 2007 and 2006, respectively.

We classify our corporate loan portfolio based on the industry classifications of the National Bureau of Statistics of China. The following table sets forth, at the dates indicated, the distribution of our corporate loans by industry classifications.

	As of December 31,						As of June 30,	
	2006		2007		2008		2009	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Manufacturing	75,202	21.8%	96,417	22.9%	93,655	19.3%	118,441	17.9%
Real estate.	52,714	15.3%	69,308	16.5%	84,976	17.5%	95,070	14.3%
Transportation, storage and post services.	39,743	11.5%	46,561	11.0%	65,383	13.5%	79,195	11.9%
Leasing and commercial services ⁽¹⁾	18,449	5.3%	25,255	6.0%	47,512	9.8%	78,995	11.9%
Water, environment and public utility management	32,592	9.4%	35,905	8.5%	37,907	7.8%	70,676	10.7%
Production and supply of electric power, gas and water.	39,349	11.4%	48,292	11.5%	42,890	8.8%	54,930	8.3%
Mining	10,045	2.9%	14,772	3.5%	26,565	5.5%	36,651	5.5%
Public management and social organizations	9,410	2.7%	7,925	1.9%	13,147	2.7%	33,864	5.1%
Construction	21,860	6.3%	23,481	5.6%	23,261	4.8%	29,702	4.5%
Wholesale and retail	16,934	4.9%	21,124	5.0%	19,927	4.1%	25,377	3.8%
Education and public services	14,485	4.2%	16,739	4.0%	13,319	2.7%	20,442	3.1%
Financing.	1,794	0.5%	2,332	0.6%	3,060	0.6%	4,835	0.7%
Information transmission, IT services and software	5,818	1.7%	3,905	0.9%	4,355	0.9%	4,744	0.7%
Others ⁽²⁾	7,149	2.1%	8,821	2.1%	9,901	2.0%	10,420	1.6%
Total corporate loans.	345,544	100%	420,837	100%	485,858	100%	663,342	100%

Notes:

(1) Consist primarily of lending to asset management, leasing, advertising and municipal infrastructure construction.

(2) Consist primarily of lending to scientific research, technical service, geological exploration, hotel and restaurants industries etc.

The aggregate amount of loans to borrowers in (i) manufacturing, (ii) real estate, (iii) transportation, storage and post service, (iv) leasing and commercial services, (v) water, environment and public utility management, and (vi) production and supply of electric power, gas and water industries, our six largest industries in terms of aggregate loan exposure, represented 75.0%, 76.7%, 76.4% and 74.7% of our total corporate loans as of June 30, 2009 and December 31, 2008, 2007 and 2006, respectively.

Each year, the Credit Assessment Department of our headquarters prepares guidelines regarding our overall credit policy based on detailed internal research and recommendations

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

provided by the other departments at our headquarters, the SBUs and the branches. In the credit policy guidelines, the Credit Assessment Department specifies recommended credit quotas for particular industries, indicating whether lending to borrowers in those industries should be encouraged or restricted within our Bank. The credit policy guidelines are submitted to our Risk Management Commission for approval. After being approved, the credit policy guidelines are distributed to the other relevant departments at our headquarters, the SBUs and the branches, which, in accordance with the policies relating to particular industries customers and regions relevant to their businesses, prepare their own credit policies with reference to the credit policy guidelines. The other departments, the SBUs and the branches provide the Credit Assessment Department with their feedback from time to time so that the Credit Assessment Department may further adjust the overall credit policy guidelines during the year.

Distribution of Loans by Geographical Region

We classify loans geographically based on the location of the branch that originated the loan. Our branches generally originate loans to borrowers located in their respective geographical areas. The following table sets forth, at the dates indicated, the distribution of our loan portfolio by geographical region.

	As of December 31,						As of June 30,	
	2006		2007		2008		2009	
	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>
	(in millions of RMB, except percentages)							
Northern China ⁽¹⁾	159,511	33.8%	174,754	31.5%	191,011	29.0%	317,062	35.1%
Eastern China	150,157	31.8%	186,760	33.7%	236,412	35.9%	291,491	32.2%
Southern China	81,462	17.3%	92,202	16.6%	95,388	14.5%	93,895	10.4%
Others ⁽²⁾	80,958	17.1%	101,243	18.2%	135,549	20.6%	201,486	22.3%
Total loans to customers	<u>472,088</u>	<u>100%</u>	<u>554,959</u>	<u>100%</u>	<u>658,360</u>	<u>100%</u>	<u>903,934</u>	<u>100%</u>

Notes:

(1) Loans originated by our headquarters are included in Northern China. Loans originated by the SBUs are included in the branches at which the SBUs or their sub-branches are located, except that loans originated by the Trade Finance SBU are included in Northern China. See "Financial Information — Summary Segment Operating Results".

(2) Include Pengzhou Minsheng Township Bank Co., Ltd. and the following branches: Xi'an, Dalian, Chongqing, Chengdu, Kunming, Wuhan, Changsha, Zhengzhou and Changchun.

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DESCRIPTION OF OUR ASSETS AND LIABILITIES	

Distribution of Corporate Loans by Size

The following table sets forth, at the dates indicated, the distribution of the outstanding amounts of our corporate loan exposures to borrowers by size.

	As of December 31,												As of June 30,			
	2006				2007				2008				2009			
	Amount	% of total	Number of borrowers	Average borrowing amount ⁽¹⁾	Amount	% of total	Number of borrowers	Average borrowing amount ⁽¹⁾	Amount	% of total	Number of borrowers	Average borrowing amount ⁽¹⁾	Amount	% of total	Number of borrowers	Average borrowing amount ⁽¹⁾
(in millions of RMB, except percentages and the number of borrowers)																
Up to RMB10 million . .	5,565	1.6%	962	6	6,618	1.6%	1,120	6	8,249	1.7%	1,322	6	9,607	1.4%	1,680	6
Over RMB10 million to RMB50 million	42,867	12.4%	1,432	30	46,023	10.9%	1,585	29	48,430	10.0%	1,731	28	58,416	8.8%	2,045	29
Over RMB50 million to RMB100 million	42,432	12.3%	509	83	50,371	12.0%	608	83	53,497	11.0%	645	83	62,325	9.4%	750	83
Over RMB100 million to RMB500 million . .	167,871	48.6%	707	237	202,074	48.0%	847	239	228,654	47.1%	938	244	303,349	45.7%	1,199	253
Over RMB500 million to RMB1 billion	65,134	18.8%	91	716	83,747	19.9%	116	722	98,770	20.3%	134	737	118,254	17.9%	155	763
Over RMB1 billion . . .	21,675	6.3%	16	1,355	32,004	7.6%	23	1,391	48,258	9.9%	32	1,508	111,391	16.8%	60	1,857
Total corporate loans	345,544	100%	3,717	93	420,837	100%	4,299	98	485,858	100%	4,802	101	663,342	100%	5,889	113

Note:

(i) Calculated by dividing the amount of loans in each category by number of borrowers in each category.

Distribution of Loans by Collateral

Loans secured by collateral, pledged assets and guarantees represented, in the aggregate, 70.3%, 73.6%, 72.8% and 76.6% of our total loan portfolio as of June 30, 2009 and December 31, 2008, 2007 and 2006, respectively. If a loan is secured by more than one form of collateral, the distribution is based on the primary form of collateral. The following table sets forth, at the dates indicated, the distribution of our loan portfolio by the type of collateral.

	As of December 31,						As of June 30,	
	2006		2007		2008		2009	
	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>
	(in millions of RMB, except percentages)							
Unsecured loans	110,485	23.4%	151,018	27.2%	173,421	26.4%	268,672	29.7%
Guaranteed loans	131,829	27.9%	142,165	25.6%	150,383	22.8%	194,880	21.6%
Secured loans								
— Collateralized loans ⁽¹⁾	133,396	28.3%	184,585	33.3%	220,754	33.5%	267,009	29.5%
— Pledged loans ⁽²⁾	<u>96,378</u>	<u>20.4%</u>	<u>77,191</u>	<u>13.9%</u>	<u>113,802</u>	<u>17.3%</u>	<u>173,373</u>	<u>19.2%</u>
Total loans to customers	<u>472,088</u>	<u>100%</u>	<u>554,959</u>	<u>100%</u>	<u>658,360</u>	<u>100%</u>	<u>903,934</u>	<u>100%</u>

Notes:

- (1) Represent loans secured by tangible assets remaining in the borrower's possession, which consist primarily of loans secured by real estate and plant and equipment.
- (2) Consist primarily of loans secured by deposits, financial instruments (including discounted bills) and rights to future cash flows.

During the Track Record Period, the percentage of unsecured loans increased from 23.4% as of December 31, 2006 to 29.7% as of June 30, 2009, mainly because: (i) our overall customer base is

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

optimized along with our SBU reform and as a result, we have granted more unsecured loans to our customers; and (ii) the expansion of our credit card business had resulted in increases in unsecured loans. In order to effectively manage the potential risks associated with unsecured loans, we have implemented very restrictive conditions for granting unsecured loans. Each and all of the following conditions must be met for granting unsecured loans to a corporate loan applicant:

- The applicant must be a customer with a high customer credit rating, namely, higher than A grade (inclusive), pursuant to our customer rating system. See "Risk Management — Credit Risk Management — Credit Risk Management for Corporate Loans — Customer Ratings";
- The applicant's business must fall within those encouraged industries pursuant to our credit policy guidelines. See "Risk Management — Credit Risk Management — Credit Risk Management for Corporate Loans — Credit Policy Guidelines"; and
- The applicant does not have any bad credit record.

Loans secured by tangible assets are generally subject to loan-to-value ratio limits based on the type of collateral. See "Risk Management — Credit Risk Management — Credit Risk Management for Corporate Loans — Collateral Appraisal." Guarantors are subject to the same credit approval process as borrowers. Since guaranteed loans are generally not secured by any assets of the guarantors and some guarantors are related parties to the borrowers or otherwise having business relationship with the borrowers, we have implemented stricter credit policies on guaranteed loans. As a percentage of our loan portfolio, guaranteed loans decreased to 21.6% as of June 30, 2009 from 22.8% as of December 31, 2008, 25.6% as of December 31, 2007 and 27.9% as of December 31, 2006.

The following table sets forth a breakdown of the distribution of our loans by collateral in terms of corporate banking and retail banking:

	As of December 31,						As of June 30,	
	2006		2007		2008		2009	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Corporate Banking								
Unsecured loans	109,271	23.1%	145,557	26.2%	160,555	24.4%	241,130	26.7%
Guaranteed loans	131,142	27.8%	141,635	25.5%	149,775	22.7%	192,394	21.3%
Secured loans								
— Collateralized loans	67,462	14.3%	92,004	16.6%	126,970	19.3%	174,283	19.3%
— Pledged loans ⁽¹⁾	95,639	20.3%	76,303	13.7%	112,489	17.1%	171,474	19.0%
Subtotal	403,514	85.5%	455,499	82.0%	549,789	83.5%	779,281	86.3%
Retail Banking								
Unsecured loans	1,214	0.3%	5,461	1.0%	12,866	2.0%	27,542	3.0%
Guaranteed loans	687	0.1%	530	0.1%	608	0.1%	2,486	0.3%
Secured loans								
— Collateralized loans	65,934	14.0%	92,581	16.7%	93,784	14.2%	92,726	10.2%
— Pledged loans	739	0.1%	888	0.2%	1,313	0.2%	1,899	0.2%
Subtotal	68,574	14.5%	99,460	18.0%	108,571	16.5%	124,653	13.7%
Total	472,088	100%	554,959	100%	658,360	100%	903,934	100%

Note:

(1) Includes discounted bills.

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

Borrower Concentration

In accordance with applicable PRC banking laws and regulations, we are subject to a lending limit of 10% of our regulatory capital to any single borrower. As of June 30, 2009 and December 31, 2008, 2007 and 2006, our largest aggregate loan exposure to a single borrower was 9.3%, 4.2%, 3.6%, and 5.8%, respectively, of our regulatory capital. We were thus in compliance with this requirement. As of June 30, 2009, the aggregate amount of loans to our ten largest single borrowers totaled RMB38.0 billion, representing 4.2% of our total loans to customers.

The following table sets forth, as of June 30, 2009, the loans to our ten largest single borrowers (excluding group borrowers), all of which were performing at that date.

		As of June 30, 2009		
<u>Industry</u>		<u>Amount</u>	<u>% of total</u>	<u>% of regulatory capital⁽¹⁾</u>
		(in millions of RMB, except percentages)		
Borrower A	Public management and social organizations	7,570	0.8%	9.2%
Borrower B	Leasing and commercial services	5,041	0.6%	6.2%
Borrower C	Public management and social organizations	4,000	0.4%	4.9%
Borrower D	Transportation, storage and post services	3,500	0.4%	4.3%
Borrower E	Public management and social organizations	3,500	0.4%	4.3%
Borrower F	Public management and social organizations	3,100	0.3%	3.8%
Borrower G	Manufacturing	3,016	0.3%	3.7%
Borrower H	Public management and social organizations	2,900	0.3%	3.5%
Borrower I	Manufacturing	2,900	0.3%	3.5%
Borrower J	Public management and social organizations	2,500	0.3%	3.1%
Total		38,027	4.2%	46.5%

Note:

(1) Represents loan amounts as a percentage of our regulatory capital. See "Supervision and Regulation — PRC Banking Supervision and Regulation — Supervision Over Capital Adequacy."

We have implemented policies and procedures designed to identify borrower applicants belonging to the same group in our credit extension process. Based on the information available to us, as of June 30, 2009, the aggregate amount of loans to our ten largest group borrowers (excluding single borrowers) totaled RMB29.5 billion, representing 3.3% of our total loans to customers and 36.0% of our regulatory capital.

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

The following table sets forth, as of June 30, 2009, the loans to our ten largest group borrowers (excluding single borrowers), all of which were performing at that date.

	<u>Industry</u>	As of June 30, 2009		
		<u>Amount</u>	<u>% of total</u>	<u>% of regulatory capital⁽¹⁾</u>
		(in millions of RMB, except percentages)		
Borrower A	Production and supply of electric power, gas and water	5,001	0.6%	6.1%
Borrower B	Production and supply of electric power, gas and water	3,722	0.4%	4.6%
Borrower C	Production and supply of electric power, gas and water	3,400	0.4%	4.2%
Borrower D	Manufacturing	3,140	0.3%	3.8%
Borrower E	Manufacturing	2,738	0.3%	3.3%
Borrower F	Production and supply of electric power, gas and water	2,708	0.3%	3.3%
Borrower G	Construction	2,421	0.3%	3.0%
Borrower H	Transportation, storage and post services	2,203	0.2%	2.7%
Borrower I	Construction	2,078	0.2%	2.5%
Borrower J	Manufacturing	2,047	0.2%	2.5%
Total		<u>29,457</u>	<u>3.3%</u>	<u>36.0%</u>

Note:

- (1) Represents loan amounts as a percentage of our regulatory capital. See "Supervision and Regulation — PRC Banking Supervision and Regulation — Supervision Over Capital Adequacy."

According to the Guidelines on the Management of Risks of Credits Granted by Commercial Banks to Group Clients «商業銀行集團客戶授信業務風險管理指引» published by the CBRC on October 23, 2003, a commercial bank may determine the scope of single and group customers according to the CBRC's guidelines and the actual requirements of its risk management arising out of its management of risks of its credit extension business. The China Minsheng Bank Provisional Measures of the Management of Group Customers «中國民生銀行集團客戶管理暫行辦法» filed with the CBRC set out rules relating to the concept, scope, identification and determination of group customers. Our PRC legal advisors, Grandall Legal Group (Beijing), have confirmed that the methods used by us to classify group borrowers comply with the relevant CBRC requirements.

However, information regarding the group affiliations of individual corporate entities may not be available to us on a timely basis or at all. See "Risk Factors — Risks Relating to the Banking Industry in the PRC — The effectiveness of our risk management system is affected by the quality and scope of information available in the PRC" and "Risk Factors — Risks Relating to Our Business — We are subject to a number of risks, including credit risk, market risk, liquidity risk and operational risk, and cannot assure you that our risk management and internal control policies and procedures can protect us against such risks." The applicable PRC banking guidelines recommend that commercial banks limit loans to any borrowers belonging a single group to no more than 15% of their regulatory capital. Based on the information available to us, as of June 30, 2009 and December 31, 2008, 2007 and 2006, none of our loans to any group borrowers exceeded 15% of our regulatory capital.

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

Maturity Profile of Loan Portfolio

The following table sets forth, as of June 30, 2009, our loan products, net of related allowance for impairment losses, by remaining maturity.

	As of June 30, 2009							Total
	Due less than 3 months	Due over 3 months up to 1 year	Due between 1 and 5 years	Due more than 5 years	Overdue less than 90 days	Overdue 90 days to one year	Overdue more than one year	
	(in millions of RMB)							
Corporate loans	86,210	278,614	211,245	73,121	581	1,662	494	651,927
Discounted bills	65,203	50,391	—	—	17	—	—	115,611
Retail loans	13,215	10,422	31,287	64,957	2,458	742	59	123,140
Total loans to customers, net	<u>164,628</u>	<u>339,427</u>	<u>242,532</u>	<u>138,078</u>	<u>3,056</u>	<u>2,404</u>	<u>553</u>	<u>890,678</u>

As of June 30, 2009, 56.6% of our total loans to customers were due in one year or less. Short-term corporate loans primarily consist of working capital loans and represent a majority of our corporate loan portfolio. We renew a portion of our corporate loans at maturity at the borrower’s request and, when we do so, these loans are treated, and are subject to the same credit approval policies and procedures, as newly-granted loans. All of our discounted bills are short-term and are generally due within six months. The majority of our retail loans have a term of one year or more, primarily because the largest component of our retail loans consists of mortgage loans, which generally have longer terms.

Loan Interest Rate Profile

Interest rates have historically been highly regulated in China and are gradually being liberalized. See “Supervision and Regulation — PRC Banking Supervision and Regulation — Pricing of Products and Services.” Interest rates on RMB-denominated loans are subject to resetting after a change in the applicable PBOC benchmark rates. Since January 1, 2004, under applicable regulations of the PRC government, banks have been allowed to negotiate the terms of interest rates on newly granted RMB-denominated loans with a maturity of longer than one year. To manage interest risk, we generally set adjustable interest rates on most of our corporate loans and retail loans. Only a small portion of our loans with a maturity of longer than one year have fixed interest rates. The adjustable interest rates of our corporate loans depend on our negotiation with our customers and may be adjusted on the next day, or the next interest payable date following the date of a change in the applicable benchmark interest rate.

Under applicable PBOC regulations, since March 17, 2005, commercial banks have been allowed to determine their own interest rates for residential mortgage loans above the minimum benchmark interest rate set by the PBOC. We generally adjust the interest rates of our residential mortgage loans on January 1 of the next year following the date when the applicable benchmark interest rates change.

Asset Quality of Our Loan Portfolio

We measure and monitor the asset quality of our loan portfolio through our loan classification system. We classify our loans using a five-category loan classification system, which complies with the CBRC’s guidelines. See “Supervision and Regulation — PRC Banking Supervision and Regulation — Loan Classification, Allowances and Write-offs — Loan Classification.”

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

Loan Classification Criteria

In determining the classification of our loan portfolio, we apply a series of criteria that are derived from the CBRC guidelines. These criteria are designed to assess the likelihood of repayment by the borrower and the collectability of principal and interest on the loan. Our loan classification criteria focus on a number of factors, to the extent applicable, including (i) the borrower's ability to repay the loan, based on such factors as the borrower's cash flows, financial condition and other non-financial factors affecting the borrower's repayment ability; (ii) the borrower's repayment history; (iii) the borrower's willingness to repay; (iv) the profitability of the project; (v) the guarantees provided for the loan; (vi) the legal responsibilities for loan repayment; and (vii) the credit management status of the Bank.

Corporate Loans and Discounted Bills

In applying the above criteria to corporate loans and discounted bills, we also take into account the length of time by which payments of principal or interest on a loan are overdue, the borrower's financial condition, the borrower's business cycle, and other factors. The key factors for each loan classification are listed below. This is not intended to be a complete list of all factors taken into account in classifying our loans.

Normal. The borrower can honor its contract and there is no reason to doubt that the loan principal and interest will not be repaid in full and on a timely basis.

- The industry that the borrower is in has good prospects; the borrower has a leading position within its industry and very strong competitive advantages.
- The borrower has robust operations and finances and can resist or withstand large and negative internal and external changes, has excellent loan repayment and profit-earning ability, and has stable and sufficient operational net cash flow.
- The borrower has excellent credit and strong financing ability, with multiple financing sources to satisfy its financing needs.
- The borrower has a good credit history, a strong inclination to repay loans, and no record of default with us or any other financial institution.

Special Mention. Even if the borrower currently has the ability to repay the loan principal and interest, there are still factors that could adversely affect its repayment ability.

- Changes such as those in macro-political policies, the economy, market, industry, and laws and regulations have had certain negative effects on the borrower's operations.
- There is reason to suspect that the borrower is using mergers, restructuring, spin-offs etc. to intentionally evade its bank debt obligations, however, the borrower has no overdue loan principal or interest.
- The borrower's profit-earning ability has diminished, and each of its financial indicators is below average industry levels or have declined to a specific extent.
- The guarantor's operational or credit situation has raised concerns, and collateral value is fluctuating or falling.
- Principal or interest is overdue for 90 days or less.

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

Substandard. The borrower's ability to repay is clearly in question. It cannot rely entirely on its normal operating revenues, and certain losses may ensue even when guarantees are enforced.

- The borrower has continued financial difficulties, affecting its ability to continue its business operations, it has repayment difficulties, is unlikely to obtain new funds and is unable to repay debts to its other lenders.
- Other than the borrower's production and operations, the repayment of our loans to the borrower depends on enforcing guarantees and on other repayment sources, and even so, we expect to incur loss.
- Principal or interest is overdue between 90 to 180 days.

Doubtful. The borrower is unable to repay loan principal and interest in full, and relatively large losses will certainly ensue even if guarantees are enforced.

- The borrower's operations are now in critical condition, production has been suspended or partially suspended, and fixed asset projects have been suspended or postponed.
- The borrower is insolvent and is unable to repay.
- We have already taken legal measures, but anticipate that even if we invoke legal proceedings, relatively large losses will still be incurred.
- Principal or interest is overdue between 180 to 360 days.

Loss. We will classify a loan as a loss if we are still unable to collect the loan principal and interest or can only collect a small portion of it after taking all possible measures and necessary legal proceedings.

The fact that principal or interest is overdue for 361 days or more is only a minor factor in our determination of whether a loan is a loss.

Retail Loans

In applying the loan classification criteria to retail loans, we primarily consider, among others, the length of time by which payments of principal or interest are overdue and the collateral provided to such loans.

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

The following tables set forth the key quantitative factors that we consider when classify retail loans.

For retail loans other than credit cards:

	Normal	Special mention	Substandard	Doubtful	Loss
Pledge	Not due	Overdue for 90 days or less	Overdue for 91 days or more	— ⁽¹⁾	— ⁽¹⁾
Mortgage	Not due	Overdue for 90 days or less	Overdue between 91 to 180 days	Overdue for 181 days or more	— ⁽¹⁾
Guarantee	Not due	Overdue for 30 days or less	Overdue between 31 to 90 days	Overdue for 91 days or more	— ⁽¹⁾
Unsecured	Not due	Overdue for 30 days or less	Overdue between 31 to 90 days	Overdue between 91 to 360 days	Overdue for 361 days or more

For credit cards:

Normal	Not due
Special mention	Overdue between 1 to 180 days
Substandard	Overdue between 181 to 270 days
Doubtful	Overdue between 271 to 360 days
Loss	Overdue for 361 days or more

Distribution of Loans by Loan Classification

The following tables set forth, at the dates indicated, the distribution of our loan portfolio by loan classification category. We use the term "non-performing loans" and "impaired loans" synonymously to refer to the loans identified as "impaired loans" in Note 3.(2).f.(iii) to the Accountant's Report in Appendix I to this document. See "Definitions." Under our five-category loan classification system, our non-performing loans are classified as substandard, doubtful or loss, as applicable.

	As of December 31,						As of June 30,	
	2006		2007		2008		2009	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Normal	453,836	96.1%	540,521	97.4%	634,073	96.3%	880,855	97.4%
Special mention	12,359	2.6%	7,665	1.4%	16,366	2.5%	15,278	1.7%
Substandard	2,328	0.5%	2,292	0.4%	3,459	0.5%	2,813	0.3%
Doubtful	2,202	0.5%	2,736	0.5%	3,189	0.5%	2,464	0.3%
Loss	1,363	0.3%	1,745	0.3%	1,273	0.2%	2,524	0.3%
Total loans to customers	472,088	100%	554,959	100%	658,360	100%	903,934	100%
Non-performing loan ratio⁽¹⁾		1.25%		1.22%		1.20%		0.86%

Note:

(1) Calculated by dividing non-performing loans by total loans.

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

	As of December 31,						As of June 30,	
	2006		2007		2008		2009	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Corporate loans								
Normal	328,984	95.2%	408,107	97.0%	465,678	95.8%	645,206	97.2%
Special mention	11,229	3.3%	6,526	1.5%	12,994	2.7%	11,287	1.7%
Substandard	2,115	0.6%	2,055	0.5%	3,138	0.6%	2,424	0.4%
Doubtful	1,875	0.5%	2,408	0.6%	2,781	0.6%	1,931	0.3%
Loss	1,341	0.4%	1,741	0.4%	1,267	0.3%	2,494	0.4%
Subtotal	<u>345,544</u>	<u>100%</u>	<u>420,837</u>	<u>100%</u>	<u>485,858</u>	<u>100%</u>	<u>663,342</u>	<u>100%</u>
Non-performing loan ratio ⁽¹⁾		1.54%		1.47%		1.48%		1.03%
Discounted bills								
Normal	57,970	100%	34,662	100%	63,862	99.9%	115,929	100%
Special mention	—	—	—	—	—	—	10	0.0%
Substandard	—	—	—	—	15	0.0%	—	—
Doubtful	—	—	—	—	54	0.1%	—	—
Loss	—	—	—	—	—	—	—	—
Subtotal	<u>57,970</u>	<u>100%</u>	<u>34,662</u>	<u>100%</u>	<u>63,931</u>	<u>100%</u>	<u>115,939</u>	<u>100%</u>
Non-performing loan ratio ⁽¹⁾		—		—		0.11%		—
Retail loans								
Normal	66,882	97.5%	97,752	98.3%	104,533	96.3%	119,720	96.1%
Special mention	1,130	1.7%	1,139	1.2%	3,372	3.1%	3,981	3.2%
Substandard	213	0.3%	237	0.2%	306	0.3%	389	0.3%
Doubtful	327	0.5%	328	0.3%	354	0.3%	533	0.4%
Loss	22	0.0%	4	0.0%	6	0.0%	30	0.0%
Subtotal	<u>68,574</u>	<u>100%</u>	<u>99,460</u>	<u>100%</u>	<u>108,571</u>	<u>100%</u>	<u>124,653</u>	<u>100%</u>
Total loans to customers	<u>472,088</u>		<u>554,959</u>		<u>658,360</u>		<u>903,934</u>	
Non-performing loan ratio ⁽¹⁾		0.82%		0.57%		0.61%		0.76%

Note:

(1) Calculated by dividing non-performing loans in each category by total loans.

The non-performing loan ratio for our total loan portfolio was 0.86%, 1.20%, 1.22% and 1.25% as of June 30, 2009 and December 31, 2008, 2007 and 2006, respectively. The decrease in our non-performing loan ratio from December 31, 2006 to December 31, 2008 reflected an overall improvement in the asset quality of our loan portfolio, primarily attributable to the following factors:

- We continuously seek to improve our overall risk management system, especially our risk management organizational structure, policies, procedures and culture.
- We establish credit policy guidelines on an annual basis, and adjust such guidelines from time to time in accordance with market conditions and our business goal.
- With respect to existing loans, we continuously seek to improve our risk identification capacity with advanced technology and a more sensitive risk alert system and more stringent procedures.

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

- We have been able to collect problem loans more efficiently with the support of our Investment Banking SBU, which is responsible for the management, recovery and collection of non-performing loans transferred to it.

The significant decrease in the non-performing loan ratio in the first half of 2009 was attributable to, in addition to the above factors our continuous efforts to recover problem loans.

Changes to the Asset Quality of Our Loan Portfolio

The following table sets forth, at the dates indicated, the changes in the outstanding amounts of our impaired loans.

	As of December 31,			As of June 30
	2006	2007	2008	2009
	(in millions of RMB)			
Beginning of the year	4,828	5,893	6,773	7,921
Additional impaired loans ⁽¹⁾	2,092	2,780	5,029	2,520
Deducted by ⁽²⁾				
Write-offs ⁽³⁾	(435)	(792)	(1,198)	(603)
Upgrades	(59)	(33)	(144)	(63)
Recoveries	(533)	(1,075)	(2,539)	(1,762)
Others	—	—	—	(212)
End of the year	<u>5,893</u>	<u>6,773</u>	<u>7,921</u>	<u>7,801</u>

Notes:

(1) Include downgrades from performing loans to impaired loans in respective year.

(2) Write off includes write off of loan principle

(3) We also recorded a one-off waiver of RMB212 million in the first half of 2009, representing the outstanding loan principal and the interest which we agreed to waive with respect to one of our corporate loan customers, a highway constructor, after such customer agreed to repay the remaining outstanding principal amount of RMB[350] million. The waiver was approved by our Board and such customer repaid the remaining RMB[350] million to us in March 2009.

As of June 30, 2009, the balance of our impaired loans was RMB7.8 billion, a decrease by 1.5% from RMB7.9 billion as of December 31, 2008, mainly due to our strengthened recovery of impaired loans during the period.

As of December 31, 2008, the balance of our impaired loans was RMB7.9 billion, an increase by 16.9% from RMB6.8 billion as of December 31, 2007, which in turn increased by 14.9% from RMB5.9 billion as of December 31, 2006. However, our impaired loan ratio continued to decrease from 1.25% as of December 31, 2006 to 1.22% as of December 31, 2007 to 1.20% as of December 2008. The increase in the balance of our impaired loans from December 31, 2006 to December 31, 2008 was primarily due to additional impaired loans recorded in 2007 and 2008, respectively, as a result of our business expansion. Our recoveries of impaired loans increased significantly in 2007 and 2008, reflecting our efforts to recollect problem loans.

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

Distribution of Impaired Loans by Product Type

The following table sets forth, at the dates indicated, our impaired loans by product type.

	As of December 31,									As of June 30,		
	2006			2007			2008			2009		
	Amount	% of total	Impaired loans ratio ⁽¹⁾	Amount	% of total	Impaired loans ratio ⁽¹⁾	Amount	% of total	Impaired loans ratio ⁽¹⁾	Amount	% of total	Impaired loans ratio ⁽¹⁾
(in millions of RMB, except percentages)												
Corporate loans												
Short term loans	3,245	55.1%	1.54%	3,216	47.5%	1.35%	3,215	40.6%	1.18%	3,416	43.8%	1.01%
Medium- and long-term loans	2,086	35.4%	1.55%	2,988	44.1%	1.63%	3,971	50.1%	1.86%	3,433	44.0%	1.06%
subtotal	5,331	90.5%	1.54%	6,204	91.6%	1.47%	7,186	90.7%	1.48%	6,849	87.8%	1.03%
Discounted bills	—	—	—	—	—	—	69	0.9%	0.11%	—	—	—
Retail loans												
Residential mortgage loans	482	8.2%	0.74%	538	7.9%	0.60%	451	5.7%	0.52%	507	6.5%	0.55%
Credit card advances	7	0.1%	0.60%	25	0.4%	0.46%	156	2.0%	1.23%	418	5.4%	3.28%
Others	73	1.2%	3.52%	6	0.1%	0.13%	59	0.7%	0.70%	27	0.3%	0.14%
subtotal	562	9.5%	0.82%	569	8.4%	0.57%	666	8.4%	0.61%	952	12.2%	0.76%
Total impaired loans	5,893	100%	1.25%	6,773	100%	1.22%	7,921	100%	1.20%	7,801	100%	0.86%

Note:

(1) Calculated by dividing impaired loans in each category by total loans in that category.

The impaired loan ratio of short term loans decreased to 1.01% as of June 30, 2009 from 1.18% as of December 31, 2008, 1.35% as of December 31, 2007 and 1.54% as of December 31, 2006, reflecting our continuous efforts to control our impaired loans.

The impaired loan ratio of medium- and long-term loans increased to 1.86% as of December 31, 2008 from 1.63% as of December 31, 2007, which in turn increased from 1.55% as of December 31, 2006. The increase of the impaired loan ratio of medium and long-term loans from 2006 to 2007 primarily reflected the impact of the PRC government's macroeconomic tightening policy, particularly on certain borrowers in the power and real estate industries. The increase of the impaired loan ratio of medium- and long-term loans from 2007 to 2008 was primarily due to the impact of the global economic downturn on certain industries of the PRC, such as the real estate and energy industries. This resulted in downgrades of loans to some of our customers in such industries. The impaired loan ratio of medium- and long-term loans decreased to 1.06% as of June 30, 2009 from 1.86% as of December 31, 2008, mainly because (i) the total amount of medium- and long-term loans increased in the first half of 2009, (ii) some of our customers had improved their financial condition and resumed repaying the loans, and (iii) our continuous effort to recover impaired loans.

The impaired loan ratio of residential mortgage loans decreased to 0.52% as of December 31, 2008 from 0.60% as of December 31, 2007 and 0.74% as of December 31, 2006. As of June 30, 2009, the impaired loan ratio of residential mortgage loans increased slightly to 0.55% from 0.52% as of December 31, 2008.

The impaired loan ratio of credit card advances increased to 3.28% as of June 30, 2009 from 1.23% as of December 31, 2008, 0.46% as of December 31, 2007 and 0.60% as of December 31, 2006. The increase in the impaired loan ratio of credit card advances is in line with the business expansion of our credit card business and within our risk tolerance level. As of June 30, 2009, the total amount of the impaired loans of credit card advances amounted to RMB418 million, representing an increase of 167.9% from RMB156 million as of December 31, 2008, mainly because some of our

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

credit card customers were affected by the economic downturn and therefore unable to repay the outstanding credit card advances in time.

We had an impaired loan ratio of 3.52% for other retail loans as of December 31, 2006, representing mainly our impaired automobile loans. As a result of our efforts to recollect the impaired automobile loans and the writing off of certain amounts of impaired automobile loans, the impaired loan ratio for other loans decreased to 0.13%, 0.70% and 0.14% as of December 31, 2007 and 2008 and June 30, 2009, respectively.

Distribution of Corporate Impaired Loans by Industry

The following table sets forth, at the dates indicated, the distribution of our impaired corporate loans by industry.

	As of December 31,									As of June 30,		
	2006			2007			2008			2009		
	Amount	% of total	Impaired loan ratio ⁽¹⁾	Amount	% of total	Impaired loan ratio ⁽¹⁾	Amount	% of total	Impaired loan ratio ⁽¹⁾	Amount	% of total	Impaired loan ratio ⁽¹⁾
(in millions of RMB, except percentages)												
Manufacturing	2,068	38.8%	2.75%	1,819	29.3%	1.89%	1,427	19.9%	1.52%	1,743	25.4%	1.47%
Real estate	622	11.7%	1.18%	1,664	26.8%	2.40%	2,230	31.0%	2.62%	2,020	29.5%	2.12%
Transportation, storage and post services	10	0.2%	0.03%	104	1.7%	0.22%	595	8.3%	0.91%	45	0.7%	0.06%
Leasing and commercial services ⁽²⁾	571	10.7%	3.09%	353	5.7%	1.40%	520	7.2%	1.09%	670	9.8%	0.85%
Water environment and public utility management	—	0.0%	0.00%	—	0.0%	0.00%	—	0.0%	0.00%	—	0.0%	0.00%
Production and supply of electric power, gas and water	89	1.7%	0.23%	88	1.4%	0.18%	1,047	14.6%	2.44%	974	14.2%	1.77%
Mining	18	0.3%	0.18%	18	0.3%	0.10%	11	0.2%	0.04%	11	0.2%	0.03%
Public management and social organizations	—	0.0%	0.00%	—	0.0%	0.00%	—	0.0%	0.00%	—	0.0%	0.00%
Construction	—	0.0%	0.00%	—	0.0%	0.00%	31	0.4%	0.13%	70	1.0%	0.24%
Wholesale and retail	846	15.9%	5.00%	1,126	18.2%	5.30%	402	5.6%	2.02%	372	5.4%	1.47%
Education and public services	576	10.8%	3.98%	563	9.1%	3.36%	229	3.2%	1.72%	15	0.2%	0.07%
Financing	8	0.1%	0.45%	83	1.3%	3.56%	—	0.0%	0.00%	—	0.0%	0.00%
Information transmission, IT services and software	233	4.4%	4.00%	201	3.2%	5.15%	413	5.7%	9.48%	412	6.0%	8.68%
Others ⁽³⁾	290	5.4%	4.06%	185	3.0%	2.10%	281	3.9%	2.84%	517	7.6%	4.96%
Total corporate impaired loans	5,331	100%	1.54%	6,204	100%	1.47%	7,186	100%	1.48%	6,849	100%	1.03%

Notes:

- (1) Impaired loan ratios for each industry are calculated by dividing the amount of total impaired loans for each industry by total outstanding loans for that industry.
- (2) Consist primarily of asset management, leasing, advertising and municipal infrastructure construction
- (3) Consist primarily of scientific research, technical service, geological exploration, hotel and restaurants industries etc.

The impaired loan ratio of our loans to the manufacturing industry decreased from 2.75% as of December 31, 2006, 1.89% as of December 31, 2007, 1.52% as of December 31, 2008 to 1.47% as of June 30, 2009, primarily due to our increased efforts to recover these impaired loans.

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

As of June 30, 2009, impaired loans to the real estate industry accounted for 29.5% of our total impaired loans. The impaired loan ratio of our loans to the real estate industry increased to 2.62% as of December 31, 2008 from 2.40% as of December 31, 2007 and 1.18% as of December 31, 2006. The increase in the impaired loan ratio of our loans to the real estate industry from December 31, 2006 to December 31, 2008 primarily reflected the impact of the economic downturn on the real estate market and the impact of the PRC government's macroeconomic measures relating to the real estate industry, particularly on borrowers in the real estate industry which were highly leveraged and whose sources of funding were adversely affected by these measures. The impaired loan ratio of our loans to the real estate industry decreased to 2.12% as of June 30, 2009 from 2.62% as of December 31, 2008, primarily due to the recovery of China's real estate market since early 2009.

The impaired loan ratio of our loans to the production and supply of electric power, gas and water industry increased significantly to 2.44% in 2008. In particular, the increase of the impaired loan ratio of our loans to the production and supply of electric power, gas and water industry was largely due to the significant increase in the prices of coal in 2008. This caused one of our power company customers to suffer losses and as a result, it was unable to pay the interest in accordance with its loan contract with us. The impaired loan ratio of our loans to the production and supply of electric power, gas and water industry decreased to 1.77% as of June 30, 2009, primarily due to our continuous efforts to recover problem loans.

The impaired loan ratio of our loans to the leasing and commercial services industry decreased from 3.09% as of December 31, 2006, to 1.40% as of December 31, 2007, 1.09% as of December 31, 2008 and 0.85% as of June 30, 2009. The impaired loan ratio of our loans to the wholesale and retail industry decreased from 5.00% as of December 31, 2006 and 5.3% as of December 31, 2007 to 2.02% as of December 31, 2008 and 1.47% as of June 30, 2009. The impaired loan ratio of our loans to the education and public services industry decreased from 3.98% as of December 31, 2006, to 3.36% as of December 31, 2007, 1.72% as of December 31, 2008 and 0.07% as of June 30, 2009. The continuous decreases in the impaired loan ratio in these industries were mainly due to our increased efforts to recover impaired loans in these industries and the overall improvement in our loan quality.

The impaired loan ratio of our loans to the information transmission, IT services and software increased significantly from December 31, 2007 to June 30, 2009, primarily due to the slow-down of growth in these industries which has had a material adverse impact on certain borrowers in these businesses.

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

Distribution of Impaired Loans by Geographical Region

The following table sets forth, at the dates indicated, the distribution of our impaired loans by geographical region.

	As of December 31,									As of June 30,		
	2006			2007			2008			2009		
	Amount	% of total	Impaired loan ratio ⁽¹⁾	Amount	% of total	Impaired loan ratio ⁽¹⁾	Amount	% of total	Impaired loan ratio ⁽¹⁾	Amount	% of total	Impaired loan ratio ⁽¹⁾
(in millions of RMB, except percentages)												
Northern China	4,759	80.8%	2.98%	4,172	61.6%	2.39%	4,316	54.5%	2.26%	4,297	55.1%	1.36%
Eastern China	393	6.7%	0.26%	655	9.7%	0.35%	1,434	18.1%	0.61%	1,982	25.4%	0.68%
Southern China	586	9.9%	0.72%	1,705	25.2%	1.85%	1,801	22.7%	1.89%	1,118	14.3%	1.19%
Others	155	2.6%	0.19%	241	3.5%	0.24%	370	4.7%	0.27%	404	5.2%	0.20%
Total impaired loans	5,893	100%	1.25%	6,773	100%	1.22%	7,921	100%	1.20%	7,801	100%	0.86%

Note:

(1) Impaired loan ratios for each geographic region are calculated by dividing total impaired loans for each geographical region by total outstanding loans for that geographical region.

As of June 30, 2009, our impaired loan ratio for the Northern China region was the highest among all of our geographical regions. The impaired loan ratio for Northern China was (and has been historically) relatively higher because (i) many branches located in such region have operated for many years, and (ii) impaired loans in such region include those of our headquarters, particularly those impaired loans transferred to and handled by the Investment Banking SBU of our headquarters for recovery. The impaired loan ratio for the Northern China region decreased from 2.26% as of December 31, 2008 to 1.36% as of June 30, 2009, mainly because our Investment Banking SBU successfully recovered certain problem loans in the first half of 2009.

The amount of impaired loans in and the impaired loan ratio for Eastern China and Southern China increased during the Track Record Period, mainly reflecting the increase of impaired loans in certain types of enterprises located in these regions, such as export-oriented enterprises, manufacturers and real estate developers, as a result of the China's economic conditions as well as the impact of the global economic slowdown. The decrease of the amount of impaired loans and the impaired loan ratio in Southern China in the first six months of 2009 mainly reflected our efforts to recover impaired loans during that period.

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

Distribution of Impaired Loans by Collateral

The following table sets forth, at the dates indicated, the distribution of our impaired loans by collateral type.

	As of December 31,									As of June 30,		
	2006			2007			2008			2009		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
	(in millions of RMB, except percentages)											
Unsecured loans	481	8.1%	0.44%	496	7.3%	0.33%	818	10.3%	0.47%	880	11.3%	0.33%
Guaranteed loans	3,492	59.3%	2.65%	3,171	46.8%	2.23%	2,320	29.3%	1.54%	2,381	30.5%	1.22%
Secured loans												
- Collateralized loans ⁽¹⁾	1,533	26.0%	1.15%	2,788	41.2%	1.51%	4,066	51.3%	1.84%	4,230	54.2%	1.58%
- Pledged loans ⁽²⁾	387	6.6%	0.40%	318	4.7%	0.41%	717	9.1%	0.63%	310	4.0%	0.18%
Total impaired loans to customer	<u>5,893</u>	<u>100%</u>	<u>1.25%</u>	<u>6,773</u>	<u>100%</u>	<u>1.22%</u>	<u>7,921</u>	<u>100%</u>	<u>1.20%</u>	<u>7,801</u>	<u>100%</u>	<u>0.86%</u>

Notes:

- (1) Represent loans secured by tangible assets remaining in the borrower's possession, which consist primarily of loans secured by real estate, plant and equipment.
- (2) Consist primarily of loans secured by deposits, financial instruments (including discounted bills) and rights to future cash flows.

The impaired loan ratio for guaranteed loans decreased to 1.22% as of June 30, 2009 from 1.54% as of December 31, 2008, 2.23% as of December 31, 2007 and 2.65% as of December 31, 2006. The decrease was attributable primarily to our efforts to implement more strict credit assessment standards for granting guaranteed loans and improved collections with respect to problem loans by us.

The amount of impaired loans and the impaired loan ratio for collateralized loans increased from 2006 to 2008 as indicated in the above table. Such increase was along with our business expansion. Loans to borrowers in the real estate industry account for a substantial portion of our collateralized loans. The amount of impaired loans and the impaired loan ratio for collateralized loans increased in 2007 and 2008, primarily reflected the impact of economic downturn on the real estate market and the impact of the PRC government's macroeconomic measures relating to the real estate industry, particularly on borrowers in the real estate industry which were highly leveraged and whose sources of funding were adversely affected by these measures. The impaired loan ratio for collateralized loans decreased from 1.84% as of December 31, 2008 to 1.58% as of June 30, 2009, mainly due to our efforts to recover impaired loans during that period.

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

Ten Largest Borrowers with Impaired Loans

The following table sets forth, as of June 30, 2009, our borrowers with the ten largest impaired loan balances outstanding.

Industry	As of June 30, 2009		
	Amount	% of regulatory capital	% of total impaired loans
(in millions of RMB, except percentages)			
Borrower A Production and supply of electric power, gas and water	879	1.1%	11.3%
Borrower B Real estate	576	0.7%	7.4%
Borrower C Manufacturing	274	0.3%	3.5%
Borrower D Real estate	232	0.3%	3.0%
Borrower E Leasing and commercial services	215	0.3%	2.8%
Borrower F Information transmission, IT services and software	200	0.2%	2.6%
Borrower G Others	199	0.2%	2.6%
Borrower H Leasing and commercial services	199	0.2%	2.6%
Borrower I Real estate	196	0.2%	2.5%
Borrower J Education and public services	189	0.2%	2.4%
Total	3,159	3.9%	40.7%

Loan Aging Schedule

The following table sets forth, at the dates indicated, our loan aging schedule for our loans to customers.

	As of December 31,						As of June 30,	
	2006		2007		2008		2009	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Current loans	460,998	97.7%	544,007	98.0%	643,663	97.8%	892,465	98.7%
Loans past due for ⁽¹⁾								
1 to 90 days	3,353	0.7%	3,981	0.7%	5,597	0.9%	3,787	0.4%
91 days to 180 days	963	0.2%	491	0.1%	2,911	0.4%	1,026	0.1%
181 days or more	6,774	1.4%	6,480	1.2%	6,189	0.9%	6,656	0.7%
Subtotal	11,090	2.3%	10,952	2.0%	14,697	2.2%	11,469	1.3%
Loans overdue 91 days or more	7,737	1.6%	6,971	1.3%	9,100	1.3%	7,682	0.8%
Total loans to customer	472,088	100%	554,959	100%	658,360	100%	903,934	100%

Note:

- (1) Represent the principal amount of the loans on which principal or interest is overdue. For loans that are repayable in installments, if any portion of the loan is overdue, the total amount of that loan is classified as overdue.

Allowance for Impairment Losses on Loans to Customers

We assess our loans for impairment, determine a level of allowance for impairment losses, and recognize any related provisions made in a year, using the concept of impairment under IAS 39. Our

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

loans are reported net of the allowance for impairment losses on our consolidated balance sheet. Where there is objective evidence of impairment as a result of events occurring after the initial recognition of loans which affect the estimated future cash flows of the loans, we perform individual assessments to determine the allowance for impairment losses against individually significant loans (which consist of corporate loans and discounted bills).

The allowance for impairment losses of loans is measured as the difference between the carrying amounts and the estimated recoverable amounts of the loans. The estimated recoverable amounts are the present value of the estimated future cash flows of the loans, including, among other things, the recoverable value of the collateral.

Individually significant loans for which no evidence of impairment has been individually identified consist of performing loans (loans classified as "normal" and "special mention"). These performing loans are treated as a single category and assessed collectively for the purpose of determining the allowance for impairment losses. Homogeneous groups of loans that are not considered individually significant represent retail loans. These loans are also collectively assessed for the purpose of determining the allowance for impairment losses. The allowance for impairment losses of the collectively assessed loans is determined primarily based on our historical loss experience in similar portfolios and on current economic conditions.

The number of overdue dates is only one of the indicators that we consider when deciding the allowance for impairment losses. An overdue loan does not necessarily imply a full amount of impairment loss. Therefore, we do not make full allowance for impairment loss for overdue loans. Note 2.7 to the Accountants' Report included as Appendix I to this document sets out detailed disclosures with respect to the criteria that we use to determine objective evidence of an impairment loss.

In April 2002, the PBOC issued the Guidelines Regarding Allowance of Impairment Loss by Banks (《銀行貸款損失準備計提指引》). The provisions under the guidelines are made with reference to the PBOC's five-category loan classification system and therefore are different from the allowance for impairment losses we made pursuant to IAS39 and other related accounting rules. As of June 30, 2009, the difference between the allowance for impairment losses calculated according to the guidelines and the allowance for impairment losses calculated according to IAS39 and other related accounting rules was not material. As of the date of this document, we comply with the requirement under the guidelines.

Individual and Collective Assessment on Loans

We use two methods of assessing impairment losses: on an individual basis and on a collective basis. Individually assessed loans and advances are those considered individually significant. Collectively assessed loans and advances are those homogeneous groups of loans that are considered either individually insignificant or not considered impaired after assessment on an individual basis. We assess our non-performing corporate loans and discounted bills on an individual basis. We assess our (i) performing corporate loans and discounted bills (of which no impairment is identified on an individual basis); and (ii) all retail loans, on a collective basis.

The following table sets forth, as of the dates indicated, our impaired loans assessed on an individual basis, representing non-performing corporate loans and discounted bills, and our impaired loans assessed on a collective basis, representing impaired retail loans. For details on

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

individual and collective assessment of our loans, see "Financial Information — Critical Accounting Estimates and Judgments."

	As of December 31,						As of June 30,	
	2006		2007		2008		2009	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Individually assessed	5,114	86.8%	5,690	84.0%	6,720	84.8%	6,529	83.7%
Collectively assessed	779	13.2%	1,083	16.0%	1,201	15.2%	1,272	16.3%
Total impaired loans	5,893	100%	6,773	100%	7,921	100%	7,801	100%

Distribution of Allowance for Impairment Losses by Loan Classification

The following table sets forth, at the dates indicated, the allocation of our allowance for impairment losses by loan classification category:

	As of December 31,									As of June 30,		
	2006			2007			2008			2009		
	Amount	% of total	Allowance to loan ⁽¹⁾	Amount	% of total	Allowance to loan ⁽¹⁾	Amount	% of total	Allowance to loan ⁽¹⁾	Amount	% of total	Allowance to loans ⁽¹⁾
	(in millions of RMB, except percentages)											
Performing	2,556	39.8%	0.5%	3,537	46.1%	0.6%	7,186	60.5%	1.1%	8,075	60.9%	0.9%
Substandard	712	11.1%	30.6%	522	6.8%	22.8%	1,162	9.8%	33.6%	874	6.6%	31.1%
Doubtful	1,788	27.9%	81.2%	1,859	24.3%	67.9%	2,264	19.0%	71.0%	1,783	13.5%	72.3%
Loss	1,361	21.2%	99.9%	1,745	22.8%	100%	1,273	10.7%	100%	2,524	19.0%	100%
Total allowance	6,417	100%	1.4%	7,663	100%	1.4%	11,885	100%	1.8%	13,256	100%	1.5%

Note:

- (1) Calculated by dividing the amount of the allowance for impairment losses on loans in each category by the total amount of loans in that category.

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

The following table sets forth, at the dates indicated, the allocation of our allowance for impairment losses by product type and by loan classification category.

	As of December 31,									As of June 30,		
	2006			2007			2008			2009		
	Amount	% of total	Allowance to loans ⁽¹⁾	Amount	% of total	Allowance to loans ⁽¹⁾	Amount	% of total	Allowance to loans ⁽¹⁾	Amount	% of total	Allowance to loans ⁽¹⁾
(in millions of RMB, except percentages)												
Corporate												
Performing	2,204	34.3%	0.6%	2,975	38.8%	0.7%	5,885	49.5%	1.2%	6,858	51.7%	1.0%
Substandard	633	9.9%	29.9%	421	5.5%	20.5%	1,038	8.7%	33.1%	723	5.5%	29.8%
Doubtful	1,500	23.4%	80.0%	1,575	20.6%	65.4%	1,926	16.2%	69.3%	1,340	10.1%	69.4%
Loss	1,339	20.9%	99.9%	1,741	22.7%	100%	1,267	10.7%	100%	2,494	18.8%	100%
Subtotal	5,676	88.5%	1.6%	6,712	87.6%	1.6%	10,116	85.1%	2.1%	11,415	86.1%	1.7%
Discounted bills												
Performing	25	0.4%	0.0%	32	0.4%	0.1%	445	3.7%	0.7%	328	2.5%	0.3%
Substandard	—	—	—	—	—	—	4	0.0%	26.7%	—	—	—
Doubtful	—	—	—	—	—	—	38	0.3%	70.4%	—	—	—
Loss	—	—	—	—	—	—	—	—	—	—	—	—
Subtotal	25	0.4%	0.0%	32	0.4%	0.1%	487	4.1%	0.8%	328	2.5%	0.3%
Retail loans												
Performing	327	5.1%	0.5%	530	6.9%	0.5%	856	7.2%	0.8%	889	6.7%	0.7%
Substandard	79	1.2%	37.1%	101	1.3%	42.6%	120	1.0%	39.2%	151	1.1%	38.8%
Doubtful	288	4.5%	88.1%	284	3.7%	86.6%	300	2.5%	84.7%	443	3.3%	83.1%
Loss	22	0.3%	100%	4	0.1%	100%	6	0.1%	100%	30	0.2%	100%
Subtotal	716	11.1%	1.0%	919	12.0%	0.9%	1,282	10.8%	1.2%	1,513	11.4%	1.2%
Total allowance	6,417	100%	1.4%	7,663	100%	1.4%	11,885	100%	1.8%	13,256	100%	1.5%

Note:

- (1) Calculated by dividing the amount of the allowance for impairment losses on loans in each category by the total amount of loans in that category.

Changes to the Allowance for Impairment Losses

The following table sets forth, for the years indicated, the changes to the allowance for impairment losses on loans to customers.

	Amount, (in millions of RMB)
As of January 1, 2006	4,839
New allowance, net ⁽¹⁾	2,158
Amount written off during the year as uncollectible	(437)
Transfers out ⁽²⁾	—
Recovery after write-off	—
Unwinding of discount on allowance ⁽³⁾	(138)
Exchange difference	(5)
As of December 31, 2006	6,417
New allowance, net ⁽¹⁾	2,236
Amount written off during the year as uncollectible	(792)
Transfers out ⁽²⁾	(35)
Recovery after write-off	10
Unwinding of discount on allowance ⁽³⁾	(160)
Exchange difference	(13)

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

	Amount, (in millions of RMB)
As of December 31, 2007	<u>7,663</u>
New allowance, net ⁽¹⁾	5,686
Amount written off during the year as uncollectible	(1,340)
Transfers out ⁽²⁾	—
Recovery after write-off	56
Unwinding of discount on allowance ⁽³⁾	(164)
Exchange difference	<u>(16)</u>
As of December 31, 2008	<u>11,885</u>
New allowance, net ⁽¹⁾	2,405
Amount written off during the year as uncollectible	(911)
Transfers out ⁽²⁾	—
Recovery after write-off	28
Unwinding of discount on allowance ⁽³⁾	<u>(151)</u>
Exchange difference	—
As of June 30, 2009	<u>13,256</u>

Notes:

- (1) Represents the amount of new allowance provided during the relevant period, after deducting the amount of releases from loan loss allowances during the same period.
- (2) Represent the amount of the related allowance transferred out along with the loans sold by our Bank to others.
- (3) Allowances are calculated based on discounted cash flow. As time goes by, the present value of future cash flow increases, and the allowances are released accordingly.

June 30, 2009 Compared to December 31, 2008. Our allowance for impairment losses as of June 30, 2009 was 13.3 billion, an increase of 11.5% from RMB11.9 billion as of December 31, 2008, primarily due to new allowance provided for the period.

The net new allowance provided for the first half of 2009 amounted to RMB2.4 billion, primarily due to the overall growth of our total loan portfolio.

The amount of loans written off during the first half of 2009 amounted to RMB0.9 billion, primarily due to the increase of the loans that met our requirements for write-off.

2008 Compared to 2007. Our allowance for impairment losses as of December 31, 2008 was RMB11.9 billion, an increase of 55.1% from RMB7.7 billion as of December 31, 2007, primarily due to new allowance provided for the year, partially offset by a reduction of provisions resulting from a greater amount of loans written off in 2008 than 2007.

The net new allowance provided for the year increased by 154.3% to RMB5.7 billion in 2008 compared to RMB2.2 billion in 2007, primarily due to a combination of (i) the overall growth of our total loan portfolio, and (ii) the more conservative approach to provisions, reflecting our evaluation of the current macroeconomic environment.

The amount of loans written off during the year as uncollectible increased by 69.2% to RMB1.3 billion in 2008 from RMB0.8 billion in 2007, primarily due to the increase of the loans that met our requirements for write-off, including among other things, certain loans to companies located in Sichuan Province, which had suffered losses as a result of the earthquake in such province in 2008.

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

2007 Compared to 2006. Our allowance for impairment losses as of December 31, 2007 was RMB7.7 billion, an increase of 19.4% from RMB6.4 billion as of December 31, 2006, primarily due to new allowance provided for the year, partially offset by a reduction of the provisions resulting from a greater amount of loans written off in 2007 than 2006.

The net new allowance provided for the year increased by 78 million to RMB2.2 billion in 2007 compared to the new allowance provided for 2006, primarily due to a combination of (i) the overall growth of our total loan portfolio.

The amount of written off of the allowance resulting from loan write-offs increased by 81.2% to RMB0.8 billion in loans 2007 from RMB0.4 billion in 2006, primarily due to the increase of the loans that met our requirements for write-off.

In 2007, recoveries of loans previously written off amounted to RMB10 million, which was primarily due to our increased focus on collection efforts.

Primarily as a result of the above factors, the coverage ratio of our total allowance for impairment losses to total non-performing loans increased to 169.9% as of June 30, 2009, 150.0% as of December 31, 2008, 113.1% as of December 31, 2007 and 108.9% as of December 31, 2006.

Distribution of Allowance for Impairment Losses by Product Type

The following table sets forth, at the dates indicated, the allowance for impairment losses by product type.

	As of December 31,									As of June 30,		
	2006			2007			2008			2009		
	Amount	% of total	Allowance to impaired loans ⁽¹⁾	Amount	% of total	Allowance to impaired loans ⁽¹⁾	Amount	% of total	Allowance to impaired loans ⁽¹⁾	Amount	% of total	Allowance to impaired loans ⁽¹⁾
(in millions of RMB, except percentages)												
Corporate loans												
Short term loans	3,781	58.9%	116.5%	3,939	51.4%	122.5%	4,906	41.3%	152.6%	4,903	37.0%	143.5%
Medium- and long-term loans	1,895	29.5%	90.8%	2,773	36.2%	92.8%	5,210	43.8%	131.2%	6,512	49.1%	189.7%
Subtotal	5,676	88.5%	106.5%	6,712	87.6%	108.2%	10,116	85.1%	140.8%	11,415	86.1%	166.7%
Discounted bills	25	0.4%	N/A ⁽²⁾	32	0.4%	N/A ⁽²⁾	487	4.1%	705.8%	328	2.5%	N/A ⁽²⁾
Retail loans												
Residential mortgage loans	596	9.3%	123.7%	805	10.5%	149.6%	861	7.2%	190.9%	983	7.4%	193.9%
Credit card advances	30	0.5%	428.6%	105	1.4%	420.0%	309	2.6%	198.1%	479	3.6%	114.6%
Others	90	1.4%	123.3%	9	0.1%	150.0%	112	1.0%	189.8%	51	0.4%	188.9%
Subtotal	716	11.2%	127.4%	919	12.0%	161.5%	1,282	10.8%	192.5%	1,513	11.4%	158.9%
Total allowance	6,417	100%	108.9%	7,663	100%	113.1%	11,885	100%	150.0%	13,256	100%	169.9%

Notes:

- (1) Calculated by dividing the amount for impairment losses on loans in each category by the amount of impaired loans in that category.
- (2) No impaired loan was recorded.

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

Distribution of Allowance for Impairment Losses for Corporate Loans by Industry

The following table sets forth, at the dates indicated, the allowance for impairment losses for our corporate loans by industry.

	As of December 31,									As of June 30,		
	2006			2007			2008			2009		
	Amount	% of total	Allowance to impaired loans ⁽¹⁾	Amount	% of total	Allowance to impaired loans ⁽¹⁾	Amount	% of total	Allowance to impaired loans ⁽¹⁾	Amount	% of total	Allowance to impaired loans ⁽¹⁾
(in millions of RMB, except percentages)												
Manufacturing	2,000	35.2%	96.7%	2,069	30.8%	113.7%	2,045	20.2%	143.3%	2,417	21.3%	138.7%
Real estate	589	10.4%	94.7%	975	14.5%	58.6%	2,013	19.9%	90.3%	2,218	19.4%	109.8%
Transportation, storage and post services	261	4.6%	2,610.0%	366	5.5%	351.9%	861	8.5%	144.7%	820	7.2%	1,822.2%
Leasing and commercial services	394	6.9%	69.0%	358	5.3%	101.4%	1,043	10.3%	200.6%	1,232	10.8%	183.9%
Water, environment and public utility management	208	3.7%	N/A ⁽²⁾	275	4.1%	N/A ⁽²⁾	481	4.8%	N/A ⁽²⁾	629	5.5%	N/A ⁽²⁾
Production and supply of electric power, gas and water	266	4.7%	298.9%	413	6.2%	469.3%	1,210	12.0%	115.6%	1,426	12.5%	146.4%
Mining	82	1.4%	455.6%	131	2.0%	727.8%	337	3.3%	3,063.6%	334	2.9%	3,036.4%
Public management and social organizations	60	1.1%	N/A ⁽²⁾	140	2.1%	N/A ⁽²⁾	167	1.7%	N/A ⁽²⁾	301	2.6%	N/A ⁽²⁾
Construction	139	2.4%	N/A ⁽²⁾	180	2.7%	N/A ⁽²⁾	308	3.0%	993.5%	297	2.6%	424.3%
Wholesale and retail	676	11.9%	79.9%	820	12.2%	72.8%	493	4.9%	122.6%	474	4.2%	127.4%
Education and public services	423	7.5%	73.4%	458	6.8%	81.3%	564	5.6%	246.3%	64	0.6%	426.7%
Financing	95	1.7%	1,187.5%	128	1.9%	154.2%	39	0.4%	N/A ⁽²⁾	43	0.4%	N/A ⁽²⁾
Information transmission, IT services and software	237	4.2%	101.7%	181	2.7%	90%	342	3.4%	82.8%	436	3.8%	105.8%
Others	246	4.3%	84.8%	218	3.2%	117.8%	213	2.1%	75.8%	724	6.3%	140.0%
Total	5,676	100%	106.5%	6,712	100%	108.2%	10,116	100%	140.8%	11,415	100%	166.7%

Notes:

- (1) Calculated by dividing the amount for impairment losses on loans in each category by the amount of impaired loans in that category.
- (2) No non-performing loans recorded.

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

Distribution of Allowance for Impairment Losses by Geographical Region

The following table sets forth, at the dates indicated, the allocation of our allowance for impairment losses by geographical region.

	As of December 31,						As of June 30,					
	2006			2007			2008			2009		
	Amount	% of total	Allowance to impaired loans ⁽¹⁾	Amount	% of total	Allowance to impaired loans ⁽¹⁾	Amount	% of total	Allowance to impaired loans ⁽¹⁾	Amount	% of total	Allowance to impaired loans ⁽¹⁾
	(in millions of RMB, except percentages)											
Northern China	4,070	63.4%	85.5%	3,980	51.9%	95.4%	5,051	42.5%	117.0%	5,743	43.3%	133.7%
Eastern China	1,101	17.1%	280.2%	1,614	21.1%	246.4%	3,251	27.4%	226.7%	3,893	29.4%	196.4%
Southern China	678	10.6%	115.7%	1,226	16.0%	71.9%	1,796	15.1%	99.7%	1,469	11.1%	131.4%
Others	568	8.9%	366.5%	843	11.0%	349.8%	1,787	15.0%	483.0%	2,151	16.2%	532.4%
Total	6,417	100%	108.9%	7,663	100%	113.1%	11,885	100%	150.0%	13,256	100%	169.9%

Note:

- (1) Calculated by dividing the amount of allowance for impairment losses on loans in each category by the amount of impaired loans in that category.

Investment Securities and Trading Assets

Our investment securities and trading assets consist of listed and unlisted Renminbi- and foreign-denominated securities. Investment securities and trading assets represented 11.2%, 12.7%, 17.0% and 13.9% of our total assets as of June 30, 2009 and December 31, 2008, 2007 and 2006, respectively. We classify our investment securities and trading assets into (i) financial assets at fair value through profit or loss, (ii) available-for-sale financial assets, (iii) held-to-maturity financial assets and (iv) loans and receivables, primarily based on our intentions with respect to these assets and pursuant to the requirements of IAS 39. The following table sets forth, at the dates indicated, the components of our investment securities and trading assets.

	As of December 31,						As of June 30,	
	2006		2007		2008		2009	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Trading assets	—	0.0%	2,572	1.6%	4,405	3.3%	7,261	4.6%
Available-for-sale securities ⁽¹⁾	50,162	49.8%	60,715	38.8%	53,597	40.1%	65,042	41.3%
Held-to-maturity securities	40,302	40.0%	45,816	29.3%	38,716	28.9%	46,494	29.6%
Loans and receivables	10,228	10.2%	47,449	30.3%	37,066	27.7%	38,516	24.5%
Total	100,692	100%	156,552	100%	133,784	100%	157,313	100%

Note:

- (1) Includes an allowance of RMB50 million as of December 31, 2008 and RMB62 million as of June 30, 2009 relating to our subprime mortgage securities balance of RMB68 million as of the same dates.

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

The majority of our investment securities and trading assets are debt securities. The following table sets forth, at the dates indicated, the components of our investment in debt securities.

Debt Securities

	As of December 31,						As of June 30,	
	2006		2007		2008		2009	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Government and quasi-								
government bonds	83,918	84.3%	100,187	68.6%	99,839	76.8%	111,687	71.1%
Financial institution bonds	11,162	11.2%	35,705	24.5%	20,809	16.0%	21,758	13.9%
Corporate bonds	4,417	4.5%	10,104	6.9%	9,375	7.2%	23,644	15.0%
Total debt securities	99,497	100%	145,996	100%	130,023	100%	157,089	100%

The portion of government and quasi-government bonds decreased from 84.3% as of December 31, 2006 to 68.6% as of December 31, 2007, while the portion of financial institution bonds increased from 11.2% as of December 31, 2006 to 24.5% as of December 31, 2007. The increase of the percentage of financial institution bonds in 2007 was due to our increased holdings in certain short-term bonds issued by other financial institutions to achieve a better investment return. Most of such bonds were of a maturity of one year or less. The portion of government and quasi-government bonds increased from 68.6% as of December 31, 2007 to 76.8% as of December 31, 2008 and in turn to 71.1% as of June 30, 2009, while the portion of financial institution bonds decreased from 24.5% as of December 31, 2007 to 16.0% as of December 31, 2008 and in turn to 13.9% as of June 30, 2009. In the first half of 2009, we increased our investment in certain corporate bonds with high investment yields to increase our investment return. As a result, the portion of corporate bonds increased to 15.0% as of June 30, 2009 from 7.2% as of December 31, 2008.

Maturity Profile of Investment Portfolio

The following table sets forth, as of June 30, 2009, our investment securities and trading assets by remaining maturity.

	As of June 30,					
	2009					
	Due less than 3 months	Due over 3 months to 1 year	Due between 1 and 5 years	Due more than 5 years	Overdue	Total
	(in millions of RMB)					
Trading assets	1,514	1,523	3,435	789	—	7,261
Available-for-sale securities	3,747	8,702	35,615	16,978	—	65,042
Held-to-maturity securities	2,540	6,466	29,790	7,698	—	46,494
Loans and receivables	3,781	4,341	23,184	7,210	—	38,516
Total	11,582	21,032	92,024	32,675	—	157,313

Note:

- (1) The remaining maturities of these financial assets are the remaining contract maturities of such assets and do not necessarily represent our intentions with respect to such assets.

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

Carrying Value and Market Value

All investment securities and trading assets classified as available-for-sale and all financial assets at fair value through profit or loss are stated at market value or fair value. The following table sets forth, as of the dates indicated, the carrying value and the market value of the held-to-maturity financial assets in our investment portfolio.

	As of December 31,						As of June 30,	
	2006		2007		2008		2009	
	Carrying value	Market/fair value	Carrying value	Market/fair value	Carrying value	Market/fair value	Carrying value	Market/fair value
	(in millions of RMB)							
Held-to-maturity financial assets	40,302	40,168	45,816	44,203	38,716	40,033	46,494	47,094

Note:

- (1) Since there is no established market for the loans and receivables in our investment portfolio and we expect to realize the full face value of these loans and receivables upon the maturity, we do not assess market value or fair value of these loans and receivables.

Investment Concentration

The following table sets forth, as of June 30, 2009, our ten largest holdings of investment securities.

	Issuer	As of June 30, 2009			
		Carrying value	% of total debt investment portfolio	% of total shareholders' equity ⁽¹⁾	Market/Fair value
		(in millions of RMB, except percentages)			
Investment A	PBOC	9,500	6.0%	16.4%	9,713
Investment B	PBOC	5,000	3.2%	8.6%	5,131
Investment C	PBOC	4,520	2.9%	7.8%	4,658
Investment D	MOF	3,787	2.4%	6.5%	3,825
Investment E	PBOC	3,500	2.2%	6.0%	3,587
Investment F	MOF	2,967	1.9%	5.1%	3,039
Investment G	CDB ⁽²⁾	2,780	1.8%	4.8%	2,809
Investment H	CDB ⁽²⁾	2,776	1.8%	4.8%	2,903
Investment I	MOF	1,849	1.2%	3.2%	1,881
Investment J	MOF	1,635	1.0%	2.8%	1,646
Total		38,314	24.4%	66.0%	39,192

Notes:

- (1) For calculation of total shareholders' equity, see "Financial Information — Capital Resources — Shareholders' Equity."
(2) China Development Bank

Other Components of Our Assets

Other components of our assets consist primarily of (i) balances with central bank, (ii) placements with banks and other financial institutions, and (iii) cash and due from banks and other financial institutions.

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

Balances with central bank consist primarily of statutory deposit reserves and surplus deposit reserves. Statutory deposit reserves represent the minimum level of cash deposits that we are required to maintain at the PBOC. The minimum level is determined as a percentage of our deposits from customers. Surplus deposit reserves are deposits with the PBOC in excess of statutory deposit reserves. As of June 30, 2009, our balances with the PBOC amounted to RMB134.6 billion, a decrease of 26.0% from RMB181.9 billion as of December 31, 2008, primarily because increased the placements with other banks to increase return. As of December 31, 2008, our balances with the PBOC amounted to RMB181.9 billion, an increase of 70.0% from RMB107.0 billion as of December 31, 2007, primarily reflecting the sufficiency of our liquidity of our Group at the end of 2008. As of December 31, 2007, our balances with the PBOC amounted to RMB107.0 billion, a slight increase of 1.7% from RMB105.2 billion as of December 31, 2006, which was in line with the increase in our deposits from customers. For the discussion of the change in the average balances of balance with central bank and its impact on our interest income, see “Financial Information — Results of Operations — Year Ended December 31, 2008, 2007 and 2006 — Net Interest Income”.

Placements with banks and other financial institutions consist primarily of inter-bank placements and balances under resale agreements. Our placements with banks and other financial institutions, net of the allowance for impairment losses, increased significantly by 233.1% to RMB174.6 billion as of June 30, 2009 from RMB52.4 billion as of December 31, 2008. The increase reflected the sufficiency of our liquidity as of June 30, 2009, primarily attributable to the significant increases in deposits from customers in the first half of 2009. Placements with banks and other financial institutions, net of the allowance for impairment losses, decreased by 34.7% to RMB52.4 billion as of December 31, 2008 from RMB80.2 billion as of December 31, 2007, mainly because we allocated our funds to other categories of assets at the end of 2008. Placements with banks and other financial institutions, net of the allowance for impairment losses, increased by 149.6% from RMB32.1 billion as of December 31, 2006 to RMB80.2 billion as of December 31, 2007, primarily because of expansion of our inter-bank business in 2007. For a discussion of the change in the average balances of amounts due from banks and other financial institutions and its impact on our interest income, see “Financial Information — Results of Operations — Years Ended December 31, 2008, 2007 and 2006 — Net Interest Income.”

Cash and due from banks and other financial institutions increased to RMB24.1 billion as of June 30, 2009 from RMB17.6 billion as of December 31, 2008, RMB12.0 billion as of December 31, 2007 and 11.6 billion as of December 31, 2006. The increase was in line with our business expansion and reflected the sufficiency of our liquidity as of December 31, 2008 and June 30, 2009. For a discussion of the change in the average balances of amounts due from banks and other financial institutions and its impact on our interest income, see “Financial Information — Results of Operations — Years Ended December 31, 2008, 2007 and 2006 — Net Interest Income.”

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

LIABILITIES AND SOURCES OF FUNDS

The following table sets forth, at the dates indicated, the components of our total liabilities.

	As of December 31,						As of June 30,	
	2006		2007		2008		2009	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Deposits from customers	583,315	82.7%	671,219	77.3%	785,786	78.6%	1,075,309	79.5%
Due to and placements from banks and other financial institutions	91,821	13.0%	150,253	17.3%	160,248	16.0%	221,090	16.4%
Financial bonds	10,163	1.4%	22,378	2.6%	22,459	2.3%	11,995	0.9%
Subordinated bonds	7,238	1.0%	7,253	0.8%	7,252	0.7%	7,432	0.5%
Hybrid capital bonds	4,289	0.6%	4,289	0.5%	4,288	0.4%	9,450	0.7%
Others	8,950	1.3%	13,258	1.5%	19,645	2.0%	26,686	2.0%
Total liabilities	705,776	100%	868,650	100%	999,678	100%	1,351,962	100%

Our total liabilities increased by 35.2% to RMB1,352.0 billion as of June 30, 2009 from RMB999.7 billion as of December 31, 2008, which in turn increased from RMB868.7 billion as of December 31, 2007 and RMB705.8 billion as of December 31, 2006, respectively. The significant increase in our total liabilities in the first half of 2009 was mainly attributable to the increase in the amount of deposits from customers. Deposits from customers have historically been our primary source of funding and represented 79.5%, 78.6%, 77.3% and 82.7% of our total liabilities as of June 30, 2009 and December 31, 2008, 2007 and 2006, respectively.

Deposits from Customers

We provide demand and time deposit products to our customers. The following table sets forth, at the dates indicated, our deposits from customers by product type and customer type.

	As of December 31,						As of June 30,	
	2006		2007		2008		2009	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Corporate deposits								
Demand	214,964	36.9%	265,047	39.5%	297,243	37.8%	387,581	36.0%
Time	273,681	46.9%	298,638	44.5%	352,275	44.8%	509,128	47.4%
Subtotal	488,645	83.8%	563,685	84.0%	649,518	82.6%	896,709	83.4%
Retail deposits								
Demand	30,605	5.2%	30,185	4.5%	33,599	4.3%	40,520	3.8%
Time	64,065	11.0%	77,349	11.5%	102,669	13.1%	138,080	12.8%
Subtotal	94,670	16.2%	107,534	16.0%	136,268	17.4%	178,600	16.6%
Total deposits from customers . .	583,315	100%	671,219	100%	785,786	100%	1,075,309	100%

Total deposits from our customers increased by 36.8% to RMB1,075.3 billion as of June 30, 2009 from RMB785.8 billion as of December 31, 2008, which in turn increased from RMB671.2 billion as of December 31, 2007 and RMB583.3 billion as of December 31, 2006, respectively.

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

Distribution of Deposits by Geographical Region

We classify deposits geographically based on the location of the branches or the SBUs taking the deposit. There is generally a high correlation between the location of the depositor and the location of the branch taking the deposit, except in the case of our headquarters, which takes negotiated deposits from customers throughout China. The following table sets forth, as of the dates indicated, the distribution of our deposits from customers by geographical region.

	As of December 31,						As of June 30,	
	2006		2007		2008		2009	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Northern China	205,929	35.3%	244,588	36.4%	277,593	35.3%	375,068	34.9%
Eastern China	175,075	30.0%	190,615	28.4%	257,151	32.7%	337,930	31.4%
Southern China	106,773	18.3%	102,402	15.3%	122,304	15.6%	168,177	15.6%
Others	95,538	16.4%	133,614	19.9%	128,738	16.4%	194,134	18.1%
Total deposits from customers . .	583,315	100%	671,219	100%	785,786	100%	1,075,309	100%

Distribution of Deposits by Remaining Maturity

The following table sets forth, as of June 30, 2009, the distribution of our deposits from customers by remaining maturity.

As of June 30, 2009													
Repayable on demand		Due less than 1 month		Due over 1 month up to 3 months		Due over 3 months up to 12 months		Due over 1 year up to 5 years		Due more than 5 years			
Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Total	
(in millions of RMB, except percentages)													
Corporate deposits	461,407	85.6%	57,532	86.8%	149,700	86.2%	153,977	73.5%	73,713	85.3%	380	100%	896,709
Retail deposits	77,813	14.4%	8,781	13.2%	23,910	13.8%	55,400	26.5%	12,696	14.7%	—	0%	178,600
Total deposits from customers	539,220	100%	66,313	100%	173,610	100%	209,377	100%	86,409	100%	380	100%	1,075,309

Distribution of Deposits by Currency

The following table sets forth the distribution of our deposits from customers by currency as of June 30, 2009.

	As of June 30, 2009			
	RMB	USD	Others	Total
(in millions of RMB)				
Corporate deposits	882,207	12,895	1,607	896,709
Retail deposits	174,747	2,427	1,426	178,600
Total deposits from customers	1,056,954	15,322	3,033	1,075,309

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

Other Components of Our Liabilities

Other components of our liabilities consist primarily of (i) amounts due to and placements from banks and other financial institutions, and (ii) issued debt securities. Amounts due to and placements from banks and other financial institutions increased significantly by 38.0% to RMB221.1 billion as of June 30, 2009 from RMB160.2 billion as of December 31, 2008. Amounts due to and placements from banks and other financial institutions increased by 6.7% to RMB160.2 billion as of December 31, 2008 from RMB150.3 billion as of December 31, 2007, which in turn increased by 63.6% from RMB91.8 billion as of December 31, 2006. The increase in amounts due to and placements from banks and other financial institutions reflected our continuous efforts to expand our inter-bank borrowing business.

For a description of our issued debt securities, see "Corporate History and Organizational Structure."

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

SELECTED, UNAUDITED ASSETS AND LIABILITIES INFORMATION AS OF SEPTEMBER 30, 2009

Assets

As of September 30, 2009, our total assets amounted to RMB1,402.9 billion, a 33.1% increase compared to RMB1,054.4 billion as of December 31, 2008, mainly reflecting the growth in loans to customers. In the third quarter of 2009, we shifted our focus from loan growth on the growth of our loans to optimization of our loan portfolio. Accordingly, our total assets decreased slightly by RMB7.1 billion from RMB1,410.0 billion as of June 30, 2009 to RMB1,402.9 billion as of September 30, 2009. The following table sets forth, at the dates indicated, the components of our total assets.

	As of December 31, 2008		As of September 30 2009	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
	(unaudited)			
Loans to customers, gross	658,360	62.4%	893,543	63.7%
Allowance for impairment losses	(11,885)	(1.1)%	(13,535)	(1.0)%
Loans to customers, net	646,475	61.3%	880,008	62.7%
Investment securities and trading assets	133,784	12.7%	154,057	11.0%
Balances with central banks	181,878	17.2%	164,538	11.7%
Placements with banks and other financial institutions, net ⁽¹⁾	52,408	5.0%	114,381	8.2%
Cash and due from banks and other financial institutions ⁽²⁾	17,648	1.7%	53,517	3.8%
Other assets ⁽³⁾	22,157	2.1%	36,435	2.6%
Total assets	<u>1,054,350</u>	<u>100.0%</u>	<u>1,402,936</u>	<u>100.0%</u>

Notes:

- (1) Placements with banks and other financial institutions are net of the related allowance for impairment losses of RMB92 million and RMB34 million as of December 31, 2008 and as of September 30, 2009, respectively.
- (2) We did not record any related allowance for impairment losses for cash and due from banks and other financial institutions as of December 31, 2008 and September 30, 2009, respectively.
- (3) Other assets consist primarily of property, plant and equipment, finance lease receivables, deferred income tax assets, etc.

Loans to Customers

Our total loans to customers increased by 35.7% to RMB893.5 billion as of September 30, 2009 from RMB658.4 billion as of December 31, 2008. The following discussion is based on our total loans to customers, before taking into account the related allowance for impairment losses.

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

Distribution of Loans by Product Type

The following table sets forth, at the dates indicated, our loans to customers by product type.

	As of December 31, 2008		As of September 30 2009	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Corporate loans	485,858	73.8%	686,016	76.8%
Discounted bills	63,931	9.7%	61,333	6.9%
Retail loans	108,571	16.5%	146,194	16.4%
Total loans to customers	658,360	100.0%	893,543	100.0%

Our corporate loans increased by 41.2% to RMB686.0 billion as of September 30, 2009 from RMB485.9 billion as of December 31, 2008. The market demand for corporate loans increased significantly in the first three quarters of 2009 due to the PRC government's fiscal stimulus measures to boost economic growth.

After a significant increase in the first half of 2009 from RMB63.9 billion as of December 31, 2008 to RMB115.9 billion as of June 30, 2009, discounted bills decreased to RMB61.3 billion as of September 30, 2009. The decrease was mainly due to the fact that significant amount of discounted bills issued during the first and the second quarters of 2009 became due in the third quarter. In addition, the demand for short term financing through discounted bills decreased in the third quarter of 2009 as the demand for corporate loans increased. As a result of the decrease in discounted bills, our total loans to customers decreased slightly by 1.1% from RMB903.9 billion as of June 30, 2009 to RMB893.5 billion as of September 30, 2009.

Retail loans increased by 34.7% to RMB146.2 billion as of September 30, 2009 from RMB108.6 billion as of December 31, 2008, primarily due to our continued focus on expanding our retail loan business, in particular, the increase in our "Shang Dai Tong" (商貸通) loans. As of September 30, 2009, we had an outstanding balance of RMB32.1 billion of "Shang Dai Tong" (商貸通) loans.

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

Borrower Concentration

The following table sets forth, as of September 30, 2009, the loans to our ten largest single borrowers, all of which were performing at that date.

As of September 30, 2009				
	Industry	Amount (unaudited) (in millions of RMB, except percentages)	% of total loans	% of regulatory capital ⁽¹⁾
Borrower A	Water, environment and public utility management	7,570	0.8%	8.9%
Borrower B	Water, environment and public utility management	7,000	0.8%	8.2%
Borrower C	Leasing and commercial services	5,041	0.6%	5.9%
Borrower D	Leasing and commercial services	3,200	0.4%	3.8%
Borrower E	Public management and social organizations	3,100	0.3%	3.6%
Borrower F	Leasing and commercial services	3,000	0.3%	3.5%
Borrower G	Leasing and commercial services	3,000	0.3%	3.5%
Borrower H	Real estate	2,900	0.3%	3.4%
Borrower I	Public management and social organizations	2,500	0.3%	2.9%
Borrower J	Transportation, storage and post service	2,500	0.3%	2.9%
Total		39,811	4.4%	46.8%

Note:

- (1) Represents loan amounts as a percentage of our regulatory capital. See “Supervision and Regulation — PRC Banking Supervision and Regulation — Supervision Over Capital Adequacy.”

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

The following table sets forth, as of September 30, 2009, the loans to our ten largest group borrowers (excluding single borrowers), all of which were performing at that date.

As of September 30, 2009				
	Industry	Amount	% of total loans (unaudited)	% of regulatory capital ⁽¹⁾
(in millions of RMB, except percentages)				
Borrower A	Production and supply of electric power, gas and water	5,491	0.6%	6.5%
Borrower B	Production and supply of electric power, gas and water	3,760	0.4%	4.4%
Borrower C	Production and supply of electric power, gas and water	3,270	0.4%	3.8%
Borrower D	Leasing and commercial services	3,200	0.4%	3.8%
Borrower E	Manufacturing	3,140	0.4%	3.7%
Borrower F	Transportation, storage and post service	3,101	0.4%	3.6%
Borrower G	Transportation, storage and post service	2,771	0.3%	3.3%
Borrower H	Manufacturing	2,680	0.3%	3.1%
Borrower I	Production and supply of electric power, gas and water	2,365	0.3%	2.8%
Borrower J	Manufacturing	<u>2,360</u>	<u>0.3%</u>	<u>2.8%</u>
Total		<u>32,138</u>	<u>3.8%</u>	<u>37.8%</u>

Note:

- (1) Represents loan amounts as a percentage of our regulatory capital. See “Supervision and Regulation — PRC Banking Supervision and Regulation — Supervision Over Capital Adequacy.”

Asset Quality of Our Loan Portfolio

Distribution of Loans by Loan Classification

The following tables set forth, at the dates indicated, the distribution of our loan portfolio by loan classification category. We use the term “non-performing loans” and “impaired loans” synonymously to refer to the loans identified as “impaired loans” in Note 3.(2).f.(iii) to the Accountant’s Report in

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

Appendix I to this document. See "Definitions." Under our five-category loan classification system, our non-performing loans are classified as substandard, doubtful or loss, as applicable.

	As of December 31, 2008		As of September 30, 2009	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Normal	634,073	96.3%	873,179	97.7%
Special mention	16,366	2.5%	13,079	1.5%
Substandard	3,459	0.5%	2,854	0.3%
Doubtful	3,189	0.5%	2,347	0.3%
Loss	1,273	0.2%	2,084	0.2%
Total loans to customers	658,360	100.0%	893,543	100.0%
Non-performing loan ratio⁽¹⁾		1.20%		0.82%

Note:

(1) Calculated by dividing total non-performing loans by total loans.

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

	As of December 31, 2008		As of September 30, 2009	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Corporate loans				
Normal	465,678	95.8%	670,091	97.7%
Special mention	12,994	2.7%	9,561	1.4%
Substandard	3,138	0.6%	2,505	0.4%
Doubtful	2,781	0.6%	1,836	0.3%
Loss	1,267	0.3%	2,023	0.3%
Subtotal	485,858	100.0%	686,016	100.0%
Non-performing loan ratio⁽¹⁾		1.48%		0.93%
Discounted bills				
Normal	63,862	99.9%	61,333	100.0%
Special mention	—	0.0%	—	0.0%
Substandard	15	0.0%	—	0.0%
Doubtful	54	0.1%	—	0.0%
Loss	—	0.0%	—	0.0%
Subtotal	63,931	100.0%	61,333	100.0%
Non-performing loan ratio⁽¹⁾		0.11%		—
Retail loans				
Normal	104,533	96.3%	141,755	97.1%
Special mention	3,372	3.1%	3,518	2.4%
Substandard	306	0.3%	349	0.2%
Doubtful	354	0.3%	511	0.3%
Loss	6	0.0%	61	0.0%
Subtotal	108,571	100.0%	146,194	100.0%
Non-performing loan ratio⁽¹⁾		0.61%		0.63%
Total loans to customers	658,360		893,543	

Note:

(1) Calculated by dividing non-performing loans in each category by total loans in that category.

The non-performing loan ratio of our total loan portfolio decreased from 1.20% as of December 31, 2008 to 0.86% as of June 30, 2009 and further decreased to 0.82% as of September 30, 2009. For the reasons of the decrease in the non-performing loan ratio in the first half of 2009, see "— Assets — Asset Quality of Our Loan Portfolio". The continued decrease of the non-performing loan ratio of our total loan portfolio in the third quarter of 2009 was mainly due to the decrease of the non-performing loan ratio of our corporate loan portfolio, namely from 1.48% as of December 31, 2008 to 0.93% as of September 30, 2009. Such a decrease was mainly a result of our continuous efforts to recover problem corporate loans and to control the increase of new non-performing loans.

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

Changes to the Asset Quality of Our Loan Portfolio

The following table sets forth, for the nine months ended September 30, 2009, the changes in the outstanding balance of our non-performing loans.

	<u>Amount</u>	<u>Non-performing loan ratio</u>
	(unaudited)	
	(in millions of RMB, except percentages)	
As of December 31, 2008	7,921	1.20%
Additional impaired loans ⁽¹⁾	3,232	
Deducted by		
Write-offs	(715)	
Upgrades	(57)	
Recoveries	(2,840)	
Others	<u>(256)</u>	
As of September 30, 2009	<u><u>7,284</u></u>	0.82%

Note:

(1) Include downgrades from performing loans to impaired loans in respective period.

As of September 30, 2009, the balance of our impaired loans was RMB7.3 billion, a 8.0% decrease from RMB7.9 billion as of December 31, 2008, mainly due to recoveries amounting to RMB2.1 billion for impaired loans during the first three quarters of 2009. We also wrote off RMB885 million in the nine months ended September 30, 2009 in accordance with our write off policy.

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

Ten Largest Non-performing Borrowers

The following table sets forth, as of September 30, 2009, our borrowers with the ten largest non-performing loan balances outstanding.

As of September 30, 2009					
	Industry	Amount	Classification	% of total non-performing loans	% of total regulatory capital
(unaudited)					
(in millions of RMB, except percentages)					
Borrower A	Real estate	576	Substandard	8%	0.7%
Borrower B	Production and supply of electric power, gas and water	459	Loss	6%	0.5%
Borrower C	Manufacturing	283	Substandard	4%	0.3%
Borrower D	Real estate	232	Substandard	3%	0.3%
Borrower E	Leasing and commercial services	215	Substandard	3%	0.2%
Borrower F	Telecommunication, IT and software	200	Loss	3%	0.2%
Borrower G	Others	199	Doubtful	3%	0.2%
Borrower H	Leasing and commercial services	199	Loss	3%	0.2%
Borrower I	Real estate	196	Doubtful	3%	0.2%
Borrower J	Education and public service	189	Loss	3%	0.2%
Total		2,748		3%	3.3%

Allowance for Impairment Losses on Loans to Customers

Distribution of Allowance for Impairment Losses by Loan Classification

The following table sets forth, at the dates indicated, the allocation of our allowance for impairment losses by loan classification category.

	As of December 31, 2008			As of September 30, 2009		
	Amount	% of total	Allowance to loans ⁽¹⁾	Amount	% of total	Allowance to loans ⁽¹⁾
(in millions of RMB, except percentages)						
Performing ⁽²⁾	7,186	60.5%	1.1%	8,393	62.0%	0.95%
Substandard	1,162	9.8%	33.6%	1,176	8.7%	41.2%
Doubtful	2,264	19.0%	71.0%	1,882	13.9%	80.2%
Loss	1,273	10.7%	100.0%	2,084	15.4%	100.0%
Total allowance	11,885	100%	1.8%	13,535	100%	1.5%

Notes:

(1) Calculated by dividing the amount of the allowance for impairment losses on loans in each category by the total amount of loans in that category.

(2) Performing loans consist of loans classified as normal and special mention.

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

The following table sets forth, at the dates indicated, the allocation of our allowance for impairment losses by product type and by loan classification category.

	As of December 31, 2008			As of September 30, 2009		
	Amount	% of total	Allowance to loans ⁽¹⁾	Amount	% of total	Allowance to loans ⁽¹⁾
(in millions of RMB, except percentages)						
Corporate loans						
Performing	5,885	49.5%	1.2%	7,221	53.4%	1.1%
Substandard	1,038	8.7%	33.1%	1,044	7.7%	41.7%
Doubtful	1,925	16.2%	69.2%	1,458	10.8%	79.4%
Loss	1,268	10.7%	100.1%	2,023	14.9%	100.0%
Subtotal	<u>10,116</u>	<u>85.1%</u>	<u>2.1%</u>	<u>11,746</u>	<u>86.8%</u>	<u>1.7%</u>
Discounted bills						
Performing	445	3.74%	0.7%	170	1.3%	0.3%
Substandard	4	0.03%	26.7%	—	—	—
Doubtful	38	0.32%	70.4%	—	—	—
Loss	—	—	—	—	—	—
Subtotal	<u>487</u>	<u>4.1%</u>	<u>0.8%</u>	<u>170</u>	<u>1.3%</u>	<u>0.3%</u>
Retail loans						
Performing	856	7.20%	0.8%	1,002	7.4%	0.7%
Substandard	120	1.01%	39.2%	132	1.0%	37.8%
Doubtful	300	2.52%	84.7%	424	3.1%	83.0%
Loss	6	0.05%	100.0%	61	0.5%	100.0%
Subtotal	<u>1,282</u>	<u>10.8%</u>	<u>1.2%</u>	<u>1,619</u>	<u>12.0%</u>	<u>1.1%</u>
Total allowance	<u>11,885</u>	<u>100.0%</u>	<u>1.8%</u>	<u>13,535</u>	<u>100.0%</u>	<u>1.5%</u>

Note:

- (1) Calculated by dividing the amount of the allowance for impairment losses on loans in each category by the total amount of loans in that category.

Changes to the Allowance for Impairment Losses

The following table sets forth, at and for the nine months ended September 30, 2009, the changes to the allowance for impairment losses on loans to customers.

	As of and for the nine months ended September 30, 2009 (in millions of RMB) (unaudited)
As of December 31, 2008	<u>11,885</u>
Net allowance, net ⁽¹⁾	2,893
Amount written off during the year as uncollectible	(1,150)
Recovery after write-off	58
Unwinding of discount on allowance ⁽²⁾	<u>(151)</u>
As of September 30, 2009	<u>13,535</u>

Notes:

- (1) Represents the amount of new allowance provided during the relevant period, after deducting the amount of releases from loan loss allowances during the same period.

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

- (2) Allowances are calculated based on discounted cash flow. As time goes by, the present value of future cash flow increases, and the allowances are released accordingly.

Our allowance for impairment losses as of September 30, 2009 was RMB13.5 billion, an increase of 13.9% from RMB11.9 billion as of December 31, 2008. The net new allowance provided for the nine months ended September 30, 2009 amounted to RMB2.9 billion, primarily due to the overall growth of our total loan portfolio. The amount of loans written off during the first three quarters of 2009 amounted to RMB1.2 billion, primarily due to the increase of the loans that met our requirements for write-off. The coverage ratio of our total allowance for impairment losses to total non-performing loans was 185.8% as of September 30, 2009.

Investment Securities and Other Financial Assets

The following table sets forth, at the dates indicated, the components of our investment securities and other financial assets.

	As of December 31, 2008		As of September 30, 2009	
	Amount	% of total	Amount	% of total
	(unaudited)			
	(in millions of RMB, except percentages)			
Trading assets	4,405	3.3%	5,534	3.6%
Available-for-sale securities ⁽¹⁾	53,597	40.1%	52,265	33.9%
Held-to-maturity securities	38,716	28.9%	53,671	34.8%
Loans and receivables	37,066	27.7%	42,587	27.7%
Total	133,784	100.0%	154,057	100.0%

Note:

- (1) Includes an allowance of RMB50 million as of December 31, 2008 and RMB62 million as of September 30, 2009 relating to our subprime mortgage securities balance of RMB68 million as of the same dates.

Our total investment securities and other financial assets increased by 15.2% to RMB154.1 billion as of September 30, 2009 from RMB133.8 billion as of December 31, 2008.

Debt Securities

	2006		As of December 31, 2007		2008		As of June 30, 2009		As of Sep 30, 2009	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)									
Government and quasi-government bonds	83,918	84.3%	100,187	68.6%	99,839	76.8%	111,687	71.1%	116,172	75.5%
Financial institution bonds	11,162	11.2%	35,705	24.5%	20,809	16.0%	21,758	13.9%	19,452	12.6%
Corporate bonds	4,417	4.4%	10,104	6.9%	9,375	7.2%	23,644	15.0%	18,245	11.9%
Total debt securities	99,497	100.0%	145,996	100.0%	130,023	100.0%	157,089	100.0%	153,869	100.0%

In the third quarter of 2009, we continued to increase our holdings in government and quasi-government bonds. As of September 30, 2009, our holdings in government and quasi-government bonds amounted to RMB116.2 billion, a 16.4% increase from RMB99.8 billion as of December 30, 2009 and a 4.0% increase from RMB111.7 billion as of June 30, 2009. In the third quarter of 2009, our investment in corporate bonds decreased to RMB18.2 billion as of September 30, 2009 from

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DESCRIPTION OF OUR ASSETS AND LIABILITIES

RMB23.7 billion as of June 30, 2009, reflecting our continuous efforts to increase holdings of government bonds with higher credit grades.

Liabilities and Sources of Funds

The following table sets forth, at the dates indicated, the components of our total liabilities.

	As of December 31, 2008		As of September 30, 2009	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Deposits from customers	785,786	78.6%	1,099,483	81.9%
Due to and placements from banks and other financial institutions	160,248	16.0%	182,729	13.6%
Financial bonds	22,459	2.2%	12,077	0.9%
Subordinated bonds	7,252	0.7%	7,522	0.6%
Hybrid capital bonds	4,288	0.4%	9,572	0.7%
Others	19,645	2.0%	31,142	2.3%
Total liabilities	999,678	100.0%	1,342,525	100.0%

Our total liabilities increased by 39.9% to RMB1,342.5 billion as of September 30, 2009 from RMB999.7 billion as of December 31, 2008, primarily due to an increase in deposits from customers.

Deposits from Customers

The following table sets forth, at the dates indicated, our deposits from customers by product type and customer type.

	As of December 31, 2008		As of September 30, 2009	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Corporate deposits				
Demand	297,243	37.8%	442,231	40.2%
Time	352,275	44.8%	464,618	42.3%
Subtotal	649,518	82.6%	906,849	82.5%
Retail				
Demand	33,599	4.3%	44,089	4.0%
Time	102,669	13.1%	148,545	13.5%
Subtotal	136,268	17.4%	192,634	17.5%
Total deposits from customers	785,786	100.0%	1,099,483	100.0%

Our total deposits increased by 39.9% to RMB1,099.5 billion as of September 30, 2009 from RMB785.8 billion as of December 31, 2008. Corporate deposits increased by 39.6% to RMB906.8 billion as of September 30, 2009 from RMB649.5 billion as of December 31, 2008, and retail deposits decreased by 41.4% to RMB136.3 billion as of September 30, 2009 from RMB192.6 billion as of December 31, 2008.

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FINANCIAL INFORMATION

The following discussion and analysis should be read in conjunction with the Accountant’s Report in Appendix I, the Unaudited Interim Financial Report in Appendix II, and the Unaudited Supplementary Financial Information in Appendix III, in each case together with the accompanying notes, included elsewhere in this document. The Group’s consolidated financial statements and notes thereto as of and for the years ended December 31, 2006, 2007 and 2008, and as of and for the six months ended June 30, 2009 have been audited and prepared in accordance with IFRS and are included in Appendix I herein. The Unaudited Interim Financial Report has also been prepared in accordance with IFRS. Capital adequacy ratios discussed in this section are calculated in accordance with applicable CBRC guidelines.

OVERVIEW

We are the first and largest national joint stock commercial bank in the PRC primarily founded by non-state-owned enterprises. Since our establishment in 1996, we have grown significantly and, as of September 30, 2009, we ranked fourth among the Other Joint Stock Commercial Banks in terms of total assets, according to PBOC statistics. As of September 30, 2009, we had total assets of RMB1,402.9 billion, total customer loans of RMB893.5 billion and total customer deposits of RMB1,099.5 billion. We have expanded our business at a rapid pace. From December 31, 2006 to December 31, 2008, our total assets, total loans to customers and total customer deposits grew at a CAGR of 20.6%, 18.1%, and 16.1%, respectively. From 2006 to 2008, our net profit grew at a CAGR of 44.9% from RMB3.8 billion to RMB7.9 billion compared to the CAGR of the PRC nominal GDP of 19.1%, according to the National Bureau of Statistics of China, during the same period. We had a net profit of RMB10.2 billion for the nine months ended September 30, 2009. Although our business has grown rapidly during this period, we have maintained our discipline in risk management, and thereby also maintained strong asset quality. As of September 30, 2009, our non-performing loan ratio⁽¹⁾ was 0.82%, compared with the industry’s average of 1.66%. For a description of our non-performing loans, see “Description of Our Assets and Liabilities — Asset Quality of Our Loan Portfolio.”

GENERAL FACTORS AFFECTING OUR RESULTS OF OPERATIONS

China’s Economic Condition

Our results of operations and financial condition are significantly affected by China’s economic conditions and the economic measures undertaken by the PRC government. China has experienced rapid economic growth over the past three decades largely as a result of the PRC government’s extensive economic reforms, which have been focused on transforming China’s centrally planned economy to a more market-based economy. The real growth of China’s overall economy, ranging from 10.0% to 11.4% annually between 2002 and 2007, and 9.0% in 2008, according to the National Bureau of Statistics of China, has led to increased corporate activities as well as significant increases in personal wealth. These increases in personal wealth have led to a rapid growth in the retail banking business, including residential mortgage lending, of Chinese commercial banks. Nonetheless, recent adverse economic conditions have lowered China’s growth. According to

Note:

(1) Our non-performing loan ratio is identical to our impaired loan ratio as such term is read in this document.

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FINANCIAL INFORMATION

the National Bureau of Statistics of China, China's real GDP grew at a 7.7% annual rate over the first half of 2009, and according to the World Bank, China's real GDP is expected to grow at a rate of 8.4% in 2009 and 8.7% in 2010.

In 2007, China's stock markets had risen sharply due to, among others, capital market reforms that increased investor confidence and public enthusiasm for investments. Throughout most of 2007, monetary policy in China tightened due to its relatively high growth rate and concerns of the economy overheating. By late 2007, tightening measures, including stricter limitations on bank lending, including lending for investment projects, had begun to adversely impact banking activity in general. Due in part to these tightened macroeconomic policies, the overall growth rate for lending activity declined in 2008 in comparison with 2007.

The global economic downturn adversely impacted China's growth in 2008, and the PRC government has taken several steps to support economic growth. During the last quarter of 2008, the PBOC has loosened monetary policies that increased liquidity and lowered the required reserve ratio, thereby increasing lending. The PRC government implemented a four-trillion Renminbi fiscal stimulus package that is centered on infrastructure type projects. Large liquidity injections in the last quarter of 2008 led to a marked surge in bank lending in the first nine months of 2009. Spurred by the PRC government's encouragement of domestic banks to aid economic recovery, new RMB loans made in China in the first nine months of 2009 soared to RMB8,701.3 billion, which is about 2.5 times of the total value of new loans made in the first nine months of 2008.

Interest Rate Environment

Our results of operations depend to a great extent on our net interest income. Interest rates applicable to us are sensitive to many factors over which we have no control, including the regulatory framework of the banking and financial sectors in the PRC, domestic and international economic and political conditions, and competition. In 2008, our net interest income represented 86.9% of our total operating income, while for the nine months ended September 30, 2009, it represented 72.4% of our total operating income. Historically, interest rates on deposits and loans were set by, and subject to restrictions established by, the PBOC. In recent years, as part of the overall reform of the banking system, the PBOC has implemented a series of initiatives designed to gradually liberalize interest rates and move towards a more market-based interest rate regime. Currently, RMB-denominated loans are subject to minimum rates based on the PBOC benchmark rates, but generally are not subject to any maximum rates. RMB-denominated deposits are subject to maximum rates set by the PBOC, but generally are not subject to any minimum rates. Adjustments to benchmark rates have significantly affected the average rates for loans and deposits, which in turn have had an impacted the net interest income of Chinese commercial banks.

While the PBOC made no adjustments to interest rates in 2005, the PBOC in mid-2006 undertook a rate hike for the first time in eighteen months in an effort to prevent overheating in the Chinese economy, increasing the loan rate by 27 basis points. In order to further prevent overheating of the economy, the PBOC again increased rates six times in 2007, increasing the one-year benchmark lending rate by a total of 135 basis points and the deposit rate by a total of 162 basis points over the course of the year. At the end of 2007, the one-year benchmark lending and deposit rates were 7.47% and 4.14%, respectively. Since then, the PBOC maintained interest rates unchanged until September 2008, when it took action to reduce interest rates in the wake of the global financial crisis. The PBOC cut rates five times during the last quarter of 2008 reducing the one-year benchmark Renminbi lending rate by a total of 216 basis points and the deposit rate by a total of 189 basis points. By the end of 2008, the one-year RMB benchmark lending and deposit rates were 5.31% and

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FINANCIAL INFORMATION

2.25%, respectively. All benchmark lending and deposit rates have remained unchanged since December 23, 2008.

Regulatory Environment

Our business and results of operations could be materially affected by changes in the policies, laws and regulations relating the PRC banking industry, including the extent of which we can engage in certain businesses, activities or charge fees. We are mainly regulated by the PBOC and CBRC. However, commercial banks in the PRC are also subject to the supervision and regulation by other regulatory authorities including the SAFE, the CSRC and the CIRC. The PBOC is responsible for formulating and implementing monetary policies and the CBRC is responsible for supervising and regulating banking institutions. In addition to benchmark interest rates, the PBOC sets required reserve requirements, extends loans to commercial banks, accepts discounted bills, and conducts open market transactions, all of which affect liquidity and market interest rates. The PBOC also provides guidelines for the banking industry’s impairment coverage ratio that affect the amount of provisions we make on financial assets. Furthermore, the PBOC also sets the required reserve ratio and by the deposit reserve rate as a way of regulating liquidity. It raised the required reserve ratio by ten instances in 2007 and four instances in 2008 prior to the global financial crisis and cut the required reserve ratio by four instances in 2008 since the global financial crisis, thereby affecting lending. The required reserve ratio has remained unchanged since the end of 2008. Moreover, the CBRC promulgates regulations and guidelines aimed at improving the operations and risk management of the PRC commercial banks. The CBRC has promulgated guidelines to enhance risk management, supervision over capital adequacy and internal control in addition to requiring more disclosure, improved corporate governance and more prudent securitization of assets. For example, the CBRC may implement further changes to capital adequacy guidelines affecting the amount banks are able to lend. In addition, our results of operations are subject to changes to tax laws and regulations as such changes affect our provisions made to deferred tax assets and liabilities, and our income tax expense.

The Competitive Landscape in the PRC Banking Industry

The PRC banking industry is becoming increasingly competitive. We face competition from other PRC commercial banks, including the Large Commercial Banks, Other Joint Stock Commercial Banks and other commercial banks, and foreign invested financial institutions. In addition, there is increasing competition from non-bank financial institutions, such as insurance companies, as they continue to provide other value-added services and products to their clients, such as wealth management. Many other PRC commercial banks compete with us in substantially the same markets for loan, deposit and fee customers. In recent years, all Large Commercial Banks have undergone restructuring and become joint stock companies while six of the ten largest Chinese banks have completed their listing on the Hong Kong Stock Exchange. In addition, the Other Joint Stock Commercial Banks have been increasing their market share in recent years. These banks generally focus on providing more innovative products and higher-quality services, and are more adaptive to changing market conditions. Furthermore, small and medium sized banks have increased their profiles, with several restructuring, achieving public listing and undertaking cross-regional operations. These and other changes in China’s domestic banking sector have intensified competition among PRC domestic commercial banks. China’s leadership has also made improving rural finance a priority. Competition is likely to increase in this sector particularly since the Postal Savings Bank of China in 2007 has emerged as a strong player in rural banking and Agricultural Bank of China was converted into a joint stock limited liability company in early 2009.

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FINANCIAL INFORMATION

As a result of China's accession to the WTO, China has gradually lifted the restrictions on locally incorporated foreign banks' activities, including geographical restrictions and limitations on business, particularly on conducting RMB-denominated business. For example, restrictions on locally incorporated foreign banks' geographical presence, customer base and operational licenses were removed in 2006. Locally incorporated foreign banks are generally subject to the same treatment and regulatory standards as local banking institutions. Consequently, the activities of locally incorporated foreign banks in the PRC have further expanded since that time. Furthermore, CEPA has eased certain restrictions on the activities of Hong Kong banks in China, permitting them to conduct Renminbi banking activities sooner than other foreign banks. Greater participation by foreign banks will increase competition in the PRC banking market. See "Banking Industry in the PRC" and "Business — Competition."

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, our condensed results of operations.

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
				(unaudited)	
	(in millions of RMB)				
Interest income	27,361	40,070	56,311	27,259	24,634
Interest expense	(11,193)	(17,490)	(25,931)	(12,563)	(10,684)
Net interest income	16,168	22,580	30,380	14,696	13,950
Fee and commission income	1,224	2,665	4,755	3,211	2,442
Fee and commission expense	(197)	(274)	(294)	(139)	(144)
Net fee and commission income	1,027	2,391	4,461	3,072	2,298
Net trading income/(loss)	202	425	185	(155)	23
Net gain/(loss) on disposal of available-for-sale securities	44	(124)	(53)	27	4,959
Impairment losses on assets	(2,214)	(2,265)	(6,518)	(1,615)	(2,851)
Operating expenses	(9,717)	(13,752)	(17,817)	(7,868)	(8,378)
Other operating expenses	(273)	(43)	(150)	(1)	(415)
Profit before income tax	5,237	9,212	10,488	8,156	9,586
Income tax expense	(1,479)	(2,877)	(2,595)	(2,110)	(2,207)
Net profit	3,758	6,335	7,893	6,046	7,379
Dividends ⁽¹⁾	—	3,620	1,506	—	—

Note:

(1) Represents the final dividend proposed after the respective balance sheet date.

Our net profit increased by 22.0% to RMB7.4 billion for the six months ended June 30, 2009 compared to RMB6.0 billion for the six months ended June 30, 2008, primarily due to (i) an increase to net gain on disposal of available-for-sale securities, partially offset by (ii) a decrease in net interest income, (iii) a decrease in net fee and commission income, (iv) increased operating expenses, and (v) greater impairment losses on assets. Excluding the net gain on disposal of available-for-sale securities of RMB4,959 million and RMB27 million for the six months ended June 30, 2009 and 2008, respectively, our total operating income and profit before income tax decreased by 7.6% and 43.1%, respectively, for the six months ended June 30, 2009 as compared to the same period in 2008.

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FINANCIAL INFORMATION

Our net profit increased by 24.6% to RMB7.9 billion in 2008 compared to RMB6.3 billion in 2007, which increased by 68.6% compared to RMB3.8 billion in 2006.

Our net profit increased from 2006 through 2008 as a combined result of:

- an increase in our net interest income at a CAGR of 37.1% primarily as a result of an increase in our interest-earning assets coupled with an increase in average yield;
- an increase in our net fee and commission income at a CAGR of 108.4% mainly due to greater consulting and financial advisory service fees, credit commitment commissions, settlement services fees, and trust and other fiduciary service fees;
- an increase in our operating expenses at a CAGR of 35.4%, a slower rate of growth than our net interest income and net fee and commission income; and
- an increase in our impairment charge for assets at a CAGR of 71.6%, mainly from a significant increase in provisions during 2008.

Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008

Net Interest Income

Net interest income has historically been the largest component of our total operating income, representing 65.7% and 83.3% of our total operating income for the six months ended June 30, 2009 and 2008, respectively.

The following table sets forth, for the periods indicated, our interest income, interest expense and net interest income.

	For the six months ended June 30,	
	2008	2009
	(unaudited) (In millions of RMB)	
Interest income	27,259	24,634
Interest expense	(12,563)	(10,684)
Net interest income	<u>14,696</u>	<u>13,950</u>

Our net interest income decreased by 5.1% to RMB14.0 billion for the six months ended June 30, 2009 compared to RMB14.7 billion for the six months ended June 30, 2008.

The table below sets forth, for the periods indicated the average balances of our assets and liabilities and the related interest income or expense and average yields (for assets) and costs (for liabilities).

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FINANCIAL INFORMATION

For the six months ended June 30,						
	2008			2009		
	Average balance ⁽¹⁾	Interest income (unaudited)	Average yield ⁽²⁾	Average balance ⁽¹⁾	Interest income	Average yield ⁽²⁾
(In millions of RMB, except percentages)						
Assets						
Loans and advances to customers, gross . . .	565,560	21,244	7.51%	714,223	19,574	5.48%
Investment securities and trading assets . . .	148,740	2,919	3.92%	142,637	2,657	3.73%
Due from and placements with banks and other financial institutions ⁽³⁾	91,747	2,008	4.38%	158,764	1,211	1.53%
Balances with central banks ⁽⁴⁾	104,944	1,044	1.99%	123,955	866	1.40%
Others ⁽⁵⁾	1,312	44	6.71%	8,840	326	7.38%
Total interest-earning assets	912,303	27,259	5.98%	1,148,419	24,634	4.29%
Allowance for impairment losses ⁽⁶⁾	(8,144)			(12,750)		
Non-interest-earning assets ⁽⁶⁾⁽⁷⁾	19,103			20,762		
Total assets	923,262			1,156,431		
For the six months ended June 30,						
	2008			2009		
	Average balance ⁽¹⁾	Interest expense (unaudited)	Average cost ⁽²⁾	Average balance ⁽¹⁾	Interest expense	Average cost ⁽²⁾
(In millions of RMB, except percentages)						
Liabilities						
Deposits from customers	675,226	8,925	2.64%	900,280	8,238	1.83%
Due to and placements from banks and other financial institutions ⁽⁸⁾	194,665	2,960	3.04%	139,773	1,595	2.28%
Debt securities in issue ⁽⁹⁾	33,487	678	4.05%	33,947	761	4.48%
Others ⁽¹⁰⁾	—	—	—	5,408	90	3.33%
Total interest-bearing liabilities	903,378	12,563	2.78%	1,079,408	10,684	1.98%
Non-interest-bearing liabilities ⁽⁶⁾⁽¹¹⁾	13,692			17,276		
Total liabilities	917,070			1,096,684		
Net interest income		14,696			13,950	
Net interest spread⁽¹²⁾			3.20%			2.31%
Net interest margin⁽¹³⁾			3.22%			2.43%

Notes:

- (1) Calculated as the average of the daily balances of the Bank and the average monthly balances of our subsidiaries.
- (2) Calculated on an annualized basis.
- (3) Consist primarily of deposits with banks and other financial institutions, placements with banks and other financial institution and assets purchased under resale agreements.
- (4) Consist primarily of statutory deposit reserves and surplus deposit reserves.
- (5) Consist primarily of finance lease receivables related to Minsheng Financial Leasing Co. Ltd.

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FINANCIAL INFORMATION

- (6) Calculated as the average of the beginning and ending balances for the period.
- (7) Consist primarily of cash, derivative financial assets, property, plant and equipment, deferred income tax assets and other assets.
- (8) Consist primarily of deposits from banks and other financial institutions, placements from banks and other financial institutions and assets sold under repurchase agreements.
- (9) Consist of financial bonds, subordinated bonds and hybrid capital bonds.
- (10) Consists primarily of borrowings from other financial institutions related to Minsheng Financial Leasing Co. Ltd.
- (11) Consist of derivative financial liabilities, deferred income tax liabilities and other liabilities.
- (12) Calculated as the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities.
- (13) Calculated by dividing net interest income by the average balance of total interest-earning assets.

The following table sets forth, for the periods indicated, the allocation of changes in our interest income and interest expense due to changes in volume and changes in rate. Changes in volume are measured by changes in the average balances and changes in rate are measured by changes in the average rates. Changes caused by both volume and rate have been allocated to changes in rate.

	For the six months ended June 30, 2009 vs. 2008		
	Increase/(decrease) due to		Net increase/ (decrease) ⁽³⁾
	Volume ⁽¹⁾	Rate ⁽²⁾	
	(In millions of RMB)		
Assets			
Loans and advances to customers, gross	5,584	(7,254)	(1,670)
Investment securities and trading assets	(120)	(142)	(262)
Due from and placements with banks and other financial institutions	1,467	(2,264)	(797)
Balances with central banks	189	(367)	(178)
Others	252	30	282
Changes in interest income	7,372	(9,997)	(2,625)
Liabilities			
Deposits from customers	2,975	(3,662)	(687)
Due to and placements from banks and other financial institutions	(835)	(530)	(1,365)
Debt securities in issue	9	74	83
Others	90	—	90
Changes in interest expense	3,239	(4,118)	(1,879)
Changes in net interest income	<u>4,873</u>	<u>(5,619)</u>	<u>(746)</u>

Notes:

- (1) Represents the average balance for the period minus the average balance for the previous period, multiplied by the average yield/cost divided by two for the previous period.
- (2) Represents the average yield/cost for the period minus the average yield/cost divided by two for the previous year, multiplied by the average balance for the period.
- (3) Represents interest income/expense for the period minus interest income/expense for the previous period.

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FINANCIAL INFORMATION

Interest Income

Our interest income decreased by 9.6% to RMB24.6 billion for the six months ended June 30, 2009 compared to RMB27.3 billion for the six months ended June 30, 2008, due to a decrease in the average yield of interest-earning assets partially offset by an increase in the average balance. The average yield on interest-earning assets was 4.29% and 5.98% for the six months ended June 30, 2009 and 2008, respectively.

Interest Income from Loans to Customers

Interest income from loans to customers has been historically the largest component of our interest income, representing 79.5% and 77.9% of our total interest income for the six months ended June 30, 2009 and 2008, respectively.

The following table sets forth, for the period indicated, the average balance, interest income and average yield for each component of our loans to customers.

	For the six months ended June 30,					
	2008			2009		
	Average balance ⁽¹⁾	Interest income (unaudited)	Average yield ⁽²⁾	Average balance ⁽¹⁾	Interest income	Average yield ⁽²⁾
(In millions of RMB, except percentages)						
Corporate loans	441,405	16,349	7.41%	536,178	15,153	5.65%
Discounted bills	23,025	1,378	11.97%	66,141	1,458	4.41%
Retail loans	101,130	3,517	6.96%	111,904	2,963	5.30%
Total loans to customers	565,560	21,244	7.51%	714,223	19,574	5.48%

(1) Calculated as the average of the daily balances of the Bank and the average monthly balances of our subsidiaries.

(2) Calculated on an annualized basis.

Interest income from loans to customers decreased approximately by 7.9% to RMB19.6 billion for the six months ended June 30, 2009 compared to RMB21.2 billion over the same period in 2008, primarily due to a decrease in the average yield of interest-earning assets partially offset by an increase in the average balance. The average yield decreased to 5.48% in the six months ended June 30, 2009 compared to 7.51% over the same period in 2008.

The largest component of our interest income from loans has been interest income from corporate loans, representing 77.4% and 77.0% of our total interest income from loans to customers for the six months ended June 30, 2009 and 2008, respectively.

Interest income from corporate loans decreased by 7.3% to RMB15.2 billion for the six months ended June 30, 2009 compared to RMB16.3 billion over the same period in 2008, primarily due to a decrease in average yield to 5.65% for the six months ended June 30, 2009 from 7.41% over the same period in 2008 offset by an increase in the average balance of 21.5% to RMB536.2 billion in the six months ended June 30, 2009 from RMB441.4 billion over the same period in 2008. The increase in average corporate loans balance was mainly due to increased liquidity and monetary easing by the PBOC, increased demand for corporate loans related to an anticipated economic recovery in the PRC as well as our business expansion over the period. The decrease in the average yield on corporate loans was primarily due to lower PBOC benchmark interest rates during the first half of 2009 as the PBOC decreased interest rates in late 2008.

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FINANCIAL INFORMATION

Interest income from discounted bills increased by 5.8% to RMB1.5 billion for the six months ended June 30, 2009 compared to RMB1.4 billion over the same period in 2008, primarily due to a increase in the average balance partially offset by a decrease in the average yield. The average balance increased by 187.3% to RMB66.1 billion for the six months ended June 30, 2009 as compared to RMB23.0 billion over the same period in 2008, primarily due to increased demand for discounted bills due to a of a lower market interest rate environment. The average yield of discounted bills decreased to 4.41% for the six months ended June 30, 2009 compared to 11.97% over the same period in 2008, primarily reflecting a lower interest rate environment as a result of a decrease in the PBOC benchmark interest rates in late 2008.

Interest income from retail loans decreased by 15.8% to RMB3.0 billion for the six months ended June 30, 2009 compared to RMB3.5 billion over the same period in 2008, primarily due to a decrease in the average yield partially offset by an increase in the average balance. The average balance of retail loans increased by 10.7% to RMB111.9 billion in the six months ended June 30, 2009 compared to RMB101.1 billion over the same period in 2008, primarily due to our continued business expansion. The average yield decreased to 5.30% in the six months ended June 30, 2009 from 6.96% over the same period in 2008, primarily due to (i) lower interest rate environment and (ii) a repricing of retail mortgages on January 1, 2009 to reflect the lower interest rate environment.

Interest Income from Investment Securities

Interest income from investment securities has been the second largest component of our interest income, representing 10.8% and 10.7% of our total interest income for the six months ended June 30, 2009 and 2008, respectively.

Interest income from investments securities decreased by 9.0% to RMB2.7 billion for the six months ended June 30, 2009 compared to RMB2.9 billion over the same period in 2008, primarily due to a decrease in the average yield, coupled with a decrease in the average balance. The average yield decreased to 3.73% for the six months ended June 30, 2009 from 3.92% over the same period in 2008, primarily reflecting a lower interest rate environment during the first half of 2009 as compared to the same period in 2008. The average balance decreased by 4.1% to RMB142.6 billion for the six months ended June 30, 2009 compared to RMB148.7 billion over the same period in 2008, primarily due to our more conservative approach in investing and a less favorable interest rate environment.

Interest Income from Due from and Placements with Banks and Other Financial Institutions

Interest income from Due from and placements with banks and other financial institutions decreased by 39.7% to RMB1.2 billion for the six months ended June 30, 2009 compared to RMB2.0 billion over the same period in 2008, primarily due to a significant decrease in the average yield, partially offset by an increase in the average balance. The average yield decreased to 1.53% for the six months ended June 30, 2009 from 4.38% over the same period in 2008, primarily reflecting a lower interest rate environment as a result of a decrease in PBOC benchmark interest rates in late 2008. The average balance increased by 73.0% to RMB158.8 billion for the six months ended June 30, 2009 compared to RMB91.7 billion over the same period in 2008, primarily due to increased funding from customer deposits.

Interest Income from Balances with Central Banks

Interest income from balances with central banks decreased by 17.0% to RMB866 million for the six months ended June 30, 2009 compared to RMB1,044 million over the same period in 2008,

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FINANCIAL INFORMATION

primarily due to a decrease in the average yield, partially offset by an increase in the average balance. The average yield decreased to 1.40% for the six months ended June 30, 2009 from 1.99% over the same period in 2008, primarily reflecting a lower interest rate environment as a result of a decrease in deposit reserve rates in late 2008. The average balance increased by 18.1% to RMB124.0 billion for the six months ended June 30, 2009 compared to RMB104.9 billion over the same period in 2008, primarily due to increases in our statutory deposit reserves, reflecting an increase in deposits from customers.

Interest Expense

Interest expense decreased by 15.0% to RMB10.7 billion for the six months ended June 30, 2009 compared to RMB12.6 billion over the same period in 2008, primarily due to a decrease in the average cost of interest-bearing liabilities partially offset by an increase in the average balance of interest-bearing liabilities, in particular with respect to deposits from customers. The average cost of our interest-bearing liabilities was 1.98% and 2.78% for the six months ended June 30, 2009 and 2008, respectively.

Interest Expense on Deposits from Customers

Deposits from customers have been our primary source of funding. Interest expense on deposits from customers represented 77.1% and 71.0% of our total interest expense for the six months ended June 30, 2009 and 2008, respectively.

Interest expense on deposits from customers decreased by 7.7% to RMB8.2 billion for the six months ended June 30, 2009 compared to RMB8.9 billion over the same period in 2008, primarily due to a decrease in the average cost to 1.83% from 2.64%, partially offset by an increase of 33.3% in the average balance.

The following table sets forth, for the years indicated, the average balance, interest expense and average cost for corporate and retail deposits by product type.

	For the six months ended June 30,					
	2008			2009		
	Average balance ⁽¹⁾	Interest expense (unaudited)	Average cost ⁽²⁾	Average balance ⁽¹⁾	Interest expense	Average cost ⁽²⁾
(In millions of RMB, except percentages)						
Corporate deposits⁽³⁾						
Demand	258,273	1,281	0.99%	307,299	1,012	0.66%
Time	<u>308,150</u>	<u>6,387</u>	4.15%	<u>437,341</u>	<u>5,716</u>	2.61%
Subtotal	566,423	7,668	2.71%	744,640	6,728	1.81%
Retail deposits						
Demand	30,199	111	0.74%	34,801	61	0.35%
Time	<u>78,604</u>	<u>1,146</u>	2.92%	<u>120,839</u>	<u>1,449</u>	2.40%
Subtotal	108,803	1,257	2.31%	155,640	1,510	1.94%
Total deposits from customers	<u>675,226</u>	<u>8,925</u>	2.64%	<u>900,280</u>	<u>8,238</u>	1.83%

(1) Calculated as the average of the daily balances of the Bank and the average monthly balances of our subsidiaries.

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FINANCIAL INFORMATION

(2) Calculated on an annualized basis.

(3) Consist of deposits from corporate customers, government authorities and other organizations.

The largest component of our interest expense on deposits from customers has been interest expense on corporate deposits, representing 81.7% and 85.9% of our total interest expense on deposits from customers for the six months ended June 30, 2009 and 2008, respectively.

Interest expense on corporate deposits decreased by 12.3% to RMB6.7 billion for the six months ended June 30, 2009 compared to RMB7.7 billion over the same period in 2008, primarily due to a decrease in the average cost to 1.81% in the six months ended June 30, 2009 from 2.71% over the same period in 2008, partially offset by an increase in the average balance.

Interest expense on corporate time deposits decreased by 10.5%, primarily due to a decrease in the average cost partially offset by an increase in the average balance. The average cost on corporate time deposits decreased to 2.61% for the six months ended June 30, 2009 compared to 4.15% over the same period in 2008 primarily due to lower PBOC benchmark interest rates during the first half of 2009. The average balance of our corporate time deposits increased by 41.9% to RMB437.3 billion for the six months ended June 30, 2009 compared to RMB308.2 billion over the same period in 2008 primarily due to increased liquidity from monetary easing by the PBOC and a generally more conservative investment environment due to the economic slow down in the PRC. As a percentage of the average balance of our total corporate deposits, the average balance of corporate time deposits increased to 58.7% for the six months ended June 30, 2009 compared to 54.4% over the same period in 2008, primarily reflecting increased demand for time deposits due to a more conservative investment environment and its relative higher interest rates than demand deposits.

Interest expense on corporate demand deposits decreased by 21.0%, primarily due to a decrease in the average cost to 0.66% for the six months ended June 30, 2009 compared to 0.99% over the same period in 2008 partially offset by an increase in the average balance. The average balance of corporate demand deposits increased by 19.0% to RMB307.3 billion for the six months ended June 30, 2009 compared to RMB258.3 billion over the same period in 2008 primarily due to a more conservative investment environment.

Interest expense on retail deposits increased by 20.1% to RMB1.5 billion for the six months ended June 30, 2009 compared to RMB1.3 billion over the same period in 2008, primarily due to an increase in the average balance partially offset by a decrease in the average cost. The average balance of retail deposits increased by 43.0% to RMB155.6 billion for the six months ended June 30, 2009 compared to RMB108.8 billion over the same period in 2008. The average cost decreased to 1.94% for the six months ended June 30, 2009 compared to 2.31% over the same period in 2008. Interest expense on retail time deposits increased by 26.4% to RMB1.5 billion for the six months ended June 30, 2009 as compared to RMB1.1 billion over the same period in 2008, primarily due to an increase in the average balance of 53.7% to RMB120.8 billion in the six months ended June 30, 2009 from RMB78.6 billion over the same period in 2008. This was partially offset by a decrease in the average cost to 2.40% for the six months ended June 30, 2009 compared to 2.92% over the same period in 2008, primarily reflecting a lower interest rate environment in the first half of 2009. The increases in the average balances of our retail time and demand deposits were primarily attributable to a generally more conservative investment environment in the first half of 2009. As a percentage of our total retail deposits, our average balance of retail time deposits increased to 77.6% for the six months ended June 30, 2009 compared to 72.2% over the same period in 2008, reflecting an increased demand for time deposits due to a more conservative investment environment and its relative higher interest rates than demand deposits.

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FINANCIAL INFORMATION

Interest Expense on Due to and Placements from Banks and Other Financial Institutions

Due to and placements from banks and other financial institutions consist primarily of short term borrowings from banks at higher interest rates and long term borrowings from non-bank financial institution at lower interest rates.

Interest expense on due to and placements from banks and other financial institutions decreased by 46.1% to RMB1.6 billion for the six months ended June 30, 2009 compared to RMB3.0 billion over the same period in 2008, primarily due to a decrease in the average balance coupled with a decrease in the average cost to 2.28% for the six months ended June 30, 2009 compared to 3.04% over the same period in 2008. The average balance decreased by 28.2% to RMB139.8 billion for the six months ended June 30, 2009 compared to RMB194.7 billion over the same period in 2008, primarily due to lower interbank borrowings as well as an increase in our deposit base. The decrease in the average cost was primarily attributable to a lower interest rate environment as a result of a decrease in PBOC benchmark interest rates in late 2008.

Interest Expense on Debt Securities in Issue

Interest expense on our total debt securities in issue increased by 12.2% to RMB761 million for the six months ended June 30, 2009 compared to RMB678 million over the same period in 2008, primarily due to an increase in the average cost and, to a lesser extent, an increase in the average balance. The average balance of debt securities in issue increased slightly by 1.4% to RMB33.9 billion for the six months ended June 30, 2009 from RMB33.5 billion over the same period in 2008 while average cost increased to 4.48% for the six months ended June 30, 2009 as compared to 4.05% over the same period in 2008. The increase in average cost was primarily due to the issuance of RMB5 billion hybrid capital bonds with a higher average cost in March 2009.

Net Interest Spread and Net Interest Margin

Our net interest spread (on an annualized basis) decreased to 2.31% for the six months ended June 30, 2009 compared to 3.20% over the same period in 2008. The decrease in net interest spread for the six months ended June 30, 2009 compared to the same period in 2008 reflected a greater decrease in the average yield than the decrease in the average cost over the period.

Our net interest income decreased by 5.1% to RMB14.0 billion for the six months ended June 30, 2009 compared to RMB14.7 billion over the same period in 2008. Our net interest income decreased while the average balance of our interest-earning assets for the six months ended June 30, 2009 compared to the same period in 2008 increased. As a result, our net interest margin (on an annualized basis) decreased to 2.43% for the six months ended June 30, 2009 compared to 3.22% over the same period in 2008.

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FINANCIAL INFORMATION

Net Fee and Commission Income

Net fee and commission income represented 10.8% and 17.4% of our total operating income for the six months ended June 30, 2009 and 2008, respectively. The following table sets forth, for the years indicated, the principal components of our net fee and commission income.

	For the six months ended June 30,	
	2008	2009
	(unaudited)	(unaudited)
	(In millions of RMB)	
Fee and commission income		
Consulting and financial advisory service fees ⁽¹⁾	1,688	769
Credit commitment fees ⁽²⁾	378	423
Trust and other fiduciary service fees ⁽³⁾	471	319
Bank card commission and fee income ⁽⁴⁾	347	565
Settlement service fees ⁽⁵⁾	175	200
Securities underwriting service fees ⁽⁶⁾	58	73
Others ⁽⁷⁾	94	93
Subtotal	3,211	2,442
Fee and commission expenses	(139)	(144)
Net fee and commission income	<u>3,072</u>	<u>2,298</u>

Notes:

- (1) Primarily consist of service fees such as those from formulating overall financing plans, structuring financing solutions and arranging credit for our customers.
- (2) Primarily consist of fees from providing bank acceptance bills, guarantees, letters of credit, credit guarantees and commitments.
- (3) Primarily consist of fees from entrusted financial management, asset trusts, pension trusts, entrusted loans and third party depositories.
- (4) Primarily consist of fees from interbank clearing, installment loans, cash withdrawals, transfers and annual fees.
- (5) Primarily consist of fees from international settlements, domestic settlements and online banking settlements.
- (6) Primarily consist of fees from underwriting and distributing financing bonds, government bonds and corporate bonds.
- (7) Primarily consist of fees from online services, safe deposit boxes, deposit verification and airline ticketing agency services.

Our net fee and commission income decreased by 25.2% to RMB2.3 billion for the six months ended June 30, 2009 compared to RMB3.1 billion over the same period in 2008. This decrease was primarily due to a decrease in consulting and financial advisory service fees.

Consulting and financial advisory service fees decreased by 54.4% to RMB769 million for the six months ended June 30, 2009 compared to RMB1,688 million over the same period in 2008. The decrease in consulting and financial advisory service fees was mainly due to lower demand for loan arrangement services as the PBOC lowered benchmark interest rates and increased liquidity in the market since late 2008.

Credit commitment fees increased by 11.9% to RMB423 million for the six months ended June 30, 2009 compared to RMB378 million over the same period in 2008. The increase in credit

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FINANCIAL INFORMATION

commitment fees was primarily due to increased customers and increased demand for credit commitment services as we issued more letters of credit and bank acceptance loans.

Trust and other fiduciary service fees decreased by 32.3% to RMB319 million for the six months ended June 30, 2009 compared to RMB471 million over the same period in 2008. The decrease in trust and other fiduciary service fees for the six months ended June 30, 2009 compared to for the six months ended June 30, 2008 was primarily due to increased competition for trust services and decreased margins as a result of the lower interest rate environment.

Bank card commission and fee income increased by 62.8% to RMB565 million for the six months ended June 30, 2009 compared to RMB347 million over the same period in 2008. The increase in bank card commission and fee income was primarily due to the continued expansion of our credit card business and an increase in issuance of credit cards and increased transaction volume. As of June 30, 2009, the total number of credit cards issued increased by 24.6% to 6.78 million from 5.44 million as of June 30, 2008, with the transaction volume increasing 51.2% to RMB45.5 billion.

Settlement service fees increased by 14.3% to RMB200 million for the six months ended June 30, 2009 compared to RMB175 million over the same period in 2008. The increase in settlement service fees for the six months ended June 30, 2009 compared to over the same period in 2008 was primarily due to an increase in volume of transactions from a growth in domestic customers and increased domestic demand for settlement services partially offset by lower demand for international settlement services.

Securities underwriting service fees increased by 25.9% to RMB73 million for the six months ended June 30, 2009 compared to RMB58 million over the same period in 2008. The increase in securities underwriting service fees was primarily due to our active expansion of the securities underwriting business.

Other fee and commission income decreased slightly by 1.1% to RMB93 million for the six months ended June 30, 2009 compared to RMB94 million over the same period in June 30, 2008.

Our fee and commission expenses increased by 3.6% to RMB144 million for the six months ended June 30, 2009 compared to RMB139 million over the same period in 2008, primarily due to our business expansion. Fee and commission expenses as a percentage of fee and commission income increased to 5.9% in the six months ended June 30, 2009 as compared to 4.3% in the same period in 2008 mainly due to a decrease in the proportion of fee and commission income that has lower expenses.

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FINANCIAL INFORMATION

Net Trading Income/(Loss)

The following table sets forth, for the periods indicated, the principal components of our net trading income/(loss).

	For the six months ended June 30,	
	2008	2009
	(unaudited)	(unaudited)
	(In millions of RMB)	
Net trading income/(loss)		
Foreign exchange gain/(loss)	229	155
Gain/(loss) on interest rate instruments	(58)	(100)
Gain/(loss) on precious metal and other products	(326)	(32)
Total net trading income/(loss)	(155)	23

In the six months ended June 30, 2009, our total net trading income was RMB23 million mainly reflecting a net gain on foreign exchange instruments partially offset by losses on interest rate instruments, and precious metals and other products. The net foreign exchange gain of RMB155 million for the six months ended June 30, 2009 mainly related to an increased foreign exchange transaction volume from our customers and increased trading activity. The net loss on interest rate instruments of RMB100 million primarily reflected realized losses on trading of such instruments as well as fair value adjustments. The net loss on precious metal and other products of RMB32 million was primarily due to trading losses on precious metals over the first half of 2009.

In the six months ended June 30, 2008, our total net trading loss was RMB155 million mainly reflecting losses on precious metals and other products, and interest rate instruments, partially offset by foreign exchange gains. The loss on precious metals and other products of RMB326 million mainly reflected a decrease in fair value of our equity investment in UCBH Holdings Inc. ("UCBH"), as compared with our initial contracted purchase price mainly due to a decrease in UCBH's share price. The initial contracted purchase price was US\$17.79 per share, however, the share price of UCBH has declined to approximately US\$0.80 per share as of September 30, 2009. The net loss on interest rate instruments of RMB58 million was primarily due to realized losses on trading of such instruments as well as fair value adjustments. The foreign exchange gain of RMB229 million mainly reflected changes in foreign exchange rates that benefited our positions in foreign currency instruments.

Net Gain /(Loss) on Disposal of Available-for-sale Securities

The following table sets forth, for the years indicated, our net gain or loss on available-for-sale securities.

	For the six months ended June 30,	
	2008	2009
	(unaudited)	(unaudited)
	(In millions of RMB)	
Net gain /(loss) on disposal of available-for-sale securities	27	4,959

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FINANCIAL INFORMATION

For the six months ended June 30, 2009, we had a net gain on disposal of available-for-sale securities of RMB5.0 billion as compared to RMB27 million for the same period in 2008. This increase was mainly attributable to the disposal of all our interests in Haitong Securities over the first half of 2009, generating a gain of RMB4.9 billion.

We initially obtained 549 million shares in Haitong Securities through judicial rulings in 2004 and 2005 as a result of a default by a borrower on a loan we granted, with such shares pledged as collateral. Our shares in Haitong Securities were initially valued on our books at RMB549 million and were subject to sale restrictions. In 2007, Haitong Securities merged with Shanghai Urban Argo-Business, a listed company on the Shanghai Stock Exchange (stock code 600837), whereby Haitong Securities remained the surviving listed company after the merger. As a result of this merger, we held 190 million shares in Haitong Securities. In the first half of 2008, Haitong Securities issued a stock dividend and conversion shares, thereby increasing our share holding in Haitong Securities to 380 million shares as of December 31, 2008. Our shares in Haitong Securities had a market value of approximately RMB3.1 billion as of December 31, 2008.

All sale restrictions on our shares in Haitong Securities were lifted on December 29, 2008. On June 22, 2009, we sold all 380 million shares of Haitong Securities at an average selling price of RMB14.33 per share and recognized a gain of RMB4.9 billion.

Impairment Losses on Assets

Impairment losses on assets consist primarily of provisions charged on loans, investments and other assets. Provisions charged for impairment losses increased significantly by 76.5% to RMB2,851 million for the six months ended June 30, 2009 compared to RMB1,615 million for the same period in 2008.

The following table sets forth, for the years indicated, the principal components of our provisions charged for impairment losses on assets.

	For the six months ended June 30,	
	2008	2009
	(unaudited)	
	(In millions of RMB)	
Loans and advances to customers	1,390	2,405
Available-for-sale	202	421
Held-to-maturity	—	(54)
Finance lease receivables	24	69
Others ⁽¹⁾	(1)	10
Total	<u>1,615</u>	<u>2,851</u>

Note:

(1) Others mainly consists of impairment losses on repossessed assets obtained through foreclosure.

Provisions charged for impairment losses on loans and advances to customers increased by 73.0% to RMB2,405 million for the six months ended June 30, 2009 compared to RMB1,390 million for the same period in 2008. For details on changes in our allowance for impairment losses on loans, see "Description of Our Assets and Liabilities — Asset Quality of Our Loan Portfolio — Changes to the Allowance for Impairment Losses."

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FINANCIAL INFORMATION

For the six months ended June 30, 2009, our provisions charged for impairment losses on available-for-sale investment securities was RMB421 million, primarily due to fair-market value decreases in securities held in foreign denominated currencies. For the six months ended June 30, 2009, we reversed provisions for held-to-maturity investment securities of RMB54 million as the securities that this provision related to matured and we received full payment. Provisions for finance lease receivables were RMB69 million for the six months ended June 30, 2009 mainly reflecting provisions relating to our subsidiary, Minsheng Financial Leasing Co, Ltd., that was newly established in 2008.

Operating Expenses

The following table sets forth, for the years indicated, the principal components of our total operating expenses.

	For the six months ended June 30,	
	2008	2009
	(unaudited)	
	(In millions of RMB)	
Staff cost	3,992	4,034
Business tax and surcharges	1,413	1,266
Business development expenses	391	409
Office and lease expenses	628	873
Other general and administrative expenses ⁽¹⁾	1,444	1,796
Total operating expenses	<u>7,868</u>	<u>8,378</u>

Note:

- (1) Consist primarily of depreciation, automobile, electronic equipment, travelling, conference, postage and telegraph, and other general and administrative expenses.

Our operating expenses increased by 6.5% to RMB8.4 billion for the six months ended June 30, 2009 compared to RMB7.9 billion over the same period in 2008.

Staff Costs

Staff costs are the largest component of our operating expenses, representing 48.1% and 50.7% of our total operating expenses for the six months ended June 30, 2009 and 2008, respectively.

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FINANCIAL INFORMATION

The following table sets forth, for the periods indicated, the components of our staff costs.

	For the six months ended June 30,	
	2008 (unaudited)	2009
	(In millions of RMB)	
Staff costs		
Salaries and bonuses	2,969	2,960
Other benefits ⁽¹⁾	1,023	1,074
Total staff costs	3,992	4,034

Note:

(1) Consist primarily of statutory social security and additional health and pension benefits.

Staff costs remained stable from the first half of 2008 to the first half of 2009. Staff costs were RMB4,034 million for the six months ended June 30, 2009 compared to RMB3,992 million for the same period in 2008.

Business Tax and Surcharges

Business tax and surcharges mainly relate to revenue generated from our provision of financial products and services with respect to lending (interest income), financial leasing, transfer of securities, financial advisory services, and other financial services. Business tax and surcharges decreased by 10.4% to RMB1,266 million for the six months ended June 30, 2009 compared to RMB1,413 million for the same period in 2008. The decrease in business tax and surcharges was due to a decrease in our revenues subject to these taxes.

Business Development Expenses

Business development expenses increased by 4.6% to RMB409 million for the six months ended June 30, 2009 compared to RMB391 million for the same period in 2008, primarily due to our overall business growth.

Office and Lease Expenses

Office and lease expenses increased by 39.0% to RMB873 million for the six months ended June 30, 2009 compared to RMB628 million for the same period in 2008. The increase in office and lease expenses was primarily due to the increase in the number of our branches for business growth, including expenses relating to operating those branches and increased rent.

Other General and Administrative Expenses

Other general and administrative expenses increased by 24.4% to RMB1,796 million for the six months ended June 30, 2009 compared to RMB1,444 million for the same period in 2008, reflecting our overall business growth.

Other Operating Expenses, net

Other net operating expenses mainly include other operating income such as tax rebates and other operating expenses such as provision charges for credit commitments, including acceptances,

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FINANCIAL INFORMATION

letters of guarantee, and letters of credit. Other net operating expenses was RMB415 million for the six months ended June 30, 2009 while such expenses were immaterial for the same period in 2008. Other net operating expenses for the six months ended June 30, 2009 was primarily related to provision charges due to the increase in off-balance sheet amounts coupled with our more conservative approach in assessing provisions due to the economic downturn.

Profit Before Tax

As a result of the foregoing, our profit before tax increased by 17.5% to RMB9.6 billion for the six months ended June 30, 2009 compared to RMB8.2 billion for the same period in 2008.

Income Tax

The following table sets forth our profit before tax, income tax expense and effective tax rate for the six months ended June 30, 2009 and 2008.

	For the six months ended June 30,	
	2008	2009
	(unaudited)	
	(In millions of RMB)	
Profit before tax	8,156	9,586
Income tax	2,110	2,207
Effective tax rate	25.9%	23.0%

The applicable income tax rate (except for our Shenzhen branch) was 25% for 2008 and the six months ended June 30, 2009. The decrease in our effective tax rate to 23.0% for the six months ended June 30, 2009 as compared to 25.9% for the same period in 2008 was mainly due to the reduction of the tax deductability of certain expenses in the first half of 2008. In June 2008, the National Tax Administration passed supplementary regulations reducing the pre-tax deductibility of certain performance based compensation, thereby increasing our income tax over the first half of 2008 by RMB263 million.

Net Profit

As a result of the foregoing factors, our net profit increased by 22.0% to RMB7.4 billion for the six months ended June 30, 2009 compared to RMB6.0 billion for the same period in 2008.

Years Ended December 31, 2008, 2007 and 2006

Net Interest Income

Net interest income has historically been the largest component of our total operating income, representing 86.9%, 89.3% and 92.7% of our total operating income for the years ended December 31, 2008, 2007 and 2006, respectively.

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FINANCIAL INFORMATION

The following table sets forth, for the years indicated, our interest income, interest expense and net interest income.

	For the year ended December 31,		
	2006	2007	2008
	(in millions of RMB)		
Interest income	27,361	40,070	56,311
Interest expense	(11,193)	(17,490)	(25,931)
Net interest income	<u>16,168</u>	<u>22,580</u>	<u>30,380</u>

Our net interest income increased by 34.5% to RMB30.4 billion in 2008 compared to RMB22.6 billion in 2007, which in turn increased by 39.7% compared to RMB16.2 billion in 2006. The lower growth rate of net interest income in 2008 compared with the growth rate in 2007 reflected a lower growth rate in interest income in 2008 of 40.5% compared to 46.4% in 2007, partially offset by a decrease in the growth rate in interest expense in 2008 of 48.3% compared to 56.3% in 2007.

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FINANCIAL INFORMATION

The table below sets forth, for the years indicated the average balances of our assets and liabilities and the related interest income or expense and average yields (for assets) and costs (for liabilities).

	For the year ended December 31,								
	2006			2007			2008		
	Average balance ⁽¹⁾	Interest income	Average yield ⁽²⁾	Average balance ⁽¹⁾	Interest income	Average yield ⁽²⁾	Average balance ⁽¹⁾	Interest income	Average yield ⁽²⁾
	(in millions of RMB, except percentages)								
Assets									
Loans and advances to customers, gross	426,625	22,997	5.39%	500,063	32,141	6.43%	591,183	44,433	7.52%
Investment securities and trading assets	89,511	2,697	3.01%	127,033	4,315	3.40%	140,041	5,451	3.89%
Due from and placements with banks and other financial institutions ⁽³⁾	33,132	882	2.66%	65,232	2,281	3.50%	93,540	4,000	4.28%
Balances with central banks ⁽⁴⁾	48,331	778	1.61%	76,870	1,322	1.72%	135,555	2,216	1.63%
Others ⁽⁵⁾	137	7	5.11%	179	11	6.15%	4,399	211	4.80%
Total interest-earning assets	597,736	27,361	4.58%	769,377	40,070	5.21%	964,718	56,311	5.84%
Allowance for impairment losses ⁽⁶⁾	(5,724)			(7,135)			(9,923)		
Non-interest-earning assets ⁽⁶⁾⁽⁷⁾	11,351			15,701			19,435		
Total assets	603,363			773,943			974,230		

	For the year ended December 31,								
	2006			2007			2008		
	Average balance ⁽¹⁾	Interest expense	Average cost ⁽²⁾	Average balance ⁽¹⁾	Interest expense	Average cost ⁽²⁾	Average balance ⁽¹⁾	Interest expense	Average cost ⁽²⁾
	(in millions of RMB, except percentages)								
Liabilities									
Deposits from customers	500,136	9,495	1.90%	600,851	13,181	2.19%	708,455	18,428	2.60%
Due to and placements from banks and other financial institutions ⁽⁸⁾	63,140	1,160	1.84%	108,763	3,205	2.95%	168,721	6,045	3.58%
Debt securities in issue ⁽⁹⁾	13,569	525	3.87%	27,839	1,104	3.97%	33,500	1,410	4.21%
Others ⁽¹⁰⁾	687	13	1.89%	—	—	—	2,518	48	1.91%
Total interest-bearing liabilities	577,532	11,193	1.94%	737,453	17,490	2.37%	913,194	25,931	2.84%
Non-interest-bearing liabilities ⁽⁶⁾⁽¹¹⁾	7,443			10,671			14,738		
Total liabilities	584,975			748,124			927,932		
Net interest income		16,168			22,580			30,380	
Net interest spread ⁽¹²⁾			2.64%			2.84%			3.00%
Net interest margin ⁽¹³⁾			2.70%			2.93%			3.15%

Notes:

(1) Calculated as the average of the daily balances of the Bank and the average monthly balances of our subsidiaries.

(2) Calculated on an annualized basis.

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FINANCIAL INFORMATION

- (3) Consist primarily of deposits with banks and other financial institutions, placements with banks and other financial institution and assets purchased under resale agreements.
- (4) Consist primarily of statutory deposit reserves and surplus deposit reserves.
- (5) Consist primarily of finance lease receivables related to Minsheng Financial Leasing Co. Ltd.
- (6) Calculated as the average of the beginning and ending balances for the period.
- (7) Consist primarily of cash, derivative financial assets, property, plant and equipment, deferred income tax assets and other assets.
- (8) Consist primarily of deposits from banks and other financial institutions, placements from banks and other financial institutions and assets sold under repurchase agreements.
- (9) Consist primarily of financial bonds, subordinated bonds and hybrid capital bonds.
- (10) Consists primarily of security deposits for financial leases related to Minsheng Financial Leasing Co. Ltd.
- (11) Consist of derivative financial liabilities, deferred income tax liabilities and other liabilities.
- (12) Calculated as the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities.
- (13) Calculated by dividing net interest income by the average balance of total interest-earning assets.

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FINANCIAL INFORMATION

The following table sets forth, for the periods indicated, the allocation of changes in our interest income and interest expense due to changes in volume and changes in rate. Changes in volume are measured by changes in the average balances and changes in rate are measured by changes in the average rates. Changes caused by both volume and rate have been allocated to changes in rate.

	For the year ended December 31,					
	2007 vs. 2006			2008 vs. 2007		
	Increase/(decrease) due to		Net increase/ (decrease) ⁽³⁾ (in millions of RMB)	Increase/(decrease) due to		Net increase/ (decrease) ⁽³⁾
	Volume ⁽¹⁾	Rate ⁽²⁾		Volume ⁽¹⁾	Rate ⁽²⁾	
Assets						
Loans and advances to customers, gross	3,959	5,185	9,144	5,857	6,435	12,292
Investment securities and trading assets	1,131	487	1,618	442	694	1,136
Due from and placements with banks and other financial institutions.	855	544	1,399	990	729	1,719
Balances with central banks	459	85	544	1,009	(115)	894
Others	<u>2</u>	<u>2</u>	<u>4</u>	<u>259</u>	<u>(59)</u>	<u>200</u>
Changes in interest income	6,406	6,303	12,709	8,557	7,684	16,241
Liabilities						
Deposits from customers	1,912	1,774	3,686	2,361	2,886	5,247
Due to and placements from banks and other financial institutions.	838	1,207	2,045	1,767	1,073	2,840
Debt securities in issue	552	27	579	224	82	306
Others	<u>(13)</u>	<u>—</u>	<u>(13)</u>	<u>48</u>	<u>—</u>	<u>48</u>
Changes in interest expense	3,289	3,008	6,297	4,400	4,041	8,441
Changes in net interest income	<u>3,117</u>	<u>3,295</u>	<u>6,412</u>	<u>4,157</u>	<u>3,643</u>	<u>7,800</u>

Notes:

- (1) Represents the average balance for the year minus the average balance for the previous year, multiplied by the average yield/cost for the previous year.
- (2) Represents the average yield/cost for the year minus the average yield/cost for the previous year, multiplied by the average balance for the year.
- (3) Represents interest income/expense for the year minus interest income/expense for the previous year.

Interest Income

Our interest income increased by 40.5% to RMB56.3 billion in 2008 compared to RMB40.1 billion in 2007, which in turn increased by 46.4% compared to RMB27.4 billion in 2006, due to both an increase in the average balance of interest-earning assets and increase in the average yield. The average yield on interest-earning assets was 5.84%, 5.21% and 4.58% in 2008, 2007 and 2006, respectively.

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FINANCIAL INFORMATION

Interest Income from Loans to Customers

Interest income from loans to customers has been historically the largest component of our interest income, representing 78.9%, 80.2% and 84.1% of our total interest income in 2008, 2007 and 2006, respectively.

The following table sets forth, for the years indicated, the average balance, interest income and average yield for each component of our loans to customers.

	For the year ended December 31,								
	2006			2007			2008		
	Average balance ⁽¹⁾	Interest income	Average yield ⁽²⁾	Average balance ⁽¹⁾	Interest income	Average yield ⁽²⁾	Average balance ⁽¹⁾	Interest income	Average yield ⁽²⁾
(in millions of RMB, except percentages)									
Corporate loans	321,482	17,890	5.56%	388,274	25,458	6.56%	460,413	34,266	7.44%
Discounted bills	43,574	1,615	3.71%	29,070	1,529	5.26%	27,479	2,851	10.38%
Retail loans	61,569	3,492	5.67%	82,719	5,154	6.23%	103,291	7,316	7.08%
Total loans to customers . .	426,625	22,997	5.39%	500,063	32,141	6.43%	591,183	44,433	7.52%

(1) Calculated as the average of the daily balances of the Bank and the average monthly balances of our subsidiaries.

(2) Calculated on an annualized basis.

Interest income from loans to customers increased by 38.2% to RMB44.4 billion in 2008 compared to RMB32.1 billion in 2007, which in turn increased by 39.8% compared to RMB23.0 billion in 2006, primarily due to an increase in the average balance and the average yield. The average yield increased to 7.52% in 2008 compared to 6.43% in 2007 and 5.39% in 2006.

The largest component of our interest income from loans has been interest income from corporate loans, representing 77.1%, 79.2% and 77.8% of our total interest income from loans to customers for the years ended December 31, 2008, 2007 and 2006, respectively. Interest income from corporate loans grew at a CAGR of 38.4% from 2006 to 2008. However, interest income from our retail loan portfolio has shown the highest rate of growth, with a CAGR of 44.7% from 2006 to 2008, reflecting our strategy of expanding our retail loan business coupled with higher average yield. As a percentage of our total interest income from loans to customers, interest income from our retail loan portfolio increased to 16.5% in 2008 compared to 16.0% in 2007 and 15.2% in 2006.

2008 Compared to 2007. Interest income from corporate loans increased by 34.6% to RMB34.3 billion in 2008 compared to RMB25.5 billion in 2007, primarily due to an increase in the average balance of 18.6% to RMB460.4 billion in 2008 from RMB388.3 billion in 2007, coupled with a increase in average yield to 7.44% in 2008 from 6.56% in 2007. Our average corporate loans balance increased in 2008 compared to 2007, reflecting our overall business growth. The increase in the average yield on corporate loans was primarily due to a combination of (i) the continued effect of the increase in the PBOC benchmark interest rates in 2007 and (ii) a greater demand for loans, prior to the economic downturn near the later part of 2008, allowing us to charge higher interest rates.

Interest income from discounted bills increased by 86.5% to RMB2.9 billion in 2008 compared to RMB1.5 billion in 2007, primarily due to a significant increase in the average yield, partially offset by a minor decrease in the average balance. The average yield of discounted bills increased to 10.38% in 2008 compared to 5.26% in 2007, primarily reflecting an increase in the PBOC benchmark interest

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FINANCIAL INFORMATION

rates and increased turnover from the trading of these discounted bills, allowing us to achieve a better discount rate.

Interest income from retail loans increased by 41.9% to RMB7.3 billion in 2008 compared to RMB5.2 billion in 2007, primarily due to an increase in the average balance coupled with an increase in the average yield. The average balance of retail loans increased by 24.9% to RMB103.3 billion in 2008 compared to RMB82.7 billion in 2007, primarily due to our efforts to expand our retail loan business. The average yield increased to 7.08% in 2008 from 6.23% in 2007, primarily due to an increase in the PBOC benchmark interest rates.

2007 Compared with 2006. Interest income from corporate loans increased by 42.3% to RMB25.5 billion in 2007 compared to RMB17.9 billion in 2006, primarily due to an increase in average yield to 6.56% in 2007 compared to 5.56% in 2006 and to a lesser extent an increase in average balance. The increase in the average yield of corporate loans reflected the effect of the increase in the PBOC benchmark rates in 2007. The average balance of corporate loans increased by 20.8% to RMB388.3 billion in 2007 compared to RMB321.5 billion in 2006, in line with our business growth and an increased demand for loans.

Interest income from discounted bills decreased by 5.3% to RMB1.5 billion in 2007 compared to RMB1.6 billion in 2006, primarily due to a decrease in the average balance partially offset by an increase in average yield. The average balance of discounted bills decreased by 33.3% to RMB29.1 billion in 2007 compared to RMB43.6 billion in 2006, primarily attributable to a shifting of resources from marketing discounted bills to loans. The average yield increased to 5.26% in 2007 compared to 3.71% in 2006, primarily due to increased turnover from trading of these discounted bills, allowing us to achieve a better discount rate.

Interest income from retail loans increased by 47.6% to RMB5.2 billion in 2007 compared to RMB3.5 billion in 2006, primarily due to an increase in the average balance and, to a lesser extent, an increase in the average yield. The average balance of retail loans increased by 34.4% to RMB82.7 billion in 2007 compared to RMB61.6 billion in 2006, primarily due to an increase in the average balance of residential mortgage loans, which resulted from increased market demand and our efforts to expand this business. The average yield increased to 6.23% in 2007 compared to 5.67% in 2006, reflecting the effect of the increase in the PBOC benchmark rates.

Interest Income from Investment Securities

Interest income from investment securities has been the second largest component of our interest income, representing 9.7%, 10.8% and 9.9% of our interest income for the years ended December 31, 2008, 2007 and 2006, respectively.

Interest income from investments securities increased by 26.3% to RMB5.5 billion in 2008 compared to RMB4.3 billion in 2007, primarily due to an increase in the average yield, coupled with an increase in the average balance. The average yield increased to 3.89% in 2008 from 3.40% in 2007, primarily reflecting the continuing increases to benchmark rates from 2007. The average balance increased by 10.2% to RMB140.0 billion in 2008 compared to RMB127.0 billion in 2007, primarily due to an increase in our funding.

Interest income from investment securities increased by 60.0% to RMB4.3 billion in 2007 compared to RMB2.7 billion in 2006, primarily due to an increase in the average balance. The average balance of investments and trading assets increased by 41.9% to RMB127.0 billion in 2007 compared to RMB89.5 billion in 2006, primarily due to an increase in our funding. The average yield was 3.40% and 3.01% in 2007 and 2006, respectively.

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FINANCIAL INFORMATION

Interest Income from Due from and Placements with Banks and Other Financial Institutions

Interest income from due from and placements with banks and other financial institutions increased by 75.4% to RMB4.0 billion in 2008 compared to RMB2.3 billion in 2007, primarily due to an increase in the average balance coupled with an increase in average yield. The average balance increased by 43.4% to RMB93.5 billion in 2008 compared to RMB65.2 billion in 2007, primarily due to our continued efforts to develop the interbank lending market in order to take advantage of a wider interest rate spread. The increase in the average yield to 4.28% in 2008 compared to 3.50% in 2007 primarily reflected an increase in the interest rates for interbank placements reflecting the effect of a tightened money supply in China for most of 2008.

Interest income from due from and placements with banks and other financial institutions increased by 158.6% to RMB2.3 billion in 2007 compared to RMB0.9 billion in 2006, primarily due to an increase in the average balance, coupled with an increase in the average yield. The average balance increased by 96.9%, to RMB65.2 billion in 2007 compared to RMB33.1 billion in 2006, primarily due to our focus on developing the interbank lending market in order to take advantage of a wider interest rate spread. The average yield increased to 3.50% in 2007 compared to 2.66% in 2006 primarily due to an increase in the interest rates for interbank placements.

Interest Income from Balances with Central Banks

Interest income from balances with central banks increased by 67.6% to RMB2.2 billion in 2008 compared to RMB1.3 billion in 2007, primarily due to an increase in the average balance, which was partially offset by a decrease in the average yield. The average balance increased by 76.3% to RMB135.6 billion in 2008 from RMB76.9 billion in 2007, primarily due to increases in our statutory deposit reserves, reflecting an increase in deposits from customers. The average yield decreased slightly to 1.63% in 2008 from 1.72% in 2007.

Interest income from balances with central banks increased by 69.9% to RMB1.3 billion in 2007 compared to RMB0.8 billion in 2006, primarily due to an increase in the average balance, coupled with a slight increase in the average yield. The average balance increased by 59.0% to RMB76.9 billion in 2007 from RMB48.3 billion in 2006, primarily due to the growth of our statutory deposit reserves in line with the increase in deposits from customers and a gradual increase in the required reserve ratio. The average yield increased slightly to 1.72% in 2007 from 1.61% in 2006.

Interest Expense

Interest expense increased by 48.3% to RMB25.9 billion in 2008 compared to RMB17.5 billion in 2007, due to an increase in the average cost of interest-bearing liabilities along with an increase in the average balance of interest-bearing liabilities, in particular with respect to deposits from customers and amount due to banks and other financial institutions. The average cost of our interest-bearing liabilities was 2.84%, 2.37% and 1.94% in 2008, 2007 and 2006, respectively.

Interest Expense on Deposits from Customers

Historically, deposits from customers have been our primary source of funding. Interest expense on deposits from customers represented 71.1%, 75.4% and 84.8% of our total interest expense for the years ended December 31, 2008, 2007 and 2006, respectively.

Interest expense on deposits from customers increased by 39.8% to RMB18.4 billion in 2008 compared to RMB13.2 billion in 2007, primarily due to an increase in the average cost to 2.60% from 2.19% and supplemented by an increase of 17.9% in the average balance. Interest expense on

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FINANCIAL INFORMATION

deposits from customers increased by 38.8% to RMB13.2 billion in 2007 compared to RMB9.5 billion in 2006, primarily due to an increase of 20.1% in the average balance of deposits from customers and an increase in the average cost to 2.19% in 2007 compared to 1.90% in 2006.

The following table sets forth, for the years indicated, the average balance, interest expense and average cost for corporate and retail deposits by product type.

	For the year ended December 31,								
	2006			2007			2008		
	Average balance ⁽¹⁾	Interest expense	Average cost ⁽²⁾	Average balance ⁽¹⁾	Interest expense	Average cost ⁽²⁾	Average balance ⁽¹⁾	Interest expense	Average cost ⁽²⁾
(in millions of RMB, except percentages)									
Corporate deposits⁽³⁾									
Demand	178,238	1,688	0.95%	221,038	2,222	1.01%	264,151	2,602	0.99%
Time	243,161	6,533	2.69%	285,284	9,216	3.23%	328,578	13,349	4.06%
Subtotal	421,399	8,221	1.95%	506,322	11,438	2.26%	592,729	15,951	2.69%
Retail deposits									
Demand	23,658	175	0.74%	27,446	213	0.78%	30,915	197	0.64%
Time	55,079	1,099	2.00%	67,083	1,530	2.28%	84,811	2,280	2.69%
Subtotal	78,737	1,274	1.62%	94,529	1,743	1.84%	115,726	2,477	2.14%
Total deposits from customers	500,136	9,495	1.90%	600,851	13,181	2.19%	708,455	18,428	2.60%

(1) Calculated as the average of the daily balances of the Bank and the average monthly balances of our subsidiaries.

(2) Calculated on an annualized basis.

(3) Consist of deposits from corporate customers, government authorities and other organizations.

The largest component of our interest expense on deposits from customers has been interest expense on corporate deposits, representing 86.6%, 86.8% and 86.6% of our total interest expense on deposits from customers in 2008, 2007 and 2006, respectively.

2008 Compared to 2007. Interest expense on corporate deposits increased by 39.4% to RMB16.0 billion in 2008 compared to RMB11.4 billion in 2007, primarily due to an increase in the average balance of our corporate deposits as a result of the expansion of our branch network and our increased marketing efforts, as well as an increase in the average cost to 2.69% in 2008 from 2.26% in 2007.

Interest expense on corporate time deposits increased by 44.8%, primarily due to an increase in the average balance, coupled with an increase in the average cost. The average balance of our corporate time deposits increased by 15.2% to RMB328.6 billion in 2008 compared to RMB285.3 billion in 2007. As a percentage of our total corporate deposits, the average balance of corporate time deposits decreased slightly to 55.4% in 2008 compared to 56.3% in 2007, primarily reflecting a increase in preference for demand deposits due to greater interest by corporate customers in maintaining liquidity for making investments. The average cost on corporate time deposits increased to 4.06% in 2008 compared to 3.23% in 2007 primarily due to increases in the PBOC benchmark rates.

Interest expense on corporate demand deposits increased by 17.1%, primarily due to an increase in the average balance, partially offset by a slight decrease in the average cost to 0.99% in 2008 compared to 1.01% in 2007. The average balance of corporate demand deposits increased by 19.5% to RMB264.2 billion in 2008 compared to RMB221.0 billion in 2007.

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FINANCIAL INFORMATION

Interest expense on retail deposits increased by 42.2% to RMB2.5 billion in 2008 compared to RMB1.7 billion in 2007, primarily due to an increase in the average balance, coupled with an increase in the average cost to 2.14% in 2008 compared to 1.84% in 2007. Interest expense on retail time deposits increased by 49.0%, primarily due to an increase in the average balance and an increase in the average cost to 2.69% in 2008 compared to 2.28% in 2007, primarily reflecting an increase in the PBOC benchmark rates. Interest expense on retail demand deposits remained stable between 2008 and 2007 as a decrease in average cost was offset by an increase in average balance of 12.6% to RMB30.9 billion in 2008 from RMB27.5 billion in 2007. The increases in the average balances of our retail time and demand deposits were primarily attributable to the expansion of our branch network and our marketing efforts to expand our retail banking business. As a percentage of our total retail deposits, our average balance of retail time deposits increased to 73.3% in 2008 compared to 71.0% in 2007, reflecting an increased demand for demand deposits due to the higher level of activity in the capital markets.

2007 Compared to 2006. Interest expense on corporate deposits increased by 39.1% to RMB11.4 billion in 2007 compared to RMB8.2 billion in 2006, primarily due to an increase in the average balances of both corporate time and demand deposits in line with our overall business growth. As a percentage of our total corporate deposits, the average balance of corporate time deposits decreased slightly to 56.3% in 2007 compared to 57.7% in 2006. The average cost of corporate time deposits increased to 3.23% in 2007 compared to 2.69% in 2006, primarily due to an increase in the PBOC benchmark rates. The average cost of corporate demand deposits increased slightly at 1.01% in 2007 compared to 0.95% in 2006.

Interest expense on retail deposits increased by 36.8% to RMB1.7 billion in 2007 compared to RMB1.3 billion in 2006, primarily due to an increase in the average balance and average cost. The average balance increased by 20.1% to RMB94.5 billion in 2007 from RMB78.7 billion in 2006, reflecting the expansion of our branch network and our marketing efforts to expand our retail banking business. The average cost increased to 1.84% in 2007 compared to 1.62% in 2006.

Interest Expense on Due to and Placements from Banks and Other Financial Institutions

Due to and placements from banks and other financial institutions consist primarily of short term borrowings from banks at high interest rates and long term borrowings from non-bank financial institution at lower interest rates.

Interest expense on due to and placements from banks and other financial institutions increased by 88.6% to RMB6.0 billion in 2008 compared to RMB3.2 billion in 2007, primarily due to an increase in the average balance, coupled with an increase in the average cost to 3.58% in 2008 compared to 2.95% in 2007. The average balance increased by 55.1% to RMB168.7 billion in 2008 compared to RMB108.8 billion in 2007, primarily due to our continued efforts to develop the interbank lending market in order to take advantage of greater interest spread in 2008 as compared to 2007. The increase in the average cost was primarily attributable to an increase in the PBOC benchmark interest rates.

Interest expense on due to and placements from banks and other financial institutions increased by 176.3% to RMB3.2 billion in 2007 compared to RMB1.2 billion in 2006, primarily due to a 72.3% increase in the average balance and an increase in average cost. The increase in the average balance to RMB108.8 billion in 2007 compared to RMB63.1 billion in 2006 was primarily due to our efforts to develop the interbank lending market in order to take advantage of greater interest spread in 2007 as compared to 2006. The average cost increased to 2.95% in 2007 compared to 1.84% in 2006, primarily due to an increase in the PBOC benchmark interest rates.

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FINANCIAL INFORMATION

Interest Expense on Debt Securities in Issue

2008 Compared to 2007. Interest expense on our total debt securities in issue increased by 27.7% to RMB1.4 billion in 2008 compared to RMB1.1 billion in 2007, primarily due to an increase in the average balance and, to a lesser extent, an increase in the average cost. The average balance of debt securities in issue increased by 20.3% to RMB33.5 billion in 2008 from RMB27.8 billion in 2007 while average cost increased to 4.21% in 2008 as compared to 3.97% in 2007. This increase in average balance was primarily due to our issuance of approximately RMB12 billion in debt around mid-2007, which were outstanding for all of 2008. The increase in average cost was primarily due to an increase in the prevailing market interest rates.

2007 Compared to 2006. Interest expense on our total debt securities in issue increased by 110.3% to RMB1.1 billion in 2007 compared to RMB0.5 billion in 2006, primarily due to an increase in the average balance. The average balance of debt securities in issue increased by 105.2% to RMB27.8 billion in 2007 from RMB13.6 billion in 2006. This increase in average balance was primarily due to our new issuances of (i) a RMB6 billion floating interest 3-year bond with a rate based on the one-year PBOC time deposit rate set at each interest payment date plus 61 basis points and (ii) a RMB6 billion floating interest 5-year bond with a rate based on the one-year PBOC time deposit rate set at each interest payment date plus a spread of 76 basis points per annum, in order to increase our supplementary capital.

Net Interest Spread and Net Interest Margin

Our net interest spread increased to 3.00% in 2008 compared to 2.84% in 2007, which in turn increased from 2.64% in 2006. The increase in net interest spread from 2006 to 2008 reflected our ability to increase our average yield at a sufficient pace to more than offset the growth in the average cost of our interest-bearing liabilities during this period.

Our net interest income increased by 34.5% to RMB30.4 billion in 2008 compared to RMB22.6 billion in 2007, which in turn increased by 39.7% compared to RMB16.2 billion in 2006. Our net interest income increased at a higher rate than the average balance of our interest-earning assets from 2006 to 2008. As a result, our net interest margin increased to 3.15% in 2008 compared to 2.93% in 2007, which in turn increased from 2.70% in 2006.

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FINANCIAL INFORMATION

Net Fee and Commission Income

Net fee and commission income represented 12.8%, 9.5% and 5.9% of our total operating income for the years ended December 31, 2008, 2007 and 2006, respectively. The following table sets forth, for the years indicated, the principal components of our net fee and commission income.

	For the year ended December 31,		
	2006	2007	2008
	(in millions of RMB)		
Fee and commission income			
Consulting and financial advisory service fees ⁽¹⁾	367	1,136	1,702
Credit commitment fees ⁽²⁾	169	298	917
Trust and other fiduciary service fees ⁽³⁾	190	406	603
Bank card commission and fee income ⁽⁴⁾	150	397	920
Settlement service fees ⁽⁵⁾	258	301	312
Securities underwriting service fees ⁽⁶⁾	51	82	139
Others ⁽⁷⁾	39	45	162
Subtotal	1,224	2,665	4,755
Fee and commission expenses	(197)	(274)	(294)
Net fee and commission income	1,027	2,391	4,461

Notes:

- (1) Primarily consist of service fees such as those from formulating overall financing plans, structuring financing solutions and arranging credit for our customers.
- (2) Primarily consist of fees from providing bank acceptance bills, guarantees, letters of credit, credit guarantees and commitments.
- (3) Primarily consist of fees from entrusted financial management, asset trusts, pension trusts, entrusted loans and third party depositories.
- (4) Primarily consist of fees from interbank clearing, installment loans, cash withdrawals, transfers and annual fees.
- (5) Primarily consist of fees from international settlements, domestic settlements and online banking settlements.
- (6) Primarily consist of fees from underwriting and distributing financing bonds, government bonds and corporate bonds.
- (7) Consist primarily of fees from online services, safe deposit boxes, deposit verification and airline ticketing agency services.

Our net fee and commission income increased by 86.6% to RMB4.5 billion in 2008 compared to RMB2.4 billion in 2007, which in turn increased by 132.8% compared to RMB1.0 billion in 2006. These increases resulted from a combination of increases in all categories of fees and commissions, particularly consulting and financial advisory service fees, credit card commitment commissions, settlement services fees, and trust and other fiduciary service fees.

Consulting and financial advisory service fees increased by 49.8% to RMB1,702 million in 2008 compared to RMB1,136 million in 2007, which in turn increased by 209.5% compared to RMB367 million in 2006. Consulting and financial advisory service fee income increased in 2007 from 2006 mainly due to our strengthened focus on arranging credit for customers, which became more profitable as liquidity in the market tightened and demand for loans increased. These fees increased at an even higher rate between 2007 and 2008 as market conditions in 2008 led to an increase in demand for loans at a time when liquidity was still relatively tight until monetary easing near the end of 2008.

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FINANCIAL INFORMATION

Credit commitment fees increased by 207.7% to RMB917 million in 2008 compared to RMB298 million in 2007, which in turn increased by 76.3% compared to RMB169 million in 2006. This increase in credit commitment fees from 2006 to 2008 was primarily due to an increase in both customers and demand for credit commitment services.

Trust and other fiduciary service fees increased by 48.5% to RMB603 million in 2008 compared to RMB406 million in 2007, which in turn increased by 113.7% compared to RMB190 million in 2006. This increase in trust and other fiduciary service fees from 2006 to 2008 was primarily due to an increase in our trust funds as well as a continuing increase in the volume of our trust transactions.

Bank card commission and fee income increased 131.7% to RMB920 million in 2008 compared to RMB397 million in 2007, which in turn increased by 164.7% compared to RMB150 million in 2006. This increase in bank card commission and fee income from 2006 to 2008 was primarily due to our expansion of our credit card business and an increase in issuance of credit cards and increased transaction volume. As of December 31, 2008, the total number of credit cards issued increased by approximately 94% to 6.49 million from 3.34 million as of December 31, 2007, with the transaction volume increasing 159.6% to RMB74.5 billion.

Settlement service fees increased slightly by 3.7% to RMB312 million in 2008 compared to RMB301 million in 2007, which in turn increased by 16.7% compared to RMB258 million in 2006. This increase in settlement service fees from 2006 to 2008 was primarily due to an increase in volume of transactions from a growth in customers and increased demand for settlement services.

Securities underwriting service fees increased by 69.5% to RMB139 million in 2008 compared to RMB82 million in 2007, which in turn increased by 60.8% compared to RMB51 million in 2006. This increase in securities underwriting service fees from 2006 to 2008 was primarily due to an increase in short term financing bill services.

Other fee and commission income increased by 260.0% to RMB162 million in 2008 compared to RMB45 million in 2007, which in turn increased by 15.4% compared to RMB39 million in 2006. This increase in other fee and commission income from 2006 to 2008 was primarily due to increases in our collection agency business, and from over-the-counter and internet and phone banking services.

Our fee and commission expenses increased by 7.3% to RMB294 million in 2008 compared to RMB274 million in 2007, which in turn increased by 39.1% compared to RMB197 million in 2006, primarily due to greater expenditures related to our increased fee and commission income and operating activities. The smaller increase in fee and commission expenses as compared to the increase in fee and commission income is due to economies of scale and fee increases for our consulting and financial advisory services, trust and other fiduciary services, credit commitments and bank cards.

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FINANCIAL INFORMATION

Net Trading Income

The following table sets forth, for the years indicated, the principal components of our net trading income.

	For the year ended December 31,		
	2006	2007	2008
	(in millions of RMB)		
Net trading income			
Foreign exchange gain/(loss)	134	405	(111)
Gain/(loss) on interest rate instrument	69	17	427
Gain/(loss) on precious metal and other products	(1)	3	(131)
Total net trading income	<u>202</u>	<u>425</u>	<u>185</u>

In 2008, our total net trading income was RMB185 million mainly reflecting a net gain on interest rate instruments partially offset by losses from write-downs under the precious metal and other products category and trading of foreign exchange instruments. The net loss on precious metal and other products primarily reflected a decrease in the fair value of our equity investment in UCBH as compared with our initial contracted purchase price mainly due to a decrease in UCBH's share price. The initial contracted purchase price was US\$17.79 per share, however, the share price of UCBH has since declined to approximately US\$0.80 per share as of September 30, 2009. The net foreign exchange loss in 2008 mainly related to changes in foreign exchange rates adversely affecting our positions in foreign currency instruments.

In 2007 and 2006, our total net trading income was RMB425 million and RMB202 million, respectively, both amounts primarily reflecting a net foreign exchange gain due to an increase in our volume of foreign exchange transactions.

Net Gain / (Loss) on Disposal of Available-for-sale Securities

The following table sets forth, for the years indicated, our net gain or loss on available-for-sale securities.

	For the Year Ended December 31,		
	2006	2007	2008
	(in millions of RMB)		
Net gain / (loss) on disposal of available-for-sale securities	44	(124)	(53)

In 2008, we incurred a net loss on disposal of available-for-sale securities of RMB53 million primarily due to sales of fixed income securities whose fair values were negatively impacted by the global financial crisis.

In 2007, we incurred a net loss on disposal of available-for-sale securities of RMB124 million primarily due to sales of fixed income securities whose fair values were negatively impacted by the financial turmoil caused by subprime loans in the US.

In 2006, we had a net gain on disposal of available-for-sale securities of RMB44 million primarily due to fixed income portfolio optimizations that year.

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FINANCIAL INFORMATION

Impairment Losses on Assets

Impairment losses on assets consist primarily of provisions on loans, investments and other assets. Provisions charged for impairment losses increased significantly by 187.8% to RMB6,518 million in 2008 compared to RMB2,265 million in 2007, which in turn increased slightly by 2.3% compared to RMB2,214 million in 2006.

The following table sets forth, for the years indicated, the principal components of our provisions for impairment losses on assets.

	For the Year Ended December 31,		
	2006	2007	2008
	(In millions of RMB)		
Loans and advances to customers	2,158	2,236	5,686
Available-for-sale	—	—	599
Held-to-maturity	—	—	54
Finance lease receivables	—	—	57
Others ⁽¹⁾	56	29	122
Total	<u>2,214</u>	<u>2,265</u>	<u>6,518</u>

Note:

(1) Others mainly consists of impairment losses on repossessed assets obtained through foreclosure.

Impairment losses related only to impairment losses on loans and other assets in 2006 and 2007; however, in 2008 such impairment losses included impairment losses on available-for-sale and held-to-maturity investment securities. Impairment losses on loans and advances to customers increased by 154.3% to RMB5,686 million in 2008 compared to RMB2,236 million in 2007, which in turn increased by 3.6% compared to RMB2,158 million in 2006. For details on changes in our allowance for impairment losses on loans, see "Description of Our Assets and Liabilities — Asset Quality of Our Loan Portfolio — Changes to the Allowance for Impairment Losses"

For the year ended December 31, 2008, our provisions for impairment losses on available-for-sale investment securities was RMB599 million (including a provision of RMB50 million against our exposure to subprime mortgage securities with a book value of RMB68 million, as at December 31, 2008, which was not material) and held-to-maturity investment securities was RMB54 million, both provisions primarily related to fair-market value decreases in securities held in foreign denominated currencies due to the global financial crisis. Provisions for finance lease receivable were RMB57 million in 2008 mainly reflecting provisions of our subsidiary, Minsheng Financial Leasing Co, Ltd., that was newly established during the year. Other provisions increased to RMB122 million in 2008 reflecting both a greater repossession of foreclosed assets and an increase in provisions to reflect the economic downturn.

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FINANCIAL INFORMATION

Operating Expenses

The following table sets forth, for the years indicated, the principal components of our total operating expenses.

	For the year ended December 31,		
	2006	2007	2008
	(in millions of RMB)		
Staff cost	3,671	6,175	7,950
Business tax and surcharges	1,391	2,047	2,916
Business development expenses	696	927	1,295
Office and lease expenses	1,163	1,360	1,728
Other general and administrative expenses ⁽¹⁾	2,796	3,243	3,928
Total operating expenses	9,717	13,752	17,817

Note:

(1) Consist primarily of depreciation, automobile, electronic equipment, travelling, conference, postage and telegraph, and other general and administrative expenses.

Our operating expenses increased by 29.6% to RMB17,817 million in 2008 compared to RMB13,752 million in 2007, which in turn increased by 41.5% compared to RMB9,717 million in 2006. This resulted from an increase in all categories of operating expenses. Our operating expense to total operating income ratio (excluding other operating expenses, net) was 55.7%, 54.4% and 50.9% in 2006, 2007 and 2008, respectively.

Staff Costs

Staff costs are the largest component of our operating expenses, representing 44.6%, 44.9% and 37.8% of our total operating expenses for the years ended December 31, 2008, 2007 and 2006, respectively.

The following table sets forth, for the years indicated, the components of our staff costs.

	For the year ended December 31,		
	2006	2007	2008
	(in millions of RMB)		
Staff cost			
Salaries and bonuses	2,447	4,118	5,707
Other benefits ⁽¹⁾	1,224	2,057	2,243
Total staff cost	3,671	6,175	7,950

Note:

(1) Consist primarily of statutory social security and additional health and pension benefits.

Staff costs increased by 28.7% to RMB8.0 billion in 2008 compared to RMB6.2 billion in 2007, which in turn increased by 68.2% compared to RMB3.7 billion in 2006. Our salaries and bonuses increased by 38.6% to RMB5.7 billion in 2008 compared to RMB4.1 billion in 2007, which in turn increased by 68.3% from RMB2.4 billion in 2006. Other benefits increased by 9.0% to RMB2.2 billion in 2008 compared to RMB2.1 billion in 2007, which in turn increased by 68.1% compared to RMB1.2 billion in 2006. These increases from 2006 to 2008 were primarily due to a combination

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FINANCIAL INFORMATION

of an increase in the number of our employees in line with the expansion of our branch network and overall business growth as well as bonus plans to improve our competitiveness in retaining talent.

Business Tax and Surcharges

Business tax and surcharges mainly relate to revenue generated from our provision of financial products and services with respect to lending (interest income), financial leasing, transfer of securities, financial advisory services, and other financial services. Business tax and surcharges increased by 42.5% to RMB2.9 billion in 2008 compared to RMB2.0 billion in 2007, which in turn increased by 47.2% compared to RMB1.4 billion in 2006. The increase in business tax and surcharges from 2006 to 2008 was due to an increase in our revenues subject to these taxes.

Business Development Expenses

Business development expenses increased by 39.7% to RMB1.3 billion in 2008 compared to RMB0.9 billion in 2007, which in turn increased by 33.2% compared to RMB0.7 billion in 2006. The increase in business development expenses from 2006 to 2008 was due to our overall business growth.

Office and Lease Expenses

Office and lease expenses increased by 27.1% to RMB1.7 billion in 2008 compared to RMB1.4 billion in 2007, which in turn increased by 16.9% compared to RMB1.2 billion in 2006. The increase in office and lease expenses from 2006 to 2008 was primarily due to the increase in the number of our branches, including expenses relating to operating those branches, to meet the needs of our business growth and an increase in our rent.

Other General and Administrative Expenses

Other general and administrative expenses increased by 21.1% to RMB3.9 billion in 2008 compared to RMB3.2 billion in 2007, which in turn increased by 16.0% compared to RMB2.8 billion in 2006, reflecting our overall business growth. As a percentage of total operating expenses, other general and administrative expenses decreased to 22.0% in 2008 compared to 23.6% in 2007, which in turn decreased from 28.8% in 2006, primarily reflecting our efforts to control costs.

Other Operating Expenses, net

Other net operating expenses mainly include other operating income such as tax rebates and other operating expenses such as provision charges for credit commitments, including acceptances, letters of guarantee, and letters of credit. Other net operating expenses was RMB150 million in 2008, RMB43 million in 2007 and RMB273 million in 2006. Other net operating expenses increased 248.8% to RMB150 million in 2008 from RMB43 million in 2007 mainly due to the general economic downturn leading and our more conservative approach in assessing provisions. Other net operating expenses decreased by 84.2% to RMB43 million in 2007 from RMB273 million in 2006 primarily due to offsets to our provisions from tax rebates we received during 2007.

Profit Before Tax

As a result of the foregoing, our profit before tax increased by 13.9% to RMB10.5 billion for the year ended December 31, 2008 compared to RMB9.2 billion for the year ended December 31, 2007, which in turn increased by 75.9% compared to RMB5.2 billion for the year ended December 31, 2006.

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FINANCIAL INFORMATION

Income Tax

The following table sets forth our profit before tax, income tax expense and effective tax rate for the years ended December 31, 2006, 2007 and 2008.

	For the year ended December 31,		
	2006	2007	2008
	(in millions of RMB)		
Profit before tax	5,237	9,212	10,488
Income tax	1,479	2,877	2,595
Effective tax rate	28.2%	31.2%	24.7%

The decrease in our effective tax rate to 24.7% in 2008 as compared to 31.2% in 2007 reflects the impact of the new Enterprise Income Tax Law effective January 1, 2008 reducing our tax rate from 33% to 25%. The increase in our effective tax rate to 31.2% in 2007 as compared to 28.2% in 2006 primarily reflects an adjustment to deferred tax assets and liabilities in anticipation of the new Enterprise Income Tax Law partially offset by a increase in exempt interest income on government bonds.

Net Profit

As a result of the foregoing factors, our net profit increased by 24.6% to RMB7.9 billion in 2008 compared to RMB6.3 billion in 2007, which in turn increased by 68.6% compared to RMB3.8 billion in 2006.

SUMMARY SEGMENT OPERATING RESULTS

Operating segments are reported in a manner consistent with the internal reporting provided to our presidents and special management committees that make strategic decisions for our Bank. We report by geographical segment, though we also report key financial figures such as interest income, and net fee and commission income by business segment. Geographically, we break out our business into four main areas within the PRC:

- *Northern China* — including Minsheng Financial Leasing Co. Ltd, our headquarters in Beijing as well as the following branches: Beijing, Taiyuan, Shijazhuang and Tianjin;
- *Eastern China* — including Cixi Township Bank Co., Ltd. and the following branches: Shanghai, Hangzhou, Ningbo, Nanjing, Jinan, Suzhou, Wenzhou, Qingdao, Hefei and Nanchang;
- *Southern China* — including Minsheng Royal Fund Management Co., Ltd. and the following branches: Fuzhou, Guangzhou, Shenzhen, Quanzhou, Shantou and Xiamen;
- *Other locations* — including Pengzhou Township Bank Co., Ltd. and the following branches: Xi'an, Dalian, Chongqing, Chengdu, Kunming, Wuhan, Changsha, Zhengzhou, Changchun.

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. We derive our revenue primarily from three business segments: corporate banking, retail banking and treasury business.

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FINANCIAL INFORMATION

Summary Geographical Segment Information

In presenting information on the basis of geographical segments, profit before income tax is allocated based on the location of the branch that generated the revenue. The following table sets forth, for the periods indicated, the profit before income tax attributable to each of these geographical regions.

	For the year ended December 31,						For the six months ended June 30,			
	2006		2007		2008		2008		2009	
	(unaudited)									
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(in millions of RMB, except percentages)									
Northern China	1,341	25.6%	2,955	32.1%	451	4.3%	2,208	27.0%	6,473	67.5%
Eastern China	1,853	35.4%	2,867	31.1%	5,128	48.9%	2,851	35.0%	1,469	15.4%
Southern China	1,155	22.0%	1,962	21.3%	2,899	27.6%	2,110	25.9%	808	8.4%
Others	888	17.0%	1,428	15.5%	2,010	19.2%	987	12.1%	836	8.7%
Profit before income tax	5,237	100%	9,212	100%	10,488	100%	8,156	100%	9,586	100%

Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008

In Northern China, our profit before income tax increased by 193.2% to RMB6.5 billion for the six months ended June 30, 2009 compared to RMB2.2 billion for the same period in 2008. This increase was primarily due to the sale of all our shares in Haitong Securities over the first half of 2009, generating a gain of RMB4.9 billion. See "— Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008 — Net Gain/(loss) on Disposal of Available-for-sale Securities", and partially offset by lower fee and commission income and an increase impairment losses on assets reflecting more prudent policies on impairment losses in response to the economic downturn in the PRC.

In Eastern China, our profit before income tax decreased by 48.5% to RMB1.5 billion for the six months ended June 30, 2009 compared to RMB2.9 billion for the same period in 2008. This decrease was primarily due to lower net interest income as result of a lower interest rate environment and increase impairment losses on assets, partially offset by an increase in our loan balances. Loans in Eastern China increased from RMB236.4 billion as of December 31, 2008 to RMB291.5 billion as of June 30, 2009.

In Southern China, our profit before income tax decreased by 61.7% to RMB0.8 billion for the six months ended June 30, 2009 compared to RMB2.1 billion for the same period in 2008. This decrease was primarily attributable to lower net interest income as a result of a lower interest rate environment as well as tighter lending policies in the region.

In Other locations, profit before income tax decreased by 15.3% to RMB0.8 billion for the six months ended June 30, 2009 compared to RM1.0 billion for the same period in 2008. The decrease was mainly due to higher operating expenses related to our business expansion as we opened more branches, partially offset by an increase in net interest income due to an increase in our loan balance.

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FINANCIAL INFORMATION

2008 Compared to 2007 and 2006

In Northern China, the profit before income tax decreased 84.7% to RMB0.5 billion in 2008 from RMB3.0 billion in 2007 primarily as a result of an increase in impairment charges on credit losses relating to loans to customers. Impairment losses on assets in Northern China increased to RMB5.1 billion in 2008 from RMB4.0 billion in 2007 mainly reflecting more prudent policies on impairment losses in response to the economic downturn in the PRC precipitated by the global financial crisis and the fact that historically, Northern China had the highest ratio of impaired loans. As of December 31, 2008, Northern China had the highest percentage of our impaired loans at 54.5%, as compared to 18.1% for Eastern China, 22.7% for Southern China, and 4.7% for Others. Moreover, the impaired loan ratio in Northern China has historically been the highest (2.26% as of December 31, 2008) mainly because impaired loans in the region include those of our headquarters, particularly those impaired loans transferred to and handled by the Investment Banking SBU of our headquarters for recovery. Profit before income tax increased 120.4% to RMB3.0 billion in 2007 from RMB1.3 billion in 2006 primarily due to greater interest income and fee and commission income as we expanded our business.

In Eastern China, profit before income tax increased 78.9% to RMB5.1 billion in 2008 from RMB2.9 billion in 2007, which in turn increased by 54.7% from RMB1.9 billion in 2006. The increases from 2006 to 2008 mainly reflect an increase in total interest income for the region. Loans in Eastern China increased from RMB150.2 billion as of December 31, 2006 to RMB186.8 billion as of December 31, 2007 and further to RMB236.4 billion as of December 31, 2008, the greatest rate among all regions.

In Southern China, profit before tax increased by 47.8% to RMB2.9 billion in 2008 from RMB2.0 billion in 2007, which in turn increased by 69.9% from RMB1.2 billion in 2006. The increases from 2006 to 2008 mainly reflect an increase in total interest income for the region. Loans in Southern China increased from RMB81.5 billion as of December 31, 2006 to RMB92.2 billion as of December 31, 2007 and further to RMB95.4 billion as of December 31, 2008.

In Other locations, profit before tax increased by 40.8% to RMB2.0 billion in 2008 from RMB1.4 billion in 2007, which in turn increased by 60.8% from RMB0.9 billion in 2006. The increases from 2006 to 2008 mainly reflects an increase in total interest income due to greater loans. The smaller increase from 2007 to 2008 than from 2006 to 2007 reflected an increase in impairment losses on loans as a result of the greater number of impaired loans due to the economic downturn in the PRC precipitated by the global financial crisis.

Summary Business Segment Information

We derive our revenue primarily from three business segments: corporate banking, retail banking and treasury business. For a description of products and services included in these business activities, see "Business — Our Principal Business Activities."

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FINANCIAL INFORMATION

The following table sets forth, for the periods indicated, our total operating income of our principal business segments.

	For the Year Ended December 31,						For the Six Months Ended June 30,			
	2006		2007		2008		2008		2009	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	(unaudited) Amount	% of Total	Amount	% of Total
(In millions of RMB, except percentages)										
Corporate banking business	12,143	69.6%	18,509	73.3%	26,410	75.5%	12,464	70.7%	11,496	54.1%
Retail banking business	2,415	13.9%	4,024	15.9%	6,183	17.7%	2,927	16.6%	2,142	10.1%
Treasury business	2,725	15.6%	2,351	9.3%	2,195	6.3%	2,021	11.4%	2,277	10.7%
Unallocated ⁽¹⁾	158	0.9%	388	1.5%	185	0.5%	228	1.3%	5,315 ⁽²⁾	25.1%
Total operating income	17,441	100%	25,272	100%	34,973	100%	17,640	100%	21,230	100%

Note:

- (1) Includes businesses such as financial leasing, investment fund management and income that is not directly attributable to a segment or cannot be allocated on a reasonable basis.
- (2) Amount primarily relates to our disposal of interest in Haitong Securities, see “— Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008 — Net gain/(loss) on Disposal of Available-for-sale Securities”.

LIQUIDITY

Liquidity risk is the risk that we are unable to provide funds for maturing liabilities through asset realization at reasonable prices on a timely basis. Our Assets and Liabilities Management Commission is responsible for making liquidity and risk management policies and our assets and liabilities department is responsible for implementing these policies. For a more detailed description of our liquidity risk management policies and procedures, see “Risk Management — Liquidity Risk Management.”

We are exposed to daily calls on our available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivatives. We do not, nor are we required to, maintain cash resources to meet all these needs as experience shows that a portion of maturing deposits will continue to remain in the Bank. We set limits on the minimum proportion of maturing funds available to meet such calls and the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amounts under other credit commitments because we do not generally expect the potential recipient to draw funds under those agreements. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

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FINANCIAL INFORMATION

The following table sets forth, as of June 30, 2009, the remaining maturities of our assets and liabilities.

	As of June 30, 2009							
	Repayable on Demand	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Overdue	Total
	(In millions of RMB)							
Financial Liabilities:								
Deposits from customers	539,220	66,313	173,610	209,377	86,409	380	—	1,075,309
Due to and placements from banks and other financial institutions	33,935	93,891	39,536	26,208	27,520	—	—	221,090
Borrowing from other financial institutions	—	213	237	6,842	1,108	—	—	8,400
Debt securities in issue	—	—	—	5,999	5,996	16,882	—	28,877
Other financial liabilities	—	9,083	164	1,646	351	544	—	11,788
Total liabilities	573,155	169,500	213,547	250,072	121,384	17,806	—	1,345,464
Financial Assets:								
Cash and due from banks and other financial institutions	12,739	7,174	2,983	1,184	—	—	—	24,080
Balances with central banks	134,641	—	—	—	—	—	—	134,641
Placements with banks and other financial institutions	—	149,802	17,958	6,835	—	—	—	174,595
Loans and advances to customers	—	45,326	119,302	339,427	242,532	138,078	6,013	890,678
Investment securities	—	1,187	2,560	8,702	35,615	16,978	—	65,042
-available-for-sale securities	—	1,160	1,380	6,466	29,790	7,698	—	46,494
-held-to-maturity	—	237	3,544	4,341	23,184	7,210	—	38,516
-loans and receivables	—	256	372	1,877	6,229	835	321	9,890
Finance lease receivables	—	5,304	799	2,237	5,405	1,309	19	15,316
Other financial assets	243	—	—	—	—	—	—	—
Total assets	147,623	210,446	148,898	371,069	342,755	172,108	6,353	1,399,252
Liquidity gap	(425,532)	40,946	(64,649)	120,997	221,371	154,302	—	—
Cumulative liquidity gap	(425,532)	(384,586)	(449,235)	(328,238)	(106,867)	47,435	—	—

CAPITAL RESOURCES

Shareholders' Equity

Our total shareholders' equity increased to RMB58.1 billion as of June 30, 2009 from RMB54.7 billion as of December 31, 2008, which in turn increased to RMB50.2 billion as of December 31, 2007, RMB19.3 billion as of December 31, 2006, and RMB15.5 billion as of December 31, 2005.

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FINANCIAL INFORMATION

The following table sets forth, for the periods indicated, the components of the changes in our total equity.

	Shareholders' equity (in millions of RMB)
As of January 1, 2006	15,467
Comprehensive income	4,195
Cash dividend relating to 2005	(363)
Shares issued in connection with convertible bonds	14
Changes in equity component of convertible bonds	(2)
As of December 31, 2006	19,311
Comprehensive income	12,726
Issuance of stocks by private placement	18,150
As of December 31, 2007	50,187
Comprehensive income	4,409
Cash dividends relating to 2007	(724)
Capital injection from minority equity holders of subsidiaries	780
Others	20
As of December 31, 2008	54,672
Comprehensive income	4,886
Cash dividend relating to 2008	(1,506)
As of June 30, 2009	58,052

Profit Distribution

We made the following profit distributions to our shareholders for the years ended December 31, 2006, 2007 and 2008:

- In 2009, we paid a cash dividend in the aggregate amount of RMB1,506 million, representing RMB0.08 per share (before tax), in respect of profits for the year ended December 31, 2008.
- In 2008, we paid a cash dividend in the aggregate amount of RMB724 million (RMB0.05 per share) (before tax) and stock dividend of RMB2,896 million (two shares for every ten shares held), in respect of profits for the year ended December 31, 2007.
- We did not make a distribution from 2006 profits as a dividend to shareholders.

Capital Adequacy

We are subject to capital adequacy requirements as promulgated by the CBRC, which require commercial banks in China to maintain a minimum core capital adequacy ratio of 4% and a capital adequacy ratio of 8%. Our core capital, supplementary capital and risk-weighted assets are calculated in accordance with "The Rules on Capital Adequacy Ratios of Commercial Banks" and other related regulatory rules in the PRC, and are based on our financial statements prepared in accordance with PRC GAAP. In order to ensure that our capital adequacy ratio is in line with regulatory requirements and to maximize shareholder's return while controlling risks, we have additionally supplemented our capital through private placements and the issuance of long-term subordinated bonds and hybrid capital bonds.

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FINANCIAL INFORMATION

The following table sets forth, at the dates indicated, certain information relating to our capital adequacy.

	As of December 31,			As of June 30,
	2006	2007	2008	2009
	(in millions of RMB)			
Core capital				
Paid up ordinary share capital	10,167	14,479	18,823	18,823
Reserves	8,755	28,251	32,484	38,426
Total core capital	<u>18,922</u>	<u>42,730</u>	<u>51,307</u>	<u>57,249</u>
Deductions:				
50% of unconsolidated equity investment	(315)	(307)	(620)	(344)
Net Core Capital	<u>18,607</u>	<u>42,423</u>	<u>50,687</u>	<u>56,905</u>
Supplementary capital				
Investment revaluation reserve	195	3,728	1,305	310
General provisions for allowance for loans and advances collectively assessed for impairment losses	4,721	4,169	7,895	8,449
Hybrid capital bonds	4,300	4,300	4,300	9,270
Long term subordinated bonds	7,200	7,200	7,200	7,200
Total supplementary capital	<u>16,416</u>	<u>19,397</u>	<u>20,700</u>	<u>25,229</u>
Total Capital	<u>35,338</u>	<u>62,127</u>	<u>72,007</u>	<u>82,478</u>
Deductions:				
Unconsolidated equity investment	(630)	(614)	(1,240)	(689)
Net Capital	<u>34,708</u>	<u>62,513</u>	<u>70,767</u>	<u>81,789</u>
Risk-weighted assets⁽¹⁾	423,046	573,514	767,895	964,246
Core capital adequacy ratio⁽²⁾	4.40%	7.40%	6.60%	5.90%
Capital adequacy ratio⁽³⁾	8.20%	10.73%	9.22%	8.48%

Note:

(1) Includes subordinated and hybrid debt of other lenders held by the Company of RMB2,660 million, RMB3,910 million, RMB5,700 million and RMB6,350 million as of December 31, 2006, 2007, 2008 and June 30, 2009, respectively.

(2) Equals to net core capital divided by risk-weighted assets for the respective period.

(3) Equals to net capital divided by risk-weighted assets for the respective period.

Our core capital adequacy ratio increased to 7.40% as of December 31, 2007 from 4.40% as of December 31, 2006 primarily due to our issue of 2.38 billion shares through a private placement in 2007 thereby increasing our capital reserves by RMB15.8 billion. Our capital adequacy ratio increased to 10.73% as of December 31, 2007 from 8.20% as of December 31, 2006 primarily due to (i) the same reason as the increase in our core capital adequacy ratio and (ii) an increase in our total supplementary capital as a result of an increase in the fair-value of available-for-sale securities in 2007.

Our core capital adequacy ratio decreased to 6.60% as of December 31, 2008 from 7.40% as of December 31, 2007 as our risk-weighted assets increased at a greater rate than net core capital as we expanded our business and increased our loan balance. We did not shore up our capital reserves through additional issuance of shares in 2008. Our capital adequacy ratio decreased to 9.22% as of

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FINANCIAL INFORMATION

December 31, 2008 from 10.73% as of December 31, 2007 primarily due to the same reason as the decrease in our core capital ratio.

Our core capital ratio decreased to 5.90% as of June 30, 2009 from 6.60% as of December 31, 2008 as our risk-weighted assets increased at a greater rate than net core capital as we further expanded our business and increased our loan balance. We did not shore up our capital reserves through additional issuance of shares in the first half of 2009. Our capital adequacy ratio decreased to 8.48% as of June 30, 2009 from 9.22% as of December 31, 2008 primarily due the same reason as the decrease in our core capital ratio partially offset by an increase in total supplementary capital as a result of issuance of hybrid capital bonds during the first half of 2009 thereby increasing our supplementary capital by approximately RMB5.0 billion.

OFF-BALANCE SHEET COMMITMENTS

Our off-balance sheet commitments consist primarily of acceptances and credit-related commitments. Acceptances include undertakings by us to pay bills of exchange drawn on customers, for which we expect such amounts to be settled simultaneously with the reimbursement from the customers. Credit-related commitments consist of instruments that ensure that funds are available to customers as required. Guarantees and letters of credit, which represent irrevocable assurances that the Bank will make payments in the event a customer cannot meet its obligations to third-parties, carry the same credit risk as loans. In some cases, such as those situations where the amount of credit commitment exceeds the original credit limit, guarantee deposits are received by the Bank to lessen the credit risk to the Bank. The Bank's potential amount of credit risk is equivalent to the total amount of credit commitments.

Commitments to extend credit, such as credit card commitments, represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. For commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

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FINANCIAL INFORMATION

The following table sets forth the contractual amounts of our off-balance sheet commitments at the dates indicated.

	As of December 31,			As of June 30,
	2006	2007	2008	2009
	(in millions of RMB)			
Credit commitments:				
Acceptances	70,853	96,624	145,005	306,435 ⁽⁵⁾
Letters of guarantee	22,881	32,770	49,029	45,697
Letters of credit	12,490	15,879	8,250	15,407
Unused Credit Card limits	9,635	26,574	28,140	27,873
Irrevocable Loan Commitments	3,345	4,856	6,000	5,828
Financing lease commitments	—	—	475	912
Subtotal	119,204	176,703	236,899	402,152
Capital commitments ⁽¹⁾	770	4,647	3,213	1,725
Operating lease commitments ⁽²⁾	2,118	2,314	2,614	2,798
Securities underwriting ⁽³⁾	10	1,971	2,900	3,300
Redemption obligations ⁽⁴⁾	6,108	4,391	3,708	4,086
Total off-balance sheet commitments	128,210	190,026	249,334	414,061

Notes:

- (1) Capital commitments mainly consist of commitments in respect of contracted equity investment and buildings and equipment purchases.
- (2) Operating lease commitments represent future minimum lease payments on operating leases for buildings.
- (3) Securities underwriting represent underwriting for short-term financing bills and government bonds.
- (4) We are entrusted by the Ministry of Finance to underwrite certain certificate government bonds. Investors of such bonds have the option to redeem the bonds at par value any time prior to maturity, and we are committed to repurchase such bonds at the redemption price. The redemption price is the principal value of such bonds plus unpaid interest in accordance with the early redemption arrangement. The original maturities of these bonds vary from one to five years. As the deposit base rate established by the PBOC is currently lower than the yields on all such bonds, we expect the amount of redemption before the maturity dates of these bonds will not be material.
- (5) Acceptances increased from RMB145.0 billion as of December 31, 2008 to RMB306.4 billion as of June 30, 2009 mainly due to an overall increase in market demand of corporate customers using bank acceptance bills as such customers needed short-term funding to increase their inventories and as acceptance bills provided for lower interest rates as compared to short-term loans. As of June 30, 2009, the annual interest rate for acceptance bills was 4.41% while the annual interest rate for short-term loans was 5.42%.

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FINANCIAL INFORMATION

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table sets forth the face value of off-balance sheet contractual obligations by remaining contract maturity classified into the categories specified below as of June 30, 2009.

	As of June 30, 2009			
	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
	(face value in millions of RMB)			
Off-balance sheet:				
Acceptances	306,435	—	—	306,435
Letters of guarantee	17,630	26,313	1,754	45,697
Unused credit card limits	27,873	—	—	27,873
Letters of credit	14,646	761	—	15,407
Irrevocable loan commitments	1,440	84	4,304	5,828
Capital commitments	217	1,396	112	1,725
Operating lease commitments	574	1,691	533	2,798
Financial lease commitments	912	—	—	912
Total	369,727	30,245	6,703	406,675

SELECTED UNAUDITED FINANCIAL INFORMATION AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009

Under the rules of the Shanghai Stock Exchange on which our A Shares are listed, we are required to publish reports containing unaudited financial statements as of and for the nine months ended September 30 of each year. Because we publish certain financial statements as of and for the nine months ended September 30, 2009 in the PRC prior to the date of this document, we have included our unaudited condensed financial statements as of and for the nine months ended September 30, 2009 in this document. The unaudited condensed financial statements, comprising an statement of comprehensive income for the three months and nine months ended September 30, 2009 and a balance sheet as of September 30, 2009, together with selected explanatory notes, are included in Appendix II to this document. They have been prepared in accordance with IAS 34 and reviewed by PricewaterhouseCoopers in accordance with ISRE 2410.

Condensed Results of Operations for the Nine Months Ended September 30, 2009 and 2008

The condensed, consolidated results of operations for the nine months ended September 30, 2009 and 2008 set forth below are derived from Appendix II to this document. You should read the following information in conjunction with Appendix II to this document. Our results of operations for the nine months ended September 30, 2009 may not be indicative of our results of operations for the full year ended December 31, 2009.

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FINANCIAL INFORMATION

Net Interest Income

The following table sets forth, for the periods indicated, our interest income, interest expense and net interest income.

	For the nine months ended September 30,	
	2008	2009
	(In millions of RMB)	
Interest income	42,286	38,743
Interest expense	(19,480)	(16,053)
Net interest income	<u>22,806</u>	<u>22,690</u>

Our net interest income decreased slightly to RMB22.7 billion for the nine months ended September 30, 2009 compared to RMB22.8 billion for the nine months ended September 30, 2008.

The table below sets forth, for the periods indicated the average balances of our assets and liabilities and the related interest income or expense and average yields (for assets) and costs (for liabilities).

	For the nine months ended September 30,					
	2008			2009		
	Average balance ⁽¹⁾	Interest income	Average yield ⁽²⁾	Average balance ⁽¹⁾	Interest income	Average yield ⁽²⁾
	(In millions of RMB, except percentages)					
Assets						
Loans and advances to customers, gross	579,912	33,171	7.63%	783,754	31,001	5.27%
Investment securities and trading assets	145,651	4,366	4.00%	148,364	4,052	3.64%
Due from and placements with banks and other financial institutions ⁽³⁾	95,282	2,962	4.14%	144,538	1,793	1.65%
Balances with central banks ⁽⁴⁾	133,601	1,659	1.66%	129,193	1,383	1.43%
Others ⁽⁵⁾	3,396	128	5.03%	10,654	514	6.43%
Total interest-earning assets	957,842	42,286	5.89%	1,216,503	38,743	4.25%
Allowance for impairment losses ⁽⁶⁾	(8,711)			(13,869)		
Non-interest-earning assets ⁽⁶⁾⁽⁷⁾	21,365			22,993		
Total assets	<u>970,496</u>			<u>1,225,627</u>		

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FINANCIAL INFORMATION

	For the nine months ended September 30,					
	2008			2009		
	Average balance ⁽¹⁾	Interest expense	Average cost ⁽²⁾	Average balance ⁽¹⁾	Interest expense	Average cost ⁽²⁾
	(In millions of RMB, except percentages)					
Liabilities						
Deposits from customers	698,748	13,977	2.67%	942,077	12,217	1.73%
Due to and placements from banks and other financial institutions ⁽⁸⁾	135,853	4,450	4.37%	165,028	2,633	2.13%
Debt securities in issue ⁽⁹⁾	33,487	1,042	4.15%	32,101	1,055	4.38%
Others ⁽¹⁰⁾	545	11	2.69%	7,104	148	2.78%
Total interest-bearing liabilities	868,633	19,480	2.99%	1,146,310	16,053	1.87%
Non-interest-bearing liabilities ⁽⁶⁾⁽¹¹⁾	15,098			17,775		
Total liabilities	883,731			1,164,085		
Net interest income		22,806			22,690	
Net interest spread⁽¹²⁾			2.90%			2.38%
Net interest margin⁽¹³⁾			3.17%			2.49%

Notes:

- (1) Calculated as the average of the daily balances of the Bank and the average monthly balances of our subsidiaries.
- (2) Calculated on an annualized basis.
- (3) Consist primarily of deposits with banks and other financial institutions, placements with banks and other financial institution and assets purchased under resale agreements.
- (4) Consist primarily of statutory deposit reserves and surplus deposit reserves.
- (5) Consists primarily of finance lease receivables related to Minsheng Financial Leasing Co. Ltd.
- (6) Calculated as the average of the beginning and ending balances for the period.
- (7) Consist primarily of cash, derivative financial assets, property, plant and equipment, deferred income tax assets and other assets.
- (8) Consist primarily of deposits from banks and other financial institutions, placements from banks and other financial institutions and assets sold under repurchase agreements.
- (9) Consist of financial bonds, subordinated bonds and hybrid capital bonds.
- (10) Consists primarily of borrowings from other financial institutions related to Minsheng Financial Leasing Co. Ltd.
- (11) Consist of derivative financial liabilities, deferred income tax liabilities and other liabilities.
- (12) Calculated as the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities.
- (13) Calculated by dividing net interest income by the average balance of total interest-earning assets.

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FINANCIAL INFORMATION

The following table sets forth, for the periods indicated, the allocation of changes in our interest income and interest expense due to changes in volume and changes in rate. Changes in volume are measured by changes in the average balances and changes in rate are measured by changes in the average rates. Changes caused by both volume and rate have been allocated to changes in rate.

	For the nine months ended September 30, 2009 vs. 2008		
	Increase/(decrease) due to		Net increase/ (decrease) ⁽³⁾
	Volume ⁽¹⁾	Rate ⁽²⁾	
	(In millions of RMB)		
Assets			
Loans and advances to customers, gross	11,660	(13,830)	(2,170)
Investment securities and trading assets	81	(395)	(314)
Due from and placements with banks and other financial institutions	1,531	(2,700)	(1,169)
Balances with central banks	(55)	(221)	(276)
Others	274	112	386
Changes in interest income	13,491	(17,034)	(3,543)
Liabilities			
Deposits from customers	4,867	(6,627)	(1,760)
Due to and placements from banks and other financial institutions	956	(2,773)	(1,817)
Debt securities in issue	(43)	56	13
Others	132	5	137
Changes in interest expense	5,912	(9,339)	(3,427)
Changes in net interest income	7,579	(7,695)	(116)

Notes:

- (1) Represents the average balance for the period minus the average balance for the previous period, multiplied by the average yield/cost multiplied by 3/4 for the previous period.
- (2) Represents the average yield/cost for the period minus the average yield/cost multiplied by 3/4 for the previous year, multiplied by the average balance for the period.
- (3) Represents interest income/expense for the period minus interest income/expense for the previous period.

Interest Income

Our interest income decreased by 8.4% to RMB38.7 billion for the nine months ended September 30, 2009 compared to RMB42.3 billion for the nine months ended September 30, 2008, due to a decrease in the average yield of interest-earning assets partially offset by an increase in the average balance. The average yield on interest-earning assets was 4.25% and 5.89% for the nine months ended September 30, 2009 and 2008, respectively.

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FINANCIAL INFORMATION

Interest Income from Loans to Customers

The following table sets forth, for the years indicated, the average balance, interest income and average yield for each component of our loans to customers.

	For the nine months ended September 30,					
	2008			2009		
	Average balance ⁽¹⁾	Interest income	Average yield ⁽²⁾	Average balance ⁽¹⁾	Interest income	Average yield ⁽²⁾
	(In millions of RMB, except percentages)					
Corporate loans	452,043	25,467	7.51%	580,016	24,283	5.58%
Discounted bills	25,233	2,282	12.06%	84,222	2,017	3.19%
Retail loans	102,636	5,422	7.04%	119,516	4,701	5.24%
Total loans to customers	<u>579,912</u>	<u>33,171</u>	<u>7.63%</u>	<u>783,754</u>	<u>31,001</u>	<u>5.27%</u>

(1) Calculated as the average of the daily balances of the Bank and the average monthly balances of our subsidiaries.

(2) Calculated on an annualized basis.

Interest income from loans to customers decreased approximately by 6.5% to RMB31.0 billion for the nine months ended September 30, 2009 compared to RMB33.2 billion over the same period in 2008, primarily due to a decrease in the average yield of interest-earning assets partially offset by an increase in the average balance. The average yield decreased to 5.27% in the nine months ended September 30, 2009 compared to 7.63% over the same period in 2008.

The largest component of our interest income from loans has been interest income from corporate loans, representing 78.3% and 76.8% of our total interest income from loans to customers for the nine months ended September 30, 2009 and 2008, respectively. Interest income from corporate loans decreased by 4.6% to RMB24.3 billion for the nine months ended September 30, 2009 compared to RMB25.5 billion over the same period in 2008, primarily due to a decrease in average yield to 5.58% for the nine months ended September 30, 2009 from 7.51% over the same period in 2008 partly offset by an increase in the average balance of 28.3% to RMB580.0 billion in the nine months ended September 30, 2009 from RMB452.0 billion over the same period in 2008. The increase in average corporate loans balance was mainly due to increased liquidity and monetary easing by the PBOC as well as increased demand for corporate loans related to an anticipated economic recovery in the PRC. The decrease in the average yield on corporate loans was primarily due to lower PBOC benchmark interest rates during the first nine months of 2009 as the PBOC decreased interest rates in late 2008.

Interest income from discounted bills decreased by 11.6% to RMB2.0 billion for the nine months ended September 30, 2009 compared to RMB2.3 billion over the same period in 2008, primarily due to a decrease in average yield partly offset by an increase in the average balance. The average yield of discounted bills decreased to 3.19% for the nine months ended September 30, 2009 compared to 12.06% over the same period in 2008, primarily reflecting a lower interest rate environment as a result of a decrease in the PBOC benchmark interest rates in late 2008. The average balance increased by 233.8% to RMB84.2 billion for the nine months ended September 30, 2009 as compared to RMB25.2 billion over the same period in 2008, primarily due to increased demand for discounted bills as a result of a lower market interest rate environment during the first nine months of 2009.

Interest income from retail loans decreased by 13.3% to RMB4.7 billion for the nine months ended September 30, 2009 compared to RMB5.4 billion over the same period in 2008, primarily due to a decrease in the average yield partially offset by an increase in the average balance. The average balance of retail loans increased by 16.4% to RMB119.5 billion in the nine months ended

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FINANCIAL INFORMATION

September 30, 2009 compared to RMB102.6 billion over the same period in 2008, primarily due to our continued expansion in retail loans business. The average yield decreased to 5.24% in the nine months ended September 30, 2009 from 7.04% over the same period in 2008, primarily due to (i) lower interest rate environment and (ii) a repricing of retail mortgages on January 1, 2009 to reflect the lower interest rate environment.

Interest Income from Investment Securities

Interest income from investments securities decreased by 7.2% to RMB4.1 billion for the nine months ended September 30, 2009 compared to RMB4.4 billion over the same period in 2008, primarily due to a decrease in the average yield, partially offset by an increase in the average balance. The average yield decreased to 3.64% for the nine months ended September 30, 2009 from 4.00% over the same period in 2008, primarily reflecting a lower interest rate environment during the first nine months of 2009 as compared to the same period in 2008. The average balance increased slightly by 1.9% to RMB148.4 billion for the nine months ended September 30, 2009 compared to RMB145.7 billion over the same period in 2008.

Interest Income from Due from and Placements with Banks and Other Financial Institutions

Interest income from Due from and placements with banks and other financial institutions decreased by 39.5% to RMB1.8 billion for the nine months ended September 30, 2009 compared to RMB3.0 billion over the same period in 2008, primarily due to a significant decrease in the average yield, partially offset by an increase in the average balance. The average yield decreased to 1.65% for the nine months ended September 30, 2009 from 4.14% over the same period in 2008, primarily reflecting a lower interest rate environment as a result of a decrease in PBOC benchmark interest rates in late 2008. The average balance increased by 51.7% to RMB144.5 billion for the nine months ended September 30, 2009 compared to RMB95.3 billion over the same period in 2008, primarily due to increased funding from customer deposits.

Interest Income from Balances with Central Banks

Interest income from balances with central banks decreased by 16.6% to RMB1.4 billion for the nine months ended September 30, 2009 compared to RMB1.7 billion over the same period in 2008, primarily due to a decrease in the average yield coupled with a decrease in the average balance. The average yield decreased to 1.43% for the nine months ended September 30, 2009 from 1.66% over the same period in 2008, primarily reflecting a lower interest rate environment as a result of a decrease in deposit reserve rates in late 2008. The average balance decreased by 3.3% to RMB129.2 billion for the nine months ended September 30, 2009 compared to RMB133.6 billion over the same period in 2008, primarily due to a lower required reserve ratio despite higher customer deposits. The ratio applied to our bank was decreased from 17.5% as of June 25, 2008 to 16.5% as of September 25, 2008 and further to 13.5% as of December 25, 2008.

Interest Expense

Interest expense decreased by 17.6% to RMB16.1 billion for the nine months ended September 30, 2009 compared to RMB19.5 billion over the same period in 2008, primarily due to a decrease in the average cost of interest-bearing liabilities partially offset by an increase in the average balance of interest-bearing liabilities, in particular with respect to deposits from customers. The average cost of our interest-bearing liabilities was 1.87% and 2.99% for the nine months ended September 30, 2009 and 2008, respectively.

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FINANCIAL INFORMATION

Interest Expense on Deposits from Customers

Deposits from customers have been our primary source of funding. Interest expense on deposits from customers represented 76.1% and 71.8% of our total interest expense for the nine months ended September 30, 2009 and 2008, respectively.

Interest expense on deposits from customers decreased by 12.6% to RMB12.2 billion for the nine months ended September 30, 2009 compared to RMB14.0 billion over the same period in 2008, primarily due to a decrease in the average cost to 1.73% from 2.67%, partially offset by an increase of 34.8% in the average balance.

The following table sets forth, for the years indicated, the average balance, interest expense and average cost for corporate and retail deposits by product type.

	For the nine months ended September 30,					
	2008			2009		
	Average balance ⁽¹⁾	Interest expense	Average cost ⁽²⁾	Average balance ⁽¹⁾	Interest expense	Average cost ⁽²⁾
	(In millions of RMB, except percentages)					
Corporate deposits⁽³⁾						
Demand	264,172	1,996	1.01%	336,621	1,668	0.66%
Time	323,088	10,025	4.14%	446,676	8,299	2.48%
Subtotal	587,260	12,021	2.73%	783,297	9,967	1.70%
Retail deposits						
Demand	30,622	169	0.74%	35,889	95	0.35%
Time	80,866	1,787	2.95%	122,891	2,155	2.34%
Subtotal	111,488	1,956	2.34%	158,780	2,250	1.89%
Total deposits from customers . . .	698,748	13,977	2.67%	942,077	12,217	1.73%

(1) Calculated as the average of the daily balances of the Bank and the average monthly balances of our subsidiaries.

(2) Calculated on an annualized basis.

(3) Consist of deposits from corporate customers, government authorities and other organizations.

The largest component of our interest expense on deposits from customers has been interest expense on corporate deposits, representing 81.6% and 86.0% of our total interest expense on deposits from customers for the nine months ended September 30, 2009 and 2008, respectively.

Interest expense on corporate deposits decreased by 17.1% to RMB10.0 billion for the nine months ended September 30, 2009 compared to RMB12.0 billion over the same period in 2008, primarily due to a decrease in the average cost to 1.70% in the nine months ended September 30, 2009 from 2.73% over the same period in 2008, partially offset by an increase in the average balance.

Interest expense on corporate time deposits decreased by 17.2%, primarily due to a decrease in the average cost partially offset by an increase in the average balance. The average cost on corporate time deposits decreased to 2.48% for the nine months ended September 30, 2009 compared to 4.14% over the same period in 2008 primarily due to lower PBOC benchmark interest rates during the first nine months of 2009. The average balance of our corporate time deposits increased by 38.3% to RMB446.7 billion for the nine months ended September 30, 2009 compared to RMB323.1 billion over the same period in 2008 primarily due to increased liquidity from monetary easing by the PBOC and a generally more conservative investment environment due to the economic slow down in the PRC. As a percentage of the average balance of our total corporate deposits, the average balance of corporate time deposits increased to 57.0% for the nine months ended

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FINANCIAL INFORMATION

September 30, 2009 compared to 55.0% over the same period in 2008, primarily reflecting increased demand for time deposits due to a more conservative investment environment and its relative higher interest rates than demand deposits.

Interest expense on corporate demand deposits decreased by 16.4%, primarily due to a decrease in the average cost to 0.66% for the nine months ended September 30, 2009 compared to 1.01% over the same period in 2008 partially offset by an increase in the average balance. The average balance of corporate demand deposits increased by 27.4% to RMB336.6 billion for the nine months ended September 30, 2009 compared to RMB264.2 billion over the same period in 2008 primarily due to a more conservative investment environment.

Interest expense on retail deposits increased by 15.0% to RMB2.3 billion for the nine months ended September 30, 2009 compared to RMB2.0 billion over the same period in 2008, primarily due to an increase in the average balance partially offset by a decrease in the average cost. The average balance of retail deposits increased by 42.4% to RMB158.8 billion for the nine months ended September 30, 2009 compared to RMB111.5 billion over the same period in 2008. The average cost decreased to 1.89% for the nine months ended September 30, 2009 compared to 2.34% over the same period in 2008. Interest expense on retail time deposits increased by 20.6% to RMB2.2 billion for the nine months ended September 30, 2009 as compared to RMB1.8 billion over the same period in 2008, primarily due to an increase in the average balance of 52.0% to RMB122.9 billion in the nine months ended September 30, 2009 from RMB80.9 billion over the same period in 2008. This was partially offset by a decrease in the average cost to 2.34% for the nine months ended September 30, 2009 compared to 2.95% over the same period in 2008, primarily reflecting a lower interest rate environment in the first nine months of 2009. The increases in the average balances of our retail time and demand deposits were primarily attributable to a generally more conservative investment environment in the first nine months of 2009. As a percentage of our total retail deposits, our average balance of retail time deposits increased to 77.4% for the nine months ended September 30, 2009 compared to 72.5% over the same period in 2008, reflecting an increased demand for time deposits due to a more conservative investment environment and its relative higher interest rates than demand deposits.

Interest Expense on Due to and Placements from Banks and Other Financial Institutions

Due to and placements from banks and other financial institutions consist primarily of short term borrowings from banks at higher interest rates and long term borrowings from non-bank financial institution at lower interest rates.

Interest expense on due to and placements from banks and other financial institutions decreased by 40.8% to RMB2.6 billion for the nine months ended September 30, 2009 compared to RMB4.5 billion over the same period in 2008, primarily due to a decrease in the average cost partially offset by an increase to the average balance. The average cost decreased to 2.13% for the nine months ended September 30, 2009 compared to 4.37% over the same period in 2008 primarily due to a lower interest rate environment as a result of a decrease in PBOC benchmark interest rates in late 2008. The average balance increased by 21.5% to RMB165.0 billion for the nine months ended September 30, 2009 compared to RMB135.9 billion over the same period in 2008, primarily reflecting the decrease in the average balance of interbank borrowings from June 2008 to September 2008 and increased borrowings from the improved economic situation since the second half of 2009.

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FINANCIAL INFORMATION

Interest Expense on Debt Securities in Issue

Interest expense on our total debt securities in issue increased slightly by 1.2% to RMB1,055 million for the nine months ended September 30, 2009 compared to RMB1,042 million over the same period in 2008, primarily due to an increase in the average cost partially offset by a decrease in the average balance. The average balance of debt securities in issue decreased by 4.1% to RMB32.1 billion for the nine months ended September 30, 2009 from RMB33.5 billion over the same period in 2008 while average cost increased slightly to 4.38% for the nine months ended September 30, 2009 as compared to 4.15% over the same period in 2008. The increase in average cost was primarily due to the issuance of RMB5 billion hybrid capital bonds with a higher average cost in March 2009.

Net Interest Spread and Net Interest Margin

Our net interest spread (on an annualized basis) decreased to 2.38% for the nine months ended September 30, 2009 compared to 2.90% over the same period in 2008. The decrease in net interest spread reflected a greater decrease in the average yield than the decrease in the average cost over the period.

Our net interest income decreased by 0.5% to RMB22.7 billion for the nine months ended September 30, 2009 compared to RMB22.8 billion over the same period in 2008. Our net interest income decreased while the average balance of our interest-earning assets for the nine months ended September 30, 2009 compared to the same period in 2008 increased. As a result, our net interest margin (on an annualized basis) decreased to 2.49% for the nine months ended September 30, 2009 compared to 3.17% over the same period in 2008.

Net Fee and Commission Income

Net fee and commission income represented 11.3% and 15.7% of our total operating income for the nine months ended September 30, 2009 and 2008, respectively. The following table sets forth, for the years indicated, the principal components of our net fee and commission income.

	For the nine months ended September 30,	
	2008	2009
	(In millions of RMB)	
Fee and commission income		
Consulting and financial advisory service fees ⁽¹⁾	2,129	1,223
Credit commitment fees ⁽²⁾	585	655
Trust and other fiduciary service fees ⁽³⁾	530	432
Bank card commission and fee income ⁽⁴⁾	662	872
Settlement service fees ⁽⁵⁾	306	289
Securities underwriting service fees ⁽⁶⁾	88	94
Others ⁽⁷⁾	195	220
Subtotal	4,495	3,785
Fee and commission expenses	(213)	(233)
Net fee and commission income	4,282	3,552

Notes:

- (1) Primarily consist of service fees such as those from formulating overall financing plans, structuring financing solutions and arranging credit for our customers.

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FINANCIAL INFORMATION

- (2) Primarily consist of fees from providing bank acceptance bills, guarantees, letters of credit, credit guarantees and commitments.
- (3) Primarily consist of fees from entrusted financial management, asset trusts, pension trusts, entrusted loans and third party depositories.
- (4) Primarily consist of fees from interbank clearing, installment loans, cash withdrawals, transfers and annual fees.
- (5) Primarily consist of fees from international settlements, domestic settlements and online banking settlements.
- (6) Primarily consist of fees from underwriting and distributing financing bonds, government bonds and corporate bonds.
- (7) Primarily consist of fees from online services, safe deposit boxes, deposit verification and airline ticketing agency services.

Our net fee and commission income decreased by 17.0% to RMB3.6 billion for the nine months ended September 30, 2009 compared to RMB4.3 billion over the same period in 2008. This decrease was primarily due to a decrease in consulting and financial advisory service fees.

Consulting and financial advisory service fees decreased by 42.6% to RMB1,223 million for the nine months ended September 30, 2009 compared to RMB2,129 million over the same period in 2008. The decrease in consulting and financial advisory service fees was mainly due to lower demand for loan arrangement services as the PBOC lowered benchmark interest rates and increased liquidity in the market since late 2008.

Credit commitment fees increased by 12.0% to RMB655 million for the nine months ended September 30, 2009 compared to RMB585 million over the same period in 2008. The increase in credit commitment fees was primarily due to increased customers and increased demand for credit commitment services as we issued more letters of credit and bank acceptance loans.

Trust and other fiduciary service fees decreased by 18.5% to RMB432 million for the nine months ended September 30, 2009 compared to RMB530 million over the same period in 2008. The decrease in trust and other fiduciary service fees for the nine months ended September 30, 2009 compared to for the nine months ended September 30, 2008 was primarily due to increased competition for trust services and decreased margins as a result of the lower interest rate environment.

Bank card commission and fee income increased by 31.7% to RMB872 million for the nine months ended September 30, 2009 compared to RMB662 million over the same period in 2008. The increase in bank card commission and fee income was primarily due to the expansion of our credit card business and an increase in issuance of credit cards and increased transaction volume. As of September 30, 2009, the total number of credit cards issued increased by 15.4% to 7.20 million from 6.24 million as of September 30, 2008, with the transaction volume increasing 42.7% to RMB73.9 billion.

Settlement service fees decreased by 5.6% to RMB289 million for the nine months ended September 30, 2009 compared to RMB306 million over the same period in 2008. The decrease in settlement service fees for the nine months ended September 30, 2009 compared to over the same period in 2008 was primarily due to decreased demand for international settlement services.

Securities underwriting service fees increased by 6.8% to RMB94 million for the nine months ended September 30, 2009 compared to RMB88 million over the same period in 2008. The increase in securities underwriting service fees was primarily due to our continued active expansion of the securities underwriting business.

Other fee and commission income increased by 12.8% to RMB220 million for the nine months ended September 30, 2009 compared to RMB195 million over the same period in September 30, 2008.

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FINANCIAL INFORMATION

Our fee and commission expenses increased by 9.4% to RMB233 million for the nine months ended September 30, 2009 compared to RMB213 million over the same period in 2008, primarily due to our continued expansion of fee and commercial business. Fee and commission expenses as a percentage of fee and commission income increased to 6.2% in the nine months ended September 30, 2009 as compared to 4.7% in the same period in 2008.

Net Trading Income

The following table sets forth, for the periods indicated, the principal components of our net trading income.

	For the nine months ended September 30,	
	2008	2009
	(In millions of RMB)	
Net trading income		
Foreign exchange gain	14	211
Gain/(loss) on interest rate instruments	306	(62)
Loss on precious metal and other products	(231)	(65)
Total net trading income/(loss)	89	84

In the nine months ended September 30, 2009, our total net trading income was RMB84 million mainly reflecting a net gain on foreign exchange instruments partially offset by losses on interest rate instruments, and precious metals and other products. The net foreign exchange gain of RMB211 million for the nine months ended September 30, 2009 mainly related to an increased foreign exchange transaction volume from our customers and increased trading activity. The net loss on interest rate instruments of RMB62 million primarily reflected realized losses on trading of such instruments as well as fair value adjustments. The net loss on precious metal and other products of RMB65 million was primarily due to realized trading losses on precious metals over the first nine months of 2009. In the nine months ended September 30, 2008, our total net trading gain was RMB89 million mainly reflecting a gain on interest rate instruments, partially offset by a loss on precious metals and other products. The net gain on interest rate instruments of RMB306 million was primarily due to realized trading gains coupled with beneficial fair value adjustments. The loss on precious metals and other products of RMB231 million mainly reflected a decrease in fair value of our equity investment in UCBH, as compared with our initial contracted purchase price. As of November 5, 2009, the share price of UCBH declined to US\$0.80 per share, representing an aggregate loss of approximately RMB824 million from our our initial investment.

Net Gain /(Loss) on Disposal of Available-for-sale Securities

The following table sets forth, for the years indicated, our net gain or loss on available-for-sale securities.

	For the nine months ended September 30,	
	2008	2009
	(In millions of RMB)	
Net gain /(loss) on disposal of available-for-sale securities	47	5,003

For the nine months ended September 30, 2009, we had a net gain on disposal of available-for-sale securities of RMB5.0 billion as compared to RMB47 million for the same period in 2008. This

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FINANCIAL INFORMATION

increase was mainly attributable to the disposal of all our interests in Haitong Securities in June 2009, generating a gain of RMB4.9 billion. See "— Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008 — Net Gain/(Loss) on Disposal of Available-for-sale Securities".

Impairment Losses on Assets

Impairment losses on assets consist primarily of provisions charged on loans, investments and other assets. Provisions charged for impairment losses increased by 11.7% to RMB3,383 million for the nine months ended September 30, 2009 compared to RMB3,028 million for the same period in 2008.

The following table sets forth, for the years indicated, the principal components of our provisions charged for impairment losses on assets.

	For the nine months ended September 30,	
	2008	2009
	(In millions of RMB)	
Loans and advances to customers	2,535	2,893
Available-for-sale	435	461
Held-to-maturity	—	(54)
Finance lease receivables	57	116
Others ⁽¹⁾	1	(33)
Total	<u>3,028</u>	<u>3,383</u>

Note:

(1) Others mainly consists of impairment losses on repossessed assets obtained through foreclosure.

Provisions charged for impairment losses on loans and advances to customers increased by 14.1% to RMB2,893 million for the nine months ended September 30, 2009 compared to RMB2,535 million for the same period in 2008. For details on changes in our allowance for impairment losses on loans, see "Description of Our Assets and Liabilities — Asset Quality of Our Loan Portfolio — Changes to the Allowance for Impairment Losses."

For the nine months ended September 30, 2009, our provisions charged for impairment losses on available-for-sale investment securities was RMB461 (including a provision of RMB63 million against our exposure to subprime mortgage securities with a book value of RMB68 million as at September 30, 2009, which was not material) million, primarily due to decrease in fair-market value of securities held in foreign denominated currencies. For the nine months ended September 30, 2009, we reversed provisions for held-to-maturity investment securities of RMB54 million as the securities that this provision related to matured and we received full payment. Provisions for finance lease receivables were RMB116 million for the nine months ended September 30, 2009 mainly reflecting provisions relating to the business expansion of our subsidiary, Minsheng Financial Leasing Co, Ltd.

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FINANCIAL INFORMATION

Operating Expenses

The following table sets forth, for the years indicated, the principal components of our total operating expenses.

	For the nine months ended September 30,	
	2008	2009
	(In millions of RMB)	
Staff cost	5,847	6,763
Business tax and surcharges	2,170	2,023
Business development expenses	761	979
Office and lease expenses	1,082	1,562
Other general and administrative expenses ⁽¹⁾	2,403	2,720
Total operating expenses	12,263	14,047

Note:

- (1) Consist primarily of depreciation, automobile, electronic equipment, travelling, conference, postage and telegraph, and other general and administrative expenses.

Our operating expenses increased by 14.5% to RMB14.0 billion for the nine months ended September 30, 2009 compared to RMB12.3 billion over the same period in 2008.

Staff Costs

Staff costs are the largest component of our operating expenses, representing 48.1% and 47.7% of our total operating expenses for the nine months ended September 30, 2009 and 2008, respectively.

The following table sets forth, for the periods indicated, the components of our staff costs.

	For the nine months ended September 30,	
	2008	2009
	(In millions of RMB)	
Staff costs		
Salaries and bonuses	4,350	5,190
Other benefits ⁽¹⁾	1,497	1,573
Total staff costs	5,847	6,763

Note:

- (1) Consist primarily of statutory social security and additional health and pension benefits.

Staff costs increased by 15.7% to RMB6,763 million for the nine months ended September 30, 2009 compared to RMB5,847 million for the same period in 2008 primarily due to an increase in the average number of employees as a result of our continued business expansion. Our salaries and bonuses increased by 19.3% to RMB5,190 million for the nine months ended September 30, 2009 compared to RMB4,350 million over the same period in 2008. Other benefits increased by 5.1% to RMB1,573 million for the nine months ended September 30, 2009 compared to RMB1,497 million for the same period in 2008.

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FINANCIAL INFORMATION

Business Tax and Surcharges

Business tax and surcharges mainly relate to revenue generated from our provision of financial products and services with respect to lending (interest income), financial leasing, transfer of securities, financial advisory services, and other financial services. Business tax and surcharges decreased by 6.8% to RMB2.0 million for the nine months ended September 30, 2009 compared to RMB2.2 million for the same period in 2008. The decrease in business tax and surcharges was mainly due to a decrease in our revenues subject to these taxes.

Business Development Expenses

Business development expenses increased by 28.6% to RMB979 million for the nine months ended September 30, 2009 compared to RMB761 million for the same period in 2008, primarily due to our overall business growth.

Office and Lease Expenses

Office and lease expenses increased by 44.4% to RMB1,562 million for the nine months ended September 30, 2009 compared to RMB1,082 million for the same period in 2008. The increase in office and lease expenses was primarily due to the increase in the number of our branches for business growth, including expenses relating to operating those branches and increased rent.

Other General and Administrative Expenses

Other general and administrative expenses increased by 13.2% to RMB2,720 million for the nine months ended September 30, 2009 compared to RMB2,403 million for the same period in 2008, reflecting our overall business growth.

Other Operating Expenses, net

Other net operating expenses mainly include other operating income such as tax rebates and other operating expenses such as provision charges for credit commitments, including acceptances, letters of guarantee, and letters of credit. Other net operating expenses was RMB426 million for the nine months ended September 30, 2009 compared to RMB83 million for the same period in 2008. Other net operating expenses for the nine months ended September 30, 2009 was primarily related to provision charges due to the increase in off-balance sheet amounts coupled with our more conservative approach in assessing provisions.

Profit Before Tax

As a result of the foregoing, our profit before tax increased by 13.7% to RMB13.5 billion for the nine months ended September 30, 2009 compared to RMB11.9 billion for the same period in 2008.

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FINANCIAL INFORMATION

Income Tax

The following table sets forth our profit before tax, income tax expense and effective tax rate for the nine months ended September 30, 2009 and 2008.

	For the nine months ended September 30,	
	2008	2009
	(In millions of RMB)	
Profit before tax	11,851	13,473
Income tax	(3,177)	(3,260)
Effective tax rate	26.8%	24.2%

The applicable income tax rate (except for our Shenzhen branch) was 25% for 2008 and the nine months ended September 30, 2009. The decrease in our effective tax rate to 24.2% for the nine months ended September 30, 2009 as compared to 26.8% for the same period in 2008 mainly reflected a reduction of the tax deductibility of certain performance based compensation expenses per supplementary regulations issued by the National Tax Administration in June 2008.

Net Profit

As a result of the foregoing factors, our net profit increased by 17.8% to RMB10.2 billion for the nine months ended September 30, 2009 compared to RMB8.7 billion for the same period in 2008.

Summary Segment Operating Results for the Nine Months Ended September 30, 2009 and 2008

For a discussion of our business and geographic lines, see "— Summary Segment Operating Results."

Summary Geographical Segment Information

In presenting information on the basis of geographical segments, profit before income tax is allocated based on the location of the branch that generated the revenue. The following table sets forth, for the periods indicated, the profit before income tax attributable to each of these geographical regions.

	For the nine months ended September 30,			
	2008		2009	
	Amount	% of Total	Amount	% of Total
	(In millions of RMB, except percentages)			
Northern China	3,139	26.5%	7,873	58.4%
Eastern China	4,388	37.0%	2,614	19.4%
Southern China	2,837	24.0%	1,221	9.1%
Others	1,487	12.5%	1,765	13.1%
Profit before income tax	11,851	100.0%	13,473	100.0%

Nine Months Ended September 30, 2009 Compared to Nine Months Ended September 30, 2008

In Northern China, our profit before income tax increased by 150.9% to RMB7.9 billion for the nine months ended September 30, 2009 compared to RMB3.1 billion for the same period in 2008. This increase was primarily due to the sale of all our shares in Haitong Securities over the first half of

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FINANCIAL INFORMATION

2009, generating a gain of RMB4.9 billion (see “— Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008 — Net Gain/(loss) on Disposal of Available-for-sale Securities”) coupled with increased net interest income, partially offset by lower fee and commission income and higher operating expenses.

In Eastern China, our profit before income tax decreased by 40.4% to RMB2.6 billion for the nine months ended September 30, 2009 compared to RMB4.4 billion for the same period in 2008. This decrease was primarily due an increase in impairment losses on assets reflecting more prudent policies on provisioning for impairment losses and higher operating expenses as a result of our business expansion coupled with a decrease in net interest income.

In Southern China, our profit before income tax decreased by 57.0% to RMB1.2 billion for the nine months ended September 30, 2009 compared to RMB2.8 billion for the same period in 2008. This decrease was primarily attributable to tighter lending policies in the region as well as a lower interest rate environment.

In other locations, profit before income tax increased by 18.7% to RMB1.8 billion for the nine months ended September 30, 2009 compared to RMB1.5 billion for the same period in 2008 mainly due to an increase in net interest income.

Summary Business Segment Information

We derive our revenue primarily from three business segments: corporate banking, retail banking and treasury business. For a description of products and services included in these business activities, see “Business — Our Principal Business Activities.”

The following table sets forth, for the periods indicated, our total operating income of our principal business segments.

	For the nine months ended September 30,			
	2008		2009	
	Amount	% of Total	Amount	% of Total
	(In millions of RMB, except percentages)			
Corporate banking business	19,068	70.0%	18,729	59.8%
Retail banking business	4,449	16.4%	3,532	11.3%
Treasury business	3,430	12.6%	3,464	11.1%
Unallocated ⁽¹⁾	277	1.0%	5,604 ⁽²⁾	17.8%
Total operating income	27,224	100.0%	31,329	100.0%

Note:

- (1) Includes businesses such as financial leasing, investment fund management and income that is not directly attributable to a segment or cannot be allocated on a reasonable basis.
- (2) Amount primarily relates to our disposal of interest in Haitong Securities, see “— Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008 — Net gain/(loss) on Disposal of Available-for-sale Securities”.

Capital Resources as of September 30, 2009

Shareholders' Equity

Our total shareholders' equity increased to RMB60.4 billion as of September 30, 2009 from RMB54.7 billion as of December 31, 2008 due to comprehensive income of RMB7.2 billion for the nine months ended September 30, 2009 partially offset by the payment of dividends in the aggregate amount of RMB1.5 billion over the period.

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FINANCIAL INFORMATION

Capital Adequacy

Our capital adequacy ratio and core capital adequacy ratio were 8.57% and 6.02%, respectively, as of September 30, 2009, and our net core capital amounted to RMB59.7 billion and net capital amounted to RMB85.1 billion as of the same date.

Off-Balance Sheet Commitments

The following table sets forth the contractual amounts of our off-balance sheet commitments at the dates indicated.

	As of September 30, 2009 (In millions of RMB)
Credit commitments:	
Acceptances	215,978
Letters of guarantee	49,408
Letters of credit	12,462
Unused Credit Card limits	29,844
Irrevocable Loan Commitments	5,153
Financing lease commitments	953
Subtotal	313,798
Capital commitments ⁽¹⁾	4,202
Operating lease commitments ⁽²⁾	2,901
Securities underwriting ⁽³⁾	6,150 ⁽⁵⁾
Redemption obligations ⁽⁴⁾	4,195
Total off-balance sheet commitments	<u>331,246</u>

Notes:

- (1) Capital commitments mainly consist of commitments in respect of contracted equity investment and buildings and equipment purchases.
- (2) Operating lease commitments represent future minimum lease payments on operating leases for buildings.
- (3) Securities underwriting represent underwriting for short-term financing bills and government bonds.
- (4) We are entrusted by the Ministry of Finance to underwrite certain certificate government bonds. Investors of such bonds have the option to redeem the bonds at par value any time prior to maturity, and we are committed to repurchase such bonds at the redemption price. The redemption price is the principal value of such bonds plus unpaid interest in accordance with the early redemption arrangement. The original maturities of these bonds vary from one to five years. As the deposit base rate established by the PBOC is currently lower than the yields on all such bonds, we expect the amount of redemption before the maturity dates of these bonds will not be material.
- (5) Securities underwriting increased from RMB3.3 billion as of June 30, 2009 to RMB6.15 billion as of September 30, 2009 mainly due to the growth in our underwriting business.

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FINANCIAL INFORMATION

Contractual Obligations

The following table sets forth the face value of off-balance sheet contractual obligations by remaining contract maturity classified into the categories specified below as of September 30, 2009.

	As of September 30, 2009			
	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
	(Face value in millions of RMB)			
Off-balance sheet:				
Acceptances	215,861	117	—	215,978
Letters of guarantee	6,972	40,279	2,157	49,408
Unused credit card limits	29,844	—	—	29,844
Letters of credit	11,264	1,198	—	12,462
Irrevocable loan commitments	1,769	78	3,306	5,153
Capital commitments	845	3,245	112	4,202
Operating lease commitments	539	1,946	416	2,901
Financial lease commitments	953	—	—	953
Total	268,047	46,863	5,991	320,901

QUANTITATIVE AND QUALITATIVE ANALYSIS OF MARKET RISK

Market risk is the risk of financial loss arising from changes in the value of a financial instrument as a result of changes in interest rates, foreign exchange rates, equity prices and commodity prices and other market changes that affect market risk-sensitive instruments. The market risks to which we are primarily exposed are interest rate risk and currency risk.

Interest Rate Risk

We are exposed to the effects of fluctuations in the prevailing levels of market interest rates on both (i) cash flow interest rate risk and (ii) fair-value interest rate risk. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair-value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

Since we predominantly operate in the PRC, we are subject to the interest rate scheme set and regulated by the PBOC. Interest margins may increase or decrease as a result of interest rate changes, which may reduce or create losses in the event that unexpected movements arise. However, the PBOC has historically adjusted its benchmark interest rates for loans and deposits in the same direction (although not necessarily by the same increment). We have primarily managed our exposure to interest rate risk through the management of the maturity profile of our loans and deposits.

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FINANCIAL INFORMATION

Interest Rate Repricing Analysis

The following table sets forth the results of our gap analysis as of June 30, 2009, based on the earlier of (i) the next expected re-pricing dates, and (ii) the final maturity dates for our assets and liabilities.

	As of June 30, 2009					
	Up to 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Non-interest earning/ bearing	Total
	(in millions of RMB)					
Financial assets						
Cash and due from banks and other						
financial institutions	20,244	1,184	—	—	2,652	24,080
Balances with Central Banks	134,641	—	—	—	—	134,641
Placements with banks and other						
financial institutions	167,760	6,835	—	—	—	174,595
Loans and advances to customer	752,391	131,880	4,323	2,084	—	890,678
Investment securities	17,505	23,749	78,957	29,617	224	150,052
Finance lease receivables	9,890	—	—	—	—	9,890
Other financial assets	7,709	5,186	—	—	2,421	15,316
Total financial assets	1,110,140	168,834	83,280	31,701	5,297	1,399,252
Financial liabilities						
Deposits from customers	779,144	209,376	86,409	380	—	1,075,309
Due to and placements from banks						
and other institutions	167,582	26,208	27,300	—	—	221,090
Borrowing from other financial						
institutions	250	7,450	700	—	—	8,400
Debt securities in issue	—	16,250	—	12,627	—	28,877
Other financial liabilities	6,866	24	82	—	4,816	11,788
Total financial liabilities	953,842	259,308	114,491	13,007	4,816	1,345,464
Total interest repricing gap	156,298	(90,474)	(31,211)	18,694	481	53,788

Sensitivity Analysis

We use sensitivity analysis to measure the potential effect of changes in interest rates on our net interest income. If the interest rate moves in parallel for 100 basis points from July 1, 2009, the potential impact on net interest income and equity for 2009 is a gain or loss of approximately RMB1,022 million for a 100 basis points upward or downward change of interest rate.

This sensitivity analysis, which is based on a static interest rate risk profile of assets and liabilities, is used for risk management purposes only. The analysis measures only the impact of changes in the interest rates within a year, as reflected by the repricing of our assets and liabilities within a year, on our annualized interest income, and is based on the following assumptions: (i) all assets and liabilities that reprice or are due "Up to 3 months" are considered repriced or due in 1.5 months, and "Between 3 months and 1 year" are considered repriced or due in 7.5 months, representing the middle of the respective periods as shown in the table under "— Interest Rate Repricing Analysis," (ii) there is a parallel shift in the yield curve and in interest rates, and (iii) there are no changes to the portfolio. Actual changes in our net interest income resulting from increases or decreases in interest rates may differ from results of this sensitivity analysis.

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FINANCIAL INFORMATION

Duration Analysis

Interest rate risk also arises from our investment securities and trading assets. Changes in the prevailing level of interest rates may affect the value of debt securities. We primarily use duration analysis to measure and manage interest rate risk associated with our RMB- and U.S. dollar-denominated debt securities, which constitute substantially all of the debt securities in our investment securities and trading assets portfolio. Duration analysis is intended to show the approximate percentage change in value of an asset or liability resulting from a 100 basis point change in interest rates. As of June 30, 2009, the weighted average duration expressed in terms of sensitivity of the economic value of our RMB-denominated and U.S. dollar-denominated debt securities to interest rate changes was 3.13 and 2.40, respectively. Therefore, for a 100 basis point increase in interest rates, the economic value of our RMB-denominated debt securities would decrease by 3.13%, which would amount to RMB3,620 million as of June 30, 2009, and the economic value of our U.S. dollar-denominated debt securities would decrease by 2.40%, which would amount to an equivalent of RMB24.7 million at the same date. For the purpose of calculating duration, economic value represents the present value of future cash flows, which is calculated by discounting future cash flows on debt securities at the prevailing market yield curve.

The above analysis is based on the following assumptions: (i) there is no change in future cash flows of interest and principal payments resulting from the change in interest rates, (ii) there is a parallel shift in the yield curve and in interest rates, (iii) the effect of convexity, which measures the extent to which a debt security's value-yield curve may deviate from a straight line, was not considered, and (iv) there are no other changes to the portfolio. Duration analysis has certain limitations: while it is relatively accurate in measuring value changes from a small change in interest rates, this methodology is much less accurate in measuring value changes from large changes in interest rates. Actual changes in the value of debt securities resulting from increases or decreases in interest rates may differ from the results of this duration analysis.

In an effort to control interest rate risk arising from our investment securities and trading assets, we set limits on the duration of our RMB-denominated and U.S. dollar-denominated debt securities, and regularly review and, where necessary, reset these limits.

Currency Risk

We are exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on our financial position and cash flows. Our foreign currency risk mainly arises from the Hong Kong dollar's peg to the U.S. dollar. The primary source of our exchange rate risk arises from currency mismatches in our assets and liabilities. We primarily monitor our net currency positions to assess our exposure to exchange rate risk. We manage our exchange rate risk primarily by seeking to match the assets and liabilities on a currency-by-currency basis.

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FINANCIAL INFORMATION

The following table sets forth, as of June 30, 2009, our financial assets and liabilities by currency.

	As of June 30, 2009				
	RMB	USD	HKD	Others	Total
	(In millions of RMB equivalent)				
Assets					
Cash and due from banks and other financial institutions.	17,855	4,570	125	1,530	24,080
Balances with central banks	133,471	1,097	73	—	134,641
Placements with banks and other financial institution	173,431	410	106	648	174,595
Loans and advances to customers	884,553	5,470	3	652	890,678
Investment securities	143,863	6,080	109	—	150,052
Finance lease receivable	9,890	—	—	—	9,890
Other financial assets	14,806	237	2	271	15,316
Total financial assets	1,377,869	17,864	418	3,101	1,399,252
Liabilities					
Deposits from customers	1,056,954	15,322	1,159	1,874	1,075,309
Due to and placements from banks and other financial institutions	219,393	1,180	37	480	221,090
Borrowing from other financial institutions . .	28,877	—	—	—	28,877
Debt securities in issue	8,400	—	—	—	8,400
Other financial liabilities	11,066	406	14	302	11,788
Total financial liabilities	1,324,690	16,908	1,210	2,656	1,345,464
Net on-balance sheet financial position	53,179	956	(792)	445	53,788
Foreign currency derivatives ⁽¹⁾	6	(1,314)	1,137	310	141
Credit commitments	369,875	28,021	205	4,052	402,153

Note:

(1) Represents the notional amount of foreign currency derivatives, including currency forward and currency swap. The notional amount of such items was recorded off-balance sheet while the fair value was recorded on the balance sheet.

Sensitivity Analysis

As of June 30, 2009, given a 1% upward or downward change of exchange rate between a foreign currency and Renminbi, the potential impact on our pre-tax profits and equity as a result of the translation gain or loss on our foreign exchange exposure is approximately RMB6 million.

In performing the exchange rate sensitivity analysis, we make the following general assumptions in defining business terms and financial parameters, and have not considered the following:

- Changes after the balance sheet date, as the analysis is performed based on static gap at the time point of the balance sheet date;
- The impact of exchange rate fluctuations on customer behavior;

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FINANCIAL INFORMATION

- The complicated relationship between complex structured products (e.g. embedded early redemption options and other derivative financial instruments) and foreign exchange movements; and
- The impact of exchange movements on market prices.

FINANCIAL DERIVATIVES

The following table sets forth, at the dates indicated, the contractual/notional amount and the fair values of our financial derivatives.

	As of December 31,									As of June 30,		
	2006			2007			2008			2009		
	Contractual/ Notional Amount	Fair Values		Contractual/ Notional Amount	Fair Values		Contractual/ Notional Amount	Fair Values		Contractual/ Notional Amount	Fair Values	
		Assets	Liabilities		Assets	Liabilities		Assets	Liabilities		Assets	Liabilities
(In millions of RMB)												
Currency forwards	3,006	8	(7)	13,398	310	(301)	11,498	211	(266)	5,514	43	(38)
Interest rate swaps	19,243	194	(370)	44,528	962	(1,135)	17,711	987	(969)	14,545	449	(441)
Currency swaps	1,479	—	(1)	1,359	12	(4)	1,531	18	—	2,681	5	(3)
Precious metal swaps	—	—	—	370	1	(3)	163	—	—	976	9	—
Credit default swaps	156	1	(1)	73	—	(1)	68	—	(4)	68	—	(1)
Bond options	234	—	(4)	—	—	—	—	—	—	—	—	—
Currency options	64	9	(9)	—	—	—	—	—	—	—	—	—
Extension options	9,015	—	—	9,015	—	—	9,015	—	—	14,015	—	—
Total		212	(392)		1,285	(1,444)		1,216	(1,239)		506	(483)

Our financial instruments measured at fair value include: financial assets held for trading, derivative financial instruments and available-for-sale investments. Trading financial assets and securities investments in available-for-sale investments are evaluated using the following methods: for RMB bonds, in principle the quotations provided by China Government Securities Depository Trust & Clearing Co. Ltd. shall apply; for foreign currency bonds, the market value is determined through a combination of Bloomberg quotations, Datascope quotations and inquiries; for shares in other listed companies, the closing price at the period end is used; and the fair value of derivative financial instruments is based on by market prices. We have limited investments in trading financial assets, and thus the changes in fair value of available-for-sale investments are charged to the owner's equities.

We use financial derivatives mainly to hedge our interest rate risk and foreign exchange risk, including such risks arising from our transactions with customers. Financial derivatives are off-balance sheet financial instruments, including forward foreign currency contracts, foreign currency swaps and interest rate swaps. Interest rate swaps are agreements between us and a counterparty where one stream of future interest payments is exchanged for another based on a specified principal amount. Forward foreign currency exchange transactions are purchases or sales of foreign currencies at an exchange rate established at the date of transaction but with payment and delivery at a specified future time. Foreign currency swaps are agreements between us and a counterparty to exchange principal and interest in one currency for the same in another currency. While certain of these derivative transactions are intended to provide effective economic hedges under our risk management positions, they do not qualify for hedge accounting under specific rules under IAS 39 and are therefore treated as derivatives held for trading with changes in fair value reported in income. We do not have any derivative positions that are accounted for as hedges. See Note 16 to the Accountant's Report in Appendix I to this document.

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FINANCIAL INFORMATION

CAPITAL EXPENDITURES

Our capital expenditures from January 1, 2006 through June 30, 2009 were primarily related to purchases of fixed assets relating to buildings, leasehold improvements, office equipment and motor vehicles, as we expanded our business and increased our personnel.

Our capital expenditures were RMB1,260 million for the six months ended June 30, 2009, primarily representing our expenses for purchase and leasing of real property, improvements of leased property and purchases of electronic equipment and software. In 2008, our capital expenditures for property, plant and equipment and other assets totaled RMB1,761 million, a decrease of 55.5% compared to RMB3,960 million in 2007, which in turn represented an increase of 143.4% compared to RMB1,627 million in 2006. The significant increase in capital expenditures in 2007 was due to our non-recurring capital contribution of RMB2.6 billion in establishing Minsheng Leasing during the year.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. The estimates that we use in applying our accounting policies may have a significant impact on our results of operations and financial positions included in this section and elsewhere in this document. These estimates involve assumptions about such items as cash flows and discount rates used. Our estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgments are also made during the process of applying our accounting policies. Below is a summary of the accounting policies in accordance with IFRS that we believe are both important to the financial presentation and involve the need to significant estimates and/or assumptions.

Impairment Losses on Loans and Advances

Loan portfolios are assessed periodically to evaluate whether impairment losses exist and if they exist, the amounts of impairment losses. Loans and advances which are considered individually significant, are assessed individually for impairment. A corporate loan or discounted bill is impaired and impairment losses are incurred when there is objective evidence of impairment as a result of one or more of the following loss events that will affect the estimated future cash flows of such loans or discounted bills:

- adverse changes in the payment status of the borrower;
- significant financial difficulty of the obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- our granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that we would not otherwise consider;
- the probability that the borrower will enter bankruptcy or other financial reorganization proceedings; or
- observable data indicating that there is a measurable decrease in the estimated future cash flow of the borrower's business operations.

The impairment loss for an impaired, individually significant loan is individually measured as the difference between the loan's carrying amount and the present value of the estimated future

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FINANCIAL INFORMATION

cash flows discounted at the loan's original effective interest rate. For loans secured by collateral, the present value of the estimated future cash flow reflects the cash flow that may result from foreclosure less the costs of foreclosing on and selling the collateral, whether or not foreclosure is probable. The carrying amount of the loan is reduced by the amount of the related allowance for impairment losses.

Corporate loans and discounted bills that exhibit no objective evidence of impairment on an individual basis and homogeneous groups of loans that are individually insignificant, i.e., retail loans, are assessed collectively for impairment. The estimated impairment loss for loans assessed collectively for impairment is based on the following considerations:

- the structure and risk characteristics of our loan portfolio (indicating the borrower's ability to repay all loans) and the incurred loss of the individual components of the loan portfolio based primarily on our historical loss experience;
- the emergence period between a loss occurring and that loss being identified and evidenced by the establishment of an allowance against the loss on an individual loan; and
- management's judgment as to whether the current economic and credit conditions are such that the actual level of impairment losses is likely to be greater or less than that suggested by historical experience.

Portfolios of homogeneous loans are collectively assessed using roll rate or historical loss rate methodologies. The length of time for which loans are overdue represents the major observable objective evidence for impairment.

We set aside allowances based on the individually assessed or collectively assessed impairment losses, as the case may be.

Before objective evidence is identified for an individually significant loan, the loan is grouped with other loans with similar credit risk characteristics for purposes of calculating a collective impairment allowance. As soon as objective evidence of impairment is identified for an individually significant loan, the loan is removed from that group and is then individually assessed for impairment.

We have adopted one set of methodologies for the purpose of calculating our allowance for impairment losses. There is no difference between the amount of the allowance for impairment losses reported in our financial statements prepared in accordance with IFRS and the amount reported in our PRC GAAP financial statements.

Impairment of Available-for-sale Financial Assets and Held-to-maturity Investments

For available-for-sale financial assets and held-to-maturity investments, IAS 39 is used for guidance in determining impairment of available-for-sale financial assets and held-to-maturity investments. The determination of impairment requires a high level of management judgment. In making this judgment, we evaluate, among other factors, the duration and extent to which the fair value of an investment is less than its cost. We also take into account the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, technological changes, credit ratings, delinquency rates, loss provision coverage and counterparty risk.

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FINANCIAL INFORMATION

Fair Value of Derivative and Other Financial Instruments

The fair value of financial instruments are determined with reference to a quoted market price in an active market or, if there is no active market, using valuation techniques. These valuation techniques include the use of recent arm's length transactions observable prices for similar instruments, discounted cash flow analysis using risk-adjusted interest rates, and commonly used market pricing models. Whenever possible these models use observable market inputs and data including, for example, interest rate yield curves, foreign currency rates and option volatilities. The results of using valuation techniques are calibrated against industry practice and observable current market transactions in the same or similar instruments.

Held-to-maturity Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity. This classification requires significant judgment. In making this judgment, we evaluate our intention and ability to hold such investments to maturity. Other than in specific circumstances (e.g. sale of an insignificant amount of held-to-maturity securities at a time close to maturity), failure to hold these securities to maturity or reclassification of some of the securities to available-for-sale investments requires reclassification of any of the remaining securities as available-for-sale investments and measuring them at fair value rather than amortized cost.

Income Taxes

In the ordinary course of business, many transactions and calculations involve uncertainties in the ultimate tax determination, and significant estimates are required in determining the provision for income taxes. We recognize liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period during which such a determination is made. On March 16, 2007, the National People's Congress adopted the new Enterprise Income Tax Law of the People's Republic of China, which became effective on January 1, 2008. In the ordinary course of business, the ultimate tax treatment and computation of many transactions involve uncertainties due to the impact of, among other things, some implementation rules of the new Enterprise Income Tax Law that have not been finalized. We make tax estimates on the tax deductibility of loan loss write-offs and losses on disposal of non-performing loans in compliance with the applicable tax laws and regulations and the responses of government authorities to us in previous years. Where the final tax outcome of these matters is different from the estimates, such differences will impact the income tax and deferred income tax provisions in the period during which such a determination is made.

RECENT ACCOUNTING PRONOUNCEMENTS

Up to the date of this document, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the accounting periods ended June 30, 2009 and which have not been adopted in the presentation of our financial information:

<u>New Amendments, Standards, Interpretations</u>	<u>Effective for annual periods beginning on or after</u>
IFRS 3 (Revised) Business Combination	July 1, 2009
IAS 27 (Revised) Consolidated and Separate Financial Statements	July 1, 2009
IFRIC 17 Distribution of Non-cash Assets to Owners	July 1, 2009

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FINANCIAL INFORMATION

<u>New Amendments, Standards, Interpretations</u>	<u>Effective for annual periods beginning on or after</u>
IFRIC 18 Transfers of Assets From Customers	July 1, 2009
Amendment to IFRS 2 Group Cash-settled Share-based Payment Transactions	January 1, 2010
Amendment to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	January 1, 2010
Amendment to IFRS 8 Operating Segments	January 1, 2010
Amendment to IAS 1 Presentation of Financial Statements	January 1, 2010
Amendment to IAS 7 Statement of Cash Flows	January 1, 2010
Amendment to IAS 17 Leases	January 1, 2010
Amendment to Appendix to IAS 18 Revenue	July 1, 2009
Amendment to IAS 36 Impairment of Assets	January 1, 2010
Amendment to IAS 38 Intangible Assets	July 1, 2009
Amendment to IAS 39 Financial Instrument: Recognition and Measurement	July 1, 2009
Amendment to IFRIC 9 Reassessment of Embedded Derivatives	July 1, 2009
Amendment to IFRIC 16 Interpretation Hedges of a Net Investment in a Foreign Operation	July 1, 2009

The application of these standards, amendments and interpretations is not expected to have a material effect in our Group's operating results or financial position.

RELATED PARTY DISCLOSURES

We have no related parties for which there exists a controlling relationship. Related parties that have significant influence on the Group include companies controlled or significantly influenced by members of the Board and Supervisory Board, senior management or their related persons, the subsidiaries of these companies, and major shareholders with the power to influence the operating decision-making or financial policies of the Group. Related party transactions include loans granted to related parties and deposits taken from related parties. As of June 30, 2009, loans outstanding to related parties totaled RMB2.0 billion.

All loans to related parties complied with relevant laws and regulations and our terms of lending and appraisal procedures. Related party transactions did not have a significant impact on our results of operations or financial position over the Track Record Period. The following table

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FINANCIAL INFORMATION

provides a summary of the loans and deposits we have with related parties for the years ended December 31, 2006, 2007 and 2008 and for the six months ended June 30, 2009, respectively.

	For the Year ended December 31,			For the Six Months ended June 30,
	2006	2007	2008	2009
	(In millions of RMB)			
Loans granted to related parties				
Opening balance	3,772	4,226	1,653	1,814
Loans granted during the period	1,392	501	920	1,564
Loan repayments/transfers during the period	(938)	(3,074)	(759)	(1,394)
Ending balance	<u>4,226</u>	<u>1,653</u>	<u>1,814</u>	<u>1,984</u>
Interest income earned	<u>248</u>	<u>85</u>	<u>99</u>	<u>45</u>
Deposits taken from related parties				
Opening balance	2,111	3,031	2,544	19,908
Deposits taken during the period	49,763	46,572	108,215	15,232
Deposits repaid during the period	(48,843)	(47,059)	(90,851)	(6,692)
Ending balance	<u>3,031</u>	<u>2,544</u>	<u>19,908</u>	<u>28,448</u>

INDEBTEDNESS

At [September 30, 2009], we had the following indebtedness:

- Debt securities in issue totaling RMB29.2 billion consisting of financial bonds (RMB12.1 billion), subordinated bonds (RMB7.5 billion), and hybrid capital bonds (RMB9.6 billion). See note 26 to the Unaudited Interim Financial Report in Appendix II for details;
- Borrowings from other financial institutions amounting to RMB11.9 billion;
- Borrowings from foreign governments amounting to RMB0.4 billion;
- deposits and money market takings from customers and other banks and balances under repurchase agreements that arose from the normal course of our banking business; and
- direct credit substitute, transaction-related contingencies, trade-related contingencies and other commitments that arose from the normal course of our banking business.

Except as disclosed above, we did not have, at September 30, 2009, our latest balance sheet date, any outstanding mortgages, charges, debentures, or other loan capital (issued or agreed to be issued), bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase and finance lease commitments or any guarantees or other material contingent liabilities.

Our Directors have confirmed that there has not been any material change in the indebtedness or contingent liabilities of our Group since September 30, 2009.

PROPERTY INTERESTS AND VALUATION OF PROPERTIES

Our properties were revalued at RMB[7,152 million] at [September 30, 2009] by Jones Lang LaSalle Sallmanns Limited. Details of the valuation are summarized in Appendix VI to this document.

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FINANCIAL INFORMATION

In accordance with our accounting policy, all properties are stated at cost less accumulated depreciation. At [June 30, 2009], the net book value of our properties comprising land and building, and construction in progress amounted to RMB[5,619] million as set out in the Accountant's Report included in Appendix I.

The table below sets forth (i) the reconciliation of property interests of the Group from its audited consolidated financial statements as of June 30, 2009 to the unaudited net book value of the Group's property interests as of September 30, 2009; and (ii) the reconciliation of the unaudited net book value of the Group's property interests and the valuation of such property interests as of September 30, 2009:

	<i>RMB'000</i>
Net book value of property interests of the Group as of June 30, 2009	[5,619,841]
Land and buildings	[2,965,322]
Construction in progress	[2,654,519]
Movements for the three months ended September 30, 2009	[163,699]
Additions	[194,135]
Depreciation	[(30,436)]
Disposals	[0]
Net book value as of September 30, 2009	[5,783,540]
Valuation surplus as of September 30, 2009	[1,368,200]
Valuation as of September 30, 2009 per Appendix VI	<u>[7,151,740]</u>

Any net revaluation surplus arising from the valuation of properties has not been included in the unaudited pro forma adjusted net tangible assets statement under the section headed "Financial Information — Unaudited Pro Forma Adjusted Consolidated Net Tangible Assets" in this document.

PROFIT FORECAST FOR THE YEAR ENDING DECEMBER 31, 2009

The following unaudited pro forma fully diluted forecast earnings per share for the year ending December 31, 2009 has been prepared on the basis of the notes set out below.

Forecast consolidated net profit attributable to shareholders⁽¹⁾ not less than RMB[●]

- (1) The bases and assumptions on which the profit forecast has been prepared are set out in Appendix V to this document. The forecast consolidated net profit attributable to shareholders for the year ending December 31, 2009 is based on the audited consolidated financial statements for the six months ended June 30, 2009, the unaudited results of our Group for the three months ended September 30, 2009 and a forecast of the consolidated results for the remaining three months ending December 31, 2009.

DIVIDEND POLICY

Our Board is responsible for submitting proposals in respect of dividend payments, if any, to the shareholders' general meeting for approval. The determination of whether to pay a dividend and in what amount is based on our results of operations, cash flow, financial condition, capital adequacy ratios, future business prospects, statutory and regulatory restrictions on the payment of dividends by us and other factors that our Board deems relevant. Under the Company Law and our Articles of Association, all of our shareholders holding the same class of shares have equal rights to dividends and other distributions proportionate to their shareholding. We generally pay dividends out of our

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FINANCIAL INFORMATION

distributable profit, which is our net profit as determined under PRC GAAP or IFRS, whichever is lower, less:

- recovery of any accumulated losses;
- appropriations we are required to make to the statutory surplus reserve, which is currently 10% of our net profit available for appropriation as determined under PRC GAAP, until such reserve reaches an amount equal to 50% of our registered capital;
- a regulatory general reserve we are required to set aside; and
- appropriations to a discretionary surplus reserve as approved by the shareholders in an annual general meeting.

According to our Articles of Association, the accumulative profit distribution in cash for the last three years shall be no less than 30% of the annual average distributable profit realized for the last three years. See “Financial Information — Dividend Policy”.

According to recent MOF regulations, in principle, from July 1, 2005, we are required to maintain a regulatory general reserve at 1% of the balance of our risk-bearing assets prior to making a profit distribution. This regulatory general reserve constitutes part of our reserves. Financial institutions that did not meet this regulatory general reserve requirement at as of July 1, 2005 are required to take necessary steps to meet this requirement in approximately three years, but not later than five years, from July 1, 2005. We have since met this requirement. As of December 31, 2008, the balance of our risk-bearing assets totaled RMB800.0 billion, and we set aside RMB8.0 billion as regulatory general reserve.

Any distributable profit that is not distributed in a given year is retained and available for distribution in subsequent years. However, ordinarily we do not pay any dividends in a year in which we do not have any distributable profit in respect of that year. The payment of any dividend by us must also be approved at a shareholders’ general meeting.

The CBRC has the discretionary authority to prohibit any bank that has a capital adequacy ratio below 8% or a core capital adequacy ratio below 4%, or has violated certain other PRC banking regulations, from paying dividends and making other forms of distributions. See “Supervision and Regulation — Supervision Over Capital Adequacy” As of June 30, 2009, we had a capital adequacy ratio of 8.48% and a core capital adequacy ratio of 5.90%.

In respect of the nine months ended September 30, 2009, no dividend was approved. We paid cash dividends in the amount of RMB1,506 million and RMB724 million and in respect of the year ended December 31, 2008 and 2007, respectively, representing RMB0.08 and RMB0.05 per share before tax. We did not pay any cash dividends in 2006.

In [●], our Board proposed that in respect of each of the years ending December 31, 2009, 2010 and 2011, our dividend policy is to distribute an aggregate amount between [●]% to [●]% of our net profit, if any, for the respective year. The actual amount of dividend, if any, in respect of each year is subject to approval by our shareholders at the relevant shareholders’ general meeting.

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FUTURE PLANS

OUR FUTURE PLANS AND PROSPECTS

See “Business — Our Strategies” for a detailed description of our future plans and strategies.

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APPENDIX I

ACCOUNTANT'S REPORT

The following is the text of a report received from the Bank's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document. The information in the Accountant's Report is not complete and may be changed.



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

[Date]

The Directors
China Minsheng Banking Corp., Ltd.

Dear Sirs,

We set out below our report on the financial information (the "**Financial Information**") of China Minsheng Banking Corp., Ltd. (the "**Bank**") and its subsidiaries (together, the "**Group**") set out in Sections I to VI below, for inclusion in this document. The Financial Information comprises the consolidated balance sheets as at December 31, 2006, 2007 and 2008 and June 30, 2009, the balance sheets of the Bank as at December 31, 2006, 2007 and 2008 and June 30, 2009, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2008 and 2009 (the "**Relevant Periods**"), and a summary of significant accounting policies and other explanatory notes.

The Bank was established in the People's Republic of China (the "**PRC**") on February 7, 1996 as a national joint-stock commercial bank with capital participation primarily from non-state-owned enterprises. Its establishment was approved by the State Council of the PRC and by the People's Bank of China (the "**PBOC**"). The Bank's common stock is listed on the PRC domestic A-share market.

As at the date of this report, the Bank has direct interests in the subsidiaries as set out in Note 23 of section VI below.

The financial statements of the Bank for the year ended December 31, 2006 have been prepared in accordance with Accounting Standards for Business Enterprises (issued by the Ministry of Finance of the PRC (the "**MOF**") before February 15, 2006), the Accounting Regulations for Financial Enterprises (issued by the MOF on November 27, 2001) and Financial Instruments Recognition and Measurement Provisions (issued by the MOF on August 30, 2005). The financial statements of the Bank for the years ended December 31, 2007 and 2008 have been prepared in accordance with the Accounting Standards for Business Enterprises — Basic Standards and the 38 specific accounting standards (issued by the MOF on February 15, 2006), and the implementation guidance and interpretations for the Accounting Standards for Business Enterprises subsequently released and other relevant rules and regulations issued by MOF. These financial statements of the Group for each of the years ended December 31, 2006, 2007 and 2008 are collectively referred to as the PRC GAAP Financial Statements. The PRC GAAP Financial Statements were audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Company (普華永道中天會計師事務所有限公司). The

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APPENDIX I

ACCOUNTANT'S REPORT

financial statements of the principal subsidiaries of the Bank were audited by independent auditors as set out in Note 23 of Section VI below.

The Bank also prepared a set of its financial statements for the years ended December 31, 2006 and 2007 in accordance with International Financial Reporting Standards ("*IFRSs*") promulgated by the International Accounting Standards Board. The financial statements of the Bank for the years ended December 31, 2006 and 2007 prepared in accordance with IFRSs were audited by PricewaterhouseCoopers China limited (普華永道中國有限公司).

For the purpose of this report, the directors of the Bank have prepared consolidated financial statements of the Bank and its subsidiaries now comprising the Group for the Relevant Periods, in accordance with IFRSs (the "*IFRS Financial Statements*"). The IFRS Financial Statements for each of the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009 were audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Company (普華永道中天會計師事務所有限公司) in accordance with International Standards on Auditing.

The Financial Information has been prepared based on the IFRS Financial Statements, with no adjustment made thereon.

Directors' responsibility

The directors of the Bank are responsible for the preparation and the true and fair presentation of the IFRS Financial Statements in accordance with IFRSs.

For the financial information for each of the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, the directors of the Bank are responsible for the preparation and the true and fair presentation of the financial information in accordance with IFRSs. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the financial information that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

For the financial information for the six months ended June 30, 2008, the directors of the Bank are responsible for the preparation and the presentation of the financial information in accordance with the accounting policies set out in Note 2 of Section VI below which are in conformity with IFRSs.

Reporting accountant's responsibility

For the financial information for each of the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, our responsibility is to express an opinion on the financial information based on our examination and to report our opinion to you. We examined the IFRS Financial Statements used in preparing the financial information, and carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.

For the financial information for the six months ended June 30, 2008, our responsibility is to express a conclusion on the financial information based on our review and to report our conclusion to you. We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of the financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other

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APPENDIX I

ACCOUNTANT'S REPORT

review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Opinion and review conclusion

In our opinion, the financial information for each of the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, for the purpose of this report, gives a true and fair view of the state of affairs of the Group and of the Bank as at December 31, 2006, 2007 and 2008 and June 30, 2009 and of the Group's results and cash flows for the respective years and period then ended.

Based on our review, which does not constitute an audit, nothing has come to our attention that causes us to believe that the financial information for the six months ended June 30, 2008, for the purpose of this report, is not prepared, in all material respects, in accordance with the accounting policies set out in Note 2 of Section VI below which are in conformity with IFRSs.

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APPENDIX I

ACCOUNTANT'S REPORT

CHINA MINSHENG BANKING CORP., LTD.

I. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(All amounts expressed in millions of Rmb unless otherwise stated)

		Year ended December 31,			Six months ended June 30,	
	Note	2006	2007	2008	2008 (unaudited)	2009
Interest income	5	27,361	40,070	56,311	27,259	24,634
Interest expense	5	(11,193)	(17,490)	(25,931)	(12,563)	(10,684)
Net interest income		<u>16,168</u>	<u>22,580</u>	<u>30,380</u>	<u>14,696</u>	<u>13,950</u>
Fee and commission income	6	1,224	2,665	4,755	3,211	2,442
Fee and commission expense		(197)	(274)	(294)	(139)	(144)
Net fee and commission income		<u>1,027</u>	<u>2,391</u>	<u>4,461</u>	<u>3,072</u>	<u>2,298</u>
Net trading income/(loss)	7	202	425	185	(155)	23
Net gain/(loss) on disposal of available-for-sale securities		44	(124)	(53)	27	4,959
Impairment losses on assets	8	(2,214)	(2,265)	(6,518)	(1,615)	(2,851)
Operating expenses	9	(9,717)	(13,752)	(17,817)	(7,868)	(8,378)
Other operating expenses		(273)	(43)	(150)	(1)	(415)
Profit before income tax		<u>5,237</u>	<u>9,212</u>	<u>10,488</u>	<u>8,156</u>	<u>9,586</u>
Income tax expense	11	(1,479)	(2,877)	(2,595)	(2,110)	(2,207)
Net profit		<u>3,758</u>	<u>6,335</u>	<u>7,893</u>	<u>6,046</u>	<u>7,379</u>
Other comprehensive income:						
Available-for-sale securities	32	652	8,460	(4,654)	(1,197)	(3,317)
Available-for-sale securities — tax	32	(215)	(2,069)	1,170	312	824
Net other comprehensive income		<u>437</u>	<u>6,391</u>	<u>(3,484)</u>	<u>(885)</u>	<u>(2,493)</u>
Comprehensive income		<u>4,195</u>	<u>12,726</u>	<u>4,409</u>	<u>5,161</u>	<u>4,886</u>
Net profit attributable to:						
Equity holders of the Bank		3,758	6,335	7,885	6,041	7,374
Minority interest		—	—	8	5	5
		<u>3,758</u>	<u>6,335</u>	<u>7,893</u>	<u>6,046</u>	<u>7,379</u>
Comprehensive income attributable to:						
Equity holders of the Bank		4,195	12,726	4,401	5,156	4,881
Minority interest		—	—	8	5	5
		<u>4,195</u>	<u>12,726</u>	<u>4,409</u>	<u>5,161</u>	<u>4,886</u>
Earnings per share (expressed in Rmb per share)						
- basic	12	<u>0.23</u>	<u>0.36</u>	<u>0.42</u>	<u>0.32</u>	<u>0.39</u>
- diluted	12	<u>0.23</u>	<u>0.36</u>	<u>0.42</u>	<u>0.32</u>	<u>0.39</u>
Dividends						
Interim dividend declared	31	—	—	—	—	—
Final dividend proposed after the balance sheet date	31	—	3,620	1,506	—	—
		<u>—</u>	<u>3,620</u>	<u>1,506</u>	<u>—</u>	<u>—</u>

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APPENDIX I

ACCOUNTANT'S REPORT

CHINA MINSHENG BANKING CORP., LTD.

II. CONSOLIDATED BALANCE SHEET

(All amounts expressed in millions of Rmb unless otherwise stated)

		December 31,			June 30,
	Note	2006	2007	2008	2009
ASSETS					
Cash and due from banks and other financial institutions	13	11,564	11,986	17,648	24,080
Precious metals		—	417	110	243
Balances with central banks	14	105,205	106,992	181,878	134,641
Trading financial assets	15	—	2,572	4,405	7,261
Derivative financial assets	16	212	1,285	1,216	506
Placements with banks and other financial institutions	17	32,148	80,235	52,408	174,595
Loans and advances to customers	18	465,671	547,296	646,475	890,678
Investment securities:					
- available-for-sale	19	50,162	60,715	53,597	65,042
- held-to-maturity	19	40,302	45,816	38,716	46,494
- loans and receivables	19	10,228	47,449	37,066	38,516
Finance lease receivables	20	—	—	5,253	9,890
Property and equipment	21	5,692	6,387	6,973	7,124
Deferred income tax assets	22	747	64	1,079	2,520
Other assets	24	3,156	7,623	7,526	8,424
Total assets		725,087	918,837	1,054,350	1,410,014
LIABILITIES					
Deposits from customers	25	583,315	671,219	785,786	1,075,309
Due to and placements from banks and other financial institutions	26	91,821	150,253	160,248	221,090
Borrowings from foreign governments		430	436	391	389
Borrowings from other financial institutions		—	—	2,600	8,400
Derivative financial liabilities	16	392	1,444	1,239	483
Provisions		261	342	609	1,061
Debt securities in issue	27	21,691	33,920	33,999	28,877
Deferred income tax liabilities	22	250	1,370	—	—
Other liabilities	28	7,616	9,666	14,806	16,353
Total liabilities		705,776	868,650	999,678	1,351,962
EQUITY					
Share capital	29	10,167	14,479	18,823	18,823
Capital reserve	29	2,362	16,200	14,768	14,768
Surplus reserve	30	1,566	2,200	2,983	2,983
General reserve	30	3,000	5,800	8,001	8,001
Retained earnings		1,827	4,728	6,009	11,877
Reserve for fair value changes of available-for-sale securities	32	389	6,780	3,296	803
Capital and reserves attributable to the equity holders of the Bank		19,311	50,187	53,880	57,255
Minority interest in equity		—	—	792	797
Total equity		19,311	50,187	54,672	58,052
Total liabilities and equity		725,087	918,837	1,054,350	1,410,014

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APPENDIX I

ACCOUNTANT'S REPORT

CHINA MINSHENG BANKING CORP., LTD.

III. BALANCE SHEET

(All amounts expressed in millions of Rmb unless otherwise stated)

		December 31,			June 30,
	Note	2006	2007	2008	2009
ASSETS					
Cash and due from banks and other financial institutions	13	11,564	11,986	17,630	23,542
Precious metals		—	417	110	243
Balances with central banks	14	105,205	106,992	181,874	134,613
Trading financial assets	15	—	2,572	4,405	7,261
Derivative financial assets	16	212	1,285	1,216	506
Placements with banks and other financial institutions	17	32,148	80,235	52,408	174,595
Loans and advances to customers	18	465,671	547,296	646,443	890,378
Investment securities:					
- available-for-sale	19	50,162	60,715	53,597	65,042
- held-to-maturity	19	40,302	45,816	38,716	46,494
- loans and receivables	19	10,228	47,449	37,066	38,477
Investment in subsidiaries	23	—	—	2,775	2,775
Property and equipment	21	5,692	6,387	6,949	7,074
Deferred income tax assets	22	747	64	1,078	2,519
Other assets	24	3,156	7,623	5,874	6,560
Total assets		725,087	918,837	1,050,141	1,400,079
LIABILITIES					
Deposits from customers	25	583,315	671,219	785,814	1,075,015
Due to and placements from banks and other financial institutions	26	91,821	150,253	159,953	221,965
Borrowings from foreign governments		430	436	391	389
Derivative financial liabilities	16	392	1,444	1,239	483
Provisions		261	342	609	1,061
Debt securities in issue	27	21,691	33,920	33,999	28,877
Deferred income tax liabilities	22	250	1,370	—	—
Other liabilities	28	7,616	9,666	14,326	15,157
Total liabilities		705,776	868,650	996,331	1,342,947
EQUITY					
Share capital	29	10,167	14,479	18,823	18,823
Capital reserve	29	2,362	16,200	14,752	14,752
Surplus reserve	30	1,566	2,200	2,983	2,983
General reserve	30	3,000	5,800	8,000	8,000
Retained earnings		1,827	4,728	5,956	11,771
Reserve for fair value changes of available-for-sale securities	32	389	6,780	3,296	803
Total equity		19,311	50,187	53,810	57,132
Total liabilities and equity		725,087	918,837	1,050,141	1,400,079

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APPENDIX I

ACCOUNTANT'S REPORT

CHINA MINSHENG BANKING CORP., LTD.

IV. CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(All amounts in millions of Rmb unless otherwise stated)

	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Retained earnings	Reserve for fair value changes of available-for-sale securities	Total equity
Balance at January 1, 2006		7,259	4,169	1,183	1,200	1,704	(48)	15,467
Comprehensive income		—	—	—	—	3,758	437	4,195
Shares issued from capital reserve	29	1,815	(1,815)	—	—	—	—	—
Appropriation to surplus reserve	30	—	—	383	—	(383)	—	—
Appropriation to general reserve	30	—	—	—	1,800	(1,800)	—	—
Cash dividends relating to 2005	31	—	—	—	—	(363)	—	(363)
Stock dividends relating to 2005	31	1,089	—	—	—	(1,089)	—	—
Shares issued in connection with convertible bonds		4	10	—	—	—	—	14
Changes in equity component of convertible bonds		—	(2)	—	—	—	—	(2)
Balance at December 31, 2006		<u>10,167</u>	<u>2,362</u>	<u>1,566</u>	<u>3,000</u>	<u>1,827</u>	<u>389</u>	<u>19,311</u>
Balance at January 1, 2007		10,167	2,362	1,566	3,000	1,827	389	19,311
Comprehensive income		—	—	—	—	6,335	6,391	12,726
Capital injection	29	2,380	15,770	—	—	—	—	18,150
Shares issued from capital reserve	29	1,932	(1,932)	—	—	—	—	—
Appropriation to surplus reserve	30	—	—	634	—	(634)	—	—
Appropriation to general reserve	30	—	—	—	2,800	(2,800)	—	—
Balance at December 31, 2007		<u>14,479</u>	<u>16,200</u>	<u>2,200</u>	<u>5,800</u>	<u>4,728</u>	<u>6,780</u>	<u>50,187</u>

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APPENDIX I

ACCOUNTANT'S REPORT

CHINA MINSHENG BANKING CORP., LTD.

IV. CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (continued)
(All amounts in millions of Rmb unless otherwise stated)

	Note	Attributable to the equity holders of the Bank					Reserve for fair value changes of available-for-sale securities	Minority interest	Total equity
		Share capital	Capital reserve	Surplus reserve	General reserve	Retained earnings			
Balance at January 1, 2008		14,479	16,200	2,200	5,800	4,728	6,780	—	50,187
Comprehensive income		—	—	—	—	7,885	(3,484)	8	4,409
Capital injection		—	—	—	—	—	—	780	780
Shares issued from capital reserve	29	1,448	(1,448)	—	—	—	—	—	—
Appropriation to surplus reserve	30	—	—	783	—	(783)	—	—	—
Appropriation to general reserve	30	—	—	—	2,201	(2,201)	—	—	—
Cash dividends relating to 2007	31	—	—	—	—	(724)	—	—	(724)
Stock dividends relating to 2007	31	2,896	—	—	—	(2,896)	—	—	—
Others		—	16	—	—	—	—	4	20
Balance at December 31, 2008		18,823	14,768	2,983	8,001	6,009	3,296	792	54,672
Balance at January 1, 2009		18,823	14,768	2,983	8,001	6,009	3,296	792	54,672
Comprehensive income		—	—	—	—	7,374	(2,493)	5	4,886
Cash dividends relating to 2008	31	—	—	—	—	(1,506)	—	—	(1,506)
Balance at June 30, 2009		18,823	14,768	2,983	8,001	11,877	803	797	58,052

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APPENDIX I

ACCOUNTANT'S REPORT

CHINA MINSHENG BANKING CORP., LTD.

V. CONSOLIDATED STATEMENT OF CASH FLOWS
(All amounts in millions of Rmb unless otherwise stated)

	Note	Year ended December 31,			Six months ended June 30,	
		2006	2007	2008	2008	2009
					(unaudited)	
Cash flows from operating activities						
Profit before income tax		5,237	9,212	10,488	8,156	9,586
Adjustments for:						
Impairment losses on assets		2,214	2,265	6,518	1,615	2,851
Depreciation and amortization		672	607	678	328	336
Gains on disposal of property and equipment and other long-term assets		—	—	(2)	(1)	(1)
Gain/(losses) from fair value changes		(42)	(44)	(206)	13	8
Net (gains)/losses on disposal of available-for-sale securities		(44)	124	53	(27)	(4,959)
Interest expense on debt securities in issue and other financing activities		525	1,104	1,457	678	761
Interest income from investment securities		(2,697)	(4,315)	(5,451)	(2,919)	(2,657)
Payment of income tax		(1,440)	(2,581)	(3,549)	(1,943)	(1,821)
Net changes in operating assets and liabilities:						
Net decrease/(increase) in due from banks and other financial institutions		(1,103)	1,897	(1,736)	708	1,783
Net decrease/(increase) in precious metals		—	(417)	307	236	(133)
Net increase in restricted balances with central banks		(14,341)	(35,963)	(3,173)	(30,878)	(22,667)
Net increase in trading financial assets		—	(2,222)	(2,091)	(1,764)	(2,910)
Net decrease/(increase) in placements with banks and other financial institutions		(3,945)	(48,087)	27,827	(38,366)	(122,129)
Net increase in loans and advances to customers		(74,373)	(83,663)	(104,741)	(57,121)	(246,544)
Net increase in other assets		(889)	(2,127)	(4,575)	(3,482)	(4,134)
Net increase in deposits from customers		94,482	87,904	114,567	89,185	289,523
Net increase in due to and placements from banks and other financial institutions		32,281	58,432	9,995	44,155	60,842
Net increase in other liabilities		2,018	3,845	6,836	4,027	599
Net cash from operating activities		38,555	(14,029)	53,202	12,600	(41,666)
Cash flows from investing activities						
Proceeds from investment securities		33,861	51,606	119,038	36,679	64,343
Proceeds from disposal of property and equipment, intangible assets and other long-term assets		44	19	8	1	2
Purchase of investment securities		(50,745)	(94,449)	(96,242)	(43,691)	(80,362)
Payment for investment in subsidiaries	24	—	(2,600)	—	—	—
Purchase of property and equipment, intangible assets and other long-term assets		(1,006)	(1,360)	(1,686)	(810)	(1,260)
Net cash from investing activities		(17,846)	(46,784)	21,118	(7,821)	(17,277)
Cash flows from financing activities						
Proceeds from minority equity holders of subsidiaries		—	—	780	—	—
Borrowed from other financial institutions		—	—	2,600	—	8,120
Proceeds from issuance of debt securities		14,287	11,970	—	—	4,983
Proceeds from issuance of stock by private placement		—	18,150	—	—	—
Cash paid for debts		—	—	—	—	(12,666)
Cash paid for interest		(343)	(844)	(1,331)	(741)	(984)
Cash dividends paid		(345)	(18)	(724)	(724)	(1,506)
Cash received from other financing activities		—	—	15	—	—
Net cash from financing activities		13,599	29,258	1,340	(1,465)	(2,053)
Net increase/(decrease) in cash and cash equivalents		34,308	(31,555)	75,660	3,314	(60,996)
Cash and cash equivalents at beginning of the year/period		34,514	68,779	37,020	40,220	112,302
Effect of foreign exchange rate changes		(43)	(204)	(378)	(238)	28
Cash and cash equivalents at end of the year/period	33	68,779	37,020	112,302	43,296	51,334

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APPENDIX I

ACCOUNTANT'S REPORT

CHINA MINSHENG BANKING CORP., LTD.

VI. NOTES TO THE FINANCIAL INFORMATION

(All amounts in millions of Rmb unless otherwise stated)

1 GENERAL INFORMATION

China Minsheng Banking Corp., Ltd. (the "**Bank**") is a national joint-stock commercial bank established in the People's Republic of China ("**PRC**") on February 7, 1996 with the approval of the State Council of the PRC and the People's Bank of China (the "**PBOC**"). The Bank issued 350,000,000 ordinary shares of A-share common stock in local currency Renminbi ("**Rmb**") in 2000 and the shares have been listed and traded on the Shanghai Stock Exchange since 2000.

As at June 30, 2009, the Bank has 28 branches and a sub-branch in Shantou, which directly reports to the Head Office. The Bank and its subsidiaries (together the "**Group**") provides retail and corporate banking, leasing and fund management services in China.

2 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to all years and periods presented, unless otherwise stated.

2.1 Basis of preparation

The Financial Information has been prepared in accordance with International Financial Reporting Standards ("**IFRS**").

The Financial Information has been prepared under the historical cost convention, as modified by the revaluation of available-for-sale securities, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of Financial Information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial information are disclosed in Note 4.

Standards, amendments and interpretations that have been issued but not yet effective and not been early adopted by the Group for six months ended June 30, 2009 are as follows:

	Effective for annual periods beginning on or after
IFRS 3 (Revised) Business Combination	July 1, 2009
IAS 27 (Revised) Consolidated and Separate Financial Statements	July 1, 2009
IFRIC 17 Distribution of Non-cash Assets to Owners	July 1, 2009
IFRIC 18 Transfers of Assets From Customers	July 1, 2009
Amendment to IFRS 2 Group Cash-settled Share-based Payment Transactions.	January 1, 2010
Amendment to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.	January 1, 2010
Amendment to IFRS 8 Operating Segments	January 1, 2010
Amendment to IAS 1 Presentation of Financial Statements.	January 1, 2010
Amendment to IAS 7 Statement of Cash Flows	January 1, 2010
Amendment to IAS 17 Leases	January 1, 2010
Amendment to Appendix to IAS 18 Revenue	July 1, 2009
Amendment to IAS 36 Impairment of Assets	January 1, 2010
Amendment to IAS 38 Intangible Assets	July 1, 2009
Amendment to IAS 39 Financial Instrument: Recognition and Measurement	July 1, 2009
Amendment to IFRIC 9 Reassessment of Embedded Derivatives.	July 1, 2009
Amendment to IFRIC 16 Interpretation Hedges of a Net Investment in a Foreign Operation	July 1, 2009

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APPENDIX I

ACCOUNTANT'S REPORT

The application of these standards, amendments and interpretations is not expected to have a material effect on the Group's operating results or financial position.

2.2 Consolidation

The consolidated financial statements include the financial statements of the Bank and all its subsidiaries.

Subsidiaries are all entities (including special purpose entities) over which the Group has control, that is having the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to insure consistency with the policies adopted by the Group.

In the Bank's balance sheet the investments in subsidiaries are stated at cost less allowance for impairment losses. The results of subsidiaries are accounted for by the Bank on the basis of dividend received and receivable.

2.3 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognized within "interest income" and "interest expense" in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the Relevant Periods. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.4 Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. For those services that are provided over a period of time, fee and commission income are recognized over that period. For other services, fee and commission income are recognized when the transactions are completed.

2.5 Dividend income

Dividends are recognized in the income statement when the entity's right to receive payment is established.

2.6 Financial assets

2.6.1 Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale investments. Management determines the classification of its financial assets at initial recognition.

a Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

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APPENDIX I

ACCOUNTANT’S REPORT

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of recent actual pattern of short-term profit-making. Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments.

A financial asset is typically classified as fair value through profit or loss at inception if it meets the following criteria:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as “an accounting mismatch”) that would otherwise arise from measuring the financial assets or financial liabilities or recognizing the gains and losses on them on different bases; or
- a group of financial assets or a group of financial assets and financial liabilities is managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis; or
- financial assets, contain one or more embedded derivatives which significantly modify the cash flows.

b Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity upon initial recognition designates as available-for-sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

c Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group’s management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

d Available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

2.6.2 Recognition and measurement

Regular-way purchases and sales of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale investments are recognized on trade-date — the date on which the Group commits to purchase or sell the asset.

Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest method. Gains and losses arising from changes in the fair value of the ‘financial assets at fair value through profit or loss’ category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in equity, until the financial asset is derecognized or impaired. At this time the cumulative gain or loss previously recognized in the equity is recognized in the income statement. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available-for-sale are recognized in the income statement.

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the Group establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, discounted cash flow analysis and option pricing models, and other valuation techniques commonly used by market participants.

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APPENDIX I

ACCOUNTANT'S REPORT

2.6.3 Derecognition

Financial assets are derecognized when the rights to receive cash flows from the investments have expired, or when the Group has transferred substantially all risks and rewards of ownership, or when the Group neither transfers nor retains substantially all risks or rewards of ownership of the financial asset but has not retained control of the financial asset.

2.7 Impairment of financial assets

a *Financial assets carried at amortized cost*

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Downgrading below investment grade level.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

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APPENDIX I

ACCOUNTANT'S REPORT

When a loan is uncollectible, it is written off against the related allowances for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement. The reversal should not result in a carrying amount of the financial assets that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment reversed.

b Assets classified as available-for-sale

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value, less any impairment loss on that financial asset previously recognized in income statement — is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in income statement, the impairment loss is reversed through the income statement.

2.8 Financial liabilities

2.8.1 Classification, recognition and measurement

The Group classifies its financial liabilities into the following two categories at initial recognition: financial liabilities at fair value through profit or loss and other liabilities. Management determine the classification of the Group's financial liabilities at initial recognition.

a Financial liabilities at fair value through profit or loss

This category has two sub-categories: financial liabilities held for trading, and those designated at fair value through profit or loss at inception.

A financial liability is classified as held for trading if it is incurred principally for the purpose of repurchasing in the short term. It is carried at fair value and any gains and losses from changes in fair value are recognized in the income statement.

A financial liability is typically classified as fair value through profit or loss at inception if it meets the following criteria:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring the financial assets or financial liabilities or recognizing the gains and losses on them on different bases; or
- a group of financial liabilities, or a group of financial assets and financial liabilities is managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis; and
- financial liabilities contain one or more embedded derivatives significantly modify the cash flows.

Financial liabilities designated at fair value through profit or loss are carried at fair value and any gains and losses from changes in fair value are recognized in the income statement.

b Other financial liabilities

Other financial liabilities are recognized initially at fair value net of transaction costs incurred. Other financial liabilities are subsequently stated at amortized cost; any difference between proceeds net of transaction costs and the redemption value is recognized in the income statement over the period of the other financial liabilities using the effective interest method.

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APPENDIX I

ACCOUNTANT’S REPORT

2.8.2 Derecognition

Financial liabilities are derecognized when they are extinguished — that is, when the obligation is discharged, canceled or expires.

2.9 Derivative financial instruments and embedded derivative financial instruments

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair values. Fair values are obtained from quoted market prices, including counterparty quotes and recent market transactions, and valuation technique, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments, such as the conversion option for the holder of a convertible bond, are treated as separate derivatives when their risks and economic characteristics are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss.

Changes in the fair values of derivatives are included in net trading income.

While certain derivative transactions are intended to provide effective economic hedges under the Group’s risk management positions, they do not qualify for hedge accounting under the specific rules in the revised IAS 39 and are therefore treated as derivatives held for trading with changes in fair value are reported as net trading income. The Group has no derivative positions that are accounted for as hedges.

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.11 Repurchase agreements and agreements to re-sell

Financial assets sold subject to repurchase agreements (“**Repos**”) continue to be recognized, and are recorded as “Investment securities” or “Loans and advances to customers” as appropriate. The counterparty liability is included in “Due to and placement from banks” as appropriate. Financial assets purchased under agreements to resell (“**Reverse repos**”) are not recognized, and are recorded as “Placements with banks and other financial institutions”.

The difference between purchase and sale price is recognized as interest expense or interest income in the income statement over the life of the agreements using the effective interest method.

2.12 Repossessed assets

Reposessed assets are initially recognized at fair value plus related costs when they are obtained as the compensation for the loans principal and interest. Subsequently, the reposessed collateral assets are measured at lower of carrying amount and fair value less costs to sell.

2.13 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as Presidents and special management committees that make strategic decisions.

2.14 Foreign currency translation

a *Functional and presentation currency*

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates (“**the functional currency**”). The financial statements are presented in Renminbi (“**Rmb**”), which is the Bank’s functional and the Group’s presentation currency and the lawful currency of the PRC.

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APPENDIX I

ACCOUNTANT'S REPORT

b Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from settlements of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale investments are analyzed between translation differences resulting from changes in the amortized cost of the security, and other changes in the carrying amount of the security. Translation differences related to changes in the amortized cost are recognized in the income statement, and other changes in carrying amount are recognized in equity.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported in income statement as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

2.15 Property and equipment

All property and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditures that are directly attributable to the acquisition of the property and equipment items.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their anticipated useful lives as follows:

- Buildings	20 - 30 years
- Leasehold improvements	5 - 10 years
- Office equipment	5 - 10 years
- Transportation equipment	5 years

No depreciation is provided against construction in progress.

The Group performs an analysis of the assets' estimated residual values and estimated useful lives at each balance sheet date, and makes the adjustments if appropriate.

Property and equipment are periodically reviewed for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

2.16 Impairment of non-financial asset

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.17 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized directly in equity. In this case, the tax is also recognized in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group operates and generate taxable income. Management periodically evaluates

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APPENDIX I

ACCOUNTANT'S REPORT

positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

The principal temporary differences arise from provision for loan impairments and revaluation of certain financial assets and liabilities including derivative contracts. The rates enacted or substantively enacted at the balance sheet date are used to determine deferred income tax. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognized as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognized as an asset when it is probable that future taxable profits will be available against which these losses can be utilized.

Deferred income tax related to fair value re-measurement of available-for-sale investments which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognized in the income statement together with the deferred gain or loss.

2.18 Employee benefits

Employee benefits mainly include salary, bonus, allowance, subsidy, welfare, social insurance and housing fund, labor union expenditures and personnel education as well as other expenditures for services provided by employees.

The employee benefits expense is recognized during the employees' servicing period, and is allocated to relevant cost and expenses accounts according to the nature of the service.

In accordance with the policies of relevant state and local governments, the Group's employees participate in various defined contribution retirement schemes managed by local Labor and Social Security Bureaus. The Group contributes to pension and insurance schemes administered by the local pension and insurance agencies using applicable contribution rates of the pension and insurance schemes stipulated in the relevant local regulations. Upon retirement of the employees, the local Labor and Social Security Bureaus are responsible for the payment of the basic retirement benefits to the retired employees.

Contributions made by the Group to the above retirement schemes are expensed in the income statement as incurred.

2.19 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events. It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

2.20 Leases

a Lease classification

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Title may or may not eventually be transferred. All leases other than finance leases are classified as operating leases.

b Finance lease

The Group entered into finance lease transactions mainly as lessor.

When the Group is a lessor under finance leases, the present value of the lease payment receivable from the lessee is recognized as finance lease receivable. The difference between the receivable and the present value of the receivable is recognized as unearned finance income. Lease income is recognized over the term of the lease using an interest rate which reflects a constant rate of return.

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APPENDIX I

ACCOUNTANT'S REPORT

When the Group is a lessee under finance leases, the leased assets are capitalized initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in other liabilities. Finance charges are charged over the term of the lease using an interest rate which reflects a constant rate of return.

The Group adopts the same depreciation policy for the finance leased assets as those for which it has title rights.

c Operating lease

When the Group is the lessee under an operating lease, rental expenses are charged in operating expenses in the income statement on a straight-line basis over the period of the lease.

When the Group is the lessor under operating leases, the assets subject to the operating lease are accounted for as the Group's assets. Rental income is recognized as other operating income in the income statement on a straight-line basis over the lease term.

2.21 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

2.22 Fiduciary activities

The Group commonly acts as a trustee, or in other fiduciary capacities, that result in its holding or managing assets on behalf of individuals, trusts and other institutions. These assets and profit or loss arising thereon are excluded from the financial statements, as they are not the assets of the Group.

The Group also administers entrusted loans on behalf of third-party lenders. In this regard, the Group grants loans to borrowers, as an intermediary, at the direction of third-party lenders, who fund these loans. The Group has been contracted by these third-party lenders to manage the administration and collection of these loans on their behalf. The third-party lenders determine both the underwriting criteria for and all terms of the entrusted loans, including their purpose, amounts, interest rates, and repayment schedule. The Group charges a commission related to its activities in connection with the entrusted loans, but the risk of loss is borne by the third-party lenders. Entrusted loans are not recognized in the balance sheet of the Group.

2.23 Share capital

a Share issue costs

Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

b Dividends on ordinary shares

Dividends on ordinary shares are recognized in equity in the period in which they are approved by the Bank's shareholders.

Dividends for the year that are declared after the balance sheet date are dealt with in the dividends note.

2.24 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 3 months' maturity from the date of acquisition including: cash, unrestricted balances with central banks, amounts due from banks and other financial institutions, and short-term government securities.

2.25 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

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APPENDIX I

ACCOUNTANT'S REPORT

Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement, less amortization calculated to recognize in the income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management.

Any increase in the liability relating to guarantees is taken to the income statement under other operating expenses.

3 FINANCIAL RISK MANAGEMENT

(1) Financial risk management

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of various degree of risks or combination of risks. The core characteristic of financial business is undertaking risk, and the operational risks are an inevitable consequence in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Bank has a Risk Management Committee under the Board of Directors, and Risk Management Committee is responsible for setting the overall risk management strategies of the Bank, monitoring the Bank's risk management and internal controls and assessing the overall risk position of the Bank. In accordance with the risk management strategies set by the Risk Management Committee, the Bank's senior management formulates relevant risk management policies, practices and procedures and drives their implementation and compliance.

The Bank has a Strategic Development and Investment Management Committee under the Board of Directors. The committee takes care of the daily management of its subsidiaries; and the Bank is moving towards building its enterprise-wide risk management framework at the Group level.

The most significant types of risk to the Group are credit risk, market risk and liquidity risk. Market risk includes currency risk, interest rate and other price risk.

(2) Credit risk

The Group has exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk is the most important risk for the Group's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities, which including loans to others, trade finance, treasury and leasing activities. There is also credit risk in off-balance sheet financial instruments, such as acceptances.

Currently, the Bank's Risk Management Committee is responsible for decision-making and centralized coordination in credit risk management and mitigation, and manages credit risks through a number of methods, including specialized credit assessment, centralized quality monitoring, and centralized management and collection of stressed assets.

a Credit risk measurement

(i) Loans and advances and credit commitments

The Group measures and manages the quality of its credit assets in accordance with the CBRC's Guidelines for Risk Classification of Loans. The Guidelines for Risk Classification of Loans require financial institutions to classify their credit assets into five categories, namely pass, special mention, sub-standard, doubtful and loss, of which the last three categories are non-performing loans. At the same time, the Group includes its off-balance sheet credit commitments as part of its overall credit management, applies credit limit management, and classifies key off-balance sheet items in accordance with the Guidelines for Risk Management of Loans. The Bank has also developed its Administrative Measures for Risk Classification of Credit Assets of China Minsheng Banking Corporation to guide its daily risk management of credit assets, following classification principles fully consistent with CBRC's Guidelines for Risk Classification of Loans.

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APPENDIX I

ACCOUNTANT’S REPORT

The core definitions of credit asset classifications in “Loan Risk Classifications Guiding Principles” are as follows:

Pass: The borrower can fulfill the contracts, and there is insufficient reason to suspect that the principal and interest of loans can not be repaid in full on time.

Special-mention: The borrower has the ability to make current payments, but there may be some potential issues that could have adverse impact on the future payments.

Substandard: The borrower’s repayment ability has been impaired and their normal income can not repay the loan principal plus interest in full. Even with execution of guarantee, there may be certain level of loss.

Doubtful: The borrower can not repay the principal plus the interest in full. Even with the execution of guarantee, there will be a significant loss.

Loss: After taking consideration of all possible recovery actions or all necessary legal proceedings, the future outcome of recovery is likely to be little or no recovery.

(ii) Debt securities and other bills

For debt securities and other bills, the Group manages the credit risk exposures by setting limits to the external credit ratings of its investments. A credit rating of BBB or above (by Standard & Poor’s or equivalent agencies) at the time of purchase is required for foreign currency debt securities investments. Rmb debt securities investments require a rating of A or above for long-term securities investments and a rating of A-1 or above for short-term securities investments from an external rating agency recognized by the PBOC. The risk control staff also regularly review the changes of credit ratings of issuers of securities held by the Group and make risk management recommendations from both industry and enterprise perspectives for adjustments to risk management practices.

b Risk limit control and mitigation policies

The Group exercises risk concentration management and control over its counterparties, whether individual or group customers, industries and geographical areas.

The Group has established relevant mechanisms to apply tiered management of credit risks, and set limits to the acceptable risks for different individual or group customer counterparties, different industries and geographical areas. The Group monitors the risk status of these customers on a regular basis and reviews their risk positions at least once a year.

The risk exposures to any borrower, including banks, are further classified into on and off-balance risk exposures, and control has been applied to the daily risk limits of each class. The Bank also monitors on a daily basis the actual risk exposures in relation to the corresponding risk limits.

The Group controls its credit risks through, among other necessary measures, regular analysis of a customer’s ability to repay interests and principals, and making appropriate adjustments to credit lines.

Other specific control and mitigation methods include:

(i) Collateral

A critical method for the Group’s control of its credit risks is to acquire collateral, security deposits and guarantee from the business enterprise or individuals. The Group has specified the types of collaterals acceptable, mainly including the following:

- Real estate and land use rights.
- Machinery and equipment;
- Right to receive payments and accounts receivable;
- Financial instruments such as time deposit certificates, debt securities and equities.

In order to minimize its credit loss, once indication of impairment has been identified with an individual loan, the Group will seek additional collateral from the counterparty or require additional guarantors.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

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APPENDIX I

ACCOUNTANT'S REPORT

(ii) Derivative instruments

In the Group, only the Bank is authorized to engage in financial derivative transactions. The Bank maintains strict net exposure limits in its financial derivative transactions with counterparties and monitors the activities through daily summary reports on the use of exposure limits. The credit risk of derivative instruments faced by the Bank is limited to the derivative instruments with positive fair value. The Bank sets credit limits for counterparties in its management system to monitor the credit position of derivative transactions and mitigates credit risk associated with derivative instruments by requiring margin deposits from counterparties that are customers.

(iii) Credit related commitments

Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. In some cases, such as those situations where the amount of credit commitment exceeds the original credit limit, guarantee deposits are received by the Group to lessen the credit risks related to such commitments. The Group's potential amount of credit risk is equivalent to the total amount of credit commitments.

Loan commitments and financial leasing commitments represent unused portions of authorizations to extend credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

c Impairment allowance policies

In accordance with accounting policies and regulations, if there is objective evidence that indicates the cash flow for a particular loan is expected to decrease, and the amount can be estimated, the loan is recorded as an impaired loan and the impairment loss is recognized in the income statement.

For the criteria that the Group uses to determine that there is an objective evidence of impairment loss, please refer to Note 2.7 of Section VI.

The Group's policy requires regular review of the quality of individually significant financial assets. For assets for which an allowance for impairment loss is provided individually, the amount is determined by an evaluation of the incurred loss at balance-sheet date on a case-by-case basis. In making such assessment, the Group considers the value of collaterals held and expected future cash flows from the asset.

Impairment allowances are provided for the following portfolios according to historical data, experience and statistical techniques: (i) those consisting of homogenous assets that are individually below materiality thresholds; and (ii) those where losses that have been incurred but have not yet been individually identified with any specific asset within the portfolio.

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APPENDIX I

ACCOUNTANT'S REPORT

d Maximum exposure to credit risk before collateral held or other credit enhancements

The following tables represent the worst case scenario of credit risk exposure of the Group and Bank, without taking account of any collateral held or other credit enhancements attached.

Credit risk exposures relating to on-balance sheet assets are as follows:

Group	December 31,			June 30, 2009
	2006	2007	2008	
Balances with central banks	105,205	106,992	181,878	134,641
Due from banks and other financial institutions	9,034	8,697	14,748	21,428
Placements with banks and other financial institutions	32,148	80,235	52,408	174,595
Trading financial assets	—	2,572	4,405	7,261
Derivative financial assets.	212	1,285	1,216	506
Loans and advances to customers				
- Loans to corporate entities	397,813	448,755	539,186	767,538
- Loans to individuals	67,858	98,541	107,289	123,140
Investment securities				
- Debt securities	99,497	143,424	125,618	149,828
Finance lease receivables	—	—	5,253	9,890
Other assets	2,641	4,545	6,250	7,181
Subtotal	<u>714,408</u>	<u>895,046</u>	<u>1,038,251</u>	<u>1,396,008</u>

Credit risk exposures relating to off-balance sheet items are as follows:

Acceptances	70,853	96,624	145,005	306,435
Letters of guarantee	22,881	32,770	49,029	45,697
Unused credit card limits	9,635	26,574	28,140	27,873
Letters of credit	12,490	15,879	8,250	15,407
Irrevocable loan commitment.	3,345	4,856	6,000	5,828
Finance lease commitment.	—	—	475	912
Subtotal.	<u>119,204</u>	<u>176,703</u>	<u>236,899</u>	<u>402,152</u>
Total	<u>833,612</u>	<u>1,071,749</u>	<u>1,275,150</u>	<u>1,798,160</u>

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APPENDIX I

ACCOUNTANT'S REPORT

Credit risk exposures relating to on-balance sheet assets are as follows:

	December 31,			June 30, 2009
	2006	2007	2008	
Bank				
Balances with central banks	105,205	106,992	181,874	134,613
Due from banks and other financial institutions	9,034	8,697	14,732	20,893
Placements with banks and other financial institutions	32,148	80,235	52,408	174,595
Trading financial assets	—	2,572	4,405	7,261
Derivative financial assets.	212	1,285	1,216	506
Loans and advances to customers				
- Loans to corporate entities	397,813	448,755	539,163	767,264
- Loans to individuals	67,858	98,541	107,280	123,114
Investment securities				
- Debt securities	99,497	143,424	125,618	149,789
Other assets	2,641	4,545	4,621	5,339
Subtotal	714,408	895,046	1,031,317	1,383,374

Credit risk exposures relating to off-balance sheet items are as follows:

Acceptances	70,853	96,624	145,005	306,435
Letters of guarantee	22,881	32,770	49,029	45,697
Unused credit card limits	9,635	26,574	28,140	27,873
Letters of credit	12,490	15,879	8,250	15,407
Irrevocable loan commitment	3,345	4,856	6,000	5,828
Subtotal.	119,204	176,703	236,424	401,240
Total	833,612	1,071,749	1,267,741	1,784,614

e Placements with banks and other financial institutions

	December 31,			June 30, 2009
	2006	2007	2008	
Group and Bank				
Neither past due nor impaired	32,148	79,735	52,408	174,595
Past due but not impaired	—	500	—	—
Impaired	96	94	92	34
Gross	32,244	80,329	52,500	174,629
Less: allowance for impairment loss.	(96)	(94)	(92)	(34)
Net	32,148	80,235	52,408	174,595

(i) Neither past due nor impaired

The credit risk of placements with banks and other financial institutions that are neither past due nor impaired can be assessed by referring to characteristics of the counterparties.

	December 31,			June 30, 2009
	2006	2007	2008	
Group and Bank				
Banks	17,011	22,224	30,324	165,468
Other financial institutions	15,137	57,511	22,084	9,127
	32,148	79,735	52,408	174,595

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APPENDIX I

ACCOUNTANT'S REPORT

(ii) *Past due but not impaired*

The Group assessed the recoverability of the assets and believed no impairment was required.

(iii) *Impaired*

The Group has provided 100% allowances for placements with banks and other financial institutions which were impaired.

f *Loans and advances to customers*

	December 31,			June 30,
	2006	2007	2008	2009
Group				
Neither past due nor impaired	460,595	542,766	643,219	891,798
Past due but not impaired	5,600	5,420	7,220	4,335
Impaired.	5,893	6,773	7,921	7,801
Gross	<u>472,088</u>	<u>554,959</u>	<u>658,360</u>	<u>903,934</u>
Less: allowance for impairment loss				
- individual assessment	(3,472)	(3,494)	(3,990)	(4,404)
- collective assessment.	<u>(2,945)</u>	<u>(4,169)</u>	<u>(7,895)</u>	<u>(8,852)</u>
	<u>(6,417)</u>	<u>(7,663)</u>	<u>(11,885)</u>	<u>(13,256)</u>
Net	<u>465,671</u>	<u>547,296</u>	<u>646,475</u>	<u>890,678</u>
Bank				
Neither past due nor impaired	460,595	542,766	643,187	891,495
Past due but not impaired	5,600	5,420	7,220	4,335
Impaired.	5,893	6,773	7,921	7,801
Gross	<u>472,088</u>	<u>554,959</u>	<u>658,328</u>	<u>903,631</u>
Less: allowance for impairment loss				
- individual assessment	(3,472)	(3,494)	(3,990)	(4,404)
- collective assessment.	<u>(2,945)</u>	<u>(4,169)</u>	<u>(7,895)</u>	<u>(8,849)</u>
	<u>(6,417)</u>	<u>(7,663)</u>	<u>(11,885)</u>	<u>(13,253)</u>
Net	<u>465,671</u>	<u>547,296</u>	<u>646,443</u>	<u>890,378</u>

(i) *Neither past due nor impaired*

The credit risk of loans and advances neither past due nor impaired was assessed by referring to "Loan Risk Classification Guiding Principles" of the CBRC.

	Corporate loans	Individual loans	Total
Group and Bank			
December 31, 2006			
Pass	386,107	66,506	452,613
Special mention	<u>7,968</u>	<u>14</u>	<u>7,982</u>
	<u>394,075</u>	<u>66,520</u>	<u>460,595</u>

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APPENDIX I

ACCOUNTANT'S REPORT

	<u>Corporate loans</u>	<u>Individual loans</u>	<u>Total</u>
Group and Bank			
December 31, 2007			
Pass	440,983	96,508	537,491
Special mention	<u>5,148</u>	<u>127</u>	<u>5,275</u>
	<u>446,131</u>	<u>96,635</u>	<u>542,766</u>
Group			
December 31, 2008			
Pass	528,673	103,274	631,947
Special mention	<u>10,468</u>	<u>804</u>	<u>11,272</u>
	<u>539,141</u>	<u>104,078</u>	<u>643,219</u>
Bank			
December 31, 2008			
Pass	528,650	103,265	631,915
Special mention	<u>10,468</u>	<u>804</u>	<u>11,272</u>
	<u>539,118</u>	<u>104,069</u>	<u>643,187</u>
Group			
June 30, 2009			
Pass	761,023	119,719	880,742
Special mention	<u>10,616</u>	<u>440</u>	<u>11,056</u>
	<u>771,639</u>	<u>120,159</u>	<u>891,798</u>
Bank			
June 30, 2009			
Pass	760,746	119,693	880,439
Special mention	<u>10,616</u>	<u>440</u>	<u>11,056</u>
	<u>771,362</u>	<u>120,133</u>	<u>891,495</u>

(ii) *Past due but not impaired*

At the inception of loan drawdown, the Group requires independent asset evaluation agencies to perform valuation assessments of the corresponding collateral. When there is evidence that indicates the collateral is impaired, the Group will review whether the collateral is sufficient to cover the credit risk of the corresponding loans.

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APPENDIX I

ACCOUNTANT'S REPORT

Analysis of the assets overdue but not impaired by overdue days:

Group and Bank	Up to 30 days	30 to 60 days	60 to 90 days	Over 90 days	Total
December 31, 2006					
Loans to corporate entities	1,487	21	91	2,508	4,107
Loans to individuals	1,029	276	139	49	1,493
	<u>2,516</u>	<u>297</u>	<u>230</u>	<u>2,557</u>	<u>5,600</u>
December 31, 2007					
Loans to corporate entities	1,373	5	400	1,387	3,165
Loans to individuals	1,552	422	190	91	2,255
	<u>2,925</u>	<u>427</u>	<u>590</u>	<u>1,478</u>	<u>5,420</u>
December 31, 2008					
Loans to corporate entities	995	16	910	1,473	3,394
Loans to individuals	2,063	824	527	412	3,826
	<u>3,058</u>	<u>840</u>	<u>1,437</u>	<u>1,885</u>	<u>7,220</u>
June 30, 2009					
Loans to corporate entities	173	66	351	204	794
Loans to individuals	2,006	686	424	425	3,541
	<u>2,179</u>	<u>752</u>	<u>775</u>	<u>629</u>	<u>4,335</u>

(iii) Impaired Loans

Group and Bank

	December 31,			June 30,
	2006	2007	2008	2009
Loans to corporate entities	5,331	6,204	7,255	6,849
Loans to individuals	562	569	666	952
	<u>5,893</u>	<u>6,773</u>	<u>7,921</u>	<u>7,801</u>
% of total loans and advances	1.25%	1.22%	1.20%	0.86%
Allowance for impairment losses				
- Loans to corporate entities	(3,472)	(3,737)	(4,273)	(4,557)
- Loans to individuals	(389)	(389)	(426)	(624)
	<u>(3,861)</u>	<u>(4,126)</u>	<u>(4,699)</u>	<u>(5,181)</u>
Fair value of collateral held against impaired loans to corporate entities	<u>1,320</u>	<u>1,239</u>	<u>2,166</u>	<u>1,881</u>

The fair value of collateral was estimated by management based on the latest available external valuations and adjusted by the current realization experience and market situation.

Impaired loans and advances by type of guarantee:

Unsecured loans	481	496	818	880
Guaranteed loans	3,492	3,171	2,320	2,381
Secured loan				
- Collateralized loans	1,533	2,788	4,066	4,230
- Pledged loans	387	318	717	310
Total	<u>5,893</u>	<u>6,773</u>	<u>7,921</u>	<u>7,801</u>

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APPENDIX I

ACCOUNTANT'S REPORT

(iv) Loans and advances rescheduled

Rescheduling is a voluntary or, to a limited extent, court-supervised procedure, through which the Group and a borrower and/or its guarantor, if any, reschedule credit terms generally as a result of deterioration in the borrower's financial condition or of the borrower's inability to make payments when due. The Group reschedules a non-performing loan only if the borrower has good prospects. In addition, prior to approving the rescheduling of loans, the Group typically requires additional guarantees, pledges and/or collateral, or the assumption of the loan by a borrower with better repayment ability. Rescheduled loans amounted to Rmb5.87 billion, Rmb4.77 billion, Rmb5.73 billion and Rmb5.14 billion as at December 31, 2006, 2007, 2008 and June 30, 2009 respectively.

Within impaired loans and advances, rescheduled loans and advances that were overdue for 90 days or less are as follows:

Group and Bank

	December 31,			June 30,
	2006	2007	2008	2009
Loans and advances to customers (overdue for 90 days or less)	452	317	273	226
% of total loans and advances	<u>0.10%</u>	<u>0.06%</u>	<u>0.04%</u>	<u>0.03%</u>

g Finance lease receivables

Group

	December 31,			June 30,
	2006	2007	2008	2009
Neither past due nor impaired	—	—	5,310	9,654
Past due but not impaired	—	—	—	357
Gross	—	—	5,310	10,011
Less: allowance for impairment loss	—	—	(57)	(121)
Net	<u>—</u>	<u>—</u>	<u>5,253</u>	<u>9,890</u>

As at December 31, 2008 and June 30, 2009, finance lease receivables neither past due nor impaired were all categorized as "Pass" according to "Loan Risk Classification Guiding Principles" of the CBRC.

As at June 30, 2009, finance lease receivables past due but not impaired were overdue for 30 to 60 days.

h Debt securities

Rmb denominated securities are disclosed by issuer's credit risk classification.

Group and Bank

	December 31, 2006				
	Trading assets	Available-for-sale	Held-to-maturity	Loans and receivables	Total
Rmb securities					
Government and quasi-government bonds	—	33,226	37,418	7,238	77,882
Financial institutions bonds	—	1,761	779	2,990	5,530
Corporate bonds	—	4,088	—	—	4,088
Total	<u>—</u>	<u>39,075</u>	<u>38,197</u>	<u>10,228</u>	<u>87,500</u>

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APPENDIX I

ACCOUNTANT'S REPORT

Group and Bank

	December 31, 2007				
	Trading assets	Available-for-sale	Held-to-maturity	Loans and receivables	Total
Rmb securities					
Government and quasi-government bonds	1,031	28,500	41,474	20,816	91,821
Financial institutions bonds	328	2,593	2,433	5,300	10,654
Financial institutions entrust products	—	—	—	21,333	21,333
Corporate bonds	1,213	8,594	—	—	9,807
Total	<u>2,572</u>	<u>39,687</u>	<u>43,907</u>	<u>47,449</u>	<u>133,615</u>

Group and Bank

	December 31, 2008				
	Trading assets	Available-for-sale	Held-to-maturity	Loans and receivables	Total
Rmb securities					
Government and quasi-government bonds	3,069	34,021	37,228	20,792	95,110
Financial institutions bonds	—	2,009	488	7,890	10,387
Financial institutions entrust products	—	—	—	8,384	8,384
Corporate bonds	1,336	7,948	—	—	9,284
Total	<u>4,405</u>	<u>43,978</u>	<u>37,716</u>	<u>37,066</u>	<u>123,165</u>

Group

	June 30, 2009				
	Trading assets	Available-for-sale	Held-to-maturity	Loans and receivables	Total
Rmb securities					
Government and quasi-government bonds	3,346	42,190	41,332	20,134	107,002
Financial institutions bonds	151	1,596	490	8,990	11,227
Financial institutions entrust products	—	—	—	9,392	9,392
Corporate bonds	3,764	15,383	4,132	—	23,279
Total	<u>7,261</u>	<u>59,169</u>	<u>45,954</u>	<u>38,516</u>	<u>150,900</u>

Bank

	June 30, 2009				
	Trading assets	Available-for-sale	Held-to-maturity	Loans and receivables	Total
Rmb securities					
Government and quasi-government bonds	3,346	42,190	41,332	20,134	107,002
Financial institutions bonds	151	1,596	490	8,990	11,227
Financial institutions entrust products	—	—	—	9,353	9,353
Corporate bonds	3,764	15,383	4,132	—	23,279
Total	<u>7,261</u>	<u>59,169</u>	<u>45,954</u>	<u>38,477</u>	<u>150,861</u>

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APPENDIX I

ACCOUNTANT'S REPORT

The following tables show the Standard & Poor's rating on foreign currency securities.

Group and Bank

	December 31, 2006		
	Available-for-sale	Held-to-maturity	Total
Foreign currency securities			
AAA	3,968	624	4,592
AA- to AA+	786	312	1,098
A- to A+	4,552	522	5,074
Lower than A-	—	156	156
Unrated	586	491	1,077
Total	<u>9,892</u>	<u>2,105</u>	<u>11,997</u>

	December 31, 2007		
	Available-for-sale	Held-to-maturity	Total
Foreign currency securities			
AAA	4,278	511	4,789
AA- to AA+	618	447	1,065
A- to A+	5,397	640	6,037
Lower than A-	138	146	284
Unrated	41	165	206
Total	<u>10,472</u>	<u>1,909</u>	<u>12,381</u>

	December 31, 2008		
	Available-for-sale	Held-to-maturity	Total
Foreign currency securities			
AAA	1,986	280	2,266
AA- to AA+	287	191	478
A- to A+	3,262	375	3,637
Lower than A-	323	—	323
Unrated	—	154	154
Total	<u>5,858</u>	<u>1,000</u>	<u>6,858</u>

	June 30, 2009		
	Available-for-sale	Held-to-maturity	Total
Foreign currency securities			
AAA	1,593	—	1,593
AA- to AA+	120	299	419
A- to A+	3,390	241	3,631
Lower than A-	307	—	307
Unrated	239	—	239
Total	<u>5,649</u>	<u>540</u>	<u>6,189</u>

The Group's available-for-sale and held-to-maturity debt securities are individually assessed for impairment. The Group's impaired debt securities amounted to nil, nil, Rmb740 million and Rmb1,334 million as at December 31, 2006, 2007, 2008 and June 30, 2009. Allowance for impairment loss amounted to nil, nil, Rmb653 million and Rmb729 million respectively.

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APPENDIX I

ACCOUNTANT'S REPORT

i Repossessed assets

Group and Bank

	December 31,			June 30,
	2006	2007	2008	2009
Buildings	211	189	945	934
Others	5	1	—	—
Total	<u>216</u>	<u>190</u>	<u>945</u>	<u>934</u>

Repossessed assets are sold as soon as practicable. Repossessed assets are classified as other assets in the consolidated balance sheet.

j Concentration of risks of financial assets with credit risk exposure

Credit risk increases when counter-parties are concentrated in the same industries or geographical regions. The Group conducts its credit business predominantly within mainland China, with major customers concentrated in a number of key industries. Different areas in China and different industries have their own unique characteristics in economic development, and therefore could present different credit risks to the Group.

(i) Geographical sectors

Financial assets other than investment securities

Group and Bank	Northern China	Eastern China	Southern China	Other locations	Total
December 31, 2006					
Balances with central banks	89,887	10,735	1,514	3,069	105,205
Due from banks and other financial institutions	3,820	2,274	2,288	652	9,034
Placements with banks and other financial institutions	19,082	3,382	4,324	5,360	32,148
Gross loans and advances to customers	159,511	150,157	81,462	80,958	472,088
Less: allowance for impairment losses	(4,070)	(1,101)	(678)	(568)	(6,417)
Financial assets, others	1,412	685	375	381	2,853
Total	<u>269,642</u>	<u>166,132</u>	<u>89,285</u>	<u>89,852</u>	<u>614,911</u>
Group and Bank	Northern China	Eastern China	Southern China	Other locations	Total
December 31, 2007					
Balances with central banks	93,228	7,097	2,077	4,590	106,992
Due from banks and other financial institutions	5,534	2,722	124	317	8,697
Placements with banks and other financial institutions	21,588	31,937	14,180	12,530	80,235
Gross loans and advances to customers	174,754	186,760	92,202	101,243	554,959
Less: allowance for impairment losses	(3,980)	(1,614)	(1,226)	(843)	(7,663)
Financial assets, others	2,959	1,359	698	814	5,830
Total	<u>294,083</u>	<u>228,261</u>	<u>108,055</u>	<u>118,651</u>	<u>749,050</u>
Group	Northern China	Eastern China	Southern China	Other locations	Total
December 31, 2008					
Balances with central banks	165,833	8,776	3,513	3,756	181,878
Due from banks and other financial institutions	9,162	2,563	2,295	728	14,748
Placements with banks and other financial institutions	27,540	12,248	8,736	3,884	52,408
Gross loans and advances to customers	191,011	236,412	95,388	135,549	658,360
Less: allowance for impairment losses	(5,051)	(3,251)	(1,796)	(1,787)	(11,885)
Finance lease receivables	5,253	—	—	—	5,253
Financial assets, others	6,415	498	99	454	7,466
Total	<u>400,163</u>	<u>257,246</u>	<u>108,235</u>	<u>142,584</u>	<u>908,228</u>

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APPENDIX I

ACCOUNTANT'S REPORT

	Northern China	Eastern China	Southern China	Other locations	Total
Bank					
December 31, 2008					
Balances with central banks	165,832	8,776	3,513	3,753	181,874
Due from banks and other financial institutions	8,989	2,563	2,295	885	14,732
Placements with banks and other financial institutions	27,540	12,248	8,736	3,884	52,408
Gross loans and advances to customers	191,011	236,380	95,388	135,549	658,328
Less: allowance for impairment losses	(5,051)	(3,251)	(1,796)	(1,787)	(11,885)
Financial assets, others	4,953	335	98	451	5,837
Total	<u>393,274</u>	<u>257,051</u>	<u>108,234</u>	<u>142,735</u>	<u>901,294</u>

	Northern China	Eastern China	Southern China	Other locations	Total
Group					
June 30, 2009					
Balances with central banks	121,248	6,371	2,553	4,469	134,641
Due from banks and other financial institutions	5,464	5,289	7,729	2,946	21,428
Placements with banks and other financial institutions	59,320	35,544	26,115	53,616	174,595
Gross loan and advances to customers	317,062	291,491	93,895	201,486	903,934
Less: allowance for impairment losses	(5,743)	(3,893)	(1,469)	(2,151)	(13,256)
Finance lease receivables	9,890	—	—	—	9,890
Financial assets, others	6,595	707	223	162	7,687
Total	<u>513,836</u>	<u>335,509</u>	<u>129,046</u>	<u>260,528</u>	<u>1,238,919</u>

	Northern China	Eastern China	Southern China	Other locations	Total
Bank					
June 30, 2009					
Balances with central banks	121,220	6,371	2,553	4,469	134,613
Due from banks and other financial institutions	4,930	5,289	7,729	2,945	20,893
Placements with banks and other financial institutions	59,320	35,544	26,115	53,616	174,595
Gross loans and advances to customers	317,062	291,254	93,895	201,420	903,631
Less: allowance for impairment losses	(5,742)	(3,893)	(1,469)	(2,149)	(13,253)
Financial assets, others	5,367	93	223	162	5,845
Total	<u>502,157</u>	<u>334,658</u>	<u>129,046</u>	<u>260,463</u>	<u>1,226,324</u>

Financial Assets — debt securities

	Mainland China	North America	Europe	Other	Total
Group and Bank					
December 31, 2006					
Available-for-sale debt securities	42,848	4,971	838	310	48,967
Held-to-maturity securities	38,413	566	1,000	323	40,302
Loans and receivables	10,228	—	—	—	10,228
Total	<u>91,489</u>	<u>5,537</u>	<u>1,838</u>	<u>633</u>	<u>99,497</u>
Group and Bank					
December 31, 2007					
Trading financial assets	2,572	—	—	—	2,572
Available-for-sale debt securities	44,635	4,901	387	236	50,159
Held-to-maturity securities	44,167	329	932	388	45,816
Loans and receivables	47,449	—	—	—	47,449
Total	<u>138,823</u>	<u>5,230</u>	<u>1,319</u>	<u>624</u>	<u>145,996</u>

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APPENDIX I

ACCOUNTANT'S REPORT

	Mainland China	North America	Europe	Other	Total
Group and Bank					
December 31, 2008					
Trading financial assets	4,405	—	—	—	4,405
Available-for-sale debt securities	47,083	2,476	237	40	49,836
Held-to-maturity securities	37,889	7	312	508	38,716
Loans and receivables	37,066	—	—	—	37,066
Total	<u>126,443</u>	<u>2,483</u>	<u>549</u>	<u>548</u>	<u>130,023</u>
Group					
June 30, 2009					
Trading financial assets	7,261	—	—	—	7,261
Available-for-sale debt securities	62,713	1,876	195	34	64,818
Held-to-maturity securities	46,126	—	154	214	46,494
Loans and receivables	38,516	—	—	—	38,516
Total	<u>154,616</u>	<u>1,878</u>	<u>349</u>	<u>248</u>	<u>157,089</u>
Bank					
June 30, 2009					
Trading financial assets	7,261	—	—	—	7,261
Available-for-sale debt securities	62,713	1,876	195	34	64,818
Held-to-maturity securities	46,126	—	154	214	46,494
Loans and receivables	38,477	—	—	—	38,477
Total	<u>154,577</u>	<u>1,878</u>	<u>349</u>	<u>248</u>	<u>157,050</u>

(ii) Industry sectors

	Government and quasi- government	Financial institution	Manufacturing	Real estate	Others	Individuals	Total
Group and Bank							
December 31, 2006							
Balances with central banks	105,205	—	—	—	—	—	105,205
Due from banks and other financial institutions	—	9,034	—	—	—	—	9,034
Placements with banks and other financial institutions	—	32,148	—	—	—	—	32,148
Loans to corporate entities	—	17,621	141,323	50,551	188,318	—	397,813
Loans to individuals	—	—	—	—	—	67,858	67,858
Investment securities — debt securities	71,812	23,597	1,356	—	2,732	—	99,497
Other financial assets	—	292	639	385	1,044	493	2,853
Total	<u>177,017</u>	<u>82,692</u>	<u>143,318</u>	<u>50,936</u>	<u>192,094</u>	<u>68,351</u>	<u>714,408</u>

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APPENDIX I

ACCOUNTANT'S REPORT

Group and Bank	Government and quasi- government	Financial institution	Manufacturing	Real estate	Others	Individuals	Total
December 31, 2007							
Balances with central banks	106,992	—	—	—	—	—	106,992
Due from banks and other financial institutions	—	8,697	—	—	—	—	8,697
Placements with banks and other financial institutions	—	80,235	—	—	—	—	80,235
Loans to corporate entities	—	12,121	166,553	70,200	199,881	—	448,755
Loans to individuals	—	—	—	—	—	98,541	98,541
Investment securities — debt securities	76,406	58,424	3,105	—	5,489	—	143,424
Other financial assets	629	2,099	1,794	719	2,363	798	8,402
Total	<u>184,027</u>	<u>161,576</u>	<u>171,452</u>	<u>70,919</u>	<u>207,733</u>	<u>99,339</u>	<u>895,046</u>

Group	Government and quasi- government	Financial institution	Manufacturing	Real estate	Others	Individuals	Total
December 31, 2008							
Balances with central banks	181,878	—	—	—	—	—	181,878
Due from banks and other financial institutions	—	14,748	—	—	—	—	14,748
Placements with banks and other financial institutions	—	52,408	—	—	—	—	52,408
Loans to corporate entities	—	21,719	175,581	88,837	253,049	—	539,186
Loans to individuals	—	—	—	—	—	107,289	107,289
Investment securities — debt securities	96,771	20,809	3,167	—	4,871	—	125,618
Finance lease receivables	—	—	2,336	—	2,917	—	5,253
Other financial assets	3,069	595	2,112	583	5,217	295	11,871
Total	<u>281,718</u>	<u>110,279</u>	<u>183,196</u>	<u>89,420</u>	<u>266,054</u>	<u>107,584</u>	<u>1,038,251</u>

Bank	Government and quasi- government	Financial institution	Manufacturing	Real estate	Others	Individuals	Total
December 31, 2008							
Balances with central banks	181,874	—	—	—	—	—	181,874
Due from banks and other financial institutions	—	14,732	—	—	—	—	14,732
Placements with banks and other financial institutions	—	52,408	—	—	—	—	52,408
Loans to corporate entities	—	21,711	175,577	88,829	253,046	—	539,163
Loans to individuals	—	—	—	—	—	107,280	107,280
Investment securities — debt securities	96,771	20,809	3,167	—	4,871	—	125,618
Other financial assets	3,069	595	775	583	4,925	295	10,242
Total	<u>281,714</u>	<u>110,255</u>	<u>179,519</u>	<u>89,412</u>	<u>262,842</u>	<u>107,575</u>	<u>1,031,317</u>

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APPENDIX I

ACCOUNTANT'S REPORT

Group	Government and quasi- government	Financial institution	Manufacturing	Real estate	Others	Individuals	Total
June 30, 2009							
Balances with central banks . . .	134,641	—	—	—	—	—	134,641
Due from banks and other financial institutions	—	21,428	—	—	—	—	21,428
Placements with banks and other financial institutions . . .	300	174,295	—	—	—	—	174,595
Loans to corporate entities	—	52,279	147,947	92,978	474,334	—	767,538
Loans to individuals	—	—	—	—	—	123,140	123,140
Investment securities — debt securities	108,339	21,609	6,558	1,444	11,878	—	149,828
Finance lease receivables	—	—	4,571	—	5,319	—	9,890
Other financial assets	3,347	2,235	939	315	8,112	—	14,948
Total	<u>246,627</u>	<u>271,846</u>	<u>160,015</u>	<u>94,737</u>	<u>499,643</u>	<u>123,140</u>	<u>1,396,008</u>

Bank	Government and quasi- government	Financial institution	Manufacturing	Real estate	Others	Individuals	Total
June 30, 2009							
Balances with central banks . . .	134,613	—	—	—	—	—	134,613
Due from banks and other financial institutions	—	20,893	—	—	—	—	20,893
Placements with banks and other financial institutions . . .	300	174,295	—	—	—	—	174,595
Loans to corporate entities	—	52,280	147,669	92,978	474,337	—	767,264
Loans to individuals	—	—	—	—	—	123,114	123,114
Investment securities — debt securities	108,339	21,570	6,558	1,444	11,878	—	149,789
Other financial assets	3,347	405	939	315	8,100	—	13,106
Total	<u>246,599</u>	<u>269,443</u>	<u>155,166</u>	<u>94,737</u>	<u>494,315</u>	<u>123,114</u>	<u>1,383,374</u>

(3) Market risk

The Group is exposed to market risk, which is the risk of loss to the Group's on- and off-balance sheet businesses caused by changes in prices (interest rate, exchange rate and stock price). Market risks include open positions in interest rate, exchange rate (including gold bullion) and equities, all of which are exposed to adverse movements in interest rates, exchange rates and stock prices.

The market risk faced by the Group mainly arises from the business activities of the Bank. In the Relevant Periods, the subsidiaries were exposed to an insignificant level of market risks. The Bank and its subsidiaries independently managed their own market risks.

The Bank divides its market risk exposures into either trading or non-trading portfolios. Trading portfolios include those positions arising from market-making transactions where the Bank acts as principal with clients or with the market. Non-trading portfolios consist of held-to-maturity and available-for-sale securities held by the Bank and market risk exposures from its loan and advance accounts.

Currently, the Asset and Liability Management Department takes responsibility in monitoring and controlling the market risk of non-trading accounts across the Bank. The Treasury and Capital Markets Department is responsible for the trading accounts and non-trading accounts of their department. Also, the Bank has established the practice of regular reporting to the senior management on market risks, including the monitoring and analysis of market risk changes and limits on net and gross positions by the two departments.

The Financial and Planning Department of Minsheng Financial Leasing Co, Ltd ("**Minsheng Leasing**") is responsible for the monitoring and control of market risks on the funds positions of Minsheng Leasing, while the Capital Market Department is responsible for the market risk management in the business operations of the department.

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APPENDIX I

ACCOUNTANT'S REPORT

a Market risk measuring techniques

As part of market risk management, the Group adopts various strategies to mitigate risks. The Bank also enters into interest rate swaps to match the interest rate risks associated with fixed-rate long-term debt securities to which the fair value option has been applied.

The tools and techniques for measuring and controlling market risk are as following:

The primary techniques applied for measuring and controlling market risks are mainly net position exposure analysis, stop loss, sensitivity analysis of interest rate and exchange rate, stress testing and scenario analysis. In response to the market conditions and leveraging available technologies, the Group is now able to use value at risk to measure market risks on certain financial instruments.

The Bank applies sensitivity analysis to estimate the interest rate and exchange rate risks arising from trading accounts and non-trading accounts, which means periodically calculating the gap between interest-earning assets and interest-bearing liabilities that would reach maturity or be subject to repricing during a certain period. Then, the Bank utilizes the gap data to carry out sensitivity analysis against movements of market interest rates and foreign exchange rates, in order to provide guidance on the adjustment of the repricing and maturity structure of interest-earning assets and interest-bearing liabilities. The Bank has set up a reporting system for sensitivity analysis, presenting the summary report on sensitivity analysis on a regular basis for review by top management, for example, the Risk Management Committee.

b Currency risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The subsidiaries did not engage in foreign exchange operations in the Relevant Periods, and the Group's exchange risks concentrated in the Bank.

The Group's principal strategy in controlling currency risk is to substantially match its assets and liabilities in each currency and to maintain currency risk within established limits. The Bank has set exposure limits according to the guidelines established by the Risk Management Committee, the relevant regulatory requirements, and management's assessment of the current market condition. The Bank also manages its foreign capital sources and usage of foreign currencies to minimize potential currency mismatches. The Treasury and Capital Markets Department sets exposure and stop loss limits for foreign exchange risks within the scope of its departmental operations, and applies authority limits in managing foreign exchange risks.

The following table presents the Group and the Bank's foreign exchange risk exposures at the balance sheet dates. The carrying value of financial instruments denominated in foreign currencies have been converted into Rmb.

Group and Bank

	RMB	USD	HKD	Others	Total
December 31, 2006					
Cash and due from banks and other financial institutions	7,575	2,510	729	750	11,564
Balances with central banks	103,926	1,173	106	—	105,205
Placements with banks and other financial institution	29,716	2,107	140	185	32,148
Loans and advances to customers	453,931	10,357	625	758	465,671
Investment securities	88,694	11,790	208	—	100,692
Other financial assets	2,582	253	12	6	2,853
Total financial assets	686,424	28,190	1,820	1,699	718,133
Deposits from customers	560,395	19,467	2,174	1,279	583,315
Due to and placements from banks and other financial institutions	86,296	5,112	311	102	91,821
Debt securities in issue	21,691	—	—	—	21,691
Other financial liabilities	5,978	568	34	376	6,956
Total financial liabilities	674,360	25,147	2,519	1,757	703,783
Net on-balance sheet financial position	12,064	3,043	(699)	(58)	14,350
Foreign currency derivatives	(20)	(1,427)	1,465	(18)	—
Credit commitments	101,474	15,485	9	2,236	119,204

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APPENDIX I

ACCOUNTANT'S REPORT

Group and Bank

	<u>RMB</u>	<u>USD</u>	<u>HKD</u>	<u>Others</u>	<u>Total</u>
December 31, 2007					
Cash and due from banks and other financial institutions	7,323	3,197	379	1,087	11,986
Balances with central banks	105,676	1,213	103	—	106,992
Placements with banks and other financial institution	79,465	657	94	19	80,235
Loans and advances to customers	533,626	12,684	255	731	547,296
Investment securities	141,599	12,239	27	115	153,980
Other financial assets	7,998	394	4	6	8,402
Total financial assets	<u>875,687</u>	<u>30,384</u>	<u>862</u>	<u>1,958</u>	<u>908,891</u>
Deposits from customers	648,775	18,735	1,925	1,784	671,219
Due to and placements from banks and other financial institutions	144,898	4,706	180	469	150,253
Debt securities in issue	33,920	—	—	—	33,920
Other financial liabilities	7,544	357	337	101	8,339
Total financial liabilities	<u>835,137</u>	<u>23,798</u>	<u>2,442</u>	<u>2,354</u>	<u>863,731</u>
Net on-balance sheet financial position	<u>40,550</u>	<u>6,586</u>	<u>(1,580)</u>	<u>(396)</u>	<u>45,160</u>
Foreign currency derivatives	12	(2,055)	1,667	402	26
Credit commitments	<u>153,967</u>	<u>19,169</u>	<u>17</u>	<u>3,550</u>	<u>176,703</u>

Group

	<u>RMB</u>	<u>USD</u>	<u>HKD</u>	<u>Others</u>	<u>Total</u>
December 31, 2008					
Cash and due from banks and other financial institutions	12,050	3,503	488	1,607	17,648
Balances with central banks	180,809	1,003	66	—	181,878
Placements with banks and other financial institution	52,324	—	84	—	52,408
Loans and advances to customers	640,033	5,893	6	543	646,475
Investment securities	122,522	6,754	—	103	129,379
Finance lease receivable	5,253	—	—	—	5,253
Other financial assets	11,486	258	1	236	11,981
Total financial assets	<u>1,024,477</u>	<u>17,411</u>	<u>645</u>	<u>2,489</u>	<u>1,045,022</u>
Deposits from customers	768,957	14,204	1,152	1,473	785,786
Due to and placements from banks and other financial institutions	157,664	2,232	59	293	160,248
Borrowings from other financial institutions	2,600	—	—	—	2,600
Debt securities in issue	33,999	—	—	—	33,999
Other financial liabilities	11,886	600	6	334	12,826
Total financial liabilities	<u>975,106</u>	<u>17,036</u>	<u>1,217</u>	<u>2,100</u>	<u>995,459</u>
Net on-balance sheet financial position	<u>49,371</u>	<u>375</u>	<u>(572)</u>	<u>389</u>	<u>49,563</u>
Foreign currency derivatives	18	(197)	922	(779)	(36)
Credit commitments	<u>207,101</u>	<u>25,815</u>	<u>207</u>	<u>3,776</u>	<u>236,899</u>

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APPENDIX I

ACCOUNTANT'S REPORT

Bank

	RMB	USD	HKD	Others	Total
December 31, 2008					
Cash and due from banks and other financial institutions	12,032	3,503	488	1,607	17,630
Balances with central banks	180,805	1,003	66	—	181,874
Placements with banks and other financial institution	52,324	—	84	—	52,408
Loans and advances to customers.	640,001	5,893	6	543	646,443
Investment securities	122,522	6,754	—	103	129,379
Other financial assets	12,632	258	1	236	13,127
Total financial assets.	<u>1,020,316</u>	<u>17,411</u>	<u>645</u>	<u>2,489</u>	<u>1,040,861</u>
Deposits from customers.	768,985	14,204	1,152	1,473	785,814
Due to and placements from banks and other financial institutions	157,369	2,232	59	293	159,953
Debt securities in issue	33,999	—	—	—	33,999
Other financial liabilities.	11,402	600	6	334	12,342
Total financial liabilities	<u>971,755</u>	<u>17,036</u>	<u>1,217</u>	<u>2,100</u>	<u>992,108</u>
Net on-balance sheet financial position	<u>48,561</u>	<u>375</u>	<u>(572)</u>	<u>389</u>	<u>48,753</u>
Foreign currency derivatives	18	(197)	922	(779)	(36)
Credit commitments	<u>206,626</u>	<u>25,815</u>	<u>207</u>	<u>3,776</u>	<u>236,424</u>

Group

	RMB	USD	HKD	Others	Total
June 30, 2009					
Cash and due from banks and other financial institutions	17,855	4,570	125	1,530	24,080
Balances with central banks	133,471	1,097	73	—	134,641
Placements with banks and other financial institution	173,431	410	106	648	174,595
Loans and advances to customers.	884,553	5,470	3	652	890,678
Investment securities	143,863	6,080	109	—	150,052
Finance lease receivable	9,890	—	—	—	9,890
Other financial assets	14,806	237	2	271	15,316
Total financial assets.	<u>1,377,869</u>	<u>17,864</u>	<u>418</u>	<u>3,101</u>	<u>1,399,252</u>
Deposits from customers.	1,056,954	15,322	1,159	1,874	1,075,309
Due to and placements from banks and other financial institutions	219,393	1,180	37	480	221,090
Borrowings from other financial institutions	28,877	—	—	—	28,877
Debt securities in issue	8,400	—	—	—	8,400
Other financial liabilities.	11,066	406	14	302	11,788
Total financial liabilities	<u>1,324,690</u>	<u>16,908</u>	<u>1,210</u>	<u>2,656</u>	<u>1,345,464</u>
Net on-balance sheet financial position	<u>53,179</u>	<u>956</u>	<u>(792)</u>	<u>445</u>	<u>53,788</u>
Foreign currency derivatives	6	(1,314)	1,137	310	141
Credit commitments	<u>369,875</u>	<u>28,021</u>	<u>205</u>	<u>4,052</u>	<u>402,153</u>

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APPENDIX I

ACCOUNTANT'S REPORT

Bank	RMB	USD	HKD	Others	Total
June 30, 2009					
Cash and due from banks and other financial institutions	17,377	4,510	125	1,530	23,542
Balances with central banks	133,443	1,097	73	—	134,613
Placements with banks and other financial institution	173,431	410	106	648	174,595
Loans and advances to customers.	884,253	5,470	3	652	890,378
Investment securities	143,824	6,080	109	—	150,013
Other financial assets	15,739	237	2	271	16,249
Total financial assets.	1,368,067	17,804	418	3,101	1,389,390
Deposits from customers.	1,056,660	15,322	1,159	1,874	1,075,015
Due to and placements from banks and other financial institutions	220,268	1,180	37	480	221,965
Debt securities in issue	28,877	—	—	—	28,877
Other financial liabilities.	9,919	406	14	302	10,641
Total financial liabilities	1,315,724	16,908	1,210	2,656	1,336,498
Net on-balance sheet financial position	52,343	896	(792)	445	52,892
Foreign currency derivatives	6	(1,314)	1,137	310	141
Credit commitments	368,963	28,021	205	4,052	401,241

The foreign currency risk of the Group mainly arises from USD and HKD, which are closely related. Given a 1% change of exchange rate between a foreign currency and Renminbi, the potential impact on the pre-tax profits and equity as a result of the translation gain or loss on the foreign exchange exposures is presented as follows:

Group and Bank

	December 31,			June 30,
	2006 Gain/(loss) RMB	2007 Gain/(loss) RMB	2008 Gain/(loss) RMB	2009 Gain/(loss) RMB
1% upward change of foreign exchange rate	23	46	2	6
1% downward change of foreign exchange rate	(23)	(46)	(2)	(6)

In performing the exchange rate sensitivity analysis, the Group and Bank make the following general assumptions in defining business terms and financial parameters, and have not considered the following:

- changes after the balance sheet date, as the analysis is performed based on the static gap at the time point of the balance sheet date;
- the impact of exchange rate fluctuations on the customers' behaviors;
- the complicated relationship between complex structured products (e.g. embedded early redemption options and other derivative financial instruments) and exchange rate fluctuations; and
- the impact of exchange rate fluctuations on market prices.
- the impact of exchange rate fluctuations on off-balance sheet products.

c Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank is exposed to both fair value and cash flow interest rate risks arising from changes in the principal market interest rates.

Interest margins may increase as a result of such changes, but may reduce or suffer losses in the event that unexpected movements arise. The Group operates its business predominantly in mainland China under the interest rate scheme regulated by the PBOC. As PBOC has historically adjusted its benchmark interest rates for loans and deposits in the same direction (though not necessarily by the same increment), the Group has primarily managed its exposure to interest rate risk through the management of the maturity profile of its loans and deposits.

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APPENDIX I

ACCOUNTANT'S REPORT

According to the requirement of PBOC, interest rates on loan denominated in Rmb could float based on the PBOC benchmark interest rates. Interest rates on discounted bills denominated in Rmb are determined in accordance with market prices. However, such interest rates cannot be set below the PBOC interest rates for re-discounted bills. Interest rates on deposit denominated in Rmb cannot be higher than the PBOC benchmark interest rates.

The Group closely watches the trend of interest rate changes, follows the changes of market interest rates, performs scenario analysis, and adjusts the interest rates of deposits and loans in both Rmb and foreign currencies to manage interest rate risks.

The table below summarizes the Group and Bank's exposure to interest rate risks. It includes the financial instruments at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

Group and Bank

	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
December 31, 2006						
Financial assets:						
Cash and due from banks and other						
financial institutions	6,667	2,367	—	—	2,530	11,564
Balances with central banks	105,205	—	—	—	—	105,205
Placements with banks and other						
financial institution	17,753	13,741	654	—	—	32,148
Loans and advances to customers	395,223	56,498	6,742	7,208	—	465,671
Investment securities	8,519	33,503	29,013	28,462	1,195	100,692
Other financial assets	2,105	—	—	—	748	2,853
Total financial assets	<u>535,472</u>	<u>106,109</u>	<u>36,409</u>	<u>35,670</u>	<u>4,473</u>	<u>718,133</u>
Financial liabilities:						
Deposits from customers	469,954	99,966	13,281	114	—	583,315
Due to and placements from banks						
and other financial institutions	77,790	14,008	23	—	—	91,821
Debt securities in issue	—	2,480	15,694	3,290	227	21,691
Other financial liabilities	2,851	—	—	430	3,675	6,956
Total financial liabilities	<u>550,595</u>	<u>116,454</u>	<u>28,998</u>	<u>3,834</u>	<u>3,902</u>	<u>703,783</u>
Total interest repricing gap	<u>(15,123)</u>	<u>(10,345)</u>	<u>7,411</u>	<u>31,836</u>	<u>571</u>	<u>14,350</u>

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APPENDIX I

ACCOUNTANT'S REPORT

Group and Bank

	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
December 31, 2007						
Financial assets:						
Cash and due from banks and other financial institutions	7,521	1,176	—	—	3,289	11,986
Balances with central banks	106,992	—	—	—	—	106,992
Placements with banks and other financial institution	61,037	18,750	448	—	—	80,235
Loans and advances to customers	511,267	27,267	5,277	3,485	—	547,296
Investment securities	18,742	35,744	57,447	31,491	10,556	153,980
Other financial assets	5,274	769	260	20	2,079	8,402
Total financial assets	<u>710,833</u>	<u>83,706</u>	<u>63,432</u>	<u>34,996</u>	<u>15,924</u>	<u>908,891</u>
Financial liabilities:						
Deposits from customers	558,867	105,871	6,347	134	—	671,219
Due to and placements from banks and other financial institutions	142,090	8,119	—	44	—	150,253
Debt securities in issue	—	14,708	10,168	9,044	—	33,920
Other financial liabilities	4,900	—	—	436	3,003	8,339
Total financial liabilities	<u>705,857</u>	<u>128,698</u>	<u>16,515</u>	<u>9,658</u>	<u>3,003</u>	<u>863,731</u>
Total interest repricing gap	<u>4,976</u>	<u>(44,992)</u>	<u>46,917</u>	<u>25,338</u>	<u>12,921</u>	<u>45,160</u>

Group

	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
December 31, 2008						
Financial assets:						
Cash and due from banks and other financial institutions	12,406	2,342	—	—	2,900	17,648
Balances with central banks	181,878	—	—	—	—	181,878
Placements with banks and other financial institution	44,242	7,296	870	—	—	52,408
Loans and advances to customers	549,798	86,487	8,031	2,159	—	646,475
Investment securities	11,367	23,658	62,465	28,128	3,761	129,379
Finance lease receivables	5,253	—	—	—	—	5,253
Other financial assets	6,453	2,876	—	—	2,652	11,981
Total financial assets	<u>811,397</u>	<u>122,659</u>	<u>71,366</u>	<u>30,287</u>	<u>9,313</u>	<u>1,045,022</u>
Financial liabilities:						
Deposits from customers	533,734	165,613	85,674	765	—	785,786
Due to and placements from banks and other financial institutions	102,989	52,759	4,500	—	—	160,248
Borrowings from other financial institutions	500	2,100	—	—	—	2,600
Debt securities in issue	—	24,956	—	9,043	—	33,999
Other financial liabilities	7,044	13	84	294	5,391	12,826
Total financial liabilities	<u>644,267</u>	<u>245,441</u>	<u>90,258</u>	<u>10,102</u>	<u>5,391</u>	<u>995,459</u>
Total interest repricing gap	<u>167,130</u>	<u>(122,782)</u>	<u>(18,892)</u>	<u>20,185</u>	<u>3,922</u>	<u>49,563</u>

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APPENDIX I

ACCOUNTANT'S REPORT

Bank

	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
December 31, 2008						
Financial assets:						
Cash and due from banks and other						
financial institutions	12,390	2,342	—	—	2,898	17,630
Balances with central banks	181,874	—	—	—	—	181,874
Placements with banks and other						
financial institution	44,242	7,296	870	—	—	52,408
Loans and advances to customers	549,797	86,456	8,031	2,159	—	646,443
Investment securities	11,367	23,658	62,465	28,128	3,761	129,379
Other financial assets	4,928	2,876	—	—	5,323	13,127
Total financial assets	<u>804,598</u>	<u>122,628</u>	<u>71,366</u>	<u>30,287</u>	<u>11,982</u>	<u>1,040,861</u>
Financial liabilities:						
Deposits from customers	533,776	165,613	85,660	765	—	785,814
Due to and placements from banks and						
other financial institutions	102,694	52,759	4,500	—	—	159,953
Debt securities in issue	—	24,956	—	9,043	—	33,999
Other financial liabilities	6,953	13	84	294	4,998	12,342
Total financial liabilities	<u>643,423</u>	<u>243,341</u>	<u>90,244</u>	<u>10,102</u>	<u>4,998</u>	<u>992,108</u>
Total interest repricing gap	<u>161,175</u>	<u>(120,713)</u>	<u>(18,878)</u>	<u>20,185</u>	<u>6,984</u>	<u>48,753</u>

Group

	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
June 30, 2009						
Financial assets:						
Cash and due from banks and other						
financial institutions	20,244	1,184	—	—	2,652	24,080
Balances with central banks	134,641	—	—	—	—	134,641
Placements with banks and other						
financial institution	167,760	6,835	—	—	—	174,595
Loans and advances to customers	752,391	131,880	4,323	2,084	—	890,678
Investment securities	17,505	23,749	78,957	29,617	224	150,052
Finance lease receivables	9,890	—	—	—	—	9,890
Other financial assets	7,709	5,186	—	—	2,421	15,316
Total financial assets	<u>1,110,140</u>	<u>168,834</u>	<u>83,280</u>	<u>31,701</u>	<u>5,297</u>	<u>1,399,252</u>
Financial liabilities:						
Deposits from customers	779,144	209,376	86,409	380	—	1,075,309
Due to and placements from banks and						
other financial institutions	167,582	26,208	27,300	—	—	221,090
Borrowings from other financial						
institutions	250	7,450	700	—	—	8,400
Debt securities in issue	—	16,250	—	12,627	—	28,877
Other financial liabilities	6,866	24	82	—	4,816	11,788
Total financial liabilities	<u>953,842</u>	<u>254,308</u>	<u>114,491</u>	<u>13,007</u>	<u>4,816</u>	<u>1,345,464</u>
Total interest repricing gap	<u>156,298</u>	<u>(90,474)</u>	<u>(31,211)</u>	<u>18,694</u>	<u>481</u>	<u>53,788</u>

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APPENDIX I

ACCOUNTANT'S REPORT

Bank

June 30, 2009	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Financial assets:						
Cash and due from banks and other						
financial institutions	19,709	1,184	—	—	2,649	23,542
Balances with central banks	134,613	—	—	—	—	134,613
Placements with banks and other						
financial institution	167,760	6,835	—	—	—	174,595
Loans and advances to customers	752,091	131,880	4,323	2,084	—	890,378
Investment securities	17,505	23,749	78,918	29,617	224	150,013
Other financial assets	5,885	5,186	—	—	5,178	16,249
Total financial assets	<u>1,097,563</u>	<u>168,834</u>	<u>83,241</u>	<u>31,701</u>	<u>8,051</u>	<u>1,389,390</u>
Financial liabilities:						
Deposits from customers	778,992	209,235	86,408	380	—	1,075,015
Due to and placements from banks and other financial institutions	168,457	26,208	27,300	—	—	221,965
Debt securities in issue	—	16,250	—	12,627	—	28,877
Other financial liabilities	6,818	24	82	—	3,717	10,641
Total financial liabilities	<u>954,267</u>	<u>251,717</u>	<u>113,790</u>	<u>13,007</u>	<u>3,717</u>	<u>1,336,498</u>
Total interest repricing gap	<u>143,296</u>	<u>(82,883)</u>	<u>(30,549)</u>	<u>18,694</u>	<u>4,334</u>	<u>52,892</u>

If the interest rates move in parallel for 100 basis points ("bps") from January 1, 2007, 2008, 2009 and July 1, 2009, the potential impact on the net interest income and equity for the relevant next year are as follows:

	December 31,			June 30,
	2006 Gain/(loss) RMB	2007 Gain/(loss) RMB	2008 Gain/(loss) RMB	2009 Gain/(loss) RMB
100 bps upward changes of interest rate	(165)	(125)	996	1,022
100 bps downward changes of interest rate	165	125	(996)	(1,022)

In performing the interest rate sensitivity analysis, the Group and Bank make the following general assumptions in defining business terms and financial parameters, and have not considered the following:

- changes after the balance sheet date, as the analysis is performed based on the static gap at the time point of the balance sheet date;
- the impact of interest rate fluctuations on the customers' behaviors;
- the complicated relationship between complex structured products (e.g. embedded early redemption options and other derivative financial instruments) and interest rate fluctuations;
- the impact of interest rate fluctuations on market prices; and
- the impact of interest rate fluctuations on off-balance sheet products.

(4) Liquidity risk

Liquidity risk is the risk that the Group is unable to provide funds for maturing liabilities through asset realization at reasonable price on a timely basis.

In the Relevant Periods, the Bank and the subsidiaries managed their respective liquidity risks separately and independently, and the Bank managed the liquidity risk of all its branches.

The Bank has exposure to daily calls on its available cash resources from overnight deposits, demand deposits, maturing deposits, loan draw downs, guarantees and other calls on cash settled derivatives. The Bank does not maintain cash resources to meet all these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Bank sets limits on the minimum proportion of maturing funds available to

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APPENDIX I

ACCOUNTANT'S REPORT

meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

In addition, the Bank limits its Rmb loan to deposit ratio at below 75% as required by the PBOC. As at June 30, 2009, the Bank was required to maintain 13.5% of the total Rmb denominated deposits and 5% of the total foreign currency denominated balances with PBOC.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the full amounts under commitments, because the Bank does not generally expect the third party to draw funds under those agreements. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

a Liquidity risk management policy

The Bank and its subsidiaries separately and independently develop their liquidity risk management policies.

The Asset and Liability Management Commission of the Bank (the ALM Commission) is responsible for formulating liquidity risk management policies. The Assets and Liabilities Management Department under the ALM Commission is responsible for daily liquidity risk management through the following procedures:

- Manages the day-to-day position through monitoring the future cash flow to insure it meets the required fund position, including matured deposits and replenishment of funds for loan demand. The Bank actively participates in global money market transactions to insure the Bank's funds requirements are satisfied.
- Sets ratio requirements and transactions limits to help monitor and manage liquidity risks. The ratios include but are not limited to loan to deposit ratio, the deposit reserve ratio, liquidity ratio, and liquidity gap ratio, and guiding target ratios have been set for every branch.
- Monitors the liquidity ratio and liquidity gap ratio through the asset and liability management system, and performs liquidity scenario analysis and stress testing on overall assets and liabilities to satisfy internal and external requirements. Various techniques are used to estimate the Bank's liquidity requirements, and liquidity management decision is made based on the estimated liquidity requirements. A periodical reporting system is established to update the senior management of the latest information on liquidity risks in a timely manner.
- Monitors and enhance the maturity concentration risk of financial assets and hold an appropriate quantity of high-liquidity and high-market-value assets to insure the Bank is well positioned to fund its repayment obligations and business growth in the event of an interruption of cash flows due to whatever causes.

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APPENDIX I

ACCOUNTANT'S REPORT

b Maturity analysis

Group and Bank

	<u>On demand</u>	<u>Up to 1 month</u>	<u>1 to 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>	<u>Overdue</u>	<u>Total</u>
December 31, 2006								
Financial Liabilities:								
Deposits from customers	245,570	81,107	56,813	122,234	75,015	2,576	—	583,315
Due to and placements from banks and other financial institutions . . .	42,753	12,160	22,151	13,859	516	382	—	91,821
Debt securities in issue	—	—	—	228	17,176	4,287	—	21,691
Other financial liabilities	1,059	30	2,413	2,931	373	150	—	6,956
Total financial liabilities	<u>289,382</u>	<u>93,297</u>	<u>81,377</u>	<u>139,252</u>	<u>93,080</u>	<u>7,395</u>	<u>—</u>	<u>703,783</u>
Financial Assets:								
Cash and due from banks and other financial institutions	8,436	117	164	2,847	—	—	—	11,564
Balances with central banks	59,884	45,321	—	—	—	—	—	105,205
Placements with banks and other financial institution	—	13,474	3,900	14,030	744	—	—	32,148
Loans and advances to customers . . .	—	19,452	60,974	202,858	78,833	96,530	7,024	465,671
Investment securities								
- available-for-sale	—	1,528	1,404	7,824	13,212	26,194	—	50,162
- held-to-maturity	—	334	795	9,484	19,238	10,451	—	40,302
- loans and receivables	—	—	67	6,277	2,474	1,410	—	10,228
Other financial assets	18	492	874	1,019	378	58	14	2,853
Total financial assets	<u>68,338</u>	<u>80,718</u>	<u>68,178</u>	<u>244,339</u>	<u>114,879</u>	<u>134,643</u>	<u>7,038</u>	<u>718,133</u>

Group and Bank

	<u>On demand</u>	<u>Up to 1 month</u>	<u>1 to 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>	<u>Overdue</u>	<u>Total</u>
December 31, 2007								
Financial Liabilities:								
Deposits from customers	295,813	85,370	66,452	124,108	92,080	7,396	—	671,219
Due to and placements from banks and other financial institutions . . .	66,566	45,984	29,133	8,234	37	299	—	150,253
Debt securities in issue	—	—	—	10,168	23,752	—	—	33,920
Other financial liabilities	—	13	5,035	2,604	26	661	—	8,339
Total financial liabilities	<u>362,379</u>	<u>131,367</u>	<u>100,620</u>	<u>145,114</u>	<u>115,895</u>	<u>8,356</u>	<u>—</u>	<u>863,731</u>
Financial Assets:								
Cash and due from banks and other financial institutions	10,707	149	735	395	—	—	—	11,986
Balances with central banks	106,992	—	—	—	—	—	—	106,992
Placements with banks and other financial institution	—	28,741	30,942	19,104	948	—	500	80,235
Loans and advances to customers . . .	—	56,899	57,375	109,681	253,667	62,580	7,094	547,296
Investment securities								
- available-for-sale	—	1,031	2,648	8,880	26,193	21,963	—	60,715
- held-to-maturity	—	321	110	7,650	21,785	15,950	—	45,816
- loans and receivables	—	—	696	13,583	29,450	3,720	—	47,449
Other financial assets	417	443	4,118	1,203	27	2,194	—	8,402
Total financial assets	<u>118,116</u>	<u>87,584</u>	<u>96,624</u>	<u>160,496</u>	<u>332,070</u>	<u>106,407</u>	<u>7,594</u>	<u>908,891</u>

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APPENDIX I

ACCOUNTANT'S REPORT

Group

	On demand	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Overdue	Total
December 31, 2008								
Financial Liabilities:								
Deposits from customers	404,990	44,301	84,457	165,613	85,660	765	—	785,786
Due to and placements from banks and other financial institutions	44,563	17,247	41,179	52,759	4500	—	—	160,248
Borrowings from other financial institutions	—	500	2,100	—	—	—	—	2,600
Debt securities in issue	—	—	10,173	12,286	11,540	—	—	33,999
Other financial liabilities	—	373	7,189	3,463	1,036	765	—	12,826
Total financial liabilities	<u>449,553</u>	<u>62,421</u>	<u>145,098</u>	<u>234,121</u>	<u>102,736</u>	<u>1,530</u>	<u>—</u>	<u>995,459</u>
Financial Assets:								
Cash and due from banks and other financial institutions	11,797	1,484	2,025	2,342	—	—	—	17,648
Balances with central banks	181,878	—	—	—	—	—	—	181,878
Placements with banks and other financial institution	—	29,293	14,949	7,296	870	—	—	52,408
Loans and advances to customers	—	37,712	77,581	272,225	139,131	110,108	9,718	646,475
Investment securities								
- available-for-sale	—	719	1,833	11,717	21,126	18,202	—	53,597
- held-to-maturity	50	—	—	4,350	27,574	6,742	—	38,716
- loans and receivables	6	—	615	5,621	24,564	6,260	—	37,066
Finance lease receivables	—	85	250	991	3,927	—	—	5,253
Other financial assets	110	879	4,161	1,227	4,856	732	16	11,981
Total financial assets	<u>193,841</u>	<u>70,172</u>	<u>101,414</u>	<u>305,769</u>	<u>222,048</u>	<u>142,044</u>	<u>9,734</u>	<u>1,045,022</u>

Bank

	On demand	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Overdue	Total
December 31, 2008								
Financial Liabilities:								
Deposits from customers	405,018	44,301	84,457	165,613	85,660	765	—	785,814
Due to and placements from banks and other financial institutions	44,835	16,680	41,179	52,759	4500	—	—	159,953
Debt securities in issue	—	—	10,173	12,286	11,540	—	—	33,999
Other financial liabilities	—	323	7,138	3,431	685	765	—	12,342
Total financial liabilities	<u>449,853</u>	<u>61,304</u>	<u>142,947</u>	<u>234,089</u>	<u>102,385</u>	<u>1,530</u>	<u>—</u>	<u>992,108</u>
Financial Assets:								
Cash and due from banks and other financial institutions	11,795	1,468	2,025	2,342	—	—	—	17,630
Balances with central banks	181,874	—	—	—	—	—	—	181,874
Placements with banks and other financial institution	—	29,293	14,949	7,296	870	—	—	52,408
Loans and advances to customers	—	37,705	77,581	272,208	139,131	110,100	9,718	646,443
Investment securities								
- available-for-sale	—	719	1,833	11,717	21,126	18,202	—	53,597
- held-for-maturity	50	—	—	4,350	27,574	6,742	—	38,716
- loans and receivables	6	—	615	5,621	24,564	6,260	—	37,066
Other financial assets	110	879	4,158	1,227	3,230	3,507	16	13,127
Total financial assets	<u>193,835</u>	<u>70,064</u>	<u>101,161</u>	<u>304,761</u>	<u>216,495</u>	<u>144,811</u>	<u>9,734</u>	<u>1,040,861</u>

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APPENDIX I

ACCOUNTANT'S REPORT

Group

	On demand	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Overdue	Total
June 30, 2009								
Financial Liabilities:								
Deposits from customers	539,220	66,313	173,610	209,377	86,409	380	—	1,075,309
Due to and placements from banks and other financial institutions	33,935	93,891	39,536	26,208	27,520	—	—	221,090
Borrowings from other financial institutions	—	213	237	6,842	1,108	—	—	8,400
Debt securities in issue	—	—	—	5,999	5,996	16,882	—	28,877
Other financial liabilities	—	9,083	164	1,646	351	544	—	11,788
Total financial liabilities	<u>573,155</u>	<u>169,500</u>	<u>213,547</u>	<u>250,072</u>	<u>121,384</u>	<u>17,806</u>	<u>—</u>	<u>1,345,464</u>
Financial Assets:								
Cash and due from banks and other financial institutions	12,739	7,174	2,983	1,184	—	—	—	24,080
Balances with central banks	134,641	—	—	—	—	—	—	134,641
Placements with banks and other financial institution	—	149,802	17,958	6,835	—	—	—	174,595
Loans and advances to customers	—	45,326	119,302	339,427	242,532	138,078	6,013	890,678
Investment securities								
- available-for-sale	—	1,187	2,560	8,702	35,615	16,978	—	65,042
- held-to-maturity	—	1,160	1,380	6,466	29,790	7,698	—	46,494
- loans and receivables	—	237	3,544	4,341	23,184	7,210	—	38,516
Finance lease receivables	—	256	372	1,877	6,229	835	321	9,890
Other financial assets	243	5,304	799	2,237	5,405	1,309	19	15,316
Total financial assets	<u>147,623</u>	<u>210,446</u>	<u>148,898</u>	<u>371,069</u>	<u>342,755</u>	<u>172,108</u>	<u>6,353</u>	<u>1,399,252</u>

Bank

	On demand	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Overdue	Total
June 30, 2009								
Financial Liabilities:								
Deposits from customers	539,220	66,167	173,605	209,235	86,408	380	—	1,075,015
Due to and placements from banks and other financial institutions	35,030	93,891	39,536	26,208	27,300	—	—	221,965
Debt securities in issue	—	—	—	5,999	5,996	16,882	—	28,877
Other financial liabilities	—	8,602	164	980	351	544	—	10,641
Total financial liabilities	<u>574,250</u>	<u>168,660</u>	<u>213,305</u>	<u>242,422</u>	<u>120,055</u>	<u>17,806</u>	<u>—</u>	<u>1,336,498</u>
Financial Assets:								
Cash and due from banks and other financial institutions	12,204	7,171	2,983	1,184	—	—	—	23,542
Balances with central banks	134,613	—	—	—	—	—	—	134,613
Placements with banks and other financial institution	—	149,802	17,958	6,835	—	—	—	174,595
Loans and advances to customers	—	45,044	119,302	339,409	242,532	138,078	6,013	890,378
Investment securities								
- available-for-sale	—	1,187	2,560	8,702	35,615	16,978	—	65,042
- held-for-maturity	—	1,160	1,380	6,466	29,790	7,698	—	46,494
- loans and receivables	—	237	3,544	4,341	23,145	7,210	—	38,477
Other financial assets	243	5,017	710	2,096	4,080	4,084	19	16,249
Total financial assets	<u>147,060</u>	<u>209,618</u>	<u>148,437</u>	<u>369,033</u>	<u>335,162</u>	<u>174,048</u>	<u>6,032</u>	<u>1,389,390</u>

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APPENDIX I

ACCOUNTANT'S REPORT

c Non-derivative cash flows

The table below presents the cash flows payable by the Group under non-derivative financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on its estimation of expected future cash inflows.

Group and Bank

	<u>Up to 1 month</u>	<u>1 to 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
December 31, 2006						
Financial Liabilities:						
Deposits from customers	398,381	58,976	48,729	77,098	13,809	596,993
Due to and placements from banks and other financial institutions	53,817	23,344	13,988	506	384	92,039
Debt securities in issue	—	—	1,294	26,186	15,828	43,308
Other financial liabilities	<u>1,384</u>	<u>1,059</u>	<u>9</u>	<u>38</u>	<u>524</u>	<u>3,014</u>
Total financial liabilities (contractual maturity date)	<u>453,582</u>	<u>83,379</u>	<u>64,020</u>	<u>103,828</u>	<u>30,545</u>	<u>735,354</u>
Financial Assets:						
Total financial assets (expected maturity dates)	<u>158,629</u>	<u>83,864</u>	<u>259,995</u>	<u>158,212</u>	<u>149,628</u>	<u>810,328</u>

Group and Bank

	<u>Up to 1 month</u>	<u>1 to 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
December 31, 2007						
Financial Liabilities:						
Deposits from customers	385,961	67,792	126,894	107,551	8,229	696,427
Due to and placements from banks and other financial institutions	112,518	29,481	8,909	57	305	151,270
Debt securities in issue	—	—	1,460	14,493	27,600	43,553
Other financial liabilities	<u>508</u>	<u>1,050</u>	<u>9</u>	<u>36</u>	<u>523</u>	<u>2,126</u>
Total financial liabilities (contractual maturity date)	<u>498,987</u>	<u>98,323</u>	<u>137,272</u>	<u>122,137</u>	<u>36,657</u>	<u>893,376</u>
Financial Assets:						
Total financial assets (expected maturity dates)	<u>184,866</u>	<u>122,446</u>	<u>289,026</u>	<u>259,295</u>	<u>198,595</u>	<u>1,054,228</u>

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APPENDIX I

ACCOUNTANT'S REPORT

Group

	<u>Up to 1 month</u>	<u>1 to 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
December 31, 2008						
Financial Liabilities:						
Deposits from customers	455,518	85,940	170,497	100,621	872	813,448
Due to and placements from banks and other financial institutions	62,518	22,179	52,257	28,431	53	165,438
Borrowings from other financial institutions	—	4	2,583	154	—	2,741
Debt securities in issue	—	—	11,456	16,195	14,502	42,153
Other financial liabilities	<u>333</u>	<u>99</u>	<u>3,268</u>	<u>611</u>	<u>339</u>	<u>4,650</u>
Total financial liabilities (contractual maturity date)	<u>518,369</u>	<u>108,222</u>	<u>240,061</u>	<u>146,012</u>	<u>15,766</u>	<u>1,028,430</u>
Financial Assets:						
Total financial assets (expected maturity dates)	<u>269,957</u>	<u>108,822</u>	<u>338,458</u>	<u>273,110</u>	<u>171,704</u>	<u>1,162,051</u>

Bank

	<u>Up to 1 month</u>	<u>1 to 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
December 31, 2008						
Financial Liabilities:						
Deposits from customers	455,546	85,940	170,497	100,621	872	813,476
Due to and placements from banks and other financial institutions	62,223	22,179	52,257	28,431	53	165,143
Debt securities in issue	—	—	11,456	16,195	14,502	42,153
Other financial liabilities	<u>283</u>	<u>94</u>	<u>3,236</u>	<u>260</u>	<u>339</u>	<u>4,212</u>
Total financial liabilities (contractual maturity date)	<u>518,052</u>	<u>108,213</u>	<u>237,446</u>	<u>145,507</u>	<u>15,766</u>	<u>1,024,984</u>
Financial Assets:						
Total financial assets (expected maturity dates)	<u>269,837</u>	<u>108,533</u>	<u>337,087</u>	<u>266,875</u>	<u>171,704</u>	<u>1,154,036</u>

Group

	<u>Up to 1 month</u>	<u>1 to 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
June 30, 2009						
Financial Liabilities:						
Deposits from customers	611,777	175,613	212,894	101,033	389	1,101,706
Due to and placements from banks and other financial institutions	128,220	40,165	26,863	28,587	—	223,835
Borrowings from other financial institutions	116	173	7,771	772	—	8,832
Debt securities in issue	—	—	7,200	10,423	23,646	41,269
Other financial liabilities	<u>2,206</u>	<u>160</u>	<u>1,613</u>	<u>79</u>	<u>11</u>	<u>4,069</u>
Total financial liabilities (contractual maturity date)	<u>742,319</u>	<u>216,111</u>	<u>256,341</u>	<u>140,894</u>	<u>24,046</u>	<u>1,379,711</u>
Financial Assets:						
Total financial assets (expected maturity dates)	<u>360,339</u>	<u>161,248</u>	<u>412,832</u>	<u>403,414</u>	<u>202,104</u>	<u>1,539,937</u>

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APPENDIX I

ACCOUNTANT'S REPORT

Bank

	<u>Up to 1 month</u>	<u>1 to 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
June 30, 2009						
Financial Liabilities:						
Deposits from customers	611,630	175,607	212,752	101,033	389	1,101,411
Due to and placements from banks and other financial institutions	129,094	40,165	26,863	28,587	—	224,709
Debt securities in issue	—	—	7,200	10,423	23,646	41,269
Other financial liabilities	<u>1,754</u>	<u>160</u>	<u>947</u>	<u>79</u>	<u>11</u>	<u>2,951</u>
Total financial liabilities (contractual maturity date)	<u>742,478</u>	<u>215,932</u>	<u>247,762</u>	<u>140,122</u>	<u>24,046</u>	<u>1,370,340</u>
Financial Assets:						
Total financial assets (expected maturity dates)	<u>359,169</u>	<u>160,698</u>	<u>410,214</u>	<u>394,571</u>	<u>201,115</u>	<u>1,525,767</u>

d Derivative cash flow

(i) Derivatives settled on a net basis

The Group's derivatives that will be settled on a net basis include:

- Interest rate derivatives: interest rate swaps;
- Credit derivatives: credit default swaps.

The table below analyzes the Group's derivative financial instruments that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	<u>Up to 1 month</u>	<u>1 to 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
Group and Bank						
December 31, 2006						
Interest rate derivatives	(12)	(15)	(83)	(159)	(36)	(305)
Credit derivatives	<u>—</u>	<u>—</u>	<u>1</u>	<u>4</u>	<u>1</u>	<u>6</u>
	<u>(12)</u>	<u>(15)</u>	<u>(82)</u>	<u>(155)</u>	<u>(35)</u>	<u>(299)</u>
Group and Bank						
December 31, 2007						
Interest rate derivatives	—	(10)	(54)	(83)	(58)	(205)
Credit derivatives	<u>—</u>	<u>—</u>	<u>—</u>	<u>2</u>	<u>1</u>	<u>3</u>
	<u>—</u>	<u>(10)</u>	<u>(54)</u>	<u>(81)</u>	<u>(57)</u>	<u>(202)</u>
	<u>Up to 1 month</u>	<u>1 to 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
Group and Bank						
December 31, 2008						
Interest rate derivatives	(2)	(2)	8	20	4	28
Credit derivatives	<u>—</u>	<u>—</u>	<u>—</u>	<u>2</u>	<u>—</u>	<u>2</u>
	<u>(2)</u>	<u>(2)</u>	<u>8</u>	<u>22</u>	<u>4</u>	<u>30</u>
Group and Bank						
June 30, 2009						
Interest rate derivatives	(8)	—	(1)	24	1	16
Credit derivatives	<u>—</u>	<u>—</u>	<u>—</u>	<u>2</u>	<u>—</u>	<u>2</u>
	<u>(8)</u>	<u>—</u>	<u>(1)</u>	<u>26</u>	<u>1</u>	<u>18</u>

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APPENDIX I

ACCOUNTANT'S REPORT

(ii) Derivatives settled on a gross basis

The Group's derivatives that will be settled on a gross basis include:

- Foreign exchange derivatives: currency forwards, currency swaps, currency options.
- Precious metal derivatives: precious metal forwards.

The table below analyzes the Bank's derivative financial instruments that will be settled on a gross basis in to relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	<u>Up to 1 month</u>	<u>1 to 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
Group and Bank						
December 31, 2006						
Foreign exchange derivatives						
- Cash outflow	(1,751)	(813)	(1,909)	—	—	(4,473)
- Cash inflow	<u>1,750</u>	<u>813</u>	<u>1,910</u>	<u>—</u>	<u>—</u>	<u>4,473</u>

	<u>Up to 1 month</u>	<u>1 to 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
Group and Bank						
December 31, 2007						
Foreign exchange derivatives						
- Cash outflow	(2,812)	(1,817)	(11,245)	—	—	(15,874)
- Cash inflow	2,820	1,818	11,252	—	—	15,890
Precious metal derivatives						
- Cash outflow	(372)	—	—	—	—	(372)
- Cash inflow	370	—	—	—	—	370
Total cash outflow	<u>(3,184)</u>	<u>(1,817)</u>	<u>(11,245)</u>	<u>—</u>	<u>—</u>	<u>(16,246)</u>
Total cash inflow	<u>3,190</u>	<u>1,818</u>	<u>11,252</u>	<u>—</u>	<u>—</u>	<u>16,260</u>

	<u>Up to 1 month</u>	<u>1 to 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
Group and Bank						
December 31, 2008						
Foreign exchange derivatives						
- Cash outflow	(2,382)	(4,054)	(6,302)	(291)	—	(13,029)
- Cash inflow	2,400	4,063	6,237	291	—	12,991
Precious metal derivatives						
- Cash outflow	(163)	—	—	—	—	(163)
- Cash inflow	165	—	—	—	—	165
Total cash outflow	<u>(2,545)</u>	<u>(4,054)</u>	<u>(6,302)</u>	<u>(291)</u>	<u>—</u>	<u>(13,192)</u>
Total cash inflow	<u>2,565</u>	<u>4,063</u>	<u>6,237</u>	<u>291</u>	<u>—</u>	<u>13,156</u>

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APPENDIX I

ACCOUNTANT'S REPORT

	<u>Up to 1 month</u>	<u>1 to 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
Group and Bank						
June 30, 2009						
Foreign exchange derivatives						
- Cash outflow	(4,070)	(592)	(3,081)	—	—	(7,743)
- Cash inflow	4,067	592	3,084	—	—	7,743
Precious metal derivatives						
- Cash outflow	(1,151)	—	(277)	—	—	(1,428)
- Cash inflow	1,137	—	277	—	—	1,414
Total cash outflow	<u>(5,221)</u>	<u>(592)</u>	<u>(3,358)</u>	<u>—</u>	<u>—</u>	<u>(9,171)</u>
Total cash inflow	<u>5,204</u>	<u>592</u>	<u>3,361</u>	<u>—</u>	<u>—</u>	<u>9,157</u>

e Off-balance sheet items

Contractual maturity is used by the management as best estimate to analyze the liquidity risk of off-balance sheet items, unless the objective evidence of default is identified.

	<u>No later than 1 year</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
Group and Bank				
December 31, 2006				
Acceptances	70,524	329	—	70,853
Letters of guarantee	13,282	6,861	2,738	22,881
Unused credit card limits	9,635	—	—	9,635
Letters of credit	11,877	613	—	12,490
Irrevocable loan commitments	266	1,765	1,314	3,345
Capital commitments	242	528	—	770
Operating lease commitments	503	1,159	456	2,118
Total	<u>106,329</u>	<u>11,255</u>	<u>4,508</u>	<u>122,092</u>
Group and Bank				
December 31, 2007				
Acceptances	96,148	476	—	96,624
Letters of guarantee	11,742	18,534	2,494	32,770
Unused credit card limits	26,574	—	—	26,574
Letters of credit	15,216	663	—	15,879
Irrevocable loan commitments	524	2,175	2,157	4,856
Capital commitments	4,334	313	—	4,647
Operating lease commitments	540	1,338	436	2,314
Total	<u>155,078</u>	<u>23,499</u>	<u>5,087</u>	<u>183,664</u>

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APPENDIX I

ACCOUNTANT'S REPORT

	No later than 1 year	1 to 5 years	Over 5 years	Total
Group				
December 31, 2008				
Acceptances	145,005	—	—	145,005
Letters of guarantee	24,465	23,060	1,504	49,029
Unused credit card limits	28,140	—	—	28,140
Letters of credit	7,218	634	398	8,250
Irrevocable loan commitments	120	1,634	4,246	6,000
Capital commitments	96	3,005	112	3,213
Operating lease commitments	625	1,610	379	2,614
Financial lease commitments	475	—	—	475
Total	<u>206,144</u>	<u>29,943</u>	<u>6,639</u>	<u>242,726</u>
Bank				
December 31, 2008				
Acceptances	145,005	—	—	145,005
Letters of guarantee	24,465	23,060	1,504	49,029
Unused credit card limits	28,140	—	—	28,140
Letters of credit	7,218	634	398	8,250
Irrevocable loan commitments	120	1,634	4,246	6,000
Capital commitments	96	2,464	112	2,672
Operating lease commitments	617	1,584	378	2,579
Total	<u>205,661</u>	<u>29,376</u>	<u>6,638</u>	<u>241,675</u>
	No later than 1 year	1 to 5 years	Over 5 years	Total
Group				
June 30, 2009				
Acceptances	306,435	—	—	306,435
Letters of guarantee	17,630	26,313	1,754	45,697
Unused credit card limits	27,873	—	—	27,873
Letters of credit	14,646	761	—	15,407
Irrevocable loan commitments	1,440	84	4,304	5,828
Capital commitments	217	1,396	112	1,725
Operating lease commitments	574	1,691	533	2,798
Financial lease commitments	912	—	—	912
Total	<u>369,727</u>	<u>30,245</u>	<u>6,703</u>	<u>406,675</u>
Bank				
June 30, 2009				
Acceptances	306,435	—	—	306,435
Letters of guarantee	17,630	26,313	1,754	45,697
Unused credit card limits	27,873	—	—	27,873
Letters of credit	14,646	761	—	15,407
Irrevocable loan commitments	1,440	84	4,304	5,828
Capital commitments	217	6	112	335
Operating lease commitments	565	1,662	533	2,760
Total	<u>368,806</u>	<u>28,826</u>	<u>6,703</u>	<u>404,335</u>

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APPENDIX I

ACCOUNTANT'S REPORT

(5) Fair value of financial assets and liabilities

a Financial instruments measured at fair value

Group and Bank

	Fair value measurement at end of the reporting period using:		
	Level 1	Level 2	Level 3
June 30, 2009			
Financial assets at fair value through profit or loss			
- Trading securities	7,261	—	—
- Trading derivatives	—	282	224
Available-for-sale securities	63,330	1,243	469
Total	<u>70,591</u>	<u>1,525</u>	<u>693</u>
Financial liabilities at fair value through profit or loss			
Trading derivatives	—	396	87
Total	<u>—</u>	<u>396</u>	<u>87</u>

b Financial instruments not measured at fair value

The estimated fair values of the Group's financial assets and liabilities, of which the respective carrying value are different, are summarized as follows:

Group	Carrying value			
	December 31, 2006	December 31, 2007	December 31, 2008	June 30, 2009
Financial assets				
Loans and advances to customers	465,671	547,296	646,475	890,678
Investment securities				
- Held-to-maturity	40,302	45,816	38,716	46,494
- Loans and receivables	10,228	47,449	37,066	38,516
Financial liabilities				
Deposits from customers	583,315	671,219	785,786	1,075,309
Debt securities in issue and borrowings from foreign governments	<u>22,121</u>	<u>34,356</u>	<u>34,390</u>	<u>29,266</u>

Group	Fair value			
	December 31, 2006	December 31, 2007	December 31, 2008	June 30, 2009
Financial assets				
Loans and advances to customers	465,602	547,238	647,209	890,920
Investment securities				
- Held-to-maturity	40,168	44,203	40,033	47,094
- Loans and receivables	10,300	46,959	38,203	39,329
Financial liabilities				
Deposits from customers	583,184	671,184	786,629	1,076,098
Debt securities in issue and borrowings from foreign governments	<u>22,179</u>	<u>33,410</u>	<u>34,351</u>	<u>29,005</u>
Credit commitments	<u>244</u>	<u>331</u>	<u>596</u>	<u>879</u>

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APPENDIX I

ACCOUNTANT'S REPORT

	Carrying value			
	December 31, 2006	December 31, 2007	December 31, 2008	June 30, 2009
Bank				
Financial assets				
Loans and advances to customers.	465,671	547,296	646,443	890,378
Investment securities				
- Held-to-maturity	40,302	45,816	38,716	46,494
- Loans and receivables	10,228	47,449	37,066	38,477
Financial liabilities				
Deposits from customers.	583,315	671,219	785,814	1,075,015
Debt securities in issue and borrowings from foreign government	<u>22,121</u>	<u>34,356</u>	<u>34,390</u>	<u>29,266</u>
	Fair value			
	December 31, 2006	December 31, 2007	December 31, 2008	June 30, 2009
Financial assets				
Loans and advances to customers.	465,602	547,238	647,177	890,619
Investment securities				
- Held-to-maturity	40,168	44,203	40,033	47,094
- Loans and receivables	10,300	46,959	38,203	39,290
Financial liabilities				
Deposits from customers.	583,184	671,184	786,657	1,075,804
Debt securities in issue and borrowings from foreign government	<u>22,179</u>	<u>33,410</u>	<u>34,351</u>	<u>29,005</u>
Credit commitments	<u>244</u>	<u>331</u>	<u>596</u>	<u>879</u>

(i) Cash and due from banks and other financial institutions, finance lease receivables, placements with banks and other financial institutions, due to and placements from banks and other financial institutions and borrowings from other financial institutions.

Given these financial assets and liabilities have a maturity of less than a year or have floating interest rates, their book values approximate their fair value.

(ii) Loans and advances, and investment securities — loans and receivables

Loans and advances, and investment securities — loans and receivables are recorded net of allowance for impairment losses. The estimated fair value of loans and advances represents the amount of estimated future cash flows expected to be received discounted at current market rates.

(iii) Held-to-maturity investment securities

The fair value for held-to-maturity assets is based on "bid" market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

(iv) Customer deposits

The fair value of checking, savings and money market accounts is the amount payable on demand at the reporting date. The estimated fair value of fixed interest-bearing deposits and placements without quoted market prices are based on discounted cash flows using interest rates for new deposits with similar remaining maturities.

(v) Debt securities in issue and borrowings from foreign government

Fair values of debt securities in issue and borrowings from foreign governments are based on quoted market prices. For bonds where quoted market prices are not available, a discounted cash flow model is used to calculate their fair value using current market rates appropriate for the nature of the obligations with similar remaining maturities.

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APPENDIX I

ACCOUNTANT'S REPORT

(vi) Credit commitments

The fair value of credit commitments is estimated based on the fair value of a similar financial instrument in the market. If there is no such information, its fair value will be measured using the discounted cash flow method.

(6) Capital management

The capital management of the Group aims to insure compliance with regulatory requirements, continuously improve its ability to mitigate risks and enhance the return on its capital. On this basis, the Group has set its capital adequacy objectives, and takes a range of measures, including budgeting/planning and performance measurement and limit management, to insure the realization of management objectives, so as to meet the requirements for regulatory compliance, credit rating, risk premium and shareholder return, and to facilitate the Group's risk management, insure the orderly expansion of the asset base and enhance the business structure and model.

The Group calculates and discloses its Capital Adequacy Ratio in accordance with "The Administrative Rules on Capital Adequacy Ratios of Commercial Banks" and other related rules and regulations issued by the CBRC, and the generally accepted accounting principles of the PRC ("PRC GAAP").

In the Relevant Periods, the capital adequacy ratio and core capital adequacy ratio of the Group complied with the requirement of the CBRC.

Group

	December 31,			June 30,
	2006	2007	2008	2009
Core Capital:				
Common stock	10,167	14,479	18,823	18,823
Capital reserve net of unrealized loss from available-for-sale securities	2,362	15,523	14,768	14,768
Surplus reserve	1,566	2,200	2,983	2,983
General reserve	3,000	5,800	8,001	8,001
Retained earnings	1,827	4,728	5,940	11,877
Minority interest	—	—	792	797
Core Capital:	18,922	42,730	51,307	57,249
Less: 50% of the investment in unconsolidated non-bank financial institutions	(315)	(307)	(620)	(344)
Net Core Capital	18,607	42,423	50,687	56,905
Supplementary Capital:				
Revaluation reserves	195	3,728	1,305	310
General provision	4,721	4,169	7,895	8,449
Hybrid capital bonds	4,300	4,300	4,300	9,270
Long-term subordinated bonds	7,200	7,200	7,200	7,200
Total of the supplementary Capital (Max of the 100% of net Core capital)	16,416	19,397	20,700	25,229
Total Capital	35,338	62,127	72,007	82,478
Less: Investment in unconsolidated non-bank financial institutions	(630)	(614)	(1,240)	(689)
Net Capital	34,708	61,513	70,767	81,789

Group

	December 31,			June 30,
	2006	2007	2008	2009
Total risk-weighted assets	423,046	573,514	767,895	964,246
Core capital adequacy ratio	4.40%	7.40%	6.60%	5.90%
Capital adequacy ratio	8.20%	10.73%	9.22%	8.48%

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APPENDIX I

ACCOUNTANT'S REPORT

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Areas susceptible to changes in essential estimates and judgments, which affect the carrying value of assets and liabilities, are set out below. It is impracticable to determine the effect of changes to either the key assumptions discussed below or other estimation uncertainties. It is possible that actual results may require material adjustments to the estimates referred to below.

(1) Impairment allowances on loans and advances

Besides impairment assessment for individually impaired loans, the Group reviews its loan portfolios to assess impairment regularly. In determining whether a provision for loan impairments should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers or national or local economic conditions that correlate with defaults of borrowers. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(2) Fair value of derivative and other financial instruments

The Group establishes fair value of financial instruments with reference to a quoted market price in an active market or, if there is no active market, using valuation techniques. These valuation techniques include the use of recent arm's length transactions, observable prices for similar instruments, discounted cash flow analysis using risk-adjusted interest rates, and commonly used market pricing models. Whenever possible these models use observable market inputs and data including, for example, interest rate yield curves, foreign currency rates and option volatilities. The results of using valuation techniques are calibrated against industry practice and observable current market transactions in the same or similar instruments.

(3) Impairment of available-for-sale securities and held-to-maturity securities

The Group follows the guidance of IAS 39 in determining impairment of available-for-sale securities and held-to-maturity securities. The determination of impairment requires a high level of management judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, technological changes, credit ratings, delinquency rates, loss provision coverage and counterparty risk.

(4) Held-to-maturity securities

The Group classifies non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. Other than in specific circumstances (e.g. sale of an insignificant amount of held-to-maturity securities at a time close to maturity), if the Group fails to hold these securities to maturity or reclassifies some of the securities to available-for-sale securities, the Group shall have to reclassify any of the remaining held-to-maturity securities as available-for-sale securities, and measure them at fair value rather than amortized cost.

(5) Taxation

In the ordinary course of business, many transactions and calculations involve uncertainties in the ultimate tax determination, and significant estimates are required in determining the provision for business tax and income taxes. The Group recognizes liabilities for anticipated tax inspection issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the business tax, income tax and deferred income tax provisions in the period during which such a determination is made.

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APPENDIX I

ACCOUNTANT'S REPORT

5 NET INTEREST INCOME

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
				(Unaudited)	
Interest income:					
- Due from banks and other financial institutions	181	233	216	90	197
- Balances with central banks	778	1,322	2,216	1,044	866
- Placements with banks and other financial institutions	701	2,048	3,784	1,918	1,014
- Loans and advances to customers	22,997	32,141	44,433	21,244	19,574
- Investment securities	2,697	4,315	5,451	2,919	2,657
- Finance lease receivables	—	—	189	—	309
- Others	7	11	22	44	17
	<u>27,361</u>	<u>40,070</u>	<u>56,311</u>	<u>27,259</u>	<u>24,634</u>
Including within interest income:					
Interest income accrual on identified impaired financial assets	138	160	164	117	151
Interest expense:					
- Due to and placements from banks and other financial institutions	(1,160)	(3,205)	(6,045)	(2,960)	(1,595)
- Deposits from customers	(9,495)	(13,181)	(18,428)	(8,925)	(8,238)
- Debt securities in issue	(525)	(1,104)	(1,410)	(678)	(761)
- Others	(13)	—	(48)	—	(90)
	<u>(11,193)</u>	<u>(17,490)</u>	<u>(25,931)</u>	<u>(12,563)</u>	<u>(10,684)</u>
Net interest income	<u>16,168</u>	<u>22,580</u>	<u>30,380</u>	<u>14,696</u>	<u>13,950</u>

6 FEE AND COMMISSION INCOME

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
				(Unaudited)	
Financial advisory services	367	1,136	1,702	1,688	769
Bank card services	150	397	920	347	565
Credit commitments	169	298	917	378	423
Trust and other fiduciary services	190	406	603	471	319
Settlement services	258	301	312	175	200
Securities underwriting service	51	82	139	58	73
Others	39	45	162	94	93
Total	<u>1,224</u>	<u>2,665</u>	<u>4,755</u>	<u>3,211</u>	<u>2,442</u>

7 NET TRADING INCOME/(LOSS)

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
				(Unaudited)	
Gain/(loss) on exchange rate instruments	134	405	(111)	229	155
Gain/(loss) on interest rate instruments	69	17	427	(58)	(100)
Gain/(loss) on precious metal and other products	(1)	3	(131)	(326)	(32)
Total	<u>202</u>	<u>425</u>	<u>185</u>	<u>(155)</u>	<u>23</u>

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APPENDIX I

ACCOUNTANT'S REPORT

8 IMPAIRMENT LOSSES ON ASSETS

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
				(Unaudited)	
Loans and advances to customers	2,158	2,236	5,686	1,390	2,405
Available-for-sale securities	—	—	599	202	421
Held-to-maturity securities	—	—	54	—	(54)
Finance lease receivables	—	—	57	24	69
Others	56	29	122	(1)	10
Total	<u>2,214</u>	<u>2,265</u>	<u>6,518</u>	<u>1,615</u>	<u>2,851</u>

9 OPERATING EXPENSES

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
				(Unaudited)	
Staff costs, including directors' emoluments					
- Salary, including bonus	2,447	4,118	5,707	2,969	2,960
- Social insurance	331	558	913	550	686
- Other benefits	893	1,499	1,330	473	388
Business tax and surcharges	1,391	2,047	2,916	1,413	1,266
Business development expenses	696	927	1,295	391	409
Lease expense, primarily for office	564	687	824	371	459
Office expenses	599	673	904	257	414
Depreciation	573	517	602	295	301
Automobile expenses	350	461	572	211	242
Electronic equipment operating expenses	304	334	432	127	191
Postage and telegraph expenses	254	282	353	141	127
Travelling expenses	141	196	244	69	78
Conference expenses	175	195	219	53	59
CBRC supervisory charges	117	116	134	65	77
Others	882	1,142	1,372	483	721
Total	<u>9,717</u>	<u>13,752</u>	<u>17,817</u>	<u>7,868</u>	<u>8,378</u>

Auditors' remuneration included in the operating expenses as for the year ended December 31, 2006, 2007, 2008 and for six months ended June 30, 2009 were RMB5.06 million, RMB11.58 million, RMB7.12 million and nil respectively.

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APPENDIX I

ACCOUNTANT'S REPORT

10 DIRECTORS' EMOLUMENTS

For the year ended December 31, 2006 (in thousands of Rmb)

	Basic salaries, allowances and benefits	Contributions to pension schemes	Discretionary bonus	Total
Dong Wenbiao	1,521	69	6,259	7,849
Hong Qi	886	47	2,992	3,925
Wang Tongshi	667	52	1,799	2,518
Zhang Ke	159	—	—	159
Gao Shangquan	137	—	—	137
Zhang Hongwei	129	—	—	129
Wang Yugui	129	—	—	129
Lu Zhiqiang	116	—	—	116
Wu Zhipan	112	—	—	112
Wong Hei	111	—	—	111
Chen Jian	108	—	—	108
Wang Hang	48	—	—	48
Shi Yuzhu	48	—	—	48
Su Qingzan	48	—	—	48
Wang Songqi	48	—	—	48
Wang Lianzhang	48	—	—	48
Liang Jinquan	48	—	—	48
Xing Jijun	35	—	—	35

For the year ended December 31, 2007 (in thousands of Rmb)

	Basic salaries, allowances and benefits	Contributions to pension schemes	Discretionary bonus	Total
Dong Wenbiao	1,652	21	15,813	17,486
Wang Tongshi	1,206	52	8,788	10,046
Hong Qi	876	21	6,262	7,159
Zhang Ke	220	—	—	220
Gao Shangquan	199	—	—	199
Wang Songqi	184	—	—	184
Wang Lianzhang	178	—	—	178
Liang Jinquan	178	—	—	178
Wu Zhipan	172	—	—	172
Zhang Hongwei	144	—	—	144
Su Qingzan	144	—	—	144
Lu Zhiqiang	144	—	—	144
Wang Hang	144	—	—	144
Wang Yugui	141	—	—	141
Shi Yuzhu	141	—	—	141
Xing Jijun	126	—	—	126
Wong Hei	123	—	—	123
Chen Jian	120	—	—	120

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APPENDIX I

ACCOUNTANT'S REPORT

For the year ended December 31, 2008 (in thousands of Rmb)

	Basic salaries, allowances and benefits	Contributions to pension schemes	Discretionary bonus	Total
Dong Wenbiao	3,249	23	8,094	11,366
Wang Tongshi	2,858	52	6,132	9,042
Hong Qi	2,800	23	5,716	8,539
Zhang Ke	723	—	—	723
Zhang Hongwei	692	—	—	692
Lu Zhiqiang	692	—	—	692
Wang Lianzhang	664	—	—	664
Wu Zhipan	641	—	—	641
Wang Songqi	638	—	—	638
Gao Shangquan	617	—	—	617
Wang Hang	613	—	—	613
Wang Yugui	588	—	—	588
Shi Yuzhu	588	—	—	588
Su Qingzan	588	—	—	588
Xing Jijun	584	—	—	584
Wong Hei	559	—	—	559
Chen Jian	559	—	—	559
Liang Jinquan*	—	—	—	—

* Liang Jinquan waived emoluments for the year ended December 31, 2008.

For the six month period ended June 30, 2009 (in thousands of Rmb)

	Basic salaries, allowances and benefits	Contributions to pension schemes	Discretionary bonus	Total
Dong Wenbiao	2,006	135	1,200	3,341
Hong Qi	1,346	104	850	2,300
Liang Yutang	845	—	—	845
Wang Lianzhang	525	—	—	525
Zhang Ke	515	—	—	515
Wang Songqi	455	—	—	455
Zhang Hongwei	440	—	—	440
Gao Shangquan	435	—	—	435
Lu Zhiqiang	430	—	—	430
Wang Hang	415	—	—	415
Wang Yugui	385	—	—	385
Wong Hei	383	—	—	383
Shi Yuzhu	355	—	—	355
Chen Jian	340	—	—	340
Liu Yonghao	193	—	—	193
Wang Junhui	180	—	—	180
Liang Jinquan*	—	—	—	—

* Liang Jinquan waived emoluments for the six months ended June 30, 2009.

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APPENDIX I

ACCOUNTANT'S REPORT

The emoluments payable to the five individuals whose emoluments were the highest in the Group for the years ended December 31, 2006, 2007, 2008 and for six months ended June 30, 2009 respectively are as follows:

	Year ended December 31,			Six months ended June 30,
	2006	2007	2008	2009
Basic salaries, allowances and benefits	5,308	6,217	11,977	5,852
Contributions to pension schemes	206	115	114	556
Discretionary bonus	21,229	42,356	28,618	4,300
Total	<u>26,743</u>	<u>48,688</u>	<u>40,739</u>	<u>10,708</u>

Emoluments of the individuals were within the following bands:

	Year ended December 31,			Six months ended June 30,
	2006	2007	2008	2009
Rmb1 to 2 million	—	—	—	3
Rmb2 to 3 million	—	—	—	1
Rmb3 to 4 million	3	—	—	1
Rmb5 to 6 million	—	—	2	—
Rmb6 to 7 million	—	1	—	—
Rmb7 to 8 million	2	2	—	—
Rmb8 to 9 million	—	—	1	—
Rmb9 to 10 million	—	—	1	—
Rmb10 to 11 million	—	1	—	—
Rmb11 to 12 million	—	—	1	—
Rmb17 to 18 million	—	1	—	—

The Group had not paid any emoluments to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

11 INCOME TAX EXPENSE

Taxation in the income statement represents mainland China income tax:

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
				(Unaudited)	
Current tax	1,842	3,143	3,810	2,073	2,824
Deferred tax (Note 22)	(363)	(266)	(1,215)	37	(617)
	<u>1,479</u>	<u>2,877</u>	<u>2,595</u>	<u>2,110</u>	<u>2,207</u>

The applicable income tax rate (except for Shenzhen branch) is 33%, 33%, 25% and 25% as at December 31, 2006, 2007, 2008 and June 30, 2009. For Shenzhen branch, the applicable income tax rate is 15%, 15%, 18% and 20% as at December 31, 2006, 2007, 2008 and June 30, 2009.

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APPENDIX I

ACCOUNTANT'S REPORT

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the statutory tax rate of the Group as follows:

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
				(Unaudited)	
Profit before income tax	5,237	9,212	10,488	8,156	9,586
Provision for income tax calculated at statutory rates	1,539	2,745	2,596	2,008	2,375
Impact of new tax law(1)	—	332	—	—	—
Exempted interest income on government bonds	(342)	(434)	(419)	(202)	(232)
Non-deductible salary, entertainment and other expenses	282	234	371	290	101
Others	—	—	47	14	(37)
	<u>1,479</u>	<u>2,877</u>	<u>2,595</u>	<u>2,110</u>	<u>2,207</u>

- (1) Effective from January 1, 2008, the Bank adopted "People's Republic of China Enterprise Income Tax Law" ("**New Income Tax Law**"). As at December 31, 2007, the Bank adjusted deferred tax assets and liabilities in accordance with the new applicable tax rates. The difference of Rmb60 million arising from transactions in relation to equity items has been adjusted to available-for-sale fair value reserve (Note 32), and the remaining amount of Rmb332 million is recorded in income tax expense.

12 EARNINGS PER SHARE

(1) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year/period, excluding ordinary shares purchased by the Group and held as treasury shares.

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
				(Unaudited)	
Profit attributable to equity holders of the Bank	3,758	6,335	7,885	6,041	7,374
Weighted average number of ordinary shares in issue (in millions) . . .	<u>16,441</u>	<u>17,633</u>	<u>18,823</u>	<u>18,823</u>	<u>18,823</u>
Basic earnings per share (in Rmb)	<u>0.23</u>	<u>0.36</u>	<u>0.42</u>	<u>0.32</u>	<u>0.39</u>

(2) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares for the effect of all dilutive potential ordinary shares of the Bank which are in the form of convertible debt. The convertible debt is assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense less the tax effect.

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APPENDIX I

ACCOUNTANT'S REPORT

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
				(Unaudited)	
Profit attributable to equity holders of the Bank	3,758	6,335	7,885	6,047	7,374
Interest expense on convertible debt (net of tax)	—	—	—	—	—
Net profit used to determine diluted earnings per share	<u>3,758</u>	<u>6,335</u>	<u>7,885</u>	<u>6,041</u>	<u>7,374</u>
Number of shares (in millions)					
Weighted average number of ordinary shares in issue	16,441	17,633	18,823	18,823	18,823
Adjustments for:					
Additional number of shares assuming the conversion of all the convertible bonds convert into ordinary shares	—	—	—	—	—
Weighted average number of ordinary shares for diluted earnings per share	<u>16,441</u>	<u>17,633</u>	<u>18,823</u>	<u>18,823</u>	<u>181,823</u>
Diluted earnings per share (in Rmb).	<u>0.23</u>	<u>0.36</u>	<u>0.42</u>	<u>0.32</u>	<u>0.39</u>

13 CASH AND DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	December 31,			June 30,
Group	2006	2007	2008	2009
Cash	2,530	3,289	2,900	2,652
Due from banks and other financial institutions				
- Due from banks	9,030	8,035	13,930	20,972
- Due from other financial institutions	4	662	818	456
	<u>11,564</u>	<u>11,986</u>	<u>17,648</u>	<u>24,080</u>
Bank	December 31,			June 30,
	2006	2007	2008	2009
Cash	2,530	3,289	2,898	2,649
Due from banks and other financial institutions				
- Due from banks	9,030	8,035	13,914	20,437
- Due from other financial institutions	4	662	818	456
	<u>11,564</u>	<u>11,986</u>	<u>17,630</u>	<u>23,542</u>

14 BALANCES WITH CENTRAL BANKS

	December 31,			June 30,
Group	2006	2007	2008	2009
Restricted deposits	45,321	81,284	84,457	107,124
Unrestricted deposits	59,884	25,708	97,421	27,517
	<u>105,205</u>	<u>106,992</u>	<u>181,878</u>	<u>134,641</u>
Bank	December 31,			June 30,
	2006	2007	2008	2009
Restricted deposits	45,321	81,284	84,453	107,096
Unrestricted deposits	59,884	25,708	97,421	27,517
	<u>105,205</u>	<u>106,992</u>	<u>181,874</u>	<u>134,613</u>

Restricted deposits are general reserve balance with central banks. The Group was required to maintain with the PBOC a restricted general reserve deposit equal to 9%, 14.5%, 13.5%, and 13.5% of Rmb deposits respectively and 4%, 5%, 5%

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APPENDIX I

ACCOUNTANT'S REPORT

and 5% of foreign currency deposits as at December 31, 2006, December 31, 2007, December 31, 2008 and June 30, 2009 respectively. Unrestricted deposits are maintained with the PBOC for liquidity purposes.

Restricted balance with central banks are not available for use in the Bank's day-to-day operations.

15 TRADING FINANCIAL ASSETS

	December 31,			June 30,
	2006	2007	2008	2009
Group and Bank				
Government and quasi-government bonds	—	1,031	3,069	3,497
Financial institution bonds	—	328	—	—
Corporate bonds	—	1,213	1,336	3,764
Total	—	2,572	4,405	7,261

All of above bond investments are listed.

Trading financial assets pledged as collateral under repurchase agreements signed with other banks and other financial institutions as at December 31, 2006, 2007, 2008 and June 30, 2009 amounted to nil, nil, Rmb2.05 billion and Rmb4.62 billion respectively. Please refer to Note 34 for detailed information.

16 DERIVATIVE FINANCIAL INSTRUMENTS

The following derivative financial instruments are held by the Group for trading purposes:

Foreign exchange forwards represent commitments to purchase/sell foreign currencies at a future date, including undelivered spot transactions.

Interest rate and currency swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (e.g. fixed rate for floating rate).

The credit risk faced by the Group arising from derivative financial products means, if a counterparty fails to fulfill its obligation, the cost of replacement of the original contract with an additional commitment. The Group controls this risk by monitoring the nominal amount of contracts, fair value and the ability to convert to cash on a continuous basis. In order to control the level of credit risk, the Group uses similar method adopted in its credit business to measure the extent of credit exposure.

The contractual/notional amounts of financial instruments serve only as a basis for comparison with fair value instruments recognized on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The derivative financial instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates or equity/commodity prices relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

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APPENDIX I

ACCOUNTANT'S REPORT

The fair values of derivative financial instruments held are set out in the following table:

	Contract/notional Amount	Fair values	
		Assets	Liabilities
Group and Bank December 31, 2006			
Currency forwards.	3,006	8	(7)
Currency swaps.	1,479	—	(1)
Currency options	64	9	(9)
Interest rate swaps	19,243	194	(370)
Bond options	234	—	(4)
Credit default swaps	156	1	(1)
Extension options	9,015	—	—
		<u>212</u>	<u>(392)</u>
Group and Bank December 31, 2007			
Currency forwards.	13,398	310	(301)
Currency swaps.	1,359	12	(4)
Interest rate swaps	44,528	962	(1,135)
Credit default swaps	73	—	(1)
Extension options	9,015	—	—
Precious metal swaps.	370	1	(3)
		<u>1,285</u>	<u>(1,444)</u>
Group and Bank December 31, 2008			
Currency forwards.	11,498	211	(266)
Currency swaps.	1,531	18	—
Interest rate swaps	17,711	987	(969)
Credit default swaps	68	—	(4)
Extension options	9,015	—	—
Precious metal swaps.	163	—	—
		<u>1,216</u>	<u>(1,239)</u>
Group and Bank June 30, 2009			
Currency forwards.	5,514	43	(38)
Currency swaps.	2,681	5	(3)
Interest rate swaps	14,545	449	(441)
Credit default swaps	68	—	(1)
Extension options	14,015	—	—
Precious metal swaps.	976	9	—
		<u>506</u>	<u>(483)</u>

Replacement costs are the costs of replacing all contracts which have a positive value when marked to market (should the counterparty default on its obligations). The replacement costs of the Group and the Bank are equal to balances of derivative financial assets which are presented above.

Credit risk weighted amount

	December 31,			June 30,
	2006	2007	2008	2009
Group and Bank				
Exchange rate contracts	2	1	13	4
Interest rate contracts	<u>22</u>	<u>123</u>	<u>22</u>	<u>15</u>
	<u>24</u>	<u>124</u>	<u>35</u>	<u>19</u>

The credit risk weighted amounts represent the counterparty credit risk associated with derivative transactions and are calculated with reference to the guidelines issued by the CBRC and are dependent on, among other factors, the creditworthiness of the counterparty and the maturity characteristics of each type of contract.

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APPENDIX I

ACCOUNTANT'S REPORT

The credit risk weighted amounts and replacement costs stated above have taken the effects of netting arrangements into account.

17 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Group and Bank	December 31,			June 30,
	2006	2007	2008	2009
Placements with banks and other financial institutions				
- Banks	17,011	22,224	30,324	165,468
- Other financial institutions	15,233	58,105	22,176	9,161
	32,244	80,329	52,500	174,629
Less: allowance for impairment losses — individually assessed	(96)	(94)	(92)	(34)
Net	<u>32,148</u>	<u>80,235</u>	<u>52,408</u>	<u>174,595</u>

The movement of allowance for impairment losses are as follows:

	Year ended December 31,			Six months ended June 30,
	2006	2007	2008	2009
Opening balance	(96)	(96)	(94)	(92)
Releases	—	2	2	—
Amounts written off during the year as uncollectible	—	—	—	58
Ending balance	<u>(96)</u>	<u>(94)</u>	<u>(92)</u>	<u>(34)</u>

Placements with banks and other financial institutions include balances arising from reverse repo agreements as follows:

	December 31,			June 30,
	2006	2007	2008	2009
Discounted bills	2,947	55,791	23,463	155,582
Government and quasi-government bonds	4,900	—	10,450	300
Corporate loans	12,474	7,006	1,400	2,600
Total	<u>20,321</u>	<u>62,797</u>	<u>35,313</u>	<u>158,482</u>

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APPENDIX I

ACCOUNTANT'S REPORT

18 LOANS AND ADVANCES TO CUSTOMERS

Group	December 31,			June 30,
	2006	2007	2008	2009
Loans to corporate entities				
- Corporate loans	336,886	410,397	475,185	653,560
- Discounted bill	57,970	34,662	63,931	115,939
- Others	8,658	10,440	10,673	9,782
Subtotal	403,514	455,499	549,789	779,281
Loans to individuals				
- Mortgage loans	65,334	89,589	87,401	92,940
- Credit cards	1,169	5,426	12,727	12,755
- Others	2,071	4,445	8,443	18,958
Subtotal	68,574	99,460	108,571	124,653
Loans and advances to customers, gross	472,088	554,959	658,360	903,934
Less: allowance for impairment losses				
- Individually assessed	(3,472)	(3,494)	(3,990)	(4,404)
- Collectively assessed	(2,945)	(4,169)	(7,895)	(8,852)
	(6,417)	(7,663)	(11,885)	(13,256)
Loan and advances to customers, net	465,671	547,296	646,475	890,678

Bank	December 31,			June 30,
	2006	2007	2008	2009
Loans to corporate entities				
- Corporate loans	336,886	410,397	475,176	653,302
- Discounted bill	57,970	34,662	63,917	115,920
- Others	8,658	10,440	10,673	9,782
Subtotal	403,514	455,499	549,766	779,004
Loans to individuals				
- Mortgage loans	65,334	89,589	87,397	92,939
- Credit cards	1,169	5,426	12,727	12,755
- Others	2,071	4,445	8,438	18,933
Subtotal	68,574	99,460	108,562	124,627
Loan and advances to customers, gross	472,088	554,959	658,328	903,631
Less: allowance for impairment losses				
- Individually assessed	(3,472)	(3,494)	(3,990)	(4,404)
- Collectively assessed	(2,945)	(4,169)	(7,895)	(8,849)
	(6,417)	(7,663)	(11,885)	(13,253)
Loan and advances to customers, net	465,671	547,296	646,443	890,378

Loans to corporate customers and discounted bills pledged as collateral under repurchase agreements with other banks and other banks as at December 31, 2006, 2007, 2008 and June 30, 2009 amounted to Rmb10.08 billion, Rmb38.34 billion, Rmb5.45 billion and Rmb21.93 billion respectively (Note 34).

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APPENDIX I

ACCOUNTANT'S REPORT

(1) Analysis of loans and advances to customers by collective and individual assessment

		Identified impaired loans and advances			
	Loans and advances for which allowance is collectively assessed	For which allowance is collectively assessed	For which allowance is individually assessed	Subtotal	Total
Group and Bank					
December 31, 2006					
Gross loans and advances					
- Loans to corporate entities	398,183	217	5,114	5,331	403,514
- Loans to individuals	68,012	562	—	562	68,574
Allowance for impairment losses . . .	<u>(2,556)</u>	<u>(389)</u>	<u>(3,472)</u>	<u>(3,861)</u>	<u>(6,417)</u>
Loans and advances to customers, net	<u>463,639</u>	<u>390</u>	<u>1,642</u>	<u>2,032</u>	<u>465,671</u>
Group and Bank					
December 31, 2007					
Gross loans and advances					
- Loans to corporate entities	449,295	514	5,690	6,204	455,499
- Loans to individuals	98,891	569	—	569	99,460
Allowance for impairment losses . . .	<u>(3,537)</u>	<u>(632)</u>	<u>(3,494)</u>	<u>(4,126)</u>	<u>(7,663)</u>
Loans and advances to customers, net	<u>544,649</u>	<u>451</u>	<u>2,196</u>	<u>2,647</u>	<u>547,296</u>
Group					
December 31, 2008					
Gross loans and advances					
- Loans to corporate entities	542,534	535	6,720	7,255	549,789
- Loans to individuals	107,905	666	—	666	108,571
Allowance for impairment losses . . .	<u>(7,186)</u>	<u>(709)</u>	<u>(3,990)</u>	<u>(4,699)</u>	<u>(11,885)</u>
Loans and advances to customers, net	<u>643,253</u>	<u>492</u>	<u>2,730</u>	<u>3,222</u>	<u>646,475</u>
Bank					
December 31, 2008					
Gross loans and advances					
- Loans to corporate entities	542,511	535	6,720	7,255	549,766
- Loans to individuals	107,896	666	—	666	108,562
Allowance for impairment losses . . .	<u>(7,186)</u>	<u>(709)</u>	<u>(3,990)</u>	<u>(4,699)</u>	<u>(11,885)</u>
Loans and advances to customers, net	<u>643,221</u>	<u>492</u>	<u>2,730</u>	<u>3,222</u>	<u>646,443</u>

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APPENDIX I

ACCOUNTANT'S REPORT

	Loans and advances for which allowance is collectively assessed	Identified impaired loans and advances		Subtotal	Total
		For which allowance is collectively assessed	For which allowance is individually assessed		
Group					
June 30, 2009					
Gross loans and advances					
- Loans to corporate entities	772,432	320	6,529	6,849	779,281
- Retail loans	123,701	952	—	952	124,653
Allowance for impairment losses . . .	<u>(8,075)</u>	<u>(777)</u>	<u>(4,404)</u>	<u>(5,181)</u>	<u>(13,256)</u>
Loans and advances to customers, net	<u>888,058</u>	<u>495</u>	<u>2,125</u>	<u>2,620</u>	<u>890,678</u>
Bank					
June 30, 2009					
Gross loans and advances					
- Loans to corporate entities	772,155	320	6,529	6,849	779,004
- Retail loans	123,675	952	—	952	124,627
Allowance for impairment losses . . .	<u>(8,072)</u>	<u>(777)</u>	<u>(4,404)</u>	<u>(5,181)</u>	<u>(13,253)</u>
Loans and advances to customers, net	<u>887,758</u>	<u>495</u>	<u>2,125</u>	<u>2,620</u>	<u>890,378</u>

(2) Loans to corporations by industries

	December 31, 2006		December 31, 2007	
	Amount	(%)	Amount	(%)
Group and Bank				
Manufacturing	89,323	22	106,276	23
Real estate	56,472	14	71,903	16
Transportation, warehousing and postal service	42,951	11	48,452	11
Rental and business services	20,274	5	26,687	6
Production and supply of electronic power, gas and water	43,198	11	50,563	11
Water conservancy, environment and public utilities management	35,012	9	37,678	8
Mining	11,013	3	15,470	3
Wholesale and retail	23,894	6	26,108	6
Construction	24,841	6	24,786	5
Financial services	16,050	4	8,704	2
Education and community services	15,869	4	17,418	4
Public administration and social organizations	10,072	2	7,811	2
Information transmission, IT service and software industry	6,653	1	4,307	1
Others	<u>7,892</u>	<u>2</u>	<u>9,336</u>	<u>2</u>
Total	<u>403,514</u>	<u>100</u>	<u>455,499</u>	<u>100</u>

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APPENDIX I

ACCOUNTANT'S REPORT

Group	December 31, 2008		June 30, 2009	
	Amount	(%)	Amount	(%)
Manufacturing	103,132	18	150,120	19
Real estate	90,158	15	95,247	12
Transportation, warehousing and postal service	69,840	13	80,071	10
Rental and business services	51,045	9	81,429	11
Production and supply of electronic power, gas and water	46,761	9	59,226	8
Water conservancy, environment and public utilities management	40,262	7	71,179	9
Mining	28,601	5	39,038	5
Wholesale and retail	25,811	5	48,235	6
Construction	25,307	5	31,005	4
Financial services	25,135	5	52,452	7
Education and community services	14,290	3	21,485	3
Public administration and social organizations	13,942	3	33,955	4
Information transmission, IT service and software industry	4,960	1	5,147	1
Others	10,545	2	10,692	1
Total	<u>549,789</u>	<u>100</u>	<u>779,281</u>	<u>100</u>

Bank	December 31, 2008		June 30, 2009	
	Amount	(%)	Amount	(%)
Manufacturing	103,129	18	150,035	19
Real estate	90,150	15	95,247	12
Transportation, warehousing and postal service	69,840	13	80,069	10
Rental and business services	51,045	9	81,425	11
Production and supply of electronic power, gas and water	46,761	9	59,226	8
Water conservancy, environment and public utilities management	40,261	7	71,179	9
Mining	28,601	5	39,038	5
Wholesale and retail	25,811	5	48,215	6
Construction	25,307	5	30,994	4
Financial services	25,127	5	52,452	7
Education and community services	14,290	3	21,484	3
Public administration and social organizations	13,942	3	33,949	4
Information transmission, IT service and software industry	4,960	1	5,147	1
Others	10,542	2	10,544	1
Total	<u>549,766</u>	<u>100</u>	<u>779,004</u>	<u>100</u>

(3) Loans and advances analyzed by guarantee type is as follows:

Group	December 31,			June 30,
	2006	2007	2008	2009
Unsecured loans	110,485	151,018	173,421	268,672
Guaranteed loans	131,829	142,165	150,383	194,880
Secured loan				
- Collateralized loans	133,396	184,585	220,754	267,009
- Pledged loans	96,378	77,191	113,802	173,373
Total	<u>472,088</u>	<u>554,959</u>	<u>658,360</u>	<u>903,934</u>

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APPENDIX I

ACCOUNTANT'S REPORT

Bank	December 31,			June 30, 2009
	2006	2007	2008	
Unsecured loans	110,485	151,018	173,421	268,672
Guaranteed loans	131,829	142,165	150,382	194,651
Secured loan				
- Collateralized loans.	133,396	184,585	220,742	266,945
- Pledged loans.	96,378	77,191	113,783	173,363
Total.	<u>472,088</u>	<u>554,959</u>	<u>658,328</u>	<u>903,631</u>

(4) Movement of allowance for impairment losses:

	Loans to corporate entities		Loans to individual	Total
	Individual assessment	Collective assessment	Collective assessment	
Group and Bank				
Balance at January 1, 2006	2,514	2,053	272	4,839
New allowances	1,437	316	472	2,225
Releases	(67)	—	—	(67)
Reclassification.	93	(93)	—	—
Amounts written off during the year as uncollectible.	(364)	(45)	(28)	(437)
Unwinding of discount on allowance	(138)	—	—	(138)
Exchange differences	(3)	(2)	—	(5)
Balance at December 31, 2006	<u>3,472</u>	<u>2,229</u>	<u>716</u>	<u>6,417</u>
Group and Bank				
Balance at January 1, 2007	3,472	2,229	716	6,417
New allowances	804	1,230	265	2,299
Releases	(63)	—	—	(63)
Reclassification.	141	(141)	—	—
Amounts written off during the year as uncollectible.	(667)	(63)	(62)	(792)
Transfer out.	(35)	—	—	(35)
Unwinding of discount on allowance	(160)	—	—	(160)
Recovery after write-off	9	—	1	10
Exchange differences	(7)	(5)	(1)	(13)
Balance at December 31, 2007	<u>3,494</u>	<u>3,250</u>	<u>919</u>	<u>7,663</u>
Group and Bank				
Balance at January 1, 2008	3,494	3,250	919	7,663
New allowances	1,802	3,481	489	5,772
Releases	(86)	—	—	(86)
Reclassification.	95	(95)	—	—
Amounts written off during the year as uncollectible.	(1,200)	(16)	(124)	(1,340)
Unwinding of discount on allowance	(164)	—	—	(164)
Recovery after write-off	56	—	—	56
Exchange differences	(7)	(7)	(2)	(16)
Balance at December 31, 2008	<u>3,990</u>	<u>6,613</u>	<u>1,282</u>	<u>11,885</u>
Group				
Balance at January 1, 2009	3,990	6,613	1,282	11,885
New allowances	1,231	879	433	2,543
Releases	(138)	—	—	(138)
Reclassification.	103	(103)	—	—
Amounts written off and exempted during the period as uncollectible	(659)	(50)	(202)	(911)
Unwinding of discount on allowance	(151)	—	—	(151)
Recovery after write-off	<u>28</u>	<u>—</u>	<u>—</u>	<u>28</u>

THIS WEB PROOF INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Web Proof Information Pack must be read in conjunction with the section headed "Warning" on the cover of this Web Proof Information Pack.

APPENDIX I

ACCOUNTANT'S REPORT

	Loans to corporate entities		Loans to individual	
	Individual assessment	Collective assessment	Collective assessment	Total
Balance at June 30, 2009	<u>4,404</u>	<u>7,339</u>	<u>1,513</u>	<u>13,256</u>
Bank				
Balance at January 1, 2009	3,990	6,613	1,282	11,885
New allowances	1,231	876	433	2,540
Releases	(138)	—	—	(138)
Reclassification	103	(103)	—	—
Amounts written off and exempted during the period as uncollectible	(659)	(50)	(202)	(911)
Unwinding of discount on allowance	(151)	—	—	(151)
Recovery after write-off	28	—	—	28
Balance at June 30, 2009	<u>4,404</u>	<u>7,336</u>	<u>1,513</u>	<u>13,253</u>

19 INVESTMENT SECURITIES

	December 31,			June 30,
	2006	2007	2008	2009
Group				
Available-for-sale securities	50,162	60,715	53,597	65,042
Held-to-maturity securities	40,302	45,816	38,716	46,494
Loans and receivables	10,228	47,449	37,066	38,516
	<u>100,692</u>	<u>153,980</u>	<u>129,379</u>	<u>150,052</u>
Analyzed as follows:				
- Listed in Hong Kong	3,022	4,479	2,708	2,866
- Listed outside Hong Kong	78,879	93,555	84,788	105,392
- Unlisted	18,791	55,946	41,883	41,794
	<u>100,692</u>	<u>153,980</u>	<u>129,379</u>	<u>150,052</u>
Bank				
Available-for-sale securities	50,162	60,715	53,597	65,042
Held-to-maturity securities	40,302	45,816	38,716	46,494
Loans and receivables	10,228	47,449	37,066	38,477
	<u>100,692</u>	<u>153,980</u>	<u>129,379</u>	<u>150,013</u>
Analyzed as follows:				
- Listed in Hong Kong	3,022	4,479	2,708	2,866
- Listed outside Hong Kong	78,879	93,555	84,788	105,392
- Unlisted	18,791	55,946	41,883	41,755
	<u>100,692</u>	<u>153,980</u>	<u>129,379</u>	<u>150,013</u>

Investment securities pledged as collateral under agreements signed with banks and other financial institutions as at December 31, 2006, 2007, 2008 and June 30, 2009 amounted to Rmb9.51 billion, Rmb15.61 billion, Rmb3.30 billion and Rmb42.61 billion respectively. Such agreements included repurchase agreements, interest rate swap contracts, issuance of convertible bonds, issuance of guarantees, and negotiated deposits. Please refer to Note 34 for detailed information.

The Group did not make any reclassification of investment securities for years ended December 31, 2006, 2007, 2008 and period ended June 30, 2009 respectively.

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APPENDIX I

ACCOUNTANT'S REPORT

(1) Available-for-sale securities

Group and Bank	December 31,			June 30, 2009
	2006	2007	2008	
Debt securities at fair value				
Government and quasi-government bonds				
- listed in Hong Kong	2,906	4,218	2,467	2,622
- listed outside Hong Kong	33,616	29,337	34,770	42,949
- unlisted	2,468	2,978	1,333	981
Financial institutions bonds				
- listed in Hong Kong	—	—	68	71
- listed outside Hong Kong	1,833	1,232	737	667
- unlisted	3,727	3,503	2,422	1,780
Corporate bonds				
- listed outside Hong Kong	4,088	8,594	7,948	15,748
- unlisted	329	297	91	—
	<u>48,967</u>	<u>50,159</u>	<u>49,836</u>	<u>64,818</u>
Equity securities at fair value				
Financial institutions securities				
- listed outside Hong Kong	1,098	10,460	3,633	99
- unlisted	50	50	125	125
Corporate securities				
- listed outside Hong Kong	47	46	3	—
	<u>1,195</u>	<u>10,556</u>	<u>3,761</u>	<u>224</u>
	<u>50,162</u>	<u>60,715</u>	<u>53,597</u>	<u>65,042</u>

The Group's fair value changes relating to impaired available-for-sale securities amounted to nil, nil, Rmb599 million and Rmb1,020 million for years and period ended December 31, 2006, 2007, 2008 and June 30, 2009, which have been changed to the income statement.

In the first half of 2009, the Bank disposed of its equity securities of Haitong Securities Co, Ltd ("Haitong Securities"). The balance of equity securities of Haitong Securities held by the Bank were Rmb1.10 billion, Rmb8.06 billion and Rmb3.09 billion as at December 31, 2006, 2007 and 2008. Net gain of Rmb4.90 billion was recognized in the income statement for six months ended June 30, 2009.

(2) Held-to-maturity securities

Group and Bank	December 31,			June 30, 2009
	2006	2007	2008	
Government and quasi-government bonds				
- listed in Hong Kong	116	261	173	173
- listed outside Hong Kong	37,418	41,474	37,228	41,331
- unlisted	156	72	7	—
Financial institutions bonds				
- listed outside Hong Kong	779	2,412	478	466
- unlisted	1,833	1,597	884	392
Corporate bonds				
- listed outside Hong Kong	—	—	—	4,132
Gross	40,302	45,816	38,770	46,494
Less: allowance for impairment losses — individually assessed.	—	—	(54)	—
Net	<u>40,302</u>	<u>45,816</u>	<u>38,716</u>	<u>46,494</u>
Fair value of listed securities	<u>38,319</u>	<u>42,602</u>	<u>39,174</u>	<u>46,823</u>

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APPENDIX I

ACCOUNTANT'S REPORT

(3) Loans and receivables

Group	December 31,			June 30,
	2006	2007	2008	2009
Government and quasi-government bonds	7,238	20,816	20,792	20,134
Financial institution bonds	2,990	5,300	7,890	8,990
Financial institutions entrust products	—	21,333	8,384	9,392
Total	<u>10,228</u>	<u>47,449</u>	<u>37,066</u>	<u>38,516</u>

Bank	December 31,			June 30,
	2006	2007	2008	2009
Government and quasi-government bonds	7,238	20,816	20,792	20,134
Financial institution bonds	2,990	5,300	7,890	8,990
Financial institutions entrust products	—	21,333	8,384	9,353
Total	<u>10,228</u>	<u>47,449</u>	<u>37,066</u>	<u>38,477</u>

All of above loans and receivables are unlisted.

20 FINANCE LEASE RECEIVABLES

Group and Bank	December 31, 2008	June 30, 2009
Finance lease receivables	5,991	11,422
Less: unearned finance income	(681)	(1,411)
	5,310	10,011
Less: allowance for impairment losses — collectively assessed	(57)	(121)
Net	<u>5,253</u>	<u>9,890</u>

Movement of allowance for impairment losses are as follows:

	Year ended December 31, 2008	Six months ended June 30, 2009
Opening balance	—	(57)
New allowances	(57)	(69)
Transfer out	—	5
Ending balance	<u>(57)</u>	<u>(121)</u>

Finance lease receivables pledged as collateral under repurchase agreements with other banks and financial institutions as at December 31, 2008 and June 30, 2009 amounted to Rmb1.47 billion and Rmb1.32 billion respectively (Note 34).

21 PROPERTY AND EQUIPMENT

	Buildings	Leasehold improvements	Office equipment	Motor vehicles	Construction in progress	Total
Group and Bank						
December 31, 2006						
Original cost	2,719	857	1,893	146	1,962	7,577
Accumulated depreciation	(297)	(508)	(1,000)	(80)	—	(1,885)
Net value	<u>2,422</u>	<u>349</u>	<u>893</u>	<u>66</u>	<u>1,962</u>	<u>5,692</u>

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APPENDIX I

ACCOUNTANT'S REPORT

	<u>Buildings</u>	<u>Leasehold improvements</u>	<u>Office equipment</u>	<u>Motor vehicles</u>	<u>Construction in progress</u>	<u>Total</u>
Group and Bank						
December 31, 2007						
Original cost	2,896	1,041	2,135	182	2,501	8,755
Accumulated depreciation	(390)	(612)	(1,269)	(97)	—	(2,368)
Net value	<u>2,506</u>	<u>429</u>	<u>866</u>	<u>85</u>	<u>2,501</u>	<u>6,387</u>
Group						
December 31, 2008						
Original cost	3,472	1,262	2,408	200	2,518	9,860
Accumulated depreciation	(490)	(785)	(1,502)	(110)	—	(2,887)
Net value	<u>2,982</u>	<u>477</u>	<u>906</u>	<u>90</u>	<u>2,518</u>	<u>6,973</u>
Bank						
December 31, 2008						
Original cost	3,465	1,262	2,393	196	2,518	9,834
Accumulated depreciation	(490)	(785)	(1,501)	(109)	—	(2,885)
Net value	<u>2,975</u>	<u>477</u>	<u>892</u>	<u>87</u>	<u>2,518</u>	<u>6,949</u>
Group						
June 30, 2009						
Original cost	3,509	1,398	2,545	208	2,655	10,315
Accumulated depreciation	(544)	(874)	(1,645)	(128)	—	(3,191)
Net value	<u>2,965</u>	<u>524</u>	<u>900</u>	<u>80</u>	<u>2,655</u>	<u>7,124</u>
Bank						
June 30, 2009						
Original cost	3,493	1,398	2,511	204	2,655	10,261
Accumulated depreciation	(544)	(874)	(1,643)	(126)	—	(3,187)
Net value	<u>2,949</u>	<u>524</u>	<u>868</u>	<u>78</u>	<u>2,655</u>	<u>7,074</u>
Group and Bank						
Net book value of balance at						
January 1, 2006	2,154	295	972	67	1,706	5,194
Additions	281	228	222	22	354	1,107
Transfer in/(out)	98	—	—	—	(98)	—
Disposals	(39)	—	(5)	(1)	—	(45)
Provision for impairment	9	—	—	—	—	9
Depreciation charge	(81)	(174)	(296)	(22)	—	(573)
Net book value of balance at						
December 31, 2006	<u>2,422</u>	<u>349</u>	<u>893</u>	<u>66</u>	<u>1,962</u>	<u>5,692</u>
Group and Bank						
Net book value of balance at						
January 1, 2007	2,422	349	893	66	1,962	5,692
Additions	98	184	289	42	618	1,231
Transfer in/(out)	79	—	—	—	(79)	—
Disposals	—	—	(19)	—	—	(19)
Depreciation charge	(93)	(104)	(297)	(23)	—	(517)
Net book value of balance at						
December 31, 2007	<u>2,506</u>	<u>429</u>	<u>866</u>	<u>85</u>	<u>2,501</u>	<u>6,387</u>

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APPENDIX I

ACCOUNTANT'S REPORT

	<u>Buildings</u>	<u>Leasehold improvements</u>	<u>Office equipment</u>	<u>Motor vehicles</u>	<u>Construction in progress</u>	<u>Total</u>
Group						
Net book value of balance at						
January 1, 2008	2,506	429	866	85	2,501	6,387
Additions	320	221	345	34	273	1,193
Transfer in/(out)	256	—	—	—	(256)	—
Disposals	—	—	(4)	(1)	—	(5)
Depreciation charge	(100)	(173)	(301)	(28)	—	(602)
Net book value of balance at						
December 31, 2008	<u>2,982</u>	<u>477</u>	<u>906</u>	<u>90</u>	<u>2,518</u>	<u>6,973</u>
Bank						
Net book value of balance at						
January 1, 2008	2,506	429	866	85	2,501	6,387
Additions	313	221	330	30	273	1,167
Transfer in/(out)	256	—	—	—	(256)	—
Disposals	—	—	(4)	(1)	—	(5)
Depreciation charge	(100)	(173)	(300)	(27)	—	(600)
Net book value of balance at						
December 31, 2008	<u>2,975</u>	<u>477</u>	<u>892</u>	<u>87</u>	<u>2,518</u>	<u>6,949</u>
Group						
Net book value of balance at						
January 1, 2009	2,982	477	906	90	2,518	6,973
Additions	37	137	134	7	139	454
Transfer in/(out)	2	—	—	—	(2)	—
Disposals	—	(1)	—	(1)	—	(2)
Depreciation charge	(56)	(89)	(140)	(16)	—	(301)
Net book value of balance at						
June 30, 2009	<u>2,965</u>	<u>524</u>	<u>900</u>	<u>80</u>	<u>2,655</u>	<u>7,124</u>
Bank						
Net book value of balance at						
January 1, 2009	2,975	477	892	87	2,518	6,949
Additions	27	137	116	7	139	426
Transfer in/(out)	2	—	—	—	(2)	—
Disposals	—	(1)	—	—	—	(1)
Depreciation charge	(55)	(89)	(140)	(16)	—	(300)
Net book value of balance at						
June 30, 2009	<u>2,949</u>	<u>524</u>	<u>868</u>	<u>78</u>	<u>2,655</u>	<u>7,074</u>

The carrying value of buildings and leasehold improvements is analyzed based on the remaining terms of the leases as follows:

	<u>December 31,</u>			<u>June 30,</u>
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Group				
Held outside Hong Kong				
on long-term lease (over 50 years)	117	158	121	62
on medium-term lease (10-50 years)	2,648	2,771	3,332	3,341
on short-term lease (less than 10 years)	6	6	6	86
	<u>2,771</u>	<u>2,935</u>	<u>3,459</u>	<u>3,489</u>

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APPENDIX I

ACCOUNTANT'S REPORT

	December 31,			June 30,
	2006	2007	2008	2009
Bank				
Held outside Hong Kong				
on long-term lease (over 50 years)	117	158	121	62
on medium-term lease (10-50 years)	2,648	2,771	3,325	3,325
on short-term lease (less than 10 years)	<u>6</u>	<u>6</u>	<u>6</u>	<u>86</u>
	<u>2,771</u>	<u>2,935</u>	<u>3,452</u>	<u>3,473</u>

22 DEFERRED INCOME TAXES

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority. Deferred income tax is provided in full, using the liability method, on all temporary differences.

The movement on the deferred income tax account is as follows:

	Year ended December 31,			Six months ended
	2006	2007	2008	June 30, 2009
Group				
Opening balance	349	497	(1,306)	1,079
Recognized in the income statement	363	266	1,215	617
Tax charged directly to equity	(215)	(2,069)	1,170	824
Ending balance	<u>497</u>	<u>(1,306)</u>	<u>1,079</u>	<u>2,520</u>

	Year ended December 31,			Six months ended
	2006	2007	2008	June 30, 2009
Bank				
Opening balance	349	497	(1,306)	1,078
Recognized in the income statement	363	266	1,214	617
Tax charged directly to equity	(215)	(2,069)	1,170	824
Ending balance	<u>497</u>	<u>(1,306)</u>	<u>1,078</u>	<u>2,519</u>

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APPENDIX I

ACCOUNTANT'S REPORT

The movement in deferred income tax assets and liabilities during the Relevant Periods, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets

	Assets impairment allowance	Fair value losses	Others	Total
Group and Bank				
At January 1, 2006	192	96	65	353
Charged to the income statement	452	56	(21)	487
Charged directly to equity	—	87	—	87
At December 31, 2006	<u>644</u>	<u>239</u>	<u>44</u>	<u>927</u>
Group and Bank				
At January 1, 2007	644	239	44	927
Charged to the income statement	286	232	8	526
Charged directly to equity	—	155	—	155
At December 31, 2007	<u>930</u>	<u>626</u>	<u>52</u>	<u>1,608</u>
Group				
At January 1, 2008	930	626	52	1,608
Charged to the income statement	1,132	(53)	73	1,152
Charged directly to equity	—	(230)	—	(230)
At December 31, 2008	<u>2,062</u>	<u>343</u>	<u>125</u>	<u>2,530</u>
Bank				
At January 1, 2008	930	626	52	1,608
Charged to the income statement	1,131	(53)	73	1,151
Charged directly to equity	—	(230)	—	(230)
At December 31, 2008	<u>2,061</u>	<u>343</u>	<u>125</u>	<u>2,529</u>
	Assets impairment allowance	Fair value losses	Others	Total
Group				
At January 1, 2009	2,062	343	125	2,530
Charged to the income statement	394	(188)	222	428
Charged directly to equity	—	66	—	66
At June 30, 2009	<u>2,456</u>	<u>221</u>	<u>347</u>	<u>3,024</u>
Bank				
At January 1, 2009	2,061	343	125	2,529
Charged to the income statement	394	(188)	222	428
Charged directly to equity	—	66	—	66
At June 30, 2009	<u>2,455</u>	<u>221</u>	<u>347</u>	<u>3,023</u>

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APPENDIX I

ACCOUNTANT'S REPORT

Deferred income tax liabilities

	Fair value gains	Others	Total
Group and Bank			
At January 1, 2006	—	(4)	(4)
Charged to the income statement	(70)	(54)	(124)
Charged directly to equity	<u>(302)</u>	—	<u>(302)</u>
At December 31, 2006	<u>(372)</u>	<u>(58)</u>	<u>(430)</u>
Group and Bank			
At January 1, 2007	(372)	(58)	(430)
Charged to the income statement	(258)	(2)	(260)
Charged directly to equity	<u>(2,224)</u>	—	<u>(2,224)</u>
At December 31, 2007	<u>(2,854)</u>	<u>(60)</u>	<u>(2,914)</u>
Group			
At January 1, 2008	(2,854)	(60)	(2,914)
Charged to the income statement	3	60	63
Charged directly to equity	<u>1,400</u>	—	<u>1,400</u>
At December 31, 2008	<u>(1,451)</u>	<u>—</u>	<u>(1,451)</u>
Bank			
At January 1, 2008	(2,854)	(60)	(2,914)
Charged to the income statement	3	60	63
Charged directly to equity	<u>1,400</u>	—	<u>1,400</u>
At December 31, 2008	<u>(1,451)</u>	<u>—</u>	<u>(1,451)</u>
Group			
At January 1, 2009	(1,451)	—	(1,451)
Charged to the income statement	189	—	189
Charged directly to equity	<u>758</u>	—	<u>758</u>
At June 30, 2009	<u>(504)</u>	<u>—</u>	<u>(504)</u>
Bank			
At January 1, 2009	(1,451)	—	(1,451)
Charged to the income statement	189	—	189
Charged directly to equity	<u>758</u>	—	<u>758</u>
At June 30, 2009	<u>(504)</u>	<u>—</u>	<u>(504)</u>

23 INVESTMENT IN SUBSIDIARIES

	December 31, 2008	June 30, 2009
Minsheng Financial Leasing Co., Ltd.	2,600	2,600
Minsheng Royal Fund Management Co., Ltd.	120	120
Cixi Minsheng Township Bank Co., Ltd.	35	35
Pengzhou Minsheng Township Bank Co., Ltd.	<u>20</u>	<u>20</u>
	<u>2,775</u>	<u>2,775</u>

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APPENDIX I

ACCOUNTANT'S REPORT

Name	Date of incorporation	Place of incorporation and operation	Principal activities	Registered Capital	Nature of legal entity	Interest held*
Minsheng Financial Leasing Co., Ltd.	April 2, 2008	Tianjin, China	Leasing	3,200	Limited company	81.25%
Minsheng Royal Fund Management Co., Ltd.	November 3, 2008	Guangdong, China	Fund management	200	Limited company	60%
Cixi Minsheng Township Bank Co., Ltd.	December 30, 2008	Ningbo, China	Commercial bank	100	Limited company	35%
Pengzhou Minsheng Township Bank Co., Ltd.	September 12, 2008	Sichuan, China	Commercial bank	55	Limited company	36.36%

* All interests in subsidiaries are directly held. The Bank owns the majority of the voting rights in the board of directors of Cixi Minsheng Township Bank Co., Ltd. and Pengzhou Minsheng Township Bank Co., Ltd. which enables the Bank to govern their financial and operating policies. These two companies are treated as subsidiaries and are included in the consolidated financial statements.

The financial statements of Minsheng Financial Leasing Co., Ltd. and Minsheng Royal Fund Management Co., Ltd. for year ended December 31, 2008 were audited by Pricewaterhousecoopers Zhong Tian CPAs Limited Company.

The financial statements of Pengzhou Minsheng Township Bank Co., Ltd. for year ended December 31, 2008 were audited by Zhong He Zheng Xin CPAs Limited Company.

No audited financial statements have been prepared for Cixi Minsheng Township Bank Co., Ltd. as it is newly incorporated and has not been involved in any significant business transactions for year ended December 31, 2008.

24 OTHER ASSETS

Group	December 31,			June 30,
	2006	2007	2008	2009
Interest receivable	2,104	3,750	3,402	3,813
Prepayments	451	567	2,515	2,929
Repossessed assets	216	190	945	934
Deferred assets	148	131	133	125
Capital contribution to financial leasing company(1)	—	2,600	—	—
Others	237	385	531	623
	<u>3,156</u>	<u>7,623</u>	<u>7,526</u>	<u>8,424</u>

Bank	December 31,			June 30,
	2006	2007	2008	2009
Interest receivable	2,104	3,750	3,399	3,810
Prepayments	451	567	893	1,108
Repossessed assets	216	190	945	934
Deferred assets	148	131	121	112
Capital contribution to financial leasing company(1)	—	2,600	—	—
Others	237	385	516	596
	<u>3,156</u>	<u>7,623</u>	<u>5,874</u>	<u>6,560</u>

(1) The amount represents investment in Minsheng Leasing, which was in the course of establishment as at December 31, 2007. The capital contribution of Rmb2.6 billion made by the Bank had been transferred to a deposit account of Minsheng Leasing Preparation Committee maintained with the Bank.

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APPENDIX I

ACCOUNTANT'S REPORT

25 DEPOSITS FROM CUSTOMERS

Group	December 31,			June 30,
	2006	2007	2008	2009
Deposits from corporate entities				
- Demand	214,216	264,006	295,597	385,664
- Time	273,681	298,638	352,275	509,128
Deposits from individuals				
- Demand	30,605	30,185	33,599	40,520
- Time	64,065	77,349	102,669	138,080
Inward remittance and temporary deposits	748	1,041	1,646	1,917
	<u>583,315</u>	<u>671,219</u>	<u>785,786</u>	<u>1,075,309</u>
Bank	December 31,			June 30,
	2006	2007	2008	2009
Deposits from corporate entities				
- Demand	214,216	264,006	295,656	385,568
- Time	273,681	298,638	352,275	509,076
Deposits from individuals				
- Demand	30,605	30,185	33,582	40,474
- Time	64,065	77,349	102,655	137,983
Inward remittance and temporary deposits	748	1,041	1,646	1,914
	<u>583,315</u>	<u>671,219</u>	<u>785,814</u>	<u>1,075,015</u>

Deposits of Rmb64.58 billion, Rmb65.66 billion, Rmb108.95 billion and Rmb 201.54 billion as at December 31, 2006, 2007, 2008 and June 30, 2009 respectively were included in customer accounts held as collaterals for acceptances, letters of credit, letters of guarantee and other transactions.

26 DUE TO AND PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Group	December 31,			June 30,
	2006	2007	2008	2009
Due to and placements from banks and other financial institutions				
- Due to banks	57,985	86,017	95,084	161,341
- Due to other financial institutions	33,836	64,236	65,164	59,749
Total	<u>91,821</u>	<u>150,253</u>	<u>160,248</u>	<u>221,090</u>
Bank	December 31,			June 30,
	2006	2007	2008	2009
Due to and placements from banks and other financial institutions				
- Due to banks	57,985	86,017	94,601	162,216
- Due to other financial institutions	33,836	64,236	65,352	59,749
Total	<u>91,821</u>	<u>150,253</u>	<u>159,953</u>	<u>221,965</u>

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APPENDIX I

ACCOUNTANT'S REPORT

Included in due to and placements from banks and other financial institutions are amounts received from counterparties under repurchase agreements categorised as follows:

Group	December 31,			June 30, 2009
	2006	2007	2008	
Repurchase of:				
Discounted bills	6,803	38,241	5,231	9,390
Trading financial assets	—	—	2,000	4000
Investment securities	—	12,143	—	40,290
Loans and advances to customers	3,280	100	214	214
Finance lease receivables	—	—	567	220
Total	<u>10,083</u>	<u>50,484</u>	<u>8,012</u>	<u>54,114</u>

Bank	December 31,			June 30, 2009
	2006	2007	2008	
Repurchase of:				
Discounted bills	6,803	38,241	5,231	9,390
Trading financial assets	—	—	2,000	4000
Investment securities	—	12,143	—	40,290
Loans and advances to customers	3,280	100	214	214
Total	<u>10,083</u>	<u>50,484</u>	<u>7,445</u>	<u>53,894</u>

27 DEBT SECURITIES IN ISSUE

Group and Bank	December 31,			June 30, 2009
	2006	2007	2008	
Financial bonds(1)	10,163	22,378	22,459	11,995
Subordinated bonds(2)	7,238	7,253	7,252	7,432
Hybrid capital bonds(3)	4,289	4,289	4,288	9,450
Convertible bonds	1	—	—	—
	<u>21,691</u>	<u>33,920</u>	<u>33,999</u>	<u>28,877</u>

(1) Financial bonds

Group and Bank	December 31,			June 30, 2009
	2006	2007	2008	
2006 RMB — 10 billion Financial Bonds with fixed rate — 3 years	10,163	10,168	10,173	—
2007 RMB — 6 billion Financial Bonds with floating rate — 3 years	—	6,103	6,142	5,999
2007 RMB — 6 billion Financial Bonds with floating rate — 5 years	—	6,107	6,144	5,996
	<u>10,163</u>	<u>22,378</u>	<u>22,459</u>	<u>11,995</u>

Pursuant to the CBRC and the PBOC's approval, the bank issued the following financial bonds:

The tranche of 2006 financial bonds was issued with a term of 3 years at a fixed interest rate of 2.88%; interest is paid annually.

The tranche of 2007 financial bonds with a term of 3 years bears a floating rate based on the one-year PBOC time deposit rate set at each interest payment date plus a spread of 0.61% per annum. The tranche of 2007 financial bonds with a term of 5 years bears a floating rate based on the one-year PBOC time deposit rate set at each interest payment date plus a spread of 0.76% per annum. Interest is paid annually.

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APPENDIX I

ACCOUNTANT'S REPORT

(2) Subordinated bonds

Group and Bank	December 31,			June 30,
	2006	2007	2008	2009
2004 Rmb 4.315 billion Subordinated Bonds with fixed rate—10 years(i)	4,346	4,351	4,351	4,461
2004 Rmb 1.485 billion Subordinated Bonds with floating rate—10 years(ii) . .	1,495	1,501	1,500	1,544
2005 Rmb 1.4 billion Subordinated Bonds with fixed rate—10 years (iii)	1,397	1,401	1,401	1,427
	<u>7,238</u>	<u>7,253</u>	<u>7,252</u>	<u>7,432</u>

Pursuant to relevant approvals from the PBOC and the CBRC, the Bank issued the following subordinated bonds:

- (i) The fixed-rate subordinated bonds issued in 2004 have a maturity of 10 years, with a fixed coupon rate of 5.1% per annum for the first five years, payable annually. The Bank has the option to redeem all of the bonds at face value on November 1, 2009. If the Bank does not exercise this option, the annual coupon rate of the bonds for the second 5-year period shall be the original coupon rate plus 3% per annum, and shall remain fixed through to the maturity date.
- (ii) The floating-rate subordinated bonds issued in 2004 have a maturity of 10 years, with a floating rate based on the one-year PBOC time deposit rate set at each interest payment date plus a spread of 2.4% per annum for the first five years, payable annually. The Bank has the option to redeem all or part of the bonds at face value on November 1, 2009. If the Bank does not exercise this option, the floating rate for the second 5-year period shall be the original spread plus 0.5% per annum.
- (iii) The fixed-rate subordinated bonds issued in 2005 have a maturity of 10 years, with a fixed coupon rate of 3.68% per annum for the first five years, payable annually. The Bank has the option to redeem all or part of the bonds at face value on December 26, 2010. If the Bank does not exercise this option, the annual coupon rate of the bonds for the second 5-year period shall be the original coupon rate plus 3% per annum.

These bonds are subordinated to all other claims on the assets of the Bank, except those of the Hybrid capital bonds holders and the equity holders. In the calculation of the Bank's capital adequacy ratio, these bonds qualify for inclusion as supplementary capital.

There were no defaults of principal and interest or other breaches with respect to these bonds from the issuance of these bonds.

(3) Hybrid capital bonds

Group and Bank	December 31,			June 30,
	2006	2007	2008	2009
2006 Rmb3.3 billion Hybrid Capital Bonds with fixed rate—15 years (i)	3,291	3,291	3,291	3,374
2006 Rmb1 billion Hybrid Capital Bonds with floating rate—15 years (ii)	998	998	997	1,019
2009 Rmb3.325 billion Hybrid Capital Bonds with fixed rate—15 years (iii)	—	—	—	3,364
2009 Rmb1.625 billion Hybrid Capital Bonds with floating rate—15 years (iv)	—	—	—	1,693
	<u>4,289</u>	<u>4,289</u>	<u>4,288</u>	<u>9,450</u>

Pursuant to relevant approvals from the PBOC and the CBRC, the Bank issued the following hybrid capital bonds:

- (i) The fixed-rate hybrid capital bonds issued in 2006 have a maturity of 15 years, with a fixed coupon rate of 5.05% per annum for the first 10 years, payable annually. The Bank has the option to redeem all or part of the bonds at face value on December 28, 2016. If the Bank does not exercise this option, the annual coupon rate of the bonds for the next 5 years shall be the original coupon rate plus a spread of 3% per annum, and shall remain fixed through to the maturity date.
- (ii) The floating-rate hybrid capital bonds issued in 2006 have a maturity of 15 years, with a floating rate based on the one-year PBOC time deposit rate set at each interest payment date plus a spread of 2% per annum for the first 10 years, payable annually. The Bank has the option to redeem all or part of the bonds at face value on December 28, 2016. If the Bank does not exercise this option, the floating rate of the bonds for the next 5 years shall be the original spread plus 1% per annum.
- (iii) The fixed-rate hybrid capital bonds issued in 2009 have a maturity of 15 years, with a fixed coupon rate of 5.70% per annum for the first 10 years, payable annually. The Bank has the option to redeem all or part of the bonds at face

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APPENDIX I

ACCOUNTANT'S REPORT

value on March 26, 2019. If the Bank does not exercise this option, the annual coupon rate of the bonds for the next 5 years shall be the original coupon rate plus a spread of 3% per annum, and shall remain fixed through to the maturity date.

- (iv) The floating-rate hybrid capital bonds issued in 2009 have a maturity of 15 years, with a floating rate based on the one-year PBOC time deposit rate set at each interest payment date plus a spread of 3% per annum for the first 10 years, payable annually. The Bank has the option to redeem all or part of the bonds at face value on March 26, 2019. If the Bank does not exercise this option, the floating rate of the bonds for the next 5 years shall be the original spread plus 2% per annum.

These bonds are subordinated to all other claims on the assets of the Bank, except those of the equity holders. In the calculation of the Bank's capital adequacy ratio, these bonds qualify for inclusion as supplementary capital.

There were no defaults of principal and interest or other breaches with respect to these bonds during the Relevant Periods. These bonds are unsecured.

28 OTHER LIABILITIES

Group	December 31,			June 30,
	2006	2007	2008	2009
Interest payable	2,851	4,899	6,999	6,847
Items in the process of clearance and settlement.	1,829	750	1,678	1,269
Income tax payable	414	977	1,238	2,241
Other tax payable	571	1,006	1,274	920
Payroll and welfare payable	1,178	1,084	972	2,103
Deferred fee and commission income.	73	87	877	1,032
Guarantee deposits for finance lease	—	—	360	667
Other	700	863	1,408	1,274
	<u>7,616</u>	<u>9,666</u>	<u>14,806</u>	<u>16,353</u>

Bank	December 31,			June 30,
	2006	2007	2008	2009
Interest payable	2,851	4,899	6,953	6,818
Items in the process of clearance and settlement.	1,829	750	1,678	1,268
Income tax payable	414	977	1,242	2,213
Other tax payable	571	1,006	1,274	909
Payroll and welfare payable	1,178	1,084	972	2,093
Deferred fee and commission income.	73	87	877	1,032
Other	700	863	1,330	824
	<u>7,616</u>	<u>9,666</u>	<u>14,326</u>	<u>15,157</u>

29 SHARE CAPITAL AND CAPITAL RESERVE

The total number of authorized ordinary shares is 10.17 billion shares, 14.48 billion shares, 18.82 billion shares and 18.82 billion shares as at December 31, 2006, 2007, 2008 and June 30, 2009 with a par value of Rmb1 yuan per share, among which 4.05 billion shares, 2.38 billion shares, 0.93 billion shares and 0.93 billion shares were restricted on sale. All issued shares are fully paid.

Capital reserve is Rmb2.36 billion, Rmb16.20 billion, Rmb14.75 billion and Rmb14.75 billion as at December 31, 2006, 2007, 2008 and June 30, 2009, which mainly comprises capital premium.

In 2006, 1.09 billion shares were issued as stock dividend, and 1.82 billion shares were issued from capital reserve.

In 2007, 1.93 billion shares were issued from capital reserve, and 2.38 billion shares were issued through private placement. The issue price was Rmb7.63 yuan per share, and the capital reserve increased by Rmb15.77 billion.

In 2008, 1.45 billion shares were issued from capital reserve, and 2.90 billion shares were issued as stock dividend.

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APPENDIX I

ACCOUNTANT'S REPORT

30 SURPLUS RESERVE AND GENERAL RESERVE

(1) Surplus reserve

Under relevant PRC Laws, the Bank is required to transfer 10% of its net profit, as determined under PRC GAAP, to a non-distributable statutory surplus reserve. Appropriation to the statutory surplus reserve may cease when the balance of such reserve has reached 50% of the share capital. Subject to the approval of the equity holders, the statutory surplus reserve can be used for replenishing the accumulated losses or increasing the Bank's share capital. The statutory surplus reserve amount used to increase the share capital is limited to a level where the balance of Statutory surplus reserve after such capitalization is not less than 25% of the share capital.

The Bank appropriated Rmb0.38 billion, Rmb0.63 billion, Rmb0.78 billion and nil for the year ended December 31, 2006, 2007, 2008 and for the six-month period ended June 30, 2009 respectively.

(2) General reserve

Pursuant to circulars issued by MOF in 2005, the Bank is required to establish and maintain a general reserve within equity, through the appropriation of income to address unidentified potential impairment losses. The general reserve should not be less than 1% of the aggregate amount of risk assets as defined by this policy. Effective from July 1, 2005, the general reserve should be provided in full within three years. In no case could the transitional period exceed five years.

The Bank appropriated Rmb1.8 billion, Rmb2.8 billion, Rmb2.2 billion and nil to the general reserve for the year ended December 31, 2006, 2007, 2008 and for the six-month period ended June 30, 2009 respectively.

Pursuant to circulars issued by MOF in 2007, Minsheng Leasing contributed Rmb0.78 million, or 1% of its net profit to general reserve for the year ended December 31, 2008, including Rmb0.63 million attributable to the Bank.

31 DIVIDENDS

In respect of 2006, no dividend was approved.

In respect of 2007, cash dividend of Rmb724 million (Rmb0.05 per share and before tax) and stock dividend of Rmb2,896 million (2 shares per 10 shares) were approved.

In respect of 2008, cash dividend of Rmb1,506 million (0.08 per share and before tax) was approved.

In respect of the first half of 2009, no dividend was approved.

	Year ended December 31,			Six months ended June 30,
	2006	2007	2008	2009
Dividends payable to equity holders of the Bank attributable to the year / period				
Proposed final dividend	—	3,620	1,506	—
Dividends payable to equity holders of the Bank attributable to the previous financial year, approved and paid during the year				
Final dividend paid	1,452	—	3,620	1,506

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APPENDIX I

ACCOUNTANT'S REPORT

32 RESERVE FOR FAIR VALUE CHANGES OF AVAILABLE-FOR-SALE SECURITIES

Group and Bank	Year ended December 31,			Six months ended June 30, 2009
	2006	2007	2008	
Opening balance	(48)	389	6,780	3,296
Change of fair value of available-for-sale investment securities	696	8,336	(5,306)	(1,170)
Less: deferred income tax	(230)	(2,088)	1,333	291
Transfer to profit or loss upon disposal	(44)	124	53	(2,568)
Less: deferred income tax	—	—	(13)	638
Impairment losses on available-for-sale	—	—	599	421
Less: deferred income tax	15	(41)	(150)	(105)
The impact of related deferred income tax balances on the initial recognized changes in reserves by adopting of the New Income Tax Law (Note 11)	—	60	—	—
Ending balance	<u>389</u>	<u>6,780</u>	<u>3,296</u>	<u>803</u>

33 CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the statement of cash flows consists of the following:

Group	December 31,			June 30, 2009
	2006	2007	2008	
Cash	2,530	3,289	2,900	2,652
Unrestricted balance with central banks	59,884	25,708	97,421	27,517
Original maturity within 3 months:				
- Due from banks and other financial institutions	5,906	7,466	11,781	20,244
- Government and quasi-government bonds	459	557	200	921
	<u>68,779</u>	<u>37,020</u>	<u>112,302</u>	<u>51,334</u>

34 CONTINGENT LIABILITIES AND COMMITMENTS

(1) Credit commitments

Group

	December 31,			June 30, 2009
	2006	2007	2008	
Acceptances	70,853	96,624	145,005	306,435
Letters of guarantee	22,881	32,770	49,029	45,697
Unused credit card limits	9,635	26,574	28,140	27,873
Letters of credit	12,490	15,879	8,250	15,407
Irrevocable loan commitments	3,345	4,856	6,000	5,828
Finance lease commitments	—	—	475	912
	<u>119,204</u>	<u>176,703</u>	<u>236,899</u>	<u>402,152</u>
Credit risk weighted amounts of credit commitments	<u>50,178</u>	<u>65,703</u>	<u>128,820</u>	<u>160,704</u>

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APPENDIX I

ACCOUNTANT'S REPORT

Bank

	December 31,			June 30,
	2006	2007	2008	2009
Acceptances	70,853	96,624	145,005	306,435
Letters of guarantee	22,881	32,770	49,029	45,697
Unused credit card limits	9,635	26,574	28,140	27,873
Letters of credit	12,490	15,879	8,250	15,407
Irrevocable loan commitments	3,345	4,856	6,000	5,828
	<u>119,204</u>	<u>176,703</u>	<u>236,424</u>	<u>401,240</u>
Credit risk weighted amounts of credit commitments	<u>50,178</u>	<u>65,703</u>	<u>128,345</u>	<u>159,792</u>

The credit risk weighted amounts are the amounts calculated in accordance with the guidelines issued by the CBRC and are dependent on, among other factors, the creditworthiness of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100%.

(2) Operating lease commitments

Future minimum lease payments on operating leases are summarized as follows:

Group

	December 31,			June 30,
	2006	2007	2008	2009
Less than 1 year	503	540	625	574
1 to 5 years	1,159	1,338	1,610	1,691
Later than 5 years	456	436	379	533
	<u>2,118</u>	<u>2,314</u>	<u>2,614</u>	<u>2,798</u>

Bank

Less than 1 year	503	540	617	565
1 to 5 years	1,159	1,338	1,584	1,662
Later than 5 years	456	436	378	533
	<u>2,118</u>	<u>2,314</u>	<u>2,579</u>	<u>2,760</u>

(3) Assets pledged

Group

	December 31,			June 30,
	2006	2007	2008	2009
Loans to corporate customers and discounted bills (Note 18)	10,083	38,341	5,445	21,927
Trading financial assets (Note 15)	—	—	2,047	4,621
Investment securities (Note 19)	9,507	15,608	3,305	42,605
Finance lease receivables (Note 20)	—	—	1,470	1,324
	<u>19,590</u>	<u>53,949</u>	<u>12,267</u>	<u>70,477</u>

Bank

	December 31,			June 30,
	2006	2007	2008	2009
Loans to corporate customers and discounted bills (Note 18)	10,083	38,341	5,445	21,927
Trading financial assets (Note 15)	—	—	2,047	4,621
Investment securities (Note 19)	<u>9,507</u>	<u>15,608</u>	<u>3,305</u>	<u>42,605</u>
	<u>19,590</u>	<u>53,949</u>	<u>10,797</u>	<u>69,153</u>

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APPENDIX I

ACCOUNTANT'S REPORT

Assets are pledged as collateral under repurchase agreements with other banks and financial institutions, interest rate swaps contracts, convertible bonds issued, letters of guarantee issued and negotiated deposits taken.

Mandatory reserve deposits are also held with the PBOC in accordance with statutory requirements (Note 14). These deposits are not available to finance the Bank's day-to-day operations.

The pledged assets accepted by the Group and Bank in relation to resale agreement can be sold and re-pledged. The fair values of such accepted pledged assets were Rmb2.96 billion, Rmb56.17 billion, Rmb23.46 billion and Rmb155.58 billion as at December 31, 2006, 2007, 2008 and June 30, 2009 respectively. Furthermore, the fair value for the pledged assets sold by the Bank but with the obligation to return such pledged assets at the expiration date was Rmb2.17 billion, Rmb38.11 billion, Rmb3.11 billion and Rmb28.8 billion as at December 31, 2006, 2007, 2008 and June 30, 2009 respectively.

(4) Capital commitments

Group

	December 31,			June 30,
	2006	2007	2008	2009
Property and equipment				
- Contracted but not provided for	462	273	755	1,725
- Authorized but not contracted for	308	302	118	—
Equity investment				
- Contracted but not provided for	—	4,072	2,340	—
- Authorized but not contracted for	—	—	—	—
	<u>770</u>	<u>4,647</u>	<u>3,213</u>	<u>1,725</u>

Bank

	December 31,			June 30,
	2006	2007	2008	2009
Property and equipment				
- Contracted but not provided for	462	273	214	335
- Authorized but not contracted for	308	302	118	—
Equity investment				
- Contracted but not provided for	—	4,072	2,340	—
- Authorized but not contracted for	—	—	—	—
	<u>770</u>	<u>4,647</u>	<u>2,672</u>	<u>335</u>

The Group's management is confident that future net revenues and funding will be sufficient to cover these commitments.

(5) Security underwriting

Group and Bank

	December 31,			June 30,
	2006	2007	2008	2009
Short-term financing bills	—	1,950	2,900	3,300
Government bonds	10	21	—	—
	<u>10</u>	<u>1,971</u>	<u>2,900</u>	<u>3,300</u>

(6) Certificate Treasury Bonds redemption commitments

The Bank is entrusted by the MOF to underwrite certain Certificate Treasury Bonds. The investors of Certificate Treasury Bonds have the option to redeem the bonds at par any time prior to maturity, and the Bank is committed to repurchase those bonds at the redemption price. The redemption price is the par value of the Certificate Treasury Bonds plus unpaid

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APPENDIX I

ACCOUNTANT'S REPORT

interest in accordance with the early redemption arrangement. The principal of the bonds amounted to Rmb6.11 billion, Rmb4.39 billion, Rmb3.71 billion and Rmb4.09 billion as at December 31, 2006, 2007, 2008 and June 30, 2009 respectively. The original maturities of these bonds vary from 1 to 5 years. As the deposit base rate established by PBOC is currently lower than the yields on all issue of Certificate Treasury Bonds, management expects the amount of redemption before the maturity dates of those bonds will not be material.

(7) Legal proceedings

There were a number of outstanding litigation matters against the Group at December 31, 2006, 2007, 2008 and June 30, 2009. After considering professional advice received, the Group's management believes such litigation will not cause significant losses to the group.

35 FIDUCIARY ACTIVITIES

The Bank commonly acts as a trustee, or in other fiduciary capacities, that result in its holding or managing assets on behalf of individuals, trusts and other institutions. These assets and any income or losses arising thereon are excluded from this financial information, as they are not assets of the Bank.

The Bank's balances of fund custodian operations were Rmb2.03 billion, Rmb32.24 billion, Rmb15.85 billion and Rmb21.45 billion as at December 31, 2006, 2007, 2008 and June 30, 2009 respectively. The Bank's balances of credit assets management operations were Rmb3.01 billion, Rmb3.04 billion, Rmb1.23 billion and Rmb0.13 billion as at December 31, 2006, 2007, 2008 and June 30, 2009 respectively. And the Bank's balances of entrusted loans were Rmb18.58 billion, Rmb23.33 billion, Rmb25.22 billion and Rmb28.01 billion as at December 31, 2006, 2007, 2008 and June 30, 2009 respectively.

36 RELATED PARTY TRANSACTIONS

Related parties of the Group refer to entities controlled or, jointly controlled by or under significant influence of the Group; entities that control, jointly control or have significant influence over the Group; or entities with which the Group is under control, joint control or significant influence of another party. Related parties can be individuals or enterprises. Related parties that have significant influence on the Group include: companies controlled or significantly influenced by members of the Board of Directors and the Board of supervisors, senior management or their related persons, the subsidiaries of these companies, and major shareholders with the power to influence the operating decision-making or financial policies of the Group.

The terms of transactions with related parties were in accordance with the terms of the underlying agreements arranged in the ordinary course of the Group's business.

(1) Loans granted to related parties

	Year ended December 31,			Six months ended
	2006	2007	2008	June 30, 2009
Opening balance	3,772	4,226	1,653	1,814
Loans granted during the year / period	1,392	501	920	1,564
Loan repayments / transfers during the year / period	(938)	(3,074)	(759)	(1,394)
Ending balance	<u>4,226</u>	<u>1,653</u>	<u>1,814</u>	<u>1,984</u>
Interest income earned	<u>248</u>	<u>85</u>	<u>99</u>	<u>45</u>

There is no impaired loan identified among the above related party loans as at December 31, 2006, 2007, 2008 and June 30, 2009.

Guaranteed loans which amounted to Rmb1.65 billion, Rmb1.30 billion Rmb1.18 billion and Rmb1.24 billion as at December 31, 2006, 2007, 2008 and June 30, 2009 and collateralized loans amounted to Rmb2.58 billion, Rmb0.35 billion, Rmb0.63 billion and Rmb0.74 billion as at December 31, 2006, 2007, 2008 and June 30, 2009 respectively were included in the above loans to related parties.

The interest rates ranges of loans granted to related parties are 5.02% – 7.31%, 5.51% – 8.02%, 5.20% – 6.14%, 4.37% – 6.14% for year ended December 31, 2006, 2007, 2008 and six month period ended June 30, 2009.

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APPENDIX I

ACCOUNTANT'S REPORT

(2) Deposits taken from related parties

	Year ended December 31,			Six months ended June 30, 2009
	2006	2007	2008	
Opening balance	2,111	3,031	2,544	19,908
Deposits taken during the year/period	49,763	46,572	108,215	15,232
Deposits repaid during the year/period	(48,843)	(47,059)	(90,851)	(6,692)
Ending balance	<u>3,031</u>	<u>2,544</u>	<u>19,908</u>	<u>28,448</u>

The interest expense incurred on the related parties' deposits were not material for the years ended December 31, 2006, 2007, 2008 and six months ended June 30, 2009.

(3) In addition to the above loans granted to related parties:

	December 31,			June 30, 2009
	2006	2007	2008	
Placements with banks and other financial institutions	—	150	—	—
Due to and placements from banks and other financial institutions	—	3,092	1,263	2,173
Loans guaranteed by related parties	616	1,321	1,106	1,981
Acceptance issued for related parties	—	290	464	270
Bills purchased under resale agreement accepted by related parties	—	—	100	250
Related-party bills discounted by the Group	—	—	2	5
Letters of credit issued for related parties	—	—	—	20
Investment securities issued by related parties	—	—	—	232

All the above related parties transactions do not have a significant impact on the Income Statement or Balance Sheet.

(4) Services provided by related parties

The Bank purchased life insurance contracts from China Life Insurance Company ("*China Life*"), a shareholder who owns over 5% of the Bank's share, as supplementary retirement benefit for employees. The Bank pays related insurance fees periodically according to the contracts.

(5) Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly, including directors, supervisors and executive officers.

The Group enters into banking transactions with directors and key management personnel in the ordinary course of business. These include loans and deposits, which are carried out at rates in accordance with the terms of the underlying agreements. Loans outstanding to the key management amounted to Rmb1 million, Rmb3 million, nil and Rmb3 million as at December 31, 2006, 2007, 2008 and June 30, 2009 respectively, which have been included in the above loans granted to related parties.

Salaries and other short-term benefits paid to the key management personnel amounted to Rmb50 million, Rmb90 million, Rmb85 million and Rmb24 million as at December 31, 2006, 2007, 2008 and June 30, 2009 respectively. No post-employment benefits, termination benefits or other long-term benefits were provided to the key management personnel during 2006, 2007, 2008 and 2009 half year.

37 SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by Presidents and special management committees responsible for making strategic decisions. Presidents and special management committees consider the business from both geographic segment and business segment perspective.

The Group's businesses operate in four main geographical areas within the PRC:

- (1) Northern China — Including Minsheng Financial Leasing Co., Ltd, the Headquarters in Beijing as well as the following branches: Beijing, Taiyuan, Shijiazhuang and Tianjin;

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APPENDIX I

ACCOUNTANT’S REPORT

- (2) Eastern China — Including Cixi Minsheng Township Bank Co., Ltd. and the following branches: Shanghai, Hangzhou, Ningbo, Nanjing, Jinan, Suzhou, Wenzhou, Qingdao, Hefei and Nanchang;
- (3) Southern China — Including Minsheng Royal Fund Management Co., Ltd and the following branches: Fuzhou, Guangzhou, Shenzhen, Quanzhou, Shantou and Xiamen;
- (4) Other locations — Including Pengzhou Minsheng Township Bank Co., Ltd. and the following branches: Xi’an, Dalian, Chongqing, Chengdu, Kunming, Wuhan, Changsha, Zhengzhou, and Changchun.

The Group derives its revenue primarily from corporate banking, private banking and treasury business.

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APPENDIX I

ACCOUNTANT'S REPORT

The geographic segment information provided to Presidents and special management are as follows:

Group and Bank

2006	Northern China	Eastern China	Southern China	Other locations	Inter-segment elimination	Total
External Interest income	6,531	4,339	3,040	2,258	—	16,168
Inter-segment Interest (expense) / income	(998)	448	322	228	—	—
Net interest income	5,533	4,787	3,362	2,486	—	16,168
Fee and commission income	663	292	145	124	—	1,224
Fee and commission expense	(65)	(26)	(53)	(53)	—	(197)
Net fee and commission income	598	266	92	71	—	1,027
Operating expense	(3,723)	(2,597)	(1,936)	(1,461)	—	(9,717)
Impairment losses on assets	(926)	(632)	(432)	(224)	—	(2,214)
Net other income	(197)	29	69	16	—	(83)
Total profit	1,341	1,853	1,155	888	—	5,237
Segment assets	396,253	215,224	147,375	122,023	(156,535)	724,340
Unallocated						747
Total assets						725,087
Segment liabilities	(387,387)	(211,718)	(144,282)	(118,674)	156,535	(705,526)
Unallocated						(250)
Total liabilities						(705,776)
Depreciation and amortization	280	186	107	99	—	672
Capital expenditure	975	203	255	194	—	1,627
Credit commitments	48,600	36,864	17,234	16,506	—	119,204

Group and Bank

2007	Northern China	Eastern China	Southern China	Other locations	Inter-segment elimination	Total
External Interest income	7,811	6,478	4,745	3,546	—	22,580
Inter-segment Interest (expense) / income	(1,131)	624	341	166	—	—
Net interest income	6,680	7,102	5,086	3,712	—	22,580
Fee and commission income	1,966	303	230	166	—	2,665
Fee and commission expense	(83)	(43)	(91)	(57)	—	(274)
Net fee and commission income	1,883	260	139	109	—	2,391
Operating expense	(4,676)	(4,202)	(2,577)	(2,297)	—	(13,752)
Impairment losses on assets	(1,235)	(276)	(637)	(117)	—	(2,265)
Net other income	274	(17)	(49)	21	—	229
Total profit	2,955	2,867	1,962	1,428	—	9,212
Segment assets	490,930	270,401	198,168	136,336	(177,062)	918,773
Unallocated						64
Total assets						918,837
Segment liabilities	(449,512)	(266,862)	(195,137)	(133,831)	177,062	(867,280)
Unallocated						(1,370)
Total liabilities						(868,650)
Depreciation and amortization	219	167	123	98	—	607
Capital expenditure	3,028	510	135	287	—	3,960
Credit commitments	73,805	55,446	22,531	24,921	—	176,703

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APPENDIX I

ACCOUNTANT'S REPORT

Group

2008	Northern China	Eastern China	Southern China	Other locations	Inter-segment elimination	Total
External Interest income	11,648	8,506	5,020	5,206	—	30,380
Inter-segment Interest (expense) / income	(3,755)	2,157	1,083	515	—	—
Net interest income	7,893	10,663	6,103	5,721	—	30,380
Fee and commission income	3,196	870	355	334	—	4,755
Fee and commission expense	(129)	(50)	(69)	(46)	—	(294)
Net fee and commission income	3,067	820	286	288	—	4,461
Operating expense	(6,530)	(5,406)	(2,982)	(2,899)	—	(17,817)
Impairment losses on assets	(3,929)	(900)	(595)	(1,094)	—	(6,518)
Net other income	(880)	(46)	71	5	—	(850)
Total profit	451	5,128	2,899	2,010	—	10,488
Segment assets	671,727	335,333	163,954	170,199	(287,942)	1,053,271
Unallocated						1,079
Total assets						1,054,350
Segment liabilities	(633,845)	(327,846)	(159,454)	(166,475)	287,942	(999,678)
Depreciation and amortization	293	156	124	105	—	678
Capital expenditure	902	503	20	336	—	1,761
Credit commitments	82,193	92,831	25,302	36,573	—	236,899

Group

The first half of 2008	Northern China	Eastern China	Southern China	Other locations	Inter-segment elimination	Total
External Interest income	5,272	4,172	2,929	2,323	—	14,696
Inter-segment Interest (expense) / income	(1,804)	974	549	281	—	—
Net interest income	3,468	5,146	3,478	2,604	—	14,696
Fee and commission income	2,211	577	233	190	—	3,211
Fee and commission expense	(55)	(22)	(35)	(27)	—	(139)
Net fee and commission income	2,156	555	198	163	—	3,072
Operating expense	(2,847)	(2,466)	(1,361)	(1,194)	—	(7,868)
Impairment losses on assets	(424)	(390)	(209)	(592)	—	(1,615)
Net other income	(145)	6	4	6	—	4,567
Total profit	2,208	2,851	2,110	987	—	8,156

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APPENDIX I

ACCOUNTANT'S REPORT

Group

The first half of 2009	Northern China	Eastern China	Southern China	Other locations	Inter-segment elimination	Total
External Interest income	5,522	3,967	1,644	2,817	—	13,950
Inter-segment Interest (expense) / income	(788)	525	312	(49)	—	—
Net interest income	4,734	4,492	1,956	2,768	—	13,950
Fee and commission income	1,553	500	202	187	—	2,442
Fee and commission expense	(62)	(30)	(35)	(17)	—	(144)
Net fee and commission income	1,491	470	167	170	—	2,298
Operating expense	(3,263)	(2,463)	(1,289)	(1,363)	—	(8,378)
Impairment losses on assets	(1,294)	(884)	(11)	(662)	—	(2,851)
Net other income	4,745	(84)	(16)	(78)	—	4,567
Total profit	6,473	1,469	808	836	—	9,586
Segment assets	828,972	446,222	215,190	269,660	(352,550)	1,407,494
Unallocated						2,520
Total assets						1,410,014
Segment liabilities	(796,377)	(432,011)	(210,993)	(265,131)	352,550	(1,351,962)
Depreciation and amortization	136	81	57	62	—	336
Capital expenditure	1,112	89	3	56	—	1,260
Credit commitments	145,388	140,203	38,542	78,020	—	402,153

Transactions between segments are carried out at arm's length. The profit or loss reported to Presidents and special management committees is measured in a manner consistent with that in the income statement.

The amounts provided to Presidents and special management committees with respect to total assets and total liabilities are measured in a manner consistent with that of the financial statements. Deferred income tax assets and liabilities are not allocated to segments.

The segment information by business type provided to Presidents and special management committees are as follows:

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
Total operating income					
Corporate banking business	12,143	18,509	26,410	12,464	11,496
Retail banking business	2,415	4,024	6,183	2,927	2,142
Treasury business	2,725	2,351	2,195	2,021	2,277
Other business and unallocated	158	388	185	228	5,315
Total	17,441	25,272	34,973	17,640	21,230

Group

	December 31,			June 30,
	2006	2007	2008	2009
Segment assets				
Corporate banking business	398,555	450,024	540,374	768,235
Retail banking business	68,042	98,875	107,706	123,494
Treasury business	248,374	356,178	388,528	493,321
Other business and unallocated	10,116	13,760	17,742	24,964
Total	725,087	918,837	1,054,350	1,410,014

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APPENDIX I

ACCOUNTANT'S REPORT

Bank

	December 31,			June 30,
	2006	2007	2008	2009
Segment assets				
Corporate banking business	398,555	450,024	540,374	768,235
Retail banking business	68,042	98,875	107,706	123,494
Treasury business	248,374	356,178	388,528	493,429
Other business and unallocated	10,116	13,760	13,533	14,921
Total	<u>725,087</u>	<u>918,837</u>	<u>1,050,141</u>	<u>1,400,079</u>

38 EVENTS AFTER THE BALANCE SHEET DATE

Up to the date of this report, the Group has no material events for disclosure after the balance sheet date.

39 SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the bank and its subsidiaries in respect of any period subsequent to June 30, 2009 up to the date of this report. In addition, no dividend or distribution has been declared, made or paid by the Bank or its subsidiaries in respect of any period subsequent to June 30, 2009.

Your faithfully

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong

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APPENDIX II

UNAUDITED INTERIM FINANCIAL REPORT

Under the rules of Shanghai Stock Exchange on which our A shares are listed, we are required to file interim financial report containing unaudited financial statements prepared in accordance with the Accounting Standards for Business Enterprises — Basic Standards and the 38 specific accounting standards (issued by the MOF on February 15, 2006), and the implementation guidance and interpretations for the Accounting Standards for Business Enterprises subsequently released and other relevant rules and regulations issued by MOF. Because we released financial statements for the nine months ended September 30, 2009 (including financial statements for the same period in 2008) prior to the date of this document, we have prepared interim financial report in accordance with International Accounting Standard 34 "Interim Financial Reporting" and have incorporated such report in this document.



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF CHINA MINSHENG BANKING CORP., LTD. (incorporated in the People's Republic of China with limited liability)

Introduction

We have reviewed the interim financial information set out in section I to V below, which comprises the condensed consolidated balance sheet of China Minsheng Banking Corp., Ltd. (the "Bank") and its subsidiaries (together, the "Group") as at September 30, 2009, the condensed consolidated statement of comprehensive income for the three-month and nine-month periods ended September 30, 2009, the condensed consolidated statement of changes in equity and cash flow for the nine-month period ended September 30, 2009, and a summary of significant accounting policies and other explanatory notes. The directors of the Bank are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

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APPENDIX II

UNAUDITED INTERIM FINANCIAL REPORT

PicewaterhouseCoopers
Certified Public Accountants

Hong Kong, []

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APPENDIX II

UNAUDITED INTERIM FINANCIAL REPORT

CHINA MINSHENG BANKING CORP., LTD.

I. UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(All amounts expressed in millions of Rmb unless otherwise stated)

		Three months ended September 30,		Nine months ended September 30,	
	Note	2008	2009	2008	2009
Interest income	4	15,027	14,109	42,286	38,743
Interest expense	4	(6,917)	(5,369)	(19,480)	(16,053)
Net interest income		8,110	8,740	22,806	22,690
Fee and commission income	5	1,284	1,343	4,495	3,785
Fee and commission expense		(74)	(89)	(213)	(233)
Net fee and commission income		1,210	1,254	4,282	3,552
Net trading income	6	244	61	89	84
Net gain on disposal of available-for-sale securities		20	44	47	5,003
Impairment losses on assets	7	(1,413)	(532)	(3,028)	(3,383)
Operating expenses	8	(4,394)	(5,670)	(12,262)	(14,047)
Other operating expenses		(82)	(10)	(83)	(426)
Profit before income tax		3,695	3,887	11,851	13,473
Income tax expense	9	(1,067)	(1,053)	(3,177)	(3,260)
Net profit		2,628	2,834	8,674	10,213
Other comprehensive income:					
Available-for-sale securities	30	(434)	(634)	(1,631)	(3,951)
Available-for-sale securities — tax	30	215	159	527	983
Net other comprehensive income		(219)	(475)	(1,104)	(2,968)
Comprehensive income		2,409	2,359	7,570	7,245
Net profit attributable to:					
Equity holders of the Bank		2,597	2,827	8,638	10,201
Minority interest		31	7	36	12
		<u>2,628</u>	<u>2,834</u>	<u>8,674</u>	<u>10,213</u>
Comprehensive income attributable to:					
Equity holders of the Bank		2,378	2,352	7,534	7,233
Minority interest		31	7	36	12
		<u>2,409</u>	<u>2,359</u>	<u>7,570</u>	<u>7,245</u>
Earnings per share (expressed in Rmb per share)					
- basic	10	<u>0.14</u>	<u>0.15</u>	<u>0.46</u>	<u>0.54</u>
- diluted	10	<u>0.14</u>	<u>0.15</u>	<u>0.46</u>	<u>0.54</u>
Dividends					
Interim dividend declared	29	—	—	—	—
Final dividend proposed after the balance sheet date	29	—	—	—	—
		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

The accompanying notes presented on page 6 to 28 form an integral part of these unaudited condensed consolidated interim financial information.

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APPENDIX II

UNAUDITED INTERIM FINANCIAL REPORT

CHINA MINSHENG BANKING CORP., LTD.

II. UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET
(All amounts expressed in millions of Rmb unless otherwise stated)

	Note	December 31, 2008	September 30, 2009
ASSETS			
Cash and due from banks and other financial institutions	11	17,648	53,517
Precious metals		110	33
Balances with central banks	12	181,878	164,538
Trading financial assets	13	4,405	5,534
Derivative financial assets	14	1,216	420
Placements with banks and other financial institutions	15	52,408	114,381
Loans and advances to customers	16	646,475	880,008
Investment securities:			
- available-for-sale	17	53,597	52,265
- held-to-maturity	17	38,716	53,671
- loans and receivables	17	37,066	42,587
Finance lease receivables	18	5,253	13,930
Property and equipment	19	6,973	7,375
Deferred income tax assets	20	1,079	3,002
Other assets	22	7,526	11,675
Total assets		<u>1,054,350</u>	<u>1,402,936</u>
LIABILITIES			
Deposits from customers	23	785,786	1,099,483
Due to and placements from banks and other financial institutions . .	24	160,248	182,729
Borrowings from foreign governments		391	396
Borrowings from other financial institutions		2,600	11,850
Derivative financial liabilities	14	1,239	404
Provisions		609	1,118
Debt securities in issue	25	33,999	29,171
Deferred income tax liabilities	20	—	—
Other liabilities	26	14,806	17,374
Total liabilities		<u>999,678</u>	<u>1,342,525</u>
EQUITY			
Share capital	27	18,823	18,823
Capital reserve	27	14,768	14,768
Surplus reserve	28	2,983	2,983
General reserve	28	8,001	8,001
Retained earnings		6,009	14,704
Reserve for fair value changes of available-for-sale securities	30	3,296	328
Capital and reserves attributable to the equity holders of the Bank . .		53,880	59,607
Minority interest in equity		792	804
Total equity		<u>54,672</u>	<u>60,411</u>
Total liabilities and equity		<u>1,054,350</u>	<u>1,402,936</u>

The accompanying notes presented on page 6 to 28 form an integral part of these unaudited condensed consolidated interim financial information.

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APPENDIX II

UNAUDITED INTERIM FINANCIAL REPORT

CHINA MINSHENG BANKING CORP., LTD.

III. UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(All amounts in millions of Rmb unless otherwise stated)

Attributable to the equity holders of the Bank									
							Reserve for fair value changes of available-for- sale securities	Minority interest	Total equity
	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Retained earnings			
Balance at January 1, 2008		14,479	16,200	2,200	5,800	4,728	6,780	—	50,187
Comprehensive income		—	—	—	—	8,637	(1,104)	36	7,569
Capital injection		—	—	—	—	—	—	635	635
Shares issued from capital reserve	27	1,448	(1,448)	—	—	—	—	—	—
Cash dividends relating to 2007	29	—	—	—	—	(724)	—	—	(724)
Stock dividends relating to 2007	29	2,896	—	—	—	(2,896)	—	—	—
Balance at September 30, 2008		<u>18,823</u>	<u>14,752</u>	<u>2,200</u>	<u>5,800</u>	<u>9,745</u>	<u>5,676</u>	<u>671</u>	<u>57,667</u>
Balance at October 1, 2008		18,823	14,752	2,200	5,800	9,745	5,676	671	57,667
Comprehensive income		—	—	—	—	(752)	(2,380)	(28)	(3,160)
Capital injection		—	—	—	—	—	—	145	145
Appropriation to surplus reserve	28	—	—	783	—	(783)	—	—	—
Appropriation to general reserve	28	—	—	—	2,201	(2,201)	—	—	—
Other		—	16	—	—	—	—	4	20
Balance at December 31, 2008		<u>18,823</u>	<u>14,768</u>	<u>2,983</u>	<u>8,001</u>	<u>6,009</u>	<u>3,296</u>	<u>792</u>	<u>54,672</u>
Balance at January 1, 2009		18,823	14,768	2,983	8,001	6,009	3,296	792	54,672
Comprehensive income		—	—	—	—	10,201	(2,968)	12	7,245
Cash dividends relating to 2008	29	—	—	—	—	(1,506)	—	—	(1,506)
Balance at September 30, 2009		<u>18,823</u>	<u>14,768</u>	<u>2,983</u>	<u>8,001</u>	<u>14,704</u>	<u>328</u>	<u>804</u>	<u>60,411</u>

The accompanying notes presented on page 6 to 28 form an integral part of these unaudited condensed consolidated interim financial information.

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APPENDIX II

UNAUDITED INTERIM FINANCIAL REPORT

CHINA MINSHENG BANKING CORP., LTD.

IV. UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(All amounts expressed in millions of Rmb unless otherwise stated)

		Nine months ended September 30,	
	Note	2008	2009
Cash flows from operating activities			
Profit before income tax		11,851	13,473
Adjustments for:			
Impairment losses on assets		3,028	3,383
Depreciation and amortization		499	533
Gains on disposal of property and equipment and other long-term assets . . .		(1)	(1)
Gain/(losses) from fair value changes		(310)	24
Net gains on disposal of available-for-sale securities		(47)	(5,003)
Interest expense on debt securities in issue and other financing activities . . .		1,042	1,055
Interest income from investment securities		(4,366)	(4,052)
Payment of income tax		(2,973)	(2,078)
Net changes in operating assets and liabilities:			
Net decrease/(increase) in due from banks and other financial institutions . . .		(129)	560
Net decrease/(increase) in precious metals		(5)	77
Net increase in restricted balances with central banks		(24,775)	(31,330)
Net increase in trading financial assets		(2,172)	(847)
Net increase in placements with banks and other financial institutions		(41,293)	(61,915)
Net increase in loans and advances to customers		(76,490)	(236,334)
Net increase in other assets		(7,668)	(13,434)
Net increase in deposits from customers		118,072	313,697
Net increase in due to and placements from banks and other financial institutions		11,699	22,481
Net increase in other liabilities		2,951	960
Net cash from operating activities		<u>(11,087)</u>	<u>1,249</u>
Cash flows from investing activities			
Proceeds from investment securities		58,727	95,882
Proceeds from disposal of property and equipment, intangible assets and other long-term assets		3	2
Purchase of investment securities		(32,921)	(108,834)
Purchase of property and equipment, intangible assets and other long-term assets		<u>(1,218)</u>	<u>(1,991)</u>
Net cash from investing activities		<u>24,591</u>	<u>(14,941)</u>
Cash flows from financing activities			
Proceeds from minority equity holders of subsidiaries		35	—
Borrowed from other financial institutions		2,250	14,267
Proceeds from issuance of debt securities		—	4,983
Cash paid for debts		—	(13,236)
Cash paid for interest		(558)	(1,035)
Cash dividends paid		(724)	(1,506)
Net cash from financing activities		<u>1,003</u>	<u>3,473</u>
Net increase/(decrease) in cash and cash equivalents		<u>14,507</u>	<u>(10,219)</u>
Cash and cash equivalents at beginning of the period		37,020	112,302
Effect of foreign exchange rate changes		(324)	100
Cash and cash equivalents at end of the period	31	<u>51,203</u>	<u>102,183</u>

The accompanying notes presented on page 6 to 28 form an integral part of these unaudited condensed consolidated interim financial information.

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APPENDIX II

UNAUDITED INTERIM FINANCIAL REPORT

CHINA MINSHENG BANKING CORP., LTD.

V. NOTES TO THE INTERIM FINANCIAL INFORMATION (All amounts in millions of Rmb unless otherwise stated)

1 GENERAL INFORMATION

China Minsheng Banking Corp., Ltd. (the "Bank") is a national joint-stock commercial bank established in the People's Republic of China ("PRC") on February 7, 1996 with the approval of the State Council of the PRC and the People's Bank of China (the "PBOC"). The Bank issued 350,000,000 ordinary shares of A-share common stock in local currency Renminbi ("Rmb") in 2000 and the shares have been listed and traded on the Shanghai Stock Exchange since 2000.

As at September 30, 2009, the Bank has 28 branches and a sub-branch in Shantou, which directly reports to the Head Office. The Bank and its subsidiaries (together the "Group") provides retail and corporate banking, leasing and fund management services in China.

2 BASIS OF PREPARATION

The unaudited condensed consolidated interim financial information has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended December 31, 2008 included in the Accountant's Report dated [] (the "Accountant's Report"), the text of which is set out in Appendix I to the document of the Bank dated [].

The principle accounting policies adopted in the preparation of the unaudited condensed consolidated interim financial information are consistent with those used in the Group's consolidated financial statements as at and for the year ended December 31, 2008 included in the Accountant's Report.

Standards, amendments and interpretations that have been issued but not yet effective and have not been early adopted by the Group for nine months ended September 30, 2009 are as follows:

	Effective for annual periods beginning on or after
IFRS 3 (Revised) Business Combination	July 1, 2009
IAS 27 (Revised) Consolidated and Separate Financial Statements	July 1, 2009
IFRIC 17 Distribution of Non-cash Assets to Owners	July 1, 2009
IFRIC 18 Transfers of Assets From Customers	July 1, 2009
Amendment to IFRS 2 Group Cash-settled Share-based Payment Transactions.	January 1, 2010
Amendment to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.	January 1, 2010
Amendment to IFRS 8 Operating Segments	January 1, 2010
Amendment to IAS 1 Presentation of Financial Statements.	January 1, 2010
Amendment to IAS 7 Statement of Cash Flows	January 1, 2010
Amendment to IAS 17 Leases	January 1, 2010
Amendment to Appendix to IAS 18 Revenue	July 1, 2009
Amendment to IAS 36 Impairment of Assets	January 1, 2010
Amendment to IAS 38 Intangible Assets	July 1, 2009
Amendment to IAS 39 Financial Instrument: Recognition and Measurement	July 1, 2009
Amendment to IFRIC 9 Reassessment of Embedded Derivatives.	July 1, 2009
Amendment to IFRIC 16 Interpretation Hedges of a Net Investment in a Foreign Operation	July 1, 2009

The application of these standards, amendments and interpretations is not expected to have a material effect on the Group's operating results or financial position.

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APPENDIX II

UNAUDITED INTERIM FINANCIAL REPORT

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Areas susceptible to changes in essential estimates and judgments, which affect the carrying value of assets and liabilities, are set out below. It is impracticable to determine the effect of changes to either the key assumptions discussed below or other estimation uncertainties. It is possible that actual results may require material adjustments to the estimates referred to below.

(1) *Impairment allowances on loans and advances*

Besides impairment assessment for individually impaired loans, the Group reviews its loan portfolios to assess impairment regularly. In determining whether a provision for loan impairments should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or national or local economic conditions that correlate with defaults of borrowers. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(2) *Fair value of derivative and other financial instruments*

The Group establishes fair value of financial instruments with reference to a quoted market price in an active market or, if there is no active market, using valuation techniques. These valuation techniques include the use of recent arm's length transactions, observable prices for similar instruments, discounted cash flow analysis using risk-adjusted interest rates, and commonly used market pricing models. Whenever possible these models use observable market inputs and data including, for example, interest rate yield curves, foreign currency rates and option volatilities. The results of using valuation techniques are calibrated against industry practice and observable current market transactions in the same or similar instruments.

(3) *Impairment of available-for-sale securities and held-to-maturity securities*

The Group follows the guidance of IAS 39 in determining impairment of available-for-sale securities and held-to-maturity securities. The determination of impairment requires a high level of management judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, technological changes, credit ratings, delinquency rates, loss provision coverage and counterparty risk.

(4) *Held-to-maturity securities*

The Group classifies non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. Other than in specific circumstances (e.g. sale of an insignificant amount of held-to-maturity securities at a time close to maturity), if the Group fails to hold these securities to maturity or reclassifies some of the securities to available-for-sale securities, the Group shall have to reclassify any of the remaining held-to-maturity securities as available-for-sale securities, and measure them at fair value rather than amortized cost.

(5) *Taxation*

In the ordinary course of business, many transactions and calculations involve uncertainties in the ultimate tax determination, and significant estimates are required in determining the provision for business tax and income tax. The Group recognizes liabilities for anticipated tax inspection issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the business tax, income tax and deferred income tax provisions in the period during which such a determination is made.

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APPENDIX II

UNAUDITED INTERIM FINANCIAL REPORT

4 NET INTEREST INCOME

	Nine months ended September 30,	
	2008	2009
Interest income:		
- Due from banks and other financial institutions	112	229
- Balances with central banks	1,659	1,383
- Placements with banks and other financial institutions	2,850	1,564
- Loans and advances to customers	33,171	31,001
- Investment securities	4,366	4,052
- Finance lease receivables.	111	485
- Others.	17	29
	<u>42,286</u>	<u>38,743</u>
 Included within interest income:		
Interest income accrual on identified impaired financial assets	138	151
Interest expense:		
- Due to and placements from banks and other financial institutions	(4,450)	(2,633)
- Deposits from customers.	(13,977)	(12,217)
- Debt securities in issue	(1,042)	(1,055)
- Others.	(11)	(148)
	<u>(19,480)</u>	<u>(16,053)</u>
Net interest income	<u><u>22,806</u></u>	<u><u>22,690</u></u>

5 FEE AND COMMISSION INCOME

	Nine months ended September 30,	
	2008	2009
Financial advisory services	2,129	1,223
Bank card services	662	872
Credit commitments	585	655
Trust and other fiduciary services	530	432
Settlement services.	306	289
Securities underwriting service	88	94
Others.	195	220
Total	<u><u>4,495</u></u>	<u><u>3,785</u></u>

6 NET TRADING INCOME/(LOSS)

	Nine months ended September 30,	
	2008	2009
Gain on exchange rate instruments	14	211
Gain/(loss) on interest rate instruments.	306	(62)
Loss on precious metal and other products	(231)	(65)
Total	<u><u>89</u></u>	<u><u>84</u></u>

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APPENDIX II

UNAUDITED INTERIM FINANCIAL REPORT

7 IMPAIRMENT LOSSES ON ASSETS

	Nine months ended September 30,	
	2008	2009
Loans and advances to customers	2,535	2,893
Available-for-sale securities	435	461
Held-to-maturity securities	—	(54)
Finance lease receivables	57	116
Others	1	(33)
Total	<u>3,028</u>	<u>3,383</u>

8 OPERATING EXPENSES

	Nine months ended September 30,	
	2008	2009
Staff costs, including directors' emoluments		
- Salary, including bonus	4,350	5,190
- Social insurance	773	839
- Other benefits	724	734
Business tax and surcharges	2,170	2,023
Business development expenses	761	979
Lease expense, primarily for office	585	694
Office expenses	497	868
Depreciation	447	478
Automobile expenses	348	357
Electronic equipment operating expenses	233	414
Mailing and telegraph expenses	228	217
Travelling expenses	125	152
Conference expenses	102	103
CBRC supervisory charges	65	104
Others	854	895
Total	<u>12,262</u>	<u>14,047</u>

9 INCOME TAX EXPENSE

Taxation in the income statement represents mainland China income tax:

	Nine months ended September 30,	
	2008	2009
Current tax	3,255	4,200
Deferred tax (Note 20)	(78)	(940)
	<u>3,177</u>	<u>3,260</u>

As at September 30, 2009, the applicable income tax rate (except for Shenzhen branch) is 25% (2008: 25%). For Shenzhen branch, the applicable income tax rate is 20% (2008: 18%).

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APPENDIX II

UNAUDITED INTERIM FINANCIAL REPORT

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the statutory tax rate of the Group as follows:

	Nine months ended September 30,	
	2008	2009
Profit before income tax	11,851	13,473
Provision for income tax calculated at statutory rates	2,920	3,356
Exempted interest income on government bonds	(353)	(337)
Non-deductible salary, entertainment and other expenses	377	101
Others	233	140
	<u>3,177</u>	<u>3,260</u>

10 EARNINGS PER SHARE

(1) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares purchased by the Group and held as treasury shares.

	Nine months ended September 30,	
	2008	2009
Profit attributable to equity holders of the Bank	8,638	10,201
Weighted average number of ordinary shares in issue (in millions)	<u>18,823</u>	<u>18,823</u>
Basic earnings per share (in Rmb)	<u>0.46</u>	<u>0.54</u>

(2) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares for the effect of all dilutive potential ordinary shares of the Bank, which are in the form of convertible debt. The convertible debt is assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense less the tax effect.

	Nine months ended September 30,	
	2008	2009
Profit attributable to equity holders of the Bank	8,638	10,201
Interest expense on convertible debt (net of tax)	—	—
Net profit used to determine diluted earnings per share	<u>8,638</u>	<u>10,201</u>
Number of shares (in millions)		
Weighted average number of ordinary shares in issue	18,823	18,823
Adjustments for:		
Additional number of shares assuming the conversion of all the convertible bonds convert into ordinary shares (in millions)	—	—
Weighted average number of ordinary shares for diluted earnings per share (in millions) . . .	<u>18,823</u>	<u>18,823</u>
Diluted earnings per share (in Rmb)	<u>0.46</u>	<u>0.54</u>

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APPENDIX II

UNAUDITED INTERIM FINANCIAL REPORT

11 CASH AND DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	December 31, 2008	September 30, 2009
Cash	2,900	3,431
Due from banks and other financial institutions		
- Due from banks	13,930	48,682
- Due from other financial institutions	818	1,404
	<u>17,648</u>	<u>53,517</u>

12 BALANCES WITH CENTRAL BANKS

	December 31, 2008	September 30, 2009
Restricted deposits	84,457	115,787
Unrestricted deposits	<u>97,421</u>	<u>48,751</u>
	<u>181,878</u>	<u>164,538</u>

Restricted deposits are general reserve balance with central banks. As at September 30, 2009, The Group was required to maintain with the PBOC a restricted general reserve deposit equal to 13.5% of Rmb deposits (2008: 13.5%) and 5% of foreign currency deposits (2008: 5%). Unrestricted deposits are maintained with the PBOC for liquidity purposes.

Restricted balance with central banks are not available for use in the Bank's day-to-day operations.

13 TRADING FINANCIAL ASSETS

	December 31, 2008	September 30, 2009
Government and quasi-government bonds	3,069	3,624
Corporate bonds	<u>1,336</u>	<u>1,910</u>
Total	<u>4,405</u>	<u>5,534</u>

All of above bond investments are listed.

As at September 30, 2009, trading financial assets pledged as collateral under repurchase agreements signed with other banks and other financial institutions amounted to Rmb2.03 billion (2008: Rmb2.05 billion). Please refer to Note 32 for detailed information.

14 DERIVATIVE FINANCIAL INSTRUMENTS

The following derivative financial instruments are held by the Group for trading purposes:

Foreign exchange forwards represent commitments to purchase/sell foreign currencies at a future date, including undelivered spot transactions.

Interest rate and currency swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (e.g. fixed rate for floating rate).

The credit risk faced by the Group arising from derivative financial products means, if a counterparty fails to fulfill its obligation, the cost of replacement of the original contract with an additional commitment. The Group controls this risk by monitoring the nominal amount of contracts, fair value and the ability to convert to cash on a continuous basis. In order to control the level of credit risk, the Group uses similar method adopted in its credit business to measure the extent of credit exposure.

The contractual/notional amounts of financial instruments serve only as a basis for comparison with fair value instruments recognized on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The derivative financial instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in

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APPENDIX II

UNAUDITED INTERIM FINANCIAL REPORT

market interest rates or foreign exchange rates or equity/commodity prices relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The fair values of derivative financial instruments held are set out in the following table:

	Contract/notional Amount	Fair values	
		Assets	Liabilities
December 31, 2008			
Currency forwards	11,498	211	(266)
Currency swaps	1,531	18	—
Interest rate swaps	17,711	987	(969)
Credit default swaps	68	—	(4)
Extension options	9,015	—	—
Precious metal swaps	163	—	—
		<u>1,216</u>	<u>(1,239)</u>
September 30, 2009			
Currency forwards	10,288	68	(61)
Currency swaps	3,871	8	(35)
Interest rate swaps	16,221	343	(297)
Credit default swaps	68	—	(1)
Extension options	14,015	—	—
Precious metal swaps	1,174	1	(10)
		<u>420</u>	<u>(404)</u>

15 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	December 31, 2008	September 30, 2009
Placements with banks and other financial institutions		
- Banks	30,324	105,592
- Other financial institutions	<u>22,176</u>	<u>8,823</u>
	52,500	114,415
Less: allowance for impairment losses — individually assessed	<u>(92)</u>	<u>(34)</u>
Net	<u>52,408</u>	<u>114,381</u>

The movement of allowance for impairment losses are as follows:

	December 31, 2008	September 30, 2009
Opening balance	(94)	(92)
Releases	<u>2</u>	<u>58</u>
Ending balance	<u>(92)</u>	<u>(34)</u>

Placements with banks and other financial institutions that include balances arising from reverse repo agreements are as follows:

	December 31, 2008	September 30, 2009
Discounted bills	23,463	88,138
Government and quasi-government bonds	10,450	400
Corporate loans	<u>1,400</u>	<u>2,500</u>
Total	<u>35,313</u>	<u>91,038</u>

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APPENDIX II

UNAUDITED INTERIM FINANCIAL REPORT

16 LOANS AND ADVANCES TO CUSTOMERS

	December 31, 2008	September 30, 2009
Loans to corporate entities		
- Corporate loans	475,185	678,254
- Discounted bill	63,931	61,333
- Others	10,673	7,762
Subtotal	549,789	747,349
Loans to individuals		
- Mortgage loans	87,401	98,110
- Credit cards	12,727	13,660
- Others	8,443	34,424
Subtotal	108,571	146,194
Loan and advances to customers, gross	658,360	893,543
Less: allowance for impairment losses		
- Individually assessed	(3,990)	(4,397)
- Collectively assessed	(7,895)	(9,138)
	(11,885)	(13,535)
Loan and advances to customers, net	646,475	880,008

As at September 30, 2009, loans to corporate customers and discounted bills pledged as collateral under repurchase agreements with other banks and other financial institutions amounted to Rmb0.11 billion (2008: Rmb5.45 billion). (Please refer to Note 32 for detailed information.)

(1) Analysis of loans and advances to customers by collective and individual assessment

	Loans and advances for which allowance is collectively assessed	Identified impaired loans and advances		Subtotal	Total
		For which allowance is collectively assessed	For which allowance is individually assessed		
December 31, 2008					
Gross loans and advances					
- Loans to corporate entities	542,534	535	6,720	7,255	549,789
- Loans to individuals	107,905	666	—	666	108,571
Allowance for impairment losses	(7,186)	(709)	(3,990)	(4,699)	(11,885)
Loans and advances to customers, net	643,253	492	2,730	3,222	646,475
September 30, 2009					
Gross loans and advances					
- Loans to corporate entities	740,985	165	6,199	6,364	747,349
- Loans to individuals	145,273	921	—	921	146,194
Allowance for impairment losses	(8,393)	(745)	(4,397)	(5,142)	(13,535)
Loans and advances to customers, net	877,865	341	1,802	2,143	880,008

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APPENDIX II

UNAUDITED INTERIM FINANCIAL REPORT

(2) Loans to corporations by industries

	December 31, 2008		September 30, 2009	
	Amount	(%)	Amount	(%)
Manufacturing	103,132	18	138,008	18
Real estate	90,158	15	101,444	13
Transportation, warehousing and postal service	69,840	13	81,066	11
Leasing and commercial services	51,045	9	95,368	13
Production and supply of electronic power, gas and water	46,761	9	52,386	7
Water conservancy, environment and public utilities management	40,262	7	64,327	8
Mining	28,601	5	42,980	6
Wholesale and retail	25,811	5	50,403	7
Construction	25,307	5	28,926	4
Financial services	25,135	5	18,015	2
Education and community services	14,290	3	22,609	3
Public administration and social organizations	13,942	3	36,302	5
Information transmission, IT service and software industry	4,960	1	4,176	1
Others	10,545	2	11,339	2
Total	<u>549,789</u>	<u>100</u>	<u>747,349</u>	<u>100</u>

(3) Loans and advances analyzed by guarantee type:

	December 31, 2008	September 30, 2009
Unsecured loans	173,421	255,529
Guaranteed loans	150,383	206,577
Secured loan		
- Collateralized loans	220,754	310,454
- Pledged loans	<u>113,802</u>	<u>120,983</u>
Total	<u>658,360</u>	<u>893,543</u>

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APPENDIX II

UNAUDITED INTERIM FINANCIAL REPORT

(4) Movement of allowance for impairment losses

	Loans to corporate entities		Loans to individuals	
	Individual assessment	Collective assessment	Collective assessment	Total
Balance at January 1, 2008	3,494	3,250	919	7,663
New allowances	1,802	3,481	489	5,772
Releases	(86)	—	—	(86)
Reclassification	95	(95)	—	—
Amounts written off during the year as uncollectible . .	(1,200)	(16)	(124)	(1,340)
Unwinding of discount on allowance	(164)	—	—	(164)
Recovery after write-off	56	—	—	56
Exchange differences	(7)	(7)	(2)	(16)
Balance at December 31, 2008	<u>3,990</u>	<u>6,613</u>	<u>1,282</u>	<u>11,885</u>
Balance at January 1, 2009	3,990	6,613	1,282	11,885
New allowances	1,169	1,101	709	2,979
Releases	(86)	—	—	(86)
Reclassification	145	(145)	—	—
Amounts written off and exempted during the period as uncollectible	(728)	(50)	(372)	(1,150)
Unwinding of discount on allowance	(151)	—	—	(151)
Recovery after write-off	58	—	—	58
Balance at September 30, 2009	<u>4,397</u>	<u>7,519</u>	<u>1,619</u>	<u>13,535</u>

17 INVESTMENT SECURITIES

	December 31, 2008	September 30, 2009
Available-for-sale securities	53,597	52,265
Held-to-maturity securities	38,716	53,671
Loans and receivables	<u>37,066</u>	<u>42,587</u>
	<u>129,379</u>	<u>148,523</u>
Analyzed as follows:		
- Listed in Hong Kong	2,708	2,878
- Listed outside Hong Kong	84,788	100,456
- Unlisted	<u>41,883</u>	<u>45,189</u>
	<u>129,379</u>	<u>148,523</u>

As at September 30, 2009, Investment securities pledged as collateral under agreements signed with banks and other financial institutions amounted to Rmb3.26 billion (2008:Rmb3.30 billion). Such agreements included interest rate swap contracts, issuance of convertible bonds, issuance of guarantees, and negotiated deposits. Please refer to Note 33 for detailed information.

The Bank did not make any reclassification of investment securities during the year ended December 31, 2008 and nine months ended September 30, 2009.

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APPENDIX II

UNAUDITED INTERIM FINANCIAL REPORT

(1) Available-for-sale securities

	December 31, 2008	September 30, 2009
Debt securities at fair value		
Government and quasi-government bonds		
- listed in Hong Kong	2,467	2,634
- listed outside Hong Kong	34,770	35,703
- unlisted	1,333	855
Financial institutions bonds		
- listed in Hong Kong	68	72
- listed outside Hong Kong	737	638
- unlisted	2,422	1,234
Corporate bonds		
- listed outside Hong Kong	7,948	10,941
- unlisted	91	—
	<u>49,836</u>	<u>52,077</u>
Equity securities at fair value		
Financial institutions securities		
- listed outside Hong Kong	3,633	63
- unlisted	125	125
Corporate securities		
- listed outside Hong Kong	3	—
	<u>3,761</u>	<u>188</u>
	<u>53,597</u>	<u>52,265</u>

For the nine months ended September 30, 2009, the Group's fair value changes relating to impaired available-for-sale securities amounted to Rmb1,059 million (2008: Rmb599 million), which have been charged to the income statement.

In the first half of 2009, the Bank disposed of its equity securities of Haitong Securities Co, Ltd ("Haitong Securities"). The balance of equity securities of Haitong Securities held by the Bank were Rmb3.09 billion as at December 31, 2008. Net gain of Rmb4.90 billion was recognized in the income statement for nine months ended September 30, 2009.

(2) Held-to-maturity securities

	December 31, 2008	September 30, 2009
Government and quasi-government bonds		
- listed in Hong Kong	173	172
- listed outside Hong Kong	37,228	47,271
- unlisted	7	—
Financial institutions bonds		
- listed outside Hong Kong	478	446
- unlisted	884	388
Corporate bonds		
- listed outside Hong Kong	—	5,394
Gross	<u>38,770</u>	<u>53,671</u>
Less: allowance for impairment losses - individually assessed	(54)	—
Net	<u>38,716</u>	<u>53,671</u>

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APPENDIX II

UNAUDITED INTERIM FINANCIAL REPORT

(3) Loans and receivables

	December 31, 2008	September 30, 2009
Government and quasi-government bonds	20,792	25,913
Financial institution bonds	7,890	11,190
Financial institutions entrust products	8,384	5,484
Total	<u>37,066</u>	<u>42,587</u>

All of above loans and receivables are unlisted.

18 FINANCE LEASE RECEIVABLES

	December 31, 2008	September 30, 2009
Finance lease receivables	5,991	16,012
Less: unearned finance income	(681)	(1,909)
	5,310	14,103
Less: allowance for impairment losses — collectively assessed	(57)	(173)
Net	<u>5,253</u>	<u>13,930</u>

Movement of allowance for impairment losses are as follows:

	Year ended December 31, 2008	Nine months ended September 30, 2009
Opening balance	—	(57)
New allowances	(57)	(116)
Ending balance	<u>(57)</u>	<u>(173)</u>

As at September 30, 2009, finance lease receivables pledged as collateral under repurchase and borrowings agreements with other banks and financial institutions amounted to Rmb3.15 billion (2008: Rmb1.47 billion). (Please refer to Note 32 for detailed information.)

19 PROPERTY AND EQUIPMENT

	Buildings	Leasehold improvements	Office equipment	Motor vehicles	Construction in progress	Total
December 31, 2008 Original cost	3,472	1,262	2,408	200	2,518	9,860
Accumulated depreciation	(490)	(785)	(1,502)	(110)	—	(2,887)
Net value	<u>2,982</u>	<u>477</u>	<u>906</u>	<u>90</u>	<u>2,518</u>	<u>6,973</u>
September 30, 2009						
Original cost	3,853	1,521	2,645	214	2,507	10,740
Accumulated depreciation	(577)	(935)	(1,721)	(132)	—	(3,365)
Net value	<u>3,276</u>	<u>586</u>	<u>924</u>	<u>82</u>	<u>2,507</u>	<u>7,375</u>

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APPENDIX II

UNAUDITED INTERIM FINANCIAL REPORT

	<u>Buildings</u>	<u>Leasehold improvements</u>	<u>Office equipment</u>	<u>Motor vehicles</u>	<u>Construction in progress</u>	<u>Total</u>
Net book value of balance at January 1, 2008	2,506	429	866	85	2,501	6,387
Additions	320	221	345	34	273	1,193
Transfer in/(out)	256	—	—	—	(256)	—
Disposals	—	—	(4)	(1)	—	(5)
Depreciation charge	(100)	(173)	(301)	(28)	—	(602)
Net book value of balance at December 31, 2008	<u>2,982</u>	<u>477</u>	<u>906</u>	<u>90</u>	<u>2,518</u>	<u>6,973</u>
Net book value of balance at January 1, 2009	2,982	477	906	90	2,518	6,973
Additions	69	260	237	14	301	881
Transfer in/(out)	312	—	—	—	(312)	—
Disposals	—	(1)	—	—	—	(1)
Depreciation charge	(87)	(150)	(219)	(22)	—	(478)
Net book value of balance at September 30, 2009	<u>3,276</u>	<u>586</u>	<u>924</u>	<u>82</u>	<u>2,507</u>	<u>7,375</u>

The carrying value of buildings and leasehold improvements is analyzed based on the remaining terms of the leases as follows:

	<u>December 31, 2008</u>	<u>September 30, 2009</u>
Held outside Hong Kong		
on long-term lease (over 50 years)	121	164
on medium-term lease (10-50 years)	3,332	3,685
on short-term lease (less than 10 years)	<u>6</u>	<u>13</u>
	<u>3,459</u>	<u>3,862</u>

20 DEFERRED INCOME TAXES

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority. Deferred income tax is provided in full, using the liability method, on all temporary differences.

The movement on the deferred income tax account is as follows:

	<u>Year ended December 31, 2008</u>	<u>Nine months ended September 30, 2009</u>
Opening balance	(1,306)	1,079
Recognized in the income statement	1,215	940
Tax charged directly to equity	<u>1,170</u>	<u>983</u>
Ending balance	<u>1,079</u>	<u>3,002</u>

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APPENDIX II

UNAUDITED INTERIM FINANCIAL REPORT

The movement in deferred income tax assets and liabilities during the Relevant Periods, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets

	Assets impairment allowance	Fair value losses	Others	Total
At January 1, 2008	930	626	52	1,608
Charged to the income statement	1,132	(53)	73	1,152
Charged directly to equity	—	(230)	—	(230)
At December 31, 2008	<u>2,062</u>	<u>343</u>	<u>125</u>	<u>2,530</u>
At January 1, 2009	2,062	343	125	2,530
Charged to the income statement	571	(207)	363	727
Charged directly to equity	—	53	—	53
At September 30, 2009	<u>2,633</u>	<u>189</u>	<u>488</u>	<u>3,310</u>

Deferred income tax liabilities

	Fair value gains	Others	Total
At January 1, 2008	(2,854)	(60)	(2,914)
Charged to the income statement	3	60	63
Charged directly to equity	1,400	—	1,400
At December 31, 2008	<u>(1,451)</u>	<u>—</u>	<u>(1,451)</u>
At January 1, 2009	(1,451)	—	(1,451)
Charged to the income statement	213	—	213
Charged directly to equity	930	—	930
At September 30, 2009	<u>(308)</u>	<u>—</u>	<u>(308)</u>

21 INVESTMENT IN SUBSIDIARIES

	December 31, 2008	September 30, 2009
Minsheng Financial Leasing Co., Ltd.	2,600	2,600
Minsheng Royal Fund Management Co., Ltd.	120	120
Cixi Minsheng Township Bank Co., Ltd.	35	35
Pengzhou Minsheng Township Bank Co., Ltd.	20	20
	<u>2,775</u>	<u>2,775</u>

Name	Date of incorporation	Place of incorporation and operation	Principal activities	Registered Capital	Nature of legal entity	Interest held*
Minsheng Financial Leasing Co., Ltd.	April 2, 2008	Tianjin, China	Leasing	3,200	Limited company	81.25%
Minsheng Royal Fund Management Co., Ltd.	November 3, 2008	Guangdong, China	Fund management	200	Limited company	60%
Cixi Minsheng Township Bank Co., Ltd.	December 30, 2008	Ningbo, China	Commercial bank	100	Limited company	35%
Pengzhou Minsheng Township Bank Co., Ltd.	September 12, 2008	Sichuan, China	Commercial bank	55	Limited company	36.36%

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APPENDIX II

UNAUDITED INTERIM FINANCIAL REPORT

- * All interests in subsidiaries are directly held. The Bank owns the majority of the voting rights in the board of directors of Cixi Minsheng Township Bank Co., Ltd and Pengzhou Minsheng Township Bank Co., Ltd. which enables the Bank to govern their financial and operating policies. These two companies are treated as subsidiaries and are included in the unaudited condensed consolidated interim financial information.

22 OTHER ASSETS

	December 31, 2008	September 30, 2009
Interest receivable	3,402	3,624
Prepayments	2,515	6,198
Repossessed assets	945	934
Deferred assets	133	65
Others	531	854
	<u>7,526</u>	<u>11,675</u>

23 DEPOSITS FROM CUSTOMERS

	December 31, 2008	September 30, 2009
Deposits from corporate entities		
- Demand	295,597	440,823
- Time	352,275	464,618
Deposits from individuals		
- Demand	33,599	44,089
- Time	102,669	148,545
Inward remittance and temporary deposits	1,646	1,408
	<u>785,786</u>	<u>1,099,483</u>

As at September 30, 2009, Deposits of Rmb120.34 billion (2008: Rmb108.95 billion) were included in customer accounts held as collaterals for acceptances, letters of credit, letters of guarantee and other transactions.

24 DUE TO AND PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	December 31, 2008	September 30, 2009
Due to and placements from banks and other financial institutions		
- Due to and placements from banks	95,084	63,575
- Due to and placements from other financial institutions	65,164	119,154
Total	<u>160,248</u>	<u>182,729</u>

Included in due to and placements from banks and other financial institutions are amounts received from counterparties under repurchase agreements categorized as follows:

	December 31, 2008	September 30, 2009
Repurchase of:		
- Discounted bills	5,231	—
- Trading assets	2,000	2,000
- Loans and advances to customers	214	114
- Finance lease receivables	567	2,347
Total	<u>8,012</u>	<u>4,461</u>

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APPENDIX II

UNAUDITED INTERIM FINANCIAL REPORT

25 Debt securities in issue

	December 31, 2008	September 30, 2009
Financial bonds(1)	22,459	12,077
Subordinated bonds(2)	7,252	7,522
Hybrid capital bonds(3)	4,288	9,572
	<u>33,999</u>	<u>29,171</u>

(1) Financial bonds

	December 31, 2008	September 30, 2009
2006 Rmb10 billion Financial Bonds with fixed rate — 3 years	10,173	—
2007 Rmb6 billion Financial Bonds with floating rate — 3 years	6,142	6,039
2007 Rmb6 billion Financial Bonds with floating rate — 5 years	6,144	6,038
	<u>22,459</u>	<u>12,077</u>

Pursuant to the CBRC and the PBOC's approval, the bank issued the following financial bonds:

The tranche of 2006 financial bonds was issued with a term of 3 years at a fixed interest rate of 2.88%; interest is paid annually.

The tranche of 2007 financial bonds with a term of 3 years bears a floating rate based on the one-year PBOC time deposit rate set at each interest payment date plus a spread of 0.61% per annum. The tranche of 2007 financial bonds with a term of 5 years bears a floating rate based on the one-year PBOC time deposit rate set at each interest payment date plus a spread of 0.76% per annum. Interest is paid annually.

(2) Subordinated bonds

	December 31, 2008	September 30, 2009
2004 Rmb4.315 billion		
Subordinated Bonds with fixed rate — 10 years(i)	4,351	4,516
2004 Rmb1.485 billion		
Subordinated Bonds with floating rate — 10 years(ii)	1,500	1,566
2005 Rmb1.4 billion		
Subordinated Bonds with fixed rate — 10 years (iii)	1,401	1,440
	<u>7,252</u>	<u>7,522</u>

Pursuant to relevant approvals from the PBOC and the CBRC, the Bank issued the following subordinated bonds:

(i) The fixed-rate subordinated bonds issued in 2004 have a maturity of 10 years, with a fixed coupon rate of 5.1% per annum for the first five years, payable annually. The Bank has the option to redeem all of the bonds at face value on November 1, 2009. If the Bank does not exercise this option, the annual coupon rate of the bonds for the second 5-year period shall be the original coupon rate plus 3% per annum, and shall remain fixed through to the maturity date.

(ii) The floating-rate subordinated bonds issued in 2004 have a maturity of 10 years, with a floating rate based on the one-year PBOC time deposit rate set at each interest payment date plus a spread of 2.4% per annum for the first five years, payable annually. The Bank has the option to redeem all or part of the bonds at face value on November 1, 2009. If the Bank does not exercise this option, the floating rate for the second 5-year period shall be the original spread plus 0.5% per annum.

(iii) The fixed-rate subordinated bonds issued in 2005 have a maturity of 10 years, with a fixed coupon rate of 3.68% per annum for the first five years, payable annually. The Bank has the option to redeem all or part of the bonds at face value on December 26, 2010. If the Bank does not exercise this option, the annual coupon rate of the bonds for the second 5-year period shall be the original coupon rate plus 3% per annum.

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APPENDIX II

UNAUDITED INTERIM FINANCIAL REPORT

These bonds are subordinated to all other claims on the assets of the Bank, except those of the Hybrid capital bonds holders and the equity holders. In the calculation of the Bank’s capital adequacy ratio, these bonds qualify for inclusion as supplementary capital.

There were no defaults of principal and interest or other breaches with respect to these bonds from the issuance of these bonds.

(3) Hybrid capital bonds

	December 31, 2008	September 30, 2009
2006 Rmb3.3 billion Hybrid Capital Bonds with fixed rate — 15 years(i)	3,291	3,416
2006 Rmb1 billion Hybrid Capital Bonds with floating rate — 15 years(ii)	997	1,029
2009 Rmb3.325 billion Hybrid Capital Bonds with fixed rate — 15 years(iii)	—	3,412
2009 Rmb1.625 billion Hybrid Capital Bonds with floating rate — 15 years(iv)	—	1,715
	<u>4,288</u>	<u>9,572</u>

Pursuant to relevant approvals from the PBOC and the CBRC, the Bank issued the following hybrid capital bonds:

(i) The fixed-rate hybrid capital bonds issued in 2006 have a maturity of 15 years, with a fixed coupon rate of 5.05% per annum for the first 10 years, payable annually. The Bank has the option to redeem all or part of the bonds at face value on December 28, 2016. If the Bank does not exercise this option, the annual coupon rate of the bonds for the next 5 years shall be the original coupon rate plus a spread of 3% per annum, and shall remain fixed through to the maturity date.

(ii) The floating-rate hybrid capital bonds issued in 2006 have a maturity of 15 years, with a floating rate based on the one-year PBOC time deposit rate set at each interest payment date plus a spread of 2% per annum for the first 10 years, payable annually. The Bank has the option to redeem all or part of the bonds at face value on December 28, 2016. If the Bank does not exercise this option, the floating rate of the bonds for the next 5 years shall be the original spread plus 1% per annum.

(iii) The fixed-rate hybrid capital bonds issued in 2009 have a maturity of 15 years, with a fixed coupon rate of 5.70% per annum for the first 10 years, payable annually. The Bank has the option to redeem all or part of the bonds at face value on March 26, 2019. If the Bank does not exercise this option, the annual coupon rate of the bonds for the next 5 years shall be the original coupon rate plus a spread of 3% per annum, and shall remain fixed through to the maturity date.

(iv) The floating-rate hybrid capital bonds issued in 2009 have a maturity of 15 years, with a floating rate based on the one-year PBOC time deposit rate set at each interest payment date plus a spread of 3% per annum for the first 10 years, payable annually. The Bank has the option to redeem all or part of the bonds at face value on March 26, 2019. If the Bank does not exercise this option, the floating rate of the bonds for the next 5 years shall be the original spread plus 2% per annum.

These bonds are subordinated to all other claims on the assets of the Bank, except those of the equity holders. In the calculation of the Bank’s capital adequacy ratio, these bonds qualify for inclusion as supplementary capital.

There were no defaults of principal and interest or other breaches with respect to these bonds during the Relevant Periods. These bonds are unsecured.

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APPENDIX II

UNAUDITED INTERIM FINANCIAL REPORT

26 OTHER LIABILITIES

	December 31, 2008	September 30, 2009
Interest payable	6,999	6,268
Items in the process of clearance and settlement	1,678	1,465
Income tax payable	1,238	3,360
Other tax payable	1,274	1,024
Payroll and welfare payable	972	2,943
Unrealized gains	877	858
Guarantee deposits for finance lease	360	972
Others	1,408	484
	<u>14,806</u>	<u>17,374</u>

27 SHARE CAPITAL AND CAPITAL RESERVE

As at September 30, 2009, the total number of authorized ordinary shares is 18.82 billion shares with a par value of Rmb1 yuan per share (2008: 18.82 billion shares), among which 0.93 billion shares were restricted on sale (2008: 0.93 billion shares). All issued shares are fully paid.

Capital reserve is Rmb14.768 billion as at September 30, 2009 (2008: 14.768 billion), which mainly comprises capital premium.

28 SURPLUS RESERVE AND GENERAL RESERVE

(1) *Surplus reserve*

Under relevant PRC laws, the Bank is required to transfer 10% of its net profit, as determined under PRC GAAP, to a non-distributable statutory surplus reserve. Appropriation to the statutory surplus reserve may cease when the balance of such reserve has reached 50% of the share capital. Subject to the approval of the equity holders, the statutory surplus reserve can be used for replenishing the accumulated losses or increasing the Bank's share capital. The statutory surplus reserve amount used to increase the share capital is limited to a level where the balance of Statutory surplus reserve after such capitalization is not less than 25% of the share capital.

The Bank appropriated nil (2008: Rmb0.78 billion) for the nine months ended September 30, 2009.

(2) *General reserve*

Pursuant to circulars issued by the MOF in 2005, the Bank is required to establish and maintain a general reserve within equity, through the appropriation of income to address unidentified potential impairment losses. The general reserve should not be less than 1% of the aggregate amount of risk assets as defined by this policy. Effective from July 1, 2005, the general reserve should be provided in full within three years. In no case could the transitional period exceed five years.

The Bank appropriated nil (2008: Rmb2.2 billion) to the general reserve for the nine months ended September 30, 2009.

Pursuant to circulars issued by the MOF in 2007, Minsheng Leasing contributed Rmb0.78 million, or 1% of its net profit to general reserve for the year ended December 31, 2008, including Rmb0.63 million attributable to the Bank.

29 DIVIDENDS

In respect of 2008, cash dividend of Rmb1,506 million (0.08 per share and before tax) was approved.

In respect of nine months ended September 30, 2009, no dividend was approved.

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APPENDIX II

UNAUDITED INTERIM FINANCIAL REPORT

	Year ended December 31, 2008	Nine months ended September 30, 2009
Dividends payable to equity holders of the Bank attributable to the year/period		
Proposed final dividend	<u>1,506</u>	<u>—</u>
Dividends payable to equity holders of the Bank attributable to the previous financial year, approved and paid during the year		
Final dividend paid	<u>3,620</u>	<u>1,506</u>

30 RESERVE FOR FAIR VALUE CHANGES OF AVAILABLE-FOR-SALE SECURITIES

	Year ended December 31, 2008	Nine months ended September 30, 2009
Opening balance	6,780	3,296
Change in fair value of available-for-sale securities	(5,306)	(1,619)
Less: deferred income tax	1,333	403
Transfer to profit or loss upon disposal	53	(2,787)
Less: deferred income tax	(13)	693
Impairment losses on available-for-sale	599	455
Less: deferred income tax	(150)	(113)
Ending balance	<u>3,296</u>	<u>328</u>

31 CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the statement of cash flows consists of the following:

	December 31, 2008	September 30, 2009
Cash	2,900	3,431
Unrestricted balance with central banks	97,421	48,751
Original maturity within 3 months:		
- Due from banks and other financial institutions	11,781	47,679
- Government and quasi-government bonds	200	2,322
	<u>112,302</u>	<u>102,183</u>

32 CONTINGENT LIABILITIES AND COMMITMENTS

(1) Credit commitments

	December 31, 2008	September 30, 2009
Acceptances	145,005	215,978
Letters of guarantee	49,029	49,408
Unused credit card limits	28,140	29,844
Letters of credit	8,250	12,462
Irrevocable loan commitments	6,000	5,153
Finance lease commitments	475	953
	<u>236,899</u>	<u>313,798</u>

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APPENDIX II

UNAUDITED INTERIM FINANCIAL REPORT

(2) Operating lease commitments

Future minimum lease payments on operating leases are summarized as follows:

	December 31, 2008	September 30, 2009
Less than 1 year	625	539
1 to 5 years	1,610	1,946
Later than 5 years	379	416
	<u>2,614</u>	<u>2,901</u>

(3) Assets pledged

	December 31, 2008	September 30, 2009
Trading assets (Note 13)	2,047	2,032
Loans to corporate customers and discounted bills (Note 16)	5,445	114
Investment securities (Note 17)	3,305	3,261
Finance lease receivables (Note 18)	1,470	3,146
	<u>12,267</u>	<u>8,553</u>

Assets are pledged as collateral under repurchase agreements with other banks and financial institutions, interest rate swaps contracts, convertible bonds issued, letters of guarantee issued and negotiated deposits taken.

Mandatory reserve deposits are also held with the PBOC in accordance with statutory requirements (Note 12). These deposits are not available to finance the Bank's day-to-day operations.

The pledged assets accepted by the Group in relation to repurchase agreement can be sold and re-pledged. As at September 30, 2009, the fair values of such accepted pledged assets were Rmb88.14 billion (2008: Rmb23.46 billion). Furthermore, the fair value for the pledged assets sold by the Group but with the obligation to return such pledged assets at the expiration date was nil (2008: Rmb3.11 billion).

(4) Capital commitments

	December 31, 2008	September 30, 2009
Property and equipment		
- Contracted but not provided for	755	3,817
- Authorized but not contracted for	118	350
Equity investment		
- Contracted but not provided for	2,340	—
- Authorized but not contracted for	—	35
	<u>3,213</u>	<u>4,202</u>

The Group's management is confident that future net revenues and funding will be sufficient to cover these commitments.

(5) Security underwriting

	December 31, 2008	September 30, 2009
Short-term financing bills	<u>2,900</u>	<u>6,150</u>

(6) Certificate Treasury Bonds redemption commitments

The Bank is entrusted by the MOF to underwrite certain Certificate Treasury Bonds. The investors of Certificate Treasury Bonds have the option to redeem the bonds at par any time prior to maturity, and the Bank is committed to repurchase those bonds at the redemption price. The redemption price is the par value of the Certificate Treasury Bonds plus unpaid

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APPENDIX II

UNAUDITED INTERIM FINANCIAL REPORT

interest in accordance with the early redemption arrangement. As at September 30, 2009, the principal of the bonds amounted to Rmb4.19 billion (2008: Rmb3.71 billion). The original maturities of these bonds vary from 1 to 5 years. As the deposit base rate established by PBOC is currently lower than the yields on all issue of Certificate Treasury Bonds, management expects the amount of redemption before the maturity dates of those bonds will not be material.

(7) Legal proceedings

There were a number of outstanding litigation matters against the Group as at December 31, 2008 and September 30, 2009. After considering professional advice received, the Group's management believes such litigation will not cause significant losses to the Group.

33 RELATED PARTY TRANSACTIONS

Related parties of the Group refer to entities controlled or, jointly controlled by or under significant influence of the Group; entities that control, jointly control or have significant influence over the Group; or entities with which the Group is under control, joint control or significant influence of another party. Related parties can be individuals or enterprises. Related parties that have significant influence on the Group include: companies controlled or significantly influenced by members of the Board of Directors and the Board of Supervisors, senior management or their related persons, the subsidiaries of these companies, and major shareholders with the power to influence the operating decision-making or financial policies of the Group.

The terms of transactions with related parties were in accordance with the terms of the underlying agreements arranged in the ordinary course of the Group's business.

(1) Loans granted to related parties

	Year ended December 31, 2008	Nine months ended September 30, 2009
Opening balance	1,653	1,814
Loans granted during the year/period	920	1,633
Loan repayments during the year/period	(759)	(1,665)
Ending balance	<u>1,814</u>	<u>1,782</u>
Interest income earned	<u>99</u>	<u>64</u>

As at September 30, 2009, there is no impaired loan identified among the above related party loans (2008: nil).

As at September 30, 2009, guaranteed loans which amounted to Rmb1.30 billion (2008: Rmb1.18 billion) and collateralized loans amounted to Rmb0.48 billion (2008: Rmb0.63 billion) were included in the above loans to related parties.

During the nine months ended September 30, 2009, the interest rates ranges of loans granted to related parties are 5.15% — 6.14% (2008: 5.20% — 6.14%).

(2) Deposits taken from related parties

	Year ended December 31, 2008	Nine months ended September 30, 2009
Opening balance	2,544	19,908
Deposits taken during the year	108,215	33,576
Deposits repaid during the year	(90,851)	(12,257)
Ending balance	<u>19,908</u>	<u>41,227</u>

During the nine months ended September 30, 2008 and September 30, 2009, the interest expenses incurred on the related parties' deposits were not material.

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APPENDIX II

UNAUDITED INTERIM FINANCIAL REPORT

(3) In addition to the above loans granted to related parties:

	December 31, 2008	September 30, 2009
Due to and placements from banks and other financial institutions	1,263	2,558
Loans guaranteed by related parties	1,106	1,301
Acceptance issued for related parties	464	70
Bills purchased under resale agreement by related parties	100	11
Related-party bills discounted by the Group	2	5
Investment securities issued by related parties	—	150

All the above related parties transactions do not have significant impact on the unaudited condensed consolidated interim financial information.

(4) Services provided by related parties

The Bank purchased life insurance contracts from China Life Insurance Company a shareholder who owns over 5% of the Bank's share, as supplementary retirement benefit for employees. The Bank pays related insurance fees periodically according to the contracts.

(5) Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly, including directors, supervisors and executive officers.

The Group enters into banking transactions with directors and key management personnel in the ordinary course of business arranged in the ordinary course of the Group's business. These include loans and deposits, which are carried out at rates in accordance with the terms of the underlying agreements. As at September 30, 2009, loans outstanding to the key management amounted to Rmb6 million, which have been included in the above loans granted to related parties (2008: nil).

As at September 30, 2009, salaries and other short-term benefits paid to the key management personnel amounted to Rmb43 million (2008: Rmb28 million). No post-employment benefits, termination benefits or other long-term benefits were provided to the key management personnel during the nine months ended September 30, 2009 (in 2008: nil).

34 SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by Presidents and special management committees responsible for making strategic decisions. Presidents and special management committees consider the business from both geographic segment and business segment perspective.

The Group's businesses operate in four main geographical areas within the mainland China.

- (1) Northern China — Including Minsheng Leasing the Headquarters in Beijing as well as the following branches: Beijing, Taiyuan, Shijiazhuang and Tianjin;
- (2) Eastern China — Including Cixi Minsheng Township Bank Co., Ltd. and the following branches: Shanghai, Hangzhou, Ningbo, Nanjing, Jinan, Suzhou, Wenzhou, Qingdao, Hefei and Nanchang;
- (3) Southern China — Including Minsheng Royal Fund Management Co., Ltd and the following branches: Fuzhou, Guangzhou, Shenzhen, Quanzhou, Shantou and Xiamen;
- (4) Other locations — Including Pengzhou Minsheng Township Bank Co., Ltd. and the following branches: Xi'an, Dalian, Chongqing, Chengdu, Kunming, Wuhan, Changsha, Zhengzhou and Changchun.

The Group derives its revenue primarily from corporate banking, private banking and treasury business.

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APPENDIX II

UNAUDITED INTERIM FINANCIAL REPORT

	Northern China	Eastern China	Southern China	Other locations	Inter-segment elimination	Total
Nine months ended September 30, 2008						
External Interest income	8,403	6,423	4,213	3,767	—	22,806
Inter-segment Interest (expense)/income . .	(2,809)	1,566	821	422	—	—
Net interest income	5,594	7,989	5,034	4,189	—	22,806
Fee and commission income	3,062	782	382	269	—	4,495
Fee and commission expense	(90)	(35)	(52)	(36)	—	(213)
Net fee and commission income	2,972	747	330	233	—	4,282
Operating expense	(4,424)	(3,819)	(2,094)	(1,925)	—	(12,262)
Impairment losses on assets	(1,028)	(526)	(458)	(1,016)	—	(3,028)
Net other income/(expenses)	25	(3)	25	6	—	53
Total profit	3,139	4,388	2,837	1,487	—	11,851
December 31, 2008						
Segment assets	671,727	335,333	163,954	170,199	(287,942)	1,053,271
Unallocated						1,079
Total assets						1,054,350
Segment liabilities	(633,845)	(327,846)	(159,454)	(166,475)	287,942	(999,678)
Depreciation and amortization	293	156	124	105	—	678
Capital expenditure	902	503	20	336	—	1,761
Credit commitments	82,193	92,831	25,302	36,573	—	236,899
Nine months ended September 30, 2009						
External Interest income	9,105	6,483	2,379	4,723	—	22,690
Inter-segment Interest (expense)/income . .	(1,594)	911	687	(4)	—	—
Net interest income	7,511	7,394	3,066	4,719	—	22,690
Fee and commission income	2,441	748	336	260	—	3,785
Fee and commission expense	(107)	(50)	(52)	(24)	—	(233)
Net fee and commission income	2,334	698	284	236	—	3,552
Operating expense	(5,290)	(4,319)	(2,051)	(2,387)	—	(14,047)
Impairment losses on assets	(1,438)	(1,133)	(74)	(738)	—	(3,383)
Net other income/(expenses)	4,756	(26)	(4)	(65)	—	4,661
Total profit	7,873	2,614	1,221	1,765	—	13,473
September 30, 2009						
Segment assets	917,414	454,712	202,492	241,316	(416,001)	1,399,933
Unallocated						3,002
Total assets						1,402,935
Segment liabilities	(874,642)	(447,161)	(199,471)	(237,252)	416,001	(1,342,525)
Depreciation and amortization	203	128	83	95	—	509
Capital expenditure	1,593	183	89	117	—	1,982
Credit commitments	112,762	107,324	35,146	58,566	—	313,798

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APPENDIX II

UNAUDITED INTERIM FINANCIAL REPORT

The pricing of these transactions is based on market deposit rates, lending rates and market rates. The transfer price takes into account the specific features and maturities of the product. The profit or loss reported to Presidents and special management committees is measured in a manner consistent with that in the condensed consolidated statement of comprehensive income.

The amounts provided to Presidents and special management committees with respect to total assets and total liabilities are measured in a manner consistent with that in the condensed consolidated balance sheet. Deferred income tax assets and liabilities are not allocated to segments.

The segment information by business type provided to Presidents and special management committees is as follow:

	Nine months ended September 30,	
	2008	2009
Total operating income		
Corporate banking business	19,068	18,729
Retail banking business	4,449	3,532
Treasury business	3,430	3,464
Other business and unallocated	277	5,604
Total	27,224	31,329

	December 31, 2008	September 30, 2009
Segment assets		
Corporate banking business	540,374	736,025
Retail banking business	107,706	144,988
Treasury business	388,528	488,143
Other business and unallocated	17,742	33,780
Total	1,054,350	1,402,936

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APPENDIX II

UNAUDITED INTERIM FINANCIAL REPORT

35 MATURITY ANALYSIS

	<u>On demand</u>	<u>Up to 1 month</u>	<u>1 to 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>	<u>Overdue</u>	<u>Total</u>
December 31, 2008								
Financial Liabilities:								
Deposits from customers	404,990	44,301	84,457	165,613	85,660	765	—	785,786
Due to and placements from banks and other financial institutions	44,563	17,247	41,179	52,759	4500	—	—	160,248
Borrowings from other financial institutions	—	500	2,100	—	—	—	—	2,600
Debt securities in issue	—	—	10,173	12,286	11,540	—	—	33,999
Other financial liabilities	—	373	7,189	3,463	1,036	765	—	12,826
Total financial liabilities	<u>449,553</u>	<u>62,421</u>	<u>145,098</u>	<u>234,121</u>	<u>102,736</u>	<u>1,530</u>	<u>—</u>	<u>995,459</u>
Financial Assets:								
Cash and due from banks and other financial institutions	11,797	1,484	2,025	2,342	—	—	—	17,648
Balances with central banks	181,878	—	—	—	—	—	—	181,878
Placements with banks and other financial institution	—	29,293	14,949	7,296	870	—	—	52,408
Loans and advances to customers	—	37,712	77,581	272,225	139,131	110,108	9,718	646,475
Investment securities								
- available-for-sale	—	719	1,833	11,717	21,126	18,202	—	53,597
- held-to-maturity	50	—	—	4,350	27,574	6,742	—	38,716
- loans and receivables	6	—	615	5,621	24,564	6,260	—	37,066
Finance lease receivables	—	85	250	991	3,927	—	—	5,253
Other financial assets	110	879	4,161	1,227	4,856	732	16	11,981
Total financial assets	<u>193,841</u>	<u>70,172</u>	<u>101,414</u>	<u>305,769</u>	<u>222,048</u>	<u>142,044</u>	<u>9,734</u>	<u>1,045,022</u>
	<u>On demand</u>	<u>Up to 1 month</u>	<u>1 to 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>	<u>Overdue</u>	<u>Total</u>
September 30, 2009								
Financial Liabilities:								
Deposits from customers	489,218	203,406	136,176	185,514	84,803	366	—	1,099,483
Due to and placements from banks and other financial institutions	32,981	91,866	27,266	3,516	27,100	—	—	182,729
Borrowings from other financial institutions	—	—	500	10,700	650	—	—	11,850
Debt securities in issue	—	—	—	6,039	6,038	17,094	—	29,171
Other financial liabilities	—	180	7,590	1,163	1,232	524	—	10,689
Total financial liabilities	<u>522,199</u>	<u>295,452</u>	<u>171,532</u>	<u>206,932</u>	<u>119,823</u>	<u>17,984</u>	<u>—</u>	<u>1,333,922</u>
Financial Assets:								
Cash and due from banks and other financial institutions	21,243	29,089	1,143	2,041	1	—	—	53,517
Balances with central banks	164,538	—	—	—	—	—	—	164,538
Placements with banks and other financial institution	—	53,126	48,370	11,985	900	—	—	114,381
Loans and advances to customers	—	41,578	57,354	354,016	255,570	164,145	7,345	880,008
Investment securities								
- available-for-sale	—	1,095	3,388	5,961	26,936	14,885	—	52,265
- held-to-maturity	—	772	3,185	10,484	32,373	6,857	—	53,671
- loans and receivables	—	323	57	29,231	3,566	9,410	—	42,587
Finance lease receivables	—	833	447	2,546	9,783	—	321	13,930
Other financial assets	36	2,887	4,539	4,648	3,755	593	—	16,458
Total financial assets	<u>185,817</u>	<u>129,703</u>	<u>118,483</u>	<u>420,912</u>	<u>332,884</u>	<u>195,890</u>	<u>7,666</u>	<u>1,391,355</u>

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APPENDIX III

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

CHINA MINSHENG BANKING CORP., LTD

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(All amounts in millions of Rmb unless otherwise stated)

1 Liquidity ratios

According to section 51 of Banking (Disclosure) Rules, the Group discloses the following information. Liquidity ratio is calculated in accordance with the relevant provisions of the PBOC and the CBRC, and the generally accepted accounting principals of the PRC.

	December 31,			June 30,
	2006	2007	2008	2009
RMB current assets to RMB current liabilities	51%	35%	46%	40%
Foreign currency current assets to foreign currency current liabilities	66%	97%	119%	113%

2 Currency concentrations

According to section 50 of Banking (Disclosure) Rules, the Group discloses the following information. The following information is computed in accordance with the provision of CBRC.

	USD	HKD	Others	Total
As at December 31, 2006				
Spot assets	30,300	1,963	1,884	34,147
Spot liabilities	(25,124)	(2,517)	(1,696)	(29,337)
Forward purchases	39	1,465	—	1,504
Forward sales	(1,466)	—	(18)	(1,484)
Net options position*.	(6)	—	12	6
Net long / (short) position	3,743	911	182	4,836
As at December 31, 2007				
Spot assets	30,384	862	2,375	33,621
Spot liabilities	(23,798)	(2,442)	(2,354)	(28,594)
Forward purchases	329	1,667	846	2,842
Forward sales	(829)	—	(332)	(1,161)
Net long / (short) position	6,086	87	535	6,708
As at December 31, 2008				
Spot assets	18,195	645	2,489	21,329
Spot liabilities	(17,820)	(1,217)	(2,100)	(21,137)
Forward purchases	5,436	974	1,827	8,237
Forward sales	(5,798)	(52)	(2,442)	(8,292)
Net long / (short) position	13	350	(226)	137
As at June 30, 2009				
Spot assets	17,941	418	3,101	21,460
Spot liabilities	(16,771)	(1,206)	(2,646)	(20,624)
Forward purchases	2,844	1,400	1,111	5,355
Forward sales	(4,298)	(262)	(800)	(5,360)
Net long / (short) position	(284)	350	766	831

* The net option position is calculated using the delta equivalent approach as set out in the requirements of the CBRC.

In the Relevant Periods, the Group has no structural position.

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APPENDIX III

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

3 Loans and advances to customers

(1) Loans and advances overdue for more than 3 months

According to section 48 of Banking (Disclosure) Rules, the Group discloses the following information.

Group and Bank

	December 31, 2006		December 31, 2007	
	Gross amount	% of total	Gross amount	% of total
Six months or less but over three months	963	0.20%	491	0.09%
One year or less than but over six months.	1,958	0.41%	955	0.17%
Over one year	<u>4,816</u>	<u>1.03%</u>	<u>5,525</u>	<u>1.00%</u>
	<u>7,737</u>	<u>1.64%</u>	<u>6,971</u>	<u>1.26%</u>

	December 31, 2008		June 30, 2009	
	Gross amount	% of total	Gross amount	% of total
Six months or less but over three months	2,911	0.44%	1,026	0.11%
One year or less than but over six months.	2,614	0.40%	2,544	0.28%
Over one year	<u>3,575</u>	<u>0.54%</u>	<u>4,112</u>	<u>0.45%</u>
	<u>9,100</u>	<u>1.38%</u>	<u>7,682</u>	<u>0.85%</u>

(2) Impaired loans by geographical area

According to section 46 of Banking (Disclosure) Rules, the Group discloses the following information.

Group and Bank

	December 31, 2006		December 31, 2007	
	Impaired loans	Specific provision	Impaired loans	Specific provision
Northern China	4,759	3,157	4,172	2,667
Eastern China.	393	115	655	211
Southern China	586	165	1,705	533
Other locations	<u>155</u>	<u>35</u>	<u>241</u>	<u>83</u>
	<u>5,893</u>	<u>3,472</u>	<u>6,773</u>	<u>3,494</u>

	December 31, 2008		June 30, 2009	
	Impaired loans	Specific provision	Impaired loans	Specific provision
Northern China	4,316	2,705	4,297	3,153
Eastern China.	1,434	486	1,982	717
Southern China	1,801	646	1,118	415
Other locations	<u>370</u>	<u>153</u>	<u>404</u>	<u>119</u>
	<u>7,921</u>	<u>3,990</u>	<u>7,801</u>	<u>4,404</u>

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APPENDIX III

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(3) Overdue loans by geographical area

According to section 46 of Banking (Disclosure) Rules, the Group discloses the following information.

Group and Bank

	Northern China	Eastern China	Southern China	Other locations	Total
December 31, 2006					
Overdue	8,003	1,248	1,267	572	11,090
Specific provision	3,148	100	103	32	3,383
Collective provision	303	157	134	89	683
December 31, 2007					
Overdue	6,277	1,184	2,025	1,466	10,952
Specific provision	2,572	156	380	76	3,184
Collective provision	189	195	198	92	674
December 31, 2008					
Overdue	7,077	3,426	3,017	1,177	14,697
Specific provision	2,695	454	689	47	3,885
Collective provision	374	274	292	154	1,094
June 30, 2009					
Overdue	5,574	2,967	1,912	1,016	11,469
Specific provision	3,082	513	373	38	4,005
Collective provision	368	533	284	266	1,451

4 Cross-border claims

According to section 46 of Banking (Disclosure) Rules, the Group discloses the following information. The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China as cross-border claims.

	Asia Pacific excluding Mainland China	North America	Europe	Other	Total
December 31, 2006					
Banks and other financial institutions	1,259	7,445	3,033	24	11,761
Public sector entities	—	—	—	—	—
Other	—	—	—	—	—
Total	<u>1,259</u>	<u>7,445</u>	<u>3,033</u>	<u>24</u>	<u>11,761</u>
December 31, 2007					
Banks and other financial institutions	292	4,938	1,332	214	6,776
Public sector entities	—	302	—	—	302
Other	—	39	—	124	163
Total	<u>292</u>	<u>5,279</u>	<u>1,332</u>	<u>338</u>	<u>7,241</u>
December 31, 2008					
Banks and other financial institutions	6	1,058	466	607	2,137
Public sector entities	—	1,516	—	—	1,516
Other	—	—	92	—	92
Total	<u>6</u>	<u>2,574</u>	<u>558</u>	<u>607</u>	<u>3,745</u>
June 30, 2009					
Banks and other financial institutions	627	2,408	558	543	4,136
Public sector entities	—	1,077	—	—	1,077
Other	—	—	127	—	127
Total	<u>627</u>	<u>3,485</u>	<u>685</u>	<u>543</u>	<u>5,340</u>

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APPENDIX V

PROFIT FORECAST

The forecast consolidated net profit attributable to shareholders of our bank for the year ending December 31, 2009 is set out in the section headed "Financial Information — Profit Forecast for the year ending December 31, 2009".

A. BASES AND ASSUMPTIONS

Our Directors have prepared the forecast consolidated net profit attributable to shareholders of our bank for the year ending December 31, 2009 based on the audited consolidated results of the Group for the six months ended June 30, 2009, the unaudited consolidated results of the Group based on management accounts for the three months ended 30 September 2009 and a forecast of the consolidated results of the Group for the remaining three months ending December 31, 2009. The profit forecast has been prepared on a basis consistent in all material respects with the accounting policies presently adopted by us as set out in [Note 2] of Section [VI] of the Accountant's Report, the text of which is set out in Appendix I to this document, and on the following principal bases and assumptions:

- There will be no material changes in the political, legal, fiscal, market or economic conditions in the PRC or territory in which the Group currently operates;
- There will be no changes in legislation, regulations or rules in the PRC or any territory in which the Group currently operates or any other country or territory with which the Group has arrangements or agreements, which may materially adversely affect the Group's businesses or operations;
- There will be no material changes in inflation rates, interest rates or RMB exchange rates from those currently prevailing in the context of the bank's operations;
- There will be no material changes in the applicable tax rates, surcharges or other government levies in the countries or territories in which the Bank operates, except as otherwise disclosed in the document;
- There will be no material adverse changes in the real estate market in the PRC or any other territory in which the Group currently operates, which may materially and adversely affect the carrying value of the properties owned by the Group or the real estate mortgage loans;
- There will be no wars, military incidents, pandemic diseases, or natural disasters that will have a material impact on the Group's businesses and operating activities;
- The Group's operations will not be adversely affected by the occurrence of labor shortages and disputes, change of key management or staff, or any other factors outside the control of the Management. In addition, the Group will be able to recruit enough employees to meet its operating requirements during the forecast period; and
- The PRC government will continue to adopt macro-economic and monetary policies similar to those of the second quarter of 2009, in order to maintain a consistent economic growth.

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APPENDIX VI

PROPERTY VALUATION

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this document received from Jones Lang LaSalle Sallmanns Limited, an independent valuer, in connection with its valuation as at [30 September 2009] of the property interests of the Group. As described in section "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix XI, a copy of the full valuation report will be made available for public inspection.



Jones Lang LaSalle Sallmanns Limited
17/F Dorset House Taikoo Place
979 King's Road Quarry Bay Hong Kong
tel +852 2169 6000 fax +852 2169 6001
Licence No: C-030171

[●] 2009

The Board of Directors
China Minsheng Banking Corp., Ltd.
No. 2 Fuxingmennei Avenue
Xicheng District
Beijing
The People's Republic of China

Dear Sirs,

In accordance with your instructions to value the properties in which China Minsheng Banking Corp., Ltd. (the "**Company**") and its subsidiaries (hereinafter together referred to as the "**Group**") have interests in the People's Republic of China (the "**PRC**"), Hong Kong and [Japan], we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at [30 September 2009] (the "**date of valuation**").

In valuing the property interests which are held and occupied by the Group in the PRC, we have categorized these properties into 19 sub-groups according to their locations. The properties of each sub-group are located in a province or a directly administered municipality in the PRC.

Our valuation of the property interests represents the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

We have valued the property interests in Group I and Group II which are held and occupied by the Group by the direct comparison approach assuming sale of the property interests in their existing state with the benefit of immediate vacant possession and by making reference to comparable sale transactions as available in the relevant market.

In valuing the property interests in Group III which are currently under development, we have assumed that they will be developed and completed in accordance with the Group's latest development proposals provided to us. In arriving at our opinion of value, we have taken into account the construction costs and professional fees relevant to the stage of construction as at the date of valuation and the remainder of the costs and fees to be expended to complete the developments.

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APPENDIX VI

PROPERTY VALUATION

We have attributed no commercial value to the property interests in Group [V and Group VI], which are rented by the Group, due either to the short-term nature of the lease or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rents.

In the PRC, Land Use Rights Certificates ("**LURCs**") are official documents issued by the local land administrative authorities at the county-level or above to evidence that the holders of those certificates have formally obtained the land use rights of the land. Building Ownership Certificates ("**BOCs**") are official documents issued by the local building administrative authorities at the county-level or above to evidence that the holders of those certificates have formally obtained the ownership rights to the buildings. In some cities, Real Estate Title Certificates ("**RETCs**"), which combine both the functions of LURCs and BOCs, are issued by relevant government authorities instead of issuing two separate certificates. According to the legal opinion given by the Company's PRC legal advisers, both LURC and BOC, or RETC, are necessary as a proof of legal title to a property.

In the valuation of the property interests in Group I which are held and occupied by the Group in the PRC, we have attributed no commercial value to certain property interests, as the Group has not obtained proper LURCs and/or BOCs, or RETCs in respect of such properties. According to the legal opinion given by the Company's legal advisers, these properties can not be freely transferred, leased or mortgaged by the Group.

As at the date of valuation, the Group owned [177] properties with an aggregate gross floor area of approximately 289,022.01 sq.m. in the PRC, of which [101] are commercial properties and [76] are residential properties. In addition, the Group also held [2] properties which are under development with an aggregate gross floor area of approximately [224,291] sq.m. upon completion.

Among the [101] commercial properties held by the Group in the PRC, the Group has obtained relevant LURCs, BOCs or RETCs for 83 properties representing a total gross floor area of approximately 222,759.12 sq.m. For the remaining 18 commercial properties with a total gross floor area of approximately 30,712.82 sq.m., the Group has not obtained valid title documents.

For the [76] residential properties held by the Group in the PRC, the Group has obtained LURCs, BOCs or RETCs for [66] properties representing a total gross floor area of approximately [24,036.77] sq.m. For the remaining [10] residential properties with a total gross floor area of approximately [11,513.3] sq.m., the Group has not obtained valid title documents.

As at the date of valuation, the Group also rented 1,025 properties in the PRC with an aggregate lettable area of approximately 634,158.51 sq.m. from various independent third parties. The Group also rented a property in Hong Kong with a lettable area of approximately 294 sq.m.

Among the 1,025 leased properties in the PRC, the respective lessors have obtained BOCs, RETCs, Proofs of Ownership, Lease Registrations, Lease Permits, or relevant approvals of construction and proofs of completion and acceptance inspection for 655 properties, representing a total lettable area of approximately 533,304.22 sq.m. According to the opinion given by the Company's PRC legal advisers, the relevant lease agreements for such properties are legal, valid and enforceable. For the remaining 370 leased properties representing a total lettable area of approximately 100,854.29 sq.m., the Group has not been provided with any valid title documents.

In addition to the above properties, a parcel of vacant land with a site area of approximately 5,058.4 sq.m. and [7] commercial properties with an estimated aggregate gross floor area of approximately [155,927.78] sq.m. have been categorized in Group [IV] which are contracted to be acquired by the Group. Owing to the fact that some of them were still under construction and the considerations had not been fully paid as at the date of valuation, thus the properties have not been assigned to the Group and the titles of the properties have not vested in the Group. Therefore we have not attributed any commercial value to these properties.

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APPENDIX VI

PROPERTY VALUATION

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charges, mortgages or amounts owing on any of the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

[●]

[●]

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, and particulars of occupancy, lettings, and all other relevant matters.

We have been, in some instances, provided by the Group with extracts of the title documents relating to the properties in the PRC and have caused searches to be made at the relevant Land Registries in respect of Hong Kong and overseas properties. Where possible, we have searched the original documents to verify the existing titles to the property interests in the PRC and any material encumbrances that might be attached to the properties or any lease amendments which may not appear on the copies handed to us. We have relied considerably on the advice given by the Company's PRC legal advisers — Grandall Legal Group (Beijing), concerning the validity of the property interests in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory and that no unexpected cost and delay will be incurred during construction. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have had no reason to suspect that any material information has been withheld.

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APPENDIX VI

PROPERTY VALUATION

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB). The exchange rate adopted in valuing the property interest in Group II is approximately JPY 100 = RMB7.5747 which was approximately the prevailing exchange rate as at the date of valuation.

Our valuation is summarized below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of
Jones Lang LaSalle Sallmanns Limited
Paul L. Brown
B.Sc. FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 26 years' experience in the valuation of properties in the PRC and 29 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.

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APPENDIX VI

PROPERTY VALUATION

SUMMARY OF VALUES

Group I — Property interests held and occupied by the Group in the PRC

<u>No.</u>	<u>Property</u>	Capital value in existing state as at 30 September 2009 RMB
1.	Various properties located in Beijing in the PRC	1,218,798,000
2.	Various properties located in Fujian Province in the PRC	185,550,000
3.	Various properties located in Guangdong Province in the PRC	462,028,000
4.	Various properties located in Hubei Province in the PRC	118,506,000
5.	Various properties located in Jiangsu Province in the PRC	359,585,000
6.	Various properties located in Shandong Province in the PRC	36,654,000
7.	Various properties located in Shanxi Province in the PRC	No commercial value
8.	Various properties located in Shaanxi Province in the PRC	83,716,000
9.	Various properties located in Shanghai in the PRC	752,495,000
10.	Various properties located in Liaoning Province in the PRC	90,783,000
11.	Various properties located in Sichuan Province in PRC	317,554,000
12.	Various properties located in Zhejiang Province in the PRC	43,550,000
13.	Various properties located in Chongqing in the PRC	257,448,000
14.	Various properties located in Yunnan Province in the PRC	76,216,000
15.	Various properties located in Tianjin in the PRC	89,395,000
16.	Portions of Levels 1 to 3 of Futian Plaza located at Shengli North Street, Shijiazhuang City, Hebei Province, the PRC	15,397,000
17.	Various properties located in Henan Province in the PRC	155,043,000
18.	Various properties located in Hunan Province in the PRC	5,519,000
19.	Seven units of Dingsheng International Building located at Chongqing Road, Nangan District, Changchun City, Jilin Province, the PRC	No commercial value
	Sub-total:	<u><u>4,268,237,000</u></u>

Group II — Property interest held and occupied by the Group in Japan

<u>No.</u>	<u>Property</u>	Capital value in existing state as at 30 September 2009 RMB
20.	A 3-storey building located at Banchi 2, Hiran 3776, Yamanakako-Mura, Minamituru-Gun, Yamanashi-Ken, Japan	20,376,000 (equivalent to JPY 269,000,000)
	Sub-total:	<u><u>20,376,000</u></u>

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APPENDIX VI

PROPERTY VALUATION

Group III — Property interests held under development by the Group in the PRC

<u>No.</u>	<u>Property</u>	Capital value in existing state as at [30 September 2009] RMB
21.	2 properties located in the PRC	2,863,127,000
	Sub-total:	2,863,127,000

Group IV — Property interests contracted to be acquired by the Group in the PRC

<u>No.</u>	<u>Property</u>	Capital value in existing state as at [30 September 2009] RMB
22.	Various properties located in the PRC	No commercial value
	Sub-total:	Nil

Group V — Property interests rented and occupied by the Group in the PRC

<u>No.</u>	<u>Property</u>	Capital value in existing state as at [30 September 2009] RMB
23.	1,025 properties located in the PRC	No commercial value
	Sub-total:	Nil

Group VI — Property interest rented and occupied by the Group in Hong Kong

<u>No.</u>	<u>Property</u>	Capital value in existing state as at [30 September 2009] RMB
24.	Rooms 3207 and 3208 on the 32nd floor, Bank of America Tower, No. 12 Harcourt Road, Hong Kong	No commercial value
	Sub-total:	Nil
	Grand total:	7,151,740,000

Note:

Subsequent to the date of valuation, the Group entered into Lease Agreements with various independent third parties in the PRC to rent 6 properties with a total lettable area of approximately 9,500.96 sq.m. for commercial purpose. In addition, the Group entered into a Land Use Rights Grant Contract with relevant local government authority to acquire a parcel of vacant land with a site area of approximately 4,634.02 sq.m. in the PRC. Please refer to page VI-35.

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APPENDIX VI

PROPERTY VALUATION

VALUATION CERTIFICATE

Group I — Property interests held and occupied by the Group in the PRC

				Capital value in existing state as at [30 September 2009] RMB								
<u>No.</u>	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>									
1.	Various properties located in Beijing in the PRC	The properties comprise 10 commercial properties and 15 residential properties together with 2 car parking lots with a total gross floor area of approximately 57,931.77 sq.m., which were completed in various stages between 1994 and 2007. Details of gross floor areas of the properties for each use are listed as follows: <table><tr><th><u>Use</u></th><th><u>Gross Floor Area (sq.m.)</u></th></tr><tr><td>Commercial . .</td><td>50,253.02</td></tr><tr><td>Residential . .</td><td>7,678.75</td></tr><tr><td>Total:</td><td><u>57,931.77</u></td></tr></table>	<u>Use</u>	<u>Gross Floor Area (sq.m.)</u>	Commercial . .	50,253.02	Residential . .	7,678.75	Total:	<u>57,931.77</u>	The properties are currently occupied by the Group for commercial, training and residential purposes.	1,218,798,000
<u>Use</u>	<u>Gross Floor Area (sq.m.)</u>											
Commercial . .	50,253.02											
Residential . .	7,678.75											
Total:	<u>57,931.77</u>											

Notes:

- Pursuant to various Building Sale and Purchase Contracts dated in 2005 and 2006, 7 properties with a total gross floor area of approximately [1,710.49] sq.m. were contracted to be purchased by the Group at a total consideration of RMB[25,724,975].
- Pursuant to 14 BOCs and 14 LURCs, the Group has obtained both the building ownership rights and the land use rights of 9 properties (including 8 commercial properties and a residential property), representing a total gross floor area of approximately 49,138.95 sq.m. The land use rights of the 9 properties have been granted for various terms with the expiry dates between 4 August 2042 and 16 October 2070.

According to the opinion given by the Company's PRC legal advisers, the Group can legally occupy, use, lease, mortgage and transfer such properties.

- Pursuant to [31] BOCs, the Group has obtained the building ownership rights of 14 residential properties with a total gross floor area of approximately 7,201.63 sq.m.

According to the opinion given by the Company's PRC legal advisers, the Group can legally occupy, use, lease, mortgage and transfer such properties as only BOCs are issued to residential property owners by local government authorities.

- Pursuant to 2 BOCs, the Group has obtained the ownership rights of a commercial property with a total gross floor area of approximately 1,346.02 sq.m.

According to the opinion given by the Company's PRC legal advisers, (a) the Group can legally occupy, use and lease the commercial property; (b) after obtaining relevant LURCs pertaining to the commercial property, the Group will be entitled to legally transfer, mortgage and dispose of the commercial property; and (c) there is no material legal impediment for the Group to obtain relevant LURCs.

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APPENDIX VI

PROPERTY VALUATION

5. For the remaining commercial property with a gross floor area of approximately [245.17] sq.m., we have not been provided with any title documents.

According to the opinion given by the Company’s PRC legal advisers, the Group will legally possess the building ownership rights and the land use rights of the commercial property after obtaining relevant BOC and LURC.

6. According to the opinion given by the Company’s PRC legal advisers, as confirmed by the Group, it is able to find substitute properties to maintain the Group’s operations if moving out from these properties (as mentioned in notes 4 and 5) due to the absence of proper title certificates; and the relocation shall not have any material adverse effect on the Group’s operations and financial status.
7. We have relied on the aforesaid legal opinion and attributed no commercial value to those properties mentioned in notes 4 and 5. However, for reference purposes, we are of the opinion that the capital values of them would be in the sum of RMB[29,785,000], assuming all relevant proper title certificates had been obtained and they could be freely transferred.

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APPENDIX VI

PROPERTY VALUATION

VALUATION CERTIFICATE

				Capital value in existing state as at [30 September 2009] RMB								
No.	Property	Description and tenure	Particulars of occupancy									
2.	Various properties located in Fujian Province in the PRC	The properties comprise 14 commercial properties together with 9 underground car parking lots and a residential property with a total gross floor area of approximately 12,470.33 sq.m., which were completed in various stages between 1995 and 2007 Details of gross floor areas of the properties for each use are listed as follows: <table><tr><th><u>Use</u></th><th><u>Gross Floor Area</u> (sq.m.)</th></tr><tr><td>Commercial . .</td><td>12,084.27</td></tr><tr><td>Residential . .</td><td>386.06</td></tr><tr><td>Total:</td><td>12,470.33</td></tr></table>	<u>Use</u>	<u>Gross Floor Area</u> (sq.m.)	Commercial . .	12,084.27	Residential . .	386.06	Total:	12,470.33	The properties are currently occupied by the Group for commercial and residential purposes.	185,550,000
<u>Use</u>	<u>Gross Floor Area</u> (sq.m.)											
Commercial . .	12,084.27											
Residential . .	386.06											
Total:	12,470.33											

Notes:

1. Pursuant to various Building Sale and Purchase Contracts dated in various stages between 2004 and 2007, 7 properties with a total gross floor area of approximately 5,423.73 sq.m. were contracted to be purchased by the Group at a total consideration of RMB[60,837,929.6].

2. Pursuant to 16 BOCs and 16 LURCs, the Group has obtained both the building ownership rights and the land use rights of 11 commercial properties together with 7 underground car parking lots and a residential property, representing a total gross floor area of approximately 10,118.11 sq.m. The land use rights of these 12 properties have been granted for various terms with the expiry dates between 23 September 2034 and 31 October 2069.

According to the opinion given by the Company's PRC legal advisers, the Group can legally occupy, use, lease, mortgage and transfer such properties.

3. Pursuant to 6 BOCs, the Group has obtained the building ownership rights of a commercial property together with 2 underground car parking lots with a total gross floor area of approximately 1,625.96 sq.m.

According to the opinion given by the Company's PRC legal advisers, (a) the Group can legally occupy, use and lease such property; (b) after obtaining relevant LURCs pertaining to such property, the Group will be entitled to legally transfer, mortgage and dispose of such property; and (c) there is no material legal impediment for the Group to obtain relevant LURCs.

4. For the remaining 2 commercial properties with a total gross floor area of approximately 726.26 sq.m., we have not been provided with any title documents.

According to the opinion given by the Company's PRC legal advisers, the Group will legally possess the building ownership rights and the land use rights of such properties after obtaining relevant BOCs and LURCs.

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APPENDIX VI

PROPERTY VALUATION

5. According to the opinion given by the Company’s PRC legal advisers, as confirmed by the Group, it is able to find substitute properties to maintain the Group’s operations if moving out from those properties (as mentioned in notes 3 and 4) due to the absence of proper title certificates; and the relocation shall not have any material adverse effect on the Group’s operations and financial status.
6. We have relied on the aforesaid legal opinion and attributed no commercial value to those properties mentioned in notes 3 and 4. However, for reference purposes, we are of the opinion that the capital values of them would be in the sum of RMB[22,469,000], assuming all relevant proper title certificates had been obtained and they could be freely transferred.

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APPENDIX VI

PROPERTY VALUATION

VALUATION CERTIFICATE

				Capital value in existing state as at [30 September 2009] RMB								
<u>No.</u>	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>									
3.	Various properties located in Guangdong Province in the PRC	The properties comprise [12] commercial properties and [9] residential properties with a total gross floor area of approximately [26,882.82] sq.m., which were completed in various stages between [1997] and [2006]. Details of gross floor areas of the properties for each use are listed as follows: <table><tr><th><u>Use</u></th><th><u>Gross Floor Area</u> (sq.m.)</th></tr><tr><td>Commercial . .</td><td>18,679.62</td></tr><tr><td>Residential . .</td><td>8,203.20</td></tr><tr><td>Total:</td><td><u>26,882.82</u></td></tr></table>	<u>Use</u>	<u>Gross Floor Area</u> (sq.m.)	Commercial . .	18,679.62	Residential . .	8,203.20	Total:	<u>26,882.82</u>	The properties are currently occupied by the Group for commercial and residential purposes.	[462,028,000]
<u>Use</u>	<u>Gross Floor Area</u> (sq.m.)											
Commercial . .	18,679.62											
Residential . .	8,203.20											
Total:	<u>26,882.82</u>											

Notes:

1. Pursuant to [72] RETCs, the Group has obtained both the building ownership rights and the land use rights of 18 properties (including [11] commercial properties and [7] residential properties), representing a total gross floor area of approximately [22,352.39] sq.m. The land use rights of these 18 properties have been granted for various terms with the expiry dates between [31 December 2031] and [24 August 2069].

According to the opinion given by the Company's PRC legal advisers, the Group can legally occupy, use, lease, mortgage and transfer such properties.

2. For the remaining one commercial property and [2] residential properties with a total gross floor area of approximately [4,530.43] sq.m., we have not been provided with any title documents.

[According to the opinion given by the Company's PRC legal advisers, the Group will legally possess the building ownership rights and the land use rights of such properties after obtaining relevant RETCs.]

3. According to the opinion given by the Company's PRC legal advisers, as confirmed by the Group, it is able to find substitute properties to maintain the Group's operations if moving out from the commercial property (as mentioned in note 2) due to the absence of proper title certificates; and the relocation shall not have any material adverse effect on the Group's operations and financial status.
4. According to the opinion given by the Company's PRC legal advisers, as confirmed by the Group, the absence of proper title certificates of the 2 residential properties (as mentioned in note 2) shall not have any material adverse effect on the Group's operations as the 2 residential properties are for staff dormitory purpose.
5. We have relied on the aforesaid legal opinion and attributed no commercial value to those properties mentioned in note 2. However, for reference purposes, we are of the opinion that the capital values of them would be in the sum of RMB[34,811,000], assuming all relevant proper title certificates had been obtained and they could be freely transferred.

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APPENDIX VI

PROPERTY VALUATION

VALUATION CERTIFICATE

				Capital value in existing state as at [30 September 2009] RMB								
<u>No.</u>	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>									
4.	Various properties located in Hubei Province in the PRC	The properties comprise [12] commercial properties and a residential property with a total gross floor area of approximately [13,799.76] sq.m., which were completed in various stages between [1995] and [2005]. Details of gross floor areas of the properties for each use are listed as follows: <table><tr><th><u>Use</u></th><th><u>Gross Floor Area</u> (sq.m.)</th></tr><tr><td>Commercial . .</td><td>12,465.55</td></tr><tr><td>Residential . .</td><td>1,334.21</td></tr><tr><td>Total:</td><td><u>13,799.76</u></td></tr></table>	<u>Use</u>	<u>Gross Floor Area</u> (sq.m.)	Commercial . .	12,465.55	Residential . .	1,334.21	Total:	<u>13,799.76</u>	The properties are currently occupied by the Group for commercial and residential purposes.	[118,506,000]
<u>Use</u>	<u>Gross Floor Area</u> (sq.m.)											
Commercial . .	12,465.55											
Residential . .	1,334.21											
Total:	<u>13,799.76</u>											

Notes:

- Pursuant to various Building Sale and Purchase Contracts dated in [2004] and [2005], 3 properties with a total gross floor area of approximately [4,560.32] sq.m. were contracted to be purchased by the Group at a total consideration of RMB[37,948,000].
- Pursuant to [10] BOCs and [10] LURCs, the Group has obtained both the building ownership rights and the land use rights of 10 commercial properties, representing a total gross floor area of approximately [8,849.17] sq.m. The land use rights of the 10 properties have been granted for various terms with the expiry dates between [29] November 2041 and 25 November 2071.

According to the opinion given by the Company's PRC legal advisers, the Group can legally occupy, use, lease, mortgage and transfer such properties.
- Pursuant to 5 BOCs and 5 LURCs, the Group has obtained both the building ownership rights and the land use rights of [2] commercial properties and a residential property, representing a total gross floor area of approximately 4,950.59 sq.m.

According to the opinion given by the Company's PRC legal advisers, (a) the nature of relevant land use rights of the aforesaid properties are administratively allocated; (b) the Group can legally occupy, use and lease such properties; (c) after completing the procedure to convert the subject land into granted land, the Group will be entitled to legally transfer, mortgage and dispose of such properties; and (d) there is no material legal impediment for the Group to obtain relevant granted LURCs.
- According to the opinion given by the Company's PRC legal advisers, as confirmed by the Group, it is able to find substitute properties to maintain the Group's operations if moving out from the 2 commercial properties (as mentioned in note 3) due to the absence of proper title certificates; and the relocation shall not have any material adverse effect on the Group's operations and financial status.
- According to the opinion given by the Company's PRC legal advisers, as confirmed by the Group, the absence of proper title certificates of the residential property (as mentioned in note 3) shall not have any material adverse effect on the Group's operations as the residential property is for staff dormitory purpose.
- We have relied on the aforesaid legal opinion and attributed no commercial value to those properties mentioned in note 3. However, for reference purposes, we are of the opinion that the capital values of them would be in the sum of RMB[19,159,000], assuming all relevant land premium had been paid in full, all relevant proper title certificates had been obtained and they could be freely transferred.

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APPENDIX VI

PROPERTY VALUATION

VALUATION CERTIFICATE

				Capital value in existing state as at [30 September 2009] RMB								
<u>No.</u>	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>									
5.	Various properties located in Jiangsu Province in the PRC	The properties comprise [a] commercial property and [5] residential properties with a total gross floor area of approximately [21,112.63] sq.m., which were completed in various stages between [1999] and [2008]. Details of gross floor areas of the properties for each use are listed as follows: <table><tr><th><u>Use</u></th><th><u>Gross Floor Area</u> (sq.m.)</th></tr><tr><td>Commercial . .</td><td>19,134.18</td></tr><tr><td>Residential . .</td><td>1,978.45</td></tr><tr><td>Total:</td><td><u>21,112.63</u></td></tr></table>	<u>Use</u>	<u>Gross Floor Area</u> (sq.m.)	Commercial . .	19,134.18	Residential . .	1,978.45	Total:	<u>21,112.63</u>	The properties are currently occupied by the Group for commercial and residential purposes.	[359,585,000]
<u>Use</u>	<u>Gross Floor Area</u> (sq.m.)											
Commercial . .	19,134.18											
Residential . .	1,978.45											
Total:	<u>21,112.63</u>											

Notes:

- Pursuant to various Building Sale and Purchase Contracts dated in 2006 and 2007, 4 properties with a total gross floor area of approximately [20,766.51] sq.m. were contracted to be purchased by the Group at a total consideration of RMB[305,044,140].
- Pursuant to [15] BOCs and [15] LURCs, the Group has obtained both the building ownership rights and the land use rights of a commercial property and 3 residential properties, representing a total gross floor area of approximately [20,766.51] sq.m. The land use rights of the properties have been granted for various terms with the expiry dates between 11 March 2044 and 14 June 2074.

According to the opinion given by the Company's PRC legal advisers, the Group can legally occupy, use, lease, mortgage and transfer such properties.

- Pursuant to [2] BOCs and [2] LURCs, the Group has obtained both the building ownership rights and the land use rights of the remaining 2 residential properties, representing a total gross floor area of approximately [346.12] sq.m.

[According to the opinion given by the Company's PRC legal advisers, (a) the nature of relevant land use rights of the aforesaid properties are administratively allocated; (b) the Group can legally occupy, use and lease such properties; (c) after completing the procedure to convert the subject land into granted land, the Group will be entitled to legally transfer, mortgage and dispose of such properties; and (d) there is no material legal impediment for the Group to obtain relevant granted LURCs.]

- According to the opinion given by the Company's PRC legal advisers, as confirmed by the Group, the absence of proper title certificates of the properties (as mentioned in note 3) shall not have any material adverse effect on the Group's operations as these properties are for staff dormitory purpose.
- We have relied on the aforesaid legal opinion and attributed no commercial value to those properties mentioned in note 3. However, for reference purposes, we are of the opinion that capital values of them would be in the sum of RMB[4,845,000], assuming all relevant land premium had been paid in full, all relevant proper title certificates had been obtained and they could be freely transferred.

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APPENDIX VI

PROPERTY VALUATION

VALUATION CERTIFICATE

				Capital value in existing state as at [30 September 2009] RMB								
<u>No.</u>	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>									
6.	Various properties located in Shandong Province in the PRC	The properties comprise 3 commercial properties and a residential property with a total gross floor area of approximately 7,722.91 sq.m., which were completed in about 2000 and 2008 respectively. Details of gross floor areas of the properties for each use are listed as follows: <table><tr><th><u>Use</u></th><th><u>Gross Floor Area</u> (sq.m.)</th></tr><tr><td>Commercial . .</td><td>6,692.92</td></tr><tr><td>Residential . . .</td><td>1,029.99</td></tr><tr><td>Total:</td><td>7,722.91</td></tr></table>	<u>Use</u>	<u>Gross Floor Area</u> (sq.m.)	Commercial . .	6,692.92	Residential . . .	1,029.99	Total:	7,722.91	The properties are currently occupied by the Group for commercial and residential purposes.	[36,654,000]
<u>Use</u>	<u>Gross Floor Area</u> (sq.m.)											
Commercial . .	6,692.92											
Residential . . .	1,029.99											
Total:	7,722.91											

Notes:

- Pursuant to various Building Sale and Purchase Contracts dated in 2008, 2 commercial properties with a total gross floor area of approximately 3,760.6 sq.m. were contracted to be purchased by the Group at a total consideration of RMB31,040,368.
- Pursuant to a BOC and a LURC, the Group has obtained both the building ownership rights and the land use rights of a commercial property, representing a gross floor area of approximately 2,932.32 sq.m. The land use rights of the commercial property have been granted for a term expiring on 22 January 2043 for financial and insurance use.
According to the opinion given by the Company's PRC legal advisers, the Group can legally occupy, use, lease, mortgage and transfer the commercial property.
- Pursuant to [a] BOC, the Group has obtained the building ownership rights of [a] commercial property with a gross floor area of approximately [1,541.11] sq.m.
According to the opinion given by the Company's PRC legal advisers, (a) the Group can legally occupy, use and lease such property; (b) after obtaining relevant LURC pertaining to the commercial property, the Group will be entitled to legally transfer, mortgage and dispose of the commercial property; and (c) there is no material legal impediment for the Group to obtain relevant LURC.
- For the remaining one commercial property and a residential property with a total gross floor area of approximately 3,249.48 sq.m., we have not been provided with any title documents.
According to the opinion given by the Company's PRC legal advisers, the Group will legally possess the building ownership rights and the land use rights of such properties after obtaining relevant BOCs and LURCs.
- According to the opinion given by the Company's PRC legal advisers, as confirmed by the Group, it is able to find substitute properties to maintain the Group's operations if moving out from the 2 commercial properties (as mentioned in notes 3 and 4) due to the absence of proper title certificates; and the relocation shall not have any material adverse effect on the Group's operations and financial status.
- According to the opinion given by the Company's PRC legal advisers, as confirmed by the Group, the absence of proper title certificates of the residential property (as mentioned in note 4) shall not have any material adverse effect on the Group's operations as the residential property is for staff dormitory purpose.
- We have relied on the aforesaid legal opinion and attributed no commercial value to those properties mentioned in notes 3 and 4. However, for reference purposes, we are of the opinion that the capital values of them would be in the sum of RMB41,798,000, assuming all relevant proper title certificates had been obtained and they could be freely transferred.

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APPENDIX VI

PROPERTY VALUATION

VALUATION CERTIFICATE

				Capital value in existing state as at [30 September 2009] RMB								
No.	Property	Description and tenure	Particulars of occupancy									
7.	Various properties located in Shanxi Province in the PRC	The properties comprise 2 commercial properties and a residential property with a total gross floor area of approximately [15,274.39] sq.m., which were completed in 2004 and 2005. Details of gross floor areas of the properties for each use are listed as follows: <table><tr><th><u>Use</u></th><th><u>Gross Floor Area</u> (sq.m.)</th></tr><tr><td>Commercial . .</td><td>13,844.95</td></tr><tr><td>Residential . .</td><td>1,429.44</td></tr><tr><td>Total:</td><td>15,274.39</td></tr></table>	<u>Use</u>	<u>Gross Floor Area</u> (sq.m.)	Commercial . .	13,844.95	Residential . .	1,429.44	Total:	15,274.39	The properties are currently occupied by the Group for commercial and residential purposes.	No commercial value
<u>Use</u>	<u>Gross Floor Area</u> (sq.m.)											
Commercial . .	13,844.95											
Residential . .	1,429.44											
Total:	15,274.39											

Notes:

- Pursuant to various Building Sale and Purchase Contracts dated in 2005, a residential property with a total gross floor area of approximately [1,429.44] sq.m. was contracted to be purchased by the Group at a total consideration of RMB[4,415,604].
- For the 2 commercial properties and a residential property with a total gross floor area of approximately 15,274.39 sq.m., we have not been provided with any title documents.

According to the opinion given by the Company's PRC legal advisers, the Group will legally possess the building ownership rights and the land use rights of such properties after obtaining relevant BOCs and LURCs.
- According to the opinion given by the Company's PRC legal advisers, as confirmed by the Group, it is able to find substitute properties to maintain the Group's operations if moving out from the 2 commercial properties (as mentioned in note 2) due to the absence of proper title certificates; and the relocation shall not have any material adverse effect on the Group's operations and financial status.
- According to the opinion given by the Company's PRC legal advisers, as confirmed by the Group, the absence of proper title certificates of the residential property (as mentioned in note 2) shall not have any material adverse effect on the Group's operations as the residential property is for staff dormitory purpose.
- We have relied on the aforesaid legal opinion and attributed no commercial value to those properties mentioned in note 2. However, for reference purposes, we are of the opinion that the capital values of them would be in the sum of RMB[185,025,000], assuming all relevant proper title certificates had been obtained and they could be freely transferred.

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APPENDIX VI

PROPERTY VALUATION

VALUATION CERTIFICATE

				Capital value in existing state as at [30 September 2009] RMB								
No.	Property	Description and tenure	Particulars of occupancy									
8.	Various properties located in Shaanxi Province in the PRC	The properties comprise [4] commercial properties and [8] residential properties with a total gross floor area of approximately [12,072.67] sq.m., which were completed in various stages between 2000 and [2004]. Details of gross floor areas of the properties for each use are listed as follows: <table><tr><th><u>Use</u></th><th><u>Gross Floor Area</u> (sq.m.)</th></tr><tr><td>Commercial . .</td><td>10,956.38</td></tr><tr><td>Residential. . .</td><td>1,116.29</td></tr><tr><td>Total:</td><td>12,072.67</td></tr></table>	<u>Use</u>	<u>Gross Floor Area</u> (sq.m.)	Commercial . .	10,956.38	Residential. . .	1,116.29	Total:	12,072.67	The properties are currently occupied by the Group for commercial and residential purposes.	[83,716,000] (Please refer to note 7)
<u>Use</u>	<u>Gross Floor Area</u> (sq.m.)											
Commercial . .	10,956.38											
Residential. . .	1,116.29											
Total:	12,072.67											

Notes:

- Pursuant to a Building Sale and Purchase Contract dated in 2009, a commercial property with a gross floor area of approximately [996.34] sq.m. was contracted to be purchased by Minsheng Financial Leasing Co., Ltd., an 81.25% owned subsidiary of the Company, at a total consideration of RMB[8,169,988].
- Pursuant to 3 BOCs and a LURC, the Group has obtained both the building ownership rights and the land use rights of a commercial property, representing a total gross floor area of approximately 880.23 sq.m. The land use rights of the commercial property have been granted for a term expiring on 5 May 2048 for commercial use.

According to the opinion given by the Company's PRC legal advisers, the Group can legally occupy, use, lease, mortgage and transfer such property.
- Pursuant to [19] BOCs, the Group has obtained the building ownership rights of [2] commercial properties and 8 residential properties with a total gross floor area of approximately [11,108.30] sq.m.

According to the opinion given by the Company's PRC legal advisers, the Group can legally occupy, use, lease, mortgage and transfer such properties.
- For the remaining commercial property with a gross floor area of approximately [84.14] sq.m., we have not been provided with any title documents.

According to the opinion given by the Company's PRC legal advisers, the Group will legally possess the building ownership rights and the land use rights of such property after obtaining relevant BOC and LURC.
- According to the opinion given by the Company's PRC legal advisers, as confirmed by the Group, it is able to find substitute property to maintain the Group's operations if moving out from the property mentioned in note 4 due to the absence of proper title certificates; and the relocation shall not have any material adverse effect on the Group's operations and financial status.
- We have relied on the aforesaid legal opinion and attributed no commercial value to the property mentioned in note 4. However, for reference purposes, we are of the opinion that the capital value of the property would be RMB[471,000], assuming all relevant proper title certificates had been obtained and this property could be freely transferred.
- The capital value attributable to the Group as at 30 September 2009 was RMB81,717,000.

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APPENDIX VI

PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at [30 September 2009]
				RMB
9.	Various properties located in Shanghai in the PRC	The properties comprise 13 commercial properties together with 6 car parking lots and 12 residential properties with a total gross floor area of approximately 31,546.3 sq.m., which were completed in various stages between 1995 and 2008. Details of gross floor areas of the properties for each use are listed as follows:	The properties are currently occupied by the Group for commercial and residential purposes.	752,495,000
		<u>Use</u>	<u>Gross Floor Area</u> (sq.m.)	
		Commercial . .	27,477.22	
		Residential . .	4,069.08	
		Total:	<u>31,546.3</u>	

Notes:

- Pursuant to various Building Sale and Purchase Contracts dated in various stages between [2005] and [2008], 4 properties with a total gross floor area of approximately 6,955.12 sq.m. were contracted to be purchased by the Group at a total consideration of RMB105,695,532.
- Pursuant to 71 RETCs, the Group has obtained both the building ownership rights and the land use rights of 23 properties (including 11 commercial properties together with [6] car parking lots and 12 residential properties), representing a total gross floor area of approximately 28,546.28 sq.m. The land use rights of the 23 properties have been granted for various terms with the expiry dates between 23 March 2043 and 3 November 2072.

According to the opinion given by the Company's PRC legal advisers, the Group can legally occupy, use, lease, mortgage and transfer such properties.

- For the remaining 2 commercial properties with a total gross floor area of approximately 3,000.02 sq.m., we have not been provided with any title documents.

According to the opinion given by the Company's PRC legal advisers, the Group will legally possess the building ownership rights and the land use rights of such 2 properties after obtaining relevant RETCs.

- According to the opinion given by the Company's PRC legal advisers, as confirmed by the Group, it is able to find substitute properties to maintain the Group's operations if moving out from those properties (as mentioned in note 3) due to the absence of proper title certificates; and the relocation shall not have any material adverse effect on the Group's operations and financial status.
- We have relied on the aforesaid legal opinion and attributed no commercial value to those properties mentioned in note 3. However, for reference purposes, we are of the opinion that the capital values of them would be in the sum of RMB[89,727,000], assuming all relevant proper title certificates had been obtained and they could be freely transferred.

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APPENDIX VI

PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at [30 September 2009] RMB
10.	Various properties located in Liaoning Province in the PRC	The properties comprise 4 commercial properties and 5 residential properties with a total gross floor area of approximately 7,980.91 sq.m., which were completed in various stages between 1999 and 2001.	The properties are currently occupied by the Group for commercial and residential purposes.	90,783,000
		Details of gross floor areas of the properties for each use are listed as follows:		
		<u>Use</u>	<u>Gross Floor Area (sq.m.)</u>	
		Commercial . .	7,096.92	
		Residential . .	883.99	
		Total:	<u>7,980.91</u>	

Notes:

- Pursuant to 4 BOCs, 3 LURCs and a Land Title Proof, the Group has obtained both the building ownership rights and the land use rights of 4 commercial properties, representing a total gross floor area of approximately 7,096.92 sq.m. The land use rights of the 4 properties have been granted for various terms with the expiry dates between 4 December 2037 and 15 November 2048.

According to the opinion given by the Company's PRC legal advisers, the Group can legally occupy, use, lease, mortgage and transfer such properties.

- Pursuant to 5 BOCs, the Group has obtained the building ownership rights of 5 residential properties with a total gross floor area of approximately 883.99 sq.m.

According to the opinion given by the Company's PRC legal advisers, the Group can legally occupy, use, lease, mortgage and transfer such properties as only BOCs are issued to residential property owners by local government authorities.

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APPENDIX VI

PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at [30 September 2009]
				RMB
11.	Various properties located in Sichuan Province in the PRC	The properties comprise 10 commercial properties together with 71 underground car parking lots and a residential property with a total gross floor area of approximately 24,791.31 sq.m., which were completed in various stages between 2000 and 2008.	The properties are currently occupied by the Group for commercial and residential purposes.	317,554,000
Details of gross floor areas of the properties for each use are listed as follows:				
		<u>Use</u>	<u>Gross Floor Area</u> (sq.m.)	
		Commercial . .	24,105.95	
		Residential . .	685.36	
		Total:	<u>24,791.31</u>	

Notes:

- Pursuant to various Building Sale and Purchase Contracts dated in various stages between 2004 and 2008, 6 properties together with 67 underground car parking lots with a total gross floor area of approximately 18,082.79 sq.m. were contracted to be purchased by the Group at a total consideration of RMB157,017,367.
- Pursuant to 37 BOCs and 93 LURCs, the Group has obtained both the building ownership rights and the land use rights of 9 commercial properties together with 67 underground car parking lots, representing a total gross floor area of approximately 22,931.41 sq.m. The land use rights of such properties have been granted for various terms with the expiry dates between 31 October 2034 and 3 December 2052.

According to the opinion given by the Company's PRC legal advisers, the Group can legally occupy, use, lease, mortgage and transfer such properties.
- Pursuant to 13 BOCs, the Group has obtained the building ownership rights of a commercial property together with 4 underground car parking lots and a residential property with a total gross floor area of approximately 1,859.9 sq.m.

[According to the opinion given by the Company's PRC legal advisers, (a) the Group can legally occupy, use and lease such properties; (b) after obtaining relevant LURCs pertaining to such properties, the Group will be entitled to legally transfer, mortgage and dispose of such properties; and (c) there is no material legal impediment for the Group to obtain relevant LURCs.
- According to the opinion given by the Company's PRC legal advisers, as confirmed by the Group, it is able to find substitute properties to maintain the Group's operations if moving out from the commercial property (as mentioned in note 3) due to the absence of proper title certificates; and the relocation shall not have any material adverse effect on the Group's operations and financial status.
- According to the opinion given by the Company's PRC legal advisers, as confirmed by the Group, the absence of proper title certificates of the residential property (as mentioned in note 3) shall not have any material adverse effect on the Group's operations as the residential property is for staff dormitory purpose.
- We have relied on the aforesaid legal opinion and attributed no commercial value to those properties mentioned in note 3. However, for reference purposes, we are of the opinion that the capital values of them would be in the sum of RMB16,792,000, assuming all relevant proper title certificates had been obtained and they could be freely transferred.

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APPENDIX VI

PROPERTY VALUATION

VALUATION CERTIFICATE

				Capital value in existing state as at [30 September 2009] RMB								
<u>No.</u>	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>									
12.	Various properties located in Zhejiang Province in the PRC	The properties comprise 3 commercial properties and 10 residential properties with a total gross floor area of approximately 3,155.80 sq.m., which were completed in various stages between 1999 and 2008. Details of gross floor areas of the properties for each use are listed as follows: <table><tr><th><u>Use</u></th><th><u>Gross Floor Area (sq.m.)</u></th></tr><tr><td>Commercial . .</td><td>2,163.23</td></tr><tr><td>Residential . .</td><td>992.57</td></tr><tr><td>Total:</td><td>3,155.80</td></tr></table>	<u>Use</u>	<u>Gross Floor Area (sq.m.)</u>	Commercial . .	2,163.23	Residential . .	992.57	Total:	3,155.80	The properties are currently occupied by the Group for commercial and residential purposes.	43,550,000
<u>Use</u>	<u>Gross Floor Area (sq.m.)</u>											
Commercial . .	2,163.23											
Residential . .	992.57											
Total:	3,155.80											

Notes:

- Pursuant to a Building Sale and Purchase Contract dated in 2008, a commercial property with a gross floor area of approximately 1,232.95 sq.m. was contracted to be purchased by the Group at a consideration of RMB16,500,000.
- Pursuant to 13 BOCs and 13 LURCs, the Group has obtained both the building ownership rights and the land use rights of 13 properties (including 3 commercial properties and 10 residential properties), representing a total gross floor area of approximately 3,155.80 sq.m. The land use rights of the 13 properties have been granted for various terms with the expiry dates between 5 September 2042 and 15 March 2070.

According to the opinion given by the Company's PRC legal advisers, the Group can legally occupy, use, lease, mortgage and transfer such properties.

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APPENDIX VI

PROPERTY VALUATION

VALUATION CERTIFICATE

				Capital value in existing state as at [30 September 2009] RMB								
<u>No.</u>	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>									
13.	Various properties located in Chongqing in the PRC	The properties comprise 5 commercial properties and a residential property with a total gross floor area of approximately 21,440.72 sq.m., which were completed in various stages between 2000 and 2007. Details of gross floor areas of the properties for each use are listed as follows: <table><tr><th><u>Use</u></th><th><u>Gross Floor Area</u> (sq.m.)</th></tr><tr><td>Commercial . .</td><td>20,480.08</td></tr><tr><td>Residential . .</td><td>960.64</td></tr><tr><td>Total:</td><td>21,440.72</td></tr></table>	<u>Use</u>	<u>Gross Floor Area</u> (sq.m.)	Commercial . .	20,480.08	Residential . .	960.64	Total:	21,440.72	The properties are currently occupied by the Group for commercial and residential purposes.	257,448,000
<u>Use</u>	<u>Gross Floor Area</u> (sq.m.)											
Commercial . .	20,480.08											
Residential . .	960.64											
Total:	21,440.72											

Notes:

- Pursuant to various Building Sale and Purchase Contracts dated in 2004 and 2008, 2 commercial properties with a total gross floor area of approximately 15,384.73 sq.m. were contracted to be purchased by the Group at a total consideration of RMB88,641,456.
- Pursuant to 6 BOCs and 6 LURCs, the Group has obtained both the building ownership rights and the land use rights of the 6 properties (including 5 commercial properties and a residential property), representing a total gross floor area of approximately 21,440.72 sq.m. The land use rights of the 6 properties have been granted for various terms with the expiry dates between 13 January 2034 and 18 January 2054.

According to the opinion given by the Company's PRC legal advisers, the Group can legally occupy, use, lease, mortgage and transfer such properties.

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APPENDIX VI

PROPERTY VALUATION

VALUATION CERTIFICATE

				Capital value in existing state as at [30 September 2009] RMB								
<u>No.</u>	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>									
14.	Various properties located in Yunnan Province in the PRC	The properties comprise a commercial property together with 30 underground car parking lots and two 3-storey villas with a total gross floor area of approximately 9,572.03 sq.m., which were completed in various stages between 2001 and 2005. Details of gross floor areas of the properties for each use are listed as follows: <table><tr><th><u>Use</u></th><th><u>Gross Floor Area</u> (sq.m.)</th></tr><tr><td>Commercial . .</td><td>8,899.64</td></tr><tr><td>Residential . .</td><td>672.39</td></tr><tr><td>Total:</td><td>9,572.03</td></tr></table>	<u>Use</u>	<u>Gross Floor Area</u> (sq.m.)	Commercial . .	8,899.64	Residential . .	672.39	Total:	9,572.03	The properties are currently occupied by the Group for commercial and residential purposes.	76,216,000
<u>Use</u>	<u>Gross Floor Area</u> (sq.m.)											
Commercial . .	8,899.64											
Residential . .	672.39											
Total:	9,572.03											

Notes:

- Pursuant to 2 Building Sale and Purchase Contracts dated in 2005, two 3-storey villas with a total gross floor area of approximately 672.39 sq.m. were contracted to be purchased by the Group at a total consideration of RMB5,631,000.
- Pursuant to 10 BOCs, 4 LURCs and 30 Land Other Rights Certificates, the Group has obtained both the building ownership rights and the land use rights of a commercial property together with 30 underground car parking lots, representing a total gross floor area of approximately 8,899.64 sq.m. The land use rights of the commercial property have been granted to the Group for a term expiring on 19 March 2038 for financial and insurance, and underground car parking uses.

According to the opinion given by the Company's PRC legal advisers, the Group can legally occupy, use, lease, mortgage and transfer the commercial property.

- Pursuant to 2 BOCs, the Group has obtained the building ownership rights of the remaining 2 villas with a total gross floor area of approximately 672.39 sq.m.

[According to the opinion given by the Company's PRC legal advisers, the Group can legally occupy, use, lease, mortgage and transfer the 2 villas as only BOCs are issued to residential property owners by local government authorities.

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APPENDIX VI

PROPERTY VALUATION

VALUATION CERTIFICATE

				Capital value in existing state as at [30 September 2009] RMB								
No.	Property	Description and tenure	Particulars of occupancy									
15.	Various properties located in Tianjin in the PRC	The properties comprise 4 commercial properties and a residential property with a total gross floor area of approximately 7,764.61 sq.m., which were completed in various stages between [2005] and 2008. Details of gross floor areas of the properties for each use are listed as follows: <table><tr><th><u>Use</u></th><th><u>Gross Floor Area</u> (sq.m.)</th></tr><tr><td>Commercial . .</td><td>6,180.11</td></tr><tr><td>Residential . .</td><td>1,584.50</td></tr><tr><td>Total:</td><td><u>7,764.61</u></td></tr></table>	<u>Use</u>	<u>Gross Floor Area</u> (sq.m.)	Commercial . .	6,180.11	Residential . .	1,584.50	Total:	<u>7,764.61</u>	4 properties are currently occupied by the Group for commercial and residential purposes, whilst a commercial property with a gross floor area of 386.58 sq.m. is vacant.	89,395,000
<u>Use</u>	<u>Gross Floor Area</u> (sq.m.)											
Commercial . .	6,180.11											
Residential . .	1,584.50											
Total:	<u>7,764.61</u>											

Notes:

- Pursuant to various Building Sale and Purchase Contracts dated in various stages between 2005 and 2008, 5 properties with a total gross floor area of approximately 7,764.61sq.m. were contracted to be purchased by the Group at a total consideration of RMB[41,337,457].
- Pursuant to [a] BOC and a LURC, the Group has obtained both the building ownership rights and the land use rights of a commercial property with a gross floor area of approximately 2,086.88 sq.m. The land use rights of the commercial property have been granted to the Group for a term expiring on 28 October 2041 for commercial use.

According to the opinion given by the Company's PRC legal advisers, the Group can legally occupy, use, lease, mortgage and transfer such property.
- Pursuant to 21 RETCs, the Group has obtained both the building ownership rights and the land use rights of 2 commercial properties, representing a total gross floor area of approximately 3,706.65 sq.m. The land use rights of the 2 commercial properties have been granted for various terms with the expiry dates between 18 October 2041 and 11 June 2044.

According to the opinion given by the Company's PRC legal advisers, the Group can legally occupy, use, lease, mortgage and transfer such properties.
- For the remaining one commercial property and a residential property with a total gross floor area of approximately [1,971.08] sq.m., we have not been provided with any title documents.

According to the opinion given by the Company's PRC legal advisers, the Group will legally possess the building ownership rights and the land use rights of such properties after obtaining relevant RETCs.
- According to the opinion given by the Company's PRC legal advisers, as confirmed by the Group, it is able to find substitute properties to maintain the Group's operations if moving out from the commercial property (as mentioned in note 4) due to the absence of proper title certificates; and the relocation shall not have any material adverse effect on the Group's operations and financial status.
- According to the opinion given by the Company's PRC legal advisers, as confirmed by the Group, the absence of proper title certificates of the residential property (as mentioned in note 3) shall not have any material adverse effect on the Group's operations as the residential property is for staff dormitory purpose.
- We have relied on the aforesaid legal opinion and attributed no commercial value to the 2 properties mentioned in note 4. However, for reference purposes, we are of the opinion that the capital values of the 2 properties would be in the sum of RMB25,145,000, assuming all relevant proper title certificates had been obtained and the 2 properties could be freely transferred.

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APPENDIX VI

PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at [30 September 2009] RMB
16.	Portions of Levels 1 to 3 of Futian Plaza located at Shengli North Street Shijiazhuang City Hebei Province The PRC	The property comprises portions of Levels 1 to 3 of a 9-storey office building known as Futian Plaza, which was completed in 2008. The property has a total gross floor area of approximately 1,598.33 sq.m.	The property is currently occupied by the Group for commercial purpose.	15,397,000

Notes:

1. Pursuant to a Building Sale and Purchase Contract dated in 2007, the property with a total gross floor area of approximately 1,598.33 sq.m. was contracted to be purchased by the Group at a total consideration of RMB11,175,000.
2. Pursuant to a BOC and 2 LURCs, the Group has obtained both the building ownership rights and the land use rights of the property. The land use rights of the property have been granted for a term expiring on 10 June 2042 for commercial use and for a term expiring on 10 June 2072 for residential use.

According to the opinion given by the Company's PRC legal advisers, the Group can legally occupy, use, lease, mortgage and transfer the property.

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APPENDIX VI

PROPERTY VALUATION

VALUATION CERTIFICATE

				Capital value in existing state as at [30 September 2009] RMB								
<u>No.</u>	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>									
17.	Various properties located in Henan Province in the PRC	The properties comprise a commercial property and a residential property with a total gross floor area of approximately 11,254.94 sq.m., which were completed in 2008. Details of gross floor areas of the properties for each use are listed as follows: <table><tr><th><u>Use</u></th><th><u>Gross Floor Area (sq.m.)</u></th></tr><tr><td>Commercial . . .</td><td>10,634.23</td></tr><tr><td>Residential . . .</td><td>620.71</td></tr><tr><td>Total:</td><td>11,254.94</td></tr></table>	<u>Use</u>	<u>Gross Floor Area (sq.m.)</u>	Commercial . . .	10,634.23	Residential . . .	620.71	Total:	11,254.94	The properties are currently occupied by the Group for commercial and residential purposes.	155,043,000
<u>Use</u>	<u>Gross Floor Area (sq.m.)</u>											
Commercial . . .	10,634.23											
Residential . . .	620.71											
Total:	11,254.94											

Notes:

1. Pursuant to 2 Building Sale and Purchase Contracts dated in 2008, 2 properties with a total gross floor area of approximately 11,254.94 sq.m. were contracted to be purchased by the Group at a total consideration of RMB137,971,594.
2. Pursuant to 2 BOCs, the Group has obtained the building ownership rights of a residential property with a total gross floor area of approximately 620.71 sq.m.

Pursuant to 9 BOCs, (a) the Group has obtained the building ownership rights of a commercial property with a total gross floor area of approximately 10,634.23 sq.m.; and (b) the land use rights of the land, on which the commercial property is located, have been granted for a term expiring on [31] October 2043 for commercial use.

According to the opinion given by the Company's PRC legal advisers, the Group can legally occupy, use, lease, mortgage and transfer such properties as only BOCs are issued to property owners by local government authorities.

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APPENDIX VI

PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at [30 September 2009] RMB
18.	Various properties located in Hunan Province in the PRC	The properties comprise a commercial property completed in 2008 and a residential property completed in 2009. The properties have a total gross floor area of approximately 1,899.67 sq.m.	The properties are currently occupied by the Group for commercial and residential purposes.	5,519,000

Notes:

- Pursuant to various Building Sale and Purchase Contract dated in 2008, a commercial property with a total gross floor area of approximately 725.34 sq.m. was contracted to be purchased by Minsheng Financial Leasing Co., Ltd., an 81.25% owned subsidiary of the Company, at a total consideration of RMB20,316,011.
- Pursuant to various Building Sale and Purchase Contracts dated in 2008, a residential property with a total gross floor area of approximately 1,174.33 sq.m. was contracted to be purchased by the Group at a total consideration of RMB5,233,458.
- Pursuant to 2 BOCs, the Group has obtained the building ownership rights of 2 units of the residential property with a total gross floor area of approximately 778.91 sq.m. Pursuant to 3 Building Pre-registration Certificates (房屋預告登記證明) issued by the Building Title Administrative Bureau of Changsha City, the registered owner of the remaining 3 units of the residential property is Changsha Branch of the Company.

According to the opinion given by the Company's PRC legal advisers, the Group can legally occupy, use, lease, mortgage and transfer such property as only BOCs are issued to residential property owners by local government authorities.
- We have not been provided with any title documents for the commercial property with a total gross floor area of approximately 725.34 sq.m.

According to the opinion given by the Company's PRC legal advisers, the Group will legally possess the building ownership rights and the land use rights of the property after obtaining relevant BOC and LURC to the property.

Pursuant to a Lease Agreement dated in March 2009, entered into between Minsheng Financial Leasing Co., Ltd. and the Company, such property was rented to the Company for a term of 10 years commencing from 10 May 2009, at a current annual rental of approximately RMB1,370,005.6.
- According to the opinion given by the Company's PRC legal advisers, as confirmed by the Group, it is able to find substitute property to maintain the Group's operations if moving out from the commercial property due to the absence of proper title certificates; and the relocation shall not have any material adverse effect on the Group's operations and financial status.
- We have relied on the aforesaid legal opinion and attributed no commercial value to the commercial property. However, for reference purposes, we are of the opinion that the capital value of the property would be RMB23,428,000, assuming all relevant proper title certificates had been obtained and the property could be freely transferred.

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APPENDIX VI

PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at [30 September 2009] RMB
19.	Seven units of Dingsheng International Building located at Chongqing Road, Nangan District, Changchun City, Jilin Province, the PRC	The property comprises seven units of a 28-story residential building known as Dingsheng International Building, which was completed in 2009. The property has a total gross floor area of approximately 750.11 sq.m.	The property is currently occupied by the Group for residential purpose.	No commercial value

Notes:

- Pursuant to various Building Sale and Purchase Contracts dated in 2009, 7 units of Dingsheng International Building with a total gross floor area of approximately 750.11 sq.m. were purchased at a total consideration of RMB4,500,660.
- For the residential property with a total gross floor area of approximately 750.11 sq.m., we have not been provided with any title documents.

According to the opinion given by the Company's PRC legal advisers, the Group will legally possess the building ownership rights and the land use rights of such property after obtaining relevant BOCs and LURCs.
- According to the opinion given by the Company's PRC legal advisers, as confirmed by the Group, the absence of proper title certificates of the property (as mentioned in note 2) shall not have any material adverse effect on the Group's operations as the property are for staff dormitory purpose.
- We have relied on the aforesaid legal opinion and attributed no commercial value to the property. However, for reference purposes, we are of the opinion that the capital value of the property would be RMB4,501,000, assuming all relevant proper title certificates had been obtained and the property could be freely transferred.

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APPENDIX VI

PROPERTY VALUATION

VALUATION CERTIFICATE

Group II — Property interest held and occupied by the Group in Japan

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at [30 September 2009] RMB
20.	A 3-storey building located at Banchi 2, Hiran 3776, Yamanakako-Mura, Minamituru-Gun, Yamanashi-Ken Japan	The property comprises a 3-storey building with a total gross floor area of approximately 1,315.59 sq.m. completed in 1994.	The property is currently for residential purpose.	20,376,000 (equivalent to JPY269,000,000)

Notes:

1. Pursuant to a Building Sale and Purchase Contract dated in January 2008, a property with a gross floor area of approximately 1,315.59 sq.m. was contracted to be purchased by the Group at a consideration of JPY278,600,000.
2. The Company is the registered owner of the property.

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APPENDIX VI

PROPERTY VALUATION

VALUATION CERTIFICATE

Group III — Property interests held under development by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at [30 September 2009] RMB
21.	2 properties located in the PRC	The properties comprise Property A in Beijing and Property B in Shanghai. Property A: Property A occupies a parcel of land with a site area of approximately 133,270.8 sq.m. It is planned to be developed into a headquarters base comprising 5 buildings with a total gross floor area of approximately 129,615 sq.m. upon completion. As confirmed by the Group, the total investment of Property A is estimated to be approximately RMB937,209,000, of which RMB102,064,730.13 had been paid up to the date of valuation. Property A is currently under foundation construction and is scheduled to be completed in 2012. Property B: Property B has ever been a 36-storey composite building with a 2-level basement known as Zhongshang Plaza, completed in 1997 with a total gross floor area of approximately 68,015.26 sq.m. It occupies a parcel of land with a site area of approximately 9,000 sq.m. After being purchased by the Group, Property B started its extending construction in 2005 and is planned to be reconstructed to a building with a total gross floor area of 94,676 sq.m. upon completion. Property B is currently being decorated. It is scheduled to be completed in December 2009.	The properties are currently under construction.	2,863,127,000

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APPENDIX VI

PROPERTY VALUATION

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at [30 September 2009] RMB

As confirmed by the Group, the total investment of Property B is estimated to be approximately RMB[2,350,000,000], of which RMB[2,179,828,244.36] had been paid up to the date of valuation.

Notes:

Property A:

1. Pursuant to a Land Use Rights Transfer Agreement entered into between the Company and an independent third party dated in November 2006, the land use rights of a parcel of land, on which Property A is located, with a site area of approximately 170,249.6 sq.m. were contracted to be purchased by the Company at a consideration of RMB89,381,040.
2. Pursuant to a LURC, the land use right of Property A with a site area of approximately 133,270.80 sq.m. have been granted to the Company for a term expiring on 14 November 2056 for composite use.
3. Pursuant to 2 Construction Work Planning Permits dated in 2008 and a Construction Work Commencement Permit dated in 2009, in favor of the Company, Property A with a total planned gross floor area of approximately 129,615 sq.m has been approved for construction and the Company has obtained permits to start the construction work.

According to the opinion given by the Company's legal advisers, the Group has obtained relevant approvals from local authorities and can legally construct Property A; and there will be no material legal impediment for the Company to obtain the relevant title certificates after Property A has passed the completion and acceptance inspection.

Property B:

4. Pursuant to a RETC, the Company has obtained the building ownership rights of Property B representing a total gross floor area of approximately 68,015.26 sq.m. and the land use rights of Property B with a site area of approximately 9,000 sq.m. have been granted to the Company for a term expiring on 14 June 2044 for composite use.
5. Pursuant to a Construction Work Planning Permit and a Construction Work Commencement Permit dated in 2006 in favor of the Company, Property B with a total planned gross floor area of approximately 94,676 sq.m. has been approved for reconstruction and the Company has obtained permits to start the construction work.

According to the opinion given by the Company's legal advisers, the Group has obtained relevant approvals from local authorities and can legally construct Property B; and there will be no material legal impediment for the Company to obtain the relevant title certificates after Property B has passed the completion and acceptance inspection.

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APPENDIX VI

PROPERTY VALUATION

VALUATION CERTIFICATE

Group IV — Property interests contracted to be acquired by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at [30 September 2009] RMB
22.	Various properties located in the PRC	The properties comprise a parcel of vacant land and 7 commercial properties under construction. The land has a site area of approximately 5,058.4 sq.m., which was contracted to be granted to the Group for a term of 40 years commencing from 20 July 2009. 7 commercial properties are estimated to have a total gross floor area of approximately 155,927.78 sq.m. upon completion and they are scheduled to be completed in various stages between December 2009 and March 2011.	The parcel of land is currently vacant whilst the 7 commercial properties are currently under construction.	No commercial value

Notes:

- Pursuant to a State-owned Land Use Rights Grant Contract dated 20 July 2009 and entered into between the Land and Resources Bureau of Zhengzhou and Mingsheng Financial Leasing Co., Ltd. ("MSFL"), an 81.25% owned subsidiary of the Company, the land use rights of a parcel of land with a site area of approximately 5,058.4 sq.m. were contracted to be granted to MSFL for a term of 40 years commencing from 20 July 2009, at a total consideration of RMB7,590,000.
- Pursuant to 7 Commodity Property Sale and Purchase Contracts entered into between the Group and [various independent third parties], 7 commercial properties with a total gross floor area of approximately 155,927.78 sq.m. were contracted to be purchased by the Group at a total consideration of approximately RMB[1,660,275,221].
- As at the date of valuation, the properties have not been assigned to the Group and thus the titles of the properties are not vested in the Group. Therefore we have not attributed any commercial value to the properties. For reference purposes, we are of the opinion that the capital value of the land would be RMB13,152,000 assuming LURC has been obtained and the land use rights could be freely transferred, and the capital values of 7 commercial properties would be in the sum of RMB[2,025,923,000] assuming the 7 properties had been completed, the relevant title certificates had been obtained and the 7 properties could be freely transferred.
- As confirmed by the Group, a sum of approximately RMB1,172,670,335.98 had been paid by the Group in purchasing the properties up to the date of valuation.
- According to the opinion given by the Company's PRC legal advisers, (a) there will be no material legal impediment to the Group to obtain the relevant LURC for the parcel of land after the land premium has been fully paid; and (b) the relevant Sale and Purchase Contracts in respect of the 7 commercial properties are legal and valid, and there will be no material legal impediment for the Group to obtain the relevant title certificates for the properties after the considerations have been fully paid and the 7 properties have passed the completion and acceptance inspection.

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APPENDIX VI

PROPERTY VALUATION

VALUATION CERTIFICATE

Group V — Property interests rented and occupied by the Group in the PRC

				Capital value in existing state as at [30 September 2009] RMB										
No.	Property	Description and tenure	Particulars of Occupancy											
23.	1,025 properties located in the PRC	The properties comprise 998 commercial or storage properties and 27 residential properties with a total lettable area of approximately 634,158.51 sq.m., which were completed in various stages from 1904 to 2009. The total lettable areas of the properties for each use are shown as follows: <table><tr><th><u>Use</u></th><th><u>Lettable Area</u> (sq.m.)</th></tr><tr><td>Commercial</td><td>619,895.37</td></tr><tr><td>Residential</td><td>6,716.42</td></tr><tr><td>Storage</td><td>7,546.72</td></tr><tr><td>Total:</td><td>634,158.51</td></tr></table> The properties were rented by the Group from various independent third parties for various terms with the expiry dates between 20 January 2009 and 19 October 2027.	<u>Use</u>	<u>Lettable Area</u> (sq.m.)	Commercial	619,895.37	Residential	6,716.42	Storage	7,546.72	Total:	634,158.51	The properties are currently occupied by the Group for commercial, storage and residential purposes.	No commercial value
<u>Use</u>	<u>Lettable Area</u> (sq.m.)													
Commercial	619,895.37													
Residential	6,716.42													
Storage	7,546.72													
Total:	634,158.51													

Notes:

- Pursuant to various Lease Agreements and relevant Supplementary Agreements, 998 commercial or storage properties and 27 residential properties with a total lettable area of approximately 634,158.51 sq.m. were rented to the Group from various independent third parties for various terms with the expiry dates between 20 January 2009 and 19 October 2027 at a total current annual rental of approximately RMB811,625,357.2. As at date of valuation, various lease agreements relating to 24 properties with a total lettable area of approximately 10,163.54 sq.m. have expired. We have been advised by the Group that these lease agreements were being renewed.
- Among 655 of the above 1,025 properties, (a) the respective lessors have obtained BOCs, RETCs, Proofs of Ownership, Lease Registration and Lease Permits of [647] properties with a total lettable area of approximately [485,496.87] sq.m.; and (b) the respective lessors (also acting as developers) have obtained the LURCs, relevant approvals of construction and proofs of completion and acceptance inspection of [8] properties with a total lettable area of approximately [47,807.35] sq.m.
- For the remaining 370 properties with a total lettable area of approximately 100,854.29 sq.m., the respective lessors have not obtained any relevant valid title documents and the relevant lease agreements have not been registered with the local government authorities.
- We have been provided with the opinion on the legality of the Lease Agreements to the properties issued by the Company's PRC legal advisers, which contains, inter alia, the following:
 - For the [655] properties mentioned in note 2, the relevant Lease Agreements are legal, valid and enforceable under the PRC laws; and the Group has the rights to occupy such leased properties.

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APPENDIX VI

PROPERTY VALUATION

- b. For the remaining 370 properties mentioned in note 3:
 - i. It would not affect the validity of such lease agreements that the respective lessors have not obtained proper title documents; and the Group can occupy these properties in accordance with the valid terms stipulated by the relevant lease agreements; and
 - ii. As confirmed by the Group, it is able to find substitute properties to maintain the Group's operations if moving out from these properties due to the absence of proper title certificates; and the relocation shall not have any material adverse effect on the Group's operations and financial status.
- 5. The relevant Lease Agreements in relation to 31 of 655 properties mentioned in note 2 with a total lettable area of approximately 28,126.32 sq.m. have been registered with local government authorities. According to the opinion given by the Company's PRC legal advisers, lack of lease registration will not affect the validity of lease agreements of the properties. However, the Group may be penalized due to the failure of registration and could not defend against the bona fide third parties to be required to move out from these properties.

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APPENDIX VI

PROPERTY VALUATION

VALUATION CERTIFICATE

Group VI — Property interest rented and occupied by the Group in Hong Kong

No.	Property	Description and tenure	Particulars of Occupancy	Capital value in existing state as at [30 September 2009] RMB
24.	Rooms 3207 and 3208 on the 32 nd Floor, Bank of America Tower No. 12 Harcourt Road Hong Kong	The property comprises 2 office units on the 32nd floor of a [37]-storey office building with one basement level completed in about [1980]. The property has a total lettable area of approximately [294] sq.m. ([3,168] sq.ft.) The property is rented by the Group from an independent third party for a term of half a year commencing from 1 September 2009 and expiring on 28 February 2010 at a monthly rental of HK\$ [140,000] exclusive of rates, management fees and other outgoings.	The property is currently occupied by the Group for office purpose.	No commercial value

Note:

1. The registered owner of the property is Classic Cheer Limited vide Memorial No. 08042302410472 dated 23 April 2008.

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APPENDIX VI

PROPERTY VALUATION

VALUATION CERTIFICATE

Property interests rented and occupied by the Group after the date of valuation

<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of Occupancy</u>
6 properties located in Chongqing, Guangdong Province and Jiangsu Province in the PRC	The properties comprise 6 commercial properties with a total lettable area of approximately 9,500.96 sq.m., which were completed in various stages between 2004 and [2009]. Pursuant to 6 Lease Agreements, 6 commercial properties with a total lettable area of approximately 9,500.96 sq.m. are rented by the Group from 6 independent third parties for various terms with the expiry dates between 6 October 2014 and 10 October 2019 at a total current annual rental of approximately RMB10,360,112.	The properties are currently occupied by the Group for commercial purpose.

Property interest contracted to be acquired by the Group after the date of valuation

<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of Occupancy</u>
A parcel of land located at the south-east of junction of Jintian Road and Fuzhong Road Shenzhen City Guangdong Province The PRC	The property comprises a parcel of vacant land with a site area of approximately 4,634.02 sq.m. Pursuant to a Land Use Rights Grant Contract dated 16 October 2009 and entered into between the Planning and Land Resource Committee of Shenzhen City and the Group, the land use rights of a parcel of land were contracted to be granted to the Group for a term of 50 years commencing from 16 October 2009 and expiring on 15 October 2059 for office use at a total consideration of RMB338 million.	The property is currently vacant.

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APPENDIX VII

SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

This appendix sets out summaries of certain aspects of PRC laws and regulations, which are relevant to our operations and business. Laws and regulations relating to taxation in the PRC are discussed separately in Appendix [IX] to this document. This appendix also contains a summary of certain Hong Kong legal and regulatory provisions.

1. PRC LAWS AND REGULATIONS

A. The PRC Legal System

The PRC legal system is based on the PRC Constitution (the “*Constitution*”) and is made up of written laws, administrative regulations, local regulations, autonomy regulations, special rules, rules and regulations of State Council departments, rules and regulations of local governments, laws of special administrative regions and international treaties of which the PRC government is a signatory. Court judgments do not constitute legally binding precedents, although they are used for the purposes of judicial reference and guidance.

The National People’s Congress of China (“*NPC*”) and its Standing Committee are empowered to exercise the legislative power of the State. The NPC has the power to formulate and amend basic laws governing State organs, civil, criminal and other matters. During the adjournment of the NPC, the Standing Committee of the NPC is empowered to formulate and amend laws other than those required to be enacted by the NPC and to supplement and amend any parts of the laws enacted by the NPC, provided that such supplements and amendments are not in conflict with the basic principles of such laws. The Standing Committee of the NPC is empowered to interpret, enact and amend other laws not required to be enacted by the NPC.

The State Council is the highest organ of state administration and has the power to formulate administrative regulations based on the Constitution and laws.

The people’s congresses of the provinces, autonomous regions and municipalities directly under the central government and their respective standing committees may, subject to the Constitution, laws and administrative regulations, formulate local regulations based on the specific circumstances and actual needs of their respective administrative areas. The people’s congresses of larger cities and their respective standing committees may formulate local regulations based on the specific circumstances and actual needs of such cities and promulgate the same upon approval from the standing committees of the people’s congresses of provinces or autonomous regions. The standing committees of the people’s congresses of the provinces or autonomous regions shall examine the legality of local regulations submitted for approval, and such approval should be granted within four months if they are not in conflict with the Constitution, laws, administrative regulations and local regulations of the provinces or autonomous regions concerned. Where conflicts with the rules and regulations of the people’s governments of the provinces or autonomous regions concerned are identified in the examination for approval of local regulations of larger cities by the standing committees of the people’s congresses of the provinces or autonomous regions, a decision should be made to resolve the issue. “Larger cities” refer to cities where the people’s governments of provinces or autonomous regions are located, cities where special economic zones are located and larger cities as approved by the State Council.

The people’s congresses of autonomous regions have the power to enact autonomous regulations and special rules in the light of the political, economic and cultural characteristics of ethnic groups in the region. The autonomous regulations and special rules enacted by an autonomous region shall be effective upon approval by the standing committee of the people’s congresses of the provinces, autonomous regions or municipalities directly under the central government. An autonomous regulation or special rule enacted by an autonomous prefecture

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APPENDIX VII

SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

or autonomous county may be flexibly modified according to the flexible provisions of laws or administrative regulations as long as such flexible provisions do not contravene the basic principles thereof, but such autonomous regulations or special regulations shall not make flexible modifications to the specific provisions under the Constitution, laws or administrative regulations enacted in respect of the national autonomous regions.

The ministries and commissions of the State Council, the PBOC, the National Audit Office and the subordinate institutions with administrative functions directly under the State Council may formulate rules and regulations within the jurisdictions of their respective departments based on the laws and administrative regulations, and decisions and orders of the State Council. Provisions of departmental rules should be related to the enforcement of the laws and administrative regulations, and decisions and orders of the State Council. The people's governments of the provinces, autonomous regions, municipalities directly under the central government and larger cities may formulate rules and regulations based on the laws, administrative regulations and local regulations of such provinces, autonomous regions and municipalities directly under the central government.

According to the Constitution, the power to interpret laws is vested in the Standing Committee of the NPC. Pursuant to the Resolution of the Standing Committee of the NPC Providing an Improved Interpretation of the Law passed on June 10, 1981, the Supreme People's Court has the power to provide general interpretations of the applicable laws in judicial proceedings in addition to its power to issue specific interpretations of specific cases. The State Council and its ministries and commissions are also vested with the power to give interpretations of the statutes and administrative regulations which they have promulgated. At the regional level, the power to interpret regional laws is vested in the regional legislative and administrative authorities which promulgate such laws.

B. The PRC Judicial System

Under the PRC Constitution and the Law of Organization of the People's Courts of the PRC, the PRC judicial system is made up of the Supreme People's Court, the local people's courts, the military courts and other special people's courts. The local people's courts are divided into three levels, namely, the basic people's courts, the intermediate people's courts and the higher people's courts. The basic people's courts are further divided into civil, criminal and administrative divisions. The intermediate people's courts have divisions similar to those of the basic people's courts and other special divisions (such as the intellectual property division). These two levels of people's courts are subject to supervision by people's courts at higher levels. The people's procuratorates also have the power to exercise legal supervision over the civil proceedings of people's courts of the same level and lower levels. The Supreme People's Court is the highest judicial authority in the PRC. It supervises the administration of justice by the people's courts at all levels.

The judgments or rulings of the second instance at a people's court are final. The principal may appeal against the judgment or ruling of the first instance of a local people's court. The people's procuratorate may appeal to the people's court at the next higher level in accordance with the procedures stipulated by the laws. In the absence of any appeal by the principal and any protest by the people's procuratorate within the stipulated period, the judgments or rulings of the people's court are final. Judgments or rulings of the second instance of the intermediate people's courts, the higher people's courts and the Supreme People's Court are final. Judgments or rulings of the first instance of the Supreme People's Court are also final. If, however, the Supreme People's Court or a people's court at the next higher level finds an error in a final and binding judgment which has taken effect in any people's court at a lower level, or the presiding judge of a people's court finds an

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APPENDIX VII

SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

error in a final and binding judgment which has taken effect in the court over which he presides, a retrial of the case may be conducted according to the judicial supervision procedures.

The Civil Procedure Law of the PRC (the "**Civil Procedure Law**") adopted on April 9, 1991 and amended on October 28, 2007 prescribes the provisions for instituting a civil action, the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action, the judicial procedures, and the procedures for enforcement of a civil judgment or ruling. All parties to a civil action conducted within the PRC must abide by the Civil Procedure Law. A civil case is generally heard by the court located in the defendant's place of domicile. The court of jurisdiction in respect of a civil action may also be chosen by explicit agreement among the parties to a contract provided that the people's court having the jurisdiction is located at the plaintiff's or the defendant's place of domicile, the place of performing the contract or the place of executing the contract or the place where the object of the action is located. However, such choice may not in any circumstances contravene the regulations of differential jurisdiction and exclusive jurisdiction.

A foreign individual or foreign enterprise is generally given the same litigation rights and obligations as a citizen or legal person of the PRC. Should a foreign court limits the litigation rights of PRC citizens and enterprises, the PRC court may apply the same limitations to the citizens and enterprises of such foreign country. If any party to a civil action refuses to abide by a judgment or ruling made by a people's court or a ruling made by an arbitration tribunal in the PRC, the other party may apply to the people's court for the enforcement of the same within a stipulated period. Specific time limits are imposed on the rights to apply for such enforcement. If at least one of the parties to the dispute or arbitration is an individual, such time limit is one year. If both parties to the dispute or arbitration are legal persons or other entities, such time limit is six months. If a party fails to satisfy a judgment which the court has granted an enforcement approval within the stipulated period, the court may, upon the application of the other party, mandatorily enforce the judgment.

A party seeking to enforce a judgment or ruling of a people's court against another party who is not or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of such judgment or ruling. Likewise, if the PRC has entered into a treaty relating to judicial enforcement with the relevant foreign country or a relevant international treaty, a foreign judgment or ruling may also be recognized and enforced in accordance with the PRC enforcement procedures by a PRC court based on the equity principle unless the people's court considers that the recognition or enforcement of such judgment or ruling would violate the basic legal principles of the PRC or its sovereignty or national security, or social and public interest.

C. The Company Law, the Special Regulations on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies promulgated by the State Council (the "**Special Regulations**") and the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (the "**Mandatory Provisions**")

The Company Law was adopted by the Standing Committee of the Eighth NPC at its Fifth Session on December 29, 1993 and came into effect on July 1, 1994. It was amended on December 25, 1999 and August 28, 2004 and revised on October 27, 2005. The revised Company Law came into effect on January 1, 2006.

The Special Regulations were passed at the 22nd Standing Committee Meeting of the State Council on July 4, 1994 and promulgated and implemented on August 4, 1994. The Special Regulations are formulated in respect of the overseas share offering and listing of joint stock limited companies. The Mandatory Provisions jointly promulgated by the former Securities

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APPENDIX VII

SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

Commission of the State Council and the former State Restructuring Commission on August 27, 1994 prescribe the provisions which must be incorporated in the articles of association of joint stock limited companies to be listed on overseas stock exchanges. Accordingly, the Mandatory Provisions have been incorporated in the Articles of Association, a summary of which is set out in Appendix [8] of this document. References to a "company" made in this appendix are a joint stock limited company established under the Company Law with H shares.

Set out below is a summary of the major provisions of the Company Law, the Special Regulations and the Mandatory Provisions.

General

A "***joint stock limited company***" refers to a corporate legal person established under the Company Law with independent legal person properties and entitlements to such legal person properties. The liability of the company is limited to the total amount of all assets it owns and the liability of its shareholders is limited to the extent of the shares they subscribe for.

Incorporation

A company may be incorporated by promotion or subscription. A company may be incorporated by a minimum of two but no more than 200 promoters, and at least half of the promoters must have residence within the PRC. Companies incorporated by promotion are companies the entire registered capital of which is subscribed for by the promoters. The initial capital contribution by all promoters of the company shall not be less than 20% of the registered capital. The remainder shall be paid up in full within two years from the date of its incorporation by the promoters. For investment companies, the remainder may be paid up in full within five years. Shares in the company shall not be offered to others unless the registered capital has been paid up. For companies incorporated by public subscription, the registered capital of which is the total paid up capital as registered with the relevant registration authorities. The minimum registered capital of a joint stock limited company is RMB5 million or as required by the laws or administrative regulations, whichever is higher.

For companies incorporated by way of promotion, the promoters shall subscribe in writing for the shares required to be subscribed for by them under the articles of association. The full amount of capital contribution shall be paid up if the payment is made in one lump sum. The first installment of capital contribution shall be paid forthwith if the payment is made in installments. Procedures relating to the transfer of titles for non-monetary assets shall be duly completed if such assets are to be contributed as capital. Promoters who fail to pay up their capital contributions in accordance with the foregoing provisions shall assume default liabilities in accordance with the covenants set out in the promoters' agreement. After the promoters have completed the initial capital contribution, a board and a supervisory board shall be elected and the board shall apply for registration of incorporation by filing the articles of association with the company registration authorities, together with a capital verification certificate issued by a capital verification institution established by laws and other documents as required by the law or administrative regulations. Where companies are incorporated by subscription, not less than 35% of their total number of shares must be subscribed for by the promoters, unless otherwise provided for by the laws or administrative regulations. A promoter who offers shares to the public must publish a share offering prospectus and prepare a share subscription form to be completed, signed and sealed by subscribers, specifying the number and amount of shares to be subscribed for and the subscribers' addresses. The subscribers shall pay up the amounts for the number of shares they subscribe for. Where a promoter is offering shares to the public, such offer shall be underwritten by securities houses established by

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APPENDIX VII

SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

laws, in relation to which underwriting agreements shall be signed. A promoter offering shares to the public shall also enter into agreements with banks in relation to the receipt of subscription monies. The receiving banks shall receive and keep in custody the subscription monies, issue receipts to subscribers who have paid the subscription monies and furnish evidences of receipt of subscription monies to relevant authorities. After the subscription monies for the share issue have been paid in full, a capital verification institution established by laws must be engaged to conduct capital verification and furnish a report thereon. The promoters shall convene an inauguration meeting within 30 days. The inauguration meeting shall be formed by the subscribers. Where the shares issued remain undersubscribed by the cut-off date stipulated in the share offering prospectus, or where the promoter fails to convene an inauguration meeting within 30 days after the subscription monies for the shares issued have been fully paid up, the subscribers may demand the promoters to refund the subscription monies so paid together with the interest at bank rates for a deposit for the same period. Within 30 days after the conclusion of the inauguration meeting, the board shall apply to the registration authorities for registration of the establishment of the company. A company is formally established and has the status of a legal person after the approval of registration has been given by the relevant administration bureau for industry and commerce and a business license has been issued.

A company's promoter shall individually and collectively be liable for:

- (i) the debts and expenses incurred from incorporation if the company cannot be incorporated;
- (ii) the refund of subscription monies paid by the subscribers together with interest at bank rates for a deposit for the same period if the company cannot be incorporated; and
- (iii) the compensation of the damages suffered by the company as a result of the promoters' default in the course of its incorporation.

According to the Provisional Regulations Concerning the Issue and Trading of Shares promulgated by the State Council on April 22, 1993 (which is only applicable to issue and trading of shares in the PRC and their related activities), if a company is established by subscription, the promoters of such company are required to take joint responsibility for the accuracy of the contents of the share offering prospectus and to ensure that the share offering prospectus does not contain any misleading statement or omit any material information.

Share capital

The promoters may make capital contribution in currencies, or non-monetary assets such as in kind or intellectual property rights or land use rights which can be appraised with monetary value and transferred lawfully, except for the assets prohibited to be contributed as capital by the laws or administrative regulations. If a capital contribution is made in non-monetary assets, a valuation and verification of the assets contributed pursuant to the relevant provisions of the laws or administrative regulations on valuation must be carried out without any over-valuation or under-valuation. The amount of monetary contribution by all shareholders shall not be less than 30% of the registered capital of the company.

A company may issue registered or bearer share certificates. The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and listed overseas be issued in registered form and shall be denominated in Renminbi and subscribed for in foreign currency. Shares issued to foreign investors and investors from the territories of Hong Kong, Macau and Taiwan and listed in Hong Kong are classified as H shares, and those shares issued to investors within

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APPENDIX VII**SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS**

the PRC (other than the territories specified above) are known as domestic shares. Under the Special Regulations, upon approval of the CSRC, a company may agree, in the underwriting agreement in respect of an issue of H shares, to retain not more than 15% of the aggregate number of overseas listed foreign invested shares proposed to be issued after accounting for the number of underwritten shares. The share offering price may be equal to or greater than, but may not be less than, the par value.

Increase in share capital

Under the Company Law, an issue of shares shall be conducted in a fair and equitable manner. Shares of the same class shall rank pari passu with one another. Shares of the same class in the same offer shall be issued on the same terms and at the same price. The same price per share shall be paid by any organization or individual who subscribe for the shares.

Where a company is issuing new shares, resolutions shall be passed by the general meeting or the board in accordance with the articles of association in respect of the class and amount of the new shares, the issue price of the new shares, the commencement and end dates for the issue of the new shares and the class and amount of the new shares proposed to be issued to existing shareholders. When a company launches a public issue of new shares upon the approval by the CSRC, a new share offering document and financial accounting report must be published and a subscription form must be prepared. After the new share issue of the company has been paid up, the change must be registered with the company registration authorities and an announcement must be made accordingly. Where an increase in registered capital of a company is made by means of an issue of new shares, the subscription of new shares by shareholders shall be made in accordance with the relevant provisions on the payment of subscription monies in relation to the incorporation of a company.

Reduction of share capital

Subject to the minimum registered capital requirements, a company may reduce its registered capital in accordance with the following procedures prescribed by the Company Law:

- (i) the company shall prepare a balance sheet and an inventory of assets;
- (ii) the reduction of registered capital must be approved by shareholders at a general meeting;
- (iii) the company shall notify its creditors of the reduction in share capital within 10 days and publish an announcement of the reduction in newspapers within 30 days after the resolution approving the reduction has been passed;
- (iv) the creditors of the company may within the statutory time limit require the company to repay its debts or provide guarantees for covering the debts; and
- (v) the company must apply to the relevant administration bureau for industry and commerce for registration of the change and reduction in registered capital.

Repurchase of shares

A company may not purchase its own shares other than for one of the following purposes:

- (i) reducing its registered capital;
- (ii) merging with another company which holds its shares;

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APPENDIX VII

SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

- (iii) granting shares to its employees as incentives; and
- (iv) acquiring its own shares at the request of its shareholders who vote against a resolution regarding a merger or separation in a general meeting.

The acquisition by a company of its own shares on the grounds set out in (i) to (iii) above must be approved by way of a resolution of a general meeting. Following the acquisition by a company of its own shares in accordance with the foregoing, such shares must be canceled within 10 days from the date of the acquisition in the case of (i) and transferred or canceled within six months in the case of (ii) or (iv).

The acquisition by a company of its own shares in accordance with (iii) under the first paragraph hereof shall not exceed 5% of the total number of issued shares of the company. Such acquisition shall be financed by funds appropriated from the company's profit after taxation, and the shares so acquired shall be transferred to the employees within one year.

Transfer of shares

Shares held by shareholders may be transferred in accordance with the relevant laws and regulations. A shareholder may only effect a transfer of his shares on a stock exchange established in accordance with laws or by any other means as required by the State Council. Registered shares may be transferred after the shareholders endorse on the back of the share certificates or in any other manner specified by the laws or administrative regulations. Following the transfer, the company shall enter the names and addresses of the transferees into its share register. No changes of registration in the share register provided in the foregoing shall be effected during a period of 20 days prior to the convening of a shareholders' general meeting or 5 days prior to the record date for the purpose of determining entitlements to dividend distributions, subject to any legal provisions on the registration of changes in the share register of listed companies. The transfer of bearer share certificates shall become effective upon the delivery of the certificates to the transferee by the shareholder.

Shares held by promoters may not be transferred within one year after the establishment of the company. Shares of the company issued prior to the public issue of shares may not be transferred within one year from the date of the company's listing on a stock exchange. Directors, supervisors and the senior management of a company shall declare to the company their shareholdings in it and any changes in such shareholdings. During their terms of office, they may transfer no more than 25% of the total number of shares they hold in the company. They shall not transfer the shares they hold within one year from the date of the company's listing on a stock exchange, nor within six months after they have left their positions in the company. The articles of association may set out other restrictive provisions in respect of the transfer of shares in the company held by its directors, supervisors and the senior management.

Shareholders

Under the Company Law, the rights of shareholders include the rights:

- (i) to receive return on assets, participate in significant decision-making and select the management personnel;
- (ii) to petition the people's court to revoke any resolution passed at a general meeting or a meeting of board that has been convened illegally or whose voting has been conducted in an illegal manner, or any resolution that is in violation of the articles of association,

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APPENDIX VII**SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS**

provided that such petition shall be submitted within 60 days of the passing of such resolution;

- (iii) to transfer their shares according to the applicable laws and regulations and the articles of association;
- (iv) to appoint a proxy to attend general meetings;
- (v) to inspect the articles of association, share register, counterfoil of company debentures, minutes of general meetings, board resolutions, resolutions of the supervisory board and financial and accounting reports and to make suggestions or enquiries in respect of the company's operations;
- (vi) to receive dividends in respect of the number of shares held;
- (vii) to receive residual properties of the company in proportion to their shareholdings upon the liquidation of the company; and
- (viii) any other shareholders' rights provided for in the articles of association.

The obligations of shareholders include the obligation to abide by the company's articles of association, to pay the subscription monies in respect of the shares subscribed for, to be liable for the company's debts and liabilities to the extent of the amount of subscription monies agreed to be paid in respect of the shares taken up by them and any other shareholders' obligation specified in the company's articles of association.

General meetings

The general meeting is the organ of authority of the company, which exercises its powers in accordance with the Company Law. The general meeting may exercise its powers as follows:

- (i) to decide on the company's operational objectives and investment proposals;
- (ii) to elect and remove the directors and supervisors (not being representative(s) of employees) and to decide on the matters relating to the remuneration of directors and supervisors;
- (iii) to review and approve the reports of the board;
- (iv) to review and approve the reports of the supervisory board or supervisors;
- (v) to review and approve the company's annual financial budgets and final accounts;
- (vi) to review and approve the company's profit distribution proposals and loss recovery proposals;
- (vii) to decide on any increase or reduction of the company's registered capital;
- (viii) to decide on the issue of corporate bonds;
- (ix) to decide on the issues such as merger, separation, dissolution and liquidation of the company;
- (x) to amend the company's articles of association; and
- (xi) any other authority stipulated under the articles of association.

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APPENDIX VII

SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

General meeting is required to be held once every year. An extraordinary general meeting is required to be held within 2 months after the occurrence of any of the following:

- (i) the number of directors is less than the number stipulated by the laws or less than two-thirds of the number specified in the articles of association;
- (ii) the aggregate outstanding losses of the company amounted to one-third of the company's total share capital;
- (iii) shareholders individually or aggregately holding 10% or more of the company's shares request the convening of an extraordinary general meeting;
- (iv) the board deems necessary;
- (v) the supervisory board so requests; or
- (vi) other circumstances as provided for in the articles of association.

General meeting shall be convened by the board, and presided over by the chairman of the board. In the event that the chairman is incapable of performing or not performing his duties, the meeting shall be presided over by the vice chairman. In the event that the vice chairman is incapable of performing or not performing his duties, a director nominated by more than half of the directors shall preside over the meeting. Where the board is incapable of performing or not performing its duties of convening the general meeting, the supervisory board shall convene and preside over such meeting in a timely manner. In case the supervisory board fails to convene and preside over such meeting, shareholders individually or aggregately holding more than 10% of the company's shares for 90 days consecutively may unilaterally convene and preside over such meeting.

A notice of the general meeting stating the time and venue of and matters to be considered at the meeting shall be given to all shareholders 20 days before the meeting. In accordance with the Mandatory Provisions, a notice of the general meeting stating, among other things, matters to be considered at the meeting shall be given to all shareholders 45 days before the meeting. A shareholder who intends to attend the meeting shall deliver his written reply regarding his attendance of the meeting to the company 20 days before the date of the meeting. A notice of extraordinary general meeting shall be given to all shareholders 15 days prior to the meeting. For the issuance of bearer share certificates, the time and venue of and matters to be considered at the meeting shall be announced 30 days before the meeting. Shareholders individually or aggregately holding more than 3% of the company's shares may submit interim proposals to the board in writing 10 days before the general meeting.

The board shall notify other shareholders within two days after receiving such proposal and table such interim proposal for review by the general meeting. Interim proposals shall be within the authority of the general meeting and shall carry specific subjects and matters for resolution. A general meeting shall not make any resolution in respect of any matters not set out in the above two types of notices. Holders of bearer share certificates who wish to attend the general meeting shall deposit his share certificates with the company five days before the meeting, which shall remain in custody by the company until the close of the general meeting.

Shareholders present at a general meeting have one vote for each share they hold, save that shares held by the company are not entitled to any voting rights. Resolutions of the general meeting must be passed by more than half of the voting rights held by shareholders present at the meeting, with the exception of matters relating to merger, separation, dissolution of the company, increase or reduction of registered share capital, change of corporate form or amendments to the articles of association, which must be passed by more than two-thirds of the voting rights held by the

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APPENDIX VII

SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

shareholders present at the meeting. Where the Company Law and the articles of association provide that the transfer or acquisition of significant assets or the provision of external guarantees by the company must be approved by way of resolution of the general meeting, the directors shall convene a general meeting promptly to vote on such matters. The accumulative voting system may be adopted pursuant to the provisions of the articles of association or a resolution of the general meeting for the election of directors and supervisors at the general meeting. Under the accumulative voting system, each share shall be entitled to the votes equivalent to the number of directors or supervisors to be elected for the election of directors or supervisors at the general meeting, and shareholders may consolidate their voting rights when casting a vote.

Minutes shall be prepared in respect of matters considered at the general meeting and the chairman and directors attending the meeting shall sign to endorse such minutes. The minutes shall be kept together with the shareholders' attendance register and the proxy forms.

According to the Mandatory Provisions, the increase or reduction of share capital, the issuance of shares of any class, warrants or other similar securities, and bonds, the liquidation of the company and any other matters in respect of which the shareholders are required to be decided by ordinary resolution, must be approved through special resolutions by more than two-thirds of the voting rights held by shareholders present at the meeting.

There is no specific provision in the Company Law regarding the number of shareholders constituting a quorum in a general meeting, although the Special Regulations and the Mandatory Provisions provide that a company's general meeting may be convened when written replies to the notice of that meeting from shareholders holding shares representing 50% of the voting rights in the company have been received 20 days before the proposed date, or if that 50% level is not achieved, the company shall within 5 days of the last day for receipt of the replies notify shareholders again by announcement of the matters to be considered at the meeting and the date and venue of the meeting and the general meeting may be held by the company thereafter.

Directors

A company shall have a board, which shall consist of five to 19 members. Members of the board may include staff representatives, who shall be democratically elected by the company's staff at a staff representative assembly, general staff meeting or otherwise. The term of a director shall be stipulated in the articles of association, provided that no term of office shall last for more than three years. A director may serve consecutive terms if re-elected. A director shall continue to perform his/her duties as a director in accordance with the laws, administrative regulations and the articles of association until a duly re-elected director takes office, if re-election is not conducted in a timely manner upon the expiry of his/her term of office or if the resignation of directors results in the number of directors being less than the quorum.

Under the Company Law, the board may exercise its powers as follows:

- (i) to convene the general meetings and report on its work to the general meetings;
- (ii) to implement the resolutions passed by the shareholders at the general meetings;
- (iii) to decide on the company's operational plans and investment proposals;
- (iv) to formulate the company's annual financial budgets and final accounts;
- (v) to formulate the company's profit distribution proposals and loss recovery proposals;

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APPENDIX VII

SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

- (vi) to formulate proposals for the increase or reduction of the company's registered capital and the issue of corporate bonds;
- (vii) to formulate proposals for the merger, separation or dissolution of the company or change of corporate form;
- (viii) to decide on the setup of the company's internal management;
- (ix) to appoint or dismiss the company's general manager and decide on his/her remuneration and, based on the general manager's recommendation, to appoint or dismiss the deputy general managers and financial officers of the company and to decide on their remunerations;
- (x) to formulate the company's basic management system; and
- (xi) to exercise any other authority stipulated under the articles of association.

Meetings of the board shall be convened at least twice a year. Notices of meeting shall be given to all directors and supervisors 10 days before the meeting. Interim board meetings may be convened by shareholders representing more than 10% of the voting rights, more than one-third of the directors or the supervisory board. The chairman shall convene the meeting within 10 days after receiving such proposal, and preside over the same. The board may otherwise determine the means and the period for which the notice to be given for convening an extraordinary meeting of the board. Meetings of the board shall be held only if more than half of the directors are present. According to the Mandatory Provisions, meetings of the board shall not be held unless more than half of the directors are present. Resolutions of the board shall be passed by more than half of all directors. Each director shall have one vote for a resolution to be approved by the board. Directors shall attend the meetings of the board in person. If a director is unable to attend for any reason, he/she may appoint another director to attend the meeting on his/her behalf by a written power of attorney specifying the scope of the authorization of his/her representative.

If a resolution of the board violates any laws, administrative regulations or the articles of association, and as a result of which the company suffers from serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proved that a director expressly objected to the resolution when the resolution was voted on, and that such objection was recorded in the minutes of the meeting, such director shall be relieved from that liability.

Under the Company Law, the following persons may not serve as a director in a company:

- (i) persons without civil capacity or with restricted civil capacity;
- (ii) persons who have committed the offense of corruption, bribery, taking of property, misappropriation of property or destruction of the socialist economic order, and have been sentenced to criminal punishment, where less than 5 years have elapsed since the date of completion of the sentence; or persons who have been deprived of their political rights due to criminal offense, where less than 5 years have elapsed since the date of the completion of implementation of this deprivation;
- (iii) persons who were directors, factory managers or managers of a company or enterprise which has become bankrupt and has been liquidated and who were personally liable for the bankruptcy of such company or enterprise, where less than 3 years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;

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APPENDIX VII

SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

- (iv) persons who were legal representatives of a company or enterprise which had its business license revoked or which were ordered for closure resulting from violation of laws and who were personally liable for such revocation or closure, where less than 3 years have elapsed since the date of the revocation of the business license;
- (v) persons who have a relatively substantial amount of debts due and outstanding. Where a company elects or appoints a director in violation of the aforesaid provisions, such election or appointment shall be null and void. Directors committing the above during their terms of office shall be released of their duties by the company.

Other circumstances under which a person is disqualified from acting as a director of a company are set out in the Mandatory Provisions. The board shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman shall be elected with approval of more than half of all the directors. The chairman shall convene and preside over board meetings and review the implementation of board resolutions. The vice chairman shall assist the chairman to perform his/her duties. Where the chairman is incapable of performing or not performing his/her duties, the duties shall be performed by the vice chairman. Where the vice chairman is incapable of performing or not performing his/her duties, a director nominated by more than half of the directors shall perform his/her duties.

Supervisors

A company shall have a supervisory board composed of not less than 3 members. The supervisory board is made up of representatives of the shareholders and an appropriate proportion of representatives of the company's staff. The actual proportion shall be determined in the articles of association, provided that the proportion of representatives of the company's staff shall not be less than one-third. Representatives of the company's staff at the supervisory board shall be democratically elected by the company's staff at the staff representative assembly, general staff meeting or otherwise. The supervisory board shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman of the supervisory board are elected by more than half of all the supervisors.

The chairman of the supervisory board shall convene and preside over supervisory board meetings. Where the chairman of the supervisory board is incapable of performing or not performing his/her duties, the vice chairman of the supervisory board shall convene and preside over supervisory board meetings. Where the vice chairman of the supervisory board is incapable of performing or not performing his/her duties, a supervisor nominated by more than half of the supervisors shall convene and preside over supervisory board meetings. Directors and senior management shall not act concurrently as supervisors.

Each term of office of a supervisor is 3 years and he/she may serve consecutive terms if re-elected. A supervisor shall continue to perform his/her duties as a supervisor in accordance with the laws, administrative regulations and the articles of association until a duly re-elected supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his/her term of office or if the resignation of supervisors results in the number of supervisors being less than the quorum.

The supervisory board may exercise its powers as follows:

- (i) to review the company's financial position;

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APPENDIX VII

SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

- (ii) to supervise the directors and senior management in their performance of their duties and to propose the removal of directors and senior management who have violated laws, regulations, the articles of association or shareholders' resolutions;
- (iii) when the acts of a director or management personnel are detrimental to the company's interests, to require the director and senior management to correct these acts;
- (iv) to propose the convening of extraordinary general meetings and to convene and preside over shareholders' meetings when the board fails to perform the duty of convening and presiding over general meetings under the Company Law;
- (v) to submit proposals to the general meetings;
- (vi) to bring actions against directors and senior management pursuant to the relevant provisions of the Company Law;
- (vii) to exercise any other authority stipulated under the articles of association.

Supervisors may be present at the meetings of the board, and make enquiries or proposals in respect of the resolutions of the board. The supervisory board may investigate any irregularities identified in the operations of the company and, when necessary, may engage an accounting firm to assist its work at the costs of the company.

Managers and senior management

A company shall have a general manager who shall be appointed or removed by the board. The general manager may exercise his/her powers as follows:

- (i) to manage the production, operation and administration of the company, and arrange for the implementation of the resolutions of the board;
- (ii) to organize and implement the annual plans and investment proposals of the company;
- (iii) to formulate the setup proposals for the establishment of the company's internal management structure;
- (iv) to formulate the fundamental management system of the company;
- (v) to formulate the company's internal rules;
- (vi) to recommend the appointment or dismissal of deputy managers and any financial officer of the company;
- (vii) to appoint or dismiss management personnel (other than those required to be appointed or dismissed by the board);
- (viii) to exercise any other authority granted by the board.

Other provisions in the articles of association on the general manager's powers shall also be complied with. The general manager shall be present at the meeting of the board. However, the non-managing director shall have no voting rights at the meeting of the board.

According to the Company Law, senior management refers to the general manager, deputy manager, financial officer, secretary to the board of a listed company and other personnel as stipulated in the articles of association.

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APPENDIX VII

SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

Duties of the directors, supervisors, general managers and other senior management

Directors, supervisors, general manager, deputy manager and senior management are required under the Company Law to comply with the relevant laws, regulations and the articles of association, and carry out their duties in good faith. Directors, supervisors, managers and management personnel are prohibited from accepting bribes or other unlawful income and from misappropriating the company's properties. Directors and senior management are prohibited from:

- (i) misappropriating company funds;
- (ii) depositing company funds into accounts maintained in their own names or the names of other individuals;
- (iii) lending company funds to others or providing guarantees in favor of others on the company properties which is in violation of the articles of association or without approval of the general meeting or the board;
- (iv) entering into contracts or transactions with the company which is in violation of the articles of association or without approval of the general meeting or the board;
- (v) Using his/her position to procure business opportunities for himself/herself or others that should have otherwise been available to the company or operating for his/her own benefit or operating on behalf of others businesses similar to that of the company without approval of the general meeting;
- (vi) accepting for their own benefits commissions from a third party dealing with the company;
- (vii) unauthorized divulgence of confidential information of the company;
- (viii) any other acts in violation of his/her fiduciary duty towards the company.

Income generated by directors or senior management in violation of the foregoing provisions shall be reverted to the company.

A director, supervisor or senior management who contravenes any laws, regulations or the company's articles of association in the performance of his/her duties resulting in any loss to the company shall be personally liable to the company.

Where a director, supervisor or senior management is required to attend a general meeting, such director, supervisor or senior management shall attend the meeting and answer the enquiries from shareholders. Directors and senior management shall furnish all truthful facts and information to the supervisory board or the supervisors (for companies with limited liability that do not have a supervisory board) without impeding the discharge of duties by the supervisory board or the supervisors.

Where a director or senior management contravenes any laws, regulations or the company's articles of association in the performance of his/her duties resulting in any loss to the company, shareholders holding individually or aggregately more than 1% of the company's shares consecutively for 180 days may request in writing the supervisory board to institute a litigation at a people's court on their behalf. Where the supervisory board violates the laws or administrative regulations or the articles of association in the discharge of their duties resulting in any loss to the company, the aforesaid shareholders may request in writing the board to institute a litigation at a people's court on their behalf. In the event that the supervisory board or the board refuses to institute a litigation after receiving the written request from the shareholders as provided above, or

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APPENDIX VII

SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

fails to institute litigation within 30 days from the date of receiving the request, or in case of emergency where failure to institute a litigation immediately will result in irrecoverable damages to the company's interests, shareholders mentioned in the foregoing shall have the power to institute a litigation directly at a people's court in their own name for the company's benefits. For other parties who infringe the lawful interests of the company resulting in losses to the company, such shareholders may institute a litigation at a people's court in accordance with provisions in the foregoing paragraphs. Where a director or senior management contravenes any laws, administrative regulations or the articles of association in infringement of shareholders' interests, shareholders may also institute a litigation at a people's court.

The Special Regulations and the Mandatory Provisions provide that a company's directors, supervisors, general managers and other senior management shall have fiduciary duties towards the company. They are required to faithfully perform their duties, protect the interests of the company and not to use their positions for their own benefits. The Mandatory Provisions contain detailed stipulations on these duties.

Finance and accounting

A company shall establish its own financial and accounting systems according to the laws, administrative regulations and the regulations of the competent financial departments of the State Council. At the end of each financial year, a company shall prepare a financial report which shall be audited by an accounting firm in accordance with the laws. The financial and accounting reports shall be prepared in accordance with the laws, administrative regulations and the regulations of the financial departments of the State Council.

The company's financial statements shall be made available for shareholders' inspection at the company's registered office at least 20 days before the convening of an annual general meeting. A joint stock limited company established by way of public subscription shall publish its financial statements. When distributing each year's profits after taxation, the company shall set aside 10% of its profits after taxation for the company's statutory common reserve fund until the fund has reached 50% of the company's registered capital. When the company's statutory common reserve fund is not sufficient to make up for the company's losses for the previous years, the current year's profits shall first be used to make good the losses before any allocation is set aside for the statutory common reserve fund. After the company has made appropriations to the statutory common reserve fund from its profits after taxation, it may, upon passing a resolution at a shareholders' meeting or a general meeting, make further appropriations from its profits after taxation to the discretionary common reserve fund. After the company has made good its losses and made allocations to its common reserve fund, the remaining profits after taxation are distributed in proportion to the number of shares held by the shareholders, except for those which are not distributed in a proportionate manner as provided by the articles of association.

Profits distributed to shareholders by a resolution of a general meeting or the board before losses have been made good and appropriations have been made to the statutory common reserve fund in violation of the foregoing provisions must be returned to the company. Shares held by the company shall not be entitled to any distribution of profits.

The premium over the nominal value of the shares of the company on issue and other incomes as required by relevant government authorities to be treated as the capital reserve fund shall be accounted for as the capital reserve fund. The common reserve fund of a company shall be applied to make up for the company's losses, expand its business operations or increase its capital. The capital reserve fund, however, shall not be used to make good the company's losses. Upon the

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APPENDIX VII

SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

transfer of the statutory common reserve fund into capital, the balance of the fund shall not be less than 25% of the registered capital of the company before such transfer.

The company shall have no accounting books other than the statutory ones. The company's assets shall not be deposited in any account opened under the name of an individual.

Appointment and retirement of auditors

Pursuant to the Company Law, the appointment or dismissal of an accounting firm responsible for the company's auditing shall be determined by shareholders at a general meeting or the board in accordance with the articles of association. The accounting firm should be allowed to make statements when shareholders at a general meeting or the board are going to conduct a vote on the dismissal of the accounting firm. The company should provide true and complete accounting evidences, accounting books, financial and accounting reports and other accounting information to the newly-engaged accounting firm without any refusal, withholding and false information. The Special Regulations require a company to engage an independent qualified accounting firm to audit the company's annual reports and to review and check other financial reports of the company.

Profit distribution

The Special Regulations provide that the dividends and other distributions to be paid to holders of H shares shall be declared and calculated in Renminbi and paid in foreign currency. Under the Mandatory Provisions, the payment of foreign currency to shareholders shall be made through a receiving agent.

Amendments to the articles of association

Any amendments to the articles of association must be made in accordance with the procedures set forth in applicable laws, regulations and the articles of association. Any amendment of provisions incorporated into the articles of association in accordance with the Mandatory Provisions will only be effective after it has been approved by the company approval department authorized by the CSRC and the State Council and filed with the SAIC or any of its local bureaus for registration. If the amendment to the articles of association is required to be registered and filed and has been adopted, the company must process registration of changes in accordance with applicable laws and regulations.

Dissolution and liquidation

A company shall be dissolved for any of the following reasons:

- (i) the term of its operations set forth in the articles of association has expired or other events of dissolution specified in the articles of association have occurred;
- (ii) the shareholders have resolved at a general meeting to dissolve the company;
- (iii) the company is dissolved by reason of its merger or separation;
- (iv) the business license is revoked or the company's operation is ordered to close or is dissolved in accordance with the laws;
- (v) the company is dissolved by a people's court in response to the request of shareholders holding shares that represent more than 10% of the voting rights of all shareholders of the company, on the grounds that the operation and management of the company

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APPENDIX VII

SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

experience serious difficulties that cannot be resolved through other means, rendering ongoing existence of the company a cause for significant losses for shareholders.

In the event of paragraph (i) above, the company may carry on its existence by amending its articles of association. The amendments to the articles of association in accordance with provisions set out in the preceding paragraphs shall require the approval of shareholders present at the general meeting representing more than two-thirds of the voting rights.

Where the company is dissolved under the circumstances set forth in paragraphs (i), (ii), (iv) or (v) above, it should establish a liquidation team within 15 days from the date on which the dissolution matter arises. Members of the liquidation team shall be appointed by directors or shareholders at a general meeting. If a liquidation team is not established within the prescribed period, the company's creditors can file an application with a people's court, requesting the court to appoint relevant personnel to form a liquidation team for liquidation. The people's court should accept such application and form a liquidation team to conduct liquidation in a timely manner.

The liquidation team may exercise its powers during the liquidation as follows:

- (i) to handle the company's assets and to prepare a balance sheet and an inventory of assets;
- (ii) to notify the company's creditors or publish announcements;
- (iii) to deal with and settle any outstanding business of the company;
- (iv) to pay any overdue tax as well as any tax arising during the liquidation process;
- (v) to settle the company's financial claims and liabilities;
- (vi) to handle the company's remaining assets after its debts have been paid off; and
- (vii) to represent the company in civil procedures.

The liquidation team shall notify the company's creditors within 10 days after its establishment, and publish an announcement in newspapers within 60 days.

A creditor shall lodge his claim with the liquidation team within 30 days upon receipt of the notification or within 45 days from the date of the announcement if he has not received any notification. A creditor shall state all matters relevant to his creditor's rights in making his claim and furnish evidences. The liquidation team shall register such creditor's rights. The liquidation team shall not make any settlement to creditors during the period of claim.

Upon liquidation of the company's properties and the preparation of the balance sheet and inventory of assets, the liquidation team shall draw up a liquidation plan and submit the same to a general meeting or a people's court for endorsement. The remaining assets of the company after payment of liquidation expenses, wages, social insurance expenses and statutory compensation, outstanding taxes and the company's debts shall be distributed to shareholders according to the proportion of their capital contribution in the case of a company with limited liability or according to shareholding proportion in the case of a joint stock limited company. The company shall exist during the liquidation period, although it cannot be engaged in operating activities that are not related to the liquidation. The company's properties shall not be distributed to shareholders before repayments are made in accordance with the foregoing provisions.

Upon liquidation of the company's properties and the preparation of the balance sheet and inventory of assets, if the liquidation team becomes aware that the company does not have sufficient assets to meet its liabilities, it must apply to a people's court for a declaration of bankruptcy in accordance with the laws.

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APPENDIX VII

SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

Following such declaration by the people's court, the liquidation team shall hand over the liquidation affairs to the people's court.

Upon completion of the liquidation, the liquidation team shall submit a liquidation report to a shareholders' meeting, a general meeting or a people's court for confirmation. Thereafter, the report shall be submitted to the companies' registration authority in order to cancel the company's registration, and an announcement of its termination shall be published. Members of the liquidation team are required to discharge their duties in good faith and in compliance with relevant laws. Members of the liquidation team shall be prohibited from abusing their authority to accept bribes or other unlawful incomes and from misappropriating the company's properties. Members of the liquidation team are liable to indemnify the company and its creditors in respect of any loss arising from their willful or material default.

Liquidation of a company declared bankrupt according to laws shall be processed in accordance with the laws on corporate bankruptcy.

Overseas listing

The shares of a company shall only be listed overseas after obtaining approval from the CSRC and the listing must be arranged in accordance with the procedures specified by the State Council.

Loss of share certificates

A shareholder may, in accordance with the public notice procedures set out in the PRC Civil Procedure Law, apply to a people's court in the event that his/her share certificate(s) in registered form is either stolen, lost or destroyed, for a declaration that such certificate(s) will no longer be valid. After such a declaration has been obtained, the shareholder may apply to the company for the issue of replacement certificate(s).

The Mandatory Provisions have separate provisions governing the loss of share certificates and H share certificates of shareholders of overseas listed foreign shares, which are set out in the articles of association.

Suspension and termination of listing

The new and amended Company Law has deleted provisions governing the suspension and termination of listing. The new Securities Law of the PRC (the "***Securities Law***") has been amended as follows: the trading of a company's shares on a stock exchange may be suspended if so decided by the Hong Kong Stock Exchange under any of the following circumstances:

- (1) the total issued share capital or the shareholding distribution no longer complies with the mandatory requirements for a listed company;
- (2) the company fails to make public its financial position in accordance with the requirements or there is false information in the company's financial report which is likely to mislead investors;
- (3) the company has committed a material breach of the laws;
- (4) the company has incurred losses for the last three (3) consecutive years; or
- (5) any other circumstances as required by the listing rules of the relevant stock exchange(s).

[●]

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APPENDIX VII

SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

Merger and separation

A merger agreement shall be signed by merging companies and the involved companies shall prepare their respective balance sheets and inventory of assets. The companies shall within 10 days from the date of passing the resolution of the merger notify their respective creditors and publish an announcement in newspapers within 30 days. The creditors may, within 30 days upon receipt of the notification, or within 45 days from the date of the announcement if he has not received any notification, request the company to settle any outstanding debt or provide relevant guarantees. In case of a merger, the credits and debts of the merging parties shall be assumed by the surviving or the new company.

In case of a separation, the company's assets shall be divided accordingly and a balance sheet and an inventory of assets shall be prepared. When a resolution regarding the company's separation is approved, the company should notify all its creditors thereof within 10 days from the date of passing such resolution and make public the same in newspapers within 30 days. Unless agreed in writing by the creditors in respect of the settlement of debts, obligations in respect of the liabilities of the company before the separation shall be incidentally borne by the separated companies.

Changes in the particulars of the companies as a result of the merger or separation shall, if so required, be registered with the company registration authorities.

In accordance with the laws, cancellation of a company shall be registered when a company is dissolved and incorporation of a company shall be registered when a new company is incorporated.

D. Securities Laws and Regulations and Regulatory Regimes

The PRC has promulgated a number of regulations in relation to the issue and trading of shares and disclosure of information. The CSRC is the supervisory and regulatory institution for securities in the PRC. It is responsible for the formulation of policies relating to securities, the drafting of securities laws and regulations, the supervision of the securities markets, market intermediaries and participants, the supervision and regulation of the domestic and overseas public offerings of securities by Chinese companies, as well as the supervision and regulation of securities transactions.

On April 22, 1993, the State Council promulgated the **Provisional Regulations Concerning the Issue and Trading of Shares** (the "**Provisional Securities Regulations**"). The Provisional Securities Regulations stipulate the application and approval procedures for public offerings of equity securities, trading in equity securities, acquisitions of listed companies, deposit, settlement, clearing and transfer of listed equity securities, disclosure of information, investigation, penalties and dispute settlement with respect to listed companies. The Provisional Securities Regulations specifically provide that the offer of shares by a PRC company directly and indirectly outside the PRC requires the approval of the Securities Commission (or the CSRC at present). The provisions set out in the Provisional Securities Regulations in relation to the acquisition of listed companies and disclosure of information are expressed to apply to listed companies in general instead of being confined to companies listed on any particular stock exchange. Such provisions may therefore be applicable to joint stock limited companies whose shares are listed on a stock exchange outside the PRC (e.g. the Hong Kong Stock Exchange).

On August 4, 1994, the State Council promulgated the Special Regulations. These regulations deal mainly with the issue, subscription and trading of overseas listed foreign shares, declaration of dividends and other distributions, and the disclosure of information in respect of the articles of association of joint stock limited companies with overseas listed foreign shares.

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APPENDIX VII

SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

On December 25, 1995, the State Council promulgated the Provisions of the State Council on Foreign Currency Stocks Listed in the Domestic Stock Market Issued by Joint Stock Limited Companies. These regulations deal mainly with the issue, subscription and trading of domestic listed foreign shares, declaration of dividends and other distributions, and the disclosure of information of joint stock limited companies with domestic listed foreign shares.

On December 29, 1998, the Standing Committee of the NPC promulgated the Securities Law of the PRC which came into effect on July 1, 1999. This is the first national securities law in the PRC and is the fundamental law comprehensively regulating activities in the PRC securities markets. On October 27, 2005, amendments were made to the Securities Law of the PRC. The Securities Law of the PRC is applicable to the issue of and trading in shares, corporate bonds and other securities designated by the State Council in accordance with the laws in the PRC. Where the Securities Law of the PRC does not apply, the provisions of the Company Law and other applicable laws and administrative regulations shall apply.

On March 29, 1999, the SETC and the CSRC jointly promulgated the Opinion on the Further Promotion of the Regular Operation and In-Depth Reform of Companies Listed Overseas (the "*Opinion*"), which is aimed at regulating the internal operation and management of the PRC companies listed overseas. The Opinion regulates, amongst other things, the appointment and functions of external directors and independent directors in the board, and the appointment and functions of external supervisors in the supervisory board.

On May 7, 2006, the CSRC promulgated the Administrative Measures on the Issuance of Stocks by Listed Companies, which state the conditions and procedures for public offer and private placing of securities, including shares, convertible corporate bonds and other securities recognized by the CSRC. The measures also set forth information disclosure requirements, supervision procedures and penalties on non-compliance.

On December 31, 2006, the CSRC promulgated the Administrative Measures on Information Disclosure by Listed Companies. Under these measures, the CSRC is responsible for overseeing the disclosure of information by companies which have offered shares to the public in the PRC. These measures require share offering prospectus and listing reports to be issued in connection with a public share offering in the PRC, and require the companies which have offered shares to the public to publish regular reports (including annual, interim and quarterly reports) and announcements relating to material transactions and major issues.

E. Arbitration and Enforcement of Arbitral Awards

The Arbitration Law of the People's Republic of China (the "*Arbitration Law*") was promulgated by the Standing Committee of the NPC on August 31, 1994 and came into effect on September 1, 1995. It is applicable to, among other matters, economic disputes involving foreign parties where all parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. The Arbitration Law provides that an arbitration committee may, before the promulgation of the arbitration regulations by the PRC Arbitration Association, formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by an agreement provided arbitration as a method for settlement of disputes, a people's court will refuse to handle the case even though one party institutes legal proceedings at such people's court, unless the arbitration agreement has lapsed.

THIS WEB PROOF INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Web Proof Information Pack must be read in conjunction with the section headed "Warning" on the cover of this Web Proof Information Pack.

APPENDIX VII

SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

The CIETAC is an economic and trade arbitration organ in the PRC. In accordance with the CIETAC Arbitration Rules as amended on January 11, 2005 (which became effective on May 1, 2005), the jurisdiction of the CIETAC covers disputes involving Hong Kong. The CIETAC is located in Beijing with branch offices in Shenzhen and Shanghai. Under the Arbitration Law, an arbitral award shall be final and binding on the parties involved in the arbitration. If any party fails to comply with the award, the other party to the award may apply to a people's court for enforcement of the same. A people's court may refuse to enforce an arbitral award made by an arbitration commission if there is any procedural irregularity (including irregularity in the composition of the arbitration committee or the giving of an award beyond the scope of the arbitration agreement or the jurisdiction of the arbitration commission).

Any party seeking to enforce an arbitral award of a foreign affairs arbitration organ of the PRC against the other party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for enforcement of the award. Likewise, an arbitral award made by a foreign arbitration body may be recognized and enforced by a PRC court in accordance with the principle of reciprocity or any international treaty concluded or acceded to by the PRC.

The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**") adopted on June 10, 1958 pursuant to a resolution of the Standing Committee of the NPC passed on December 2, 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognized and enforced by other parties thereto subject to their rights to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee of the NPC simultaneously with the accession to the Convention by the PRC that (i) the PRC will only recognize and enforce foreign arbitral awards based on the principle of reciprocity; and (ii) the PRC will only apply the New York Convention to disputes deemed under the PRC laws to be arising from contractual or non-contractual mercantile legal relations. An arrangement for reciprocal enforcement of arbitral awards between Hong Kong and the PRC was signed on June 18, 1999. This new arrangement was approved by the Supreme People's Court of the PRC and the Hong Kong Legislative Council and became effective on February 1, 2000. The new arrangement was made in accordance with the spirit of the New York Convention, allowing awards made by PRC arbitral authorities to be enforced in Hong Kong and awards by Hong Kong arbitral authorities to be enforced in the PRC.

2. HONG KONG LEGAL AND REGULATORY PROVISIONS

Hong Kong company law and its comparison with the PRC law applicable to a joint stock limited company incorporated under the Company Law

Hong Kong company law is primarily set out in the Companies Ordinance and supplemented by common law. There are material differences between Hong Kong company law and the PRC law applicable to a joint stock limited company incorporated under the Company Law, to which the Bank is and will be subject, particularly in the area of investor protection. Certain of the material differences between the Company Law and Hong Kong company law are summarized below. This summary, however, is not intended to be an exhaustive comparison. It should also be noted that the summary relates only to joint stock limited companies incorporated under the Company Law.

THIS WEB PROOF INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Web Proof Information Pack must be read in conjunction with the section headed "Warning" on the cover of this Web Proof Information Pack.

APPENDIX VII

SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

Derivative action by minority shareholders

Hong Kong law allows minority shareholders to start a derivative action on behalf of the general body of shareholders in cases where, for example, one or more of the directors are in breach of duty and where their actions are shielded by the majority shareholders.

Although the Company Law gives (a) shareholder(s) of a company the right to initiate proceedings in the People's Court to restrain any resolution adopted by shareholders in general meeting or at a meeting of the board which is in violation of any law or infringes the lawful rights and interests of the shareholder(s), there is no form of proceedings which is the same as a derivative action under the Companies Ordinance.

Remedies of the Company

Under the Company Law, if a director, supervisor or manager in carrying out his duties infringes any law or administrative regulation or the articles of association of a company, resulting in damage to the company, that director, supervisor or manager should be responsible to the company for such damages.

Directors, officers and supervisors

The Company Law provides for the disqualification of directors, supervisors and managers in circumstances where they enter into business contracts with the Bank, and for prohibitions of certain unauthorized benefits, but contain no provision restricting the authority of the directors to make major dispositions or prohibiting payment to them for loss of office without shareholders' approval. However, the Mandatory Provisions contain certain restrictions on major dispositions and specify the circumstances under which a director may receive compensation for loss of office, all of which provisions have been incorporated in the Articles of Association, a summary of which is set out in this Appendix.

Under Hong Kong company law, there is no concept of a supervisory committee for a company in addition to its board, but a PRC joint stock limited company must have supervisors whose main duties include ensuring compliance with laws and regulations, and the articles of association of the company, by its directors and managers. Each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Minority protection

There is no specific provision in the Company Law to guard against oppression by the majority shareholders of minority shareholders but the Bank, as required by the Mandatory Provisions and the relevant regulations, has adopted in the Articles of Association minority protection provisions similar to (though not as comprehensive as) those available under Hong Kong law, to the effect that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of other shareholders to achieve certain objectives.

Receiving agent

Under both PRC and Hong Kong law, dividends once declared become debts payable to shareholders, but the limitation of action period is two years in the PRC as opposed to six years in Hong Kong. In accordance with the requirements of the Mandatory Provisions and the relevant

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APPENDIX VII

SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

regulations, the Articles of Association provide for the appointment of an agent in Hong Kong [●]. The Articles of Association also contain provisions which provide that unclaimed dividends may only be forfeited by the Bank after six years from declaration.

Variation of class rights

The Company Law makes no specific provision relating to variation of class rights. However, the Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed in respect thereof. These provisions have been incorporated in the Articles of Association, which are summarized in this Appendix. Under the Companies Ordinance, no rights attached to any class of shares can be varied except with the approval of a special resolution of the holders of the relevant class at a separate meeting or the consent in writing of the holders of three fourths in nominal value of the issued shares of the class in question.

The Bank has adopted in the Articles of Association provisions protecting class rights in a similar manner to those found in Hong Kong law. Holders of overseas listed foreign invested shares and domestic invested shares are defined in the Articles of Association as different classes, except where the Bank issues and allots, in any 12-month period pursuant to a shareholders’ mandate (obtained by way of a special resolution in general meeting), not more than 20% of each of the issued overseas listed foreign invested shares and the domestic invested shares existing as at the date of the shareholders’ mandate. For the purpose of the above, holders of overseas non-listed foreign invested shares are treated as the same class of holders of domestic invested shares.

Share capital

For a joint stock limited company formed under the Company Law, the registered share capital and the issued share capital are the same. For a Hong Kong company, the authorized share capital may be larger than the issued share capital. Hence, the directors of a Hong Kong company may, with the prior approval of the shareholders if required, cause the company to issue new shares. In the case of a PRC company, any increase of the registered capital must be approved by the shareholders in general meeting and the relevant PRC government and regulatory authorities. After completion of an approved new issue, the company has to register the increase in share capital with the relevant SAIC.

The minimum registered capital of a company which has applied for the listing of its shares on a stock exchange is RMB50 million under the Company Law. Hong Kong law does not effectively prescribe any minimum capital requirements for a Hong Kong company. Under the Company Law, the shares subscribed for in the form of intangible assets (excluding land use rights) may not exceed 20% of a joint stock limited company’s registered capital if the concerned joint stock limited company is not one of those hi-tech companies specified by the State Council. There is no such restriction under Hong Kong law on a Hong Kong company.

Restriction on shareholding and transfer of shares

The Company Law makes no reference to the class of shares which may be subscribed for or traded by overseas investors but has provisions that shares of a company to be listed overseas must comply with the Special Regulations. The Special Regulations and the Mandatory Provisions provide, among other things, that H shares must be in registered form and include other matters

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APPENDIX VII

SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

some of which are referred to below. There is no restriction under Hong Kong law on a person's ability to deal in shares in a Hong Kong company on the basis of his residence or nationality.

Under the Company Law, shares in a joint stock limited company held by its promoters, directors or managers may not be transferred within certain periods of time. There is no such restriction under Hong Kong law.

Notice of meetings

Under the Company Law, shareholders of a joint stock limited company must be given 20 days' notice of a general meeting or, in the case of bearer shares, such notice should be published 30 days before the meeting. Under the Special Regulations and the Mandatory Provisions (which apply to the Bank) written notice of 45 days must be given to all shareholders, and shareholders wishing to attend the meeting must reply in writing to reach the company 20 days before the date of the meeting. For a Hong Kong limited company, the minimum period of notice of a general meeting where convened for the purpose of considering ordinary resolutions is 14 days and where convened for the purpose of considering special resolutions 21 days. The notice period for an annual general meeting is also 21 days.

Quorum

Under Hong Kong company law, any two shareholders personally present will constitute a quorum for a general meeting, unless the articles of association provide otherwise. The Company Law makes no specific provision as to when a quorum is regarded as being present but the Special Regulations and the Mandatory Provisions provide that a company's annual general meeting can be convened when replies to the notice of that meeting have been received from shareholders whose Shares represent 50% of the voting rights in the Bank at least 20 days before the proposed date, or if that 50% level is not achieved, that the Bank shall within five days notify shareholders in a public announcement and the annual general meeting may be held thereafter.

Voting

Under Hong Kong company law, ordinary resolutions are passed by more than one half of the votes cast by those shareholders voting in person or by proxy at a general meeting and special resolutions are passed by not less than three quarters of such votes. Under the Company Law, the passing of any resolution requires the passing by more than half of the votes of the shareholders attending and voting except in cases of proposed amendment to the articles of association, merger, division or dissolution of a company where the approval of a two-thirds majority is required.

Dividends

The Articles of Association empower the Bank to withhold, and pay to the relevant tax authorities, any tax payable under PRC law on any dividends or other distributions payable to a shareholder. Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws the relevant limitation period is two years.

Financial disclosure

A joint stock limited company is required under the Company Law to make available at its office for inspection by shareholders its annual balance sheet, profit and loss account, statement of changes in financial situation and other relevant annexures 20 days before the annual general

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APPENDIX VII

SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

meeting of shareholders. In addition, a company established by the public subscription method under the Company Law must publish its financial statements. The annual balance sheet has to be verified by registered accountants. The Companies Ordinance requires a company to send to every shareholder a copy of its balance sheet, auditors' report and directors' report which are to be laid before the company in its annual general meeting not less than 21 days before such meeting.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

Information on directors and shareholders

The Company Law gives shareholders the right to inspect the Bank's Articles of Association, minutes of the shareholders' general meetings and financial and accounting reports. Under the Articles of Association, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and on Directors similar to that available to shareholders of Hong Kong companies under Hong Kong law.

Corporate reorganization

Corporate reorganization involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company in the course of being wound up voluntarily to another company pursuant to section 237 of the Companies Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to section 166 of the Companies Ordinance which requires the sanction of the court. Under the PRC law, the merger or demerger of a joint stock limited company has to be approved by shareholders in general meeting and the relevant governmental authorities.

Arbitration of disputes

In Hong Kong, disputes between shareholders and a company or its directors, managers and other senior officers can be resolved through the courts.

Mandatory deductions

Under the Company Law, after tax profits of a company are subject to deductions of contributions to the statutory common reserve fund and the statutory common welfare fund of the company before they can be distributed to shareholders. There are prescribed limits under the Company Law for such deductions. There are no corresponding provisions under the Companies Ordinance.

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APPENDIX VIII

SUMMARY OF ARTICLES OF ASSOCIATION

Set out below is a summary of the principal provisions of our Articles of Association, the principal objective of which is to provide investors with an overview of the articles.

As the information contained below is in summary form, it does not contain all the information that may be important to potential investors.

Directors and Other Officers

Power to Allot and Issue Shares

There is no provision in our Articles of Association empowering the directors to allot and issue shares.

To increase the capital of our Bank, the Board must submit a proposal for approval at a shareholders' general meeting by a special resolution.

Power to Dispose of the Assets of Our Bank or any Subsidiary

The Board is accountable to the shareholders.

The Board shall not, without the prior approval of shareholders in a shareholders' general meeting, dispose of, or agree to dispose of, any fixed assets of our Bank where the sum of the estimated value of the consideration for the proposed disposition and the aggregate amount of the consideration for all dispositions of fixed assets of our Bank completed within four months immediately preceding the proposed disposition exceeds 33% of the value of our Bank's fixed assets as shown on the last balance sheet reviewed at a shareholders' general meeting.

The validity of a disposition by our Bank of fixed assets shall not be affected by the breach of the above paragraph.

For the purposes of our Articles of Association, a disposition of fixed assets includes an act involving the transfer of an interest in such assets but does not include the provision of such assets as a form of security.

Emoluments and Compensation for Loss of Office

Our Bank shall, with the prior approval of shareholders at a shareholders' general meeting, enter into a contract in writing with each of the directors or supervisors wherein his emoluments are stipulated. The aforesaid emoluments include:

- emoluments in respect of his service as a director, supervisor, president or senior executive officer of our Bank;
- emoluments in respect of the provision of other services in connection with the management of the affairs of our Bank; and
- compensation for loss of office, or as consideration for or in connection with his retirement from office.

Except under a contract entered into in accordance with the foregoing, no proceedings may be brought by a director or supervisor against our Bank for any benefit due to him in respect of the above matters.

Contracts concerning emoluments between our Bank and our directors or supervisors should provide that, in the event of a takeover of our Bank, the directors or supervisors shall, subject to the prior approval of the shareholders in a shareholders' general meeting, have the right to receive

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APPENDIX VIII

SUMMARY OF ARTICLES OF ASSOCIATION

compensation or other payment in respect of a loss of office or retirement. A "takeover of our Bank" referred to in this paragraph means either:

- an offer made by any person to all shareholders; or.
- an offer made by any person with a goal of becoming "controlling shareholder" within the meaning set out in our Articles of Association See "Rights of the Minority Shareholders" below.

If the relevant director or supervisor does not comply with this provision, any sum so received by him shall belong to those persons who have sold their shares as a result of the said offer. The expenses incurred in distributing such sum *pro rata* amongst those persons shall be borne by the relevant director or supervisor and shall not be paid out of the sum to be received by him.

Loans to Directors, Supervisors and Other Officers

Our Bank shall not grant credit loans to a related person. Our Bank may only provide loans or loan guarantees to a related person if the terms and conditions are on normal commercial terms and conditions, and our Bank may not provide guaranteed loans to a related persons unless the terms and conditions on such loans are not more favorable than the terms and conditions of the same type of loans provided to other borrowers. Related person means:

- a director, supervisor, executive officer or employee engaged in credit business of our Bank, or any close relatives of such an individual; and
- a company, enterprise or other economic organization in which one of the above persons invests or of which such a person is a senior executive officer.

A loan made by our Bank in breach of the above provisions shall be repayable forthwith by the recipient of the loan regardless of the terms of the loan.

Financial Assistance for the Acquisition of Shares in Our Bank

Subject to the exceptions in our Articles of Association, our Bank (including the branches) and our subsidiaries (including the affiliated enterprises) shall not, by any means at any time, provide any kind of financial assistance (as defined below) to a person who is acquiring or is proposing to acquire shares of our Bank. Such acquirer of shares of our Bank includes a person who directly or indirectly incurs any obligations (as defined below) due to the acquisition of shares. Our Bank (including the branches) and our subsidiaries (including the affiliated enterprises) shall not, by any means at any time, provide financial assistance to such acquirer for the purpose of reducing or discharging the obligations assumed by that person.

The following activities shall not be deemed to be prohibited activities:

- the provision of financial assistance by our Bank where the financial assistance is given in good faith in the interest of our Bank, and the principal purpose in giving the financial assistance is not for the acquisition of shares, or the giving of the financial assistance is an incidental part of a major plan of our Bank;
- the distribution of our Bank's assets through dividends;
- the allotment of bonus shares as dividends;
- a reduction of registered capital, a repurchase of shares or a reorganization of the share capital structure of our Bank effected in accordance with our Articles of Association;

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APPENDIX VIII

SUMMARY OF ARTICLES OF ASSOCIATION

- the lending of money by our Bank within its scope of business and in the ordinary course of business (provided that the net assets of our Bank are not thereby reduced or that, to the extent that the net assets are thereby reduced, the financial assistance is provided out of distributable profits); and
- the provision of money by our Bank for contributions to an employees' shareholding plan (provided that the net assets of our Bank are not thereby reduced or, to the extent that the net assets are thereby reduced, the financial assistance is provided out of distributable profits).

For these purposes:

- "financial assistance" includes, but without limitation, the following:
 - a gift;
 - a guarantee (including any liability by the guarantor or the provision of assets by the guarantor to secure the performance of obligations by the obligor), compensation (other than compensation due to our Bank's own default) or release or waiver of any rights;
 - provision of a loan or any other contract under which the obligations of our Bank are to be fulfilled before the obligations of another party, or a change in the parties to, the novation of, or the assignment of rights arising under, such a loan or contract; or
 - any other form of financial assistance given by our Bank when our Bank is insolvent or has no net assets or when its net assets would thereby be reduced by a material extent.
- "incurring an obligation" includes the incurring of obligations by the changing of the obligor's financial position, the entering into a contract, the making of an arrangement (whether enforceable or not, and whether made on its own account or with any other persons), or any other means.

Disclosure of Interests in Contracts with Our Bank or any of its Subsidiaries

Where a director or any of his related persons, supervisor, president or other senior executive officer of our Bank is in any way, directly or indirectly, materially interested in a contract, transaction or arrangement or proposed contract, transaction or arrangement with our Bank (other than his contract of service with our Bank), he shall declare the nature and extent of his interests to the Board at the earliest opportunity, whether or not the contract, transaction, arrangement or proposal therefor is otherwise subject to the approval of the Board.

Unless the interested director, supervisor, president, executive vice president or other senior executive officer discloses his interests in accordance with our Articles of Association and the contract, transaction or arrangement is approved by the Board at a meeting in which the interested director, supervisor, president, executive vice president or other senior executive officer is not counted in the quorum and refrains from voting, the contract, transaction or arrangement in which a director, supervisor, president, executive vice president or other senior executive officer is materially interested is voidable at the request of our Bank except as against a *bona fide* party acting without notice of the breach of duty by the interested director, supervisor, president or other senior executive officer.

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APPENDIX VIII

SUMMARY OF ARTICLES OF ASSOCIATION

For the purposes of this provision, a director, supervisor, president, executive vice president or other senior executive officer of our Bank is deemed to be interested in a contract, transaction or arrangement in which one of his associates is interested.

If a director, supervisor, president or other senior executive officer of our Bank, before the date on which the question of entering into the relevant contract, transaction or arrangement is first taken into consideration by the president, gives to the Board a general notice in writing stating that, by reason of the facts specified in the notice, he is interested in the contracts, transactions or arrangements and such contracts, transactions or arrangement are subsequently made by our Bank, such notice shall be deemed to be a sufficient declaration of his interests for the purpose of the above paragraphs to the extent of such disclosure in such notice.

Remuneration

The remuneration of directors must be approved by shareholders in a shareholders' general meeting. See "Emoluments and Compensation for Loss of Office" above.

Appointment, Removal and Retirement

The term of office of the chairman of the Board and the other Board members shall be three years. The qualification of a director shall be examined and approved by the banking regulatory authority of the State Council.

Directors shall be elected and removed by the shareholders' general meeting. The general procedures for the nomination, election and appointment of directors are set forth below:

- upon the consultations with shareholders and the review of each candidate's qualification to act as director of a commercial bank, the nomination committee under the Board will submit the proposals to the Board for deliberations;
- proposal on director candidates shall be submitted to the shareholders' meeting in the form of a written motion by the last Board; and
- the shareholder(s) or the supervisory board having objection to the director candidates may submit a new motion to the Board, which will resolve whether to submit the motion to be deliberated on by the shareholders' general meeting.

Our Board, supervisory board and shareholders(s) individually or aggregately holding 1% or more of the issued shares of our Bank are entitled to nominate candidates for independent directors to be elected by shareholders' general meetings. The term of office of an independent director shall be three years.

The Board shall consist of 18 directors, of which at least one-third shall be independent directors. The Board shall have one chairman and a certain number of vice-chairman. The chairman and vice chairman shall be elected by a majority of all directors.

A director, supervisor, president or other senior executive officer of our Bank may not be:

- a person without legal capacity or with restricted legal capacity;
- a person who has committed an offense of corruption, bribery, infringement of property, misappropriation of property or sabotaging of the social economic order and has been punished because he committed such an offense, where less than five years have elapsed since the date of completion of the sentence; or who has been deprived of his political

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APPENDIX VIII

SUMMARY OF ARTICLES OF ASSOCIATION

rights, where less than five years have elapsed since the date of completion of this deprivation;

- a person who has been a director, factory manager or manager of a company or enterprise which has entered into an insolvency liquidation and is personally liable for the insolvency of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;
- a person who is a former legal representative of a company or enterprise which had its business license revoked due to a violation of the law and who incurred personal liability, where less than three years have elapsed since the date of revocation of the business license;
- a person who has a relatively large amount of debts and who is in default of such debts;
- a person who is under criminal investigation by a judicial organization for violation of the criminal law for which investigation is not yet concluded;
- a person who is not eligible for enterprise leadership according to laws and administrative regulations;
- a non-natural person; or
- a person convicted of contravening provisions of relevant securities regulations by a relevant supervising authority, and such conviction involves a finding that he has acted fraudulently or dishonestly, where less than five years have elapsed since the date of conviction.

The validity of an act of a director, president or other senior executive officer acting on behalf of our Bank is not, *vis-à-vis* a *bona fide* third party, affected by any irregularity in his office, election or any defect in his qualification.

Borrowing Powers

The articles of association do not specifically provide for the manner in which borrowing powers may be exercised nor do they contain any specific provision in respect of the manner in which such borrowing powers may be amended, except for:

- provisions which authorize the Board to formulate proposals for the issuance of debentures and other securities by our bank; and
- provisions which provide that the issuance of debentures and other securities shall be approved by the shareholders' meeting by a special resolution.

Amendments to the Articles of Association of Our Bank

Our articles of association may be amended by special resolution of the shareholders in a shareholders' general meeting. If the amendments are subject to approval by the relevant PRC government authorities, such approval shall be obtained for such amendments. If a registration is necessary for the amendments, such registration shall be carried out in compliance with the relevant laws.

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APPENDIX VIII

SUMMARY OF ARTICLES OF ASSOCIATION

Change of Rights of Existing Shares or Classes of Shares

Rights conferred on any class of shareholders in the capacity of shareholders, or class rights, may not be varied or abrogated unless approved by a special resolution of shareholders in a shareholders' general meeting and by holders of shares of that class at a separate meeting conducted in accordance with our Articles of Association.

The following circumstances shall be deemed a change or abrogation of the class rights of a shareholder class:

- an increase or decrease in the number of shares of such class, or an increase or decrease in the number of shares of such class having voting or distribution rights or privilege equal or superior to those of the shares of such class;
- an exchange of all or part of the shares of such class into shares of another class or an exchange or the creation of a right to exchange all or part of the shares of another class into the shares of such class;
- the removal or reduction of rights to accrued dividends or rights to cumulative dividends attached to shares of such class;
- the reduction or removal of a dividend preference or a liquidation preference attached to shares of such class;
- the addition, removal or reduction of conversion privileges, options, voting rights, transfer or preemptive rights attached to shares of such class, or rights to obtain securities of our Bank;
- the removal or reduction of rights to receive payment payable by our Bank in particular currencies attached to shares of such class;
- the creation of a new class of shares having voting or distribution rights or privileges equal or superior to those of the shares of such class;
- the restriction of the transfer or ownership of the shares of such class or any addition to such restriction;
- the issuance of rights to subscribe for, or conversion into, shares in our Bank of such class or another class;
- the increase of the rights or privileges of shares of another class;
- the restructuring of our Bank where the proposed restructuring will result in different classes of shareholders bearing different degrees of responsibility in respect of the company's liability; and
- the variance or abrogation of provisions of "special procedures for voting in class meetings" as contained in our Articles of Association.

Interested shareholders (as defined below) shall not be entitled to vote at "class shareholders' meetings."

Resolutions of a class of shareholders shall be passed by votes representing two-thirds or more of the voting rights of shareholders of that class presented at "class shareholders' meetings."

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APPENDIX VIII

SUMMARY OF ARTICLES OF ASSOCIATION

Written notice of a "class shareholders' meeting" shall be given 45 days before the date of the meeting to notify all of the shareholders in the share register of the class of the matters to be considered, the date and the place of such meeting.

Notice of "class shareholders' meetings" need only be served on shareholders entitled to vote thereat.

Meetings of any class of shareholders shall be conducted in a manner as similar as possible to that of shareholders' general meetings of all shareholders. The provisions of our Articles of Association relating to the manner of conducting a shareholders' general meeting shall apply to any meeting of a class of shareholders.

The special procedures for approval by a class of shares shall not apply in the following circumstances:

- where our Bank issues, upon the approval by a special resolution of its shareholders in a shareholders' general meeting, either separately or concurrently once every 12 months, not more than 20% of each of its existing issued domestic shares and overseas-listed shares; or
- where our Bank's plan to issue domestic shares and overseas-listed shares at the time of its establishment is carried out within 15 months from the date of approval of the Securities Authority of the State Council.

For the purposes of the class rights provisions of our Articles of Association, the meaning of "interested shareholder(s)" is:

- in the case of a repurchase of shares by offers to all shareholders in the same percentage or through public trading on a stock exchange, a "controlling shareholder" within the meaning of our Articles of Association;
- in the case of a repurchase of shares by a privately negotiated contract, a shareholder to which the proposed contract relates; and
- in the case of a restructuring of our Bank, a shareholder within a class who bears a less than proportionate burden imposed on that class under the proposed restructuring or who has an interest in the proposed restructuring different from the interest of shareholders of that class.

Resolutions — Majority Required

Resolutions of shareholders' general meetings shall be divided into ordinary resolutions and special resolutions.

To adopt an ordinary resolution, votes representing more than one half of the voting rights represented by the shareholders (including shareholders' proxies) present at the meeting must be exercised in favor of the resolution.

To adopt a special resolution, votes representing two-thirds or more of the voting rights represented by the shareholders (including shareholders' proxies) present at the meeting must be exercised in favor of the resolution.

Voting Rights

The ordinary shareholders of our Bank have the right to attend or appoint a proxy to attend shareholders' general meetings and to vote thereat. A shareholder (including shareholders' proxy)

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APPENDIX VIII

SUMMARY OF ARTICLES OF ASSOCIATION

when voting at a shareholders' general meeting may exercise voting rights in accordance with the number of voting shares and each voting share shall have one vote.

At any shareholders' general meeting, a resolution shall be decided on a show of hands unless a poll is (before or after any vote by a show of hands) demanded:

- by the chairman of the meeting;
- by at least two shareholders entitled to vote present in person or by proxy; or
- by one or more shareholders present in person or by proxy representing in aggregate 10% or more of all voting shares at the meeting.

Unless required by the relevant rules or regulations of place(s) where our shares are listed or a poll is demanded, the chairman, in accordance with the voting result on a show of hands, may declare the voting result and make an entry to that effect in the minutes of the meeting, which shall be conclusive evidence of the fact.

The demand for a poll may be withdrawn by the person who makes such demand.

A poll demanded on the election of the chairman of the meeting, or on a question of adjournment of the meeting, shall be taken forthwith. A poll demanded on any other question shall be taken at such time as the chairman of the meeting directs, and any other items on the agenda may proceed, pending the taking of the poll. The result of the poll shall be deemed to be a resolution of the meeting on the matter that the poll was demanded.

On a poll taken at a meeting, a shareholder (including shareholders' proxy) entitled to two or more votes need not cast all his votes in the same way.

In the case of a tie, whether on a show of hands or on a poll, the chairman of the meeting shall be entitled to one additional vote.

Requirement for Annual Meetings

The Board shall convene an annual shareholders' general meeting within six months from the close of a fiscal year.

Accounts and Audit

Our Bank shall establish its financial and accounting system and internal audit system in accordance with the laws, administrative regulations, and the rules stipulated by relevant authorities.

The Board of our Bank shall have an audit committee which reports and is responsible to the Board. The audit committee shall consist of not less than three members, and shall have such responsibilities and powers as prescribed by our Articles of Association.

The Board shall place before the shareholders at every annual shareholders' general meeting such annual financial reports prepared by our Bank that are required by any laws, administrative regulations or any other regulatory documents promulgated by the relevant regional governmental authorities.

Our Bank's annual financial reports shall be made available at our Bank for shareholders' inspection 20 days before the date of such annual shareholders' general meeting. Each shareholder shall be entitled to obtain a copy of the financial reports.

THIS WEB PROOF INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Web Proof Information Pack must be read in conjunction with the section headed "Warning" on the cover of this Web Proof Information Pack.

APPENDIX VIII

SUMMARY OF ARTICLES OF ASSOCIATION

The financial statements of our Bank shall, in addition to being prepared in accordance with PRC accounting standards and regulations, be prepared in accordance with either IFRS or the applicable accounting standards of the overseas stock exchange on which our Bank's shares are listed. If there is any material difference between the annual financial statements prepared in accordance with the two accounting standards, such difference shall be stated in an appendix to the annual financial statements. When our Bank is to distribute its after-tax profits, it may only distribute from the lower of the after-tax profits as shown in the two financial statements.

The annual financial report to be published or disclosed by our Bank must also be prepared in accordance with both PRC accounting standards and regulations and either IFRS or the applicable accounting standards of the overseas stock exchange on which our Bank's shares are listed.

Our Bank shall publish its financial reports four times every fiscal year. The annual financial report shall be published within 120 days after the expiration of each fiscal year, the interim financial report shall be published within 60 days after the expiration of the first six months of each fiscal year and the quarterly financial report shall be published within 30 days after the expiration of the first three months and first nine months.

Notice of Meetings and Business to be Conducted Thereat

Shareholders' general meetings are divided into annual shareholders' general meetings and extraordinary shareholders' general meetings.

Under any of the following circumstances, the Bank shall convene an extraordinary shareholders' general meeting within two months from the date that such event occurs:

- when the number of directors is less than the number of directors required by the Company Law or two-thirds of the number of directors specified in our Articles of Association;
- when the unrecovered losses of our Bank amount to one-third of the total amount of its share capital;
- when such meeting is requested by one or more shareholders representing in aggregate 10% or more of our Bank's voting shares;
- when such meeting is requested by one-half or more of the independent directors;
- when the Board deem it necessary;
- when the supervisory board; or
- in other situations as prescribed by laws, administrative regulations, department rules or our Articles of Association.

When our Bank convenes a shareholders' general meeting, written notice of the meeting shall be given 45 days before the date of the meeting to notify all the shareholders in the share register of the matters to be considered and the date and the place of the meeting. A shareholder who intends to attend the meeting shall deliver his written reply concerning the attendance of the meeting to our Bank 20 days before the date of the meeting.

When our Bank convenes an annual shareholders' general meeting, the shareholders holding 3% or more of the total issued and outstanding voting shares of our Bank or the supervisory board shall have the right to propose new motions in writing, and our Bank shall place on the agenda those matters in the proposed motions that are within the scope of functions and powers of the shareholders' general meeting.

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APPENDIX VIII

SUMMARY OF ARTICLES OF ASSOCIATION

Our Bank shall, based on written replies from the shareholders received 20 days before the date of the shareholders' general meeting, calculate the number of voting shares represented by shareholders who intend to attend the meeting. If the number of voting shares represented by the shareholders who intend to attend the meeting is one-half or more of our Bank's total voting shares, our Bank may hold the meeting. Otherwise, our Bank shall within five days notify the shareholders again by public notice of the matters to be considered and the place and the date for the meeting. Our Bank then may hold the meeting after the publication of such notice.

A notice of a meeting of shareholders must:

- be in writing;
- state the venue, date, time and duration of the meeting;
- state the matters to be considered at the meeting and the proposals;
- contain a prominent statement that a shareholder entitled to attend and vote is entitled to appoint one or more proxies to attend and vote on his behalf and that a proxy need not be a shareholder;
- specify the record date on which the shareholders are eligible to attend the meeting;
- list the name and the phone number of the contact person of the meeting
- provide such information and explanations as are necessary for the shareholders to exercise an informed judgment on the proposals before them. Without limiting the generality of the foregoing, where a proposal is made to merge our Bank with another, to repurchase shares, to reorganize the share capitals or to restructure our Bank in any other way, the terms of the proposed transaction must be provided in detail together with copies of the proposed agreement, if any, and the cause and effect of such proposal must be properly explained;
- contain a disclosure of the nature and extent of any material interest of a director, supervisor, president or other senior executive officer in the matters for discussion and the effect of such interest on his capacity as a shareholder insofar as it is different from the interest of the shareholders of the same class;
- contain the full text of any proposed special resolution to be voted at the meeting; and
- specify the time and place for lodging proxy forms for the relevant meeting.

Notice of a shareholders' general meeting shall be served on the shareholders (whether or not entitled to vote at the meeting) by delivery or prepaid mail to their addresses as shown in the register of shareholders. For the holders of domestic shares, notice of the meetings may be issued by public notice.

The public notice shall be published in one or more newspapers designated by the securities governing authority of the State Council between 45 days and 50 days before the date of the meeting. After the publication of such notice, the holders of domestic shares shall be deemed to have received the notice of the relevant shareholders' general meeting. The accidental omission to give notice of a meeting to, or the non-receipt of notice of a meeting by, any person entitled to receive notice shall not invalidate the proceedings at that meeting.

THIS WEB PROOF INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Web Proof Information Pack must be read in conjunction with the section headed "Warning" on the cover of this Web Proof Information Pack.

APPENDIX VIII

SUMMARY OF ARTICLES OF ASSOCIATION

The following matters shall be decided by an ordinary resolution at a shareholders' general meeting:

- work reports of the Board and the supervisory board;
- plans formulated by the Board for the distribution of profits and for the making up of losses;
- appointment and removal of the members of the Board and members of the supervisory board, their emoluments and method of payment;
- annual preliminary and final budgets, balance sheets and profit and loss accounts and other financial statements of our Bank; and
- the annual report of our Bank;
- the annual plan for the distribution of profits of our Bank;
- the engagement or dismissal of the accounting firms;
- other matters unless required to be approved by special resolutions in accordance with the applicable laws and regulations or otherwise as stipulated by our Articles of Association.

The following matters shall be decided by a special resolution at a shareholders' general meeting:

- the increase or decrease of share capital and the issuance of shares of any class, warrants for share subscription and other similar securities;
- the issue of debentures of our Bank;
- the separation, merger, change of corporate form, dissolution or liquidation of our Bank;
- amendments to our Articles of Association;
- share incentive plans;
- any purchase or sale of our material assets within one year, or provision of guaranty within one year where the amount exceeds 30% of the total amount of our Bank's assets as audited in the latest period; and
- any other matters prescribed by the applicable laws and regulations or our Articles of Association, or resolved by the shareholders at a shareholders' general meeting, by an ordinary resolution, to be of a nature that may have a material impact on our Bank and should be adopted by a special resolution.

Transfer of Shares

Subject to the approval of the securities authority of the State Council, shares of our Bank held on our domestic share register may be transferred to overseas investors, and such transferred shares may be listed or traded on an overseas stock exchange. Any listing or trading of the transferred shares on an overseas stock exchange shall also comply with the regulatory procedures, rules and requirements of such overseas stock exchange. Such listing and trading of the transferred shares on an overseas stock exchange does not require the convening of a special shareholders' meeting to be voted on.

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APPENDIX VIII

SUMMARY OF ARTICLES OF ASSOCIATION

Power of Our Bank to Repurchase Our Own Shares

We may, in accordance with the stipulations of laws, administrative regulations, departmental rules and our Articles of Association and subject to necessary approvals of the relevant government authority, repurchase our issued shares under the following circumstances:

- for the reduction of our registered capital;
- when merging with another company that holds shares in our Bank;
- when offering the shares to our employees as a bonus;
- when the shareholder disagrees with the resolution of the shareholders' general meeting on the merger or separation of our Bank and requires our Bank to repurchase his shares, and
- under other circumstances permitted by the applicable laws or administrative regulations.

We may, with the approval of the relevant governmental authority, conduct the repurchase in any one of the following ways:

- making a *pro rata* offer of repurchase to all of our shareholders;
- repurchasing shares through public trading on a stock exchange;
- repurchasing by a privately negotiated agreement; or
- by other means as stipulated by the applicable laws and regulations or as approved by the securities authority of the State Council.

Where we repurchase our shares by a privately negotiated agreement, the prior approval of shareholders shall be obtained in accordance with our Articles of Association. We may release, vary or waive our rights under a contract so entered into by our Bank with the prior approval of shareholders obtained in the same manner.

Shares repurchased by our Bank shall be canceled within the period prescribed by the applicable laws or administrative regulations.

Unless our Bank is being liquidated, it must comply with the following provisions in relation to the repurchase of our issued shares:

- where our Bank repurchases our shares at par value, payment shall be made out of our distributable profits or out of proceeds of a fresh issue of shares made for that purpose;
- where our Bank repurchases our shares at a premium to par value, payment equivalent to the par value shall be made out of our distributable profits or out of the proceeds of a fresh issue of shares made for that purpose. Payment of the portion in excess of the par value shall be effected as follows: (i) if the shares being repurchased were issued at par value, payment shall be made out of our distributable profits; or (ii) if the shares being repurchased were issued at a premium to par value, payment shall be made out of our distributable profits or out of the proceeds of a fresh issue of shares made for that purpose, provided that the amount paid out of the proceeds of the fresh issue shall exceed neither the aggregate of the premiums received by our Bank on the issue of the shares repurchased nor the current amount (including the premiums on the fresh issue) of our capital reserve account;

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APPENDIX VIII

SUMMARY OF ARTICLES OF ASSOCIATION

- payment by our Bank in consideration of the following shall be made out of our distributable profits: (i) acquisition of rights to repurchase our shares; (ii) amendment of any contract to repurchase our shares; and (iii) release of any of our obligations under any contract to repurchase our shares; and
- after our registered share capital has been reduced by the total par value of the canceled shares in accordance with the relevant provisions, the amount deducted from the distributable profits for payment of the par value portion of the shares repurchased shall be transferred to our capital reserve account.

Right of Our Subsidiaries to Own Shares in Our Bank

There are no provisions in our Articles of Association preventing a subsidiary of our Bank from owning any of our shares.

Dividends and Other Methods of Profit Distribution

Our Bank may distribute dividends in the form of cash or shares.

Cash dividends or other payments declared by our Bank to be payable to holders of domestic shares shall be calculated and declared in Renminbi and paid in Renminbi. According to our Articles of Association, the accumulative profit distribution in cash for the last three years shall be no less than 30% of the annual average distributable profit realized for the last three years.

Proxies

Any shareholder entitled to attend and vote at a meeting of our Bank shall be entitled to appoint one or more other persons (whether a shareholder or not) as his proxy to attend and vote on his behalf, and a proxy so appointed shall:

- have the same right as the shareholder to speak at the shareholders' general meeting;
- have authority to demand a poll or join in such a demand; and
- have the right to vote by hand or on a poll, except that the proxy of a shareholder who has appointed more than one proxy may only vote on a poll.

The instrument appointing a proxy shall be in writing signed by the appointer or his attorney duly authorized in writing. If the appointer is a legal entity, it shall either be executed under seal or be signed by an attorney duly authorized. The instrument appointing a voting proxy and, if such instrument is signed by a person under a power of attorney on behalf of the appointer, a notary certified copy of that power of attorney or other authority shall be deposited at the residence of our Bank or at such other place as is specified for that purpose in the notice convening the meeting, not less than 24 hours before the time for holding the meeting at which the proxy proposes to vote or 24 hours before the time specified for voting.

If the appointer is a legal entity, its legal representative or such person as is authorized by its Board or other decision-making authorities may attend our shareholders' general meeting as a representative of the appointer.

Any form issued to a shareholder by the Board for use by him for appointing a proxy to attend and vote at a shareholders' general meeting shall enable the shareholder to instruct the proxy to vote in favor of or against each resolution put to vote at the meeting individually. Such a proxy form

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APPENDIX VIII

SUMMARY OF ARTICLES OF ASSOCIATION

shall contain a statement that in the absence of instructions by the shareholder, the proxy may vote as he thinks appropriate.

A vote given in accordance with the terms of an instrument appointing the proxy shall be valid notwithstanding the death or incapacity of the appointer or revocation of the proxy or of the authority under which the appointing instrument was executed, or the relevant shares in respect of which the proxy is given have been transferred, provided that no notice in writing of such death, incapacity, revocation or transfer has been received by our Bank before the commencement of the meeting at which the proxy is used.

Calls on Shares and Forfeiture of Shares

There are no provisions in our Articles of Association relating to the making of calls on shares or for the forfeiture of shares.

Rights of Shareholders (Including Inspection of Register of Shareholders)

The ordinary shareholders of our Bank shall enjoy the following rights:

- entitlements to dividends and other distributions in proportion to the number of shares held;
- the right to require, convene, moderate, attend or appoint a proxy to attend shareholders' general meetings and vote at the meetings in proportion to the number of shares held;
- the right to supervise the management and business operations of our Bank, and the right to present proposals or to raise inquiries in relation thereto;
- the right to transfer, give or pledge shares in accordance with laws, regulations, the relevant requirements of the regulatory authorities of the place(s) where our shares are listed, and the provisions of our Articles of Association;
- the right to obtain relevant information in accordance with the provisions of our Articles of Association, including:
 - the right to obtain a copy of our Articles of Association, subject to payment of the cost of obtaining such a copy;
 - the right to inspect and copy, subject to payment of a reasonable charge:
 - (a) all parts of the register of shareholders;
 - (b) the information regarding directors, supervisors, president or other executive officers of our Bank;
 - our share capital;
 - our latest audited financial reports and reports of the Board, auditors and supervisory board;
 - our special resolutions;
 - reports showing the aggregate par value, quantity, maximum and minimum price paid in respect of each class of shares repurchased by our Bank since the end of the last accounting year and the aggregate amount incurred by our Bank for this purpose;

THIS WEB PROOF INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Web Proof Information Pack must be read in conjunction with the section headed "Warning" on the cover of this Web Proof Information Pack.

APPENDIX VIII

SUMMARY OF ARTICLES OF ASSOCIATION

- copies of the latest annual inspection report submitted to Industry and Commerce Administration authorities or other authorities for recordation;
- counterfoils of debentures of our Bank;
- minutes of the shareholders' general meetings
- in the event of termination or liquidation of our Bank, participating in the distribution of the remaining assets of our Bank in accordance with the number of shares held;
- in the event that the shareholder disagrees with the resolution of the shareholders' general meeting on the merger or separation of our Bank, requiring that our Bank repurchase his shares; and
- other rights conferred by the applicable laws, administrative regulations, departmental rules, or our Articles of Association.

Quorum for Meetings and Separate Class Meetings

Our Bank may convene a shareholders' general meeting or "class shareholders' meeting" where our Bank has received 20 days before such meeting written replies from shareholders who are entitled and intend to attend the meeting and the number of voting shares held by those shareholders is one-half or more of our voting shares or the voting shares of that class. Otherwise, our Bank shall, within five days, notify the shareholders again of the matters to be considered and the place and the date for the meeting. Our Bank then may hold the shareholders' general meeting or "class shareholders' meeting."

Rights of Minority Shareholders

In addition to obligations on controlling shareholders imposed by the applicable laws, administrative regulations or requirements imposed by the stock exchange(s) on which our shares are listed, our Articles of Association provide that a controlling shareholder shall not exercise his voting rights, in a manner prejudicial to the interest of the shareholders in general or of a minority shareholder group of our Bank in respect of the following matters:

- to relieve a director or supervisor of his duty to act honestly and in the best interest of our Bank;
- to approve the expropriation by a director or supervisor (for his own benefit or for the benefit of another person), under any disguise, of our Bank's assets, including (without limitation) opportunities beneficial to our Bank; or
- to approve the expropriation by a director or supervisor (for his own benefit or for the benefit of another person) of the rights of other shareholders, including (without limitation) rights to distributions and voting rights, except pursuant to a restructuring submitted to the shareholders' general meeting for approval in accordance with our Articles of Association.

For these purposes, a "controlling shareholder" means a person who satisfies any one of the following conditions:

- alone, or acting in concert with others, has the power to elect half or more of the Board;
- alone, or acting in concert with others, has the power to exercise or to control the exercise of 30% or more of the voting rights in our Bank;

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APPENDIX VIII**SUMMARY OF ARTICLES OF ASSOCIATION**

- alone, or acting in concert with others, holds 30% or more of the shares of our Bank; or
- alone, or acting in concert with others, controls our Bank in fact in any other manner.

Procedures on Liquidation

Our Bank shall be dissolved and liquidated upon the occurrence of any of the following events:

- a resolution for dissolution is passed by shareholders at a shareholders’ general meeting;
- dissolution is necessary due to a merger or separation of our Bank;
- our Bank is legally declared bankrupt due to its failure to repay debts due;
- our Bank is ordered to have its business license revoked or be closed down or dissolved because of its violation of laws and administrative regulations; or
- our Bank meets any serious difficulty in its operations or management so that the interests of the shareholders will face significant loss if it continues to exist and the problem cannot be solved by any other means, the shareholders who hold ten percent or more of the voting rights of the issued shares of the company may ask the people’s court to dissolve the company.

Where the Board decides to liquidate our Bank due to reasons other than insolvency, the Board shall include a statement in its notice convening a shareholders’ general meeting to the effect that, after making full inquiry into the affairs of our Bank, the Board is of the opinion that our Bank will be able to repay its debts in full within 12 months from the commencement of the liquidation.

Upon the adoption of the resolution to liquidate our Bank in a shareholders’ general meeting, all functions and powers of the Board shall cease immediately.

The liquidation team shall act in accordance with the instructions of the shareholders’ general meeting to make a report at least once every year to the shareholders’ general meeting on the liquidation team’s receipts and payments, the business of our Bank and the progress of the liquidation and to present a final report to the shareholders’ general meeting upon completion of the liquidation.

Other Provisions Material to Our Bank and Our Shareholders***General Provisions***

Our articles of association become effective on [●]. Thereafter, our Articles of Association constitute a legally binding document regulating our organization and activities, and the rights and obligations between our Bank and each shareholder and among the shareholders *inter se*.

Our Bank may, based on its requirements for operation and development and in accordance with the relevant provisions of our Articles of Association, approve an increase of its capital.

Our Bank may increase its capital in the following ways:

- offering new shares to unspecified investors for subscription;
- placing new shares to its existing shareholders;
- distributing new shares to its existing shareholders;
- offering new shares to specified investors; and

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APPENDIX VIII**SUMMARY OF ARTICLES OF ASSOCIATION**

- using any other ways permitted by the applicable laws and administrative regulations.

Any increase of capital by issuing new shares shall, after being approved in accordance with the provisions of our Articles of Association, be conducted in accordance with the procedures stipulated by the applicable laws and administrative regulations.

Each shareholder of our Bank shall assume the following obligations:

- to abide by laws, administrative regulations and our Articles of Association;
- to pay subscription funds according to the number of shares subscribed and the method of subscription;
- not to withdraw the shares unless in circumstances as permitted by the applicable laws, regulations and rules;
- not to use his shareholder's rights inappropriately to injure any of the interests of our Bank or of other shareholders, or to misuse the limited liability status of a corporation to defraud any creditor of our Bank. Where any of the shareholders of our Bank causes any loss to our Bank or to other shareholders by using the shareholder's rights inappropriately, it shall be liable for compensating the company or the other shareholders. Where any of the shareholders of our Bank evades the payment of its debts by misusing the limited liability status of our Bank, if it seriously injures the interest of any creditor of our Bank, it shall bear several and joint liability for such debts of our Bank;
- if the capital adequacy ratio (capital adequacy ratio) of the Bank fall below the statutory standard, the shareholders shall support the measures put forward by the board to raise the capital adequacy ratio;
- we shall identify and decide on liquidity squeeze by strictly following the payment risks for commercial banks, as set forth by the banking regulatory authority under the State Council. If the possibility that the we will encounter liquidity squeeze arises, all shareholders that have taken out loans from the Bank shall repay the loans that are due immediately and undue loans shall be prepaid;
- shareholders shall maintain and protect the interests and benefits of us such that the shareholders to take out loans from the us are not entitled to more favorable terms than other borrowers if the loans concerned are in the same category; if the Shareholders ill-intentionally prevents our Bank's proper operations or interests by taking advantage of its shareholder status, we are entitled to institute a legal action with the competent people's court to have such illegal activities stopped; the balancing of the loans a single shareholder may take out from us shall not exceed 10% of the net capital of our Bank. For this purpose, the loans extended by our Bank to the affiliate(s) of the shareholder are counted in as part of the loans extended to the single shareholder. A shareholder's voting right is limited before it has repaid its loans to our Bank in full.
- to assume other obligations imposed by the applicable laws and administrative regulations or articles of association.

Shareholders are not liable to make any further contribution to the share capital other than as agreed by the subscriber of the relevant shares on subscription.

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APPENDIX VIII

SUMMARY OF ARTICLES OF ASSOCIATION

Supervisory Board

Our Bank shall establish a Supervisory Board. The directors, president, vice president, chief financial officer and secretary to the Board shall not act concurrently as supervisors. The Supervisory Board shall be composed of nine supervisors. One of the members of the Supervisory Board shall act as the chairman. The term of office of supervisors shall be three years, renewable upon re-election and reappointment. The election or removal of the chairman of the Supervisory Board shall be determined by two-thirds or more of the members of the Supervisory Board. A resolution of the Supervisory Board shall be passed by two-thirds or more of the members of the Supervisory Board.

The Supervisory Board shall consist of outside supervisor(s) elected by the shareholders' general meeting, representative(s) of employees of our Bank and representative(s) of shareholders. The representatives of shareholders and the outside supervisor(s) shall be elected and removed by a shareholders' general meeting; the representative of employees of our Bank shall be elected and removed by the employees of our Bank.

The Supervisory Board shall be accountable to the shareholders and exercise the following powers in accordance with law:

- to review the regular reports by our Board and opine on the reports in writing;
- to examine and supervise our financial activities, and may, when necessary, engage another accounting firm for the purpose of conducting independent auditing on financial status;
- to oversee the conduct of our directors, president, vice president, chief finance officer and secretary to the Board in carrying out their duties;
- to demand that a director, president, vice president, chief finance officer and secretary to the Board rectify his conduct when such conduct is prejudicial to the interests of our Bank, and report such conduct to shareholders' general meetings or relevant regulatory authorities if necessary; and make proposals to remove our directors and senior officers if they breach any applicable laws, regulations or our Articles of Association;
- to conduct auditing over the issues in connection with the our operation and decision-making, risk management and internal control as and when necessary;
- to carry out an audit, if required, of any resigning director or senior officer;
- to issue opinions on the engagement of an accounting firm by us;
- to propose the convening of extraordinary shareholders' general meetings, and, if our Board fails to call such a meeting as required under our Articles of Association, to convene the shareholders' general meetings;
- to propose to convene an extraordinary board meeting and submit proposals to the shareholders' general meeting;
- to bring actions against directors and senior officers according to the Company Law;
- to investigate any irregularities in the operations of our Bank if necessary, and may engage accounting firms, law firms or other professional firms to assist its work at the costs of the Bank;
- to exercise the other powers prescribed by our Articles of Association, and powers conferred by the shareholders' general meeting.

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APPENDIX VIII

SUMMARY OF ARTICLES OF ASSOCIATION

Members of the Supervisory Board may be present at meetings of the Board and are entitled to speak their opinions at the meetings.

President

Our president shall be responsible to the Board and exercise the following powers:

- to be in charge of daily operation of our administration, and report on his work to the Board;
- to organize the implementation of the resolutions of the Board, our annual plan and investment proposal;
- to draft plans for the establishment of our internal management structure and branches;
- to draft our basic management system;
- to formulate concrete regulatory systems for our Bank;
- to nominate the candidates for and propose to the Board the appointment or dismissal of executive vice presidents, chief finance officer and other senior management, and to appoint or dismiss other executive officers (other than those required to be appointed or dismissed by the Board);
- to nominate the candidates for and propose to the Board for the appointment or dismissal of presidents of our branches;
- to decide on the remuneration of, benefits for, incentives for and punishment of our employees, and to decide the engagement and dismissal of our employees;
- to propose the convening of an extraordinary meeting of the Board;
- to decide on the establishment, dissolution and merger of the branches, and to authorize the chief officers of the branches to engage in ordinary operation and management;
- to exercise other powers conferred by our Articles of Association or granted by the Board.

Our president shall be present at meetings of the Board. However, the president shall have no voting rights at the meetings unless he is also a director. (Art. 203)

Board

The Board is accountable to the shareholders and exercises the following powers:

- to convene shareholders' general meetings and to report on its performance to shareholders at the shareholders' general meetings;
- to implement the resolutions of the shareholders' general meetings;
- to decide on our operational plans and investment plans;
- to formulate our proposed annual preliminary and annual final financial budgets;
- to formulate our profit distribution plans and plans for recovery of losses;
- to formulate proposals for increases in or reductions of our registered share capital, issuance of bonds or other securities and listing plans;

THIS WEB PROOF INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Web Proof Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Web Proof Information Pack.

APPENDIX VIII

SUMMARY OF ARTICLES OF ASSOCIATION

- to formulate proposals for material acquisitions, the purchase of our shares, merger, separation, change of the nature of our Bank, or dissolution or liquidation of our Bank;
- within the scope authorized by our shareholders’ general meetings, to decide on external investments, purchases and sales of assets, pledges of assets, material guarantees, and connected transaction matters;
- to decide on the establishment of our internal management structure;
- to appoint or remove our president and chief finance officer based on the recommendation of the nomination committee; to appoint secretary to the Board based on the recommendations of the chairman of the Board; to appoint or remove the executive vice presidents and other executive finance officers based on the recommendations of the president and to decide on matters relating to their emoluments and on the imposition of any disciplinary measures;
- to approve the appointment or dismissal of the president, executive vice president of our branches and their senior management as determined by China Banking Regulatory Commission;
- to establish our basic management system;
- to formulate proposals for any amendment to our Articles of Association;
- to manage our disclosure of information;
- to propose the appointment or change of the accounting firms to audit our Bank;
- to review working reports of the president and to examine the president’s performance;
- the Board shall establish a supervisory system to ensure that the management body will formulate a code of conduct and working principles for the management staff and the business personnel at all levels and that the regulatory documents will specifically require employees at all levels promptly report any possible conflict of interests, provide detailed rules and establish corresponding mechanism;
- the Board shall establish a reporting system and require the senior management report to the Board the operational issues of our Bank; and
- to exercise any other power prescribed by the applicable laws, administrative regulations and departmental rules, as well as any other power conferred by our Articles of Association.

Meetings of the Board shall be held at least four times every year and be convened by the chairman of the board. Notice of the meeting shall be served on all of the directors and supervisors 14 days before the date of a regular meeting.

Meetings of the Board shall be held only if one-half or more of the directors are present. Each director shall have one vote. Where the number of votes cast for and against a resolution is equal, the chairman of the Board shall have the deciding vote.

Resolution of Disputes

Whenever any disputes or claims arise, based on our Articles of Association or any rights or obligations conferred or imposed by the Company Law or any other relevant laws, regulations and regulatory constitutions concerning the affairs of our Bank, between [●] and our Bank, [●] and our directors, supervisors or other senior executive officers, or [●] and holders

THIS WEB PROOF INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Web Proof Information Pack must be read in conjunction with the section headed "Warning" on the cover of this Web Proof Information Pack.

APPENDIX VIII

SUMMARY OF ARTICLES OF ASSOCIATION

of our domestic shares, the relevant parties shall forthwith refer such disputes or claims to arbitration for resolution.

A claimant may elect arbitration at either the CIETAC in accordance with its rules or the HKIAC in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant.

If a claimant elects arbitration at the HKIAC, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules of the HKIAC.

If any disputes or claims of rights are referred to arbitration, the laws of the PRC shall apply, save as otherwise provided by relevant laws and administrative regulations.

Where a dispute or claim of rights is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, shall abide by the arbitration, provided that such person is an employee of our Bank or our shareholder, director, supervisor, president or other senior executive officer.

The decision of an arbitration body shall be final, conclusive and binding on all parties.

THIS WEB PROOF INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Web Proof Information Pack must be read in conjunction with the section headed "Warning" on the cover of this Web Proof Information Pack.

APPENDIX IX

TAXATION AND FOREIGN EXCHANGE

1. TAXATION OF OUR GROUP BY THE PRC

Corporate Income Tax

As stipulated under the EIT Law, enterprises and other organizations which generate income within the PRC are enterprise income taxpayers and shall pay enterprise income tax according to stipulations of the EIT Law. The EIT Law and the Regulations on Implementation of the Enterprise Income Tax Law of the People's Republic of China has come into effect on January 1, 2008, while the former Income Tax Law of the People's Republic of China Concerning Foreign Investment Enterprises and Foreign Enterprises and Provisional Regulations of the People's Republic of China on Enterprise Income Tax were abrogated on the same date.

Pursuant to the EIT Law, the income tax rate for PRC enterprises is reduced from the original 33% to 25%, same as the rate applied to foreign investment enterprises and foreign enterprises. Non-PRC resident enterprises (i.e. enterprises established under foreign laws with their actual management entities outside the PRC and without offices or premises established in the PRC or, if established, generating income within the PRC) which have not established offices or premises within the PRC, or if established, the income generated is not actually associated with such offices and premises, are subject to enterprise income tax at a rate of 20% for their income generated within the PRC.

Value-add Tax

The Provisional Regulations of the People's Republic of China on Value-added Tax (the "**VAT Regulations**") were promulgated on December 13, 1993 and became effective on January 1, 1994, subsequently amended on November 5, 2008 and implemented on January 1, 2009. The VAT Regulations apply to domestic and foreign investment enterprises that sell goods or provide processing, repair and replacement labor services and import goods to the PRC. Except for the nil tax rate applicable to export of goods and a value added tax rate of 13% for the sale or import of certain specified categories of goods, the tax rate for sale or import of goods and provision of processing and repair and replacement labor services is 17%. The amount of tax payable on sale of goods or provision of taxable labor services is the balance of the output tax amount for the current period offsetting or deducting the input tax amount for the current period.

Business Tax

Pursuant to the Provisional Regulations of the People's Republic of China on Business Tax, which became effective on January 1, 1994, subsequently amended on November 5, 2008 and implemented on January 1, 2009, enterprises (including foreign investment enterprises) and individuals that provide various labor services and transfer intangible assets or sell real estates within the PRC are subject to the business tax at a rate of 3% or 5% of the amount of taxable services or other transactions, except for the entertainment sector, the turnover of which is subject to the business tax at a rate of 5% to 20%.

2. TAXATION OF OUR GROUP BY HONG KONG

Our Directors do not consider that any of our Group's income is derived from or arises in Hong Kong for the purpose of Hong Kong taxation. our Group will therefore not be subject to Hong Kong taxation.

THIS WEB PROOF INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Web Proof Information Pack must be read in conjunction with the section headed "Warning" on the cover of this Web Proof Information Pack.

APPENDIX IX

TAXATION AND FOREIGN EXCHANGE

3. FOREIGN EXCHANGE

The lawful currency of the PRC is the Renminbi, which is currently subject to foreign exchange control and is not freely convertible into foreign exchange. The SAFE, under the PBOC, is responsible to administer all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

Prior to December 31, 1993, a quota system was adopted for the management of foreign currencies. Any enterprise in need of foreign currencies was required to obtain a quota from a local SAFE office before it could convert Renminbi into foreign currencies through the PBOC or other designated banks. Such conversion had to be effected at the official rate fixed by the SAFE on a daily basis. Moreover, Renminbi could also be converted into foreign currencies at swap centers. The exchange rates fixed by swap centers were largely determined based on the supply of and demand for foreign currencies and the demand for Renminbi by enterprises in the PRC. Any enterprise that intended to buy or sell foreign currencies at a swap center had first to obtain an approval from the SAFE.

On December 28, 1993, the PBOC, under the State Council, promulgated the Notice of the People's Bank of China Concerning Further Reforming of the Foreign Exchange Control System (the "**Foreign Exchange Notice**"), effective from January 1, 1994. The Foreign Exchange Notice announced that the abolishment of the foreign exchange quota system was abolished, the implementation of conditional convertibility of Renminbi under current accounts, the establishment of a system of settlement and payment of foreign exchange by banks, and the unification of the official exchange rate for Renminbi with the market rate for the same fixed by swap centers.

On March 26, 1994, the PBOC promulgated the Provisional Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange (the "**Provisional Regulations**"). The Provisional Regulations set out specific provisions regulating the sale and purchase of foreign exchange by enterprises, economic organizations and social organizations in the PRC.

On January 1, 1994, the former dual exchange rate system for Renminbi was abolished and replaced by a controlled floating exchange rate system, which was determined by demand and supply. The PBOC sets and publishes Renminbi-US dollar basic exchange rate on a daily basis with reference to the transaction price for Renminbi-US dollar in the inter-bank foreign exchange market on the previous day. The PBOC would also, with reference to the exchange rates in the international foreign exchange market, publish the exchange rates for Renminbi against other major currencies. When conducting foreign exchange transactions, designated foreign exchange banks may, within a specified range, freely determine the applicable exchange rates in accordance with the rates published by the PBOC.

The PBOC announced that, beginning from July 21, 2005, the PRC would implement a regulated and managed floating exchange rate system in which the exchange rate would be determined based on supply and demand and with reference to a basket of currencies. The Renminbi exchange rate is no longer pegged to the U.S. dollar. The PBOC will publish the closing price of the Renminbi against foreign currencies such as the U.S. dollar in the inter-bank foreign exchange market after the closing of the market on each business day, and will fix the central parity for Renminbi transaction on the following business day.

On January 29, 1996, the State Council promulgated new Regulations of the People's Republic of China for Foreign Exchange Control (the "**Foreign Exchange Control Regulations**") which became effective on April 1, 1996. The Foreign Exchange Control Regulations classifies all

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APPENDIX IX

TAXATION AND FOREIGN EXCHANGE

international payments and transfers into current account items and capital account items. Most of the current account items are no longer subject to SAFE's approval while capital account items still are. The Foreign Exchange Control Regulations was subsequently amended on January 14, 1997 and August 1, 2008. The latest amendment to the Foreign Exchange Control Regulations clearly states that the State will not impose any restriction on international current account payments and transfers.

On June 20, 1996, the PBOC promulgated the Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange (the "**Settlement Regulations**") which became effective on July 1, 1996. The Settlement Regulations supersede the Provisional Regulations and abolish the remaining restrictions on convertibility of foreign exchange under current account items, while retaining the existing restrictions on foreign exchange transactions under capital account items. On the basis of the Settlement Regulations, the PBOC also published the Announcement on the Implementation of Foreign Exchange Settlement and Sale at Banks by Foreign Investment Enterprises (the "**Announcement**"). The Announcement permits foreign investment enterprises to open, if necessary, foreign exchange settlement accounts for the receipt and payment of foreign exchange under the current accounts and designated accounts for the receipt and payment under the capital accounts at designated foreign exchange banks.

On October 25, 1998, the PBOC and the SAFE jointly promulgated the Notice Concerning the Discontinuance of Foreign Exchange Swapping Business (the "**Discontinuance Notice**") which became effective on December 1, 1998. Pursuant to the Discontinuance Notice, all foreign exchange swapping business in the PRC for the foreign investment enterprises was discontinued, and foreign exchange trading activities by foreign investment enterprises must be carried out under the banking system for the settlement and sale of foreign exchange.

Save for the foreign investment enterprises or other exempted enterprises under relevant regulations, all entities in the PRC (except for some foreign trading companies and manufacturers with rights to import and export, which are allowed to retain part of their foreign exchange income earned from their existing current account transactions and to make payments with such retained foreign exchanges in their current account transactions or approved capital account transactions) must sell all of their foreign exchange income to designated foreign exchange banks. Foreign exchange income from loans granted by overseas entities or from the issuance of bonds and shares (such as foreign exchange income our Group obtained from the sale of shares overseas) is not required to be sold to, but may be deposited in foreign exchange accounts at, designated foreign exchange banks.

PRC enterprises (including foreign investment enterprises) which need foreign exchange for transactions relating to current account items may, without the approval of SAFE, effect payment from their foreign exchange accounts or at the designated foreign exchange banks, on the strength of valid receipts and proof. Foreign investment enterprises which need foreign exchange for the distribution of profits to their shareholders and PRC enterprises which, in accordance with any regulations, are required to pay dividends to their shareholders in foreign exchange (such as our Group) may, on the strength of board resolutions on the distribution of profits, effect payment from their foreign exchange accounts or convert and pay dividends at the designated foreign exchange banks.

Conversion of foreign exchange under capital account items, such as direct investment and capital contribution, is still subject to restrictions, and prior approvals from SAFE and/or its relevant branches must be obtained.

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APPENDIX X

STATUTORY AND GENERAL INFORMATION

1. FURTHER INFORMATION ABOUT OUR BANK

A Incorporation

Our Bank was established in the PRC under the Company Law as a joint stock limited liability company on February 7, 1996. Our Bank has established a local representative office in Hong Kong under the Banking Ordinance at 3207-08, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong and has been registered as an oversea company in Hong Kong under Part XI of the Companies Ordinance with a place of business thereunder at the same address on April 26, 2004. Ms. Soon Yuk Tai has been appointed as our agent for the acceptance of service of process in Hong Kong at the above address. Our banking business is conducted in the PRC under the supervision and regulation of the CBRC and the PBOC. Other than our local representative office in Hong Kong as referred to above which may only conduct liaison activities, we are not regulated by the Hong Kong Monetary Authority as we are currently not authorized to carry on any banking or deposit-taking business in Hong Kong.

As we are incorporated in the PRC, our corporate structure and Articles of Association are subject to the relevant laws and regulations of the PRC. A summary of the relevant provisions of our Articles of Association is set out in Appendix VIII. A summary of certain relevant aspects of the laws and regulations of the PRC is set out in Appendix VII.

B Changes in Share Capital

At our establishment, our initial registered capital was RMB1,380,248,376, divided into 1,380,248,376 domestic shares of nominal value of RMB1.00 each, all of which were fully paid up.

On November 27, 2000, we issued 350,000,000 domestic shares, which were listed on the Shanghai Stock Exchange on December 19, 2000. As a result, our registered capital was increased to RMB1,730,248,376, divided into 1,730,248,376 domestic shares, by an amount of RMB350,000,000 that was fully subscribed and paid up.

On May 22, 2001, we declared a scrip dividend in the ratio of 3 domestic shares for every 10 domestic shares held by our shareholders. As a result, on May 31, 2001, our registered capital was increased to RMB2,249,322,889, divided into 2,249,322,889 domestic shares, by an amount of RMB519,074,513 that was credited as fully paid up.

On May 27, 2002, we declared a scrip dividend in the ratio of 1.5 domestic shares for every 10 domestic shares held by our shareholders. As a result, on June 19, 2002, our registered capital was increased to RMB2,586,721,322, divided into 2,586,721,322 domestic shares, by an amount of RMB337,398,433 that was credited as fully paid up.

On February 27, 2003, we issued the Convertible Bonds of a nominal value of RMB100 each, which can be converted into domestic shares on and after August 27, 2003 until and including February 26, 2008 at a conversion price of RMB10.11 per domestic share (subject to adjustment).

On February 28, 2003, we declared a scrip dividend in the ratio of 2 domestic shares for every 10 domestic shares and the issuance of bonus shares in the ratio of 1 domestic share for every 10 domestic shares through transfer from our capital surplus to capital stock. As a result, on April 14, 2003, our registered capital was increased to RMB3,362,737,719, divided into 3,362,737,719 domestic shares, by an amount of RMB776,016,397 that was credited as fully paid up.

As of December 31, 2003, a total of 262,521,649 domestic shares had been issued as a result of the conversion of RMB2,029,301,000 Convertible Bonds at a conversion price of RMB7.73 per domestic share. As a result, as of December 31, 2003, our registered capital increased to

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APPENDIX X

STATUTORY AND GENERAL INFORMATION

RMB3,625,259,368, divided into 3,625,259,368 domestic shares, by an amount of RMB262,521,649, that was credited as fully paid up.

From January 1, 2004 to April 15, 2004, a total of 209,395,270 domestic shares had been issued as a result of the conversion of RMB1,618,625,437 Convertible Bonds at a conversion price of RMB7.73 per domestic share. As a result, as of April 16, 2004, our registered capital increased to RMB3,834,654,638, divided into 3,834,654,638 domestic shares, by an amount of RMB209,395,270, that was credited as fully paid up.

On March 29, 2004, we declared a scrip dividend in the ratio of 2 domestic shares for every 10 domestic shares and the issuance of bonus shares in the ratio of 1.5 domestic shares for every 10 domestic shares through transfer from our capital surplus. As a result as of April 20, 2004, our registered capital was increased to RMB5,176,783,762 divided into 5,176,783,762 domestic shares, by an amount of RMB1,342,129,124, that was credited as fully paid up.

From April 16, 2004 to December 31, 2004, a total of 7,663,433 domestic shares had been issued as a result of the conversion of RMB43,221,763 Convertible Bonds at a conversion price of RMB5.64 per domestic share. As a result, as of December 31, 2004, our registered capital increased to RMB5,184,447,195, divided into 5,184,447,195 domestic shares, by an amount of RMB7,663,433 that was credited as fully paid up.

From January 1, 2005 to April 15, 2005, a total of 276,239 domestic shares had been issued as a result of the conversion of RMB1,557,988 Convertible Bonds at a conversion price of RMB5.64 per domestic share. As a result, as of April 15, 2005, our registered capital increased to RMB5,184,723,434 divided into 5,184,723,434 domestic shares, by an amount of RMB276,239, that was credited as fully paid up.

On March 29, 2005, we declared a scrip dividend in the ratio of 2 domestic shares for every 10 domestic shares. As a result, as of April 19, 2005, our registered capital increased to RMB6,221,668,121, divided into 6,221,668,121 domestic shares, by an amount of RMB1,036,944,687, that was credited as fully paid up.

From April 16, 2005 to October 24, 2005, a total of 62,827,474 domestic shares had been issued as a result of the conversion of RMB291,519,479 Convertible Bonds at a conversion price of RMB4.64 per domestic share. As a result, as of October 24, 2005, our registered capital increased to RMB6,284,495,595 divided into 6,284,495,595 domestic shares, by an amount of RMB62,827,474, that was credited as fully paid up.

Pursuant to a resolution adopted at the first extraordinary general meeting in 2005 held on October 17, 2005 and upon approval given by the SASAC and the CBRC, our Bank implemented a share reform plan and conversion of capital surplus into capital stock. We issued to each holder of domestic shares 1.55 new shares for every 10 domestic shares out of our capital surplus, and all of the new domestic shares issued to the holders of non-tradable shares were then transferred to holders of tradable shares. Upon completion of the share reform plan, all legal person shares were converted to A Shares and our share capital was increased to RMB7,258,592,412 divided into 7,258,592,412 A Shares, by an amount of RMB974,096,817, that was credited as fully paid up.

From October 25, 2005 to December 31, 2005, a total of 186,301 A Shares had been issued as a result of the conversion of RMB748,930 Convertible Bonds at a conversion price of RMB4.02 per A Share. As a result, as of December 31, 2005, our registered capital increased to RMB7,258,778,713 divided into 7,258,778,713 A Shares, by an amount of RMB186,301, that was credited as fully paid up.

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APPENDIX X

STATUTORY AND GENERAL INFORMATION

From January 1, 2006 to April 14, 2006, a total of 2,554,165 A Shares had been issued as a result of the conversion of RMB10,267,743 Convertible Bonds at a conversion price of RMB4.02 per A Share. As a result, as of April 14, 2006, our registered capital increased to RMB7,261,332,878 divided into 7,261,332,878 A Shares, by an amount of RMB2,554,165, that was credited as fully paid up.

On March 31, 2006, we declared a scrip dividend in the ratio of 1.5 A Shares for every 10 A Shares and the issuance of bonus shares in the ratio of 2.5 A Shares for every 10 A Shares through transfer from our capital surplus. As a result as of April 18, 2006, our registered capital was increased to RMB10,165,866,029 divided into 10,165,866,029 A Shares, by an amount of RMB2,904,533,151, that was credited as fully paid up.

From April 15, 2006 to December 31, 2006, a total of 1,246,081 A Shares had been issued as a result of the conversion of RMB3,538,870 Convertible Bonds at a conversion price of RMB2.84 per A Share. As a result, as of December 31, 2006, our registered capital increased to RMB10,167,112,110, divided into 10,167,112,110 A Shares, by an amount of RMB1,246,081 that was credited as fully paid up.

From January 1, 2007 to June 8, 2007, a total of 173,226 A Shares had been issued as a result of the conversion of RMB491,962 Convertible Bonds at a conversion price of RMB2.84 per A Share. As a result, as of June 8, 2007, our registered capital increased to RMB10,167,285,336 divided into 10,167,285,336 A Shares, by an amount of RMB173,226, that was credited as fully paid up.

On April 9, 2007, we issued bonus shares in the ratio of 1.9 A Shares for every 10 A Shares through transfer from our capital surplus. As a result as of June 12, 2007, our registered capital was increased to RMB12,099,069,550 divided into 12,099,069,550 A Shares, by an amount of RMB1,931,784,214, that was credited as fully paid up.

From June 8, 2007 to June 21, 2007, a total of 10,878 A Shares had been issued as a result of the conversion of RMB25,998 Convertible Bonds at a conversion price of RMB2.39 per A Share. As a result, as of June 21, 2007, our registered capital increased to RMB12,099,080,428 divided into 12,099,080,428 A Shares, by an amount of RMB10,878, that was credited as fully paid up.

On June 22, 2007, we issued 2,380,000,000 A Shares. As a result, our registered capital was increased to RMB14,479,080,428, divided into 14,479,080,428 A Shares, by an amount of RMB2,380,000,000 that was fully subscribed and paid up.

From June 22, 2007 to December 31, 2007, a total of 102,087 A Shares had been issued as a result of the conversion of RMB243,988 Convertible Bonds at a conversion price of RMB2.39 per A Share. As a result, as of December 31, 2007, our registered capital increased to RMB14,479,182,515, divided into 14,479,182,515 A Shares, by an amount of RMB102,087 that was credited as fully paid up.

From January 1, 2008 to February 26, 2008, a total of 49,784 A Shares had been issued as a result of the conversion of RMB118,983 Convertible Bonds at a conversion price of RMB2.39 per A Share. As a result, as of February 26, 2008, our registered capital increased to RMB14,479,232,299 divided into 14,479,232,299 A Shares, by an amount of RMB49,784, that was credited as fully paid up.

On March 24, 2008, we declared a scrip dividend in the ratio of 2 A Shares for every 10 A Shares and the issuance of bonus shares in the ratio of 1 A Share for every 10 A Shares through transfer from our capital surplus. As a result as of April 8, 2008, our registered capital was increased to RMB18,823,001,989 divided into 18,823,001,989 A Shares, by an amount of RMB4,373,769,690, that was credited as fully paid up.

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APPENDIX X

STATUTORY AND GENERAL INFORMATION

As of the Latest Practicable Date, our registered capital is RMB18,823,001,989 divided into 18,823,001,989 A Shares.

2. OUR SUBSIDIARIES

Our principal subsidiaries are referred to in the Accountant's report, the text of which is set out in Appendix I to this document.

- (a) On April 18, 2008, 民生金融租賃股份有限公司 (Minsheng Financial Leasing Co. Ltd.), a company incorporated in the PRC, commenced business with a total registered capital of RMB3,200,000,000, 81.25% of which is held by us.
- (b) On September 12, 2008, 彭州民生村鎮銀行有限責任公司 (Pengzhou Minsheng Township Bank Co., Ltd.), a company incorporated in the PRC, commenced business with a total registered capital of RMB55,000,000, 36.36% of which is held by us.
- (c) On November 18, 2008, 民生加銀基金管理有限公司 (Minsheng Royal Fund Management Co. Ltd.), a company incorporated in the PRC, commenced business with a total registered capital of RMB200,000,000, 60% of which is held by us.
- (d) On December 30, 2008, 慈溪民生村鎮銀行股份有限公司 (Cixi Minsheng Township Bank Co., Ltd.), a company incorporated in the PRC, commenced business with a total registered capital of RMB100,000,000, 35% of which is held by us.

Save as disclosed above, there are no alterations in the registered capital of our principal subsidiaries which took place within the two years preceding the date of this document.

3. FURTHER INFORMATION ABOUT OUR BUSINESS

A Summary of our material contracts

We have entered into the following contracts (not being contracts entered into in our ordinary course of business) within the two years preceding the date of this document, which are or may be material:

- (a) the agreement amongst promoters (出資人協議書) dated August 20, 2008 in relation to the establishment of 彭州民生村鎮銀行有限責任公司 (Pengzhou Minsheng Township Bank Co., Ltd.) entered into among us and 46 other promoters, pursuant to which we contributed 36.36% of its RMB55 million registered capital;
- (b) the agreement dated September 22, 2008 entered into between us and UCBH Holdings, Inc., pursuant to which the parties agreed to amend the investment agreement and the investor's rights and standstill agreement, both dated October 7, 2007 between the same parties, in respect of the closing mechanism of the transaction and our rights as the investor;
- (c) the amendment agreement dated October 9, 2008 entered into among us, The Royal Bank of Canada and Three Gorges Finance Company Limited (三峽財務有限責任公司), in relation to the establishment of Minsheng Royal Fund Management Co. Ltd. (民生加銀基金管理有限公司) under the joint venture agreement dated September 12, 2006, pursuant to which we contributed 60% of its RMB200 million total registered capital;
- (d) the agreement amongst promoters (出資人協議書) dated November 11, 2008 in relation to the establishment of 慈溪民生村鎮銀行股份有限公司 (Cixi Minsheng Township Bank Co.,

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APPENDIX X

STATUTORY AND GENERAL INFORMATION

Ltd.) entered into among us and 14 other promoters, pursuant to which we contributed 35% of its RMB100 million registered capital;

[●]

B Our Intellectual Property Rights

As at the Latest Practicable Date, we have registered the following material trademarks:

No.	Trademark	Place of registration	Class	Registration number	Effective period
1		PRC	36	1109316	2007.09.21-2017.09.20
2		Hong Kong	36	30613331	2006.04.04-2016.04.03
3	民生	PRC	9	1328675	1999.10.28-2009.10.27
4	民生	PRC	36	1519858	2001.02.07-2011.02.06
5	 中國民生銀行	Singapore	36	T06/18899E	2006.09.08-2016.09.07
6	 中國民生銀行	Hong Kong	36	300601154	2006.03.17-2016.03.16
7	 中國民生銀行	Macau	9	N/024045	2007.01.09-2014.01.09
8	 中國民生銀行	Macau	36	N/024043	2007.01.09-2014.01.09
9	 中國民生銀行	European Union	36	005277991	2007.07.04-2016.08.04
10	 中國民生銀行	Japan	36	5029335	2007.03.02-2017.03.02
11	 中國民生銀行	Korea	36	41-0149362	2007.05.31-2017.05.31
12	 中國民生銀行	United States	36	78939973	2007.09.25-2017.09.25
13	 中國民生銀行	Taiwan	36	01291033	2007.12.01-2017.11.30
14	民生保理	PRC	36	3191690	2007.10.21-2017.10.20
15	中国民生银行 95568	PRC	36	4160543	2008.01.21-2018.01.20

Note:

The class number represents the specification of products or services which have already been registered or are in the process of registration. Detailed specifications of the products or services represented by that class number are set out in the relevant registration certificates or application forms.

As at the Latest Practicable Date, we have registered the following material internet domain names:

Domain name	Place of registration	Owner	Registration date
cmbc.com.cn	PRC	China Minsheng Banking Corp., Ltd.	January 9, 1998

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APPENDIX X

STATUTORY AND GENERAL INFORMATION

As at the Latest Practicable Date, we have registered the following material patents:

No.	Patent	Place of registration	Registration number	Date of authorization
1	計算機鍵盤信息干擾實現密碼保護的方法 (Password protection protocol by interference of data transmission from computer keyboards*)	PRC	ZL2004 1006 2399.2	2007.10.24
2	移動理財裝置 (Portable wealth management device*)	PRC	ZL2006 2013 9302.8	2007.10.03

As at the Latest Practicable Date, we have registered the following material copyrights:

No.	Copyright	Place of registration	Registration number	Date of registration
1	基金產品電話銀行銷售腳本 (Telephone promotion script for fund products*)	PRC	2008-A-09601	2008.03.11
2	保險產品電話銀行銷售腳本 (Telephone promotion script for insurance products*)	PRC	2008-A-09602	2008.03.11
3	民生銀行門戶網站主頁登記 (Layout of the front page of the website of China Minsheng Banking Corp., Ltd.*)	PRC	2009-L-015655	2009.02.18
4	小鬼當家卡卡面設計 (Card design of a wealth management card scheme for juniors*)	PRC	2009-F-015657	2009.02.18
5	安全存儲設備卡通形象作品 (Cartoon images for secured storage cards*)	PRC	2009-F-015656	2009.02.18

Save as disclosed herein, there are no trademarks, patents or other intellectual or industrial property rights which are material in relation to our business.

4. DISCLOSURE OF INTERESTS

[●]

C Particulars of Service Contracts

We have entered into a contract with each of our Directors and Supervisors in respect of, among others, compliance of relevant laws and regulations, observation of the Articles of Association and provisions on arbitration. Save as disclosed above, we have not entered, and do not propose to enter, into any service contracts with any of our Directors or Supervisors in their respective capacities as Directors/Supervisors (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

D Directors' and Supervisors' Remuneration

Save as disclosed in this document, no other emoluments or benefits in kind have been paid or granted during, or are payable in respect of, the three years ended December 31, 2008 by us to our Directors and Supervisors.

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APPENDIX X**STATUTORY AND GENERAL INFORMATION**

Under the current arrangements, it is expected that our Directors would receive compensation (including remuneration and benefits in kind) from our Bank for the year ending December 31, 2009 in the aggregate amount of approximately RMB28.6 million.

Under the current arrangements, it is expected that our Supervisors would receive compensation (including remuneration and benefits in kind) from our Bank for the year ending December 31, 2009 in the aggregate amount of approximately RMB13.1 million.

E Personal Guarantees

The Directors and Supervisors have not provided personal guarantees in favor of lenders in connection with banking facilities granted to us.

F Agency Fees or Commissions Paid or Payable

[Save for agency fees or commissions of RMB[●] paid or payable in relation to the issue of the hybrid capital bonds in 2009 as disclosed in the section headed "Corporate History and Organizational Structure" in this document, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Bank within the two years preceding the date of this document.]

G Related Party Transactions

During the two years preceding the date of this document, we have engaged in material related party transactions as described in Note 36 to the financial statements in the Accountant's Report set out in Appendix I to this document.

H Disclaimers

Save as disclosed in this document:

- (a) none of the Directors, Supervisors and any of the parties listed in paragraph 5E of this Appendix is:
 - (i) interested in our promotion, or in any assets which, within the two years immediately preceding the date of this document, have been acquired or disposed of by or leased to us, or are proposed to be acquired or disposed of by or leased to our Bank;
 - (ii) materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to our business;
- (b) [●]
- (c) none of our Directors or Supervisors or their associates or any shareholders of our Bank who to the knowledge of the Directors owns more than 5% of our issued share capital has any interest in our top five business customers;
- (d) [●]

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APPENDIX X

STATUTORY AND GENERAL INFORMATION

5. OTHER INFORMATION

A Estate Duty

We have been advised by Grandall Legal Group (Beijing) that currently there is no PRC law imposing liability on estate duty, thus no material liability for estate duty under PRC law is likely to be imposed on us.

B Litigation

Save as disclosed in this document, our Bank is not involved in any litigation, arbitration or administrative proceedings of material importance and, so far as we are aware, no litigation, arbitration or administrative proceedings of material importance is pending or threatened against us.

C [●]

D [●]

E Qualification of Experts

The qualifications of the experts who have given opinions in this document are as follows:

Name	Qualification
PricewaterhouseCoopers	Certified public accountants
Jones Lang LaSalle Sallmanns Limited	Member of The Hong Kong Institute of Surveyors and The Royal Institution of Chartered Surveyors
Grandall Legal Group (Beijing)	Licensed legal advisors on PRC law

F [●]

G [●]

H Binding Effect

This document shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

I Miscellaneous

- (a) Save as disclosed in paragraph 1B of this Appendix, within the two years preceding the date of this document: (i) we have not issued nor agreed to issue any share or loan capital fully or partly paid either for cash or for a consideration other than cash, and (ii) no

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APPENDIX X

STATUTORY AND GENERAL INFORMATION

commissions, discounts, brokerage fee or other special terms have been granted in connection with the issue or sale of any shares of our Bank;

- (b) No share or loan capital of our Bank is under option or is agreed conditionally or unconditionally to be put under option;
- (c) We have not issued nor agreed to issue any founder shares, management shares or deferred shares;
- (d) There are no arrangements under which future dividends are waived or agreed to be waived;
- (e) There are no procedures for the exercise of any right of pre-emption or transferability of subscription rights;
- (f) There are no contracts for hire or hire purchase of plant to or by us for a period of over one year which are substantial in relation to our business;
- (g) There have been no interruptions in our business which may have or have had a significant effect on our financial position in the last 12 months;
- (h) There are no restrictions affecting the remittance of profits or repatriation of capital by us into Hong Kong from outside Hong Kong;
- (i) Save for our A Shares which are listed on the Shanghai Stock Exchange, none of our equity and debt securities is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought;
- (j) We have no outstanding convertible debt securities; and
- (k) We currently do not intend to apply for the status of a Sino-foreign investment joint stock limited company and do not expect to be subject to the Sino-foreign Joint Venture Law of the PRC.

J Consents

PricewaterhouseCoopers, Jones Lang LaSalle Sallmanns Limited, and Grandall Legal Group (Beijing), have given and have not withdrawn their respective written consents to the issue of this document with the inclusion of their reports and/or letters and/or valuation certificates and/or the references to their names included herein in the form and context in which they are respectively included.

K [●]

L Promoters

The promoters of our Bank are as follows:

1. 中國船東互保協會 (China Shipowners Mutual Assurance Association)
2. 中國中小企業投資有限公司 (前稱中國鄉鎮企業投資開發有限公司) (China Small and Medium Enterprise Investment Development Co., Ltd. (formerly known as China Town and Township Enterprises Investment and Development Co., Ltd.))
3. 廈門福信集團有限公司 (Xiamen Fuxin group Co., Ltd.)

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APPENDIX X

STATUTORY AND GENERAL INFORMATION

4. 中國中煤能源集團公司(前稱中國煤炭工業進出口總公司)(China Coal Power Group company (formerly known as China Coal Industrial Import and Export Company))
5. 哈爾濱歲寶熱電股份有限公司 (Harbin Shirble Electric-Heat Co., Ltd.)
6. 希望集團有限公司 (Hope Group Co., Ltd.)
7. 鞍山市騰鰲特區遼河飼料集團公司 (Anshan Teng Ao Special District Liao He Forage Group Company)
8. 長沙南方華僑港澳台胞貿易公司 (Changsha Southern Huaqiao Gang'aotaibao Trading Co., Ltd.)
9. 山西安泰國際企業(集團)股份有限公司 (Shanxi Antai International Enterprise (Group) Co., Ltd.)
10. 河南省興亞企業集團有限公司 (Henan Xing Ya Enterprise Group Co., Ltd.)
11. 順德市萬和企業集團公司 (Shunde Vanward Enterprises Group Co., Ltd.)
12. 深圳市上步實業股份有限公司 (Shenzhen Shangbu Industrial Co., Ltd.)
13. 衢州市鴻基實業有限公司 (Quzhou Hong Ji Industrial Co., Ltd.)
14. 北京恒潤達科工貿公司 (Beijing Heng Run Da Ke Industrial and Trading Company)
15. 鄭州斐蒙達皮製品有限公司 (Zhengzhou Fei Meng Da Leather Products Co., Ltd.)
16. 南寧市南和發展公司 (Nanning Nan He Development Company)
17. 北京理想產業發展公司 (Beijing Ideal Industrial Investment Group)
18. 鞍山太平洋實業(集團)有限公司 (Anshan Pacific Industrial (Group) Co., Ltd.)
19. 四川華僑鳳凰集團股份有限公司(前稱成都華僑新苑實業有限公司) (Sichuan Huaqiao Phoenix Group Co., Ltd. (Formerly known as Chengdu Huaqiao Xinyuan Enterprise Co., Ltd.))
20. 河南原田置業公司 (Henan Yuan Tian Property Company)
21. 廣西噴施寶有限公司 (Guangxi Penshibao Co., Ltd.)
22. 太原清泉煤焦化運銷集團公司 (Taiyuan Qing Quan Coal Coking Transportation and Marketing Group Company)
23. 山西省海鑫鋼鐵有限公司 (Shanxi Haixin Steel Group Co., Ltd.)
24. 洛陽建築機械廠 (Yituo (Luoyang) Building Machinery Corp., Ltd.)
25. 天津港田集團公司 (Tianjin Gangtian Group Company)
26. 營口經濟技術開發區鐵合金廠(前稱遼寧蓋州市蘆屯鎮鐵東管件廠) (Yingkou Economic & Technological Development Zone Ferroalloy Factory (Formerly known as Liaoning Gaizhou Lutuan Tiedong Pipe Fitting Factory))
27. 浙江永久科技實業有限公司(前稱浙江瑞安市永久機電廠) (Zhejiang Yongjiu Scientific & Technological Industrial Co., Ltd. (Formerly known as Zhenjiang Rui An Yongjiu Electromechanical Factory))
28. 上虞市信誠實業公司 (Shangyu Xincheng Industrial Company)
29. 浙江臥龍集團公司 (Zhejiang Wolong Group Co., Ltd.)

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APPENDIX X

STATUTORY AND GENERAL INFORMATION

30. 深圳泰坤實業股份有限公司 (Shenzhen Taikun Industrial Co., Ltd.)
31. 昆明興業公司 (前稱昆明市工商聯興業公司) (Kunming Xingye Company (Formerly known as Kunming Gong Shang Lian Xing Ye Company))
32. 廣州益通集團公司 (Guangzhou Yitong Group)⁽¹⁾
33. 泛海集團有限公司 (前稱山東泛海集團公司) (Oceanwide Group Co., Ltd. (Formerly known as Shandong Oceanwide Group Company))
34. 哈爾濱亞麻廠 (Harbin Linen Mill)
35. 寧波市經濟建設投資公司 (Ningbo Economic Construction Investment Company)
36. 北京萬通實業股份有限公司 (Beijing Vantone Industry Co., Ltd.)
37. 杭州通普電器公司 (Hangzhou Unitop Electric Co., Ltd.)
38. 昆明建華企業集團 (Kunming Jianhua Enterprise Group)
39. 深圳前進開發公司 (Shenzhen Advance Development Company)
40. 鄭州夢達實業有限公司 (Zhengzhou Menda Industrial Co., Ltd.)
41. 昆明百貨大樓 (Kunming Department Stores Building)
42. 河南電力開發有限公司 (Henan Power Development Co., Ltd.)
43. 中國旅遊國際信託投資有限公司 (China Travel International Trust Investment Co., Ltd.)
44. 湛江經濟技術開發區財務開發公司 (Zhanjiang Economic & Technological Development Zone Finance Development Company)
45. 南海桂城商業貿易物資總公司 (Nanhai Guicheng Commercial & Trading Material General Corporation)
46. 深圳市寶安區潤田企業公司 (Shenzhen Bao'an Runtian Enterprise Company)
47. 廣東恒豐投資集團有限公司 (Guangdong Hengfeng Investment Group Co., Ltd.)
48. 深圳呈鑫實業發展公司 (Shenzhen Chengxin Industrial Development Company)
49. 廣州商匯有限公司 (Guangzhou Shanghui Co., Ltd.)
50. 鞍山城南軋鋼集團公司 (Anshan Chengnan Steel Rolling Group Company)
51. 南寧市展通物資供應公司 (Nanning Zhantong Material Supply Company)
52. 中國建材鄭州中嶽聯營特種水泥廠 (China Building Materials Zhengzhou Zhongyue Associated Special Cement Factory)
53. 中國山東台島集團 (China Shandong Taidao Group)⁽²⁾
54. 廣東省工商大廈 (Guangdong Industrial and Commercial Building)
55. 北京門山園開發公司 (Beijing Men Shan Yuan Development Company)

Notes:

- (1) This Promoter company has been de-registered on March 15, 2000 according to a company search done at the local office of SAIC in Guangzhou on February 25, 2004.
- (2) This Promoter company has been de-registered on October 20, 1998 according to a company search done at the local office of SAIC in Beijing on February 24, 2004.

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APPENDIX X

STATUTORY AND GENERAL INFORMATION

- 56. 浙江上虞市財務開發公司 (Zhejiang Shang Yu Financial Development Company)
- 57. 河北食品工業總公司 (Hebei Food Industry General Corporation)⁽³⁾
- 58. 廣東連山明華電化廠 (Guangdong Lianshan Minghua Electrochemical Factory)
- 59. 深圳匯商有限公司 (Shenzhen Hui Shang Co., Ltd.)

Except as described in the section headed "Connected Transactions" and save for the stock dividends and the bonus shares issued as a result of the transfer from the capital surplus as disclosed in paragraph IB of this Appendix X to this document, which were available to the Promoters who are shareholders of our Bank as any other shareholders of our Bank, within the two years immediately preceding the date of this document, no cash, securities, amount or other benefit has been paid, allotted or given, or has been proposed to be paid, allotted or given, to any of the Promoters named above in connection with [●].

Note:

- (3) This Promoter company has been de-registered on December 30, 2003 according to a company search done at the local office of SAIC in Hebei Province on March 3, 2004.