

CHINA MINSHENG BANKING CORPORATION LIMITED
ANNUAL REPORT 2002

Important Notice: The Board of Directors of China Minsheng Banking Corporation Limited (CMBC) ensures that the materials in this report are free of any false records, misleading statements or material omissions, and shall assume full responsibility for its authenticity, accuracy and completeness. The directors of CMBC, Wang Yugui, Yang xiangbo and Li Anming who were absent from the meeting, entrusted other directors in writing to exercise their rights to vote. Director Lei Yiping passed away because of illness.

The financial statements of this year have been audited by PricewaterhouseCoopers Zhongtian Limited and PricewaterhouseCoopers China Limited according to the domestic and international auditing standards respectively, and unqualified auditors' reports were both issued.

Board of Directors, China Minsheng Banking Corporation Limited

Jing Shuping (Chairman of Board of Directors), Dong Wenbiao (President), Hong Qi and Guo Yiming (leader of accountant), Wang Jianping and Bai Dan (leader of accountant institution) ensure that the annual financial report is authentic and complete.

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Address of the Chairman of the Board

2002 is the first year for China's entry into WTO. In this year, our national economy maintains the positive tendency of steady rapid progress. The successful opening of the Sixteenth National Congress of Representatives of Communist Party of China projects the magnificent blueprint for the full-scale construction of well-off society in the new century, and will strongly promote our national economies to keep on forward development along the passage of rapid increase. With such great background, China Minsheng Banking Corporation Limited is actively taking up the new challenges, holding on the fresh opportunities for development, driving the innovations in business and production by means of institution reform; and through the further standardization of governance on structure, strengthening the internal management and positively expanding the market. Through the concerted efforts and concurrently hard work of all members, Mingsheng Bank has created new outstanding achievements. In the meanwhile, Mingsheng Bank has reinforced the risk control and the protective measure, seriously summed up the experiences and the lessons, taken the strong measures to further reduce the bad assets and to achieve the aims of rapid progress in business, gradually increase in profits and efficient control on risks; and laid solid foundation for keeping steady and rapid progress of Mingsheng Bank.

Our bank will consistently hold the concepts of honesty & multilateral-wins and make great efforts to create the biggest profits for the investors. We will be courageous to pioneer and innovate unceasingly so as to make our business in each perspective towards the further step, and to strive for becoming a qualified competitor in the intensive competition of domestic and international markets.

By this opportunity, I sincerely represent Chairman of board of China Minsheng Banking Corporation Limited to express our cordial thanks to the governments, social sections and general clients for your coherent supports and cares; and also to express our sincere thanks to all staff for your hard working and all general investors for your continuous strong supports.

Jing Shuping
Chairman, Board of Directors
China Minsheng Banking Corporation

I . Brief Introduction

- 1. Registered Chinese name:** 中国民生银行股份有限公司
(Abbreviation: 中国民生银行).
Registered English Name: CHINA MINSHENG BANKING CORPORATION LIMITED.
(Abbreviation: CMBC, hereinafter referred to as the "Bank").
- 2. Legal representative:** Jing Shuping
- 3. Secretary to the Board of Directors: Gao Feng**
Representative on securities matters: Chen Chonglong
Address: No. 4, Zhengyi Road, Dongcheng District, Beijing
Tel: 010-65269592
Fax: 010-65229104
E-mail: cmbc@public.bta.net.cn
- 4. Registered address and head-office address:**
No. 4, Zhengyi Road, Dongcheng District, Beijing
Postal Code: 100006
Internet website: www.cmbc.com.cn
E-mail: cmbc@public.bta.net.cn
- 5. Selected newspapers for information disclosure: China Securities Journal, Shanghai Securities News and Securities Times**
Internet website for covering Annual Report 2001 designated by China Securities Regulatory Commission: www.sse.com.cn
The place for keeping the above-mentioned Annual Report: Office of the Board of Directors and Board of Supervisors of the Bank
- 6. Listing place: Shanghai Securities Exchange**
Abbreviated name for the stock: Minsheng Bank
Stock code: 600016
- 7. Other relevant information**
Date of first registration: February 7, 1996
Date of alteration registration: December 30, 2002
Registered address: No.4 Zhengyi Road, Dongcheng District, Beijing
Corporate business license serial number: 1000001898
Tax registration certificate number: Jinguoshui Dong Zi 110101100018988
Dishui Jing Zi 110101100018988000
Trustee for the non-negotiable shares:
China Securities Registration and Settlement Co., Ltd. Shanghai Branch
Appointed domestic auditor: PricewaterhouseCoopers Zhongtian Co., Ltd.
Address: 12 Floor, Ruian Square, No. 333, Huaihai Zhong Road, Shanghai, 200021, P.R. China
Appointed international auditor: PricewaterhouseCoopers China Limited
Address: P.O. Box 1448, New York, NY 10185-1448, United States of America
- 8. This report has been documented both in Chinese and in English versions. Chinese version is preferable upon different interpretation.**

II . Key Data on Accounting and Business

1. Major profit indicators for the year 2001

(In RMB '000)

<u>Items</u>	<u>Domestic audited amount</u>	<u>International audited amount</u>
Total profit	1,219,028	1,242,095
Net profit	891,540	884,626
Net profit after deducting irregular profits and losses	889,109	884,626
Profit from major business lines	1,215,399	1,242,095
Profit from other operation	0	0
Operating profit	1,215,399	1,242,095
Income from investment	1,186,343	1,069,490
Income from subsidies	0	0
Net non-operating income	3,629	0
Net cash flows from operating activities	35,379,783	36,404,863
Net increase in cash and cash equivalents	26,717,753	26,717,753

Notes: The irregular profits and losses were accounted in accordance with the requirements of Questions and Answers on Information Disclosure by Companies Issuing Public Securities No. 1 —Irregular Profits and Losses. The items deducted involved the non-operating income of RMB 14,029,000 and the non-operating expenditure of RMB 10,400,000

2. Major accounting data and financial indicators for the previous three years as of the period of this report

(In RMB '000)

<u>Accounting data& financial indicators</u>	<u>2002</u>	<u>2002</u>	<u>2001 domestic audited amount</u>	<u>2000 domestic audited amount</u>	
	<u>Domestic Audited amount</u>	<u>International Audited amount</u>		<u>Post adjustment</u>	<u>Pre-adjustment</u>
Income from major business lines	7,213,677	7,227,706	5,119,828	2,710,108	2,710,108
Net profit	891,540	884,626	646,370	238,615	429,166
Total assets	246,280,853	241,671,016	138,898,420	69,715,176	68,058,215
Total liabilities	240,277,043	235,237,012	133,473,517	64,587,925	62,062,477
Shareholders' equity (excluding minority shareholders' interest)	6,003,810	6,434,004	5,424,903	5,127,251	5,995,738
Fully diluted EPS (RMB)	0.34	0.34	0.29	0.14	0.25
Weighted average EPS (RMB)	0.34	0.34	0.27	0.17	0.31
EPS after deducting irregular profits and losses (RMB)	0.34	0.34	0.28	0.13	0.24
Net assets per share (RMB)	2.32	2.49	2.41	2.96	3.47
Adjusted net assets per share (RMB)	2.22	2.47	2.31	2.89	3.33
Net cash flows from operating activities per share (RMB)	13.68	14.07	7.02	1.05	1.05
Net assets yield	14.85%	13.75%	11.91%	4.65%	7.16%
Fully-diluted net assets yield after deducting the irregular profits & losses	14.81%	13.75%	11.67%	4.25%	6.81%
Weight-averaged net assets yield after deducting the irregular profits & losses	15.35%	14.64%	12.00%	23.72%	24.14%

Notes:

1. Relevant index is accounted in accordance with content and format rule—Rules on Information Disclosures by Companies Issuing Public Securities Article 21 of 'No.2; content and format of annual report' (revised in 2002) and 'Rules on Information Disclosures by Companies Issuing Public Securities No.9 calculation and reveal of Net Asset Yield and Earnings per Share.
2. The audit amount calculated in China in 2001 and 2000 are the actual data in the report of 2001. It is revealed that the main business income was 5,130,993,000 RMB in 2001 and would change into 5,119,828,000 RMB after exchange income subtracting exchange loss.

3. Domestic and international audited financial data and their differences

	(In RMB '000)			
	2002 Net profit	2002 Net assets	2002 Total assets	2002 Total liabilities
Calculated according to the domestic Accounting Standards	891,540	6,003,810	246,280,853	240,277,043
Adjustment according to IAS				
Writing off impairment reserve of long term investment	23,067			
Writing off year-end balance of start-up costs (after tax)	-29,981	177,720	177,720	
Deferred tax assets		43,638	65,131	21,493
Market value of available-for-sale securities			-4,852,688	-4,852,688
Writing off the entrusted loans and investments with entrusted deposits		155,203		-155,203
Others		53,633		-53,633
Total adjustments	-6,914	430,194	-4,609,837	-5,040,031
Supplementary international financial statements	884,626	6,434,004	241,671,016	235,237,012

Notes: In the light of international financial report standard, the expense to launch new institution but no practicing should be calculated into the current expense; domestic accountant rule puts the expense into long-term apportionment of expenses to calculate; as to the proposal of income tax, it adopts law of tax paying affecting accountant in the world and law of payable tax in China. Therefore, the net profit in international report forms is somewhat lower than that in domestic one.

4. Provisions for bad loans in the domestic and international audited Financial Statements

	(In RMB '000)	
	Domestic audited	International audited
Opening balance	1,908,500	1,908,500
Provisions for the year	546,693	546,693
Write-offs for the year		
Closing balance	2,455,193	2,455,193

5. Supplementary financial data for the previous three years as of the end of this year

	(In RMB '000)			
Items	At the end of 2002		At the end of 2001	
	Domestic audited amount	International audited amount	Domestic audited amount	Domestic audited amount

Total deposits	184,704,752	184,704,752	104,594,455	52,714,834
1. Long term deposits	22,516,229	22,516,229	11,709,306	1,482,578
2. Inter-bank borrowings	1,269,860	1,269,868	120,000	608,000
Total loans	128,346,279	128,346,279	73,564,276	37,594,101
1.Short term loans	70,140,618	70,140,618	42,467,629	25,427,186
2. Receivable from negotiation of L/C bills	513,371	513,371	395,507	79,956
3.Discount of commercial bills	25,147,868	25,147,868	18,469,528	5,867,421
4.Medium & long term loans	29,711,811	29,711,811	10,202,531	4,687,390
5.Overdue loans	1,587,532	1,587,532	556,862	711,641
6.Doubtful loans	1,172,021	1,172,021	1,470,680	820,507
7. Bad loans	73,058	73,058	1,539	0

Notes:

- In the light of new statistical standard of deposits of People's Bank of China, Total deposits include short-term deposits, administration and group deposits. The deposits of administration and group shall be calculated into the new statistics. Hence the total volume of deposits was adjusted and increased 612,495,000 RMB at the end of 2001, adjusted and increased RMB25, 000 at the end of 2000.
- Long-term deposits included long term deposits, long term savings deposits and long term margin deposits.
- Total loans included short-term loans, receivable from negotiation of L/C bills, discount of commercial bills, medium & long term loans, overdue loans, doubtful loans and bad loans.

6. Supplementary for Income Statement for the reporting period

The EPS and net assets yield included in the table were accounted according to Rules on Information Disclosure by Companies Issuing Public Securities No. 9 - Net Assets Yield and Earnings per Share, in domestic audited amount and international audited amount (in RMB).

(1) Domestic audited amount

Items	Profit during the reporting period (In RMB '000)	Net assets yield		Earnings per share (In RMB)	
		Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from major business lines	1,215,399	20.24%	20.98%	0.47 元	0.47 元
Operating profit	1,215,399	20.24%	20.98%	0.47 元	0.47 元
Net profit	891,540	14.85%	15.39%	0.34 元	0.34 元
Net profit after deducting irregular profit & loss	889,109	14.81%	15.35%	0.34 元	0.34 元

(2) International audited amount

Items	Profit during the reporting period (In RMB '000)	Net assets yield		Earnings per share (In RMB)	
		Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from major business lines	1,242,095	19.31%	20.55%	0.48 元	0.48 元

Operating profit	1,242,095	19.31%	20.55%	0.48 元	0.48 元
Net profit	884,626	13.75%	14.64%	0.34 元	0.34 元
Net profit after deducting irregular profit & loss	884,626	13.75%	14.64%	0.34 元	0.34 元

7. Supplementary financial indicators for previous three years

Item	Standard value	2002 Year end	Average	2001 Year end	Average	2000 Year end	Average
Capital adequacy ratio (%)	≥8	8.22	8.54	10.1	12.7	21.5	16.0
Liquidity Ratio (%)	RMB ≥25	64.46	48.76	44.5	49.3	51.8	50.4
	Foreign currencies ≥60	36.46	46.90	266.1	203.9	126.9	115.8
Deposit loan ratio (%)	RMB ≤75	55.24	58.26	56.4	66.1	72.2	68.7
	Foreign currencies ≤85	24.90	20.34	17.2	17.9	16.1	28.4
Lending borrowing ratio (%)	Borrowing ratio ≤4	0.45	0.74	0.1	0.2	1.3	1.4
	Lending ratio ≤8	5.71	8.67	6.8	5.2	3.1	7.0
International borrowing ratio (%)	commercial ≤100	3.72	1.41	0	0	0	0
Non-performing loan ratio (%)	≤15	2.04	2.51	4.25	-	5.72	-
Interest recovery rate (%)	-	95.44	94.72	98.0	93.7	90.8	88.6
Loan ratio to a single top customer (%)	≤10	4.94	8.19	8.2	7.9	3.6	7.5
Loan ratio to the top ten customers (%)	≤50	49.37	61.80	61.4	48.5	29.3	53.6

Note: Non-performing loan ratio = (sub-standard loan + doubtful loan + loss loans) / balance of each loan. According to this formula, the Bank has recalculated the non-performing loan ratios for 2001 and 2000

8. Changes in shareholders' equity during the reporting period

(1) Domestic audited amount

Items	Opening Balance	Increase of the period	Decrease of the period	Closing Balance
Capital stock	2,249,323	337,398		2,586,721
Capital surplus	2,532,123			2,532,123
Surplus reserve	129,274	133,731		263,005
Including: Welfare reserve	64,637	44,577		109,214
Retained earnings	517,096	891,540	783,785	624,851
Currency translation variances	-2,913	23		-2,890
Total shareholders' equity	5,424,903	1,362,692	783,785	6,003,810

The reasons for changes in stockholders' equity set out as follows:

- In conformity with the profit distribution plan for 2001 passed by the shareholders' assembly of 2001, 15 percent stock dividend, amounting to 337,398,433 shares was declared and authorized for the total capital stock of 2,249,322,889 for the first half of 2000. As a result, the total capital stock increased to 2,586,721,322 shares.
- Increase in surplus reserve was due to accounted net profit in the reporting period.

3. The increase of retained earnings resulted from the increase of net profit of the reporting period. The decrease in retained earnings resulted from dividend distribution for 2001 and the accounting of surplus reserve from net profit and the suggestion by BOD for cash dividends in 2002 in the reporting period.
4. The decrease in currency translation variances was due to fluctuations in foreign exchange rates.

(2) International audited amount (In RMB '000)

	The volume at beginning	The increase in the period	The decrease in the period	The volume at end
Capital stock	2,249,323	337,398		2,586,721
Capital surplus	2,532,123			2,532,123
Surplus reserve	129,274	133,731		263,005
Including:	64,637	44,577		109,214
Welfare reserve				
Retained earnings	755,363	884,626	628,582	1,011,407
Unrealized gain on available-for-sale securities, net of tax	17,417	26,221		43,638
Currency translation variances	-2,913	23		-2,890
Total shareholders' equity	5,680,587	1,381,999	628,582	6,434,004

Notes:

1 The decrease in retained earnings resulted from dividend distribution for 2001 and the accounting of surplus reserve from net profit in the reporting period.

The reasons for the changes in shareholders' equity are the same as above.

2 The increase in unrealized gain on available-for-sale securities(net of tax) is due to the fact that the fair value of the available-for-sale securities is higher than the cost.

3 The main reasons for other changes in the shareholders' equity are the same as the above.

III . Changes in Capital Stock and Shareholders' Information

1. Changes in capital stock

The changes were indicated in the following table (In share)

	<u>Before change</u>	<u>The increase, decrease or stock split</u>	<u>After change</u>
(1) Non-listed and traded shares			
a. Founders' Shares	1,794,322,889	269,148,433	2,063,471,322
Including:			
State-owned corporate shares			
Domestic corporate shares	1,794,322,889	269,148,433	2,063,471,322
Overseas corporate shares			
Other shares			
b. Mobilizing corporate shares			
c. Employee-held shares			
d. Preference shares or other shares			

Including:			
Re-allotted shares			
Total shares non-listed and traded	1,794,322,889	269,148,433	2,063,471,322
(2) Listed and traded shares			
a. Ordinary shares in RMB	455,000,000	68,250,000	523,250,000
b. Shares in foreign currencies domestically listed			
c. Shares in foreign currencies listed overseas			
d. Other shares			
Total shares listed and traded	455,000,000	68,250,000	523,250,000
(3) Total shares	2,249,322,889	337,398,433	2,586,721,322

Notes: For the cause of alteration of share, see 'Chapter 1, Article 8: Changes in shareholders' equity during the reporting period' in the report.

2. Share issuance and listing

(1) Shares issuance in the preceding three years by the end of the reporting period
Approved by the People's Bank of China (Yin Fu [1999] No. 234) and China Securities Regulatory Commission (Zhengjian Faxing Zi [2000] No. 146), the Bank issued 350,000,000 ordinary shares pricing at RMB 11.80 per share in Shanghai Securities Exchange on November 27, 2000. After the IPO, the Bank's 350,000,000 ordinary shares were approved to be listed and traded in Shanghai Securities Exchange on December 19, 2000.

(2) Total volume of shares and changes in share structure during the reporting period
After implementing the profit distribution scheme of 2001(For details, see "Chapter 1, Article 8: Changes in shareholders' equity during the reporting period" in the report.), the total volume of shares is 2,586,721,322. For the total number and structure, see the above table of changes in capital stock. There is no shareholder to control the stock or other actual controller in the Bank.

(3) There were no employee-held shares during the reporting period.

3. Shareholders' information

(1) The total of shareholders

The bank has a total of 178,475 shareholders, including 56 domestic corporate shareholders who hold non-traded shares and 178,419 public shareholders at the end of 2001.

(2) The top ten shareholders' information and the equities pledged for loans by the top ten stockholders

The Bank has no controlling shareholder or other actual controllers.

1). Included in the table are the top ten stockholders of the Bank

Name of stockholders	Shares held at year end	Shares held at beginning	(In 0'000 shares)	
			Increase/ decrease	Percentage in total capital stock
Sichuan New Hope Agriculture Co., Ltd.	20,633.99	17,942.60	2,691.39	7.98%
China Fanhai Industrial Co., Ltd.	19,435.00	16,900.00	2,535.00	7.51%
Oriental Group Co., Ltd.	19,435.00	16,900.00	2,535.00	7.51%
China Shipowners Association for Mutual Protection	16,445.00	14,300.00	2,145.00	6.36%

China small and midium Enterprise Investment & Development Co., Ltd.	14,961.96	13,010.40	1,951.56	5.78%
Xiamen Fuxin Group Company	14,247.35	12,389.00	1,858.35	5.51%
China Coal Industrial Import & Export Co., Ltd.	13,455.00	11,700.00	1,755.00	5.20%
China National Non-Ferrous Metal Construction Co., Ltd.	11,455.00	11,700.00	-245.00	4.40%
Beijing Vantone Ind. & Co., Ltd.	11,071.97	9,627.80	1,444.17	4.28%
Sichuan South Hope Co., Ltd.	9,714.51	8,447.40	1,267.11	3.76%
Total	150,854.78	132,917.20	17,937.58	58.32%

Notes: (1) In conformity with the resolution on profit distribution scheme passed by shareholders' assembly 2001, a 15 percent stock dividends is declared, resulting in a total increase of 1,508,547,800 shares, accounting for 58.32% of total capital stock.

2) As a shareholder, China Non-ferrous Metal Construction Co. Ltd. signed an alienation agreement of stock right with Fanhai industry. Co. Ltd on 16 Dec. 2002 and alienated the corporation stock for 20,000,000 shares to Fanhai industry Ltd. Co. The affair was declared on 'China Securities', 'Shanghai Securities News' and 'Securities Times' on 27 Dec. 2002.

(3) As the biggest shareholder in the Bank, Sichuan New Hope Agriculture. Co. Ltd alienates its corporation stock for 206,339,900 shares to New-hope Investment. Co. Ltd at the manner whose stock right is regarded as the investment on 8 Jan. 2003. After the stock was alienated, New-hope Investment Co. Ltd. hold 7.98% stock and became the biggest shareholder instead of Sichuan New-hope Agriculture Co. Ltd. The affair was declared on 'China Securities', 'Shanghai Securities and 'Securities Times' on 10 Jan. 2003.

(4) As a shareholder 'China villages and towns corporation investment and development Co.' Ltd. was renamed as 'China Small-Mediumium Corporation Investment Co. Ltd.' in March 2002 (see 'the third quarterly report of 2002', and 'China Securities', 'Shanghai Securities' and 'Stock Securities' on 28 Oct. 2002.)

The shares held by the top ten shareholders are non-traded corporate shares.

Liu Yonghao, legal representative of Sichuan New Hope Agriculture Co., Ltd., who is a shareholder of the Bank, is the father of Liu Chang, legal representative of Sichuan South Hope Co., Ltd. which is the bank's another shareholder. The Bank has no information on such associated relationships between other shareholders.

The bank has no strategic investors or other shareholders converted from ordinary corporations by allotting new shares.

(3) The equities pledged for loans by the top ten stockholders

a. China Fanhai Industrial Co., Ltd. pledged 19435 million shares of the Bank's it held for loans (In 0'000 shares):

Pledgee of pledging	Volume of pledged shares	Term
Xidan Sub-branch of Beijing Branch of Bank of Communications	1,800	2000.12.26—2004.12.26
Xidan Sub-branch of Beijing Branch of Bank of Communications	2,200	2001.4.2—2003.3.25

Xidan Sub-branch of Beijing Branch of Bank of Communications	1,800	2001.4.2—2004.3.25
Xidan Sub-branch of Beijing Branch of Bank of Communications	540	2001.8.13—2004.3.25
Xidan Sub-branch of Beijing Branch of Bank of Communications	540	2001.8.13—2004.12.26
Xidan Sub-branch of Beijing Branch of Bank of Communications	660	2001.8.13—2003.3.25
Xidan Sub-branch of Beijing Branch of Bank of Communications	2535	2002.11.8-2003.7.29
Xidan Sub-branch of Beijing Branch of Bank of Communications	4680	2002.12.26-2004.12.26
Xidan Sub-branch of Beijing Branch of Bank of Communications	4680	2002.12.27-2004.12.27
Total	19,435	

b. Xiamen Fuxin Co., Ltd. Pledged 134,25 million shares of the Bank's it held for loans (In 0'000 shares):

Pledgee	Volume of pledged shares	Term of pledging
Xiamen Branch of Bank of Communications	575	2002.7.12—2003.7.15
Xiamen Branch of Bank of Communications	1,000	2002.1.31—2003.1.29
Xiamen Branch of Bank of Communications	1,500	2002.1.31—2003.1.29
Xiamen International Bank	1,000	2001.3.18—2003.3.17
Rongji weiye Investment Company Ltd.	4,500	2002.12.31—2004.4.30
Xiamen Branch of Fujian Industrial Bank	250	2002.11.8—2003.11.8
Xiamen Branch of Fujian Industrial Bank	250	2002.9.27—2003.9.27
Chengjian Sub-branch of Xiamen Branch of the Industrial and Commercial Bank of China	1,800	2001.9.29—2003.9.28
Chengjian Sub-branch of Xiamen Branch of the Industrial and Commercial Bank of China	330	2001.12.27—2003.3.27
Chengjian Sub-branch of Xiamen Branch of the Industrial and Commercial Bank of China	1,220	2002.12.19—2003.10.30
Xiamen Branch of Everbright Bank	1,000	2002.9.10-2003.9.10
Total	13,425	

c. Oriental Group Co., Ltd. pledged 169 million shares of the Bank's it held for loans (In 0'000 shares):

<u>Pledgee</u>	<u>Volume of pledged shares</u>	<u>Term of pledging</u>
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Shenyang Branch of
CITIC Industrial Bank
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16,900

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- 5) China Small-Medium Corporation Investment Co. Ltd. impawn 149,595,600 shares of stock, the detail is as follows:

(In 0'000 shares):

Pledgee	Volume of pledged shares	Term of pledging
CITIC Industrial Bank	10,008	2001.6.14—2004.6.30
Heping sub-branch of Beijing Branch of Bank of Communications	3,000	2002.6.20—2004.6.30
Heping sub-branch of Beijing Branch of Bank of Communications	1,951.56	2002.6.20—2004.6.30
Total	14,959.56	

Notes: Because the Bank has some imbroglia with Hong Kong Huamao Financial Service Co Ltd. on stock right, Beijing Senior People Court has frozen 129,104,000 shares of stock accounting for 86.30% of above impawned shares on 7 Feb, 2002 till 19 July 2003.

(4). The information of shareholders holding 5% or more of the Bank's equity

(1) Sichuan New Hope Agriculture Co., Ltd. (Stock Code: 000876)

Legal representative: Liu Yonghao. Foundation date: Jan., 1993. The date of IPO: Feb. 12, 1998. Listing date: Mar. 11, 1998. Major business and products: feeding stuff, raw materials additive, feeding stuff processing machines, agricultural products and by-products, food processing and selling, the development and operation of cultivation & aquiculture industry, and providing modern agriculture technical services, consultation and the construction of production plant, selling of electronic products and building materials.

Registered capital: RMB 194,026,000. Shareholding structure: with a total capital stock of 194,026,000 shares including 130,026,000 of corporate founders' shares and 64 million of traded A shares.

(2) China Fanhai Industrial Co., Ltd.

Legal representative: Lu Zhiqiang. Foundation date: Apr. 7, 1988. Major business and products: science and technology, culture, education; real estate, infrastructures and industry investment; capital operation, assets management; hotel management and property management; telecommunications, office automation, sales of materials and equipment for the construction and building materials; consulting business concerning the above business lines.

Registered capital: RMB 750 million. Shareholding structure: RMB 674,717,000 from Shandong Fanhai Group, which accounts for 89.96% of the total equity; RMB 75 million from Guangcai Investment Group, which accounts for 10% of the total equity; RMB 283 thousand from China Electronic Engineering General Company, which accounts for 0.04% of the total equity.

(3) Oriental Group Co., Ltd. (Stock Code: 600811)

Legal representative: Zhang Hongwei. Foundation date: Dec. 26, 1992. The date of IPO: Nov. 9, 1993. Listing date: Jan. 6, 1994. Major business and products: financial investment (commercial bank, life insurance company), building material supermarket chains, e-business, processing and manufacturing of alloy materials, port services and real estate.

Registered capital: RMB 574,086,750. Shareholding structure: with a total capital stock of 574,086.8 thousand shares including 172,289.9 thousand of corporate founders' shares, 401,796.9 thousand of traded A-shares.

(4) China Shipowners Association for Mutual Protection

Legal representative: Wei Jiafu. Foundation date: Jan. 1, 1984. Major business and products: compensation and insurance, business training, marine business communication, international cooperation, consulting services.

Registered capital: RMB 100 thousand. Shareholding structure: legal person of league.

(5) China Small and Medium Enterprise Investment & Development Co., Ltd.

Formerly, China Township and Village Enterprise Investment & Development Co., Ltd. Legal representative: Cao Jiren. Foundation time: December of 1992. Major business and products: projecting, development and construction of the concentrated township industrial estates and medium & small urban areas; development and operation of real estate, project funds raising, investment, research and development of township enterprise; storing, distributing, selling and renting of materials and products for the manufacturing and constructing of township enterprises; selling of textiles; consulting on investment and development, talents' training, development of high-technology and information technology services concerning the above business line.

Registered capital: RMB 185,520 thousand. Shareholding Structure: State earth Clean Co. Ltd. and Beihai Zhongfa Investment. Co. Ltd occupies 95.17% share, Guizhou villages and towns corporation investment Ltd. Co. occupies 4.83%.

Xiamen Fuxin Group Company

Legal representative: Huang Xi. Foundation date: May 2, 1995. Major business and products: industrial investment, research, development & manufacturing of the high-tech products.

Registered capital: RMB 133 million. Shareholding structure: Huang Xi with others personally account for 96.04% of the total equity, the Workers' Union of Xiamen Fuxin Group Company accounts for 1.96%, Shanghai Dahua Real Estate Company limited accounts for 2%.

(6) China Coal Import & Export Company

Legal representative: Jing Tianliang. Foundation time: July of 1982. Major business and products: import & export of coals, sales of mine equipments, consulting on mineral foreign trade and technology, undertaking FDI projects, and developing agency, barter, compensating and transit trade, contracting project and exporting labors.

Registered capital: RMB 130 million. Shareholding structure: solely state-owned.

IV. Brief Introduction of Directors, Supervisors, Senior Management and Staff

1. Introduction of directors, supervisors and senior management

(1) Basic information (In share)

Name	Sex	Age	Position	Tenure of Office	Shares held at year end	Shares held at year beginning
Jing Shuping	M	85	Chairman of Board of Directors	2000.4.30-2003.4.30	0	0
Liu Yonghao	M	52	Vice Chairman of BOD	2000.4.30-2003.4.30	0	0
Zhang Hongwei	M	49	Vice Chairman of BOD	2000.4.30-2003.4.30	0	0
Wang Yugui	M	52	Director	2000.4.30-2003.4.30	0	0

Wang Baolin	M	56	Director	2000.4.30- 2003.4.30	0	0
Lu Zhiqiang	M	52	Director	2000.4.30- 2003.4.30	0	0
Feng Lun	M	44	Director	2000.4.30- 2003.4.30	0	0
Li Anmin	M	59	Director	2000.4.30- 2003.4.30	0	0
Li Xiaodong	M	35	Director	2000.4.30- 2003.4.30	0	0
Chen Jian	M	45	Director	2000.4.30- 2003.4.30	0	0
Chen Huiguang	M	40	Director	2000.4.30- 2003.4.30	0	0
Yang Xiangbo	M	40	Director	2000.4.30- 2003.4.30	0	0
Song Qin	F	63	Director	2000.4.30- 2003.4.30	0	0
Huang Diyan	M	73	Director	2000.4.30- 2003.4.30	0	0
Dong Wenbiao	M	46	Director, President	2000.4.30- 2003.4.30	0	0
Lei Pingyi	M	91	Director	2000.4.30- 2003.4.30	0	0
Tong Zengyin	M	69	Chairman of Board of Supervisors	2000.4.30- 2003.4.30	0	0
Li Jing	M	53	Vice Chairman of BOS	2000.4.30- 2003.4.30	0	0
Wang Liang	M	61	Supervisor	2000.4.30- 2003.4.30	0	0
Zhao pingzhang	M	47	Supervisor	22002.7.29- 2003.4.30	0	0
Hu Pingxu	M	81	Supervisor	2000.4.30- 2003.4.30	0	0
Qian Liqin	F	49	Supervisor	2000.4.30- 2003.4.30	0	0
Huang Dianpeng	M	51	Supervisor	2000.4.30- 2003.4.30	1,000	1,495
Hong Qi	M	46	Vice President	2000.4.30- 2003.4.30	0	0
Wei Shenghong	M	59	Vice President	2000.4.30- 2003.4.30	0	0
Gao Feng	M	60	Secretary of BOD	2000.4.30- 2003.4.30	0	0
Guo Yiming	M	64	Financial Supervisor	2000.4.30- 2003.4.30	0	0
Lin Keping	M	63	General Vice Secretary of CMBC Committee of Communist Party of China	2000.9.6- now	0	0

Notes:

- 1 Jing Shuping, Huang Diyan, Lei Pingyi are independent directors of the Bank.
2. Leipinyi passed away due to disease on 4 Jan. 2003.
3. In the reporting period, Zhaopinzhang was selected as the supervisors delegating the staff. The former Liuchaoyang resigned due to long-term oversea training.

(2) Directors and supervisors' positions in shareholding companies

Name	Shareholding Company	Position	Tenure of Office
Liu Yonghao	Sichuan New Hope Agriculture Co., Ltd.	Chairman of BOD	2001.5.28-2004.5.28
Zhang Hongwei	Oriental Group Co., Ltd.	Chairman of BOD	1999.5-2002.5
Wang Yugui	China shipowners Association for Mutual Protection	President	
Wang Baolin	China National Non-Ferrous Metal Construction Co., Ltd	President	1999-now
Lu Zhiqiang	China Fanhai Industrial Co., Ltd.	Chairman of BOD	1999.5.24-now
Feng Lun	Beijing Vantone Ind. & Co., Ltd.	Chairman of BOD	1993-now
Li Anmin	Shanxi Antai Group Co., Ltd.	Chairman of BOD	1991-now
Li Xiaodong	Sichuan South Hope Co., Ltd.	Assistant to the President	1998-now
Chen Jian	China Township and Village Enterprise Investment & Development Co., Ltd.	President	2001-now
Chen Huiguang	Xiamen Fuxin Group Co., Ltd.	General Manager	2000.9-now
Yang Xiangbo	Harbin Suibao Thermoelectricity Co., Ltd.	Chairman of BOD	1992-now
Song Qin	China Coal Industrial Imp.& Exp. Co., Ltd.	Secretary of Party Committee	Retiring at the end of 2001
Li Jing	Changsha South Overseas Chinese Trade Co., Ltd.	Chairman of BOD	1987-now
Wang Liang	Dongguan Fenggang Yantian Development Co., Ltd.	Director	2001.6-now
Hu Pingxu	Kunming Industrial Corporation	Executive Vice Chairman of BOD, General Manager	1984-now
Huang Dianpeng	Liaohu Feedingstuff Group Co., Ltd.	Chairman of BOD	1996-now

Notes: Except for Wang Liang, all the other above-mentioned directors and supervisors receive their remuneration from their respective companies.

(3) Annual Remuneration

The Board of Directors evaluates the senior management in all important aspects according to 'Annual Salary Regulation for Senior Management of CMBC (For Trail),and decides their respective amount of annual salaries on the evaluation results.The independent directors receive no remuneration from the Bank.

Except for Dong Wenbiao in the directors, Tong Zengyin, Zhao Pinzhang and Qian Liqin in supervisors, all others receive no remuneration from the Bank. Except for Dong Wenbiao in the directors, Zhao Pingzhang and Qian Liqin in the supervisors, all others receive a fixed transportation fee of RMB 42,000 per year.

All together nine of the directors, supervisors and senior management draws remuneration from the Bank.

Details are as follows:

Total amount of annual reward	4,750,000 Yuan.
Total amount of reward of top three directors	800,000 Yuan.
Total amount of reward of top three senior managers	2,000,000 Yuan.
Allowance of independent director	No
Other rewards of independent director (3)	Total 126,000 Yuan (ration traffic

	expenditure) Per year
Various reward field	Quantity of Person
710,000-850,000	1,
560,000-700,000	5,
410,000-550,000	1,
200,000-350,000	2,

(4) Performance evaluation and incentive schemes for senior management

The former one, Liuchaoyang resigned due to long-term oversea training. The affair was declared on 'China Securities', 'Shanghai Securities and 'Stock Securities' on 30 July 2002.

2. The Staff

At the end of the reporting period, there were 4,254 staff members on the payroll of the Bank, of which 557 were managerial personnel, 3,522 were professional staff, and 175 were administrative personnel. In terms of education, 402 of them hold Master or above degrees, 3,437 with Bachelor degree or Professional certificate, and 415 others. The Bank had no retired employees during the reporting period.

V. Corporate Governance

1. Basic information on corporate governance

The bank formulated Articles of Association and relevant rules and regulations in pursuance of the Commercial Bank Law and the Corporate Law, and set up a relatively perfect corporation governance structures including the establishment of Shareholders' Assembly, Board of Directors, Board of Supervisors and Senior Management since its inception

In the reporting period, the Bank researched and revised 'Statute of Company' actively in accordance with the administration rule of 'Management Rules for Listed Companies' of China Securities Regulatory Committee, 'Guidelines for Corporate Governance of joint-stock commercial bank' of People's Bank of China, and submit relevant systems such as the rules of procedure to Board of Directors and the Shareholders' Assembly for approval. The company is considering to set up Special Committees of Board of Directors.

The details on corporate governance during the reporting period are listed as follows:

(1) Shareholders and Shareholders' Assembly

The non-traded shares are all corporate shares, and diversified with no controlling shareholders. A reasonable shareholding structure ensures that all shareholders enjoy equitable status and exertion of their rights. In strict conformity with Rules on Procedures of Shareholders' Assembly, the Bank convenes shareholders' assembly, makes full preparation for publicizing the notice, preparation of documents, selection of the meeting place and reception, to ensure the attendance of the shareholders. The Bank issues guide ahead of meeting to the attendants making certain rules of procedure, to ensure the exercise of shareholders' rights of inquiry and voting. Each Shareholders' Assembly has lawyer's position paper.

(2) Directors and the Board of Directors' Meeting

The Bank adheres to the Articles of Association's rules concerning the qualification and the procedure for election of the directors. The number and formation of Board of Directors are in line with the laws and regulations. The Board of Directors fulfills its duty carefully and makes decisions according to the Articles of Association and the authorization of Shareholders' Assembly, paying attention to the protection of the interests of all shareholders and the Bank.

(3) The Supervisors and the Board of Supervisors

The qualification and procedure for selection of supervisors, the number and formation of Board of Supervisors are in accordance with the requirements of Articles of Association and concerned laws and regulations. The Board of Supervisors formulated Specific Working Rule on Practicing of Special Examinations to strictly supervise and examine the accounting and financial system. The Board of Supervisors can carefully fulfill its duties,

(4) Information disclosure and transparency

The Bank formulated Management Measures on Information Disclosure of CMBC that stipulated the internal procedure and responsibility for information disclosure. The Bank's information disclosure is strictly in term of the requirements of supervision and administration authorities, and conforms with the requirement of authenticity, accuracy, timeliness and completeness. The Bank earnestly treats all shareholders' visits and consultations by mail and telephone, and ensures that all shareholders gain the same opportunity of acquiring information.

2. Independent directors and their obligations

Since its establishment, the Bank appointed outside/independent directors in BOD. Three independent directors were appointed in this reporting period, which meet the requirement of Guidelines on Appointing Independent Directors in Listed Companies by CSRC. The independent directors can act diligently, attend Board meetings on schedule and play active roles.

3. Decision-making and operating system

The Bank's top authority is Shareholders' Assembly. The regulation and supervision activities are undertaken by the Board of Directors and Board of Supervisors. The President is appointed by the Board of Directors and takes full responsibilities for the routine management and operations. The Bank adopts one-tier legal person system, with all branches as non-independent units and responsible for the Head Office of the Bank.

The Bank has no controlling shareholder, and is independent of the major shareholders in business, personnel, assets, organizations and accounting. It also enjoys independent and complete business with capacity of self-management. The Board of Directors, Board of Supervisors and internal departments operate independently.

4. Evaluation of senior management and incentive schemes

The Board of Directors stipulates 'Annual Salary Regulation for Senior Management of CMBC (For Trail)' and evaluates the senior management in all important aspects to make the income of senior management link to management level and Bank's achievements. The clear demarcation of reward and penalty helps to stimulate the enthusiasm of senior management. The introduction of qualitative analysis into the quantitative analysis ensures that the evaluation is scientific and comprehensive. The mode of reserving award in the duty term will effectively stimulates the senior management to contribute for the stable development of company.

VI. Briefing on Shareholder's Assembly

1. Notices and Convention of Shareholders' Assembly

The Annual Shareholders' Assembly of CMBC for the year 2001 was convened in Beijing on May 27, 2002. 34 shareholders or shareholder's agents participated in the meeting, representing a total of 1,4949,823,360 shares which accounted for the 65.9% of the total capital stock. the meeting was legitimate and valid according to the relevant regulations of Company Law and Articles of Association.

2. Resolutions made by the Shareholders' Assembly

The Annual Shareholders' Assembly of CBMC for the year 2001 reviewed and passed resolutions on Report of the Board of Directors for 2001, Resolution on Report of the Board of Supervisions for 2001, Resolution on Report of the Budget Performance and Final Settlement of Account for 2001, Resolution on the Final Budget for 2001, Resolution on Profit Distribution Policies, resolutions on the 2001 Financial Budget, Resolution on Appointing Pricewaterhouse Coopers China Limited and Pricewaterhouse Coopers Zhong Tian Limited, Resolution on Adjustment of the Issuing Scale in the Scheme of Convertible Corporate Bonds, Resolution on Adjustment of the Scale of Issuing Convertible Corporate Bonds of CMBC, Resolution on the Adjustment of the Specific Clause in Issuing Convertible Corporate Bonds of CMBC, Resolution on Proposing the Board of Shareholders to Authorize the Board of the Director to Define the Increase Extent of Final Price of Convertible Bonds According to the Concrete Market Conditions.

3 Election and replacement of the directors and supervisors of the Bank

In the reporting period, Zhao Pinzhang was selected as the supervisors delegating the staff. The former Liu Chaoyang resigned due to long-term oversea training. The affair was declared on 'China Securities', 'Shanghai Securities and 'Securities Times' on 30 July 2002.

4 Briefing on Extraordinary Shareholders' Assemblies

(1) The first extraordinary shareholders' assemblies for the year 2002 was held on April 10, 2002. 36 shareholders or shareholders' agents were present, representing 1,657,743,229 shares, accounting for 73.13% of total capital stocks, complying with the Corporate Law and the Articles of Association, It examined and passed the following resolutions: Resolution on Transferring the Accrued Payment for Shareholder at the end of 1999 to Deposit Reserve for Bad Loans; 'Resolution on Retroactive Adjustment of Accountancy & Audit Differences between Domestic and International in 2001 and Making up Negative Non-distributed Profits with Capital Surplus.

(2) The second extraordinary shareholders' assembly for the year 2002 was held on Nov30 2002. 26 shareholders and shareholders' agent were present on the conference. Representing 1,776,370,304 shares, which accounts for 69.91% of total capital stocks, complying with the Corporate Law and the Articles of the Association, It examined and passed the following resolutions: Resolution on Proposing the extraordinary shareholders' Assembly to approve to prolong the valid period of issuing convertible bond to one year and authorize the Board of Director to handle the concerned affaires. Resolution on the adjustment of Issuing Condition of Convertible Corporate Bond.

VII. Report of the Board of Directors

1. Operation of the Bank

(1) The scope and performance of major business lines

The main business operations of CMBC include: absorbing public savings; providing short term, medium term and long term loans; making domestic and international settlement; discounting bills; issuing financial bonds; acting as an agent for issuing, cashing and underwriting government bonds; buying and selling government bonds; inter-bank borrowing and lending; buying and selling, or acting as an agent for buying and selling foreign currencies; providing Letter of Credit service and guarantee; providing agency business in collection and payment and insurance business; providing safe-box service, and other financial services approved by the People's Bank of China.

With China's entry into WTO, the financial industry would be further opened to the outside and result in a fiercer market competition in 2002. CMBC actively explores and innovates in accordance with the guideline made by Board of Directors and insists on lower risks, rapid increase and high efficiency, all of businesses reach better achievements. By the end of the reporting period, the total amount of deposits has reached 1,84.705 billions, increasing by 80.11 billions than the same period of last year, the extent of increase is 77%; The total amount of loan (including discount) has been 1,28.346 billions, increased by 54.782 billions than the same period of last year, the extent of increase is 74%; The net profit is 892 millions, increased by 246 millions than that of last year, the extent of increase is 38%; At the end of the reporting period, the bad loan rate is 2.04%, showing that the bank has kept assets risk low during the rapid increase of business. By the end of reporting period, the Bank has set up 15 sub-branches, 2 direct sub-branches in 17 cities around China, the total number of affiliates have been 145.

With regard to The Bankers published in Britain in July 2002, CMBC ranked 337 among the top 1000 world commercial banks in terms of core capital and other indicators and ranked 10 among the 15 banks from the Mainland of China in the list. In the activity of 'Blue Chips in My Mind' initiated by domestic media for the first time in April 2002, the Bank ranked 6 among 'Top-Ten Blue Chips' elected according to international prevailing standard on blue chips, also, the Bank went up to rank 8 from the previous year's 13 among the 'China's Top 50 Listed Powers 2001' selected by the journal Listed Companies which is corun by People Daily Press and Shanghai securities Bourse in June 2002.

(a) Income and profit from major business lines, and total assets during the reporting period

In the reporting period, the income from major business lines was RMB 7,213,677 thousand, with a profit from major business lines of RMB 1,215,399 thousand and total assets of RMB 246,280,853 thousand.

➤ Divided by categories of business

(In RMB '000)

<u>Business</u>	<u>Revenue</u>
Loan	4,626,453
Due from banks and loans to banks	1,217,374
Bonds investment	1,186,343
Other business	183,507
<u>Total</u>	7,213,677

➤ Divided by areas

(In RMB '000)

<u>Area</u>	<u>Revenue from major business lines</u>	<u>Profit</u>	<u>Total assets</u>
Beijing, Shanghai, Guangzhou, Shenzhen	4,548,939	981,919	169,053,617
Wuhan, Dalian, Hangzhou, Nanjing	985,571	145,410	35,226,596
Chongqing, Xi'an, Fuzhou, Jilan	307,369	2,240	16,221,408
The Adjustment of summary	1,371,798	85,830	25,779,232
<u>Total</u>	<u>7,213,677</u>	<u>1,215,399</u>	<u>246,280,853</u>

Notes: The Adjustment of summary was performed in some accounts concerning the whole bank or related branches and sub-branches, for instance, amounts and income & expenses in current accounts between these branches and sub-branches.

(b) Major products or services and their market shares

According to the Statement of Credit Revenue and Expenditure of Banks in the fourth quarter of 2001 issued by the People's Bank of China, CMBC's deposits accounted for 10.0% of the total deposits of the nine national shareholding commercial banks in China at the end of the reporting period, a percentage of 2.1 higher than that at the beginning of the year.

(c) Comparison of major business lines & their structure of the reporting period with the last reporting period

The Bank conducts business activities in accordance to the approved business scope. The main sources of the Bank's income are deposits and loans, due from banks and loans to banks, bonds investment, settlements and agent services. During the reporting period, no other operations significantly affected the Bank's profit were reported. Compared with the last reporting period, there were no relative big changes in the major business lines of the Bank.

(2). Performance and achievement of subsidiaries and associate companies.

According to the approval of "the Reply to the Preparation of Establishing China's Joint Bank Co., Ltd." (Bank reply No. 234 [2001] by the People's Bank of China, the Bank invested RMB 50 million yuan in China's Joint Bank Co., Ltd. accounting for 3.03% of the Bank's registered capital. Since the Bank was set up in March 2002, the business has been developing rapidly, but because it was set up less than a year ago, it made a slight loss in 2002. Along with the promotion of the interconnection and the improvement of the operation environment, the business volume of the bank cards using in the multiple banks will increase steadily, and the Bank's financial situation will be improved continuously.

(3) Main clients

At the end of the reporting period, the aggregate loans to the top ten clients by the Bank were RMB 4,440,000 thousand, accounting for 3.43% of the total loans.

(4). Operating problem and the solutions

In the reporting period, the Bank has the following problems and difficulties in the operation: after our country's entry into WTO, the banking industry is further opened to the outside world, and the market competition is even more severe. The People's Bank

of China lowered the deposit and loan interest rate from February 21, 2002, the bank margin was reduced by 0.25%. The property structure is comparatively unitary, and the products with the core competitiveness are still to be formed and promoted. Faced with the above unfavorable situations, the Bank will take the following measures:

1. Expanding the business scale and realizing scale efficiency. At the end of the reporting period, compared with the beginning of the year, the total amount of deposit and loan of CBMC were respectively increased by 77% and 74%. As the scale was enlarged, the unfavorable factors, such as interest-reduction, etc. affecting the benefit were partially counteracted.
2. Speeding up the product innovation and service innovation to strengthen the ability of developing the market. In the reporting period, the Bank successfully developed several corporate business, individual business and new products in the banking industry, which have gradually formed a series and become the new growing point for the profits.
3. Fully developing the potential and promoting the interior growth. By launching various labor competitions and activities to increase income and reduce cost, carrying out the rating system of sub-branches, further improving the stimulating system, etc. the Bank attained the two goals of developing the interior potential and expanding the exterior businesses.
4. Actively carrying forward the management innovation. By establishing eight basic systems, such as the new customer service center and customer information management, the Bank was gradually changed into the modern commercial banking management system.
5. Making more efforts for training so as to raise the staff's moral and professional quality. The Bank provided every-level staff with direct training by the means of establishing the training base, cooperating with the famous universities and sending staff abroad for training, etc. so as to further ensure the staff's moral and professional quality.

2. Investments

(1) Usage of proceeds raised by IPO

The Bank raised a total of RMB 4,089 million by December 4, 2000 by the IPO of 350 million ordinary shares (See the detailed information in 2. Share issuance and listing, III. Changes in Capital Stock and Shareholders' Information in this annual report). All the raised funds were used to increase the Bank's capital, thus capital adequacy ratio, to enhance the risk-resistance ability of the Bank according to the purpose published in IPO Prospectus.

The details are as follows:

- 1 RMB1.2 billion was allocated to newly-established branches and sub-branches as operation capital (According to "the Management Methods for the Business Network Set up in the Same City by the Commercial Bank", issued by the People's Bank of China, the additional part of operation capital for the Bank in the reporting period is RMB600 million.)
- 2 RMB 1139 million was spent in the purchase of fixed assets on offices and technological equipments for operating purposes;
- 3RMB 1,750 million was in business operation (including lending to foreign-funded banks, and bond investment, etc.).

The Bank was able to adjust the usage of funds timely according to the need of business development and market changes. This resulted in not only better profits but also better conditions of liquidation and security. The adjustment in actual operations would not affect the implementation of the usage plan on raised funds.

(2) Important investment with funds raised by other than IPO

In the reporting period, there was no important investment with funds raised by other than IPO.

3. Financial situation and operation achievements

The comparison was made on the basis of the data at the end of 2000 after retroactive adjustments.

(1) Fluctuations of major financial indicators and their reasons

(In RMB '000)

<u>Items</u>	<u>Amount at the end of 2001</u>	<u>Increase Rate</u>	<u>Reasons</u>
Total assets	246,280,853	77%	Growth in loans, due from banks and loans to banks
Total liabilities	240,277,043	80%	Rapid growth in deposits, deposits from banks
Long term liabilities	22,516,229	92%	Growth in long term savings deposits and long term margin deposits
Stockholders' equity	6,003,810	11%	Realized net profit
Profit from major Business lines	1,215,399	38%	Business expansion
Net profit	891,540	38%	Business expansion
Net increase in Cash and cash equivalents	26,717,753	446	Business expansion

(2) Items with changes of more than 30% in the comparative financial statements

(In RMB '000)

<u>Item</u>	<u>Amount at the end of the period</u>	<u>Increase /decrease rate</u>	<u>Reasons</u>
Cash on hand and in bank	543,923	70%	Increased positions
Deposits in central bank	37,678,987	168%	Increased positions
Due from banks	19,576,221	39%	Increased positions
Loans to financial institutions	3,303,847	-31%	Decrease in business
Short term loans	70,140,618	65%	Growth in loans
Receivable from negotiation of L/C bills	513,371	30%	Growth in negotiations of L/C bills
Net interest accrued	708,614	47%	Increase in interest receivable from bonds investment
Other receivables (net)	199,072	41%	Increase in other receivables (net)
Discount of commercial bills	25,147,868	36%	Growth in discount of bills
Short term investment	4,865,626	821%	Increased positions, and relatively small basis amount of last year
Entrusted loans & Investment	4,852,688	559%	Increase in entrusted investment & loans and the small Basis amount of last year
Securities purchased under resale agreements	14,396,832	126%	Increased positions,
Long term investment in Bonds due within a year	1,942,767	37%	Growth in bonds investment
Liquid assets	188,274,156	73%	Increase in liquid assets
Medium & long term loans	29,711,811	191%	Growth in loans
Overdue loans	1,587,532	185%	Increase in overdue loans
Bad loans	73,058	4,647%	Increase in for bad loans, and relatively small basis amount of

			last year
Long term investment in Bonds	25,260,696	45%	Growth in bonds investment
Accumulated depreciation	351,105	36%	Increase in fixed assets , increase in accrued depreciation
Fixed assets	57,506,574	95%	Increase in fixed assets
Intangible assets	6,354	133%	Increase in intangible assets
Total assets	246,280,853	77%	Increase in liquid assets and fixed assets
Short term deposits	134,770,629	74%	Growth in deposits
Short term savings deposits	12,560,953	74%	Growth in deposits
Fiscal deposits	1,618,604	162%	Growth in deposits
Deposits from banks	36,312,124	56%	Increase in deposits from banks
Borrowings from banks	1,269,868	958%	Decrease in borrowings from banks, and relatively small basis amount of last year
Re-purchasement after sales	8,983,128	302%	Increase in re-purchasement after sales
Outward remittance	544,376	117%	Increase in outward remittance
Inward remittance & Temporary deposits	1,413,729	407%	Increase in inward remittance & Temporary deposits
Entrusted funds	4,852,688	559%	Increase in entrusted capital and the relatively small basis Amount of last year
Short term margin deposits	11,896,508	58%	Growth in short term margin deposits
Interest payable	722,894	52%	Increase in interest for deposits
Other payable	2,297,002	147%	Increase in other payable
Welfare payable	14,485	118%	Increase in welfare payable
Liquid debts	217,760,814	79%	Increase in liquid debts
Long term deposits	21,421,689	97%	Growth in deposits
Long term savings deposits	1,049,005	71%	Growth in saving deposits
Long term margin Deposits	45,535	-80%	Change in structure, short term increases, long term decreases
Total long-term liability	22,516,229	92%	Increase in long-term debts
Total liability	240,277,043	80%	Increase in main business involved debts
Surplus reserve	263,005	103%	Accrued in the year
Total liability and shareholders' equity	246,280,853	77%	Increase in liability and shareholders' equity
Operating income	7,213,677	41%	Growth in loaning, inter-bank lending and investment
Interest income	4,626,453	44%	Expansion in the scale of due from banks and loans to Banks
Gain on foreign exchange	64,055	64%	Growth in foreign exchange business
Investment income	1,186,343	63%	Scale of bonds investment expanded
Operating expense	5,687,653	42%	Growth in deposits and inter-bank business
Interest expenses	2,165,306	56%	Expansion in the scale of deposits
Inter-bank financing Expenses	903,526	35%	Expansion in the scale of deposits and borrowings from Banks
Other operating expenses	1,764,915	47%	Increase in provisions for bad loans accounted

Operating tax and surtax	310,625	30%	Increase in operating tax
Operating profit	1,215,399	38%	Increase in operating profit
Non-operating income	14,029	-49%	Decrease in non-operating profit
Total profit	1,219,028	35%	Increase in total profit
Net profit	891,540	38%	Increase in total profit

4. Operations of the Bank

(1) The Head Office and branches of the Bank

At the end of the reporting period, the main organizations of the Bank are as follows:

<u>Name of Organizations</u>	<u>Attached Organizations</u>	<u>Number of Staffs</u>	<u>Address</u>
Head Office	145	318	No. 4, Zhengyi Road, Dongcheng District, Beijing
Beijing Administration Department	28	672	No. A 3, Fuxing Road, Haidian District, Beijing
Shanghai Branch	20	675	No. 48, Weihai Road, Shanghai
Guangzhou Branch	14	413	Mayor's Tower, No. 189, Tianhe Bei Road, Guangzhou
Shenzhen Branch	15	492	Tower B, Jiahe Huaqiang Mansion, Shennan Zhong Road, Shenzhen
Wuhan Branch	12	332	No. 20, Jiangnan Road, Hankou, Wuhan
Dalian Branch	5	138	No. 28, Yan'an Road, Zhongshan District, Dalian
Nanjing Branch	7	209	No. 26, Zhongshan Bei Road, Nanjing
Hangzhou Branch	6	150	No. 398, Yan'an Road, Hangzhou
Chongqing Branch	5	117	No. 18, Minzu Road, Yuzhong District, Chongqing
Xi'an Branch	4	96	No. 100, Chang'an Zhong Road, Xi'an
Fuzhou Branch	4	106	No. 173, Hudong Road, Fuzhou
Jinan Branch	5	94	No. 229, Luoyuan Street, Jinan
Taiyuan Sub-branch	8	172	No. 188, Wuyi Road, Taiyuan
Shijiazhuang Sub-branch	6	142	No. 10, Xi Street, Shijiazhuang
Shantou Sub-branch	4	43	Binhai Tower, Huashan South Road, Shantou
Ningbo Branch	1	42	No. 166-168, Zhongshan West Street, Ningbo
Chengdu Branch	1	43	No. 22, second section, Renming middle road, Chengdu
Total	145	4,254	

Notes: the branch bank's subsidiaries include the branch's business department, sub-branches and banking offices.

(2) The Five Categories of credit assets and the accounting percentage of provisions for bad loans

The table below shows the Five Categories of credit assets and the accounting percentage of provisions for bad loans at the end of the reporting period

(In RMB 0'000)

	<u>Loans (excluding discount)</u>	<u>Discount of Commercial Bills</u>	<u>Overdue Loans to Banks and Financial Institutions</u>	<u>Total</u>	<u>Accounting Percentage of Provisions for Bad Loans</u>
Normal	9,738,938	380,819		10,119,757	1%
Special Mention	319,222			319,222	5%
Substandard	126,974			126,974	25%
Doubtful	105,863		9,550	115,413	50%
Loss	28,844		7,535	36,379	100%
Total	10,319,841	380,819	17,085	10,717,745	

At the end of the year, the Bank made analyses on retrieval abilities of all loans, and estimated the possible losses of loans and made provisions for bad loans. The provisions for bad loans are drawn proportionally based on the results of risk classifications on assets as well as the repaying abilities of debtors', the retrievals of principal & interest, the reasonable value of mortgaged or collateral security, the support from guarantors and the internal credit management of the Bank. At the end of the reporting period, the balance of provisions for bad loans was RMB 2,455,190 thousand (including 25,310 thousand depreciation provision for collateralized assets)

(3) The top ten loan-granted customers

At the end of the reporting period, the Bank's top ten loan-granted customers are as follows: China Petroleum and Chemical Group Corporation, China Trust Real Estate Company, Beijing Municipal Telecommunication Corporation of China Telecommunication Corporation, Beijing Baojiaheng Infrastructure Investment Corporation, Beijing Sunny Real Estate Comprehensive Developing Corporation, State Power Developing Co., Ltd., Beijing Capital Highway Development Co., Ltd., Shenhua Group Co., Ltd., Beijing Chengzhong Building Real Estate Co., Ltd. and Shanghai Municipal Zhabei District State-owned Assets Investment Corporation.

(4). Provisions for interest receivable and other receivable

At the end of the reporting period, the balance of the provisions for bad debts of the Bank was RMB 18.10 million.

(5) Interest-subsidized loan

At the end of the reporting period, there was no interest-subsidized loan by the Bank.

(6) Loans restructuring

At the end of the reporting period, the balance of the restructured loans was RMB 1,109,230 thousand, including RMB 184,530 thousand overdue.

(7)Average balance and interest rate of main types of loans on a monthly basis

	<u>Average Balance (In RMB 00 Million)</u>	<u>Average Annual Interest Rate</u>
Short term loans	740.79	5.63%
Medium and long term loans	171.69	5.70%
Corporate deposits	1,151.20	1.74%
Savings deposits	95.59	1.42%

(8) Material treasury bonds investment

At the end of the reporting period, the treasury bonds with big values held by the Bank were as follows:

(In RMB 0'000)

<u>Types of treasury bonds</u>	<u>Par value</u>	<u>Annual interest rate</u>	<u>Due date (year)</u>
696 treasury bond	140,914	11.83	2006 年
896 treasury bond	14,000	8.56	2003 年
9704 treasury bond	28,900	9.78	2007 年
98 special treasury bond	104,288	6.80	2005 年
99 treasury bond 11	20,000	3.32	2004 年
2000 treasury bond 01	20,000	2.90	2007 年
01 treasury bond 01	20,000	2.82	2011
01 treasury bond 02	82,000	2.88	2004
01 treasury bond 04	145,000	4.69	2016
01 treasury bond 05	10,000	3.71	2008
01 treasury bond 06	55,000	3.36	2006
01 treasury bond 09	24,000	2.77	2011
01 treasury bond 13	50,000	2.86	2006
2002 registered treasury bond 02	13,000	2.22	2007
2002 registered treasury bond05	170,000	2.90	2032
2002 registered treasury bond 06	10,000	2.00	2009
2002 registered treasury bond 07	25,000	1.90	2005
2002 registered treasury bond 08	45,000	1.91	2003
2002 registered treasury bond 12	30,000	2.30	2005
2002 registered treasury bond 15	47,500	2.93	2009
2002 registered treasury bond 16	40,000	2.30	2004
Total	1,094,602		

(9) Balances of off-balance-sheet items with possible significant influences on financial situation and operating performance

At the end of the reporting period, major off-balance-sheet items of the Bank are in the following:

(In RMB
'000)

<u>Off-balance-sheet items</u>	<u>At the End of 2002</u>	<u>At the End of 2001</u>
Bank acceptance bills	18,040,365	12,104,947
Letters of guarantee issued	1,901,421	1,307,341
Outbound letters of credit	183,628	1,119,009
Letters of credit from foreign countries	1,377,504	111,621

Export payment receivable from L/C	803	51,061
Interest accrued	489,629	313,763
Leasing commitments	1,135,784	785,117
Corporate credit lines	20,929,002	2,308,256
Private credit lines	2,640	7,140

Leasing commitments were set to account the rents to be paid by the Bank for leasing offices and equipment for business purposes, and the valid period of leasing contract is often 5 to 10 years.

(10) Overdue loans

There were no overdue loans at the end of the reporting period.

(11) The non-performing assets and the corresponding measures

Within the reporting period, the Bank made greater efforts to supervise, clear, withdraw and reduce the non-performing assets. Calculated according to the 'Five Categories', at the end of the reporting period, the non-performing loan rate reduced to 2.04%.

Within the reporting period, the Bank mainly adopted the measures as follows:

A. Basically setting up independent management system for loan examination and approval and strengthening the general controlling ability; B. carrying out dynamic control for the non-performing assets, early warning, strictly monitoring and controlling the non-performing loan's increasing quantity; C. carrying out the reporting system when the non-performing loan occurs so as to find it out beforehand and deal with it beforehand, seizing the chance for collecting the non-performing loan; D. carrying out the strict system finding out the responsibility for the new non-performing loan and strengthening the deterrent force for punishing the deeds for violating laws and disciplines so as to raise the creditors' senses for responsibilities and risks so as to establish the good credit culture; E. perfecting the work for loan risks' classifications, setting up the principles for the classifications in details and strengthening the risk management for the loans; F. setting up the information system for the risks management; G. carrying out various activities for the staff trainings, strengthening the creditors' senses for risk protection, raising the professional skills and comprehensive quality and setting up a staff team with high quality.

In 2003, the Bank will continuously carry out and improve the original effective management experiences, adopting the measures as follows and strictly controlling the credit risks: A. further optimizing the credit organization management system, and improving the overall structure for the independent examination and approval system; B. integrating every management system and strengthening the system construction to operate the whole business process with system management; C. combining with the examination work after granting a loan to further strengthen the work for the credit risk classifications; D. further strengthening the monitoring function, standardizing the examination's process, enlarging the examination's scope, reinforcing the examination and punishment power and bringing the supervision and examination into full play; E. reinforcing the supervisions for the large-scale credit funds and the loan situation of the group customers to avoid the concentrated risks for the credit; F. further improving the comprehensive system for the credit management and using the advanced technological methods of electronics and network communication, etc. to control the overall situations of the whole bank's credit business, the enterprises' operation trends and the changing situations in the market.

(12) Risks possibly with great impacts on the Bank and counter measures

In order to effectively prevent, handle and solve all sorts of risks in the process of operation, the Bank actively adjusted its credit risks management system. Based on the national economic strategies and industrial policies after China's access to WTO as well as its position in the target market, the Bank made out the credit policy with

Differentiated Management & Directional Credit as guideline. The Bank set up an authorization management system that measured the risks according to the percentage of high quality clients, scale of business, assets quality, management level and profitability. It established a professional, technology-oriented credit examination and approval management system independent of administration interference, so that the entire credit process went with decision-makings driven by the value and risk management. It implemented management on credit procedures standardization and gradually standardized the operation procedures and risk monitoring measures of credit business. The Bank made deep analyses on macro-economy, industrial policies and situation, adopted forecasting system for credit risks and guided the credit direction. It monitored, forecasted and managed stock assets dynamically and thoroughly to prevent non-performing assets from appearing. It formed a professional post-credit inspection team to effectively expose the hidden credit risks by checking professionally, occasionally and constrainedly and adopting corresponding punishments. The Bank realized the risks control over the whole process of credit by improving and implementing the rules on Credit Lines Policies, Authorization Management, Risk Forecasting, Pre-credit Investigation, Professional Evaluation, Dynamic Monitoring and Post-credit Examination. It diversified the assets services to lower the bank's credit risks; improved the comprehensive qualifications of credit managers to avoid actively the ethnical risks and cultivate a professional team adapting to the risk management of modern commercial bank.

(13) Completeness, Reasonableness and effectiveness of the Internal Control System

Since the establishment of the Bank, according to the requirements of the laws and regulations of "Commercial Bank Law", "Penalties for Illegal Actions in the Banking Industry" and "the Guiding Principles for Strengthening the Inner Control in the Financial Institutions", etc. , one set of rather perfect inner control system has been gradually formed. As the business scale is developing, the service varieties are increasing and the requirements for management are being raised, the Bank's inner control systems have been continuously being improved, involving the positions' establishment, functions' definition, business management regulations, operation flow, decision-making examination and approval process, new products promotion process, business risk evaluation, authorization management, computer system risk control, position qualification, compelled vocations and security and guard work, etc. playing active roles in the aspects of strengthening the legal person system, improving the organization structure and controlling the financial risks, etc. and representing the good completeness, rationality and effectiveness.

5 Changes and impacts of the operating environment and macro-policies, and statutes

According to "the Announcement of Reducing Business Tax Rate in the Banking and Assurance Industries" (finance and tax No. 21 [2001], issued by Finance Ministry and State Tax General Bureau, from 2001 on, the banking and assurance business tax rate will be reduced from 8% to 5% within 3 years. Comparing with the last year, in the reporting period, the Bank's business tax rate was reduced by 1%, with the business tax being reduced by RMB 47.79 million and profits after tax increased RMB 32.02 million

According to " the announcement of reducing the deposit and loan interest rates" (bank document No. 48 [2002]), issued by the People's Bank of China, from February 21, 2002, the RMB deposit and loan interest rates of the banking institutions' are respectively reduced by 0.25% and 0.50%. The interest adjustment made the banks' margin reduced by 0.25%. The Bank has overcome the negative effects caused by this unfavorable factor and maintained stable increase in income through enlarging the business scale, improving the assets' liability composition and speeding up the business innovation.

From January 1, 2002, the Bank carried out "The Banking Enterprises' Accounting System" (finance document No. 49 [2001], issued by the Ministry of Finance. According to the regulation, in which "the accounting should be based on the accounting on the accrual basis" in the article 7 of this regulation, the Bank carried out the accounting on

the accrual basis for the discount interest income in the accounting period, namely made the accounting in accordance with the maturity value of the discounted bill, currently holding time and suitable interest rate and counted as the discount's current profits and losses. As the accounting method changed, comparing with the original accounting method, the discount interest income was reduced by RMB130 million in the accounting period. (after taking out the affection of the income tax). See the annotation of the accounting report in the "tenth chapter's financial report" in this report for details.

As the Bank has been carrying out the "Enterprises Accounting System" (Accounting document No. 25 [2002]) and "The fifth standard answer released in the information of companies emitting public securities: the financial statement differences and their releasing, respectively made by the domestic and international accounting standards" (securities supervision and accounting document No. 60 [2001] since January 1, 2001. "The Banking Enterprises' Accounting System" and "the Enterprises' Accounting System" are basically the same in the main aspects. The Bank's accounting forms relating to the accounting calculation at home and abroad have been completely on all fours.

6. Auditors' opinions

CMBC's financial report in 2002 were audited by PricewaterhouseCoopers Zhong Tian Limited, registered accountant Zhou zhonghui and Ma yongni signed and produced the NO. 294th Standard Unqualified Auditors' Report. (2003) According to the international auditing standards, PricewaterhouseCoopers China Limited audited financial supplementary statement in 2002 of CMBC which was worked out in accordance with international financial report standard, and issued unqualified auditors' reports.

7. Main measures to be taken in the new financial Year

In 2003, the Bank will strive to carry through various resolutions of Board of Directors and phase target of the five-year plan. We will comprehensively promote the ability of fundamental management, business expansion and the employee's value; we will insist on exploitation and enterprising, daring to create, build the special features of the Bank; we will persist in operating according to regulations, laying solid foundation, increasing our management level and operational efficiency; we will try our best to improve the overall competitiveness of the Bank to ascend a new step again.

(1) Comprehensively promote the ability of fundamental management

Starting from the management accountancy system and the customer information management system within the eight systems, we intend to improve the internal management level of the Bank and perfect the credit risks management system, introduce the credit manager system, perfect our current appraisal and audit system; we will establish the system of inspection after granting a loan, study to formulate the capital and credit rated method for medium and small enterprises; we will start to develop the system of performance management, education training, human resource management ; We will sufficiently distribute the function of audition and supervision, increase the frequency and strength of the supervising activities, and enhance the ability in preventing property risks and operating risks.

(2) Comprehensively improve the ability of business expansion.

We will increase the creativity extent of products and businesses, improve the market image of CMBC and set up the brand effect. Corporate business starts from new products such as " one-stop for bills ", " wealth account". The financial institution business starts from Apex Asset Management Studio. The individual business starts from personal house loan, bank cards and self-service banks, so that we can quickly enlarge market share. We will start to make preparations for the constructions of credit card center and funds trading center.

We will speed up the marketing system reform, realize concentrated operation and standard management. Corporation business will attempt to establish the sector marketing workshop and major customer manager workshop. We will strengthen to integrate profession marketing with that aimed at the high-quality clients. While we focus on the growing industry and important clients, we will strongly develop such clients as

medium and small enterprises. As to the financial institution business, we will adopt such strategy as “whole to whole”, develop strategic legal person clients, and vigorously absorb long-term deposits and medium-term deposits. We will quicken the system reform of personal banking, retail banking department will be established both in the head office and the branches. Those in the major cities should have specialized vice president, so that the Customer Service Center will be developed into a business department with independence in operation and accounting.

As to the management of non-performing assets, we will perfect the purchasing system in the non-performing assets, establish the compulsory transferring system for the property below second-class, and carry through such institutions that the head bank concentrate on managing and checking, increase management efficiency. We will continuously carry on the special representative system emphasizing on the direction and supervision of property checking work, create property checked method, and increase the efficiency of property checked.

We will increase scientificity and rationality of organizational construction. CMBC will continue to quicken the step of new organizational construction, practice and deepen the rating system of sub-branches, popularize typical experiences and successful development model, explore new management model of annexation, merger and dispatch management personnel to abroad, etc.

(3) Comprehensively promote the employees' value

Piercing into the “Golden Brand Manager” plan, we will formulate career development program for employees, announce six Golden Brand Managers from the fields of Corporate business, individual business, the financial institution business, credit and loan, assessment & audit, and accountancy. At the same time, we will create training methods, through the construction of a training base, long-distance education system, sending the staff for abroad training programs, we will intensify the training of management personnel and marketing personnel. Meanwhile, we will enhance the cooperation with top educational institutions to cultivate the new generation CBMC staffs. We will plot intensively the staff promotion system and the open employment system. We will adopt various ways to absorb the talents, perfect encouraging system, bring in the exterior competition system, adopt the employee eliminating system, and provide developing opportunities for employees. We will strengthen the construction of Party, the work of Labor Union and Communist Youth League, enrich the enterprise culture in order that we can cultivate the sense of rightness in the Bank, increase our coherence power, construct a sound, positive and upward atmosphere.

Through the effort of the whole staffs, we will emphasize on internal management and market expansion to improve the overall qualities of the staff, increase the Bank's core competition ability, and repay our shareholders with excellent achievements.

8、Routine work of the Board of Director

(1). The circumstance of the director meeting and resolution contents in the reported period.

1. The eighth session of the second Board of Directors of CMBC was held in Shenzhen from January 11 to 13, 2002. The meeting was attended by 16 directors and authorized representatives of directors, complying with the Company Law and the Constitutions of Company. It examined and passed the following resolutions: Resolution on investment project about CMBC becoming the shareholder of the China's Joint Bank Co., Ltd, Resolutions on the proposal of modifications of constitutions of CBMC, and passed the letter addressed to Mr. Liu Hongru who resigned from the Board of Directors due to busy work»
2. On March 10, 2002, the third temporary session of the second Board of Directors of CBMC was held in Beijing, The meeting was attended by 16 directors and authorized representatives of directors, complying with the Company Law and the Company

Constitutions, It examined and passed the following resolutions: Resolution on Transferring the Accrued Payment for Shareholder at the end of 1999 to Deposit Reserve for Bad Loans; Resolution on retroactive adjustment of accountancy& audit differences between domestic and international in 2001 and making up negative non-distributed profits with capital surplus, Resolution on verifying and destructing two bad loans, Resolution on the Convening of the first temporary Shareholders' Assembly for 2002.

- 3 On April 24, 2002, the ninth temporary session of the second Board of Directors of CBMC was held in Beijing, The meeting was attended by 16 directors and authorized representatives of directors, complying with the Company Law and the Company Constitutions, It examined and passed the following resolutions: Resolution on Profit Distribution Policies in 2001;Resolution on the Financial Settlement for 2001,Resolution on the Financial Budget in 2002, Resolution on the Financial Plan in 2001,Resolution on Work Report by the President of CMBC, Resolution on Annual Report(text) and Its summary of CMBC, Resolution on Continuing to appoint the Accountancy Firm, Resolution on Payment for the Accountancy Firm, Resolution on Adjustment of the Scale of Issuing Convertible Corporate Bonds of CMBC, Resolution on the Adjustment of the Specific Clause in Issuing Convertible Corporate Bonds of CMBC, Resolution on proposing the Board of Shareholders to Authorize the Board of the Director to Define the Increase Extent of Final Price of Convertible Bond According to the Concrete Market Conditions, Resolution on the Convening of the Shareholders' Assembly for 2001.
4. On March 22, 2002, the tenth session of the second Board of Directors of CBMC was held in Beijing, The meeting was attended by 16 directors and authorized representatives of directors, complying with the Company Law and the Constitutions of Company, It examined and passed the following resolutions: Resolution on the First Quarterly Report of CMBC, Resolution on the Proposal of Establishing Branches in Chengdu and Ningbo, Resolution on the Investment Plan for Decorating CMBC Mansion.
5. On June 14, 2002, the eleventh session of the second Board of Directors of CBMC was held by the way of telecommunication in Beijing, The meeting was attended by 16 directors (voting by telecommunication means), complying with the Corporate Law and the Articles of Association, it examined and passed the Resolutions on the Inspecting System of Modern Enterprise of Listed Company.
6. On August19,2002, the twelfth session of the second Board of Directors of CBMC was held in Beijing, The meeting was attended by 16 directors and authorized representatives of directors, complying with the Corporate Law and the Article of Association. It examined and passed the following revolutions: Resolution on Midterm Report (text) and Its Summary of CMBC; Resolution on Purchasing Business Building and Office Building in Xi'an Branch, Resolution on Establishing Affiliates of CMBC
7. On October 25, 2002, the third session of the second Board of Directors of CBMC was held in Beijing, The meeting was attended by 15 directors and authorized representatives of directors, one was absent, complying with the Corporate Law and the Articles of Association. It examined and passed the following revolutions: Resolution on the Third Quarterly Report of CMBC, Resolution on Proposing the Extraordinary Shareholders' Assembly's Approval to Prolong the Valid Period of Issuing Convertible Bond to One Year and Authorization of the Board of Director to Handle the Affairs; Resolution on the Adjustment of Issuing Condition of Convertible Corporate Bond. Resolution on profit distribution policies of listed securities of 2001

(2) The Board of Directors' execution of resolution passed by Shareholders' Assembly.

According to the Resolutions on Proposal of Profit Distribution in 2001,the Board distributed profits with a total of 2,249,322,889 shares at the end of 2001 as basis for distribution. For every 10 shares held, each shareholders of CMBC was allotted a cash dividend of RMB 0.70 and 1.5 shares due to stock split. The date of registration for

shareholders was June 18, 2002. The ex-dividend date was June 19, 2002, the date of listed for newly circulated bond was June 20, 2002, the granting date of cash dividends was June 26, 2002. The relevant announcement was published on June 26, 2002 in China Securities Journal, Shanghai Securities News and Securities Times. And these two plans were implemented respectively on June 19, 2002 and June 26, 2002. CMBC modified the documents according to the following resolutions: Resolution on the Adjustment of the Scale of Issuing Convertible Corporate Bonds of CMBC and Resolution on Adjustment of the Specific Clause in Issuing Convertible Corporate Bonds of CMBC, and submit the documents to the Securities Regulatory Commission timely.

The following resolutions which was passed by the first temporary meeting of shareholders' in 2002 have been adjusted and implemented in the annual report of 2001. Resolution on Transferring the Accrued Payment for Shareholder at the end of 1999 to Provision for Bad Loans; Resolution on Retroactive Adjustment of Accountancy & Audit Differences between Domestic and International in 2001 and Making up Negative Non-distributed Profits at the End of 2000 with Capital Surplus.

The Board of Directors has adjusted the plan of issuing convertible corporate bonds and correspondent documents according to the following resolutions: Resolution on Proposing the extraordinary shareholders' Assembly to approve to prolong the valid period of issuing convertible bond to one year and authorize the Board of Director to handle the concerned affairs. Resolution on the adjustment of Issuing Condition of Convertible Corporate Bond, and submitted them to the Securities Regulatory Commission timely.

9、 The proposal of the distribution of the profit of this time and the proposal of increased capital transferred by the capital surplus

According to Questions and Answers on Information Disclosure by Companies Issuing Public Securities No. 4 – Differences in Domestic & International Auditing Results for Financial Companies and Profit Distribution Benchmark (Zhengjian Kuaiji Zi [2001] No. 58), statutory surplus reserve and statutory welfare reserve should be drawn on the basis of domestic audited net profit, and dividend should be allotted on the basis of the smaller one of the two numbers of profit distributable domestic and international audited respectively.

The 2002's after-tax profit in the internal financial statement of the Bank is 891,540 thousand Yuan and that in the external financial statement is 884,626 thousand Yuan. According to the *Decision on the Profit Distribution Policy of 2002* which was passed at the ninth meeting of the second session of the Board of Directors of the Bank, we set the proposal of the distribution of annual profit of 2002 as follows: From the after-tax profit in the domestic financial statement, 10% was allocated for surplus reserve, which totals 89,154 thousand Rmb and 5% to welfare reserve, which totals 44,577 thousand Rmb. In the domestic financial statement, 780,054 thousand Rmb can be distributed among the shareholders and this number in the international financial statement is 1,011,407 Rmb. According to No. [2001] 58 Accounting Document of China Stock Regulatory Committee, the distribution will be made by the principle of choosing the lower one. In other words, the profit for distribution is from the distributable profit for the shareholders in the domestic accounting statement. A 20% stock dividend and a cash dividend of 0.60 Rmb per share (tax included) was declared, totaling 517,344,000 shares and 155,203,000 Rmb. The undistributed profit is transferred into next year's account. Based on the total stock of 2,586,721,322 shares at the end of 2002, a 10% stock dividend is authorized resulting in a total transfer of 258,672,000 shares..

The above proposal of profit distribution and the proposal of transfer from capital surplus to capital stock will be implemented in two months after being examined and approved by the shareholders' conference.

VIII. Report of the Board of Supervisors

1. About the sessions held by the Board of Supervisors

- (1) On April 9, 2002, the seventh meeting of the second session of the Board of Supervisors of the Bank was held in Beijing. Six members of the committee were present and one absent, making the meeting legally effective. The following were passed and approved at the meeting: Work Report of the Board of Supervisors in 2001; the exchange of views with PricewaterhouseCoopers China Limited and PricewaterhouseCoopers Zhongtian Limited on the Bank's auditing matters.
- (2) The eighth session of the second Board of Supervisors opened in Beijing on April 22, 2002. The meeting attended by six supervisors was legitimate and valid. It examined and passed the following proposal: the Annual Report 2001 and Its Summary of CMBC.
- (3) The ninth session of the second Board of Supervisors was held in Beijing on April 23, 2002. The meeting attended by six supervisors with one being absent was legitimate and valid. It examined and passed the Resolution of the First Quarterly Report of 2002 of CMBC.
- (4) On August 19, 2002, the tenth meeting of the second session of the Board of Supervisors was held in Beijing. Seven members of the committee were present at the meeting, making it legally effective. The following decisions were passed at the meeting: The Report and Abstract of the First Half of 2002 of CMBC.

2. The independent opinion of the Board of Supervisors on following issues:

One shareholders' assembly, two extraordinary shareholders' meetings, six sessions of the Board of Directors and two extraordinary meeting of the Board of Directors were convened in the period covered by this report. In accordance with the relevant provisions of the Company Law and Articles of Association of CMBC, the Board of Supervisors attended all the meetings of the Board of Directors as nonvoting delegates, to exercise the right of supervising over the directors and senior management of the Bank in their performance of duties, in the interest of the shareholders and staff members.

(1) Operations in compliance with the law

The bank has adhered to the law in its business operation and the procedure of its decision-making is in conformity with the Company Law and the Articles of Association. No breaches of the law and intentional acts of damaging the interests of the Bank have been found in the performance of duties by the directors, president and vice executive presidents of the bank.

(2) Truthfulness of financial statements

The financial statements of the Bank of 2001 truthfully reflected the financial status and business achievements of CMBC. The financial statements of this year have been audited by PricewaterhouseCoopers Zhongtian Limited and PricewaterhouseCoopers China Limited according to the domestic and international auditing standards respectively, and unqualified auditors' reports were both issued.

(3) Usage of raised funds

In the reporting period, the projects actually invested in by the Bank with the funds raised in the above-mentioned IPO coincided with the projects previously promised.

(4) Acquisition and sales of assets

The Bank made no major acquisition or sales of assets within the reporting period.

(5) About related transactions

All related transactions have been conducted fairly and rationally and no dealings damaging the interests of the listed company have been found.

(6) Internal control system

The internal control system of CMBC is complete, reasonable and effective.

(7) Of the auditors' report to the Bank

The relevant CPA firm issued no auditors' report with explanations, qualified auditors' report, or auditors' report with views withheld or adverse opinion.

(8) Execution of resolutions passed by the Shareholders' Assembly

The Board of Supervisors had no negative views about the reports and proposals presented by the Board of Directors to the Shareholders' Assembly for deliberations. With supervising the execution of resolutions, the Board of Supervisors believe that the Board of Directors is able to carefully carry out the resolutions passed by the Shareholders' Assembly.

IX. Major Issues

1. Major lawsuits and arbitration cases

The Bank was involved in no lawsuits or cases for arbitration with material influence on the operation during the reporting period. There were 18 cases accused by the Bank unjudged with a total of RMB 137,800,000 involved. The only case the Bank was as defendant involved RMB 4,490,000. The bank had no major lawsuit as defendant or arbitration case as claimee.

One is the published lawsuit by the Bank against Hubei Ecological and Agricultural Company Ltd. (the original Hubei Lantian Company Ltd.), Honghu Lantian Economic and Trade Development Company Ltd. and China Lantian Company (Headquarters) of the dispute over the 300,000,000 RMB's loan and the guarantee contract. The Bank has recovered 273,950,000 RMB. This lawsuit has been published in *China Security*, *Shanghai Security* and *Security Times* of November 2, 2002.

The second is the published dispute between the Bank and Hong Kong Changliang Company over credit letter in 1997. This lawsuit was settled at the mediation letter (No. 367, Economic Final, 1998) on December 2, 2002 by the Supreme People's Court. On December 12, 2002, the Hong Kong branch of Bank of China mailed to the Bank to discharge its liability to pay 8.10 million USD's to the other side.

The cases in which the Bank was the defendant include: the lawsuit launched by Yantai Zhongjiao Trade Company Ltd. and Yantai Zhongjiao Trade Company Ltd. at Shanghai First Intermediate People's Court against Ruiheng Guoji International Trade Company and Shanghai Branch of the Bank over other economic dispute, demanding the latter to bear joint liability of breach of contract by the former. Shanghai First Intermediary Court decided in 2000 that the lawsuit by the plaintiff is not tenable. The two plaintiffs appealed the case to Shanghai Supreme Court of People. In July 2000, Shanghai Supreme People's Court made the final judgment that Shanghai Branch of the Bank bears the joint liability of the part of the debt that was not paid by Ruiheng International Trade Company. The Bank made an appeal to the Supreme People's Court in June 2001. In the same month, the Supreme People's Court issued a notice of deferring performance to Shanghai Supreme People's Court. At present, Shanghai branch of the Bank is in an application of re-examination of the case by the Supreme People's Court.

2. Acquisition, merger or sale of assets

There was no acquisition, merger or sale of assets by the Bank in the period covered by the report.

3. Major related transactions

The Bank has no controlling related-party.

Within the period covered in the report, the major transaction of the Bank is the loan to the shareholders. All the loans have been granted in accordance with the laws and regulations concerned, the conditions of the Bank and the procedure of examination and approval and the capital and interest have been repaid, which had no negative effect on the operation and the financial conditions of the Bank.

The loans to the shareholders holding 5% or more than 5% of the shares of the Bank are as follows:

(In shares 0'000 for stock held, in RMB 0'000 for loans)

<u>Name of Shareholder</u>	<u>Stock held</u>	<u>Loan balance at the end of 2002</u>	<u>Loan balance at the end of 2001</u>
China Shipowners Association for Mutual Protection	16,445.00		5,000
China Small and Medium Enterprise Investment & Development Co., Ltd.	14,961.96	2,300	2,600
Total	31,406.96	2,300	7,600

Note: All the above loans are no more than the amount of investment made in the Bank by the loan receivers.

4. Major contracts and their implementation

In the reporting period the Bank had no assets of other companies placed in its custody or assets contracted in, nor had its assets placed in the custody of other companies or contracted out. It had no major guarantee, and held on no lease of other company's assets, nor did its assets put out to lease. And it entrusted no cash assets to others for management.

5. Major guarantees:

By the end of the period covered in this report, the Bank has provided guarantees for the loans made by China Chemical Industry Import and Export Corp. (Headquarters), Guanjie (Fujian) Electronic Corp. Ltd. and Shenzhen Zhongxing Communication Limited Company at China's Bank of Import and Export. The guarantee letter we issued for financing involves a total amount of 544 million Yuan. There was no delay or lawsuit for this guarantee.

6. Promises made by the Bank

According to the Resolution on Transfer from Payable to Shareholders at Year-end of 1999 to Provision for Bad Loan passed by the first Extraordinary Shareholders' Meeting in 2002, CMBC had converted the payable to shareholders at the end of 1999 with a total of RMB 159,440 thousand to provision for bad debts. Payable to shareholders was the undistributed net profit of the Bank realized in and before 1999. According to the Resolution on the Proposal of Bearing the Non-performing Assets Risk Occurred before December 31, 1999 by Original Shareholders passed by the shareholders' assembly of 2000, the losses occurred in the business operations before the date of December 31, 1999 were assumed by original shareholders of the Bank.

7. Appointment and dismiss of CPA firms by the Bank

According to the resolution passed by the shareholders' assembly, the Bank continued the appointment of PricewaterhouseCoopers China Limited (PWC) as auditing firm for the annual financial statements of CMBC worked out complying with international accounting standards. PricewaterhouseCoopers ZhongTian Co., Ltd., a partner with PWC in China, was appointed as of old the auditor of the annual financial statements worked out based on domestic accounting standards.

The fees paid to the CPA firms were shown as follows:

(In RMB 0'000)

<u>Expenses</u>	<u>Year of 2002</u>	<u>Year of 2001</u>
Financial auditing expenses	571.1	233.3
Other expenses	0	0
Total	571.1	233.3

Note: The audit cost in 2002 includes that for the audit of the annual financial and accounting statement, the audit of the capital verification and the audit of the convertible company bond (the cost of the last was three million Yuan)

PricewaterhouseCoopers China Limited (PWC) has provided service for the Bank for seven years and PricewaterhouseCoopers ZhongTian Co., Ltd for three years.

8. Punishment on the Bank, the Board of Directors and Directors

Within the reporting period, the Bank, the Board of Directors and Directors received no checkup, administration punishment or notice criticism by China Securities Regulatory Commission, nor public condemning by Shanghai Securities Exchange.

9. Other important issues

The case of West Office of Shanghai Branch has been published by the Bank in *China Security*, *Shanghai Security* and *Security Times* of February 25, 2002. Now, the police have frozen and sealed up some of the bribes and Shanghai Second Intermediate People's Court is now holding pleas over the case. The Bank shall make effective measures to reduce the loss to minimum.

X. Financial Statements

The financial statements of CMBC in 2001 has been audited by PricewaterhouseCoopers Zhongtian Co., Ltd. and PricewaterhouseCoopers China Limited according to domestic and international auditing standards respectively, and unqualified auditors' report were both issued.

1. Auditors' report
2. Financial statements (Including Balance Sheet, Income Statement, Statement for Profit Distribution and Statement of Cash Flows)
3. Notes to the financial statements

All the above contents can be seen in Appendix 1.

XI. Index of Documents for Reference

1. The sealed accounting statement with the signatures of legal representative, person in charge of accounting work and the person in charge of accounting organization.

2. The originals of the auditors' reports sealed by CPAs firms and with the signatures and seals of the CPAs;
3. The full text of the annual report signed by the Chairman of the Board of Directors of the Bank;
4. All the originals of the documents and public announcements disclosed in the reporting period in China Securities Journal, Shanghai Securities News and Securities Times;
5. Articles of Association of the Bank.

XII. The Appendixes

Appendix 1: Financial Statements

Appendix 2: Supplementary Financial Statements

Appendix 3: Report on the Completeness, Reasonableness and Effectiveness of Internal Control System of China Minsheng Banking Corporation Limited

Appendix 4: Auditors' Report on Internal Control of China Minsheng Banking Corporation Limited

Jing Shuping
Chairman of the Board
China Minsheng Banking Corporation Limited
January 25, 2003

Report of the independent accountants

To the Shareholders of
China Minsheng Banking Corporation Limited

We have audited the balance sheet of China Minsheng Banking Corporation Limited (as "the Bank") as of 31 December 2002 and the related statements of income, and of cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with the Independent Auditing Standards for Certified Public Accountants of the People's Republic of China (as the "PRC"). Our audit included such tests of accounting records and such other auditing procedures we considered necessary and appropriate to the Bank's circumstances.

In our opinion, the financial statements referred to above comply with the Accounting Standards for Business Enterprises, the Business Enterprises Accounting System and the Financial Institutions Accounting System of the PRC, and present fairly, in all material aspects, the financial position of the Bank as of 31 December 2002, the results of its operation and its cash flows for the year then ended. The accounting policies have been applied on a consistent basis.

PricewaterhouseCoopers Zhong Tian
Certified Public Accountants Co. Ltd.

Certified Public Accountants

Zhou Zhonghui Ma Yingni

24 Jan 2003

BALANCE SHEETS
AS OF 31 DECEMBER 2002 AND 2001
(Reported in '000 RMB unless otherwise specified)

Assets	Notes V	As of 31 December	
		2002	2001
Current Assets:			
Cash on and in bank	1	543,923	319,216
Deposits in the Central Bank	2	37,678,987	14,062,123
Due from banks	3	19,576,221	14,066,039
Lending to banks	5	3,303,847	4,781,991
Lending to financial institutions	6	4,403,722	4,679,710
Short-term loans	7	70,140,618	42,467,629
Receivable from negotiation of L/C bills	8	513,371	395,507
Accrued interest	9	708,614	483,017
Other receivables, net	10	199,072	141,254
Bills discounted	11	25,147,868	18,469,528
Short-term investments	12	4,865,626	528,561
Entrusted loans and investments		4,852,688	736,554
Securities purchased under repurchase agreements	13	14,396,832	6,369,254
Current portion of long-term investments	14	1,942,767	1,419,224
Total current assets		<u>188,274,156</u>	<u>108,919,627</u>
Long-term Assets:			
Medium-term & long-term loans	15	29,711,811	10,202,531
Overdue loans	16	1,587,532	556,862
Doubtful loans	17	1,470,680	1,470,680
Bad loans	18	73,058	1,539
Less: Provision for loan losses	19	(2,455,193)	(1,908,500)
Long-term bonds investments	21	25,260,696	17,381,969
Long-term stocks investments	22	50,000	-
Fixed assets		1,681,789	1,329,687
Less: accumulated depreciation		(351,105)	(257,438)
Fixed assets, net	23	1,330,684	1,072,249
Construction in progress	24	775,965	712,003
Total long-term assets		<u>57,506,574</u>	<u>29,489,333</u>
Intangible and Other Assets:			
Intangible assets		6,354	2,731
Long-term amortization charges	25	261,864	233,781
Disposal of Pledged assets		231,905	252,948
Total Intangible and other assets		<u>500,123</u>	<u>489,460</u>
Total assets		<u>246,280,853</u>	<u>138,898,420</u>

The following notes form an integral part of these financial statements.

BALANCE SHEETS
AS OF 31 DECEMBER 2002 AND 2001(Continued)
(Reported in '000 RMB unless otherwise specified)

Liabilities and Shareholders' Equity	Note V	As of 31 December	
		2002	2001
Current Liabilities			
Short-term deposits	26	134,770,629	77,248,311
Short-term savings deposits	27	12,560,953	7,219,097
Financial deposits		1,618,604	617,476
Borrowing from the Central Bank		-	560,000
Due to banks	28	36,312,124	23,252,273
Borrowings from inter-banks		1,269,868	120,000
Securities sold under repurchase agreements	29	8,983,128	2,235,776
Outward remittance		544,376	250,384
Inward remittance and temporary deposits		1,413,729	278,913
Entrusted funds		4,852,688	736,554
Short-term guarantee deposits	35	11,896,508	7,526,333
Interests payable	30	722,894	474,664
Salaries payable		81,769	73,879
Staff welfare payable		14,485	6,641
Taxes payable	31	250,619	221,721
Other payables	32	2,297,002	929,452
Dividends payables		155,423	-
Accrued expenses		16,017	12,737
Total current liabilities		<u>217,760,814</u>	<u>121,764,306</u>
Long-term Liabilities			
Long-term deposits	33	21,421,689	10,867,694
Long term saving deposits	34	1,049,005	614,127
Long-term guarantee deposits	35	45,535	227,485
Total long-term liabilities		<u>22,516,229</u>	<u>11,709,306</u>
Total liabilities		<u>240,277,043</u>	<u>133,473,612</u>
Shareholders' Equity			
Capital stock	36	2,586,721	2,249,323
Capital surplus	38	2,532,123	2,532,123
Surplus reserve	39	263,005	129,274
Including: Welfare reserve		109,214	64,637
Retained earnings	37	624,851	517,096
Currency translation variances		(2,890)	(2,913)
Total shareholders' equity		<u>6,003,810</u>	<u>5,424,903</u>
Total liabilities and shareholders' equity		<u><u>246,280,853</u></u>	<u><u>138,898,420</u></u>

The following notes form an integral part of these financial statements.

**STATEMENTS OF INCOME AND INCOME APPROPRIATION
FOR THE YEAR ENDED 31 DECEMBER 2002 AND 2001**

(Reported in '000 RMB unless otherwise specified)

Items	Notes V	2002	2001
1. Operating Income		7,213,677	5,119,828
Interest income	40	4,626,453	3,205,865
Inter-bank income	41	1,217,374	1,034,022
Fee and commission income		89,814	69,965
Foreign exchange income		64,055	38,983
Investment income	42	1,186,343	729,162
Other operating income		29,638	41,831
2. Operating Expenses		(5,687,653)	(4,000,893)
Interest expenses	40	(2,165,306)	(1,391,070)
Inter-bank expenses	41	(903,526)	(669,104)
Fee and commission expenses		(21,695)	(20,840)
Operating expenses		(1,764,915)	(1,197,224)
Other operating expenses	43	(832,211)	(722,655)
3. Business Tax & Surcharges	44	<u>(310,625)</u>	<u>(238,151)</u>
4. Operating Profit		1,215,399	880,784
		14,029	27,684
Add: Non-operating income		27,684	36,093
Less: Non-operating expenses		<u>(10,400)</u>	<u>(8,122)</u>
5. Total Profit		1,219,028	900,346
Less: Income tax expenses		<u>(327,488)</u>	<u>(253,976)</u>
6. Net Profit		<u>891,540</u>	<u>646,370</u>
Add: Undistributed profit at the beginning of year		517,096	(355,463)
Add: Transfer from capital surplus		<u>-</u>	<u>701,685</u>
7. Net Attributable Profit		1,408,636	992,592
Less: Appropriation to surplus reserves	37	(89,154)	(64,637)
Appropriation to welfare reserves	37	<u>(44,577)</u>	<u>(64,637)</u>
8. Net Profit Attributable to Shareholders		1,274,905	863,318
Less: Dividends payable	37	(312,656)	(346,222)
Less: Dividends payable converted to stocks	37	<u>(337,398)</u>	<u>-</u>
9. Retained Earnings		<u>624,851</u>	<u>517,096</u>

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2002
(Reported in '000 RMB unless otherwise specified)

Items	Amounts
1. Cash flows from operating activities	
Collection of medium-term & long-term loans	4, 520, 928
Net demand deposits received	37, 748, 725
Received from other deposits	171, 538, 823
Received from entrusted investments, net	4, 116, 134
Due to banks, net	13, 059, 851
Received from financial institutions, net	7, 337, 220
Interests received	5, 792, 720
Fees and commissions income	89, 814
Cash received from other operating activities	125, 055
Sub-total of cash inflows	244, 329, 270
Increase in medium-term & long-term loans	-24, 030, 208
Increase in short-term loans, net	-35, 272, 723
Entrusted fund granted, net	-4, 116, 134
Cash paid for the principals of deposits other than demand deposits	-127, 469, 614
General deposits reserve, net	-4, 412, 443
Due from banks, net	1, 778, 463
Lending to other financial institutions, net	-10, 133, 446
Interests paid	-2, 820, 602
Fee and commission paid	-21, 695
Cash paid to and for employees	-846, 156
Income tax paid	-318, 384
Other tax paid	-290, 831
Cash paid for other operating activities	-995, 714
Sub-total of cash outflows	-208, 949, 487
Net cash flows from operating activities	35, 379, 783
2. Cash flows from investing activities	
Cash received from investments	7, 653, 538
Cash received from interests on bonds	975, 080
Cash received from disposal of fixed assets, intangible assets and other long-term assets	19, 745
Sub-total of cash inflows	8, 648, 363
Purchase of fixed assets, intangible assets and other long-term assets	-639, 109
Cash paid for investments in stocks	-17, 756
Cash paid for investments in bonds	-16, 496, 098
Sub-total of cash outflows	-17, 152, 963
Net cash flows from investing activities	-8, 504, 600
3. Cash flows from financing activities	
Cash payments for distribution for dividends or profits	-157, 453
Net cash flows from financing activities	-157, 453
4. Effects of changes on foreign exchange rate	23
5. Net increase in cash and cash equivalents	26, 717, 753

The following notes form an integral part of these financial statements.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2002(Continued)
(Reported in '000 RMB unless otherwise specified)

Supplemental Information	Amounts
1. Reconciliation of net profit to cash flows from operating activities:	
Net profit	891,540
Add: Provision for doubtful and bad debt written off	11,715
Provision for loan losses	546,693
Depreciation of fixed assets	136,615
Amortization of intangible assets	515
Long term amortization charge	63,030
Loss on disposal of fixed assets, intangible assets and other long term assets (less: gains)	4,516
Loss on investments (less: gains)	(1,186,343)
Decrease in operating receivables (less: increase)	(71,738,581)
Increase in operating payables (less: decrease)	106,650,083
Net cash flows from operating activities	35,379,783
2. Investing and financing activities that do not involve in Cash Receipts and Payments	
	-
3. Net increase in cash and cash equivalents: (Note VI.4)	
Cash(end of the year)	543,923
Less: Cash, beginning of the year	(319,236)
Add: Cash equivalents, end of the year	42,128,601
Less: Cash equivalents, beginning of the year	(15,635,535)
Net increase in cash and cash equivalents	26,717,753

The following notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
(Reported in '000 RMB unless otherwise specified)

I Brief introduction of the Bank

China Minsheng Banking Corporation Limited (hereinafter referred to as “the Bank”) is a joint stock national commercial bank established on 7 February 1996, approved by the State Council of the People’s Republic of China and by the People’s Bank of China. The Bank issued 350,000,000 shares of common stock on the domestic A-share market in 2000. The above stock was listed and traded in Shanghai Securities in the same year.

By the end of December 2001, the Bank has established 12 Branches in Beijing, Shanghai, Guangzhou, Shenzhen, Wuhai, Dalian, Nanjing, Hangzhou, Chongqing, Xi’an, Jinan, Fuzhou, Ningbo and Taiyuan and two sub-branches in Shijiazhuang and Taiyuan.

The principal activities of the Bank are deposit-taking; granting of short-term, medium-term & long-term loans; provision of on-shore and off-shore settlement services, bills discounted; issuance of financial bonds; acting as agent on issuing, cashing and underwriting of government bonds; purchase and sale of government bonds; inter-banks borrowing and lending; purchase and sale of foreign currencies; provision of letter of credit and letter of guarantee services; acting as agent on collection and payment, acting as insurance agent, provision of safe deposit boxes, provision of credit card business; provision of reputation investigation services, consulting services, testimony services and other activities approved by the People’s Bank of China.

II Basis of preparation

The financial Statement have been prepared in accordance with the Accounting Standards for Business Enterprises and the Financial Institutions Accounting System issued by the Ministry of Finance of the People’s Republic of China.

The disclosure of the notes to the financial statements have also followed the Special Rules for the Preparation and Presentation of the Notes to Financial Statements of Commercial Banks set out in Item No.2 of Information Disclosure Regulations for Public Listed Companies issued by the Chinese Securities Regulatory Commission.

III Principal accounting policies

1 Accounting year

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

2 Reporting currencies

The Bank’s reporting currency is RMB and the money unit in the report is in '000 RMB

3 Accounting principals and basis of valuation

The Bank maintains its accounting records on an accrual basis. Assets are recorded at cost. For depreciation of assets, provision for depreciation of assets should be made accordingly.

4 Foreign currencies

In respect of foreign currency operations, transactions are recorded by separate accounting books denominated in foreign currencies. During the year end closing of accounts, all the balances of foreign currency books are translated into US dollars based on the exchange rate stipulated by the People’s Bank of China for the closing and consolidated in the financial statements denominated in US dollars. The balance of US dollar statements are then translated into the base currency and consolidated with the balance of RMB books in the overall financial statements. Exchange differences hence arising are dealt with in the profit and loss account.

Paid-in capital contributed in foreign currencies is credit to paid-in capital at the official exchange rate prevailing at the contribution date. All the capital and liability items in the Balance Sheet are recorded based on the exchange rate stipulated by People's Bank of China on the reporting day or the cross rate approved by the state. Except for retained earnings, shareholders' equity is all recorded based on the exchange rate stipulated by People's Bank of China on the day business occurs. The item of retained earnings is confirmed by the amount in the profit distribution sheet after currency translation. Exchange differences arising from difference exchange rates (contribution dates and reporting dates) are recorded in the currency translation variance account.

5 Cash and cash equivalents

Cash refers to the cash in treasury and the bank deposits that are immediately payable on call; while cash equivalents refer to the investments that can be easily converted to a known amount of cash with a holding period less than 90 days and with a minimal risk of value variance, including the reserve placement at the Central Bank, inter-banks deposits on demand, time deposits with a maturity of less than 90 days and short-term bonds investment with a holding period less than 90 days.

6 Allowance for bad and doubtful debts

The Bank adopted the method of allowance for bad and doubtful debts.

Since the conservative reorganization policy is adopted on the interests on loans and loans to banks, the Bank didn't establish allowance for interests receivable on loans and interests receivable on inter-banks; for interests on investment in bonds. the Bank didn't establish allowance for loan losses because of its nature of business. For other items, allowance should be established according to the analysis of the recoverability of the accounts receivable,

Allowance for loan losses is charged to the income statement of the year. When there is objective evidence that the accounts receivable is uncollectible, the loan loss incurred is first offset against the provision booked previously before the net loss is written off and charged directly to the income statement of the year. Those account receivables that have been recognized as loan losses and written off accordingly, can be written back to loss loan provision account at the previous write off amount when recovered.

7 Discount and accounting method for discount

Discount mainly includes discount for clients with commercial acceptance bills which have been accepted already but not mature; for the purpose of capital management of the Bank, rediscount under repurchase agreement of clients' bills in the central bank, rediscount under repurchase agreement of clients' bills in other financial institutions and also trans-discount bills without recourse from other financial institutions.

The discount is calculated on the basis of the maturity value of the discounting bill. The difference between the maturity value and the amount paid for the discounting bill is taken as the discounting interests. On the day of Balance Sheet, the discounting interest from that day to the maturity day of the discounting bill is deferred, and the difference between the maturity value of the discounting bill and the deferred discounting interest income is recorded in Balance Sheet. .

8 Loans classification

(1) Short-term, medium-term and long-term loans

The loans are classified by maturity. Those loans maturing with maturity within one year (including one year) are classified as short-term loans while loans with maturity exceeding one year are classified as medium term and long term loans.

IV Principal accounting policies (Continued)

(2) Overdue loans

Overdue loans refer to any loans which fail to repay when the term (including the extension period) specified in the contract due date; or forced advance as a result of inadequate deposit balance in the client's account when the acceptor fails to pay due discounting bill; or forced advance as a result of overdue acceptance bill; or forced advance resulted by off balance sheet businesses such as letter of Credit and letter of Guarantee. These advances are all treated as overdue loans from the date the advances are made.

(3) Doubtful loans

Doubtful loans refer to any loans that have been overdue for more than one year.

(4) Loss loans

The following lists out the basis on which the loss loans are confirmed

A The borrower is bankrupt or closed by law while the loan is still not recoverable after debt collection;

B The borrower is dead or is declared to be dead or missing according to the General Principals of the civil law of the People's Republic of China while the loan is still not recoverable from the liquidation of its asset or legacy;

C The loan can not be paid wholly or in part, or the loan is not recoverable even after the insurance compensation as a result of the borrower being suffered from major natural disaster or accident and not being able to claim compensation from insurance policy;

D The borrower and the guarantor have completely stopped their operating activities and have been withdrawn from its business license, though they haven't been bankrupted or closed. The loans are still not recoverable after legal liquidation procedures.

E When the borrower is published for offending the law, its assets cannot meet its obligations and there are no other undertakers. The loan is still not recoverable even after debt collection.

F The Bank resorts to law when the borrower and guarantor are unable to repaid the due loans, while they have no property to carry out the court enforcement and there are no loans recoverable even after the court enforcement;

G When the borrower is unable to repaid the due loans, the Bank records the fair value of the collateral acquired by law, deducting the take-over expenses. The amount in excess of the principal and interests of the loan is still recoverable even after debt collection.

H When the applicant and guarantor are unable to repaid the advance resulting from letter of credit, discounting bill and letter of guarantee, etc, for the reasons of A~G above, the amount cannot be collected even after debt collection.

I Net losses beared on the bank due to forgery, imposture or fraudulence of credit cards .

J The amount of students' loans that can not be collected after legal disposal of the guaranty and execution of recourse after the guarantor within the valid recourse period after the due of the loans.

K The loans written-off specially approved by the State Council.

(5) Interest-accrued loan and non-accrual loan.

Loans are placed on non-accrual status if principal or interest is past due 90 days or more and the bank ceases to accrue interest for the loan. But before the due day, it is recorded as interest-accrued loan.

9 Provision for loan losses

Provision for loan losses is provided against the principal of doubtful loans.

Provision for loan losses consists of short-term loans, discounted commercial bills, inward and outward documentary bills, medium-term & Long-term loans, overdue loans, doubtful loans, bad loans, problem due from banks and loans to financial institutions, etc.

The Bank established the provision for loan losses after analyzing the recoverability of each loan and estimating the probable loan losses at the end of the year. The provision of loan losses is established proportionately according to factors of assets risk classification, borrower's repayment ability and repayment records, valuation of collateral, guarantor's support and the Bank's internal credit management. The calculation result in excess of the the balance of Provision for Loan Losses is charged into the income statement of current accounting period.

Provision for loan losses is charged into the income statement of current accounting year. When the loans written off are collected, the Bank transfers back the write-offs.

No provision is made for entrusted loans.

10 Accounting for short-term investment

All the short-term investments by the Bank are investments in short-term bonds. Short-term investments in bonds are recorded at the cost of investment, excluding the due but uncollected interests. Interests received during the holding period, excluding those which should be charged into interests receivable, should be charged against the cost of investment and be accounted for investment income when the investments is sold or due. Investment at the end of the year is stated at the lower of the cost and the market value.

11 Accounting for long-term investment in bonds

The long-term bond investment is recorded at the purchase cost after the deduction of surcharges such as commission to broker, taxation and fees, and of the interest accrued from the bond issue date or last coupon date to the purchase date. The premium (or discount) paid for the long-term bond investment is amortized using straight-line method for the bond's holding period.

Interest income is booked when it is payable. For the bond investment that pays off the principal and interest upon maturity, the uncollected interest income is shown as long term bond investment--interest receivable in the "long term bond investment" account; When bond interests are paid periodically, the uncollected interests at the balance sheet date are shown in the "interests receivable".

12 Accounting for long-term investment in stocks

Long-term investment in stocks has special approval from the People's Bank of China. The cost of the investment is recorded at the original cost. As the bank has no control, or collaborated control or material influence on the invested company, the record of long-term investment in stocks adopts the cost method. The investment yielding is recognized when the invested company announces allocation of profit or cash dividends.

13 Impairment reserve of long term investment

As the market price continually declines or business situation deteriorates, the long-term investment is impaired and will not be recovered in the near future. The balance is charged to the impairment reserve of long-term investment.

14 Accounting for fixed assets and depreciation

Fixed assets refer to the buildings, operation equipments and transportation vehicles with a useful life more than 1 year, as well as those materials that can be used for over 2 years and unit cost of more than 2000 Yuan but are not belonging to major operation equipments.

Fixed assets are stated at original cost when purchased or newly built. Depreciation of fixed assets is provided using the straight-line method over their estimated useful life, taking into account their estimated residual value of 3% of cost.

The estimated useful lives are as follows:

Buildings	15-35 years
Operation Equipment (including machinery, office equipment, and electronic equipment)	3-11 years
Transportation vehicles	4-6 years

Total depreciation of fixed assets is provided when the fixed assets can no longer generate income. Depreciation of fixed assets is provided when its economic capacity is diminishing.

15 Accounting for construction in progress

Construction in progress refers to the capital assets that are being built or installed. They are recorded at the costs. Total costs include construction cost and other direct expenses, original cost of equipment, installation expenses, and also cover the interest expenses and foreign exchange gains or losses involved in the fund raising for the project before it is completed and delivered for use. Construction in progress will be transferred to fixed assets upon its completion and delivery for use.

Depreciation of construction in progress is provided when:

- Construction in progress that has been suspended for a long time and will not restart in 3 years as anticipated.
- Construction in progress that has dropped behind in capacity or technology and the economic benefits associated with the construction is uncertain.

16 Accounting for long-term amortization charges

Long-term amortization charges refer to those expenses that have been expended, but the term of amortization is over 1 year (exclusive of 1 year).

Long-term amortization charges include organization cost, decoration cost for operational buildings and other capital expenditures. They are stated at the cost.

Decoration cost for operational buildings are written down using the straight-line method over the lease term or the anticipated useful life.

When the construction in progress does not bring economic benefits to the business enterprises in future accounting periods, the un-amortized balance are transferred to the income statement.

In respect to the expenses incurred during the preparation period of the un-operated branches and sub-branches, the Bank accumulates those expenses in long-term amortization charges and records them to operating expenses account in the first formally operating month.

- 17** Collateralized assets and provision for depreciation
Collateralized assets are recorded at the price of the principal of the loan for paying debts and confirmed interest. And once recorded, the record value is adjusted to the amount that can be collected. And the bank will check on a regular basis on the collectable amount of the collateralized assets and establish a provision for depreciation for possible loan losses; and subsequent recoveries are credited to the provision for depreciation. And the collateralized assets are recognized in the year-end at the lower value of the book value and the collectable amount. The collectable amount refers to the higher of the net selling price of the collateralized assets and the estimated future cash amount from the disposal of the assets when it is discarded as useless.
- 18** **Employee social welfare**
The Bank participates in the social welfare system regulated by the government, including pension and medical insurance, housing accumulation fund, etc. Other than the above, the bank currently has no additional commitment on employee welfare. In accordance with the relevant regulations, the insurance premium and the housing accumulation fund is funded on certain percentage of the salary under the upper limit and paid to labor and social welfare organizations. The corresponding expenses are charged to the operation expenses to which they relate.
- 19** **Accounting policy for the recognition of income**
Interests on loans (including loans to banks and to financial institutions), are recognized as income periodically in accordance with the contractual interest rate. Other interest income is recognized on an accrual basis.

Loans are placed on non-accrual status if loans are past due (including the extension period) 90 days or more, or when the interests on loans are past due 90 days (inclusive). The interest therein booked is not charged in the income statement of the year but is treated as an off balance sheet item. For those interests receivable already booked but not collected within 90 days upon loan maturity or interest due date, they are to be offset against the interest income in the income statement and be treated as an off balance sheet item. The compounding interests receivable but not collected is not recorded in the profit and loss account and is also treated as an off balance sheet item. The interests receivable off balance sheet are recognized as interest income when the interests are actually collected.

Other income is accounted on an accrual basis.
- 20** **Accounting policy for expense recognition**
Interest expenses on demand deposits are settled quarterly. Interests on time deposits, demand & time savings deposits are accrued quarterly in accordance with the deposit amount, interest of deposit certificate and statutory deposit interest rate.

Other income is accounted on an accrual basis.
- 21** **Accounting Policy for the valuation of securities purchased under repurchase agreement and securities sold under repurchased agreement and for the recognition of the related income**
Securities purchased under repurchase agreement and securities sold under repurchased agreement are stated at historical cost. The income and expenses are recognized on an accrual basis. The transaction objects of securities purchased under repurchase agreement or sold under repurchased agreement includes: loans, bonds and discounted bills.
- 22** **Income tax**
The income tax adopts accrual tax method.
- 23** **Preparation of consolidated financial statements**
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These financial statements are consolidated financial statements and are prepared on the financial statements of Beijing headquarters, Shanghai branch, Guangzhou branch and other branches. The major transactions within the group and the related balances have been offset.

24 Derivative financial instruments

The Bank engages in foreign exchange derivatives transactions, which include currency forwards and swaps. Currency forwards represent commitments to purchase foreign and domestic currency on a future date (normally within one year) at a specific price established by the People's Bank of China. Currency swaps are commitments to exchange one set of cash flows for another, and result in an economic exchange derivative with its customers, the Bank enters into similar foreign exchange contracts with other banks approved by the People's Bank of China. The Bank earns commission income by providing such foreign services to its customers.

25 Business of consignment

On entrustment, the Bank provides custody and trustee services to the clients (as the consigner) who provides capital and bear the risks. According to the objects, usage, amounts, terms and interest rates decided by the clients, the bank (as the consignee) will act as an agent in issuing or putting out, supervising, using and helping taking back the loans or investments.

The capital provided by the consigner is recorded at the amount received in the item of entrusted capital. During the bank's activities upon the will of the consigner in loaning and investing the actual amount of capital is recorded in the items of entrusted loan and investment and for the services provided, the bank will not pay money in advance and will only collect the commission charge which is calculated based on the accounting policy for the recognition of income .

26 Adjustment on accounting policy and the consequent result

For more prudent recognition of the interest of discounting bill, the Bank made some adjustments on its accounting policy in the year 2002-- " the difference between the maturity value and the amount paid for the discounting bill is taken as the discounting interests, and charged to the income statement of the year" is now changed to "the interest is calculated and charged to the income statement of the year on the basis of the maturity value of the discounting bill, the carrying time of the bill and the applicable interest rate.

Because of this change of accounting method, the Bank reduced its net interest income of the 2002 year, resulting in a amount of 130,250,770Rm, net of tax. Due to the change of accounting information system, it is impracticable to quantify the corresponding adjustment on interest income in the previous years. The bank will charge this adjusting number to incomes and expenses adopting the future application method.

IV Taxes

Category	Rate	Basis for calculating taxes
Operating tax	6%*	*Operating income less inter-bank income and investment income
Income tax	33%	Income subject to withholding tax
Other		Pay accordingly

* According to the "Notice on amendment of Finance and Insurance Operating Tax" Cai Shui Zi[2001] No.21 issued by the Ministry of Finance and the State Administration of Taxation, the operating tax has changed to 6% since Jan.1, 2002.(7% in 2001)

V Notes to major items

1 Cash on and in bank

As of 31 Dec. 2002

As of 31 Dec. 2002

Cash	517,638	317,036
Bank deposits	26,285	2,200
Total	<u>543,923</u>	<u>319,236</u>

2 Deposits in the Central Bank

The Bank is required to maintain a general deposit reserve with the Central Bank, including 6% for local currency deposits and 2% for foreign currencies deposits. As a result of these restriction, deposits with the Central Bank at 31 December included:

	As of 31 Dec. 2002	As of 31 Dec. 2002
General deposit reserve	9,848,652	5,436,209
Supplemental deposit reserve	<u>27,830,335</u>	<u>8,625,914</u>
Total	<u>37,678,987</u>	<u>14,062,123</u>

3 Due from banks

	As of 31 Dec. 2002	As of 31 Dec. 2002
Demand deposits with overseas banks	906,6	179,701
Demand deposits with domestic banks	10,240,8	6,255,048
Demand deposits with domestic banks		
-Due within three months	3,150,7	574,872
- Due over three months	<u>5,277,9</u>	<u>7,056,418</u>
Total	<u>19,576,</u>	<u>14,066,039</u>

4 Cash and cash equivalents

Cash and cash equivalents in the statement of cash flows are comprised of the following:

	As of 31 Dec. 2002	As of 31 Dec. 2002
Cash and bank deposits	<u>543,923</u>	<u>319,236</u>
Maturing within 3 months with domestic and foreign banks	14,298,266	7,009,621
Supplemental deposit reserve with the Central Bank	<u>27,830,335</u>	<u>8,625,914</u>
Sub-total	<u>42,128,601</u>	<u>15,635,535</u>

VI Notes to major items (Continued)

Total	42,672,524	15,954,771
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5 Lending to banks

	As of 31 Dec. 2002	As of 31 Dec. 2002
Lending to domestic Chinese banks	1,293,571	858,000
Lending to overseas banks	<u>2,010,276</u>	<u>3,923,991</u>
Total	<u>3,303,847</u>	<u>4,781,991</u>

The balance of lending to domestic banks includes overdue loans to Hainan Development Banks of RMB 20,000,000, which has been shifted to bad loans in 2002.

6 Lending to financial institutions

As of 31 Dec. 2002	As of 31 Dec. 2002
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Lending to domestic financial institutions	4,403,722	4,679,710
Including: overdue loans	170,849	171,950

As of 31 December 2002, the balance of lending to financial institutions includes USD 3,866,781 equivalent to RMB32,006,506 (RMB 33,108,800 in 2001) granted to Guangdong International Trust and Investment Company and RMB 9,032,613 (RMB 9,032,613 in 2001) granted to Guangdong International Leasing Company respectively in 1997. The above companies have legally declared bankruptcy. The creditor's rights claimed by the Bank have been confirmed by the liquidation group with the amounts of USD 3,940,257, (equivalent to RMB 32,616,265) and RMB 9,800,000, respectively. The Bank has made provision for loan losses for those doubtful loans and incorporated in total loan loss provision.

7 Short-term loans

	As of 31 Dec. 2002	As of 31 Dec. 2002
Guaranteed loans	43,809,935	25,465,357
Collateral loans	5,008,132	3,678,124
Pledged loans	6,640,043	6,673,241
Credit loans	14,682,508	6,650,907
Total	<u>70,140,618</u>	<u>42,467,629</u>

Loans to shareholders with 5% or more stock of the Bank as of 31 December 2002 reached RMB 23,000,000 (RMB 76,000,000 in 2001. See Note VIII - *Related Party Relationships and Transactions*).

8 Inward and Outward Documentary Bills

	As of 31 Dec. 2002	As of 31 Dec. 2002
Inward documentary bills	211,562	137,509
Outward documentary bills	301,809	257,998
Total	<u>513,371</u>	<u>395,507</u>

Overdue inward and outward documentary bills are incorporated in overdue loans and doubtful loans.

VI Notes to major items (Continued)

9 Accrued interest, net

	As of 31 Dec. 2002	As of 31 Dec. 2002
Accrued interest on loans	162,642	93,002
Accrued interest on loans to banks	64,715	110,757
Accrued interest on investment in bonds	446,894	272,404
Other interest receivables	34,363	6,854
Total	708,614	483,017
Less: Allowance for loan losses	-	(3,304)
Net	<u>483,017</u>	<u>358,368</u>

In 31 December 2001, there was no accrued interest on receivables associated with shareholders with 5% and more stock of the Bank. (none in 2000).

10 Other receivables, net

	As of 31 Dec. 2002	As of 31 Dec. 2002
Advance and deposit for rent	62,520	66,649
Advance payment for equipment	43,715	-
Receivables from lawsuit	17,653	11,344
Petty Cash	343	11,228
Housing advance for employees	23,688	8,580
Advance renovation	25,835	3,882
Others	43,419	45,957
Total	<u>217,173</u>	<u>147,640</u>
Less: bad debt provision	(18,101)	(6,386)
Net	<u>199,072</u>	<u>141,254</u>

Maturity Schedule	As of 31 Dec. 2002			As of 31 Dec. 2002		
	Amount	%	Allowance for loan losses	Amount	%	Allowance for loan losses
Within 1 year	156,132	71%	(1,467)	125,608	85%	(3,597)
1 to 2 year	43,171	20%	(7,274)	15,842	11%	(1,443)
2 to 3 year	12,050	6%	(9,133)	1,684	1%	(659)
Over 3 year	5,820	3%	(227)	4,506	3%	(687)
Total	<u>217,173</u>	<u>100%</u>	<u>(18,101)</u>	<u>147,640</u>	<u>100%</u>	<u>(6,386)</u>

No receivables from shareholders with 5% or more stock of the Bank on 31 December 2002 (none in 2001)

11 Bills discounted

	As of 31 Dec. 2002	As of 31 Dec. 2002
Discount:		
Bank acceptance bills discounted	10,253,438	13,992,018
Commercial acceptance bills discounted	1,850,708	2,241,470
Rediscount:		
Bank acceptance bills rediscounted	11,086,057	2,235,776
Commercial acceptance bills rediscounted	1,957,475	-
Foreign exchange bills purchased	190	264
Total	<u>25,147,868</u>	<u>18,469,528</u>

VI Notes to major items (Continued)

12 Short-term investments

As of 31 Dec. 2002 As of 31 Dec. 2002

Government bonds	437,338	50,000
Financial bonds	568,288	478,561
Other bonds	3,860,000	-
	<hr/>	<hr/>
Total	4,865,626	528,561
	<hr/>	<hr/>

13 Securities purchased under repurchase agreement

	As of 31 Dec. 2002	As of 31 Dec. 2002
Rediscounted bills	11,675,363	-
Loans purchased under repurchase agreement	654,000	-
Bonds purchased under repurchase agreement	2,067,469	6,369,254
	<hr/>	<hr/>
Total	14,396,832	6,369,254
	<hr/>	<hr/>

14 Long-term investment due within one year

As of 31 Dec. 2002						
Including:						
Type of Bonds	Date Due	Interest Rate (%)	Balance	Face value	Premium/Discount	Accrued Interest
Government bonds	2003	2.46-8.56	1,012,688	971,499	4,647	36,542
Financial bonds	2003	1.54-7.32	783,883	782,562	1,321	-
Other bonds	2003	7.25-8.60	146,196	146,218	(22)	-
			<hr/>	<hr/>	<hr/>	<hr/>
Total			1,942,767	1,900,279	5,946	36,542
			<hr/>	<hr/>	<hr/>	<hr/>

As of 31 Dec. 2002						
Including:						
Type of Bonds	Date Due	Interest Rate (%)	Balance	Face value	Premium/Discount	Accrued Interest
Government bonds	2002	2.55 - 4.72	963,847	901,068	-	62,779
Financial bonds	2002	2.40 - 4.59	438,815	432,268	(276)	6,823
Other bonds	2002	2.59	16,562	16,554	(37)	45
			<hr/>	<hr/>	<hr/>	<hr/>
Total			1,419,224	1,349,890	(313)	69,647
			<hr/>	<hr/>	<hr/>	<hr/>

VI Notes to major items (Continued)**15 Medium-term and long-term loans**

	As of 31 Dec. 2002	As of 31 Dec. 2002
Guaranteed loan	17,682,362	5,295,902
Collateral loan	4,963,075	3,622,995
Pledged loan	4,453,054	148,985
Credit loan	2,613,320	1,134,649
Total	<u>29,711,811</u>	<u>10,202,531</u>

At 31 December 2002, the outstanding medium-term and long-term loans had no loans to shareholders with 5% or more stock of the Bank (none in 2001)

16 Overdue loans

	As of 31 Dec. 2002	As of 31 Dec. 2002
Guaranteed loan	739,723	230,008
Collateral loan	696,194	317,091
Pledged loan	116,572	9,063
Credit loan	35,043	700
Total	<u>1,587,532</u>	<u>556,862</u>

At 31 December 2002, the outstanding overdue loans had no loans to shareholders with 5% or more stock of the Bank (none in 2001)

17 Doubtful loans

	Total	As of 31 Dec. 2002			
		1/2-1 year	1-2 years	2-3 years	Over 3years
Guaranteed loan	718,653	89,725	350,502	86,655	191,771
Collateral loan	403,551	179,600	117,398	17,176	89,377
Pledged loan	26,634	-	26,634	-	-
Credit loan	23,183	-	-	23,183	-
Total	<u>1,172,021</u>	<u>269,325</u>	<u>494,534</u>	<u>127,014</u>	<u>281,148</u>

	Total	As of 31 Dec. 2002*			
		1/2-1 year	1-2 years	2-3 years	Over 3 years
Guaranteed loan	817,756	348,993	231,855	195,288	41,620
Collateral loan	382,463	138,425	95,037	83,368	65,633
Pledged loan	114,745	25,890	84,293	4,562	-
Credit loan	155,716	26,500	76,738	52,478	-
Total	<u>1,470,680</u>	<u>539,808</u>	<u>487,923</u>	<u>335,696</u>	<u>107,253</u>

At 31 December 2001, the outstanding doubtful loans had no loans to shareholders with 5% or more stock the Bank (none in 2001)

Notes to major items (Continued)

18 Loss loans		As of 31 Dec. 2002	As of 31 Dec. 2002
	Balance at the beginning of the year	1,539	-
	Transfer from other payables	71,519	57,431
	Written-off	-	(55,892)
	Balance at the end of the year	73,058	1,539

19 Provision for loss loans		As of 31 Dec. 2002	As of 31 Dec. 2001
	Balance at the beginning of the year	1,908,500	1,400,000
	Additions in General loan loss provision this year	546,693	564,392
	Written-off	-	(55,892)
	Balance at the end of the year	<u>2,455,193</u>	<u>1,908,500</u>

20 Interest –Accrued loan and non-interest accrued loan		As of 31 Dec. 2002	As of 31 Dec. 2002
	Interest –Accrued loan	99,605,607	52,832,098
	Non-interest accrued loan	3,079,433	1,867,143
	Total	<u>102,685,040</u>	<u>54,699,241</u>

21 Long-term investment in bonds		As of 31 Dec. 2002					
Bond type	Maturity Date	Annual interest rate (%)	Balance	Including: Denomination	Premium/Discount	Interest accrued	
Govern-ment bonds	2004-203	1.90					
	2	-11.83	13,508,338	13,252,230	192,526	63,582	
Financial bonds	2004-203	1.49 -					
	2	9.30	10,308,991	10,251,177	57,814	-	
Other bonds	2004-201	2.42 -					
	2	9.00	1,443,367	1,432,603	10,764	-	
Total			<u>25,260,696</u>	<u>24,936,010</u>	<u>261,104</u>	<u>63,582</u>	

21 Long-term investment in bonds		As of 31 Dec. 2002					
Bond type	Maturity Date	Annual interest rate (%)	Balance	Including: Denomination	Premium/Discount	Interest accrued	
Govern-ment bonds	2003-201	2.46 -11.83					
	6		11,713,529	11,431,805	197,139	84,585	
Financial bonds	2003-201	2.04 - 8.25					
	1		4,611,688	4,584,702	25,368	1,618	
Other bonds	2003-201	1.98- 8.60					
	1		1,056,752	1,026,712	5,687	24,353	
Total			<u>17,381,969</u>	<u>17,043,219</u>	<u>228,194</u>	<u>110,556</u>	

VI **Notes to major items (Continued)**
22 **Long-term investment in stocks**

Upon the approval of Yinfu Decision [2001] NO. 234 " Reply on the Establishment of China Yinlian Shareholding Company Ltd. By People's Bank of China" issued by People's Bank of China, the Bank invested 50,000,000 RMB in China Yinlian Shareholding Company Ltd. (hereafter referred to as "Yinlian ") (none in 2001), accounting for 3.029% of the registered capital of Yinlian.

23 **Fixed assets and accumulated depreciation**

	Buildings	Operational equipment	Transportat ion Vehicles	Total
Balance -				
at 1 Jan. 2002	731,242	479,518	118,927	1,329,687
Add: addition	198,377	212,498	8,436	419,311
Less: Disposal	-	(16,589)	(50,620)	(67,209)
Balance at Dec. 31, 2002	<u>929,619</u>	<u>675,427</u>	<u>76,743</u>	<u>1,681,789</u>
Accumulated depreciation				
Balance at 1 Jan. 2002	(60,604)	(148,617)	(48,217)	(257,438)
Add: addition	(23,956)	(104,384)	(8,275)	(136,615)
Less: Disposal	-	16,011	26,937	42,948
Balance at Dec. 31, 2001	<u>(84,560)</u>	<u>(236,990)</u>	<u>(29,555)</u>	<u>(351,105)</u>
Net book value				
Balance at Dec. 31, 2001	<u>845,059</u>	<u>438,437</u>	<u>47,188</u>	<u>1,330,684</u>
Balance at Dec. 31, 2000	<u>553,617</u>	<u>129,749</u>	<u>74,063</u>	<u>757,429</u>

At 31 December 2002, fixed assets had no fixed assets under operating or financing lease agreement.

VI Notes to major items (Continued)

24 Construction in progress

Project name	January 1, 2002	Additions this year	Converted into fixed assets	December 31, 2001	Source of capital	Completion %
China Misheng Banking Corp. Ltd. Building	509,372	74,220	-	583,592	Self-owned	85%
Hangnan Building	142,399	11,465	-	153,864	Self-owned	99%
Shanghai Xuhui real estate	10,000	-	-	10,000	Self-owned	70%
Jinyuan Building Basement	7,000	-	-	7,000	Self-owned	To be transferred
Operational office of Hunan Jiangnan subsidiary	22,923	1,283	(24,206)	-	Self-owned	transferred
Operational building of Dalian Xigang sub-branch	9,958	-	(9,958)	-	Self-owned	Transferred
Decoration project of office of Fuzhou east street sub-branch	5,083	7,383	(7,383)	5,083	Self-owned	To be transferred
Others	5,268	24,417	(13,259)	16,426	Self-owned	80%
Total	712,003	118,768	(54,806)	775,965		

The balance of projects under construction did not have capital interest expenditure (2000:nil)

VI Notes to major items (Continued)**25 Long-term amortization charges**

	Dec. 31, 2001	Additions this year	Transfer this year	Amortizat ion this year	December 31, 200 2
Decoration cost	174,474	81,575	-	(48,206)	207,843
Internet data network	27,267	-	(27,267)	-	-
Others *	32,040	36,805	-	(14,824)	54,021
Total	<u>233,781</u>	<u>118,380</u>	<u>(27,267)</u>	<u>(63,030)</u>	<u>261,864</u>

26 Short-term deposits

	As of 31 Dec. 2002	As of 31 Dec. 2002
State-owned enterprises	22,877,214	16,389,782
Non-state owned enterprises	16,940,840	10,731,158
JV co-operative and sovereign enterprises	8,494,605	4,270,106
Collectively owned enterprises	3,485,173	1,729,988
Others	28,418,879	14,068,344
Company deposit cards	18,025	86,923
Time deposits due within one-year	<u>54,535,893</u>	<u>29,972,010</u>
Total	<u>134,770,629</u>	<u>77,248,311</u>

27 Short-term saving deposits

	As of 31 Dec. 2002	As of 31 Dec. 2002
Saving demand deposits	5,517,358	2,833,818
Time saving deposits within one year	7,008,765	4,364,252
Demand-Time saving deposits	<u>34,830</u>	<u>21,027</u>
Total	<u>12,560,953</u>	<u>7,219,097</u>

28 Due to banks

	As of 31 Dec. 2002	As of 31 Dec. 2002
Demand deposits with domestic banks	33,461,851	22,364,037
Time deposits with domestic banks	2,168,674	888,236
deposits with banks abroad	<u>681,599</u>	<u>-</u>
Total	<u>36,312,124</u>	<u>23,252,273</u>

29 Securities sold under repurchase agreement

	As of 31 Dec. 2002	As of 31 Dec. 2002
Rediscounted bills financing	2,338,128	2,235,776
Loans purchased under repurchase agreement	4,485,000	-
Bonds purchased under repurchase agreement	2,160,000	-

Total	<u>8,983,128</u>	<u>2,235,776</u>
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30 Interests payable

At of 31 December 2002, the balance of interests payable was mainly deposits interest payable amounting to RMB 662,691,999 (RMB 444,807,979 in 2001)

VI Notes to major items (Continued)**31 Taxes payable**

	As of 31 Dec. 2002	As of 31 Dec. 2001
Business tax	84,706	84,572
Corporate income tax	144,773	135,669
Other	21,140	1,480
Total	<u>250,619</u>	<u>221,721</u>

32 Other payables

	As of 31 Dec. 2002	As of 31 Dec. 2001
Cashier order	761,400	443,854
Payables for securities agent	40,674	5,573
Payables for equipments	19,474	28,359
Accounts held as custodian	13,216	18,109
Accounts payable for operational buildings	45,109	16,412
Insurance payable for employees	17,426	13,771
Depository safe deposit	45,109	7,082
Payable renovation cost	9,390	6,132
Other	49,151	36,044
Total	<u>2,297,002</u>	<u>929,452</u>

At 31 December 2002, other payables had no payables to shareholders with 5% or more stock in the Bank. (None in 2001)

33 Long-term deposits

	As of 31 Dec. 2002	As of 31 Dec. 2001
Two years	752,341	475,388
Three years and more	20,669,348	10,392,306
Total	<u>21,421,689</u>	<u>10,867,694</u>

34 Long-term saving deposits

	As of 31 Dec. 2002	As of 31 Dec. 2001
Two years	531,363	385,111
Three years	389,261	169,161
Over five years	128,381	59,855
Total	<u>1,049,005</u>	<u>614,127</u>

VI Notes to major items (Continued)

35 Short-term and long-term margin deposits

	As of 31 Dec. 2002	As of 31 Dec.2001
Deposits for acceptance bills	8,898,717	6,076,249
Deposits for letter of guarantee	422,215	504,726
Deposits for credit business	747,304	492,802
Deposits for issuance of letters of credit	542,958	455,232
Deposit for foreign currency pledge loans	34,999	157,447
Deposit for quality bidding project	1,529	-
Others	1,287,260	65,833
Total	<u>11,942,043</u>	<u>7,753,818</u>

36 Capital stock

	As of 1 Jan. 2002	Transfer from capital surplus	As of 31 Dec. 2002
Non-floating shares:			
Founders' shares	1,794,323	269,148	2,063,471
Including: shares held by domestic legal entities	1,794,323	269,148	2,063,471
Floating shares:			
Common tradable shares traded in domestic market	<u>455,000</u>	<u>68,250</u>	<u>523,250</u>
Total shares	<u>2,249,323</u>	<u>337,398</u>	<u>2,586,721</u>

*According to the resolution of the annual Shareholders' Meeting held on 27 May 2002 on the profit distribution plan of 2001, a cash dividend of RMB 0.07 per share (including taxes) and a fifteen percent stock dividend with a par value of Rmb 1.00 per share was authorized for the total 2,249,322,889 shares. As a result, the total dividend amounts to 494,851,035 Rmb, with total cash dividend 157,452,602RMB and the transfer of stock dividend, 337,398,433RMB.

After the transfer of dividends on ordinary shares to capital stock, the total capital stock increased to 2,586,721,322 RMB(2001: 2,249,322,899RMB) and this has been validated by PricewaterhouseCoopers Decision (2002) No.86 " Transfer of dividends on ordinary shares to capital stock" issued by PricewaterhouseCoopers Zhong Tian Certified Public Accounts Co., Ltd.

37 Retained Earnings

Balance of Retained earnings on Jan.1, 2002	517,096
Add net profit of this year	891,540
Less cash dividends of 2001	(157,453)
Transferred capital stocks from dividends of common stocks	(337,398)
Appropriation to surplus reserve	- - (89,154)
Appropriation to welfare reserve	- - (44,577)
Dividends for 2002 suggested by BOD	(155,203)

Balance of Retained earnings on 31Dec, 2002

624,851

According to the decision of the Meeting of the Board of Directors on 24th, Jan,2003, the Bank allocated 10% of its profit after tax to a surplus reserve and 5% to a welfare reserve.

A cash dividend of RMB 0.06 per share (including taxes) amounting to a total dividend 155,203,279RMB was authorized for the total 2,586,721,322 shares on 31 Dec, 2002; a twenty percent stock dividend and a 10 percent stock split from capital surplus to capital stock are to be proposed.

The profit distribution plan as mentioned above is subjected to the approval of shareholders' meeting

*see Appendix 5, 36 for transfer of common stock dividends to shares and cash dividends distribution of 2001

38

Capital surplus

	As of 31Dec. 2002	As of 31 Dec. 2001
Capital stock premium	2,532,123	2,532,123

39

Surplus reserve

	Surplus reserve	Welfare reserve	Total
Balance at 1 January, 2002	64,637	64,637	129,274
Additions in 2001	89,154	44,577	133,731
Balance at 31 December 2002	<u>153,791</u>	<u>109,214</u>	<u>263,005</u>

*According to the decision by the Board of Directors, the Bank allocated 10% of its profit after tax to a surplus reserve and 5% to a welfare reserve. (2001: 10% each).

39

Interest income and expenses

	2002	2001
Interest income		
Interest on short-term loan	2,885,409	2,082,504
Interest on medium-term and long-term loan	985,988	369,062
Interest on bills discounted	702,072	698,668
Others	52,984	55,631
Total	<u>4,626,453</u>	<u>3,205,865</u>
Interest expense		
Interest on time deposits	1,519,823	899,942
Interest on demand deposits	511,233	358,386
Interest on time saving deposits	110,492	109,221
Interest on saving demand deposits	22,654	19,196
Others	1,104	4,325
Total	<u>2,165,306</u>	<u>1,391,070</u>

VI Notes to major items (Continued)**41 Income and expense from financial institutions**

	2002	2001
Income from financial institutions		
Interest on deposits with the Central bank	264,452	194,908
Interest on deposits with banks	158,379	67,481
Interest on loan to banks	394,027	503,837
Interests income on re-discounted bills	332,117	251,505
Others	68,399	16,291
Total	<u>1,217,374</u>	<u>1,034,022</u>
Expenses to financial institutions		
Interest expenses on borrowings from bank	264,452	194,908
Interest expenses on due to banks	158,379	67,481
Interest expenses on deposits with the Central bank	394,027	503,837
Interests expenses on re-discounted bills	332,117	251,505
Others	68,399	16,291
Total	<u>1,217,374</u>	<u>1,034,022</u>

Other income and other expense are mainly interests on securities purchased under repurchase agreement and securities sold under repurchase agreement.

42 Investment income

	2002	2001
Income from investment in long-term bonds	1,153,199	711,728
Income form investment in short-term bonds	33,144	17,434
Total	<u>1,186,343</u>	<u>729,162</u>

43 Other operating expenses

	2001	2000
Provision for loan losses	546,693	564,392
Depreciation of fixed assets	136,615	90,264
Allowance for loss loans	11,715	1,247
Others	137,188	66,752
Total	<u>832,211</u>	<u>722,655</u>

VI Notes to major items (Continued)

44 Business tax and surcharge

	2002	2001
Business tax	286,157	223,514
Urban maintenance and development tax	14,957	9,722
Education surcharge	7,355	4,915
others	<u>2,156</u>	<u>-</u>
Total	<u>310,625</u>	<u>238,151</u>

CHINA MINSHENG BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Reported in RMB'000 unless otherwise specified)

VII Balance sheet in different currencies

	RMB	US\$ IN RMB	HK\$ In RMB	JPY In RMB	Other currency In RMB	Total
Assets						
Cash and bank deposits	425,420	64,027	33,930	9,426	11,120	543,923
Due from central bank and other banks	54,692,135	1,465,774	540,325	508,817	48,157	57,255,208
Loans, net	122,575,869	2,969,538	250,606	13,120	81,953	125,891,086
Loans to banks and financial institutions, net	4,449,633	2,300,359	929,312	-	28,265	7,707,569
Investment	25,319,092	5,459,020	1,323,692	-	17,285	32,119,089
Other assets	20,487,911	2,095,817	175,223	3,676	1,351	22,763,978
Total assets	<u>227,950,060</u>	<u>14,354,535</u>	<u>3,253,088</u>	<u>535,039</u>	<u>188,131</u>	<u>246,280,853</u>
Liabilities						
Deposits	171,730,680	9,050,764	1,775,889	531,650	69,065	183,158,048
Due from banks	33,849,478	1,970,177	492,450	10	9	36,312,124
Other liabilities	17,929,387	2,491,150	369,576	6,290	10,468	20,806,871
Total liabilities	<u>223,509,545</u>	<u>13,512,091</u>	<u>2,637,915</u>	<u>537,950</u>	<u>79,542</u>	<u>240,277,043</u>
Net position of assets and liabilities	<u>4,440,515</u>	<u>842,444</u>	<u>615,173</u>	<u>(2,911)</u>	<u>108,589</u>	<u>6,003,810</u>

VIII Maturity date analysis

CHINA MINSHENG BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Reported in RMB'000 unless otherwise specified)

	Overdue	Pay down	1-3 months	3-12 months	1-5 years	Over 5years	Total
Assets							
Cash and bank deposits	-	543,923	-	-	-	-	543,923
Due from central bank and other banks	-	48,826,479	3,150,774	4,725,229	524,600	28,126	57,255,208
Loans, net	1,516,303	-	40,131,246	56,039,485	21,454,523	6,749,529	125,891,086
Loans to banks and financial institutions	170,849	-	5,412,094	1,819,263	305,363	-	7,707,569
Bond investment	-	1,827,120	833,176	4,148,096	12,660,154	12,650,543	32,119,089
Other assets	3,249	674,538	14,208,586	1,561,066	3,852,627	2,463,912	22,763,978
Total assets	1,690,401	51,872,060	63,735,876	68,293,139	38,797,267	21,892,110	246,280,853
Liabilities							
Deposits	-	110,495,496	37,851,297	22,799,517	1,165,337	10,846,401	183,158,048
Due to banks	-	34,061,851	1,266,796	462,743	520,734	-	36,312,124
Other liabilities	-	6,338,695	2,485,284	8,881,597	3,013,884	87,411	20,806,871
Total liabilities	-	150,896,042	41,603,377	32,143,857	4,699,955	10,933,812	240,277,043
Net liquidity gap	1,687,403	(99,023,982)	22,132,499	36,149,282	34,097,312	10,958,298	6,003,810

CHINA MINSHENG BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Reported in RMB'000 unless otherwise specified)

IX Related Party Relationships and Transactions

In 10,000 shares

1 Related Party Relationships

At present, the Bank has no related parties that control the Bank. Shareholders with 5% or more stock of the Bank are as follows:

Name of the related parties	Shares Held (in ten thousands)	Percentage
Sichuan New Hope Agri Business Co., Ltd.	20,634	7.98%
China Fanhai Industrial Co., Ltd.	19,435	7.51%
Oriental Group Co., Ltd.	19,435	7.51%
China Shipowners Association for Mutual Protection	16,445	6.36%
China medium and small enterprise investment and development Co., Ltd.	14,962	5.78%
Xiamen Fuxin Group Company	14,247	5.51%
China National Coal Industry Import and Export Group Company	13,455	5.20%

2 Outstanding loans to the related parties

Outstanding loans to the shareholders with 5% or more stock of the Bank are as follows:

	31 Dec. 2002	31 Dec. 2001
China medium and small Enterprise Investment and Development Co., Ltd.	23,000	26,000
China Shipowners Association for Mutual Protection	-	50,000
Total	<u>23,000</u>	<u>76,000</u>

At December 31 2002, the outstanding loans to other shareholders were as follows except for the above loans to shareholders,:

	31 Dec. 2002	31 Dec. 2001
Loans	<u>146,782</u>	<u>190,440</u>

CHINA MINSHENG BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Reported in RMB'000 unless otherwise specified)

X Segment information

Loans (including short-term, medium-term and long-term, overdue, doubtful and bad loans as well as inward and outward documentary bills and bills discounted, before less provision for loan losses) were as follows in terms of regions:

Region	31 Dec. 2002	31 Dec. 2000
Beijing	43,016,836	27,332,198
Shanghai	19,258,665	12,140,086
Shenzhen	14,002,581	9,693,766
Guangzhou	12,327,317	7,386,179
Wuhan	7,457,969	4,475,694
Taiyuan	5,555,217	2,702,568
Hangzhou	4,679,963	1,667,900
Nanjing	3,772,087	2,154,348
Chongqin	3,706,227	1,399,411
Shi jiazhuang	3,171,859	1,352,270
Dalian	3,130,183	1,623,918
Other region	8,267,375	1,635,938
Total	<u>128,346,279</u>	<u>73,564,276</u>

Loans (ditto) were as follows in terms of industry

Industry	31 Dec. 2002	31 Dec. 2001
Industry	39,960,938	18,659,744
Real estate and construction	23,586,053	8,904,889
Commerce and service	19,216,416	14,738,492
Communication and transportation	7,489,052	7,764,030
Finance	5,643,211	4,128,720
Private loans	5,249,199	4,055,617
Science and technology and environmental protection	3,894,584	3,528,132
Import and Export	2,422,317	3,920,650
agriculture	538,176	597,480
Public and Other	20,346,333	7,266,522
Total	<u>128,346,279</u>	<u>73,564,276</u>

Deposits (including short-term, long-term deposits, short-term, long-term saving deposits, Inward remittance and temporary deposits, short-term and long-term margin deposit) were as follows in terms of regions:

Region	31 Dec. 2001	31 Dec. 2000
Beijing	55,348,618	30,251,655
Shanghai	31,903,831	20,951,331
Shenzhen	21,331,260	13,620,243
Guangzhou	18,414,319	11,279,782
Wuhan	11,156,882	8,047,513

CHINA MINSHENG BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Reported in RMB'000 unless otherwise specified)

Taiyuan	7,583,746	4,268,726
Nanjing	7,262,392	4,208,521
Hangzhou	7,223,408	3,176,587
Chongqin	4,484,622	1,731,048
Shijazhuang	3,925,256	2,206,086
Dalian	3,370,100	1,945,277
Other region	11,153,614	2,295,191
Total	<u>183,158,048</u>	<u>103,981,960</u>

CHINA MINSHENG BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Reported in RMB'000 unless otherwise specified)

XI Contingency

At 31 December 2002 , the Bank had no contingency.

XII Capital commitment

The Bank's capital commitment is mainly related to the development of computer systems as illustrated below:

	As of 31 Dec. 2002	As of 31 Dec. 2002
Agreement without payment	260,448	243,657
Approval without agreement	241,010	496,081
	<u>501,458</u>	<u>739,738</u>

XIII Subsequent Events

The third extraordinary meeting of the second session of the Board of Directors on March 10, 2002 authorized the following proposals:

1. According to the decision on original shareholder assuming the risk of NPL before December 31, 1999. The Bank did not distribute its profit in 1999, but listed as payable items of shareholders. According to the rules of Chinese Securities Regulation Commission, the Bank decided to transfer payables to shareholders (RMB 159,442,888) to the provision for loan losses of 2000.

2. In order to make up the accumulated deficit at the beginning of 2001 caused by retroactive adjustment on provision for loan losses: the Bank, first, writes off the balance of the surplus reserve and welfare reserve amounting to RMB 148,232,238 (Note: the balance after retrospective adjustment on organization cost, is RMB 129,990,241); then, makes up the accumulated deficit with capital surplus of RMB 701,685,199.

The above proposal was approved in the first extraordinary Shareholders' Meeting held on April 10, 2002. The decision came into force that day and was announced the next day.

As the above decision has close relationship with the provision for loan losses of the year, the Bank listed the above items as "Subsequent Events " and made corresponding adjustment on relative accountant subject in order to reflect the relations between the above decision and other corresponding adjustment, the financial position at the balance sheet date and the change of shareholders' rights and interests caused by the above decision.

CHINA MINSHENG BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Reported in RMB'000 unless otherwise specified)

XIV Off balance sheet items

The balance of major off-balance-sheet items are as follows:

	As of 31 Dec. 2002	As of 31 Dec. 2002
Bank acceptance bill	18,040,365	12,104,947
Issuance of letter of guarantee	1,901,421	1,307,341
Outward letters of credit	3,016,867	1,119,009
Inward letter of credit	1,377,504	111,621
Export payment receivable from L/C	803	51,061
Interest accrued	489,629	313,763
Leasing commitment	1,135,784	785,117
Credit line for corporate	20,929,002	2,308,256
Credit line for individual	2,640	7,140

Leasing commitment mainly reflects the rent the Bank paid for the operation sites and equipment. The leasing period contract is generally five to ten years

At 31 December, 2001, the Bank's leasing commitment are as follows:

	Less than 1 y ear	1-5 years	Over 5 years	Total
Operation sites	222,000	646,734	265,113	1,133,847
Operation equipment	240	960	720	1,920
Other	17	-	-	17
Total	<u>222,257</u>	<u>647,694</u>	<u>265,833</u>	<u>1,135,784</u>

CHINA MINSHENG BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Reported in RMB'000 unless otherwise specified)

XV Foreign currency swaps and forwards

Foreign Currency swaps and forward are as follows:

	As of 31 Dec. 2002	As of 31 Dec. 2002
Foreign Currency swaps	-	10,784
Foreign Currency forwards	41,304	33,838

XVI Notes to other important events

The Bank has estimated the possible loss of Huangjin loan scandal and made special provision for loan losses.

XVII Accounts and comparative figures

Accounts and comparative figures in the financial statements have been re-classified to comply with "Business Enterprises Accounting System". In addition, the Bank adjusted related comparative figures for the change in accounting policy in 2001 and for the retrospective adjustment.

CHINA MINSHENG BANKING CORPORATION LIMITED

SUPPLEMENT INFORMATION

ANNEX I

PROVIDED BY THE MANAGEMENT 2001

(Reported in RMB'000 unless otherwise specified)

Reconciliation for the Discrepancy of Financial Statements

	Net profit
Balance of the financial statements prepared in accordance with the Financial Enterprises Accounting System.	<u>891,540</u>
Adjustments in accordance with International Accounting Standards	
Adjustment of start-up cost and others, net	23,067
Adjustments on Deferred tax	<u>(29,981)</u>
Balance after adjustment in accordance with International Accounting Standard.	<u><u>884,626</u></u>
	Net assets at the end of 2002
The balance of the financial statements in accordance with the Financial Enterprises Accounting System.	<u>6,003,810</u>
Adjustments made in accordance with International Accounting Standard:	
Profit distribution subject to approval of General Meeting	155,203
Deferred tax assets resulting from allowance for credit loss.	198,000
Unrealized gain on available-for-sale securities, net of tax	43,638
Others, net	<u>33,353</u>
The balance after adjustments in accordance with International Accounting Standard	<u><u>6,434,004</u></u>

CHINA MINSHENG BANKING CORPORATION LIMITED

SUPPLEMENT INFORMATION

ANNEX I

PROVIDED BY THE MANAGEMENT 2001

(Reported in RMB'000 unless otherwise specified)

Notes to Important Changes

Up to December 31, 2001, the items that increased by a big margin in 2000 were mainly loans to banks, short-term loans, bills discounted, medium-term and long-term loans, short-term deposits, short-term saving deposits, due to banks, long-term deposits, margin deposits and operation income and expense. The main reason are:

- (a) As the increasing numbers of branches, sub-branches, operation network and exploring opportunities of the capital market, deposits, lending businesses and due to other banks increased accordingly.
- (b) Because the Central Bank changed the discount policy, the businesses of bills discounted increased and loans from central banks increased correspondingly.
- (c) As time deposit of insurance company increased, the balance of long-term deposits increased accordingly.
- (d) Because deposits increased by a large margin, operating income and expenses considerably increase
- (e) The increase in leasing commitment is mainly because of the gradual expansion of the Bank's branches, the increase of portfolio, the progressive adjustment of the operational structure and other factors.

CHINA MINSHENG BANKING CORPORATION LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

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Report of the auditors

To the Shareholders of China Minsheng Banking Corporation Limited

We have audited the accompanying balance sheet of China Minsheng Banking Corporation Limited (the "Bank") as of 31 December 2002 and the related income and cash flow statements for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion the financial statements present fairly in all material respects the financial position of the Bank as of 31 December 2002 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

24 January 2003

CHINA MINSHENG BANKING CORPORATION LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2002

(All amounts expressed in Rmb'000 unless otherwise specified)

	Notes	2002	2001
Interest income	4	6,913,317	4,969,049
Interest expenses	4	<u>(3,068,832)</u>	<u>(2,060,174)</u>
Net interest income	4	3,844,485	2,908,875
Fee and commission income		89,814	69,965
Fee and commission expenses		<u>(21,695)</u>	<u>(20,840)</u>
Net fee and commission income		68,119	49,125
Other operating income	5	<u>224,575</u>	<u>82,068</u>
Operating income		4,137,179	3,040,068
Operating expenses	6	(2,348,391)	(1,618,530)
Provision for loan losses	12	<u>(546,693)</u>	<u>(564,392)</u>
Profit before tax		1,242,095	857,146
Income tax expense	7	<u>(357,469)</u>	<u>(249,133)</u>
Net profit		<u>884,626</u>	<u>608,013</u>
Basic earnings per share	8	<u>Rmb0.34</u>	<u>Rmb0.24</u>

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The following notes form an integral part of these financial statements.

CHINA MINSHENG BANKING CORPORATION LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2002

(All amounts expressed in Rmb'000 unless otherwise specified)

	Notes	2002	2001
ASSETS			
Cash and due from banks	9	20,120,144	14,385,275
Deposits with the Central Bank	10	37,678,987	14,062,123
Treasury bills		3,860,000	-
Securities purchased under resale agreements		14,396,832	6,369,254
Loans, net	12	133,598,655	81,117,477
Investment securities			
- Originated loans	13	12,236,951	7,906,787
- Available-for-sale	13	2,889,216	2,053,410
- Held-to-maturity	13	13,097,929	9,214,632
Accrued interest and other receivables		1,007,810	805,192
Fixed assets, net	14	2,314,492	1,958,827
Deferred tax assets, net	15	177,720	220,616
Other assets, net	16	292,280	291,819
TOTAL ASSETS		241,671,016	138,385,412
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Customers' deposits	17	184,776,652	104,599,436
Deposits from banks		36,312,124	23,252,273
Borrowings from the Central Bank and other banks	18	1,269,868	2,915,776
Securities sold under repurchase agreements		8,983,128	-
Other liabilities	19	3,895,240	1,937,340
Total Liabilities		235,237,012	132,704,825
Shareholders' Equity			
Capital stock		2,586,721	2,249,323
Capital surplus		2,532,123	2,532,123
Surplus reserve			
Statutory surplus reserve	20	153,791	64,637
Statutory welfare reserve	20	109,214	64,637
Retained earnings		1,011,407	755,363
Unrealised gain on available-for-sale investment securities, net of tax		43,638	17,417
Currency translation adjustment		(2,890)	(2,913)
Total Shareholders' Equity		6,434,004	5,680,587
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		241,671,016	138,385,412

On 24 January 2003, the Bank's Board of Directors authorized these financial statements for issue.

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The following notes form an integral part of these financial statements.

CHINA MINSHENG BANKING CORPORATION LIMITED

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2002**

(All amounts expressed in Rmb'000 unless otherwise specified)

	Notes	Capital Stock	Capital Surplus	Statutory Surplus Reserve	Statutory Welfare Reserve	Retained Earnings (Accumulated Deficit)	Unrealised Gain on Available-for-Sale Investments	Currency Translation Adjustment	Total
Balance at 1 January 2001		1,730,248	3,752,883	-	-	(238,282)	-	(2,884)	5,241,965
Arising in the year									
Stock split		519,075	(519,075)	-	-	-	-	-	-
Transfer from capital surplus		-	(701,685)	-	-	701,685	-	-	-
Transfer from payable to shareholders		-	-	-	-	159,443	-	-	159,443
Net profit		-	-	-	-	608,013	-	-	608,013
Appropriation to surplus reserve	20	-	-	64,637	-	(64,637)	-	-	-
Appropriation to welfare reserve	20	-	-	-	64,637	(64,637)	-	-	-
Unrealised gain on available-for-sale investments, net of tax		-	-	-	-	-	17,417	-	17,417
Distribution of dividends	21	-	-	-	-	(346,222)	-	-	(346,222)
Currency translation adjustment		-	-	-	-	-	-	(29)	(29)
Balance at 31 December 2001/ 1 January 2002		<u>2,249,323</u>	<u>2,532,123</u>	<u>64,637</u>	<u>64,637</u>	<u>755,363</u>	<u>17,417</u>	<u>(2,913)</u>	<u>5,680,587</u>
Arising in the year									
Net profit		-	-	-	-	884,626	-	-	884,626
Appropriation to surplus reserve	20	-	-	89,154	-	(89,154)	-	-	-
Appropriation to welfare reserve	20	-	-	-	44,577	(44,577)	-	-	-
Unrealised gain on available-for-sale investments, net of tax		-	-	-	-	-	26,221	-	26,221
Distribution of cash dividends	21	-	-	-	-	(157,453)	-	-	(157,453)
Stock dividend		337,398	-	-	-	(337,398)	-	-	-
Currency translation adjustment		-	-	-	-	-	-	23	23
Balance at 31 December 2002		<u>2,586,721</u>	<u>2,532,123</u>	<u>153,791</u>	<u>109,214</u>	<u>1,011,407</u>	<u>43,638</u>	<u>(2,890)</u>	<u>6,434,004</u>

The following notes form an integral part of these financial statements.

CHINA MINSHENG BANKING CORPORATION LIMITED

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2002**

(All amounts expressed in Rmb'000 unless otherwise specified)

	Notes	2002	2001
Cash flows from operating activities			
Profit before tax		1,242,095	857,146
Adjustments:			
Provision for credit losses	12	546,693	564,392
Provision for bad debt		11,715	1,247
Gain on sales of investment securities		(116,853)	-
Depreciation and amortisation		200,160	150,844
Loss on disposal of fixed assets		4,516	14,131
Net changes in:			
Time deposits over 3 months		1,778,463	(4,499,485)
Restricted deposits with the Central Bank over 3 months		(4,412,443)	(2,761,189)
Treasury bills		(3,860,000)	-
Securities purchased under resale agreements		(8,027,578)	(6,049,254)
Loans		(53,027,871)	(39,745,366)
Accrued interest and other receivables		(156,480)	(42,834)
Other assets		(461)	34,733
Customers' deposits		80,177,216	51,549,733
Deposits from banks		13,059,851	16,630,450
Borrowings from the Central Bank and other banks		(1,645,908)	(377,147)
Securities sold under repurchase agreements		8,983,128	(200,000)
Other liabilities		1,967,004	546,928
Payment of income tax		(318,384)	(254,903)
Net cash provided from operating activities		<u>36,404,863</u>	<u>16,419,426</u>
Cash flows from investing activities			
Cash received from sale and maturity of investment			
Securities		7,603,538	1,451,444
Cash received from disposal of fixed assets		19,745	-
Purchases of investment securities		(16,496,099)	(11,930,730)
Purchases of equity investments		(17,755)	-
Purchases of fixed assets and other assets		(639,109)	(1,120,106)
Net cash used in investing activities		<u>(9,529,680)</u>	<u>(11,599,392)</u>
Cash flows from financing activities			
Cash dividends paid		(157,453)	(346,222)
Net cash provided used in financing activities		<u>(157,453)</u>	<u>(346,222)</u>
Effect of changes on currency translation variances		<u>23</u>	<u>(29)</u>
Net increase in cash and cash equivalents		26,717,753	4,473,783
Cash and cash equivalents at beginning of year	11	<u>15,954,771</u>	<u>11,480,988</u>
Cash and cash equivalents at end of year	11	<u>42,672,524</u>	<u>15,954,771</u>
Supplemental disclosures of cash flow information			
Interest received		6,767,800	4,888,396
Interest paid		<u>(2,820,602)</u>	<u>(1,869,375)</u>

The following notes from an integral part of these financial statements.

CHINA MINSHENG BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2002

(All amounts expressed in Rmb'000 unless otherwise specified)

1 GENERAL INFORMATION AND PRINCIPAL ACTIVITIES

China Minsheng Banking Corporation Limited (the "Bank") is a joint stock national commercial bank whose establishment was approved by the State Council of the People's Republic of China ("PRC") and by the People's Bank of China (the "PBOC" or the "Central Bank"). It was established on 7 February 1996, with capital participation mainly from non-state owned enterprises. The Bank's common stock is listed on the PRC domestic A-share market.

The Bank provides a comprehensive range of commercial banking services in the PRC through one operation segment.

As of 31 December 2002, the Bank had 4,254 employees (2001: 3,094).

2 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

A Basis of presentation

These financial statements are prepared in accordance with International Financial Reporting Standards. The financial statements are prepared under the historical cost convention as modified by the revaluation of available-for-sale investment securities and all derivative contracts.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

The Bank adopted IAS 39 Financial Instruments: Recognition and Measurement in 2001. The financial effects of adopting IAS39 were reported in the previous year's financial statements.

B Foreign currency translation

The Bank's reporting currency is Renminbi ("Rmb"), the lawful currency of the PRC.

Foreign currency transactions are accounted for at the exchange rates prevailing on the date of the transactions. Gains and losses resulting from settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement at the exchange rates prevailing on settlement date and the balance sheet date, respectively.

CHINA MINSHENG BANKING CORPORATION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2002**

(All amounts expressed in Rmb'000 unless otherwise specified)

2 PRINCIPAL ACCOUNTING POLICIES (CONT'D)

C Derivative financial instruments

Derivative financial instruments including foreign currency forwards and swaps are initially recognised in the balance sheet at cost (including transaction costs) and subsequently are re-measured at their fair value. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate. All derivatives are carried as trading assets when fair value is positive and as trading liabilities when fair value is negative.

Derivative transactions, while intended to provide effective economic hedges under the Bank's risk management positions, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore treated as derivatives held for trading with changes in fair value reported as net trading income.

D Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

E Interest income and expense

Interest income and expenses are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective yield method. Interest income includes coupons earned on fixed income investments securities and accrued discount and premium on discounted instruments. Interest income is suspended and accrued interest is reversed, when loans become doubtful of collection, when overdue by more than 90 days, or, when the borrower or securities' issuer defaults, if earlier than 90 days. Such income is excluded from interest income until the principal is fully received.

F Fee and commission income

Fees and commissions are recognised on an accrual basis when earned.

G Sale and repurchase agreements

Securities sold subject to linked repurchase agreements ("repos") are retained in the financial statements as investment securities and the related liability is recorded as securities sold under repurchase agreements. Securities purchased under agreements to resell ("reverse repos") are recognised in the balance sheet as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreement using the effective yield method.

CHINA MINSHENG BANKING CORPORATION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2002**

(All amounts expressed in Rmb'000 unless otherwise specified)

2 PRINCIPAL ACCOUNTING POLICIES (CONT'D)

H Investments securities

The Bank classifies its investment securities into the following three categories: originated loans, held-to-maturity and available-for-sale securities. Debt securities that are purchased at original issuance without the intent to be sold immediately or in the short term are classified as originated loans. Investment securities with fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investment securities 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 are classified as available-for-sale. Management determines the appropriate classification of its investments at the time of the purchase.

Investment securities are initially recorded at cost on settlement date. Available-for-sale investments are subsequently re-measured at fair value based on quoted bid prices or amounts derived from cash flow models. Fair values for unlisted equity securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Unrealised gains and losses arising from changes in the fair value of investments classified as available-for-sale are recognised in equity net of income tax effect.

Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment. When the securities are disposed of or impaired, the related accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

Originated loans and held-to-maturity investment securities are carried at amortised cost using the effective yield method, less any provision for impairment.

An investment security is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate. By comparison, the recoverable amount of an instrument measured at fair value is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset.

Interest earned whilst holding investment securities is reported as interest income. Dividend receivables are included separately in dividend income when a dividend is declared.

All regular way purchases and sales of investment securities are recognised at settlement date.

CHINA MINSHENG BANKING CORPORATION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2002**

(All amounts expressed in Rmb'000 unless otherwise specified)

2 PRINCIPAL ACCOUNTING POLICIES (CONT'D)

I Loans and provision for loan losses

Loans originated by the Bank by providing money directly to the borrower or to a sub-participation agent at drawdown are categorized as loans originated by the Bank and are carried at amortised cost. Third party expenses, such as legal fees, incurred in securing a loan are expensed through the income statement.

All loans and advances are recognised when cash is advanced to borrowers. Loans are placed on non-accrual status if principal or interest is not likely to be paid in accordance with the terms of the loan agreement, or when principal or interest is past due 90 days or more.

An allowance for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due according to the original contractual terms of the loan. The amount of the provision is the difference between the carrying amount and the recoverable amount. The recoverable amount is estimated after taking into account the financial position of the borrowers and the amounts recoverable from guarantors and disposition of collateral.

The allowance for loan losses also covers unidentified losses where there is evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical experience of losses and reflecting the current economic climate in which the borrowers operate.

When a loan is uncollectible, it is written off against the related allowance for loan losses; subsequent recoveries are credited to the provision for loan losses in the income statement. If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to provision for loan losses.

J Fixed assets

All fixed assets are stated at historical cost less accumulated depreciation and impairment.

Depreciation is calculated using the straight-line method to write down the cost of fixed assets to their residual values which are estimated at 3 percent of the cost over their anticipated useful lives as follows:

Buildings	15 – 35 years
Leasehold improvements	5 – 15 years
Office equipment	3 – 11 years
Motor vehicles	4 – 6 years

No depreciation is provided against construction in progress.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of fixed assets are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the income statement when the expenditure is incurred.

CHINA MINSHENG BANKING CORPORATION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2002**

(All amounts expressed in Rmb'000 unless otherwise specified)

2 PRINCIPAL ACCOUNTING POLICIES (CONT'D)

K Operating lease

The Bank entered into various operating lease agreements to rent its head office and branches' office and facilities. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

L 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 and balances with the Central Bank, treasury bills and amounts due from other banks.

M Provisions

Provisions are recognised when the Bank 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. Such provisions are charged to current year income statement.

N Employee benefits

The Bank participates in a number of defined contribution plans regulated by local governments throughout the country or managed by insurance companies. The pension plans are generally funded by payments from employees and by the Bank.

The Bank's contributions to these pension plans are charged to the income statement in the period to which they relate.

O Deferred income tax

Deferred income tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rate of 33% at balance sheet date is used in the determination of deferred income tax.

The principal temporary differences arise from provisions for losses on loans and revaluation of available-for-sale investment securities. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax related to fair value re-measurement of available-for-sale investments is charged or credited directly to equity, and is subsequently recognised in the income statement together with the deferred gain or loss when the related investments are sold.

CHINA MINSHENG BANKING CORPORATION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2002**

(All amounts expressed in Rmb'000 unless otherwise specified)

2 PRINCIPAL ACCOUNTING POLICIES (CONT'D)

O Deferred income tax (cont'd)

Income tax payable on profits, based on the applicable tax law in each jurisdiction is recognised as an expense in the period in which profit arise.

The Bank's deferred tax assets and liabilities are netted to the extent the amounts are recoverable from or due to the same tax authority.

P Borrowings

Borrowings are recognised initially at the actual proceeds received (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective yield method.

Q Share capital

(1) Share issue costs

External costs directly attributable to the issue of new shares are deducted from capital surplus.

(2) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are declared.

R Acceptances

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be settled simultaneously with the reimbursement from the customers. Acceptances are accounted for as off-balance sheet transactions and are disclosed as contingent liabilities and commitments.

S Fiduciary activities

Assets and income arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements where the Bank acts in a fiduciary capacity such as nominee, trustee or agent.

T Reclassification

Where necessary, prior year figures have been reclassified to conform with current year presentation.

CHINA MINSHENG BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2002

(All amounts expressed in Rmb'000 unless otherwise specified)

3 FINANCIAL RISK MANAGEMENT

A Strategy in using financial instruments

By its nature the Bank is engaged in the extensive use of financial instruments. The Bank accepts deposits from customers at both fixed and floating rates and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates whilst maintaining sufficient liquidity to meet all claims that might fall due. The Bank operates its business in mainland China under interest rate scheme regulated by the PBOC.

The Bank also seeks to raise its interest margins by obtaining above average margins, net of provisions, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just on-balance sheet loans and advances but the Bank also enters into guarantees and other commitments such as letters of credit and acceptances.

B Credit risk

The Bank takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk is increased when counterparties are concentrated in the same industries or geographical regions. The Bank's operation is located within China, and different areas in China have their own unique characteristics in economic development. Therefore, each area in China could present different credit risks.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower. Such risks are monitored on a regular basis and subject to an annual review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Guarantee deposits are received by the Bank to lessen the credit risks related to certain of these commitments provided by the Bank. The guarantee deposit which is at certain percentage of the notional amount of the guarantee, standby letters of credit or other credit related commitments is determined by the creditability of the customer.

CHINA MINSHENG BANKING CORPORATION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2002**

(All amounts expressed in Rmb'000 unless otherwise specified)

3 FINANCIAL RISK MANAGEMENT (CONT'D)

B Credit risk (cont'd)

Geographic sector risk concentration for loans and advances to customers

	2002		2001	
	Amount	%	Amount	%
Loans and discounted bills				
Beijing	43,016,836	32	27,332,198	33
Guangdong	26,645,950	20	17,079,945	21
Shanghai	19,258,665	14	12,140,086	15
Hubei	7,457,969	5	4,475,694	5
Zhejiang	5,805,842	4	1,667,900	2
Shanxi	5,555,217	4	2,702,568	3
Jiangsu	3,772,087	3	2,154,348	3
Chongqing	3,706,227	3	1,399,411	2
Hebei	3,171,859	2	1,352,270	2
Other areas	9,955,627	7	3,259,856	4
Lending to banks and financial institutions	7,707,569	6	9,461,701	10
Total, gross	<u>136,053,848</u>	<u>100</u>	<u>83,025,977</u>	<u>100</u>

The economic sector risk concentration for loans and advances to customers based on the Bank's internal classification system

	2002		2001	
	Amount	%	Amount	%
Corporate loans				
Industrial	26,821,652	20	14,484,225	17
Trading	17,213,888	13	12,571,193	15
Commercial real estate	19,176,567	14	6,841,756	8
Transportation	7,422,499	5	4,047,330	5
Tele-communication	4,440,940	3	3,108,940	4
Construction	4,383,610	3	1,776,320	2
Conglomerates	6,107,365	4	3,237,145	4
Others	12,382,691	9	4,972,222	6
Individual loans	5,249,199	4	4,055,617	5
Lending to banks and financial institutions	7,707,569	6	9,461,701	11
Discounted bills				
Accepted by other financial institutions	21,339,685	16	16,228,058	20
Accepted by corporate customers	3,808,183	3	2,241,470	3
Total, gross	<u>136,053,848</u>	<u>100</u>	<u>83,025,977</u>	<u>100</u>

CHINA MINSHENG BANKING CORPORATION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2002**

(All amounts expressed in Rmb'000 unless otherwise specified)

3 FINANCIAL RISK MANAGEMENT (CONT'D)

B Credit risk (cont'd)

Loans and advances to customers by customer type

	2002		2001	
	Amount	%	Amount	%
Corporate loans				
State-owned enterprises	50,462,803	37	24,155,582	29
Non-state-owned enterprises	19,407,555	14	11,757,530	14
Foreign investment enterprises	5,805,740	4	4,763,876	6
Collectively owned enterprises	1,895,410	1	1,997,642	2
Other enterprises	20,377,704	15	8,364,501	10
Individual loans	5,249,199	4	4,055,617	5
Lending to banks and financial institutions	7,707,569	6	9,461,701	11
Discounted bills				
Accepted by other financial institutions	21,339,685	16	16,228,058	20
Accepted by corporate customers	3,808,183	3	2,241,470	3
Total, gross	<u>136,053,848</u>	<u>100</u>	<u>83,025,977</u>	<u>100</u>

C Market risk

The Bank takes on exposure in market risk. Market risks arise from open positions in interest rate and currency products, which are exposed to general and specific market movements. The Bank does not have significant involvement in derivative financial instrument transactions. The Bank believes that its exposure to market risk is insignificant.

D Currency risk

The Bank conducts the majority of its businesses in Rmb, with certain foreign transactions in United State dollars ("USD"), Hong Kong dollars("HKD") and Japanese Yen("JPY"). The exchange rates between Rmb to USD, HKD, and JPY respectively are set by the PBOC, which had minimum movements during the reporting year. The Bank is exposed to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The management sets limits on the level of exposure by currency, which are monitored regularly.

CHINA MINSHENG BANKING CORPORATION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2002**

(All amounts expressed in Rmb'000 unless otherwise specified)

3 FINANCIAL RISK MANAGEMENT (CONT'D)

D Currency risk(cont'd)

The table below summarizes the Bank's exposure to foreign currency exchange rate risk at the end of the year. Included in the table are the Bank's assets and liabilities at carrying amounts in Rmb, categorized by the original currency.

As at 31 December 2002	RMB	USD	HKD	JPY	Other currencies	Total
Assets:						
Cash and due from banks	17,752,364	1,260,734	529,528	518,243	59,275	20,120,144
Deposits with the Central Bank	37,365,192	269,068	44,727	-	-	37,678,987
Treasury bills	3,860,000	-	-	-	-	3,860,000
Securities purchased under resale agreements	14,322,563	74,269	-	-	-	14,396,832
Loans, net	127,025,502	5,269,897	1,179,918	13,121	110,217	133,598,655
Investments	21,424,099	5,459,020	1,323,692	-	17,285	28,224,096
Other assets	3,620,819	143,977	22,477	3,676	1,353	3,792,302
Total assets	225,370,539	12,476,965	3,100,342	535,040	188,130	241,671,016
Liabilities:						
Customers' deposits	173,348,952	9,050,764	1,775,889	531,650	69,397	184,776,652
Deposits from banks	33,849,478	1,970,177	492,450	10	9	36,312,124
Borrowings from the Central Bank and other banks	769,000	331,092	169,776	-	-	1,269,868
Other liabilities	12,532,400	282,488	47,054	6,290	10,136	12,878,368
Total liabilities	220,499,830	11,634,521	2,485,169	537,950	79,542	235,237,012
Net on balance sheet position	4,870,709	842,444	615,173	(2,910)	108,588	6,434,004
As at 31 December 2001						
Total assets	126,212,457	10,233,145	1,848,479	59,569	31,762	138,385,412
Total liabilities	121,112,378	9,750,878	1,750,238	59,569	31,762	132,704,825
Net on balance sheet position	5,100,079	482,267	98,241	-	-	5,680,587

CHINA MINSHENG BANKING CORPORATION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2002**

(All amounts expressed in Rmb'000 unless otherwise specified)

3 FINANCIAL RISK MANAGEMENT (CONT'D)

E Interest rate risk

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Currently, interest rates for loans and deposits within mainland China are set by the PBOC. The Bank operates its business predominantly in mainland China under the interest rate scheme regulated by the PBOC. It is normal practice for the interest rates of both interest-bearing assets and liabilities to move in the same directions. Consequently, the Bank has little exposure in terms of interest rate risk. However, there is no guarantee that the PBOC will continue this practice in future.

According to the PBOC regulations, the ceiling for loan interest rate can be set at 30% above the stipulated interest rates, whilst the floor is 10% below the stipulated rates.

Interest rate for discounted bills is determined by reference to the PBOC re-discount interest rate. However, it cannot exceed the interest rate for loan with same term (including the above floating rate).

F Liquidity risk

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivatives. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The management sets limits on the minimum proportion of maturing funds available to 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 loan to deposit ratio at below 75% as required by the PBOC. It is required that the Bank maintains 6% of the total Rmb denominated deposits and 2% of the total foreign currency denominated deposits with the Central Bank.

The table below analyses the assets and liabilities of the Bank into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

CHINA MINSHENG BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2002

(All amounts expressed in Rmb'000 unless otherwise specified)

3 FINANCIAL RISK MANAGEMENT (CONT'D)

F Liquidity risk (cont'd)

As at 31 December 2002	Up to 1	1-3 months	3-6 months	6-12 months	Over 12 months	Past Due	Total
Assets:							
Cash and due from banks	11,691,416	3,150,773	4,725,231	524,601	28,121		20,120,144
Deposits with the Central Bank	37,678,987	-					37,678,987
Treasury bills	1,530,000	820,000	1,510,000				3,860,000
Securities purchased under resale agreements	10,579,219	2,691,075	472,531	654,001			14,396,832
Loans, net	10,647,309	34,896,032	57,858,741	21,759,881	6,749,521	1,687,151	133,598,655
Investments	297,120	11,209	2,603,821	12,661,401	12,650,541		28,224,092
Other assets	11,464	297,898	616,311	484,111	2,379,261	3,251	3,792,302
Total assets	72,435,515	41,866,987	67,786,651	36,084,001	21,807,451	1,690,401	241,671,012
Liabilities:							
Customers' deposits	112,114,101	37,851,297	22,799,511	1,165,331	10,846,401		184,776,652
Deposits from banks	34,817,963	510,685	462,741	520,731			36,312,124
Borrowings from the Central Bank and other banks	400,546	494,000	375,321				1,269,867
Other liabilities	3,869,674	948,377	7,999,791	57,761	2,751		12,878,364
Total liabilities	151,202,284	39,804,359	31,637,371	1,743,831	10,849,161		235,237,012
Net liquidity gap	(78,766,769)	2,062,628	36,149,280	34,340,170	10,958,290	1,690,401	6,434,004
As at 31 December 2001							
Total assets	25,969,290	28,323,346	42,079,741	29,521,051	10,270,941	2,221,031	138,385,412
Total liabilities	85,899,475	16,029,123	19,354,741	8,375,221	3,046,251		132,704,825
Net liquidity gap	(59,930,185)	12,294,223	22,724,990	21,145,830	7,224,690	2,221,031	5,680,587

The matching and controlled mismatching of the maturities of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but also increase the risk of losses.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the 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.

CHINA MINSHENG BANKING CORPORATION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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(All amounts expressed in Rmb'000 unless otherwise specified)

3 FINANCIAL RISK MANAGEMENT (CONT'D)

G Fair value of financial assets and liabilities

Fair value estimates are made at a specific point in time based on relevant market information and information about the various financial instruments. The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value.

- (1) Cash and due from banks, Treasury bills, Discounted bills, Deposit with PBOC, Accrued interest receivable, Accrued interest payable, and Other liabilities

Given that maturities of these financial assets and liabilities are within one year, the carrying amount approximates the fair value.

- (2) Investment securities

The fair value of securities is based on quoted market price, if available. If a quoted market price is not available, fair value is estimated using market prices for similar securities.

- (3) Loans and advances to customers

The carrying amount of loans and advances to customers is a reasonable estimate of fair value because interest rates are tied to the PBOC rate and are adjusted when the PBOC announces interest rate changes.

The fair value of nonaccrual loans is reported at book value, net of specific allowance for credit losses, because it is assumed that management has allocated adequate allowance for loan losses to reflect its net realizable value.

- (4) Deposits

The fair value of checking, savings and money market accounts is the amount payable on demand at the reporting date. The fair value of fixed maturity certificates of deposit is estimated using a discounted cash flow analysis utilizing the rates currently offered for deposits of similar remaining maturities.

- (5) Commitments to extend credit, Standby and commercial letters of credit

The fair value of commitments to extend credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. These commitments relate to unused balances on revolving lines of credit. The fair value of standby and commercial letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties.

Based on the minimal fees associated with these instruments, the estimated fair value is considered immaterial and not reflected in the following table.

The estimated fair value of the Bank's financial instruments, of which the respective carrying values are different, at 31 December 2002 and 2001 is summarised as follows:

CHINA MINSHENG BANKING CORPORATION LIMITED

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3 FINANCIAL RISK MANAGEMENT (CONT'D)

G Fair value of financial assets and liabilities (cont'd)

	Carrying Value		Fair Value	
	2002	2001	2002	2001
Financial assets				
Investment securities				
- originated loans	12,236,951	7,906,787	12,524,898	8,274,156
- held-to-maturity	13,097,929	9,214,632	13,986,907	15,933,055
Financial liabilities				
Customers' deposits	<u>184,776,652</u>	<u>104,599,436</u>	<u>185,658,594</u>	<u>105,216,480</u>

H Fiduciary activities

The Bank provides custody and trustee services to third parties. Those assets that are held in a fiduciary capacity are not included in these financial statements. At the balance sheet date the Bank had investment custody accounts amounting to approximately Rmb4,853 million (31 December 2001: Rmb2,550 million).

4 NET INTEREST INCOME

	2002	2001
Interest income:		
Loans to customers and on discounted bills	4,573,469	3,150,234
Investment securities	1,069,490	729,162
Loans to banks and non-bank financial institutions	394,027	503,837
Deposits with the Central Bank	264,452	194,908
Due from banks	158,379	67,481
Securities purchased under resale agreements	68,399	16,291
Rediscounted bills	332,117	251,505
Others	<u>52,984</u>	<u>55,631</u>
	<u>6,913,317</u>	<u>4,969,049</u>
Interest expense:		
Customers' deposits	2,164,202	1,386,745
Deposits from banks	471,897	226,218
Borrowings from other banks	30,808	28,485
Securities sold under repurchase agreements	74,683	72,714
Borrowings from the Central Bank	21,702	9,578
Rediscounted bills	304,436	332,109
Others	<u>1,104</u>	<u>4,325</u>
	<u>3,068,832</u>	<u>2,060,174</u>
Net interest income	<u>3,844,485</u>	<u>2,908,875</u>

CHINA MINSHENG BANKING CORPORATION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2002**

(All amounts expressed in Rmb'000 unless otherwise specified)

5 OTHER OPERATING INCOME

	2002	2001
Net gain on sale of originated loans and available-for-sale investment securities	116,853	-
Net foreign exchange gain	64,055	38,984
Other income	43,667	43,084
	<u>224,575</u>	<u>82,068</u>

6 OPERATING EXPENSES

	2002	2001
Staff costs	747,167	596,952
Lease expense, primarily for office space	228,392	163,976
Depreciation	184,824	124,323
Office expenses	131,711	72,810
Business development expenses	189,116	116,202
Business tax	310,625	238,151
Other general and administrative expenses	556,556	306,116
	<u>2,348,391</u>	<u>1,618,530</u>

7 INCOME TAX EXPENSE

	2002	2001
Current tax	327,488	253,976
Deferred tax	29,981	(4,843)
	<u>357,469</u>	<u>249,133</u>

The actual income tax expense differs from the statutory income tax as follows:

	2002	2001
Pretax profit	<u>1,242,095</u>	<u>857,146</u>
Provision for income tax calculation at statutory rate of 33%	409,891	282,858
Exempted interest income on government bonds	(240,248)	(171,744)
Non-deductible salary, advertising and other expenses	188,602	130,218
Others	(776)	7,801
	<u>357,469</u>	<u>249,133</u>

CHINA MINSHENG BANKING CORPORATION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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(All amounts expressed in Rmb'000 unless otherwise specified)

8 BASIC EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit available to shareholders by weighted average number of shares outstanding during the respective reporting years.

	2002	2001
Net profit available to shareholders	884,626	608,013
Weighted average number of shares outstanding (in thousands)	<u>2,586,721</u>	<u>2,586,721</u>
Basic earnings per share in Rmb Yuan	<u>0.34</u>	<u>0.24</u>

The Bank has no dilutive potential ordinary shares outstanding at year end.

9 CASH AND DUE FROM BANKS

	2002	2001
Cash	543,923	319,236
Due from banks	<u>19,576,221</u>	<u>14,066,039</u>
	<u>20,120,144</u>	<u>14,385,275</u>

10 DEPOSITS WITH THE CENTRAL BANK

The Bank is required to maintain with the Central Bank a general reserve equal to 6% of customers' local currency deposits and 2% of customers' foreign currency deposits, which are restricted. Unrestricted deposits are maintained with the Central Bank related to the settlement of inter-bank transactions. As a result, deposits with the Central Bank include:

	2002	2001
Restricted deposits	9,848,652	5,436,209
Unrestricted deposits	<u>27,830,335</u>	<u>8,625,914</u>
	<u>37,678,987</u>	<u>14,062,123</u>

11 CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the Cash Flow Statement consists of the following:

	2002	2001
Cash and due from banks (excluding time deposits over 3 months with other banks)	14,842,189	7,328,857
Unrestricted deposits with the Central Bank	<u>27,830,335</u>	<u>8,625,914</u>
	<u>42,672,524</u>	<u>15,954,771</u>

CHINA MINSHENG BANKING CORPORATION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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(All amounts expressed in Rmb'000 unless otherwise specified)

12 LOANS AND ALLOWANCE FOR LOAN LOSSES

The composition of loans is as follows:

	2002	2001
Loans to customers	103,198,411	55,094,748
Loans to banks	3,303,847	4,781,991
Loans to non-bank financial institutions	4,403,722	4,679,710
Discounted bills	25,147,868	18,469,528
	<u>136,053,848</u>	<u>83,025,977</u>
Allowance for loan losses	(2,455,193)	(1,908,500)
Loan, net	<u>133,598,655</u>	<u>81,117,477</u>

Movement of allowance for loan losses:

	2002	2001
At the beginning of year	1,908,500	1,400,000
Provision for year	546,693	564,392
Written-off for year	-	(55,892)
At the end of year	<u>2,455,193</u>	<u>1,908,500</u>

At 31 December 2002, interest which has been reversed amounted to Rmb490 million (31 December 2001: Rmb314 million) on an aggregate basis. The corresponding carrying amount of non-accrual loans amounted to Rmb3,079 million (31 December 2001: Rmb1,867 million).

13 INVESTMENT SECURITIES

Originated loans

	2002	2001
Debt securities at amortized cost		
Government bonds-not traded nor listed	6,272,951	5,731,787
Financial bonds-not traded nor listed	5,884,000	2,095,000
Other bonds-not traded nor listed	80,000	80,000
	<u>12,236,951</u>	<u>7,906,787</u>

CHINA MINSHENG BANKING CORPORATION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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(All amounts expressed in Rmb'000 unless otherwise specified)

13 INVESTMENT SECURITIES (CONT'D)

Available-for-sale investment securities

	2002	2001
Debt securities at fair value		
Government bonds		
- Traded or listed	440,000	75,480
- Not traded nor listed	1,327,533	1,080,000
	<u>1,767,533</u>	<u>1,155,480</u>
Financial bonds-not traded nor listed	1,071,683	815,400
Other bonds-not traded nor listed	-	82,530
	<u>2,839,216</u>	<u>2,053,410</u>
Equity investment at cost*	50,000	-
	<u>2,889,216</u>	<u>2,053,410</u>

* According to the approval by the PBOC, the Bank entered into an agreement with 84 other participating banks to establish China UnionPay Co., Ltd. ("CUP"), a comprehensive bank card service provider in 2001. The equity investment of Rmb50 million represents a 3.029% interest in CUP.

Held-to-maturity investment securities

	2002	2001
Debt securities at amortized cost		
Government bonds		
- Traded or listed	1,942,419	2,024,096
- Not traded nor listed	5,300,327	3,697,135
	<u>7,242,746</u>	<u>5,721,231</u>
Financial bonds-not traded nor listed	4,354,570	2,524,485
Other bonds-not traded nor listed	1,500,613	968,916
	<u>13,097,929</u>	<u>9,214,632</u>

CHINA MINSHENG BANKING CORPORATION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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(All amounts expressed in Rmb'000 unless otherwise specified)

13 INVESTMENT SECURITIES(CONT'D)

The movement in investment securities may be summarized as follows:

	Originated loans	Available- for-sale	Held- to-maturity	Total
At 1 January 2002	7,906,787	2,053,410	9,214,632	19,174,829
Exchange differences	-	59	659	718
Additions	6,786,284	2,206,190	7,503,625	16,496,099
Disposals (sale and redemption)	(2,456,120)	(1,409,579)	(3,620,987)	(7,486,686)
Gain from changes in fair value	-	39,136	-	39,136
At 31 December 2002	<u>12,236,951</u>	<u>2,889,216</u>	<u>13,097,929</u>	<u>28,224,096</u>

14 FIXED ASSETS

	2002	2001
Cost	2,021,110	1,587,531
Accumulated depreciation	<u>(482,583)</u>	<u>(340,707)</u>
Net book value	1,538,527	1,246,824
Construction in progress	<u>775,965</u>	<u>712,003</u>
	<u>2,314,492</u>	<u>1,958,827</u>

The net book value of fixed assets is comprised of the following:

	Buildings	Leasehold improvements	Office equipment	Motor vehicles	Total
Cost					
At 1 January 2002	731,242	257,844	479,518	118,927	1,587,531
Add: Additions	198,377	81,477	212,498	8,436	500,788
Less: Disposals	-	-	(16,589)	(50,620)	(67,209)
At 31 December 2002	<u>929,619</u>	<u>339,321</u>	<u>675,427</u>	<u>76,743</u>	<u>2,021,110</u>
Accumulated depreciation					
At 1 January 2002	60,604	83,269	148,617	48,217	340,707
Add: Additions	23,956	48,209	104,384	8,275	184,824
Less: Disposals	-	-	(16,011)	(26,937)	(42,948)
At 31 December 2002	<u>84,560</u>	<u>131,478</u>	<u>236,990</u>	<u>29,555</u>	<u>482,583</u>
Net book value					
At 31 December 2002	<u>845,059</u>	<u>207,843</u>	<u>438,437</u>	<u>47,188</u>	<u>1,538,527</u>
At 31 December 2001	<u>670,638</u>	<u>174,575</u>	<u>330,901</u>	<u>70,710</u>	<u>1,246,824</u>

CHINA MINSHENG BANKING CORPORATION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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15 DEFERRED TAXES

Net deferred income tax assets consist of the following items:

	2002	2001
Deferred income tax assets:		
Provision for credit losses	198,000	221,582
Others, net	<u>1,200</u>	<u>7,612</u>
	199,200	229,194
Deferred income tax liability - Unrealized gain on available-for-sale investment securities	<u>(21,494)</u>	<u>(8,578)</u>
Deferred tax assets, net	<u>177,720</u>	<u>220,616</u>

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Based on projections of the periods in which the temporary differences become deductible, management did not recognize deferred tax assets of approximately Rmb157 million (31 December 2001: Rmb133 million) mainly relating to allowance for loan losses of approximately Rmb477 million (31 December 2001: Rmb403 million), due to uncertainty related to the ultimate realisation of these deductible differences.

16 OTHER ASSETS

	2002	2001
Deferred assets	54,020	38,871
Other assets	<u>238,260</u>	<u>252,948</u>
	<u>292,280</u>	<u>291,819</u>

Deferred assets mainly consist of prepaid office rentals. The carrying amounts of other assets approximate to their recoverable amounts.

Other assets mainly consist of foreclosed assets amounted Rmb232 million and Rmb252 million at 31 December 2002 and 2001, respectively.

17 CUSTOMERS' DEPOSITS

	2002	2001
Current deposits	81,853,340	47,893,777
Savings deposits	13,609,958	7,833,224
Time deposits	75,957,582	40,839,704
Guarantee deposits	11,942,043	7,753,818
Inward remittance and temporary deposits	<u>1,413,729</u>	<u>278,913</u>
	<u>184,776,652</u>	<u>104,599,436</u>

CHINA MINSHENG BANKING CORPORATION LIMITED

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18 BORROWINGS FROM THE CENTRAL BANK AND OTHER BANKS

	2002	2001
Borrowings from the Central Bank	-	2,795,776
Borrowings from other banks	1,269,868	120,000
	<u>1,269,868</u>	<u>2,915,776</u>

19 OTHER LIABILITIES

	2002	2001
Guarantee deposits for promissory notes	2,108,126	761,400
Outward remittance	544,376	250,384
Accrued interest payable	722,894	474,664
Tax payable	218,481	187,926
Accrued payroll	81,767	73,879
Others	219,596	189,087
	<u>3,895,240</u>	<u>1,937,340</u>

20 SURPLUS AND WELFARE RESERVES

In accordance with the relevant regulations, the Bank is required to allocate 10% of its profit after tax to a surplus reserve and between 5% and 10% to a welfare reserve, in each case based on its statutory financial statements. The Bank's Board of Directors authorized the transfer of 10% and 5% respectively of after tax profit to surplus and welfare reserve for 2002 Deleted: and 5% respectively (2001: 10% each). Upon approval by the Board of Directors, the surplus reserve can be used to make up previous losses or transferred to registered capital; whereas the welfare reserve can be used for expenditures on employee welfare.

CHINA MINSHENG BANKING CORPORATION LIMITED

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21 DIVIDENDS PER SHARE

Pursuant to resolution of Annual General Meeting on 27 May 2002, a cash dividend for the year 2001 of Rmb 0.07 per share amounting to a total of Rmb157,452,602 (2001: Rmb346,222,462) was declared and paid.

At the same meeting, a 15 percent stock dividend was declared and authorized, effective immediately. Basic earnings per share have been restated for both years presented to reflect the stock dividends.

22 INTEREST INCOME ON DISCOUNTED BILLS

During the year ended 31 December 2002, the Bank reduced its net interest income in the amount of Rmb130 million, net of tax, resulting from the proper application of income recognition under the accrual basis on discounted bills purchased. Due to systems limitation, the Bank considers that it is impracticable to quantify the corresponding adjustment on interest income for the year ended 31 December 2001.

23 RETIREMENT BENEFIT OBLIGATIONS

The Bank participates in various defined contribution retirement benefit plans organised by municipal and provincial governments under which it is required to make monthly contributions to these plans at rates ranging from 19% to 29% of the employees' basic salary or other applicable calculating basis in each jurisdiction for the relevant periods. The Bank currently has no additional significant cost for the payment of retirement and other post-retirement benefits of employees other than the monthly contributions described above. The Bank's contributions to these pension plans are charged to the income statement in the year to which they relate. Expenses incurred by the Bank in connection with the retirement benefit plans amounted to Rmb81 million and Rmb47 million for the year of 2002 and 2001 respectively.

CHINA MINSHENG BANKING CORPORATION LIMITED

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24 CONTINGENT LIABILITIES AND COMMITMENTS

	2002	2001
Commitments to extend credit:		
Letters of credit issued	<u>3,016,867</u>	<u>1,119,009</u>
Letters of guarantee issued	<u>1,901,421</u>	<u>1,307,341</u>
Acceptances outstanding	<u>18,040,365</u>	<u>12,104,947</u>
Operating lease commitments:		
Future minimum lease payments on operating leases are summarised as follows:		
Within 1 year	222,257	159,008
Between 1 and 5 years	647,694	467,566
After 5 years	<u>265,833</u>	<u>158,543</u>
	<u>1,135,784</u>	<u>785,117</u>
Assets pledged for repos:		
Government bonds and financial bonds	2,160,000	-
Bills	2,338,128	-
Loans	<u>4,485,000</u>	-
	<u>8,983,128</u>	-
Capital commitment:		
Contracted but not paid	260,448	243,657
Approved but not contracted	<u>241,010</u>	<u>496,081</u>
	<u>501,458</u>	<u>739,738</u>

CHINA MINSHENG BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2002

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25 DERIVATIVE FINANCIAL INSTRUMENTS

The following derivative instruments are utilized by the Bank for trading purpose:

Currency forwards represent commitments to purchase/sell foreign exchanges including undelivered spot transactions.

Currency swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

As at 31 December 2002, the Bank had 7 currency forward and 20 currency swap contracts outstanding. These contracts will become due at various date through 20 November 2003.

The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in foreign exchange rates 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 instruments held are set out in the following table.

	Contract/notional Amount	Fair values	
		Assets	Liabilities
As at 31 December 2002			
Currency forwards	54,846	904	(49)
Currency swaps	540,023	1,555	(390)
		<u>2,459</u>	<u>(439)</u>

As at 31 December 2001, the Bank entered into currency swap contracts with notional amount Rmb41million and the fair value of these contracts was minimum.

The previous table provides a detailed breakdown of the contractual or notional amounts and the fair values of the Bank's derivative financial instruments outstanding at year end. These instruments, comprising foreign exchange derivatives allow the Bank and its customers to transfer, modify or reduce their foreign exchange risk.

26 RELATED PARTY TRANSACTIONS

At 31 December 2002, loans to shareholders outstanding amounted to Rmb170 million (31 December 2001: Rmb266 million).

The terms of loan with related parties follow commercial terms and conditions arranged in the ordinary course at the Bank's business.

CHINA MINSHENG BANKING CORPORATION LIMITED

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27 POST BALANCE SHEET EVENT

In the forthcoming annual General Meeting, a cash dividend in respect of 2002 of Rmb0.06 per share amounting to a total dividend of Rmb155,203,279, a twenty percent stock dividend and a 10 percent stock split from capital surplus to capital stock are to be proposed.

28 RECONCILIATION OF PRETAX PROFIT FROM STATUTORY FINANCIAL STATEMENTS TO ACCOMPANYING FINANCIAL STATEMENTS

	2002	2001
Pretax profit, per statutory financial statements	1,219,028	900,346
Adjustments to pretax profits:		
Reversal of statutory investment loss allowance	-	(26,431)
Adjustment of start-up cost and others, net	23,067	(14,266)
Others, net	-	(2,503)
	<hr/>	<hr/>
Pretax profit, per accompanying financial statements	1,242,095	857,146

29 RECONCILIATION OF NET ASSETS FROM STATUTORY FINANCIAL STATEMENTS TO ACCOMPANYING FINANCIAL STATEMENTS

	2002	2001
Net assets, per statutory financial statements	6,003,810	5,424,903
Adjustments to net assets:		
Profit distribution subject to approval of General Meeting	155,203	-
Deferred tax assets resulting from allowance for credit losses	198,000	221,582
Unrealised gain on available-for-sale investment securities, net of tax	43,638	17,417
Others, net	33,353	16,685
	<hr/>	<hr/>
Net assets, per accompanying financial statements	6,434,004	5,680,587

REPORT ON THE COMPLETENESS, REASONABLENESS, AND EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEM OF CHINA MINSHENG BANKING CORPORATION LIMITED.

Since its establishment, China Minsheng Banking Corporation Limited (hereinafter referred to as "CMBC" or the "Bank") has been following the Commercial Bank Law of the PRC, Penalties on Illegal Financial Activities, Guidelines on Improving the Internal Control over Financial Institutions and other relevant regulations and has gradually established a relatively standard internal control system which has become an integrated part of the entire internal control system of the Bank. The present internal control system of the Bank has shown completeness, reasonableness, and effectiveness, and have an active effect on strengthening the one-tier legal person system and on controlling the financial risks.

I The basic structure of Internal Control system of CMBC

Our Bank attaches great importance to system-building while developing the scale of assets and business. The Internal Control System relates to the establishment of enterprise culture, setup of posts in departments and definition of functions, regulations of business management and standard operating procedures, accounting methods, decision-making, procedure of examination and approval, procedures for development and promotion of new products, estimation of business risks, authority control, official seal management, risk control of computer system, appointment of posts, qualification for posts and compulsive vacation regulations, security and safeguard regulations, rewards and punishment regulation of personnel and department, supervision and inspection, etc. The sound Internal Control System provides guarantee for the risk control of all businesses.

II With growth in business scale, increases in variety of services, and higher requirements for bank management, CMBC continuously improves the Internal Control system to achieve the optimum control goals at minimum control costs.

Every Internal Control system of CMBC has been supplemented and improved in these years, becoming ever more reasonable. First of all, in aspect of definition of functions of institution, in order to strengthen management of new product types, CMBC set up the New Products Development Committee, and in 2002 issued CMBC Regulations of the New Products Development Committee to define the committee's responsibilities; the CMBC Regulations of the Assets Management Committee to define this Committee's responsibilities; CMBC Function division and posts responsibility of Branches Settlement center to define functions of Branches Settlement center and of its personnel. The definition of functions of institution is conducive to fulfillment of responsibilities, and is an important constituent part of Internal Control system. Secondly, in respect of business scale, besides the continuous supplement and improvement of Internal Control systems of former business varieties and service types, CMBC has successively issued many control systems for newly-started business varieties and service types. In 2002, regulations relating to credit business principally included CMBC methodologies on Post-Operation Management of New Credit products and New Types, Notice on strengthening supervision and Management for Large-sum Credit Assets, CBMC Detailed Rules on Classification of Loan Risks, Regulation on Signature Sample of the approver of Credit Project, CBMC Regulations on Transfer and clearance of Non-performance Assets, etc;

Besides the business accounting management regulations, CMBC has also drawn up and implemented CMBC Methodologies on Post-Accounting Supervision and Management, CMBC Methodologies on Accounting Seals Management, etc; Regulations on capital transactions included Notice on Further Strengthening Management of the Interest Rate Risk, CMBC Business Operational Procedures for RMB Fund, CMBC Methodologies on Management of Credit to Other Financial Institutions, etc.; concerning authorization, there were Notice on Authorizing on setting up Internet-Banking Business. Thirdly, in respect of internal control of computer system, in 2002 CMBC issued CMBC Regulations on Security of Computer Information System, CMBC Comprehensive Business Management Rules, etc. Fourthly, in respect of personnel

management, the Bank issued CMBC Methodologies on Management of Qualifications for Credit Employees, CMBC Methodologies on Comprehensive Evaluation for Senior Management, etc. Additionally, by the soundness of regulations, definition of responsibilities, optimization of structure, and enhancement of efficiency, the Internal Control system of CMBC has achieved its goal of reaching the optimum control effect at the least control costs under the existing conditions, and reflected the reasonableness of the Internal Control system.

III The continuous strengthening of conceptions of the one-tier legal person, continuous improvement of organization structure, formation of three monitoring lines of risks control, and the existing regulations for internal control, all these reflect the effectiveness of Internal Control system of CMBC

The continuous strengthening of conceptions of one-tier legal person. Pursuant to Authorization and Credit Provisional Regulations for Commercial Banks issued by the People's Bank of China, Our Bank has drawn up CMBC Authorization and Credit Provisional Regulations and CMBC Regulations on Credit of Unification, which are strictly carried out in practice, and has implemented authorization management of principals of branches. Branches at different levels examine and approve business in accordance with its respective authorization limits, and are responsible for the business under its respective charges. Meanwhile, business management departments and internal audit departments have reinforced the supervision of the implementation of authorization and credit to severely punish those who exceed authority. Overall speaking, the implementation of one-tier legal person system has been satisfactorily implemented.

Continuous improvement of organization structure to meet the requirement for internal control. On the basis of Credit and Loan Examination Committee, the Asset and Liability Management Committee, Financial Management Committee, and Computer Risk Prevention Committee, in 2002 the Bank established the Products Development Committee to be particularly in charge of work relating to new product development, establishing a foundation for risks control of new product from the very beginning of the development. To further improve the quality and efficiency of Credit Evaluation work, the Head Office of CMBC founded Credit and Loan Evaluation Center entirely consisted of professional experts, and progressively set up Credit and Loan Evaluation Commissioner Offices directly under the control of Credit and Loan Evaluation Center of Head Office in Beijing, Shanghai, Guangzhou, and Shenzhen. Judging from the practical operation effects, the quality and efficiency of credit and loan evaluation is improved because the Commissioner Office ensures the relative independence, and also deep understanding of credit business.

Formation of three monitoring lines of risks control, and the influence of restriction system and supervision system. The Bank has set up three monitoring lines of its internal control system. The first line is the front line business departments and correlative accounting departments, which are in direct contact with consumers, funds and accounts. Strictly adhering to every operation procedure to deal with business and effectively functioning of restriction system among posts and departments make the front line business departments the first barrier to defend against external and internal risks. The second line of defense is the various management departments, such as the Risk Management Department, Asset Management Department, financial Institution Department, and other management departments. Their duties are to examine, supervise, evaluate, and analyze the running situation of business of the front line operation department, to punish those who violated regulations pursuant to corresponding punishment regulations, to prevent the Bank's risk resulting from various internal and external factors, and to guarantee the safety of asset. The third line of defense is the internal audit department: an disciplinary inspection department, which, in internal control, take the responsibilities of evaluating internal control system and of re-supervising various business management departments.

The specific regulations for various internal control systems make the business operation and management the foundation to adhere to. The supervision and examination of business

management department, internal audit department, and disciplinary inspection departments, and the implementation of various punishment and rewards regulations play an important role in restricting employee's behaviors, and make the entire business of the Bank developing on a sound track.

IV Methods and measures for further strengthening internal control

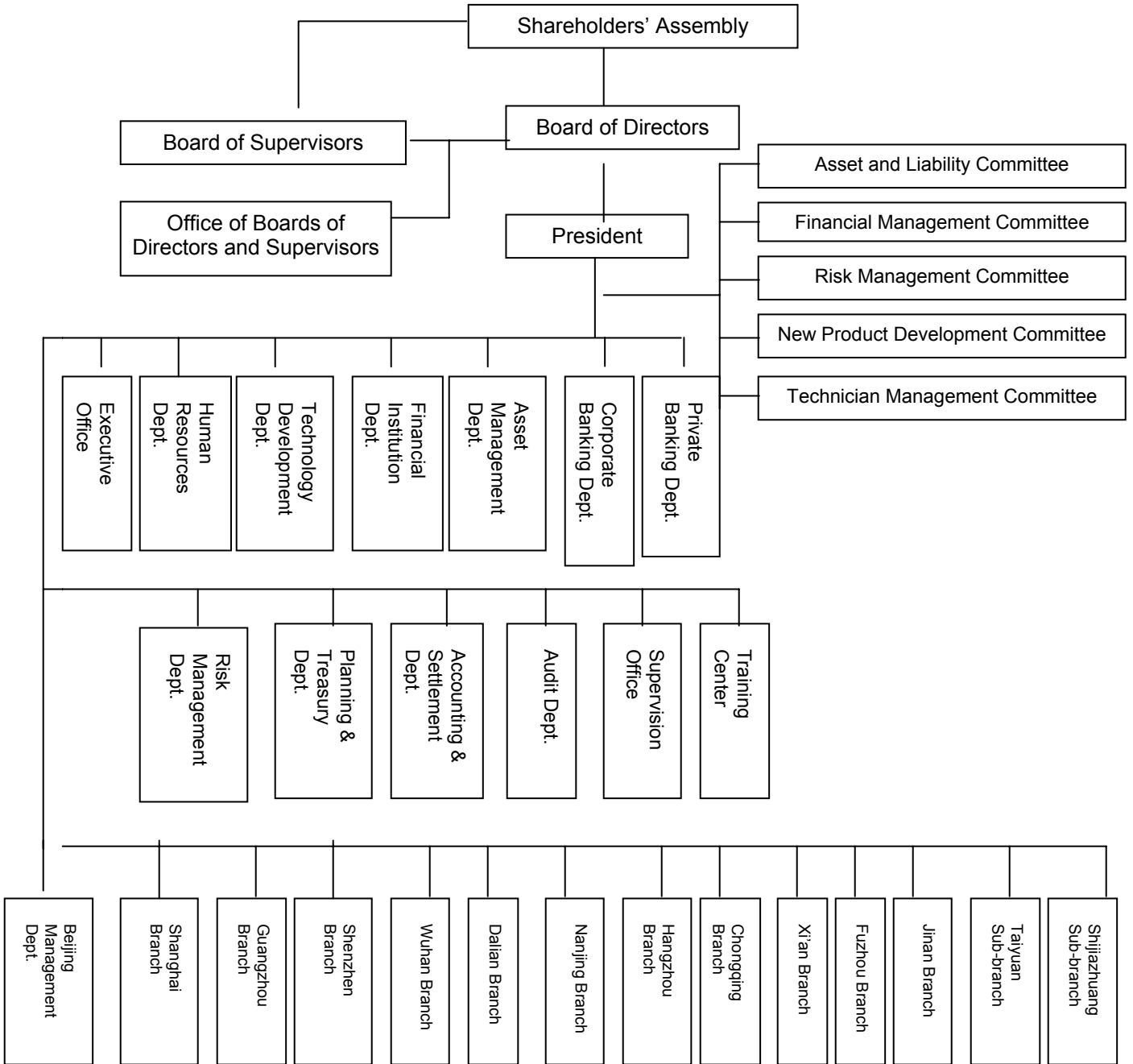
Further strengthen the risks control consciousness of employees in various levels, promote the risks control trainings and caution education, make employees on various posts inwardly understand the necessity and far-reaching significance of risks control.

Further deepen the reform of credit business management system, meanwhile spreading the independent credit evaluation system, gradually establish the independent post-credit examination team, enhance the quality of post-credit examination, further improve the restriction system in credit business.

Strengthen the internal control of the computer system risk. In 2003, the Bank will continuously improve the internal control functions in respect of various business dealing and accounting in system while further enhancing the safety construction of computer system itself, fully exerting the control functions of various functional department in its respective domain.

Perfect the actual audit management system, reinforce the independence and authority, strengthen the internal audit function, further exert the re-supervision effects of internal audit department on the implementation of various business, posts and departments; reinforce the off-site audit function on the basis of emphasizing the on-site audit; take full advantage of comprehensive business dealing system, effect the risk early warning function to enhance the holistic efficiency and quality of auditing work.

Attached: CMBC Organizational Structure



**Auditors' Report on Internal Control of
China Minsheng Banking Corporation Limited**

PricewaterhouseCoopers Special (2002) No. 35

To the Board of Directors of
China Minsheng Banking Corporation Limited

We have been entrusted to perform the audit on financial statements in 2001 of China Minsheng Banking Corporation Limited ("CMBC" or the "Bank"), and have issued an unqualified auditors' report on April 10, 2002. In our auditing process, we have gained understandings of the Bank's control conditions, accounting system and management procedure, and have also examined and evaluated some key areas of internal control, such as credit risk control and management, investment risk control and management, the accounting system, etc. While implementing this project, we have defined the quality, time and scope of the auditing procedures, so that we could express an opinion on these financial statements. This report is based on our understanding and examination of the Bank's internal controls during the auditing process. The purpose is to provide a basic evaluation on the completeness, reasonableness and effectiveness of the Bank's internal control system, which forms initial evaluations to the Bank. In this report, we have also pointed out some weaknesses in the internal controls, which were detected in the course of auditing, as well as some accounting treatments and issues, which required the Bank to reconsider their reasonableness.

Brief Introduction of the Bank

Since its establishment in 1996, CMBC has developed rapidly. By the end of 2001, the Bank had already set up 12 branches in Beijing, Shanghai, Guangzhou, and other cities, besides the two direct-reporting sub-branches in Shijiazhuang and Taiyuan. After the successful listing in 2000, the Bank has formulated a plan to further strengthen and improve the internal control system. As such, the Bank's management has adopted a series of measures aiming at perfecting the internal control system, in order to ensure that the Bank can cope with various risks, and can continue its rapid development.

Internal Control Conditions

In our auditing process, we found out that through the endeavors of the management and staff, the Bank has established a fundamental internal control system and framework in the following areas:

1. Control Conditions

In accordance with the Company Law, Commercial Bank Law, Securities Law and the obligations granted by the Articles of Association, the Bank's Board of Directors can participate in operating activities, hold Board meetings regularly or on demand, regularly disclose information, make announcements regarding major events, and make timely decisions on all important issues submitted by the management.

The Bank's Board of Supervisors performs their duties properly, and gives special suggestions on resolutions passed by the Board of Directors.

The Bank has established an adequate personnel policy, set up strict employment criteria, and implemented performance-related incentive and promotion policies.

Through regular management reports, the Bank's management is able to supervise the Head Office's, various branches' and sub-branches' financial and income conditions, and make proper estimates and provide timely solutions for important accounting problems. The Bank has set up a budget examination system, which regularly compares the actual performances and budgets of various branches and sub-branches, analyzes the differences and causes.

The Bank's Audit Department regularly audits various branches and sub-branches, and submits timely reports to the management and Board of Directors. In 2001, the Bank further extended the scope of internal audits. The Audit Department of the Head Office conducted on-site audits at Shanghai, Guangzhou and Beijing Branches. Through these examinations, the Bank detected and corrected the existing problems and provided suggestions on perfecting internal control for risk prevention.

2. Accounting System

As one of the important elements of internal control, the management emphasizes the importance of improving and perfecting the IT systems. The Bank's IT systems mainly include core business system and externally connected business system, with the accounting system belonging to core business system. In our auditing process, we learned that the Bank had implemented proper controlling measures for the computer system, including strict authorization, management of software and hardware, regular storage of data and disaster-assistance plans.

The Bank developed an advanced computer system which had been implemented in the entire bank by the end of 2001. The new system has strengthened the Bank's internal control and standardized the operational procedures.

The Bank's accounting departments at all levels are able to record all businesses and transactions into accounts timely, accurately, and completely according to the accounting policies set out by the Head Office, and ensure that interest income and expenses, investment income and administrative expenses, etc, are recorded into accounts under proper accounting principles.

Besides the adoption of a set of more advanced computer system in 2002, the Bank put into practice a new management system on commercial bill transaction throughout the whole bank in 2002. The computer system has strengthened the internal control and the standardization of business process in the bank.

In the year 2002, the Bank has further strengthened the procedure of regular checking on accounts. Consisting of both checking with clients outside the bank, and also checking among different business departments within the bank, this regular checking ensures the accuracy and right ending of accounting information and business information. Apart from this, the bank has revised the accounting method of the bank according to "accounting regulations for financial enterprises", which is also in comply with the new regulations and standard banking accounting.

3. Control Procedures

The Bank has set up a strict authorization and credit system for all branches and departments of the Head Office. Corresponding authorization procedures are adopted for

regular and irregular transactions, and the transaction-related responsibilities are also reasonably divided.

Based on different core businesses, including deposits, loans, funds management, trade financing, foreign exchange trading, and accounting, the Bank has established a proper organizational structure and formulated relevant rules and regulations. With the objective of risk prevention, each department has implemented proper internal control procedures, including the division of duties, accounts checking, pre-codification and double-checking, and also other business-related special internal control procedures, such as pre-credit examination and approval procedures.

Though we have noticed that rules and regulations for normal activities have been fairly perfect, supervision on the strict implementation of these risk-preventing systems still shows some shortcomings. For example, there are still some loopholes on the prevention of employees' malpractice. We therefore suggest the Bank promptly strengthen the supervision mechanism on the implementation of current rules and regulations, formulate corresponding prevention measures on employees' malpractice, and enhance internal checks and balances procedures. For example, client managers should regularly or randomly interchange their positions. In addition, we have noticed that auditing departments have played an important role in ensuring the implementation of the internal control system.

The Bank has formulated and promulgated CMBC detailed regulations on risk classification of loans, to unify the loan classification standard within the bank and enhance the accuracy in loan classification. The risk management department of the head bank has strengthened daily supervision on the changes of quality of loans, focusing on checking on the loans which has changed in classification grade, and meanwhile deciding on the grade of the loans. Besides, at the end of every quarter, the risk management department will analyze and comment on the loan combination of the whole bank, and discover problems as early as possible and raise the attention of credit personnel. But considering the importance and complexity of the work of the risk management department, we think the bank should further substantiate the personnel in risk management department and further strengthen the risk management against loan risks. For instance, for the evident increase of medium and long loans in the bank, the department should formulate the credit classification standard for medium and long-term loans and effective measures to monitor the loans and also ensure the enactment.

Limitations of this Report

As mentioned above, our examination on the Bank's internal control system and its implementation is not intended to present assurance of the Bank's internal management and control system; it is also impossible to disclose every possible major shortcoming of the internal control system. By "major shortcoming of the internal control system", we refer to the fact that although one or more key elements of internal control have been designed or implemented, risks caused by human error or getting out of line, which might have an important impact on the audited financial statements, cannot be reduced. This is unavoidable in a period even under normal operating conditions.

Through our findings in the auditing process, we suggest the Bank quicken the formulation of regulations on the prevention of employees' malpractice and other projects' internal control policies, as well as supervise the strict implementation of internal control procedures.

Besides, we did not find other major such shortcomings in the internal control system and its implementation.

PricewaterhouseCoppers Zhongtian Co., Ltd.

Certified Public Accountant
Zhou Zhonghui

China Shanghai

Certified Public Accountant
Ma Yingni

January 24, 2003