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## Important Notice

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The Board of Directors, Board of Supervisors and the directors, supervisors and senior management of China Minsheng Banking Corp., Ltd. (the “Bank”) warrant that there are no misstatements, misleading representations or material omissions in this report, and shall assume joint and several liability for the truthfulness, accuracy and integrity of its contents.

The 2005 Annual Report was deliberated and adopted on February 24, 2006 in the 28<sup>th</sup> meeting of the third session Board of Directors of the Bank.

Mr. Jing Shuping, Chairman of the Board, was unable to attend the meeting due to health considerations. Mr. Chen Jian, Mr. Li Anmin and Mr. Dong Wenbiao, did not attend the meeting in person, and Ms. Annie Wu and Mr. Wu Zhipan, left the meeting prior to its conclusion, had entrusted their voting rights in writing to other directors.

The financial statements for the year ended December 31, 2005 had been audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Company and PricewaterhouseCoopers China Limited, in accordance with the generally accepted auditing principles in the People’s Republic of China (“PRC GAAP”) and the International Standards on Auditing respectively. The auditors had issued unqualified reports on these financial statements.

Board of Directors  
China Minsheng Banking Corp., Ltd.

Mr. Jing Shuping (Chairman of the Board of Directors), Mr. Dong Wenbiao (President), Mr. Hong Qi and Ms. Wu Touhong (senior executives responsible for finance and accounting), Mr. Wang Jianping (Head of the Financial Planning and Treasury Department) and Ms. Bai Dan (Head of the Accounting and Settlement Department) warrant the truthfulness and integrity of the financial statements in this annual report.

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## Message from the Chairman

China Minsheng Bank has continuously made a significant achievement in the past year of 2005 despite of the macro-economic control measures taken by the government. I think, the success we made resulted from our strong corporate governance, effective internal control, agile business operation and management framework and our excellent problem-solving capabilities.

On behalf of the Board, I would like to express our sincere thankfulness to all societies and our customers for their supports and cares. Also, I would like to thank all employees for their diligence.

The year 2005 is a year of proud for us.

In this year, we initiated and accomplished the non-tradable shares reform as the first listed bank in the capital market, which became another milestone in our corporate history. The successful reform resolved our legacy problem and paved the way for our bank's further growth by further promoting our innovations in the market, enhancing the company's value as well as improving the modern corporate system.

The business portfolio adjustment began to create more positive results. Our retail banking business expanded rapidly with more diversified products on wealth management offered to our customers. In terms of corporate banking, we proactively broke through traditional business models which heavily relied on deposits and loans and promoted its transformation to a high-margin business focus with lower capital cost through in-

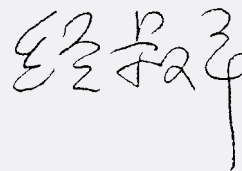
novative efforts.

In addition, in 2005, we successfully launched our credit card and had won several awards from MasterCard and VISA International.

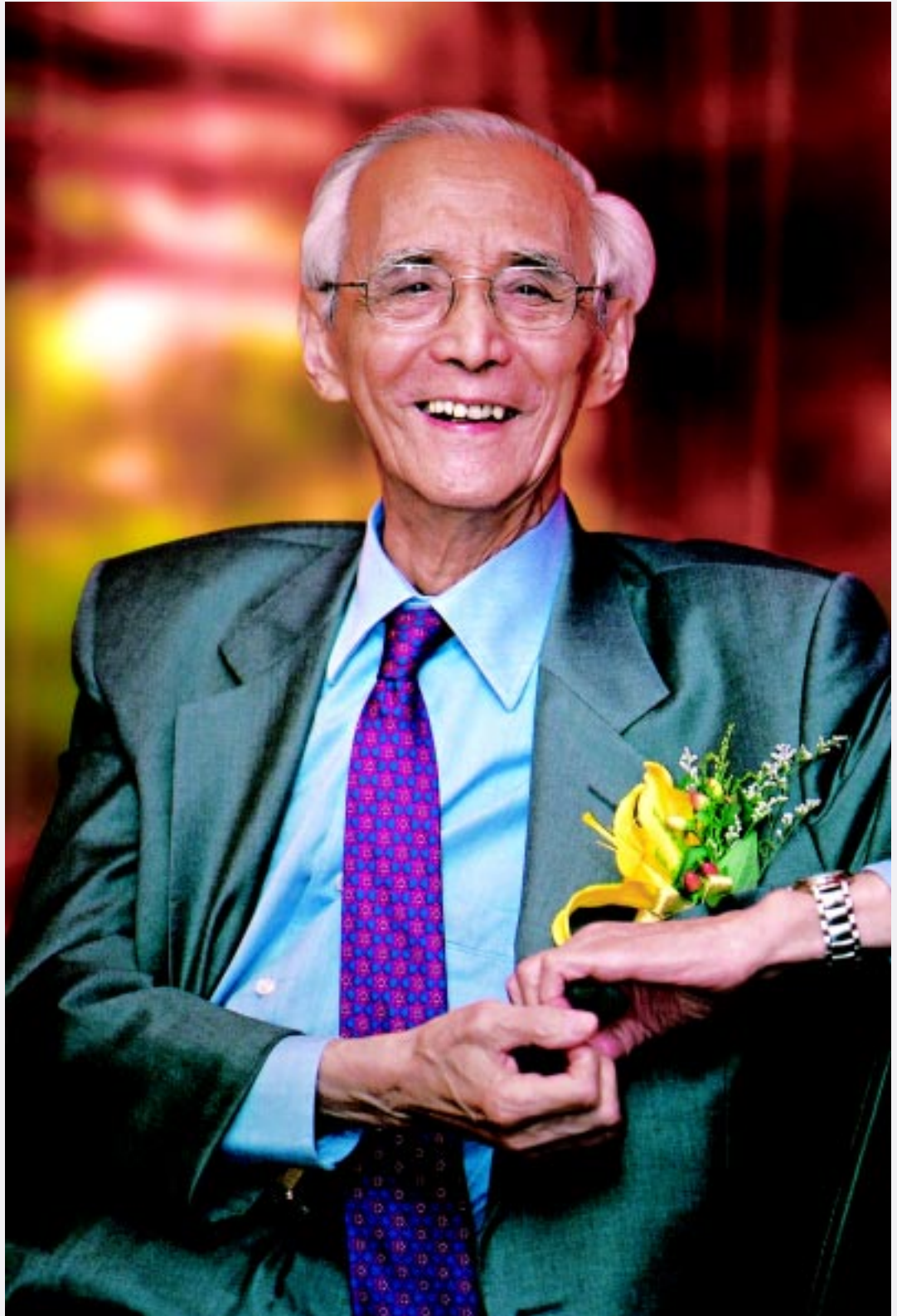
In the past ten years since the establishment, our bank has endeavored in exploration and innovation at all levels and continuously demonstrated its vitality and advantages in our agile business strategy and management system in China's banking sector. Though we enjoy increasing profit and stronger brand image in the market, we are widely aware that in a fiercer competitive market, only by focusing on high quality, good profitability and special features, will the bank be able to capture the opportunities in future development, enhance its core competitiveness and maintain sustainable development.

The year 2006 is the last year of the 5-year protection period before China fully opens its market under the WTO agreement, and is a critical year for us to make strategic changes and overall enhancements as well. It will be a matter of great importance to us how we carry out reform, innovation and development. But I am confident that Minsheng Bank will keep on performing beyond market expectation.

The highest eminence is gained step by step. Our goal of building into a "time-honored" bank cannot be hit in haste. But the convincing figures in the annual report will mark our forward steps towards the goal!



Jing Shuping



JING SHUPING, CHAIRMAN OF THE BOARD

# 2005 CMBC





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## I. Company Profile

### 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 CORP., LTD.  
(Abbreviation: CMBC, hereinafter referred to as the "Bank")

### 2. Legal representative:

Mr. Jing Shuping

### 3. Secretary to the Board of Directors:

Mr. Mao Xiaofeng  
Address: No.2, Fuxingmennei Avenue, Xicheng District, Beijing  
Tel: (+86-10) 5856 0807  
Fax: (+86-10) 5856 0681  
E-mail: cmbc@cmbc.com.cn

### 4. Registered address:

No. 4, Zhengyi Road, Dongcheng District, Beijing 100006, China  
Head Office: No. 2, Fuxingmennei Avenue, Xicheng District, Beijing 100031, China  
Website: www.cmbc.com.cn  
E-mail: cmbc@cmbc.com.cn

### 5. Newspapers designated for information disclosure:

China Securities Journal, Shanghai Securities News and Securities Times  
Website for publishing annual reports as designated by the China Securities Regulatory Commission (the "CSRC"): www.sse.com.cn  
Place for the preparation and maintenance of annual reports:  
Office of the Board of Directors (the "BOD") and the Board of Supervisors (the "BOS") of the Bank

### 6. Listing:

Shanghai Stock Exchange  
Abbreviation of stock: Minsheng Bank  
Stock code: 600016

### 7. Other information:

Date of initial registration: February 7, 1996  
Date of change of registration: December 30, 2002  
Registered Address: No.4, Zhengyi Road, Dongcheng District, Beijing  
Business license serial number: 1000001001898  
Tax registration certificate number: Jingguoshui Dong Zi 110101100018988  
Dishui Jing Zi 110101100018988000



Trustee for unlisted shares:

China Securities Depository & Clearing Co., Ltd., Shanghai Branch

Domestic accounting firm appointed:

PricewaterhouseCoopers Zhong Tian CPAs Limited Company

Address: 11 Floor, PwC Center, No.202, Hubin Road, Shanghai 200021, China

International accounting firm appointed:

PricewaterhouseCoopers China Limited

Registered address: Clarendon House, 2 Church Street, Hamilton, Bermuda

**8. This report is prepared and printed in both Chinese and English. Should there be any inconsistency between the Chinese and English versions, the Chinese version prevails.**

## II. Financial and Business Highlights

### 1. Key Financial Indicators of Year 2005

(Unit: RMB'000)

Item	PRC GAAP audited	IFRS audited
Total profit	4,242,690	4,318,095
Net profit	2,702,519	2,759,874
Net profit after exclusion of extraordinary items	2,700,935	2,758,290
Profit from main business operations	4,240,326	4,318,095
Profit from other business operations	-	-
Operating profit	4,240,326	4,318,095
Investment income	2,366,945	2,470,812
Subsidies income	-	-
Net non-operating profit/loss	2,364	2,364
Net cash flow from operating activities	15,323,082	17,658,616
Net increase in cash and cash equivalents	13,698,188	13,698,188

Note: 1. The calculations are based on the Q&A No.1 Concerning Disclosure Convention for Companies Offering Shares to the Public - Extraordinary Profit/Loss, and the Contents and Formats Standards No.2 Concerning Information Disclosure of Companies Offering Shares to the Public.

2.Extraordinary profit/loss items include RMB15,585,000 of non-operating income and RMB 13,221,000 of non-operating expenses.

Extraordinary profit/loss items	Amount (RMB'000)
Non-operating income	15,585
-Income from fine	1,870
-Other income	13,715
Non-operating expenses	13,221
- Reversal from provision for fixed assets impairment	-
-Other expenses	13,221
Income tax effect of extraordinary items	780
Total	1,584

### 2. Key Financial Highlights for the Years Ended December 31, 2003, 2004 and 2005

(Unit: RMB'000)

Item	2005		2004 PRC GAAP audited	2003 PRC GAAP audited	
	PRC GAAP audited	IFRS audited		After adjustment	Before adjustment
Revenue from main business operations	23,800,377	24,149,927	17,958,779	12,037,114	12,037,114
Net profit	2,702,519	2,759,874	2,038,401	1,391,252	1,391,252
Total assets	557,136,091	557,373,134	445,398,682	361,064,410	361,064,410
Total liabilities	541,676,612	541,919,007	432,491,524	351,414,206	351,414,206
Shareholders' equity (excluding minority interest)	15,459,479	15,454,127	12,907,158	9,650,204	9,650,204

Item	2005		2004 PRC GAAP audited	2003 PRC GAAP audited	
	PRC GAAP audited	IFRS audited		After adjustment	Before adjustment
Fully diluted EPS (RMB)	0.37	0.38	0.39	0.38	0.38
EPS valued at latest capital stock (RMB)	0.37	0.38	0.39	0.38	
Weighted average EPS (RMB)	0.37	0.38	0.40	0.41	0.41
EPS after exclusion of extraordinary profit/loss (RMB)	0.37	0.38	0.39	0.38	0.38
Net assets per share (RMB)	2.13	2.13	2.49	2.66	2.66
Adjusted net assets per share (RMB)	2.07	2.11	2.42	2.56	2.56
Net cash flow from operating activities per share (RMB)	2.11	2.43	-2.91	6.94	6.94
ROE (%)	17.48	17.86	15.79	14.42	14.42
Fully diluted ROE after exclusion of extraordinary profit/loss (%)	17.47	17.85	15.68	14.43	14.43
Weighted average ROE after exclusion of extraordinary profit/loss (%)	19.17	19.80	17.20	19.48	19.48

Note: 1. The calculations are based on Article 21 of the Contents and Formats Standards No.2 Concerning Information Disclosure of Companies Offering Shares to the Public - Contents and Formats of Annual Report (2005 Revised), and the Standards No.9 Concerning Information Disclosure of Companies Offering Shares to the Public - Calculation and Disclosure of ROE and EPS.

2. The 2003 PRC GAAP numbers before the adjustments were those disclosed in the 2004 Annual Report of the Bank.

3. Pursuant to the Announcement of the Bank on the Changes in Shareholding made on January 6, 2006, as of the closing on December 31, 2005, "Minsheng Convertible Bonds" have been converted to a cumulative total of 966,760,166 shares of "Minsheng Bank" (600016) stock (including additional shares from stock dividend and transfer of capital surplus to the shares already converted), resulting in the total capital stock of the Bank amounting to 7,258,778,713 shares and an increase of 2,074,331,518 shares from the beginning of the reporting period. Accordingly, EPS calculated based on the capital stock of the year end is RMB 0.37.

4. The EPS under IFRS is calculated in accordance with International Accounting Standard ("IAS") No.33 - Earnings Per Share

### 3. Reconciliations between Audited Financials under the PRC GAAP and IFRS

(Unit: RMB'000)

Item	Net profit	Net assets	Total assets	Total liabilities
Figures under the PRC GAAP	2,702,519	15,459,479	557,136,091	541,676,612
Adjustments made under IFRS:				
Write-off of pre-operating expenses of new branches/sub-branches	12,123	-5,413	-5,413	
Derivatives carried at fair values	-88,924	-222,431	41,694	264,125
Unrealised loss of AFS securities at fair values	-	-46,967	-46,967	-
Reversal of provision for impairment of investments	120,759	131,657	131,657	-
Recognition of interest income from short-term investments	93,243	93,243	93,243	-
Adjustments on convertible corporate bonds	10,788	898	-	-898

Item	Net profit	Net assets	Total assets	Total liabilities
Capitalization of subordinated bonds issuance expenses	2,458	14,282	-	-14,282
Capitalization of shares issuance expenses under IFRS	-16,002	-4,642	-	4,642
Impact of capital translation difference on foreign exchange gain/loss	-50,833	-	-	-
Adjustment on income tax corresponding to adjustment on IFRS financials	-26,255	34,023	22,831	-11,192
Sub-total of adjustments	57,355	-5,352	237,043	242,395
Supplementary IFRS financial statements	2,759,874	15,454,127	557,373,136	541,919,007

### Main differences between accounting principles under the PRC GAAP and IFRS:

PRC GAAP	IFRS
Unsettled amounts of derivative financial instruments are recorded as off-balance sheet items, and the related gain/loss is recognized in the income statement upon settlement of the derivative financial instruments.	Derivative financial instruments are measured at fair value in the balance sheet through profit and loss, and the net profit of the Bank has been adjusted down under IFRS.
Provision for impairment of a long-term investment shall be made when its recoverable amount is lower than its book value due to continuous decrease of the market value.	Provision for impairment of a long-term investment shall be made only when there is objective evidence in support of the occurrence of impairment (e.g. a bond issuer faces significant financial difficulties).
Interests received during the period when a short-term investment is held, other than those which have already been recorded as receivable items, shall directly offset the carrying amount of the investment, and profit or loss of the investment is recognized upon transferring out or upon settlement at maturity of the investment.	Investment income is recognized on an accrual basis.
Issuance costs of the Bank's convertible bonds in 2003 and the subordinated bonds in 2004 and 2005 were expensed in 2003, 2004 and 2005 respectively.	IFRS requires capitalization of all the issuance costs, resulting in a slightly higher net profit under IFRS than under the PRC GAAP.

### 4. Provision for Loans under the PRC GAAP and IFRS

(Unit: RMB'000)

	December 31, 2005	December 31, 2004
Balance at year beginning	4,247,700	3,226,216
Provision made in the year	1,254,852	1,360,249
Write-off/disposal in the year	-511,061	-338,765
Balance at year end	4,991,491	4,247,700
Including: Collectively assessed provision	2,324,645	2,489,882
Specifically identified provision	2,666,846	1,757,818

Note: The Bank has not appropriated any retained earnings to a special risk reserve.

According to the Accounting System for Financial Institutions, bad debt provisions made against lending to other banks and the provisions for impairment of foreclosed assets have been excluded from the above provisions and reported separately.

In compliance with the Bank's Administrative Rules on the Write-off of Bad Debts and the Measures on the Treatment of Loss from Debt Restructuring, the Bank wrote off certain non-performing assets and restructured certain loans in 2005.

## 5. Supplementary Financial Data for the Years Ended December 31, 2003, 2004 and 2005

(Unit: RMB'000)

Item	December 31, 2005		December 31, 2004	December 31, 2003
	PRC GAAP audited	IFRS audited	PRC GAAP audited	PRC GAAP audited
Total deposits	488,832,763	488,832,763	380,044,302	274,644,117
— Long-term deposits	81,152,706	81,152,706	73,986,691	48,328,540
Borrowing from other banks	-	-	1,219,919	3,139,640
Total loans	378,071,845	378,071,845	288,362,143	201,772,909
— Short-term loans	160,426,181	160,426,181	136,454,464	104,444,517
— Import & export documentary bills	1,548,582	1,548,582	1,520,084	1,356,354
— Discounted bills	63,085,654	63,085,654	29,940,167	21,621,964
— Medium and long-term loans	147,819,965	147,819,965	117,050,744	71,708,361
— Overdue loans	5,191,463	5,191,463	3,396,684	2,641,713

Note: 1. In accordance with the People's Bank of China (the "PBOC")'s requirements for deposit statistics, deposits include: short-term deposits, short-term savings deposits, outstanding remittance and temporary deposits, short-term margin deposits, long-term deposits, long-term savings deposits, long-term margin deposits and institutional deposits.

2. Long-term deposits include long-term deposits, long-term savings deposits and long-term margin deposits.

3. Total loans include short-term loans, import & export documentary bills, discounted bills, medium & long-term loans, overdue loans (including stagnant loans and bad loans).

## 6. Schedule to the 2005 Income Statement

The audited EPS and ROE under the PRC GAAP and IFRS are calculated in compliance with the Standard No.9 Concerning Information Disclosure of Companies Offering Shares to the Public - Calculation and Disclosure of ROE and EPS.

## 1) PRC GAAP audited

Item	Profit during the reporting period (RMB '000)	ROE (%)		EPS (RMB)	
		Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from main business operations	4,240,326	27.43	30.09	0.58	0.59
Operating profit	4,240,326	27.43	30.09	0.58	0.59
Net profit	2,702,519	17.48	19.18	0.37	0.37
Net profit after exclusion of extraordinary profit/loss	2,700,935	17.47	19.17	0.37	0.37

## 2) IFRS audited

Item	Profit during the reporting period (RMB '000)	ROE (%)		EPS (RMB)	
		Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from main business operations	4,318,095	27.94	31.00	0.59	0.60
Operating profit	4,318,095	27.94	31.00	0.59	0.60
Net profit	2,759,874	17.86	19.81	0.38	0.38
Net profit after exclusion of extraordinary profit/loss	2,758,290	17.85	19.80	0.38	0.38

## 7. Supplementary Financial Ratios Calculated with Reference to the Year-end Figures and Average Figures for the Years Ended December 31, 2003, 2004 and 2005

Key financial ratios (%)	Standard value	2005		2004		2003	
		Year-end	Average	Year-end	Average	Year-end	Average
Capital adequacy ratio	≥ 8	8.26	8.24	8.59	7.56	8.62	7.87
Liquidity ratio	RMB ≥ 25	45.77	57.70	59.37	55.01	76.10	57.84
	Foreign currencies ≥ 60	72.57	70.62	91.38	110.7	107.53	156.83
Loan to deposit ratio	RMB ≤ 75	65.56	69.91	69.20	69.55	65.20	64.09
	Foreign currencies ≤ 85	48.58	49.95	50.14	62.01	54.16	43.75
Interbank lending & borrowing ratio	Borrowing ratio ≤ 4	0	0.15	0.31	0.37	1.18	1.11
	Lending ratio ≤ 8	1.39	1.30	1.66	1.51	5.67	5.51
International commercial borrowing ratio	≤ 100	0	0.32	0	0.48	3.70	0.31
NPL ratio		1.28	1.36	1.31	1.25	1.29	1.60
Interest recovery rate	-	98.88	99.14	98.40	97.25	97.44	95.99
Loan ratio of the largest single customer	≤ 10	4.92	5.21	5.62	5.40	7.70	5.99
Loan ratio of the largest ten customers	≤ 50	43.6	46.08	46.51	48.90	49.12	50.88

Note: NPL ratio = (substandard loans + doubtful loans + loss loans) / total outstanding loans.

## 8. Changes in Shareholders' Equity during the Reporting Period

### 1) PRC GAAP audited

(Unit: RMB'000)

Item	Opening balance	Increase in the year	Decrease in the year	Closing balance
Capital stock	5,184,447	2,074,332	-	7,258,779
Capital surplus	4,948,491	233,041	974,097	4,207,435
Surplus reserve	777,453	405,378		1,182,831
- including: Welfare reserve	280,697	135,126		415,823
Retained earnings	1,999,595	2,702,519	1,805,254	2,896,860
Currency translation effect	-2,828		83,598	-86,426
Total shareholders' equity	12,907,158	5,415,270	2,862,949	15,459,479

Main causes for the changes in shareholders' equity:

- In accordance with the 2004 profit distribution plan adopted at the 2004 Annual General Meeting ("AGM"), the Bank distributed 2 bonus shares for every ten shares to all shareholders on the basis of full shares in the amount of 5,184,723,434 shares of the Bank on the registration date of April 15, 2005, and total bonus shares amounted to 1,036,944,687 shares.
- According to the Placement Circular of Convertible Corporate Bonds of the Bank, the convertible bonds of RMB 4 billion issued by the Bank started to be converted into shares commencing August 27, 2003. As of the closing on December 30, 2005, a total of RMB 3,984,983,000 of "Minsheng Convertible Bonds" (100016) had been converted into "Minsheng Bank" stock (600016) issued by the Bank, which resulted in an increase of 966,760,166 shares (including additional bonus shares and shares transferred from capital surplus to the already converted shares). A total of RMB 15,017,000 of the "Minsheng Convertible Bonds" remained unconverted, accounting for 0.38% of the total convertible bonds issued by the Bank. During the reporting period, a total of 63,290,014 shares were converted from the convertible bonds.
- In accordance with the Nontradable Shares Reform Scheme adopted by the First Extraordinary General Meeting ("EGM") in 2005 and related shareholders' meetings, during the reporting period, the Bank applied the capital surplus to issue new shares to all shareholders on the basis of 1.55 shares per 10 shares held on the registration date of October 24, 2005. The total shares issued via the transfer of capital surplus amounted to 974,096,817 shares.

Thus, during the reporting period, a total of 2,074,331,518 new shares were issued through bonus shares, transfer from capital surplus or conversion from convertible bonds. At the end of the reporting period, total outstanding shares amounted to 7,258,778,713.

## 2) IFRS Audited

(Unit: RMB'000)

Item	Opening balance	Increase in the year	Decrease in the year	Closing balance
Capital stock	5,184,447	2,074,332	-	7,258,779
Capital surplus	4,920,894	221,185	974,097	4,167,982
Surplus reserve	777,453	405,378	-	1,182,831
-including: Statutory surplus reserve	496,756	270,252	-	767,008
-including: Welfare reserve	280,697	135,126	-	415,823
Retained earnings	1,972,475	2,759,874	1,805,254	2,927,095
Unrealized gain/loss on available-for-sale securities, net of tax	-135,588	88,621	-	-46,967
Other capital reserves	-2,828	-	32,765	-35,593
<b>Total shareholders' equity</b>	<b>12,716,853</b>	<b>5,549,390</b>	<b>2,812,116</b>	<b>15,454,127</b>

Note: 1.The decrease in retained earnings was due to the general reserve appropriated during the reporting period.

2.The increase of unrealized gain (net of tax) on available-for-sale securities was due to a further increase in their fair value at the period end.

3.Other significant changes of shareholders' equity were due to the increase in profit during the reporting period.

## 9. Capital Structure and Changes

(Unit: RMB million)

Item	December 31, 2005	December 31, 2004	December 31, 2003
Net capital	26,226	21,339	13,275
- Core capital	15,281	12,660	9,903
- Supplementary capital	10,995	8,829	3,379
- Deductions	50	50	7
Net risk-weighted assets	317,653	248,506	154,068
Core capital adequacy ratio	4.80%	5.04%	6.43%
Capital adequacy ratio (CAR)	8.26%	8.59%	8.62%

Note: The above table is disclosed in accordance with the Administrative Measures for Capital Adequacy Ratio of Commercial Banks ([2004] No.2) promulgated by the China Banking Regulatory Commission ("CBRC") under which the CARs since January 1, 2004 have been calculated. The CARs as of and before December 31, 2003 was calculated in compliance with the then effective Guidelines on the Preparation and Reporting of the Off-site Regulatory Indicators Statements by Commercial Banks promulgated by the PBOC (Yin Fa [1997] No. 549).

### III. Changes in Capital Stock and Information on Shareholders

#### 1. Changes in Shares and Convertible Bonds

##### 1) Changes in Shares

The changes in shares of the Bank during the reporting period are shown in the following table:

(Unit: Share)

	Before the change (October 26)		Increase/decrease from the change					After the change	
	Amount	%	Right issue	Shares from stock dividend	Shares transferred from capital surplus	Other	Sub-total	Amount	%
1. Restricted shares	4,345,670,605	59.87						4,345,670,605	59.87
(1) State-owned shares									
(2) State-owned legal person shares									
(3) Other Domestic shares									
Including:									
Domestic legal person shares	3,995,055,649	55.04						3,995,055,649	55.04
Domestic individual shares									
(4) Foreign shares									
Including:									
Overseas legal person shares	350,614,956	4.83						350,614,956	4.83
Overseas individual shares									
2. Unrestricted shares	2,912,921,807	40.13				186,301	186,301	2,913,108,108	40.13
(1) Ordinary shares in RMB	2,912,921,807	40.13				186,301	186,301	2,913,108,108	40.13
(2) Foreign shares listed at home									
(3) Foreign shares listed overseas									
(4) Others									
Total	7,258,592,412					186,301	186,301	7,258,778,713	

Note: In accordance with the 2004 profit distribution plan adopted at the 2004 AGM, the Bank distributed 2 bonus shares for every ten shares to all shareholders resulting in issuing 1,036,944,687 bonus shares; and a total of 63,290,014 shares were converted from convertible bonds during the reporting period; in addition, according to the Non-tradable Shares Reform Scheme, 1.55 shares were issued for every 10 shares resulting in issuing a total of 974,096,817 shares. The aggregate increase in shares from bonus shares and conversion amounted to 2,074,331,518 shares, and total shares of the Bank at the period end were 7,258,778,713 shares.

Listing timetable for shares with restriction

Date	Shares to be listed after the lock-up	Balance of restricted shares	Balance of unrestricted shares	Note
October 26, 2006	1,450,255,845	2,895,414,760	4,363,363,953	
October 26, 2007	2,532,546,126	362,868,634	6,895,910,079	

Note: After the implementation of the Non-tradable Shares Reform, all non-tradable shares held by China SME Investment Co., Ltd. shall all be converted to restricted tradable shares (362,868,634 shares in total), which can be listed or tradable after the Board of Directors of the Bank has filed an application for removal of the restrictive conditions for the related shares and after China SME Investment Co., Ltd. repays its debts to parties who had paid holders of previously tradable shares on behalf of it (including the derived bonus shares, converted shares and



cash dividends), and obtaining the written consent from all parties who had made the loans. For details, please refer to the Announcement on the Progress of Non-tradable Shares Reform of the Bank published in China Securities Journal, Shanghai Securities News and Securities Times on September 30, 2005.

Number of shares of and the restrictive conditions for the ten Largest shareholders subject to restrictive conditions

No.	Name of shareholder subject to restrictive conditions	Restrictive shares held	Date of removal of restrictions	Increase of fully tradable shares	Restrictions
1	New Hope Investment Co., Ltd.	434,551,830	October 26, 2007	0	
2	China Fanhai Holding Co., Ltd.	409,301,100	October 26, 2007	0	
3	China SME Investment Co., Ltd.	362,868,634	October 26, 2007	0	
4	Oriental Group Co., Ltd.	342,048,444	October 26, 2007	0	
5	China Shipowners Mutual Assurance Association	337,042,812	October 26, 2007	0	
6	Xiamen Funxin Group Company	296,149,191	October 26, 2007	0	
7	Asia Financial Holdings Pte., Ltd.	283,362,300	October 26, 2007	0	
8	Shanghai Giant Biotechnology Co., Ltd.	225,502,868	October 26, 2007	0	
9	Sichuan South Hope Industry Co., Ltd.	204,587,581	October 26, 2007	0	
10	Harbin Shirble Electric-heat Co., Ltd.	157,423,500	October 26, 2006	0	

Note: The above number of shares held by China SME Investment Co., Ltd. was the number of shares it held after the implementation of the Non-tradable Shares Reform, including new shares converted from the capital surplus. The above numbers of shares held by China Shipowners Mutual Assurance Association, Xiamen Funxin Group Company and Shanghai Giant Biotechnology Co., Ltd. were the numbers of shares they held after the implementation of the Non-tradable Shares Reform, and after they had made advance payments on behalf of China SME Investment Co., Ltd. For details, please refer to the related announcements published in the China Securities Journal, Shanghai Securities News and Securities Times on September 29 and October 21, 2005.

Shanghai Giant Biotechnology Co., Ltd. changed its name to Shanghai Life Technology Co., Ltd. on November 23, 2005.

## 2) Changes in Convertible Bonds

The changes of convertible bonds in the reporting period are shown below:

(Unit: RMB)

	Before the change	Increase/decrease	After the change
		(Conversion, redemption, resale)	
Convertible bonds	308,844,002	-293,827,002	15,017,000

Note: The changes in convertible bonds were resulted from the conversion commencing on August 27, 2003. For details, please refer to the China Securities Journal, Shanghai Securities News and Securities Times on January 6, 2006.

## 2. Shares Issuance and Listing

### 1) Stock Issuance in the past three years

The Bank listed its shares on November 27, 2000, and has not issued any shares via public offering during the past three years.

### 2) Total shares and changes during the reporting period

In accordance with the 2004 profit distribution plan adopted at the 2004 AGM, the Bank distributed 2 bonus shares for every

ten shares to all shareholders resulting in issuing 1,036,944, 687 bonus shares; and a total of 63,290,014 shares were converted from convertible bonds during the reporting period; in addition, according to the Non-tradable Shares Reform Scheme, 1.55 shares were issued for every 10 shares resulting in issuing a total of 974,096,817 shares. The aggregate increase in shares from bonus shares and conversion amounted to 2,074,331,518 shares, and total shares of the Bank at the period end were 7,258,778,713 shares. For total shares and

shareholding structure, please refer to the “Changes in Shares” table listed as above.

**3) During the reporting period, the Bank did not issue any employee shares.**

**4) Explanation on the changes in shares due to the Non-tradable Shares Reform Scheme during the reporting period**

In accordance with the Resolution on the Transfer of the Capital Surplus into Capital Stock and the Non-tradable Shares Reform Scheme of the Bank adopted by the First EGM and related shareholders’ meetings of the Bank in 2005, the Bank used the capital surplus to increase the shares of all shareholders at 1.55 shares for every 10 shares on the basis of the full shares of the Bank after closing of the registration date when the scheme was carried out. All holders of non-tradable shares who participated in the Non-tradable Shares Reform used 673,578,944 newly received shares as considerations to pay holders of tradable shares. Based on the number of shares held by tradable share holders at the closing of the registration date, they received 5.02416 new shares for every 10 shares they held. It follows that after the implementation of the Non-tradable Shares Reform, every 10 previously tradable shares would become 15.02416 shares, of which 1.55 shares were transferred from the capital surplus to which holders of tradable shares were entitled, and 3.47416 shares were considerations paid by holders of previously non-tradable shares.

**3. Issuance and Listing of Convertible Bonds**

With the approval of the CSRC in the document referenced as Zhengjian Faxing Zi [2003] No. 13, the Bank issued RMB 4 billion of convertible corporate bonds on February 27, 2003, which were listed on the Shanghai Stock Exchange on March 18, 2003. The Placement Circular and the Listing Announcement was published in the China Securities Journal, Shanghai Securities News and Securities Times on February 21, 2003 and March 13, 2003 respectively.

**4. Conversion Price Adjustments on Convertible Bonds**

In accordance with the articles of issuance in the Placement Circular and the CBRC’s requirements on the issuance of convertible bonds, on April 14, 2003, the Bank carried out its 2002 distribution plan in which for every 10 shares held in 2002, a

cash dividend of RMB 0.60 was paid; 2 bonus shares was granted and 1 share was granted from conversion of capital surplus. Accordingly the original price of the convertible bonds was adjusted from RMB 10.11 to RMB 7.73 per share. For details, please refer to the China Securities Journal, Shanghai Securities News and Securities Times on April 8, 2003.

On April 16, 2004, the Bank carried out its 2003 distribution plan in which for every 10 shares held in 2003, a cash dividend of RMB 1.20 (before tax) was paid; 2 bonus shares were granted and 1.5 shares were granted from conversion of capital surplus, and accordingly, the conversion price of the convertible bonds was further adjusted from RMB 7.73 to RMB 5.64 per share. For details, please refer to the China Securities Journal, Shanghai Securities News and Securities Times on April 13, 2004.

On April 15, 2005, the Bank carried out its 2004 distribution plan in which for every 10 shares held in 2004, a cash dividend of RMB 0.70 (before tax) was paid; and 2 bonus shares were granted. Accordingly, the conversion price of the convertible bonds was again adjusted from RMB 5.64 to RMB 4.64 per share. For details, please refer to the China Securities Journal, Shanghai Securities News and Securities Times on April 12, 2005.

On October 24, 2005, the Bank implemented its Non-tradable Shares Reform Scheme, in which for every 10 shares, 1.55 shares were issued from conversion of capital surplus. The conversion price of the convertible bonds was then adjusted from RMB 4.64 to RMB 4.02 per share. For details, please refer to the China Securities Journal, Shanghai Securities News and Securities Times on October 21, 2005.

**5. Issuance of the Subordinated Bonds**

With approval from the PBOC in the document referenced as YinFu [2004] No. 59 and from the CBRC in the document referenced as Yinjianfu [2004] No.159, the Bank issued RMB 5.8 billion of subordinated bonds through private placement in the national inter-bank bond market. The subordinated bonds included RMB 4.315 billion of fixed rate bonds at 5.1% per annum and RMB 1.485 billion of floating rate bonds at an initial rate of 4.65% per annum (basic rate of 2.25% plus basic spread of 2.4%). The floating rate shall be adjusted in response to the adjustment of basic rates set by the PBOC. The term of the subordinated bonds issued is 10 years and the interest shall

be paid once a year. As of November 8, 2004, the proceeds of RMB 5.8 billion from subordinated bonds issuance were fully deposited into the Bank's account, bringing to completion of the issuance of subordinated bonds.

In accordance with the PBOC's Reply to CMBC regarding the Issuance of Subordinated Bonds (Yinfu [2005] No.112) and CBRC's Reply to CMBC regarding the Issuance of Subordinated Bonds (Yinjianfu [2005] No.309), the Bank issued RMB 1.4 billion of subordinated bonds in the national inter-bank bonds market through private placement, which are all 10-year fixed-rate bonds at an initial rate of 3.68% per annum with a

call option at the end of the fifth year by the issuer. If the issuer does not exercise the call option, the interest rate for the second 5-year period shall increase by 300bp. Interest shall be paid once a year. As of December 26, 2005, the proceeds of RMB 1.4 billion from the subordinated bonds issuance, after deduction of issuance costs, were all deposited into the account of the Bank which brings the completion of the issuance. The subordinated bonds are accounted for as the Bank's supplementary capital in accordance with the related rules and regulations.

## 6. Shareholders and Convertible Bonds Holders

### 1) Ten largest shareholders and their shareholdings

(Unit: Share)

Total number of shareholders	277,224			
Ten largest shareholders:				
Shareholder name	Shareholder type	Percentage	Total shares held	Restricted shares held
New Hope Investment Co., Ltd.	Other	5.99%	434,551,830	434,551,830
China Fanhai Holding Co., Ltd.	Other	5.64%	409,301,100	409,301,100
China SME Investment Co., Ltd.	Other	5.00%	362,868,634	362,868,634
Oriental Group Co., Ltd.	Other	4.71%	342,048,444	342,048,444
China Shipowners Mutual Assurance Association	Other	4.64%	337,042,812	337,042,812
Xiamen Fuxin Group Company	Other	4.08%	296,149,191	296,149,191
Asia Financial Holdings Pte., Ltd.	Foreign shareholder	3.90%	283,362,300	283,362,300
Shanghai Giant Life Technology Co., Ltd.	Other	3.11%	225,502,868	225,502,868
Sichuan South Hope Industry Co., Ltd.	Other	2.82%	204,587,581	204,587,581
Harbin Shirble Electric-heat Co., Ltd.	Other	2.17%	157,423,500	157,423,500
<b>Ten largest shareholders of unrestricted shares</b>				
Shareholder name			Unrestricted shares held	Share type
SSE 50 ETF			86,703,824	Common shares in RMB
E Fund 50 Index Securities Investment Fund (易方达 50 指数证券投资基金)			74,452,328	Common shares in RMB
IFC-Standard & Standard Chartered-CITIGROUP Global Markets Limited			25,587,914	Common shares in RMB
CITIC Classic Allocation Securities Investment Fund (中信经典配置证券投资基金)			23,342,397	Common shares in RMB
Jiashi Service & Value-added Industry Securities Investment Fund (嘉实服务增值行业证券投资基金)			22,870,233	Common shares in RMB

Ten largest shareholders of unrestricted shares		Unrestricted shares held	Share type
Shareholder name			
Pufeng Securities Investment Fund (普丰证券投资基金)		22,222,822	Common shares in RMB
ICBC - Shenwan BNP Shengli Selected Securities Investment Fund (中国工商银行－申万巴黎盛利精选证券投资基金)		20,088,587	Common shares in RMB
Puhui Securities Investment Fund (普惠证券投资基金)		18,761,178	Common shares in RMB
Penghua Industry Growth Securities Investment Fund (鹏华行业成长证券投资基金)		18,659,258	Common shares in RMB
Investment Portfolio 104 of National Social Security Fund (全国社保基金一零四组合)		17,908,303	Common shares in RMB
Related-party relationship and activities in concert among the above shareholders	Mr. Wei Anning, legal representative of Sichuan South Hope Industry Co., Ltd., is a director of New Hope Investment Co., Ltd.; no other related parties have been identified by the Bank.		

Note: On January 19, 2005, China National Coal Group Corporation, a shareholder of the Bank, transferred all 236,135,250 shares in the Bank to Asia Financial Holdings Pte., Ltd., and the transfer was announced in the China Securities Journal, Shanghai Securities News and Securities Times on January 22, 2005.

## 2) Ten largest convertible bond holders:

Bond holder name	Bonds held (RMB)	% of the total	Bond type
Investment Portfolio 109 of National Social Security Fund (全国社保基金一零九组合)	3,486,000	0.0872%	Convertible bond
Zhuang Miaomei (庄妙妹)	1,319,000	0.0330%	Convertible bond
Chen Yanwen (陈雁文)	1,318,000	0.0330%	Convertible bond
Guotai Junan Securities-CCB-HSBC (国泰君安 - 建行 - 香港上海汇丰银行有限公司)	1,077,000	0.0269%	Convertible bond
Leng Zhicheng (冷志成)	590,000	0.0148%	Convertible bond
Liu Hui (柳徽)	500,000	0.0125%	Convertible bond
Lv Yangling (吕延龄)	444,000	0.0111%	Convertible bond
Zhang Ying (张颖)	364,000	0.0091%	Convertible bond
Chen Zaoxin (陈灶新)	200,000	0.0050%	Convertible bond
Zhang Fengwei (张凤伟)	180,000	0.0045%	Convertible bond

## 3) Major changes in the profitability, asset quality and credit of the guarantor for the convertible bonds issued by the Bank

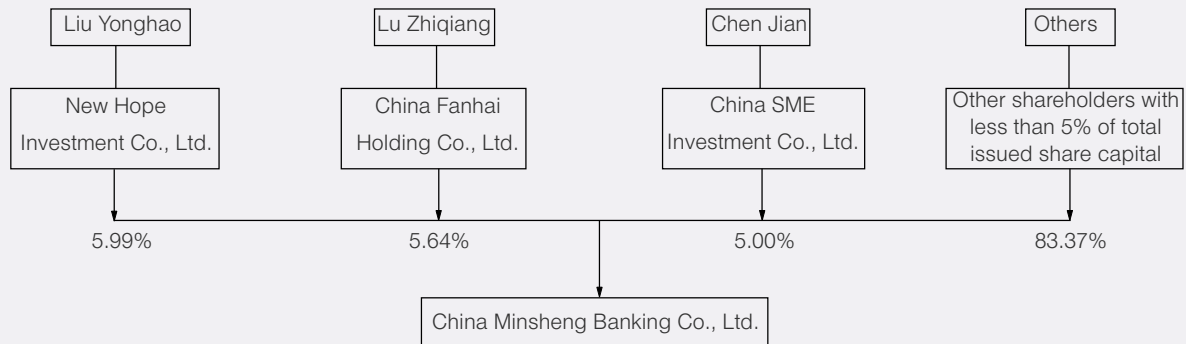
Industrial and Commercial Bank of China (ICBC) is the guarantor for the Bank's convertible bonds. During the reporting period, there have been no significant changes to ICBC's profitability, quality asset and credit.

## 4) Pledged or frozen shares of shareholders with more than 5% of the Bank's capital stock

(Unit: thousand shares)

Shareholder name	Shares pledged/frozen	Type	Pledged to/frozen by
China Fanghai Holding Co., Ltd.	409,301.1	Pledged	Hebei Construction Investment Company
China SME Investment Co., Ltd.	361,411.9	Frozen	The Supreme People's Court

## 5) Controlling shareholders and the effective controllers



The Bank does not have controlling shareholders or other effective controllers, and the above diagram shows the controlling relationship of the Bank's shareholders with more than 5% of the Bank's shares.

## 6) Shareholders holding more than 5% of the Bank's total issued share capital

### (1) New Hope Investment Co., Ltd.

Established in November 2002, its legal representative is Mr. Liu Yonghao. Main businesses include venture capital investment, investment management, financial advisory, wealth management consulting, technological advisory services, etc. The registered capital is RMB 576,555,600. Major shareholders include Sichuan New Hope Group Corporation and Sichuan New Hope Agricultural Co., Ltd.

### (2) China Fanhai Holding Co., Ltd.

Established on April 7, 1988, its legal representative is Mr. Lu Zhiqiang. Main businesses include technology, culture and education; real estate, infrastructure and industrial investment; capital market operation, asset management; hotel and property management; telecommunications, office automation, sales of building decoration materials and equipment (excluding those requiring special licenses); economical, technological and managerial consulting services related to the above businesses. The registered capital is RMB 1 billion. Main share-

holders include Fanhai Group Co., Ltd. with a contribution of RMB 675 million or 67.5% of the registered capital, and Guangcai Industry Investment Group Co., Ltd. with a contribution of RMB 325 million or 32.5% of the registered capital.

### (3) China SME Investment and Co., Ltd.

It was originally named China Township Enterprise Investment and Development Co., Ltd. and established in December 1992, and its legal representative is Mr. Cao Jiren. Main businesses include planning, development and construction of clustered industrial zones of township and village enterprises and small & medium-sized cities and towns; real estate development and management; project financing, investment and technological development for township and village enterprises; warehousing, transportation, leasing and sales of materials for the production and construction of township and village enterprises (excluding those requiring special licenses); sales of textiles; investment development consulting, HR training, development of new technologies and information technology services related to the above businesses. Its registered capital is RMB185,520,000, with a total of 95.17% from State-Invested Land Consolidation and Rehabilitation Co., Ltd. and Beihai Zhongfa Investment Co., Ltd., and the rest of the 4.83% from Bank of Communications and Guizhou Township Enterprise Investment Co., Ltd.

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## IV. Directors, Supervisors, Senior Executives and Employess

## IV. Directors, Supervisors, Senior Executives and Employees

### 1. Directors, Supervisors and Senior Executives

#### 1) Basic information

Name	Gender	Age	Position	Term	Shares held at year beginning (share)	Shares held at year end (share)	Total remunerations (after tax) received from the Bank during the reporting period (RMB ten thousand)	Receiving remuneration from other shareholding company or other related institutions
Jing Shuping	M	87	Board Chairman	16/06/2003-16/06/2006	0	0	253.32	No
Zhang Hongwei	M	51	Vice Board Chairman	16/06/2003-16/06/2006	0	0	12.26	Yes
Liu Yonghao	M	54	Vice Board Chairman	16/06/2003-16/06/2006	0	0	12.02	Yes
Wang Yugui	M	54	Director	16/06/2003-16/06/2006	0	0	11.78	Yes
Feng Lun	M	46	Director	16/06/2003-22/04/2005	0	0	3.79	Yes
Li Anmin	M	61	Director	16/06/2003-16/06/2006	0	0	10.10	Yes
Chen Jian	M	47	Director	16/06/2003-16/06/2006	0	0	9.62	Yes
Huang Xi	F	43	Director	16/06/2003-16/06/2006	0	0	10.34	Yes
James Stent	M	60	Independent Director	16/06/2003-16/06/2006	0	0	16.33	Yes
Annie Wu	F	57	Independent Director	18/01/2004-16/06/2006	0	0	13.70	Yes
Wu Zhipan	M	49	Independent Director	16/06/2003-16/06/2006	0	0	12.02	Yes
Zhang Ke	M	52	Independent Director	16/06/2003-16/06/2006	0	0	14.90	Yes
Gao Shangquan	M	76	Independent Director	16/06/2003-16/06/2006	0	0	12.26	Yes
Dong Wenbiao	M	48	Director, President	16/06/2003-16/06/2006	0	0	191.61	No
Hong Qi	M	48	Director, Vice President	16/06/2003-16/06/2006	0	0	124.68	No
Huang Diyan	M	75	Chairman of the Supervisory Board	24/12/2004-16/06/2006	0	0	248.04	No
Lu Zhiqiang	M	54	Vice Chairman of the Supervisory Board	16/06/2003-16/06/2006	0	0	9.86	Yes
Wang Liang	M	63	Supervisor	16/06/2003-16/06/2006	0	0	10.10	Yes
Zhao Pinzhang	M	49	Supervisor	16/06/2003-16/06/2006	0	0	114.62	No
Gao Feng	M	62	Supervisor	16/06/2003-16/06/2006	0	0	9.36	No
Yuan Meizhen	F	49	Supervisor	16/06/2003-16/06/2006	0	0	69.18	No
Huang Dianpeng	M	53	Supervisor	16/06/2003-16/06/2006	2,624	4,731	8.66	Yes
Wei Anning	M	42	Supervisor	16/06/2003-16/06/2006	0	0	8.66	Yes
Zhang Hongjiu	M	51	Supervisor	24/12/2004-16/06/2006	0	0	11.06	Yes
Liang Yutang	M	48	Vice President	18/01/2005-16/06/2006	0	0	114.52	No
Shao Ping	M	48	Vice President	18/01/2005-16/06/2006	0	0	114.84	No
Mao Xiaofeng	M	33	Secretary to the BOD	16/06/2003-16/06/2006	0	0	114.45	No
Wu Touhong	F	46	CFO	16/06/2003-16/06/2006	0	0	115.90	No
Total							1657.98	



- Note: 1. James Stent, Annie Wu, Wu Zhipan, Zhang Ke and Gao Shangquan are independent directors of the Bank.  
 2. Zhao Pinzhang, Gao Feng and Yuan Meizhen are supervisors representing the employees of the Bank.  
 3. On January 18, 2005, the 16<sup>th</sup> session of the third session Board of Directors of the Bank appointed Shao Ping and Liang Yutang as vice presidents of the Bank, and the appointment was announced in the China Securities Journal, Shanghai Securities News and Securities Times on January 19, 2005.  
 4. On April 22, 2005, the 19<sup>th</sup> session of the third session Board of Directors accepted Feng Lun's resignation from his position as board director of the Bank after Vantone Industry Co., Ltd., where he chaired the board of directors, had transferred all the shares it held of the Bank to others. This was announced in the China Securities Journal, Shanghai Securities News and Securities Times on April 25, 2005.  
 5. The increase of shares held by Huang Dianpeng was due to the addition of bonus shares and shares converted from capital surplus reserve.

## 2) Incumbency of directors, supervisors of the Bank in the shareholding companies

Name	Shareholding company	Position	Term
Lu Zhiqiang	China Fanhai Holding Co., Ltd.	Chairman	May 24, 1999 - present
Zhang Hongwei	Oriental Group Co., Ltd.	Chairman	May 2002 - present
Liu Yonghao	New Hope Investment Co., Ltd.	Chairman	November 2002 - present
Wang Yugui	China Shipowners' Mutual Assurance Association	General Manager	1993 - present
Wei Anning	Sichuan South Hope Industry Co., Ltd.	Chairman	November 2002 - present
Li Anmin	Shanxi Antai Group Co., Ltd.	Chairman	1991 - present
Chen Jian	China SME Investment Co., Ltd.	President	2001- present
Huang Xi	Xiamen Fuxin Group Co., Ltd.	Chairman	September 2001- present
Wang Liang	Dongguan Fenggang Yantian Development Company	Director	June 2001- present
Huang Dianpeng	Liaohu Forage Group Company	Chairman	1996- present

## 3) Basic working experience of current directors, supervisors and senior executives

Name	Position	Working experience
Jing Shuping	Chairman	1939-1942: Deputy Manager, Shanghai Xinzhong Industrial Company
		1942-1955: Deputy General Manager, Shanghai Huaming Tobacco Company
		1953-1955: Deputy General Manager, Shanghai Democratic Construction Association
		1953-1956: General Manager, Shanghai Joint Tobacco Production and Sales Company
		1953-1956: Director, Shanghai Tobacco Industry Association
		1955-1956: Deputy Secretary General, Shanghai Federation of Industry and Commerce
		1955-1956: Deputy Secretary General, Shanghai People's Political Consultative Conference
		1954-2003: Member of Standing Committee, Chinese Peoples' Political Consultative Conference (CPPCC)
		1956-1993: Deputy Secretary General, Secretary General, Vice Chairman, All-China Federation of Industry and Commerce (ACFIC)
		1979 - present: Director, Executive Director, China International Trust & Investment Co., Ltd.
		1979-2000: General Manager, Chairman, China International Economic Consulting Corporation
		1989 - present: Advisor, Honorable Advisor, International Business Leaders Advisory Council for the Mayor of Shanghai
		1993-2002: Chairman, ACFIC
		1996 - present: Chairman, CMBC

Name	Position	Working experience
		1996 - present: Vice President, Honorable President, China Society for Promotion of the Guangcai Program
		1998-2003: Vice Chairman, CPPCC
Zhang Hongwei	Vice Chairman	1978-1988: Chairman and General Manager, Oriental Group Inc.
		1988-1992: Chairman & President, Oriental Group Inc.
		1993- present: Chairman, Oriental Group Inc. Chairman, Oriental Group Co., Ltd.
		2000 - present: Vice Chairman, CMBC
		1993 - present: Member of 8 <sup>th</sup> and 9 <sup>th</sup> CPPCC; Member of the Standing Committee of 10 <sup>th</sup> CPPCC
		1997- present: Vice Chairman, ACFIC
Liu Yonghao	Vice Chairman	1973-1982: Lecturer, Sichuan Machinery Institute of Technology
		1982-1993: Vice Chairman, Chengdu Hope Inc.
		1993 - present: President, New Hope Group
		1997 -present: Chairman, Sichuan New Hope Co., Ltd.
		1997- present: Chairman, Sichuan New Hope Real Estate Development Co., Ltd.
		1998-present: Chairman, Sichuan New Hope Agricultural Ltd.
		2001-present: Chairman of BOS, Minsheng Life Insurance Co., Ltd.
		2002 - present: Chairman, New Hope Investment Co., Ltd.
		1993-present: Vice President, China Feed Industry Association
		1994-present: Vice President, China Society for Promotion of the Guangcai Program
		1993-2002: Vice Chairman, ACFIC
		1993-present: Member, CPPCC
		1998-2003: Member of the Standing Committee of the 9 <sup>th</sup> CPPCC
		2003-present: Member of the Standing Committee of the 10 <sup>th</sup> CPPCC; Deputy Director of economic committee of the 10 <sup>th</sup> CPPCC
		2005-present: Chairman, Shandong Liuhe Group Co., Ltd.
Wang Yugui	Director	1977-1981: Crew, Director, Tianjin Ocean Shipping Company
		1981-1993: Insurance Claim Officer, China Ocean Shipping (Group) Company
		1993-present: General Manager, China Shipowners Mutual Assurance Association
Li Anmin	Director	1984-1993: Factory Director, Yi'an Coking Plant of Jiexiu City; General Manager of Shanxi Jiexiu Antai Coking Company Limited
		1993-2000: Chairman and General Manager, Shanxi Antai Group Co., Ltd.
		2000-present: Chairman, Shanxi Antai Group Co., Ltd.
Chen Jian	Director	1984-1985: Editor, the Institute of Agricultural Economics, Chinese Academy of Agricultural Sciences
		1985-1989: Reporter, Agricultural Department of the People's Daily
		1989-1990: Deputy Secretary-General, China Foundation for Poverty Alleviation
		1990-1992: Director, Agricultural Division of the Research Office of the State Council
		1992-present: Vice Chairman, China SME Enterprises Investment Co., Ltd.
Huang Xi	Director	1982-1989:Teacher of mathematics, Xiamen Xinglin Middle School
		1989-2001: Financial Controller, Supervisor, Director, Xiamen Fuxin Property Co., Ltd. and Xiamen Fuxin Group Co., Ltd.

Name	Position	Working experience
		2001-present: Chairman, Xiamen Fuxin Group Co., Ltd.
		2002-2005: Chairman, Xiamen Fuxin OEIC Co., Ltd.
James Stent	Independent Director	1973-1978 CITIBANK (New York, Manila and Hong Kong)
		1979-1982 Crocker National Bank (L.A., Hong Kong and Bangkok)
		1982-1984 Bangkok Rama Tower
		1984-2002: Senior Executive & Vice President, Bank of Asia
		2002-present: Advisor, International Water Management Institute
		2003-2006: Wildchina Company
Annie Wu	Independent Director	1970-1970: Hotel Director, Hong Kong Pavilion of the Japan-Osaka World Expo '70
		1970-1990: Director and General Manager, Starlight Ltd. of Hongkong Land Holdings Ltd.
		1990-present: Managing Director, Hong Kong Beijing Air Catering Ltd.
Wu Zhipan	Independent Director	1988-1995: Lecturer, Associate Professor, Peking University
		1996-1999: Dean, Professor, Law Department of Peking University
		1999-2002: Dean, Law School, Peking University
		2000-2002: Assistant President of Peking University and Dean of Law School of Peking University
		2002-2005: Vice President, Peking University
		2005-present: Deputy Secretary General, Peking University
Zhang Ke	Independent Director	1982-1984: Consultant and Project Manager, China International Economic Consultants Corporation of CITIC Group
		1985-1986: Departmental Manager, China International Economic Consultants Corporation of CITIC Group
		1987-1992: Deputy Executive Director, Zhongxin Accountant's Firm of CITIC Group
		1993-1996: Deputy General Manager, Zhongxin Coopers Accounting Firm; Partner, Coopers & Lybrand
		1997-1999: General Manager, Zhongxin Coopers Accounting Firm; Deputy Executive Director of Coopers China
		1999-present: Chairman, Chief Partner, ShineWing CPA Firm
Gao Shangquan	Independent Director	1952-1953: Official, the Bureau of Machinery of the People's Government of Northeast China
		1953-1978: Researcher, First Ministry of Machine-building Industry and Agricultural Machinery Ministry
		1978-1979: Deputy Director, the Agricultural Machinery Office of the State Council
		1979-1982: Division Director, the State Machinery Commission
		1982-1985: Deputy Division Director and Division Director, the State Economic Restructuring Commission
		1985-1993: Deputy Director, State Economic Restructuring Commission
		1993-1999: Vice President, China Society of Economic Reform
		1999-present: President, China Society of Economic Reform
Dong Wenbiao	Director, President	1981-1990: Lecturer, Deputy Director and Deputy President, Henan Finance and Management College
		1990-1993: General Manager, Zhengzhou Branch, Bank of Communications
		1993-1995: Chairman & President, Haitong Securities Co., Ltd.

Name	Position	Working experience
		1995-1996: Deputy Chief, Preparatory Group of CMBC
		1996-2000: Vice President, CMBC
		1999-present: Director, CMBC
		2000-present: President, CMBC
Hong Qi	Director	1985-1991: Senior staff member, PBOC Head Office
	Vice President	1991-1994: Deputy Director, the Securities Research Institute of China Renmin University
		1994-1995: Managing Director of Beihai Branch, Bank of Communications
		1995-1996: Preparatory Group for CMBC
		1996-1998: Director of the Business Department, CMBC
		1998-1999: General Manager of Beijing Branch, CMBC
		1999-present: Executive Vice President, CMBC
		2003-present: Director, CMBC
Huang Diyan	Chairman of the Supervisory Board	1954-1983: Staff Member, Deputy Division Director, Manager, Deputy General Manager, General Manager, Overseas Network Management Department, Bank of China (BOC) Head Office
		1983-1994: Executive Director of BOC; Deputy Director, Hon Kong and Macau Affairs Management Dept of BOC; Vice Chairman, board of directors of BOC; Director, Hon Kong and Macau Business Management Dept of BOC
		1994-1999: Advisor, the Office of Hong Kong & Macau Affairs, BOC
		1996-2003: Director, CMBC
Lu Zhiqiang	Vice Chairman of the Supervisory Board	1985-present: Chairman and President, China Fanhai Group Co., Ltd.
		1999-present: Chairman and President, China Fanhai Holding Co., Ltd.
		1997-present: Chairman, Guangcai Investment (Group) Co., Ltd.
		1998-present: Chairman, Fanhai Construction Group Co., Ltd.
		2002-present: Chairman, Wuhan Wangjiadun CBD Construction & Investment Corp., Ltd.
		2002-present: Director, Haitong Securities Co., Ltd.
		2005-present: Chairman of Supervisory Board, Fanhai Construction Holding Co., Ltd.
		2002-present: Vice Chairman, Minsheng Life Insurance Co., Ltd.
		2004-present: Vice Chairman, the BOS, CMBC
	2002-present: Director, Haitong Securities Co., Ltd.	
Wang Liang	Supervisor	1962-1968: Accounting major, Economic Department, Northern Jiaotong University
		1968-1985: Deputy Director, the Finance Department of Kunming Railway Bureau
		1985-1987: Director, the Finance Department of the Chinese Academy of Sciences (Guangzhou)
		1987-1989: President, Guangzhou Huacheng Accountant Firm
		1989-1993: Vice President, Gangzhou Academy of Economic Research
		1993-2003: Vice Chairman, Guangzhou Federation of Industry and Commerce; Chairman, Guangzhou Shanghui Economic Development Corporation; Chairman, Guangzhou Xinlian Company
		2002-present: Director, Dongguan Fenggang Yantian Development Co., Ltd.
Zhao Pinzhang	Supervisor	1975-1976: Staff member, Jilin Liaoyuan Catering Service Company
		1976-1978: Staff member, Finance Office of Liaoyuan Revolution Committee
		1978-1989: Section Chief, Liaoyuan Sub-branch of China Construction Bank

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Name	Position	Working experience
		1989-1995: Director, Vice President, Liaoyuan Branch of Bank of Communications
		1995-1996: General Manager, Liaoyuan Branch of China Pacific Insurance Co., Ltd.
		1996-1998: Deputy Director, Preparatory Group for Safebox Business, CMBC
		1998-2000: Deputy General Manager, Beijing Branch of CMBC;
		Managing Director of Shijiazhuang Sub-branch of CMBC
		2000-2001: Deputy General Manager, Risk Management Department, CMBC
		2001-present: General Manager, Credit Assessment Department, CMBC
		2003-present: Chief Credit Officer, CMBC2005-present: Assistant President, CMBC
Gao Feng	Supervisor	1967-1977 Guizhou Geological Company, Shandong Geological Company
		1978-1987: Deputy Director, China National Coal Corporation;
		Division Director, the Ministry of Coal Industry
		1988-1993: Deputy Director, the Policy & Regulation Bureau of the Ministry of Coal Industry
		1994-1997: General Manager, China Coal Transportation & Sales Corporation;
		First Deputy General Manager, China National Coal Machinery & Equipment
		Group Company
		1998-1999: Deputy Secretary General, ACIFC
		2000-2003: Secretary to the Board, CMBC
		2003-present: Member of the BOS, CMBC
Yuan Meizhen	Supervisor	1977-1985: Section Chief, Zhiqing Office and Personnel Bureau of Daye City,
		Hubei Province
		1985-1998: Director, the Organization Department of the Central Committee of CPC
		1998-present: Director of the Party Work Office, General Office, Labor Union of Beijing Branch,
		CMBC; Director of Disciplinary & Monitoring Department of CMBC
Huang Dianpeng	Supervisor	Before 1981: Anshan Teng'ao Grain Depot
		1981-1984: Co-founder, Teng'ao Bone Meal Factory, Anshan City
		1984-1991: Founder, Haicheng Joint Forage Company
		1991-1998: Chairman and General Manager, Liaohe Forage Group Company
		1998-2004: General Manager of three joint-ventures with ABN, UK
		2004-present: Chairman and General Manager, Liaohe Forage Company
Wei Anning	Supervisor	1978-1982: Undergraduate, Economics Department, Tianjin Nankai University
		1982-1984: Lecturer, Ningxia Radio & TV University
		1984-1986: Postgraduate, Economics Department, Peking University
		1986-1990: Assistant Researcher, the Institute of Economics,
		Chinese Academy of Social Sciences
		1990-1991: Postgraduate, Economics, Williams School
		1991-1994: Doctor of agricultural economics, Illinois University
		1994-1998: Economist, Agricultural & Natural Resources Bureau of the World Bank
		1998-2003: Director and General Manager of Northeast Asia and Research Director,
		Rabobank Nederland (Hong Kong)
		2003-present: Director, Senior Vice President, Sichuan New Hope Group Co., Ltd.;
		Chairman, Sichuan South Hope Industry Co., Ltd.
Zhang Hongjiu	Supervisor	1983-1984: Teaching Research Office of Law Department, Peking University
		1984-1996: General Manager, C&C Law Office (Legal advisory office of CITIC)

Name	Position	Working experience
		1996-present: Managing Partner, Beijing Jingtian Gongcheng Law Firm
Liang Yutang	Vice President	1985-1992: Deputy Director, the Academic Secretariat of Henan Finance and Management College
		1992-1994: General Manager, the Real Estate Development Company; Zhengzhou Branch of Bank of Communications
		1994-1995: Manager, Financing Networks, Comprehensive Planning Department, Bank of Communications
		1995-2002: Deputy General Manager and General Manager, Funds Planning Department and Financial Institutions Department, CMBC
		2002-2003: General Manager, Beijing Branch, CMBC
		2003-2005: Assistant President, CMBC, and General Manager of Beijing Branch, CMBC
		2005-present: Vice President, CMBC and General Manager of Beijing Branch, CMBC
Shao Ping	Vice President	1986-1988: Deputy Section Chief, the Commercial Committee of Weicheng District, Weifang City, Shandong Province
		1988-1993: Deputy General Manager, the Urban Credit Cooperatives of Weicheng District, Weifang City, Shandong Province
		1993-1995: Deputy General Manager, the Federation of Urban Credit Cooperatives of Weifang City, Shandong Province
		1995-1996: Preparatory Group of CMBC
		1996-1999: Deputy General Manager, Credit Department of CMBC
		1999-2000: General Manager, Credit Department of CMBC
		2000-2003: General Manager, Shanghai Branch of CMBC
		2003-2005: Assistant President, CMBC, and General Manager of Shanghai Branch
		2005-present: Vice President, CMBC, and General Manager of Shanghai Branch
Mao Xiaofeng	Secretary to the Board of Directors	1992-1993: Executive Chairman, All-China's Students Federation
		1994-1995: Assistant to the Governor, Zhijiang Dong Nationality Autonomous County of Hunan Province
		1995-1996: Deputy Secretary of the Party Committee of Zhijiang Dong Nationality Autonomous County of Hunan Province
		1996-2002: Deputy Director, Director, General Office of the Youth League Central Committee (YLCC); Assistant Director, YLCC Industrial Development Center
		2002-2003: Deputy General Manager, Executive Office, CMBC
		2003-present: Secretary to the Board of Directors, CMBC
Wu Touhong	Chief Financial Controller	1981-1984: Official, the Science and Education Bureau of PBOC
		1984-1993: Deputy Director, Education Department, Industrial and Commercial Bank of China (ICBC)
		1993-1995: Deputy General Manager, Beijing Securities Department of Trust & Investment Company, ICBC
		1996-1998: Deputy General Manager, HR Department, CMBC
		1998-2000: Director, Executive Office, CMBC
		2000-2002: General Manager, Beijing Branch, CMBC
		2002-2003: Deputy Secretary, Disciplinary Committee, CMBC; Director, Disciplinary & Monitoring Department, CMBC
		2003-present: Secretary, Discipline Committee of the Communist Party
		2003-present: Chief Financial Controller, CMBC

#### 4) Incumbency of Current Directors, Supervisors and Senior Executives in Organizations Other than the Shareholding Companies

Name	Name of Other Institutions	Position
Jing Shuping	China Foundation of International Strategic Studies	Chairman
	China Foundation of International Studies and Academic Exchanges	Chairman
	Taiwan Studies Association	Vice Chairman
	National Council for Social Security Fund	Member
	Chinese Foundation for Health Express	Chairman
Zhang Hongwei	Oriental Group Industry Co., Ltd.	Chairman
	Haitong Securities Co., Ltd.	Director
Liu Yonghao	Hope Group Co., Ltd.	President
	Sichuan New Hope Co., Ltd.	Chairman
	Sichuan New Hope Property Development Co., Ltd.	Chairman
	Sichuan New Hope Agricultural Co., Ltd.	Chairman
	Minsheng Life Insurance Co., Ltd.	Chairman of the Supervisory Board
	Shandong Liuhe Group Co., Ltd.	Chairman
Wang Yugui	Everbright Bank of China	Supervisor
	Haitong Securities Co., Ltd.	Supervisor
	Minsheng Securities Co., Ltd.	Director
	China Maritime Law Association	Executive Director
	United Kingdom Mutual Steamship Assurance Association	Director
Li Anmin	N/a	
Chen Jian	Beijing Chengxiang Huamao Entertainment Co., Ltd.	Chairman
	Beijing Jianning Sports Investment & Development Co., Ltd.	Chairman
	Beijing Maoyuanyuan Real Estate Development Co., Ltd.	Chairman
	Hunan Laodie Agricultural Sci-tech Development Co., Ltd.	Director
Huang Xi	Xiamen Fuxin OEIC Co., Ltd.	Chairman
	Xianmen Fuxin Property Co., Ltd.	Director
	Fujian Jimei University	Director of the Third Board
	Chengyi School of Jimei University	Director
James Stent	WildChina Company Limited	CEO
Annie Wu	China Food Recommendation Co., Ltd.	Managing Director
	Hong Kong Beijing Air Catering Co., Ltd.	Managing Director
	Hong Kong Shanghai Air Catering Co., Ltd.	Managing Director
	China Air Catering Co., Ltd.	Managing Director
	Hong Kong Hainan Air Catering Co., Ltd.	Managing Director
	Hong Kong Xiamen Air Catering Co., Ltd.	Managing Director
	Hong Kong Qingdao Air Catering Co., Ltd.	Managing Director
	Hong Kong Tianjin Air Catering Co., Ltd.	Managing Director
	Hong Kong Nanjing Air Catering Co., Ltd.	Managing Director
	Northern Air Catering Co., Ltd.	Managing Director
	Window of the World Co., Ltd.	Managing Director
	Munich Reinsurance Company (HK Branch)	Director
	Proactive Technology Holdings Limited (Hong Kong)	Non-Executive Director

Name	Name of Other Institutions	Position
	Cuiyuan Co., Ltd.	Vice Chairman
	Beijing Air Catering Co., Ltd.	Vice Chairman
	Beijing Aircraft Carpet Co., Ltd.	Vice Chairman
	Colliers International Property Services (Beijing) Co., Ltd.	Chairman
	Shanghai Eastern Air Catering Co., Ltd.	Vice Chairman & Managing Director
	Nanjing Jiangsu Eastern Air Catering Co., Ltd.	Vice Chairman
	Dalian Meihang Food Co., Ltd.	Vice Chairman
	Southwest Air Catering Co., Ltd.	Vice Chairman
	Qingdao Eastern Air Service Co., Ltd.	Vice Chairman
	Hainan Air Catering Co., Ltd.	Vice Chairman
	Xiamen International Airport Catering Co., Ltd.	Vice Chairman
	Shenzhen Air Catering Co., Ltd.	Vice Chairman
Wu Zhipan	PetroChina	Supervisor
	Air China	Director
	Fortune SGAM Fund Management Co., LTD.	Director
	Zhongfu Industry Co., Ltd.	Director
Zhang Ke	ShineWing CPA Firm Co., Ltd.	Chairman & Chief Partner
	Beijing ShineWing Strategic Management and Consultancy Co., Ltd.	Chairman
	China Institute of CPAs	Vice Chairman
	Beijing Huicong International Information Co., Ltd.	Independent Director
	Air China	Independent Director
Gao Shangquan	China Society of Economic Reform	Chairman
	Chinese Research Society for Restructuring and Development of Enterprises	Chairman
	China Institute for Reform and Development (Hainan)	President
	Peking University	Professor and doctorate supervisor
	School of Management of Zhejiang University	Professor, Dean
	China Reform Foundation	Chairman
	Baoshan Iron & Steel Co., Ltd.	Independent Director
	Minmetals Development Co., Ltd.	Independent Director
	China United Telecommunications Corp., Ltd.	Independent Director
Dong Wenbiao	Fortis Haitong Investment Management Co., Ltd.	Director
Hong Qi	N/a	
Huang Diyan	N/a	
Lu Zhiqiang	Fanhai Group Co., Ltd.	Chairman and CEO
	Guangcai Investment (Group) Co., Ltd.	Chairman
	Fanhai Construction Group Co., Ltd.	Chairman and CEO
	Wuhan Wangjiadun CBD Construction & Investment Co., Ltd.	Chairman
	Minsheng Life Insurance Co., Ltd.	Vice Chairman
	Fanhai Construction Holding Co., Ltd.	Chairman of the BOS
	CMBC	Vice chairman of the BOS
	Haitong Securities Co., Ltd.	Director
	CPPCC	Member



Name	Name of Other Institutions	Position
	ACFIC	Member of Executive Committee & Standing Committee
	China Society for Promotion of the Guangcai Program	Vice President
	ACFIC Shandong	Vice President
	Board of Trustees of Fudan University	Director
Wang Liang	N/a	
Zhao Pinzhang	N/a	
Gao Feng	The Supreme People's Procuratorate	External Procurator
Yuan Meizhen	N/a	
Huang Dianpeng	Liaoning Puzhong Nutritional Food Company	General Manager
	Shanghai Greenland Bio-tech Cooperation Company	Chairman and CEO
	China Feed Industry Association	Vice President
Wei Anning	Sichuan New Hope Co., Ltd.	Director, Executive Vice President
	Hohhot Jinguan Property Co., Ltd.	Chairman
	New Hope Investment Co., Ltd.	Director
	Fujian Lianhua International Trust & Investment Limited	Director
Zhang Hongjiu	Beijing Jingtian Gongcheng Law Firm	Managing Director
	Zhongxing Commercial (Shenyang) Co., Ltd.	Independent Director
	China International Economic and Trade Arbitration Commission	Arbitrator
Liang Yutang	N/a	
Shao Ping	N/a	
Mao Xiaofeng	Hunan Hualin Steel Tube & Wire Co., Ltd.	Independent Director
Wu Touhong	N/a	

## 5) Annual Remuneration

In light of the Remuneration Scheme for Directors and Supervisors of the Bank adopted by the 4<sup>th</sup> meeting of the third session Board of Directors of the Bank and the First EGM of the Bank in 2004, as well as the Provisional Measures for the Implementation of the Annual Remuneration Scheme for the Senior Executives of the Bank adopted by the 4<sup>th</sup> meeting of the third session Board of Directors of the Bank, the Bank started to adopt both schemes in January 2004. During the reporting period, there were 24 directors and supervisors, 6 senior executives (including 2 who were also directors) who received remunerations from the Bank. Their annual remunerations (after tax) are shown in the table under Basic Information.

## 6) Names of Directors, Supervisors and Senior Executives Whose Incumbency Terminated during the Reporting Period and the Reasons

On April 22, 2005, the 19<sup>th</sup> meeting of the third session Board

of Directors accepted Mr. Feng Lun's resignation from the position as director of the Bank after Vantone Industry Co., Ltd., where he was the chairman of the board, had transferred all its shares of the Bank to other parties. This was announced in the China Securities Journal, Shanghai Securities News and Securities Times on April 25, 2005.

## 2. Employees

As of the end of the reporting period, the Bank had a headcount of 9,447 employees, of which 1,656 were of managerial function, 3,558 were of marketing function, 2,846 were of business function and 1,387 were back office and supporting personnel. In terms of educational qualification and background, the Bank had 756 people with master's degrees, 6,707 with diplomas or bachelor's degrees and 1,984 with other qualifications. All employees of the Bank participate in the social pension insurance programs and the Bank has no retired employees.

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## V. Corporate Governance

### 1. Summary of Corporate Governance

The Bank has strictly complied with the Company Law, the Commercial Bank Law and related regulations concerning corporate governance and has been dedicated to improve the corporate governance framework, enhance the effectiveness of the governance mechanisms and improve the adequacy and quality of the decision-making of the Board of Directors.

The Bank further revised its Article of Association in accordance with the relevant regulations on corporate governance. The five sub-committees under the Board established in compliance with regulations have started to function according to their respective scope and mandate of work. The Bank is in compliance with the requirements of the regulatory authorities and related policies in terms of the number of independent directors and the organizational structure of the sub-committees.

The Bank has no controlling shareholders and operates fully independently in terms of personnel, assets and finance.

Corporate governance in the Bank:

#### 1) Shareholders and Shareholders' General Meetings

All the unlisted shares of the Bank are legal person shares. The Bank has a relatively diversified shareholding structure with no controlling shareholders. The appropriate equity structure and the compliant operations enable the shareholders to enjoy equality and the ability to fully exercise their rights.

During the reporting period, the Bank held the 2004 AGM and three EGMs. The meetings strictly followed all the relevant legal procedures in accordance with the relevant regulations and ensured the participation of the shareholders and the exercise of their rights. All shareholders' general meetings were supported by lawyer's legal opinion.

#### 2) Directors and the Board of Directors

The Bank appoints and elects directors in strict compliance with the rules concerning the directors' qualification and selection procedures under the Articles of Association. The number of directors and composition of the Bank's BOD are in line with related laws and regulations. The BOD faithfully fulfills its duty and makes decisions in line with the rules under the Articles of Association and the authorization of the Shareholders' General

Meeting, paying special attention to the protection of the interests of Bank and all of its shareholders.

In 2005, the BOD of the Bank held 13 meetings and reviewed 35 proposals. Efforts were made to improve the communications between directors and management. The sub-committees under the BOD fully leveraged the important role of independent directors to seriously study matters critical to the Bank, provide constructive recommendations to the BOD and help to improve the decision-making of the BOD.

#### 3) Supervisors and the Board of Supervisors ("BOS")

The qualifications of supervisors, election procedures and the number of supervisors in the BOS of the Bank are all in line with the Articles of Association and the relevant laws and regulations. In accordance with the requirement of the Corporate Governance Guidelines for Joint-stock Commercial Banks, the Bank has revised the provisions in the Articles of Association to more clearly define the functions of the BOS. The composition of the Bank's BOS is now in compliance with the regulatory requirements.

In the reporting period, the BOS of the Bank prudently carried out its duties in accordance with the Articles of Association of the Bank and further enhanced its monitoring and restricting functions. The BOS formulated and implemented the internal rules and regulations, such as the Rules on Special Inspection and the Provisional Measures for Establishing the Information Communication and Circulation System to tighten the accounting check-ups and supervision. Through regular and irregular communications and consultations with external auditors and the Bank's management and by carrying out special examinations, the BOS provided to the BOD and management recommendations and improvement suggestions on potential risks and various issues identified.

#### 4) Training for Directors and Supervisors

Following the arrangements of the CSRC, 13 directors and supervisors of the Bank participated in the training programs designed for directors and supervisors of listed companies, and other directors and supervisors will participate in these training programs in the near future. The training programs greatly improved their knowledge and understanding of the listing rules and the information disclosure requirements, as well as their self-awareness in protecting the interests of the investors.

## 5) Information Disclosure and Transparency

The information disclosure of the Bank is strictly in compliance with the regulations of the regulatory authorities to ensure its reliability, accuracy, timeliness and completeness and enable equal access of information to all the shareholders.

The Bank, in accordance with the regulatory requirements, formulated the Internal Reporting Mechanism for Significant Information, and amended the Administrative Measures on Information Disclosure and the Rules on Investor Relationship Management of the Bank, which further standardized its information disclosure and investor relationship management practices. The Bank assigned dedicated department and employees to handle letters, phone calls, visits and consultations of shareholders to effectively protect the interests of all shareholders of the Bank, especially those small and medium investors.

## 2. Independent Directors and Their Fulfillment of Duties

The Bank has 5 independent directors. This number satisfies the requirements on independent directors under the Guidelines for Joint-stock Commercial Banks on Corporate Governance and the Guidelines for Joint-stock Commercial Banks on Independent Directors and External Supervisors stipulated by the CBRC. The Independent directors of the Bank diligently carried out their duties by attending the Board meetings and

getting involved proactively.

In compliance with the regulatory requirements, the Bank formulated the Rules on Independent Directors, which served to further define the independent directors' responsibilities and facilitate their roles.

The independent directors of the Bank have made significant contributions in areas such as strategic planning, performance assessment, internal audit, internal control and related-party transactions.

In light of the requirements of the Guidelines on the Establishment of Independent Directorship in Listed Companies, the Notice on Issues Regarding the Regulation of Fund Dealings between Listed Companies and their Related Parties and the Provision of Guarantees by Listed Companies, and the Content and Format Standards No.2 Concerning Information Disclosure of Companies Offering Shares to the Public: Content and Format of Annual Report (2005 Revised) promulgated by the CSRC, the independent directors of the Bank gave their independent opinions on the following issues:

- 1) Appointment of senior management of the Bank (Liang Yutang, Shao Ping);
- 2) Special explanation and independent opinion on the guarantee business of the Bank

## Presence of the Independent Directors in the Board Meetings

Independent Director	Number of BOD meetings requiring attendance	Attendance in Person (Time)	Use of Proxies (Time)	Absence (Time)	Note
James Stent	13	12	0	1	James Stent did not vote at the 12 <sup>th</sup> meeting of the third session BOD due to absence for business trip.
Annie Wu	13	12	0	1	At the 16 <sup>th</sup> and 21 <sup>st</sup> meetings of the third session BOD, Annie Wu left the meeting early and entrusted Liu Yonghao to exercise her voting right; At the 18 <sup>th</sup> meeting of the third session BOD, Annie Wu left the meeting early and entrusted Jing Shuping to exercise her voting right; At the 2 <sup>nd</sup> extraordinary meeting of the third session BOD, Annie Wu did not vote due to absence by taking leave.
Wu Zhipan	13	12	1	0	At the 21 <sup>st</sup> meeting of the third session BOD, Wu Zhipan entrusted Zhang Ke to attend on his behalf.
Zhang Ke	13	13	0	0	
Gao Shangquan	13	13	0	0	At the 18 <sup>th</sup> meeting of the third session BOD, Gao Shangquan left the meeting early and entrusted Wu Zhipan to exercise his voting rights.

## Objections of the Independent Directors on Related Issues of the Bank

Independent Director	Objections	Issues involved	Note
James Stent	None		
Annie Wu	None		
Wu Zhipan	None		
Zhang Ke	None		
Gao Shangquan	None		

### 3. The Decision-Making System of the Bank

The ultimate power of the Bank is the Shareholders' General Meeting, which manages and supervises the Bank through the BOD and the BOS. The President is appointed by the BOD and is responsible for the daily business operations and management of the Bank. The Bank adopts a tier-one legal person system. Branches are all non-independent accounting units and conduct business operations and management with the authorization of the Head Office to which the branches report their operations and results.

The Bank has no controlling shareholders and is totally independent from its major shareholders in terms of business, personnel, assets, organizations and finance. The Bank has the ability to operate independently and with integrity, while its BOD, BOS and internal departments are able to operate independently.

### 4. Performance Evaluation and Incentive System for Senior Executives

Starting from 2004, the Bank adopted a new measure of annual salary system for senior executives. Besides stimulating the senior executives in accomplishing all targets of business operations and management set by the BOD, the new measure is enriched with contents regarding strengthening the internal control, and increasing management effectiveness. The measure introduced qualitative evaluation on the back of quantitative assessment, ensuring scientific, thorough and comprehensive evaluations on the senior executives. The establishment and implementation of this system heighten the awareness and focus of the senior executives on asset risks, internal control and comprehensive management and tightly connected the target-driven incentives with accountabilities, aiming to effectively prevent the short-term focus of operations and better mitigate and control risks.

On February 21, 2005, the 18<sup>th</sup> meeting of the third session BOD approved the Resolution on Revising the Long-term Incentive Scheme of the Bank and the Implementation Plan (Draft). The implementation of the plan will not only help the Bank to better attract and retain high quality human resources, but also help the Bank to establish and improve its incentive and control mechanism aligned to the Bank's long-term strategy and development needs, and maximize the shareholders' value.

## VI. Shareholders' General Meeting

### 1. Convening of the Shareholders' General Meetings

#### 1) Annual General Meeting ("AGM")

On March 26, 2005, the 2004 AGM of the Bank was convened in Beijing. The meeting reviewed and approved the following resolutions on: 2004 Working Report of the BOD, 2004 Working Report of the BOS, 2004 Closing Financial Budget, 2004 Profit Distribution Plan, 2005 Financial Budget, Revising the Long-term Incentive Scheme of the Bank and the Implementation Plan and Appointment of Auditors for 2005 and the Relevant Service Fees. The resolutions were announced in the China Securities Journal, Shanghai Securities News and Securities Times on March 29, 2005.

#### 2) Extraordinary General Meeting ("EGM")

On October 17, 2005, the 1<sup>st</sup> EGM and Related Shareholders' Meetings of the Bank were convened in Beijing by a combination of on-site voting and online voting. The meeting reviewed and approved the Proposal on the Transfer of Capital Surplus into Capital Stock and the Nontradable Shares Reform Scheme of the Bank. This resolution was announced in the China Securities Journal, Shanghai Securities News and Securities Times on October 18, 2005.

On November 21, 2005, the 2<sup>nd</sup> EGM of the Bank in 2005 was convened in Beijing. The meeting reviewed and approved the Resolution on the Subordinated Bonds Issuance, Resolution on the Usage and Feasibility Analysis of Proceeds of the Subordinated Bonds Issuance and Resolution on the Subordinated Bonds Issuance and the Special Authorization within Limits. The resolutions were announced in the China Securities Journal, Shanghai Securities News and Securities Times on November 22, 2005.

On December 22, 2005, the 3<sup>rd</sup> EGM of the Bank in 2005 was convened in Beijing. The meeting reviewed and approved the Resolution on the Financial Bonds Issuance of the Bank, which was announced in the China Securities Journal, Shanghai Securities News and Securities Times on December 23, 2005.

## 2. Election and Re-election of Directors, Supervisors and Senior Executives

On January 18, 2005, the 16<sup>th</sup> meeting of the third session BOD adopted the resolution to appoint Shao Ping and Liang Yutang as Vice Presidents of the Bank, which was announced in the China Securities Journal, Shanghai Securities News and Securities Times on January 19, 2005.

# VII. Report of the Board of Directors

## 1. Business Operations

### 1) The Scope and Performance of Principal Business Operations

The Bank's principal business operations include: deposits taking, short-term, medium and long term loans, entrusted loans, domestic and international settlement, bill discounting, financial bonds issuance, agency issuance, agency settlement and underwriting of government bonds, trading of government bonds, inter-bank borrowing and lending, agency trading of foreign exchanges and other financial derivatives, agency services for foreign exchange wealth management, L/C and guarantees, agency services for collection/payment and insurance, safety box services and other financial services approved by the PBOC.

In 2005, the BOD successfully initiated and accomplished the

non-tradable shares reform and helped the Bank achieve all operational targets by changing the mindsets, capturing opportunities, and enhancing the Bank's strength in business promotion and bank management with a focus on fine-tuning and streamlining the principal business lines. As of the end of the reporting period, the Bank's total assets reached RMB 557.1 billion, increasing by 25%, or RMB 111.7 billion compared to the end of the previous year. Total deposits amounted to RMB 488.8 billion, increased by 29%, or RMB 108.8 billion compared to the end of the previous year. Total loans (including discounted bills) rose to RMB 378.1 billion, up by 31%, or RMB 89.7 billion. Net profit was RMB 2.703 billion, up by 33%, or RMB 665 million from the end of the previous year. As of the end of the reporting period, the Bank's NPL ratio (under the five-category classification) stood at 1.28%, compared with 1.31% at the beginning of the year, while the outstanding NPL increased by RMB 1.053 billion to RMB 4.828 billion, which was mainly due to the impacts of the macro economic adjustments and controls. However, the quality of assets continued to rank at the top level among Chinese banks.

During the reporting period, the adjustment of business structure made further progress. As of the end of the reporting period, total number of retail customers amounted to 3.2 million. The balance of savings deposits reached RMB 74.1 billion, or 15.16% of all deposits of the Bank, which ranked No. 3 (2004: No. 6) among the 9 national joint-stock banks in China. The volume of bank cards issued reached 14.104 million, with an average balance per card of RMB 3,490, or up by 114% from the previous year. Total amount of consumption through Minsheng cards amounted to RMB 6.7 billion, increased by 81% or RMB 3 billion from the previous year. The Bank improved its service networks by providing 1,134 self-service banking outlets, 94.6% of which were in full operation. Individual borrowers grew to 163,200 with a balance of outstanding loans of RMB 57.2 billion, or 15.13% of all loans outstanding (including discounted bills) of the Bank, and acquired a nationwide market share of 2.6%. Among the 9 joint-stock banks in China, with regard to loans to individual clients (with regard to consumer loans), the Bank ranked both No.2 in terms of year-end balance and new additions, as compared to No. 3 ranking in 2004.

The Bank stuck to the belief of promoting corporate banking through innovation and continued to do so in the past year, as

witnessed in the following area: historical breakthrough in revenue generated in intermediary services as a result of enhancing the Bank's competitiveness in international business lines through various products and services, predominantly online L/C issuance; good performance through the specialized marketing efforts in Meidiantong product, which was a breakaway from the traditional deposit and lending pattern; establishment of financial enterprise database by industry; and rapid development in factoring service.

Wealth management products for Individuals were also continuously being innovated into a broad variety of types, covering both primary and derivatives markets, such as interest rate, exchange rate and credit related products, etc. As of the end of the reporting period, the newly increased contract amount for foreign exchange Apex Wealth Management service was USD 330 million, while it was RMB 800 million for Baode Wealth Management and RMB 3.1 billion for RMB wealth management.

The Bank successfully launched the Minsheng Credit Card. As of the end of the reporting period, 132,000 cards were issued, total transaction volume amounted to RMB 676 million, overdraft balance amounted to RMB 204 million, and income from all transactions amounted to RMB 22.714 million. Aiming to "offer international-standard services and build the unique Minsheng brand" and by adopting a marketing strategy focusing on innovative development and focusing on meeting the needs of the market, the Bank issued a series of credit card products using the Minsheng brand, including Minsheng VISA, Minsheng MasterCard/ MasterCard gold, Lake Malaren Golf Club Co-

branded Card, Lenovo Co-branded Card, Pacific Department Store Co-branded Card, Executive Card, Platinum Card, Diamond Card using the Minsheng brand. Through these cards, the Bank provided differentiated value-added services, including road rescue, legal assistance, business travel reservation and banquet/meal reservation, etc. The Minsheng Credit Card received the "2006 Best Product Design" award from MasterCard International and the "2005 Market Exploration Award for Dual-currency VISA Card" from VISA International, and the Lake Malaren Golf Club Co-branded Card received the "2005 Best Co-branded Card" award from MasterCard International.

The online banking of the Bank achieved a rapid growth. Individual online banking customers increased by 129,000 and the transaction volume amounted to RMB 41 billion; corporate online banking customers increased by 5,509 and the transaction volume amounted to RMB 322.8 billion. The 95568 call center was acclaimed as one of China's Ten Most Satisfactory Call Centers in 2005 by various mainstream media including the People's Daily.

As of the reporting period, the Bank had presence in 21 cities nationwide, with 20 branches, 1 direct-reporting sub-branch and a network of 240 establishments. The Bank also successfully obtained the business licenses to be engaged in custodian services for National Social Security Funds and underwriting the short-term financial bonds, which made strong contributions to expanding the Bank's business scopes.

(1) Operating income, operating profit and total assets in the reporting period

During the reporting period, the Bank's operating income, operating profit from main business operations and total assets were respectively recorded at RMB 23.8 billion, RMB 4.24 billion and RMB 557.136 billion.

(i) Classification by line of business

(Unit: RMB Million)

Line of Business	Operating Income
Loans	17,492
Placement with and lending to other financial institutions	3,226
Bond investments	2,367
Others	715
<b>Total</b>	<b>23,800</b>



(ii) Classification by geographical locations

(Unit: RMB Million)

Location	Operating Income	Operating Profit	Total Assets
Northern China	10,950	1,858	318,742
Eastern China	6,617	1,384	169,387
Southern China	4,248	686	101,974
Others	3,306	614	87,919
Regional adjustments	1,985	-302	-32,966
<b>Total</b>	<b>23,800</b>	<b>4,240</b>	<b>557,136</b>

Note: Northern China includes the Head Office and the branches in Beijing, Taiyuan, Shijiazhuang and Tianjin. Eastern China includes the branches in Shanghai, Hangzhou, Ningbo, Nanjing, Jinan and Suzhou. Southern China includes the branches in Fuzhou, Guangzhou, Shenzhen, Quanzhou and the direct-reporting sub-branch in Shantou. Others include the branches in Xi'an, Dalian, Chongqing, Chengdu, Wuhan and Kunming. Regional adjustments refer to the centralized adjustments to some accounting items (such as inter-entity balances) involving the whole bank or several branch offices.

(2) Key Major products or services and their market shares

According to the Credit Balance Statement of Banks issued by the PBOC in December 2005, the Bank had a market share of 9.86% with regard to year-end deposit balance among the 12 national joint-stock commercial banks in China, up from 9.32% at the beginning of the year.

(3) Principal businesses lines and their structure as compared with the previous year

The Bank operated within the scopes approved by the regulatory authorities. Its income was mainly generated from loans, placements with and lending to other financial institutions, bonds investment, settlement and agency services. During the reporting period, there was no other business activity with material impact on the profit of the Bank. Compared with the previous period, there was no significant change in the Bank's principal business operations.

## 2) The Operations and Operating Results of Invested Companies

In compliance with the Reply on the Preparation for the Establishment of China UnionPay Co., Ltd. (Yin Fu [2001] No.234) issued by the PBOC, the Bank made an investment of RMB 50 million in China UnionPay Co., Ltd., which accounted for 3.03% of the company's registered capital. The company showed rapid growth since its foundation in March 2003. However, due to its short operating time, the company was still at a loss on an aggregated basis as of December 31, 2005. With the steady increase of the volume of cross-bank bank card transactions, the company's financial position is expected to continue to

improve.

## 3) Major Customers

As of the end of the reporting period, total loans to the ten largest customers amounted to RMB 11,435,833,200 or 3.02% of the Bank's total loans.

## 4) Problems and Difficulties in the Operations of the Bank and the Solutions

During the reporting period, the Bank encountered some problems and difficulties. Under the influence of macro economy regulation policies of the government and increased issuance of corporate financial bonds, the effective demands for corporate loans declined rapidly, the liquidity balance of banks continued to increase, the monetary market was experiencing an over-abundance of liquidity, the return on assets was reduced, and the credit risks of corporate borrowers began to surface. The Bank also faced increasing competition as a result of expansion of foreign-funded banks, which were increasing their Renminbi business market share. The Bank's limited capital base also affected its business growth. To address the above problems and difficulties, the Bank took the following measures:

(1) Actively shifting the business growth focus. The Bank integrated customers base and improved its customer service through more professional marketing plan and targeted customer behavior analysis. Research and pilot programs were designed for SME businesses, and investment banking and e-banking business were strongly promoted, helping the Bank shift its operations to areas and approaches that enabled the Bank to achieve higher profitability and lower capital cost.

(2) Restructuring the marketing system to be market-oriented. The Bank integrated the existing account manager teams and attached more importance to tailor-made marketing to each industry, in addition to its continuous efforts in improving the quality and efficiency of customer services. The Bank also committed itself to establish and improve the credit assessment system for SMEs to provide them with better financial services.

(3) Further improving risk management system. The Bank continued to improve and upgrade the independent credit approval system to control credit risks. As for operational risk, the Bank carried out a broad range of review on the processes and corrected deficiencies timely. To control market risk, the Bank established early-warning systems on fluctuations of interest rates and exchange rates. The Bank kept improving and optimizing its independent credit approval system and internal auditing system, as well as the range and quality of technology applications. Besides, the Bank's efforts in non-performing assets workouts produced remarkable results with more than 60% success of recovery in cash.

(4) Strengthening retail-banking business. The Bank enhanced the building of marketing channels and sales teams for retail business, and started to pilot-run the SBU function for retail banking. Marketing efforts on products promotion were also increased, while the services to and the after-sale management of VIP customers were improved. The successful launching of credit card products further enriched the retail-banking business.

(5) Increasing profitability. The Bank rolled out the management accounting system and established the systems for product pricing, customer pricing and business department pricing. Procurement center was also set up for operation cost control. The centralized accounting processing system was progressing smoothly.

(6) Adopting effective measures to strengthen capital base. The Bank completed the Nontradable Shares Reform, which paved the way for capital raising in the near future. With approval from the regulatory authorities, the Bank issued RMB 1.4 billion of subordinated bonds to replenish its capital base and ensure its capital adequacy ratio to meet the regulatory requirement.

(7) Enhancing employee loyalty and dedication. The Bank held 3 training courses for middle and senior management and 4

courses for the key staff at department level. Talents from overseas with international exposure were recruited for retail banking, credit card department and the SME business department which was under construction.

## 2. Investment

### 1) Usage of Proceeds From Convertible Bonds

As approved by the CSRC in its document referenced as Zhengjian Fa Zi [2003] No.13, the Bank issued convertible bonds of RMB 4 billion on February 27, 2003, with a par value of RMB 100 for each bond. After deducting the issuance cost, the actual proceeds of RMB 3.939 billion were transferred into the specified account on March 6, 2003, which was verified by PwC Zhong Tian CPAs Limited Company in its verification report referenced as PwC ZT [2003] No. 32. Prior to the conversion of the proceeds into ordinary shares, the convertible bonds were medium and long-term liabilities of the Bank. As of the end of the reporting period, the proceeds from the convertible bonds issuance had been put into use in accordance with the Issuance Circular, and had achieved the expected results.

The details are as follows:

(1) The Bank's convertible bonds started to convert into shares from August 27, 2003. As of the end of the reporting period, the converted bonds with a face value of RMB 3.985 billion had been converted, which increased the Bank's capital base.

(2) The residual proceeds were used in lending to SMEs in leading industries and with good credit quality, and investment in the money market and the government bonds market.

### 2) Usage of Proceeds From Subordinated Bonds

In accordance with the approval from the PBOC in its document referenced as YinFu [2005] No.112 and the CBRC in its document referenced as Yinjianfu [2005] No.309, the Bank issued RMB 1.4 billion of subordinated bonds through private placement in the national inter-bank bond market. The term of the subordinated bonds issued was 10 years, with interest to be paid once a year. The proceeds were transferred into the specified account on December 26, 2005, which was verified by Hua Ying CPA Firm in its verification report referenced as Yin Yanzi [2005] No. 1244. The proceeds of RMB 1.4 billion were recorded as supplementary capital of the Bank in accordance with relating regulations, and had been used, by strictly

complying to the commitments in the Issuance Circular, in lending to corporate customers in leading industries and projects with good credit quality, in the money market and the government bonds market.

### 3) Major investment projects other than the above-mentioned

During the reporting period, the Bank had no major investment project other than the above-mentioned.

## 3. Financial Conditions and the Operating Results

### 1) Changes of Key Financial Indicators and the Main Reasons

The table below shows the changes of key financial indicators and the main reasons against the previous year:

(Unit: RMB'000)

Key Financial Indicators	Closing Balance	Increase/Decrease %	Main Reasons
Total assets	557,136,091	25%	Increase of loans, deposits with the PBOC and bonds investments
Total liabilities	541,676,612	25%	Rapid growth of deposits
Including: Long-term liabilities	88,723,330	10%	Increase of long-term deposits and long-term savings deposits
Shareholders' equity	15,459,479	20%	Conversion of convertible bonds into shares and net profit realized in the year
Operating profit	4,240,326	49%	Business expansion
Net profit	2,702,519	33%	Business expansion
Net increase of cash and cash equivalents	13,698,188		Business expansion (negative in 2004)

### 2) Items With Change of More Than 30% In the Comparative Financial Statements

(Unit: RMB '000)

Key Financial Indicators	Closing Balance	Increase/ Decrease	Main Reasons
Cash in hand and at bank	1,918,715	30%	Increase in excess reserves
Deposit with the PBOC	54,860,062	35%	Increase in restricted and unrestricted deposits with the central bank
Lending to other banks	6,262,845	-30%	Decrease in lending to other banks
Discounted bills	63,085,654	111%	Increase in discounted bills
Securities purchased under resale agreements	20,009,640	74%	Increase in securities purchased under resale agreements
Long-term bond investment due in 1 year	6,813,377	85%	Increase in long-term bond investment due in 1 year
Total working capital	343,120,736	32%	Increase in cash in hand and at bank, deposit with the PBOC and discounted bills, etc.
Overdue loans	5,191,463	53%	Increase in overdue loans
Intangible assets	117,957	70%	Increase in intangible assets
Short-term savings deposits	63,952,957	77%	Increase in short-term savings deposits
Fiscal deposits	10,877,359	114%	Increase in fiscal deposits
Borrowing from other banks	-	-100%	Decrease in borrowing from other banks

Key Financial Indicators	Closing Balance	Increase/ Decrease	Main Reasons
Outward remittance	495,475	35%	Increase in outward remittance
Short-term margin deposits	59,369,343	68%	Increase in short-term margin deposits
Interest payable	2,313,278	42%	Increase in interest payable for deposits
Payroll payable	480,325	41%	Increase in number of employees
Welfare payable	107,499	53%	Increase in number of employees
Tax payable	946,145	53%	Increase in tax payable
Other payables	1,525,112	56%	Increase in other payables
Dividend payable	58,020	136%	Increase in dividend payable
Accrued expenses	31,538	31%	Increase in accrued expenses
Long-term savings deposits	10,140,679	37%	Increase in long-term savings deposits
Long-term margin deposits	344,435	56%	Increase in long-term margin deposits
Convertible bonds payable	15,207	-95%	Increase in conversion of convertible bonds into shares
Other long-term liabilities	306,746	57%	Increase in other long-term liabilities
Capital stock	7,258,779	40%	Stock dividend, shares transferred to capital stock from capital surplus and conversion of convertible bonds into shares during the year
Capital surplus	1,182,831	52%	Capital surplus provisioning of the year
Retained earnings	2,896,860	45%	Increase in profits
Currency translation difference	-86,426	2956%	Changes in exchange rate
Operating income	23,800,377	33%	Increase in interest income, income from other financial institutions, increase in exchange rate returns
Interest income	17,491,718	35%	Increase in interest income
Income from other financial institutions	3,225,771	47%	Increase in income from other financial institutions
Exchange gains	221,894	103%	Increase in exchange gains
Other operating incomes	0	-100%	Decrease in other operating incomes
Interest expenses	7,822,305	40%	Increase in interest expense
Operating cost	6,006,507	37%	Business expansion and increase in employees
Business tax and surcharges	1,021,109	34%	Increase in Business tax and surcharges
Operating profit	4,240,326	49%	Increase in operating profit
Net non-operating income/expense	2,364	-89%	Decrease in net non-operating income/expense
Total profit	4,242,690	48%	Increase in total profit
Income tax	1,540,171	86%	Increase in total profit
Net profit	2,702,519	33%	Increase in net profit

## 4. Business Operation

### 1) Business Network of the Bank

Branches	Number of banking entities	Number of employees	Total assets (in RMB million)	Address
Head Office	1	970	128,812	No. 2, Fuxingmennei Avenue, Beijing
Beijing Branch	40	1168	141,375	No. 2, Fuxingmennei Avenue, Beijing
Shanghai Branch	18	1169	86,840	No. 48, Weihai Road, Shanghai
Guangzhou Branch	30	741	40,820	No. 198, Tianhe Bei Road, Guangzhou
Shenzhen Branch	23	927	45,012	Block B, Jiahehuaqiang Building, Shennanzhonglu, Shenzhen
Wuhan Branch	17	554	25,190	No. 20, Jiangnanlu, Jiang'an District, Wuhan
Taiyuan Branch	12	394	28,481	No. 112 Wuyilu, Taiyuan
Shijiazhuang Branch	10	353	13,244	No. 10, Xidajie, Shijiazhuang
Dalian Branch	10	347	14,320	No. 28, Yan'anlu, Zhongshan District, Dalian
Nanjing Branch	12	378	27,463	No. 26, Zhongshanbeilu, Nanjing
Hangzhou Branch	14	493	27,118	No. 25, Qingchunlu, Shangcheng District, Hangzhou
Chongqing Branch	9	314	18,488	No. 18, Minzulu, Yuzhong District, Chongqing
Xi'an Branch	8	247	12,512	No.78, Erhuannanluxiduan, Xi'an
Fuzhou Branch	9	255	11,844	No. 173, Hudonglu, Fuzhou
Jinan Branch	7	254	14,023	No. 229, Luoyuandajie, Jinan
Ningbo Branch	5	209	11,147	No. 166-168, Zhongshanxilu, Ningbo
Chengdu Branch	7	223	11,663	No. 22 Renminzhonglu, Chengdu
Tianjin Branch	1	112	6,830	No. 125, Weididao, Hexi District, Tianjin
Kunming Branch	1	109	5,746	No. 331, Huanchengnanlu, Kunming
Quanzhou Branch	1	62	1,476	No. 336, Fengze Jie, Quanzhou
Suzhou Branch	1	85	2,795	No. 200, Xinghaijie, Industrial Park, Suzhou
Shantou Sub-branch	4	83	2,822	Binhai Building, Huashannanlu, Shantou
Internal elimination			-120,885	
<b>Total</b>	<b>240</b>	<b>9,447</b>	<b>557,136</b>	

Note: 1.The branches consist of business departments of branches, sub-branches and banking outlets.

2.Internal elimination was the reconciliation and elimination of inter-entity balances.

## 2) Five-category Classification of Credit Assets and Provisioning Rates of Impaired Loans

The following table shows the five-category classification of the Bank's credit assets and provisioning rates of impaired loans:

(Unit: RMB ten thousand)

	Loans (excluding discounted bills)	Discount of commercial acceptance bills	Overdue loans to other banks and financial institutions	Regulatory rate	Total	Provisioning interval
Normal	30,151,407	1,293,817		31,445,224	0%-1%	1%
Special mention	864,430			864,430	2%-5%	2%
Substandard	247,535			247,535	20%-30%	25%
Doubtful	183,592			183,592	40%-90%	50%
Loss	51,655		9,550	61,205	100%	100%
<b>Total</b>	<b>31,498,619</b>	<b>1,293,817</b>	<b>9,550</b>	<b>32,801,986</b>		

Note: The Bank analyzes the recoverability of all loans, estimates potential loan losses and makes provisions for impaired loans at the end of each period. Provisions for impaired loans are appropriately provided according to the results of risk classification in addition to considerations of the repayment ability of the borrower, repayment history of principals and interests of loans, proper values of collateral, the capability of guarantors and internal credit management of the Bank. As of the end of the reporting period, the balance of provisions for impaired loans of the Bank amounted to RMB 4,991,490,000.

## 3) Top Ten Borrowers

As of the end of the reporting period, the Bank's top ten borrowers include: North China Grid Company Ltd., Beijing Kaiheng Real Estate Co., Ltd., Shanghai Southeast Suburb Ringroad Investment & Development Co., Ltd., Shandong Luneng Group Co., Ltd., Guangzhou Subway Company, Tianjin TEDA Investment Holding Co., Ltd., Hubei Suiyuan Highway Co., Ltd., Huawei Technologies Co., Ltd., Hangzhou Hangqian Highway Development Co., Ltd. and China Electronics Corporation.

## 4) Bad Debt Provisions for Interest Receivable and Other Receivables

In accordance with the rules and regulations under the Accounting Systems for Financial Institutions stipulated by the Ministry of Finance (the "MOF"), the Bank doesn't make provisions for loan interest receivable. When the loan interest receivable or the corresponding loan principal is 90 days overdue, the interest receivable will be reversed and treated as off-balance sheet accounts and offset the interest income of the period. For other receivables which proved to be unrecoverable, the Bank makes bad debt provisions on a case by case basis. As of the end of the reporting period, the Bank's balance of bad debt provision amounted to RMB 50,940,000.

The following table shows the Bank's provisioning for bad debts:

(Unit: RMB'000)

Item	December 31, 2005	December 31, 2004	Increase
Other receivables	796,110	645,640	150,470
Balance of bad debt provision	50,940	33,580	17,360

## 5) Subsidized Loan

As of the end of the reporting period, the Bank had no interest-subsidized loans.

## 6) Restructured Loan

As of the end of the reporting period, the outstanding restructured loans amounted to RMB 5,288,838,600, of which RMB 1,722,652,700 were overdue.

**7) Average Balances and Interest Rates by Major Types of Loans and Deposits**

(Unit: RMB million)

	Average balance	Average annual interest rate
Current deposits from corporate customers	163,000	0.85%
Time deposits from corporate borrowers	197,800	2.71%
Current savings deposits	18,500	0.70%
Time savings deposits	29,200	2.24%
<b>Total</b>	<b>408,500</b>	<b>1.84%</b>

Note: "Time deposits from corporate customers" and "Time savings deposits" include time deposits due within one year.

(Unit: RMB million)

	Average balance	Average annual interest rate
Short-term loans with maturity of less than one year	189,500	5.28%
Medium and long-term loans with maturity of more than one year	127,700	5.63%
<b>Total</b>	<b>317,200</b>	<b>5.42%</b>

Note: Short-term loans include discounted bills.

**8) Major Government Bonds**

As of the end of the reporting period, the Bank held the following government bonds in significant amounts:

(Unit: RMB'000)

Treasury Bond Type	Par value	Annual interest rate (%)	Maturity date
1996 Account T-bonds	1,409,140	11.83	June 14, 2006
2001 Account T-bonds	2,295,000	3.36-4.69	July 13, 2006 to October 23, 2021
2002 Account T-bonds	861,700	2.93	December 6, 2009
2003 Account T-bonds	7,870,000	2.45-4.18	April 24, 2008 to October 24, 2018
2004 Account T-bonds	610,000	3.2	April 9, 2007
2005 Account T-bonds	7,800,000	1.14-1.93	September 15, 2006 to August 15, 2008
<b>Total</b>	<b>20,845,840</b>	<b>-</b>	<b>-</b>

**9) Off-balance Sheet Exposures Which May Have a Significant Impact on the Bank's Financial Position and Operation Results**

As of the end of the reporting period, the balances of major off-balance sheet exposures were as follows:

(Unit: RMB'000)

	December 31, 2005	December 31, 2004
Undrawn credit commitments	142,531,816	108,988,697
Bank acceptance	85,597,614	52,617,188
L/G issued	9,800,382	6,532,418
L/C issued	7,641,361	6,143,764
Entrusted loans	16,898,238	12,984,681
Lease commitments *	1,591,989	1,240,193

Note: Lease commitments represent rentals payable by the Bank for leased office premises and equipment for business purposes, with lease terms generally between 5 to 10 years.

## 10) Overdue Liabilities

As of the end of the reporting period, the Bank had no overdue liabilities.

## 11) Non-performing Loans and Measures Taken to Address NPLs

During the reporting period, the Bank took effective measures to strengthen the monitoring, collection and recovery of NPLs. According to the five-category loan classification, as of the end of reporting period, the outstanding NPLs of the Bank amounted to RMB 4.828 billion, or 1.28% of total loans, slightly lower than 1.31% at the end of 2004.

In 2005, the Bank took the following measures to reduce NPLs and improve asset quality:

(1) Gradually established an enterprise-wide risk management system and further consolidated the organizational structure of the Risk Management Committee to strengthen its role in risk management decision-making;

(2) Gradually set up and rolled out the credit approval reform to increase the specialization and sophistication of credit approval, improve the efficiency of the approval process and achieve a balance between business growth and risk control, and also made continuous progress to optimize the asset portfolio;

(3) Carried out "on-going monitoring" on credit assets, with special focus on tightening the monitoring of systematic risks of credit assets and improving the risk early-warning system so as to achieve procedural controls over the credit risks;

(4) Established emergency readiness and response policies and procedures to effectively control and mitigate credit risks;

(5) Continued to promote the Rules on Exercising Due Diligence in Credit Facility Management in Commercial Banks, promote the centralized operations and management of credit business and cultivate a good credit culture;

(6) Promoted the specialization and sophistication of NPL recovery on a market-oriented basis, and achieved remarkable results.

## 12) Risk Factors with Significant Potential Impacts on the Bank and the Bank's Responses

(1) Credit risk

The Bank strengthened the decision-making function of the Risk Management Committee, established its authority in risk management decision-making through sound system controls and authorization management. The Bank enhanced the reform on credit approvals, set up the review and approval system where the specialists in credit reviews have clearly defined accountability to conduct modularized reviews in a dynamical environment in order to promote the specialization and standardization of review and approval as well as the effectiveness and efficiency. Established the post-lending monitoring and evaluation system and improved the internal checking system to enhance the quality of the credit evaluation process.

(2) Market risk

Exchange risk and interest rate risk are expected to become increasingly severe as the interest rates become more and more market-driven and the new exchange rate mechanism is established. In the past year, the Bank intensified its research on the policies of interest rate and exchange rate, set up and put in use the advanced information management and control systems, including the ALM system.

(3) Operational risk

The Bank strengthened training and ethics education to improve the quality of the employees and prevent moral hazard risks. The Bank improved its teller-counter risk prevention system to effectively control and prevent the risk. The Bank also fully implemented centralized business processing model in terms of loan origination, accounting processing, management accounting and internal audit, to mitigate operational risks.

## 13) Integrity, Adequacy and Effectiveness of Internal Control System

Since its establishment, in order to mitigate risks and operate prudently, the Bank has been making strong efforts in establishing and continuously revising and improving an internal control system in compliance with the rules and regulations under the Commercial Bank Law of the PRC, the Guidelines on Internal Control for Commercial Banks, the Guidelines on Corporate Governance for Joint-stock Commercial Banks and the Punitive Measures for Financial Irregularities. The existing internal control system has basically embedded itself in all busi-



ness processes and operation procedures of the Bank, covering all departments and positions, and has put in place the internal control mechanisms that enable the Bank to mitigate risks before the event, control risks during the event and monitor the risks and the improvement of risk control practices after the event, making strong contributions to strengthen the tier-one legal person system and control financial risks.

During 2005, the Bank incorporated internal control evaluation of branches and sub-branches into the comprehensive performance evaluation program, in an effort to enhance their risk prevention awareness at the branch level and thus further improve the integrity, adequacy and efficiency of the internal control system.

In connection with the annual audits performed by PricewaterhouseCoopers Zhong Tian CPAs Limited Company and PricewaterhouseCoopers China Limited, no major deficiency in the integrity, adequacy and effectiveness of the Bank's internal control system have been noted.

## 5. Changes in Business Environment and Macro Policies and Their Impacts

In 2005, in order to further check the factors that were disrupting to the economic development of the country, the government continued its macro regulation and adopted a series of regulatory measures which were successful. However, credit risks of enterprises began to surface. The Bank's NPLs level increased slightly, but by taking strict controls and collection measures, the Bank accomplished all the business targets for the year.

On March 16, 2005, the PBOC announced the Notice on Adjusting Housing Loan Policies and Interest Rate of Excess Reserve Deposits for Commercial Banks (Yin Fa [2005] No. 61), which claimed that commencing March 17, 2005, the housing loan policies for commercial banks would be adjusted and the interest rate of excess reserve deposits of financial institutions placed with the PBOC would be lowered, and the interest rate for inter-bank deposits of financial institutions would be liberalized to be determined through negotiation between the counterparties. This implied that, on one hand, from January 1, 2006, all individual housing loans (excluding housing loans through the housing funds) granted

before March 17, 2005 and enjoying the favorable interest rates previously regulated by the PBOC, would be subject to interest rates for commercial loans; on the other hand, the liberalization of interest rate for inter-bank deposits of financial institutions would help commercial banks adapt themselves to the market-driven interest rates. In general, all these measures would help improve the Bank's capability in profit-making.

On May 24, 2005, the PBOC announced the Administrative Measures on Short-term Financing Bonds for Enterprises, allowing qualified enterprises to issue short-term financing bonds to qualified investors in the inter-bank bond market. In 2005, the aggregated amount of short-term financing bonds issued was RMB 142.2 billion, or approximately 27% of the year's newly increased short-term RMB loans, which would have impact on the growth of corporate loans and on the asset businesses of commercial banks.

On May 26, 2005, the National Inter-bank Funding Center announced the Trading Rules on Short-term Financing Bonds. According to the rules, the participants of financial bond transactions should be institutional investors in the national inter-bank bond market, enabling commercial banks to invest in short-term financing bonds issued by enterprises. This is an option that further broadens the use of funds of the Bank.

On June 1, 2005, the Administrative Measures on Issuing Financial Bonds in the National Inter-bank Bond Market stipulated by the PBOC become effective. The Measures allow commercial banks to issue financial bonds by themselves or as a participant, a move that can contribute to the stability of the financial sector and broaden the scope of business of commercial banks and enable them to have stable and multi-channeled access to funds. The AGM of the Bank has approved the financial bonds issuance of RMB 30 Billion, and has filed the application to the regulatory authorities for approval.

The MOF announced the Administrative Measures for Loan Provisioning of Financial Institutions (CaiJin [2005] No. 49) and the Circular on Provision (Caijing [2005] No. 90), which required commercial banks to appropriate from retained earnings to a special loan reserve. On July 1, 2005, the Bank

started to implement the above-mentioned requirements and it had no significant impacts on the profitability of the Bank in 2005.

On July 21, 2005, the PBOC published the Announcement on Reforming the RMB Exchange Rate Regime ([2005] No. 16), announcing that China would reform the exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. The exchange rate adjustment didn't have any significant impact on the foreign exchange net assets of the Bank or the income and expense of the Bank.

## 6. The Auditors' Opinions

The 2005 PRC GAAP financial statements of the Bank were audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Company, whose certified public accountants, Wu Weijun and Yang Bo, signed and issued the PWC ZT (2006) No. 58 unqualified auditors' report. PricewaterhouseCoopers China Limited audited the Bank's 2005 supplementary financial statements, which were prepared in accordance with the IFRS, and issued an unqualified auditors' report.

## 7. Actions in the Next Fiscal Year

In 2006, the Bank, led by the BOD, will improve its core competitiveness through a comprehensive integration of its sales system, risk management system and supporting systems.

1) The Bank will push forward its reform on organizational structures. Departments will be restructured at the head office level, where corporate banking and retail banking system will undergo an overhaul and the Business Units ("BU") will be established. The Bank will expand its retail banking head quarter to strengthen its managing and organizing capabilities. Meanwhile, other departments in the head office will be restructured according to the new functional roles of front, middle and back offices, in order to drive the full transformation of the operations and management of the Bank.

2) The Bank will embed the new market-oriented concepts in our employees' mind and make earnest efforts to diversify the Bank's businesses and explore new opportunities.

The Bank will: (1) Reinforce the promotion of credit card business; (2) Intensify its investment banking business; (3) Roll out trade financing business; (4) Set up BU for SME business, and (5) Earnestly explore new business opportunities with an open mind.

3) The Bank will strengthen the management function of the middle office of the head office to push forward business development. In this regard, the Bank will: (1) Fully leverage the role of the Risk Management Committee; (2) Continue to enhance the independent credit approval system; (3) Improve the independence of internal audit and examinations, as well as the quality of internal controls; (4) Heighten the awareness of compliance; (5) Intensify system enhancement, and (6) Strengthen the asset and liability management and financial management functions.

4) Focus on the transformation of the Bank and strengthen the supporting role of the back office, which includes: (1) Continue to drive the construction of the IT platform and lay a sound foundation for all reforms ongoing at the Bank; (2) Improve the HR management to be more organized, specialized and internationalized, and (3) Make dedicated efforts to centralize the business processes of the Bank and solidify the achievements of the reform.

5) The Bank will conduct studies and researches of the capital market and establish stable and long-term fund-raising channels, which includes: (1) Require all business departments to establish the awareness of capital-based profit-making to control risk assets, and (2) Conduct in-depth studies and researches to build a sustainable capital raising channel for the steady development of the Bank.

## 8. Routine Activities of the Board of Directors

### 1) BOD Meetings and Resolutions Passed by the BOD in 2005

(1) On January 18, the 16<sup>th</sup> meeting of the third session BOD of the Bank was convened in Beijing. 15 directors attended the session in person or through proxies, which was in compliance with the rules and regulations of the Corporate Law and the Bank's Articles of Association. The meeting reviewed and passed the following resolutions: Resolution on the Appointment of Vice President and Assistant President

Candidates Nominated by President Dong Wenbiao, Resolution on the Appointment of General Manager Candidates Nominated by President Dong Wenbiao for Tianjin Branch and Kunming Branch (to be established) of China Minsheng Bank, Resolution on the Restructuring of China Minsheng Building (Shanghai) and the Addition of Investment Budget.

(2) On January 25, 2005, the 17<sup>th</sup> meeting of the third session BOD of the Bank was convened by means of written resolution. 15 directors participated in the voting, which was in compliance with the rules and regulations of the Corporate Law and the Bank's Articles of Association. The meeting reviewed and passed the following resolution: Resolution on Approval of Purchase of Business Operating Premise for CMBC Chengdu Branch.

(3) On February 21, 2005, the 18<sup>th</sup> meeting of the third session BOD of the Bank was convened in Beijing. 15 directors attended the session in person or through proxies, which was in compliance with the rules and regulations of the Corporate Law and the Bank's Articles of Association the Bank. The meeting reviewed and passed the following resolutions: Main Text and Abstract of 2004 Annual Report of the Bank, 2004 Year-end Financial Report of the Bank, 2004 Profit Distribution Plan of the Bank, 2005 Financial Budget of the Bank, 2004 Working Report of the Board of Directors of the Bank, 2004 Working Report of the President of the Bank, Resolution on Revising the Long-term Incentive Scheme of the Bank and the Implementation Plan (Draft), Resolution on the Appointment of Accounting Firm for 2005 and the Relevant Service Fees, and Resolution on the Convening of the 2004 Annual General Meeting of the Bank.

(4) On April 22, 2005, the 19<sup>th</sup> meeting of the third session BOD of the Bank was convened by means of written resolution. 14 directors participated in the voting (with the exception of Mr. Feng Lun who had resigned as director of the Bank), which was in compliance with the rules and regulations of the Corporate Law and the Bank's Articles of Association. The meeting accepted Mr. Feng Lun's resignation from his position of director of the Bank, which was due to the fact that Vantone Industry Co., Ltd., where he was the Chairman of the Board, had transferred all the

shares of the Bank it held to others. The meeting also expressed appreciations to Mr. Feng Lun for his contributions to the Bank in the role as a director of the Bank. The meeting reviewed and passed the 1<sup>st</sup> Quarterly Report of the Bank in 2005.

(5) On May 18, 2005, the 20<sup>th</sup> meeting of the third session BOD of the Bank was convened by means of written resolution. 13 directors participated in the voting (with the exception of Mr. James Stent who was on business trips), which was in compliance with the rules and regulations of the Corporate Law and the Bank's Articles of Association. The meeting reviewed and passed the Branch and Sub-branch Expansion Plan for 2005-2007.

(6) On June 20, 2005, the 21<sup>st</sup> meeting of the third session BOD of the Bank was convened in Beijing. 14 directors attended the session in person or through proxies, which was in compliance with the rules and regulations of the Corporate Law and the Bank's Articles of Association the Bank. The meeting reviewed and passed the Resolution on the Issuance of H Shares and the Timing of Issuance.

(7) On June 29, 2005, the 22<sup>nd</sup> meeting of the third session BOD of the Bank was convened by means of written resolution. 14 directors participated in the voting, which was in compliance with the rules and regulations of the Corporate Law and the Bank's Articles of Association the Bank. The meeting reviewed and passed four fundamental policies of the Bank, namely the Policy on the Internal Reporting of Material Information, the Administrative Measures on Information Disclosure of the Bank (2005 Revised), the Rules on Investor Relationship Management of the Bank (2005 Revised) and the Rules on Independent Directorship of the Bank.

(8) On August 26, 2005, the 23<sup>rd</sup> meeting of the third session BOD of the Bank was convened by means of written resolution. 14 directors participated in the voting, which was in compliance with the rules and regulations of the Corporate Law and the Bank's Articles of Association the Bank. The meeting reviewed and passed the 2005 Interim Report of the Bank, the Administrative Measures on Capital Management and the Administrative Measures on the Management of Fund Raising Proceeds.

(9) On September 11<sup>th</sup>, the 1<sup>st</sup> and the 2<sup>nd</sup> extraordinary meetings of the third session BOD were convened in Beijing. 14 directors attended the session in person or through proxies, which was in compliance with the rules and regulations of the Corporate Law and the Bank's Articles of Association the Bank. The meeting reviewed and passed the following resolutions: Resolution on the Plan to Transfer the Capital Surplus into Capital Stock, Resolution on Proxy Solicitation for the Extraordinary General Meeting and Related Shareholders' Meeting, Resolution on the Convening of the 1<sup>st</sup> EGM and Related Shareholders' Meeting of the Bank in 2005.

(10) On October 18<sup>th</sup>, the 24<sup>th</sup> meeting of the third session BOD was convened in Beijing. 14 directors attended the session in person or through proxies, which was in compliance with the rules and regulations of the Corporate Law and the Bank's Articles of Association the Bank. The meeting reviewed and passed the following resolutions: Resolution on Issuing Subordinated Bonds of the Bank, Resolution on the Usage of Proceeds and Feasibility Analysis of the Subordinated Bonds Issuance, Resolution on the Subordinated Bonds Issuance and Special Authorization within the Limit, and Resolution on the Convening of the 2<sup>nd</sup> EGM.

(11) On October 27, 2005, the 25<sup>th</sup> meeting of the third session BOD was convened in Beijing by means of written resolution. 12 directors participated in the voting, which was in compliance with the rules and regulations of the Corporate Law and the Bank's Articles of Association. The meeting reviewed and passed the 3rd Quarterly Report of the Bank.

(12) On November 21, 2005, the 26<sup>th</sup> meeting of the third session BOD was convened in Beijing. 13 directors attended the session in person or through proxies, which was in compliance with the rules and regulations of the Corporate Law and the Bank's Articles of Association the Bank. The meeting reviewed and passed the following resolutions: Resolution on Financial Bonds Issuance, Resolution on Establishing the SME BU in the Bank, Resolution on Establishing the Trade Finance Department in the Bank, and Resolution on the Convening of the 3<sup>rd</sup> EGM of the Bank in 2005.

## **2) Implementation by the BOD of the Resolutions of Shareholders' Meetings**

In accordance with the 2004 Profit Distribution Plan adopted at the 2004 AGM, the BOD implemented the distribution plan on April 18 and 25, 2005 and distributed 2 bonus shares and cash dividend of RMB 0.70 for every 10 shares to all the shareholders.

## **9. Profit Distribution Plan and the Plan for Transfer of Capital Surplus into Capital Stock**

The Bank's audited net profit for the year 2005 is RMB 2,702,519,000 under the PRC GAAP and RMB 2,759,874,000 under IFRS. The Bank's proposed 2005 profit distribution plan is: provision of statutory surplus reserve at 10% of the after-tax profit, or RM 270,252,000; provision of statutory welfare reserve at 5% of the profit after tax, or RMB 135,126,000 and provision of general reserve in the amount of RMB 1,200,000,000. After deduction of the above items, the audited profit distributable to shareholders is RMB1,696,860,000 under the PRC GAAP and RMB1,727,095,000 under IFRS.

In accordance with the Questions and Answers on Information Disclosure for Companies Offering Shares to the Public - Differences Between Audits on the PRC GAAP and IFRS Financial Statements and the Profit Distribution Base (Zhengjian Kuaiji Zi [2001] No.58), profit should be distributed based on the lower of the distributable profit under the PRC GAAP and IFRS. Thus, in this case, the distributable profit under the PRC GAAP shall apply. On the basis of the total capital stock, the Bank plans to distribute 1.5 bonus shares, cash dividend of RMB 0.50 (before tax) and 2.5 shares transferred from the capital surplus for every 10 shares. Due to the fact that the capital stock of the Bank is still subject to changes as a result of the conversion of the convertible corporate bonds issued by the Bank ("Minsheng Convertible Bonds") starting from 27 August 2003, the Bank cannot for the time being determine the exact amounts of bonus shares, shares converted from capital surplus and cash dividends. After the 2005 AGM when the 2005 profit distribution plan and the plan for a transfer of capital surplus into capital stock are approved, the Bank shall make announcement on the total capital stock base by which the bonus shares, shares converted from capital surplus and

the amount of cash dividends are determined, and the number of bonus shares to be distributed, newly converted capital stock, capital surplus after the conversion, undistributed profit, cash dividends and total capital stock after the implementation of the profit distribution plan. After distribution of the bonus shares and the cash dividends, the Bank shall set aside RMB 200 million from the undistributed portion of the distributable profit for 2005 for the purpose of setting a special reserve to implement the Bank's stock incentive plan.

The above Profit Distribution Plan and the Capital Surplus Transfer into Capital Stock Plan should be implemented within two months following the approval of the 2005 AGM of the Bank.

## **10. Business Targets for Year 2006**

Total assets are expected to reach RMB 670 billion and total deposits are targeted to reach RMB 580 billion. The targets for loan balance and net profit are set at RMB 475 billion and RMB 3.33 billion, while the target for non-performing assets is set to be under 2%.

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## VIII. Report of the Board of Supervisors

### 1. Meetings of the Board of Supervisors

1) On January 25, the 8<sup>th</sup> meeting of the third session BOS of the Bank was convened in Beijing. 9 supervisors attended the meeting in person or through proxies, which was in compliance with the rules and regulations of the Corporate Law and the Bank's Articles of Association. The meeting reviewed and passed the Resolution on the 2005 BOS Work Plan.

2) On February 21, 2005, the 9<sup>th</sup> meeting of the third session BOS of the Bank was convened in Beijing. 9 supervisors attended the meeting in person or through proxies, which was in compliance with the rules and regulations of the Corporate Law and the Bank's Articles of Association the Bank. The meeting reviewed and passed the Main Text and Abstract of 2004 Annual Report of the Bank and the 2004 BOS Work Report.

3) On October 30, 2005, the 10<sup>th</sup> meeting of the third session BOS of the Bank was convened in Taiyuan. 9 supervisors attended the meeting in person or through proxies, which was in compliance with the rules and regulations of the Corporate Law and the Bank's Articles of Association the Bank. The meeting reviewed and passed the Resolution on the Rules for Exit Audit of Senior Executives of the Bank and Resolution on the Qualifications and the Measures for Selection of Supervisors of the Bank (Draft).

### 2. Activities of the Board of Supervisors

1) On April 12-20, 2005, the BOS arranged the supervisors to visit the branches in Shanghai, Hangzhou and Fuzhou to inspect their controls and management of risks. A total of 8 supervisors participated in the visit.

2) On June 20 and 21, 2005, the BOS met with the executives in charge of assets monitoring, internal audit and credit assessment departments of the Bank and received their reports on the current status of risk management and controls of the Bank.

3) On October 28-November 6, 2005, the BOS arranged the supervisors to visit the branches in Taiyuan, Xi'an and Wuhan to inspect their controls and management of risks. A total of 5 supervisors participated in the visit.

### 3. Independent Opinions of the Board of Supervisors

In compliance with the relevant rules and regulation of the Corporate Law and the Articles of Association of the Bank, the BOS monitored the activities of the Bank and issued the following opinions:

#### 1) Compliance of the Bank's Operations with Relevant Laws and Regulations

The Bank's operations and decision-making procedures comply with the Corporate Law and the Bank's Articles of Association. The Bank has established a sound and reliable internal control system. No irregularities or intentional actions which are detrimental to the interests of the Bank have been identified on the part of the directors and senior executives of the Bank in their performance of their respective duties and obligations.

#### 2) Reliability of Financial Statements

The financial statements of the Bank fairly reflect the financial position and operating results of the Bank during the year. The financial statements prepared in accordance with the PRC GAAP and IFRS have been audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Company and PricewaterhouseCoopers China Limited respectively. Unqualified auditors' reports have been issued.

#### 3) Usage of Proceeds

During the reporting period, the Bank raised RMB 1.4 billion capital through subordinated bonds issuance. Its actual usage is consistent with the commitments made in the Issuance Circular.

#### 4) Acquisition and Disposal of Assets

During the reporting period, the Bank had no significant acquisition or disposal of assets.

#### 5) Related-Party Transactions

During the reporting period, all related-party transactions of the Bank were fairly conducted and no action detrimental to the interests of the Bank was identified.



## 6) Internal Control System

The internal control system of the Bank is comprehensive, reasonable, and effective.

## 7) The Auditors' Reports

The auditors appointed by the Bank did not issue auditors' reports with any explanatory paragraph, qualified opinion, disclaimer opinion or adverse opinion.

## 8) Implementation of Resolutions Adopted by the Shareholders' General Meetings

The BOS had no disagreement regarding the reports and proposals submitted by the BOD to the shareholders' general meetings. Having supervised the implementation of the resolutions, the BOS was of the opinion that the BOD of the Bank faithfully implemented the resolutions approved by the general meetings.

# IX Major Events

## 1. Major Litigation and Arbitration Cases

During the reporting period, no litigation or arbitration cases with significant impact on the operation of the Bank occurred. As of December 31, 2005, there were 22 outstanding litigation taken by the Bank as plaintiff, involving RMB 650,340,500, and 3 lawsuits as defendant as follows:

On April 28, 2005, Shanghai Matsuoka Co., Ltd. filed an action against the Bank in the Shanghai No.2 Intermediate People's Court, stating that the Shanghai Branch of the Bank violated the asset management agreement the branch had entered into with Shanghai Matsuoka and Fujian Min Fa Securities Limited. Shanghai No.2 Intermediate People's Court has called Min Fa Securities Limited and the Shanghai Shuidian Road Business Department of Min Fa Securities Limited as the third party witnesses. The court session for the trial of this case has been completed but the judgement hasn't been delivered.

In May 2005, a former shareholder of the Bank, Zhengzhou Mengda Industrial Co., Ltd. filed an action against the Bank in the Zhengzhou Intermediate People's Court, stating that the Bank had offended its shareholder rights for failing to register the change with the State Administration for Industry and Commerce after transferring 31,500,000 shares it held within the Bank. In October 2005, for the same shares transfer, Zhengzhou Mengda Industrial Co., Ltd. filed a second action against the Bank in the Zhengzhou Intermediate People's Court, requiring the court to declare the resolution of the AGM at which its shares transfer was made invalid. Currently, the court sessions for the trial of these two cases have begun but no judgement have been delivered.

In September 2005, Shaanxi Jiyuan Electric Industry Co., Ltd. filed an action in the Xi'an Intermediate People's Court, claiming that Xi'an branch of the Bank had offended its ownership rights by transferring RMB 15 million it owned to others. The court session for the trial of this case has not commenced yet.

## 2. Acquisition and Disposal of Assets and Merges and Acquisitions ("M&As")

There was no major acquisition and disposal of assets or M&As by the Bank during the reporting period.

### 3. Major Related-Party Transactions

The Bank had no related parties that controlled or were controlled by the Bank.

During the reporting period, related parties transactions of the Bank were lending to shareholders and related parties. All lend-

ing to the related parties complied with the relevant rules and procedures of the Bank. The principals and interests of these loans were paid on time, and there were no material impact on the business performance and financial position of the Bank.

#### 1) Loans to Shareholders Holding 5% or More Capital Stock of the Bank:

(Unit:RMB'000)

Shareholder Name	Shares Held (in Share)	Outstanding Loans as of the end of 2005	Outstanding Loans as of the end of 2004
China SME Investment Co., Ltd.	5.00%	17,000	17,000
<b>Total</b>	<b>5.00%</b>	<b>17,000</b>	<b>17,000</b>

Note: Loans to a related party with 5% or more capital stock of the Bank did not exceed the investment made by the related party in the Bank.

#### 2) Outstanding Loans to Related Parties

(Unit:RMB'000)

Name	Relationship with the Bank	Outstanding Loans as of the end of 2005	Outstanding Loans as of the end of 2004
Beijing Guangcai Property Management Co. Ltd.	Controlled by a supervisor of the Bank	419,000	219,000
Oriental Homeland Co., Ltd.	Controlled by a director of the Bank	300,000	250,000
Shandong Xinfu Hope Aluminium Corp., Ltd.	Controlled by the close family members of a director of the Bank	140,000	150,000
Xiamen Xindi Industry Co. Ltd.	Controlled by a director of the Bank	132,000	132,000
Oriental Hope Group Co.	Controlled by the close family member of a director of the Bank	100,000	100,000
China Shipowners' Mutual Assurance Association	Controlled by a director of the Bank/ major shareholder	53,000	27,000
Shenzhen Shirble Department Store Co., Ltd.	Controlled by a major shareholder of the Bank	14,000	-
<b>Total</b>		<b>1,158,000</b>	<b>878,000</b>

**3) During the reporting period, there was no guarantee provided by the Bank to its related parties or borrowing from its related parties.**

contract disputes, nor entrusted any assets to others for management.

### 4. Major Contracts and Their Performance

There were no major custodian, contracting or leasing engagements in 2005 or continuing from prior years where assets of other companies were under the custody, contracted or leased by the Bank. None of the Bank's major assets were under custody, contracted or leased by others. The Bank had no major

The Bank purchased Zhongshang Tower in Lujiazui, Shanghai to reconstruct and expand it. Currently the progress of the project is good. The formalities of purchase have been completed and the Bank has obtained the property certificates. The reconstruction started in March 2005 and is progressing smoothly. Certain foundation reinforcement works have been completed and the internal clearing and removal work in prepa-

ration for reconstruction and expansion of the main building is under way. For details, please refer to the China Securities Journal, Shanghai Securities News and Securities Times on February 4, 2005.

## 5. Major Guarantees

The Bank had issued no guarantees other than the financial guarantees within the scope of business approved by the PBOC.

## 6. Commitments Made by the Bank

During the reporting period, the Bank had no commitments

requiring special explanation.

## 7. Appointment and Dismissal of Auditors

According to the resolution passed by the AGM, the Bank continued to appoint PricewaterhouseCoopers China Limited (PwC) as the auditor of annual financial statements prepared under IFRS, and PricewaterhouseCoopers Zhong Tian CPAs Limited Company as the auditor of annual financial statements prepared under the PRC GAAP. The 2005 service fees of the two firms (including but not limited to all the miscellaneous costs such as transportation expenses, accommodation expenses and communication expenses) amounted to RMB 8.02 million.

(Unit: RMB'000)

Service fees	2005	2004
Fees for financial audit	5,360	3,000
Other Fees	2,650	14,410
<b>Total</b>	<b>8,020</b>	<b>17,410</b>

Note: The 2004 audit service fees covered those for the audit of the annual financial statements, the capital verifications and the audit for the Bank's proposed H-share issuance. The amount under "Other Fees" was related to work in preparation for the Bank's H-share issuance.

PricewaterhouseCoopers China Limited has provided auditing services to the Bank for 10 years, while PricewaterhouseCoopers Zhong Tian CPAs Limited Company for 6 years.

## 8. Sanctions and Penalties Received by the Bank, the Board of Directors and the Directors

During the reporting period, the Bank, the Board of Directors and the Directors received no investigation from the CBRC, administrative sanctions or penalties, public criticism, or public censure from the Shanghai Stock Exchange.

## 9. Other Major Events

1) On January 20, 2005, with the approval of the CBRC in its document referenced as Yinjianfu [2004] No.183 and the approval of the State-owned Assets Supervision and Administration Commission, China Coal Power Group Company transferred 236,135,250 state-owned legal person shares it held in the Bank (4.55% of the total capital stock of the Bank) to Asia Financial Holdings Pte., Ltd., Singapore. The legal procedures for the transfer were completed with China Securities Depository & Clearing Corporation Limited (Shanghai) on January 19, 2005. For details, please refer to the China Securities Journal, Shanghai Securities News and Securities Times on January 22, 2005.

2) On March 23, 2005, Kunming Branch of the Bank started formal operation with the approval of the Yunnan Bureau of the CBRC.

3) On March 16, 2005, the PBOC announced the Notice on Adjusting Housing Loan Policies and Interest Rates of Excess Deposit Reserves for Commercial Banks (Yin Fa [2005] No. 61), which claimed that commencing on March 17, 2005, the housing loan policies for commercial banks would be adjusted and the interest rates of excess reserves deposits of financial institutions placed with the PBOC would be lowered. In response to the adjustment, on the one hand, the Bank has intensified its studies and researches on the trends of interest rate movements in the market and related policies and sped up the construction of MIS to effectively improve the interest rate management and prevent interest rate risks. On the other hand, the Bank will closely monitor the impacts of housing loan policies and liberalization of inter-bank deposit interest rates on business operations.

4) On March 22, 2005, the CSRC approved the Bank to offer

no more than 1,338,576,892 shares of overseas listed foreign shares (including 174,596,986 additional shares to be offered pursuant to the exercise of the over-allotment option) and confirmed that the Bank could seek listing at the main board of Stock Exchange of Hong Kong after this offering.

5) In accordance with the regulations under the Administrative Measures on the Write-off of Non-performing Debts of the Bank, the Bank wrote off RMB 210 million of non-performing debts in the first quarter of 2005.

6) On April 5, 2005, the CBRC gave an approval to the Bank to be engaged in fund custody business for National Social Security Fund in its document referenced as Yinjian Fu [2005] No.86.

7) On April 22, 2005, the 19th session of the Third BOD accepted Mr. Feng Lun's resignation from his position of director of the Bank, after Vantone Industry Co., Ltd., where he was the chairman of the board, transferred all the shares it held within the Bank to others. The meeting also expressed appreciations to Mr. Feng Lun for his contributions to the Bank as a director.

8) On April 22, 2005, Quanzhou Branch of the Bank started formal operation with the approval of the CBRC Fujian Bureau.

9) On June 2, 2005, the Listing Committee of the Stock Exchange of Hong Kong had a hearing meeting with the Bank to consider the Bank's application for global offering and listing on the main board of the Hong Kong Stock Exchange.

10) With the approval of CBRC in its Reply to CMBC regarding its Credit Card Issuance (Yinjian Fu [2005] No.72), the Bank launched Minsheng Credit Card on June 16, 2005.

11) Commencing on July 1, 2005, the Bank started to comply with the rules and regulations of the Administrative Measures for Bad Debt Provision of Financial Institutions (CaiJin [2005] No. 49) and the Circular on Provision (Caijing [2005] No. 90).

12) On July 14, 2005, the Bank obtained approval from CSRC via the document referenced as Yinfa [2005] No.133) to underwrite short-term financial bonds. For details, please refer to the China Securities Journal, Shanghai Securities News

and Securities Times on July 14, 2005.

13) On July 15, 2005, Suzhou Branch of the Bank started formal operation with the approval of the Jiangsu Bureau of the CBRC. For details, please refer to the China Securities Journal, Shanghai Securities News and Securities Times on July 15, 2005.

14) On July 21, 2005, the PBOC published the Announcement of Reforming the RMB Exchange Rate Regime ([2005] No.16), announcing that China would reform the exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. The exchange rate adjustment had no material impact on the Bank's business operations. However, the Bank will closely monitor the impacts of interest rate changes on its business operations and financial position.

15) On December 26, 2005, in accordance with the Reply to CMBC concerning the Issuance of Subordinated Bonds from the PBOC in its document referenced as Yin Fu [2005] No. 112, and the Reply to CMBC concerning the Issuance of Subordinated Bonds from the CBRC in its document referenced as Yinjian Fu [2005] No.309, the Bank issued RMB 1.4 billion of subordinated bonds in the national inter-bank bonds market through private placement. After deduction of issuance costs, all proceeds were transferred into the account of the Bank, marking the completion of the issuance. For details, please refer to the China Securities Journal, Shanghai Securities Times and Securities News on December 28, 2005.

## 10. Misappropriation of Funds by the Controlling Shareholder and Its Subsidiaries

As of the end of the reporting period, the Bank did not have any balances or misappropriated funds that were not in compliance with the Notice Concerning Issues regarding the Regulations of Balances between the Listed Companies and their Related Parties and the External Guarantees of the Listed Companies issued by the CSRC (Zheng Jian Fa [2003] No.56).

The Bank had no controlling shareholders. As of the end of the reporting period, the outstanding loans with related parties totaled RMB1.175 billion, or 0.31% of the total loans of the Bank,

which had no negative impact on the business operation and the financial position of the Bank.

### 11. Special Statements and Independent Opinions of Independent Directors on the External Guarantees of the Bank

In compliance with requirements of the CSRC document referenced as Zheng Jian Fa [2003] No. 56 and the relevant regulations of the Shanghai Stock Exchange, we, as the independent directors of China Minsheng Banking Corp., Ltd., have reviewed and verified the external guarantees of the Bank on an impartial, fair and objective basis, and our statements and opinions are as follows:

Our review and verification have shown that the external guarantees of the Bank are one of the normal banking activities conducted by the Bank within the scope of business approved by the PBOC and the CBRC. As of the end of the reporting period, the outstanding financing letters of guarantee of the Bank amounted to RMB 774 million and non-financing letters of guarantee amounted to RMB 9.026 billion.

The Bank has always given high priority to the risk management of this business, and strictly complied with relevant regulations on the credit ratings of the guaranteed parties and the operational and approval procedures for providing guarantees. The Bank's risk controls over the guarantee business are considered to be effective. The Bank shall continuously tighten its risk management to support the steady growth of its business and enable the Bank to continue to improve its performance.

Independent Directors of China Minsheng Banking Corp., Ltd.:

James Stent, Annie Wu, Wu Zhipan, Zhang Ke, Gao Shangquan

## X Financial Statements

The Bank's 2005 financial statements prepared under the PRC GAAP and IFRS have been audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Company and PricewaterhouseCoopers China Limited respectively. Unqualified independent auditors' reports referenced as PWCZT (2006) No.58, signed by Wu Weijun and Yang Bo who are Chinese Certified Public Accountants, have been issued.

1. Auditors' Reports
2. Financial Statements  
(Including Balance Sheet, Income Statement, Profit Distribution Statement, Statement of Cash Flows)
3. Notes to the Financial Statements (Including the Reconciliation of the PRC GAAP Financial Statements and IFRS Financial Statements and the Statement of Provision for Assets Impairment)

Please find the above contents in Appendix 1.

## XI Index of Documents for Reference

1. Financial statements bearing the signatures and seals of the legal representative, senior executive in charge of accounting function and persons in charge of finance and accounting departments of the Bank
2. Original copy of the auditors' reports bearing the seals of the accounting firm, and the signatures and seals of CPAs
3. Body text of the annual report bearing the signatures of the directors and senior executives of the Bank
4. All the originals of the documents and announcements disclosed during the reporting period in the China Securities Journal, Shanghai Securities News and Securities Times
5. Articles of Association of the Bank

## XII Appendices

Appendix I: Financial Statements

Appendix II: Supplementary Information to the Financial Statements



Handwritten signature in black ink, appearing to be '王景武' (Wang Jingwu).

Chairman  
Board of Directors  
China Minsheng Banking Corp., Ltd.  
February 24, 2006

## Written Confirmation on the 2005 Annual Report of the Bank By the Directors and Senior Management of the Bank

In accordance with the related rules and requirements of the Securities Law and the Contents and Formats Standards No.2 Concerning Information Disclosure of Companies Offering Shares to the Public (Revised 2005), we, as the directors and senior management of the Bank, present our opinion on full understanding and review of the 2005 annual report and the abstracts of the Bank as follows:

1. The Bank operates in strict compliance with the Accounting Standards for Business Enterprises, the Accounting System for Business Enterprises and the Accounting Systems for Financial Institutions. The 2005 Annual Report of the Bank and its abstracts fairly reflect the financial position and operating results of the Bank in year 2005.
2. The 2005 Financial Statements audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Company and PricewaterhouseCoopers China Limited and the Auditors' Reports are truthful, objective and fair.

We hereby guarantee the truthfulness, accuracy and integrity of the 2005 Annual Report and its abstracts, warrant that there are no misstatements, misleading representations or material omissions in the report and the abstracts and assume joint and several liabilities for their truthfulness, accuracy and integrity.

### Signatures of the directors and senior managements:

Jing Shuping		
Zhang Hongwei		Liu Yonghao
Wang Yugui		Li Anmin
Chen Jian		Huang Xi
James Stent		Annie Wu
Wu Zhipan		Zhang Ke
Gao Shangquan		Dong Wenbiao
Hong Qi		Liang Yutang
Shao Ping		Mao Xiaofeng
Wu Touhong		



# 2005 CMBC







66 Appendix I  
Financial Statement

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## Appendix I

### Financial Statements

CHINA MINSHENG BANKING CORP., LTD.  
2005 Annual Financial Statement and  
Independent Auditors' Report

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## Report of the Auditors

PWC ZT Shen Zi(2006)No.58

To the Shareholders of China Minsheng Banking Corp., Ltd.

We have audited the accompanying balance sheet of China Minsheng Banking Corp., Ltd. ("the Bank") as at December 31, 2005 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 China's Independent Auditing Standards. 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 policies used and significant accounting estimates made by the 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 referred to above conform with the Accounting Standards for Business Enterprises and the Accounting System for Business Enterprises promulgated by the State of the People's Republic of China and present fairly, in all material respects, the financial position of the Bank as at December 31, 2005 and the results of its operations and its cash flows for the year then ended.



Certified Public Accountant



Certified Public Accountant



## CHINA MINSHENG BANKING CORP., LTD.

## BALANCE SHEET

AS AT DECEMBER 31, 2005

■ All amounts in Rmb'000 unless otherwise specified

Assets	Note V	2005	2004
<b>Current Assets:</b>			
Cash		1,918,715	1,471,945
Deposits with the PBOC	1	54,860,062	40,653,237
Due from banks	2	10,639,246	12,077,177
Lending to other banks	4	6,262,845	8,919,586
Lending to non-bank financial institutions	5	1,929,999	2,322,782
Short-term loans	6	160,426,181	136,454,464
Documentary bills	7	1,548,582	1,520,084
Interest receivable	8	1,582,194	1,382,801
Other receivables	9	745,168	612,059
Discounted bills	10	63,085,654	29,940,167
Short-term investments	11	13,299,073	10,335,234
Assets purchased under resale agreements	12	20,009,640	11,518,877
Long-term bond investments due within one year	13	6,813,377	3,688,295
<b>Total current assets</b>		<b>343,120,736</b>	<b>260,896,708</b>
<b>Long-term Assets:</b>			
Medium and long-term loans	14	147,819,965	117,050,744
Overdue loans	15	5,191,463	3,396,684
Less: Provision for loan losses	17	(4,991,491)	(4,247,700)
Long-term bond investments	18	59,455,922	62,363,058
Long-term equity investments	19	50,000	50,000
Fixed assets	20	3,192,923	2,698,034
Construction in progress	21	1,705,659	1,589,236
<b>Total long-term assets</b>		<b>212,424,441</b>	<b>182,900,056</b>
<b>Intangible assets and other Assets:</b>			
Intangible assets	22	117,957	69,545
Deferred assets	23	363,755	372,651
Foreclosed assets to be disposed	24	813,125	776,572
<b>Total intangible and other assets</b>		<b>1,294,837</b>	<b>1,218,768</b>
<b>Deferred Taxes:</b>			
Deferred income tax assets	25	296,077	383,150
<b>Total Assets</b>		<b>557,136,091</b>	<b>445,398,682</b>

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

## CHINA MINSHENG BANKING CORP., LTD.

## BALANCE SHEET (CONTINUED)

AS AT DECEMBER 31, 2005

■ All amounts in Rmb'000 unless otherwise specified

Liabilities & Shareholders' Equity	Note V	2005	2004
<b>Current Liabilities:</b>			
Short-term corporate deposits	26	273,118,477	229,109,497
Short-term individual savings deposits	27	63,952,957	36,094,772
Fiscal deposits		10,877,359	5,080,466
Deposits from banks	28	33,893,169	33,814,366
Borrowings from other banks	29	-	1,219,919
Assets sold under repurchase agreements	30	5,422,664	6,965,915
Outward remittance		495,475	367,674
Inward remittance and temporary deposits		361,921	377,077
Short-term margin deposits	36	59,369,343	35,432,961
Interest payable	31	2,313,278	1,632,185
Payroll payable		480,325	339,505
Welfare payable		107,499	70,414
Taxes payable	32	946,145	618,133
Other payables	33	1,525,112	978,164
Dividends payable		58,020	24,535
Accrued expenses		31,538	24,090
<b>Total current liabilities</b>		<b>452,953,282</b>	<b>352,149,673</b>
<b>Long-term Liabilities:</b>			
Long-term corporate deposits	34	70,667,592	66,345,140
Long-term individual savings deposits	35	10,140,679	7,421,176
Long-term margin deposits	36	344,435	220,375
Convertible bonds	37	15,207	312,769
Subordinated bonds	38	7,248,671	5,847,526
Other long-term liabilities		306,746	194,865
<b>Total long-term liabilities</b>		<b>88,723,330</b>	<b>80,341,851</b>
<b>Total Liabilities</b>		<b>541,676,612</b>	<b>432,491,524</b>
<b>Shareholders' Equity:</b>			
Capital stock	39	7,258,779	5,184,447
Capital surplus		4,207,435	4,948,491
Surplus reserve		1,182,831	777,453
General reserve		1,200,000	-
Retained earnings		1,696,860	1,999,595
Currency translation differences		(86,426)	(2,828)
<b>Total Shareholders' Equity</b>		<b>15,459,479</b>	<b>12,907,158</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>557,136,091</b>	<b>445,398,682</b>

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

CHINA MINSHENG BANKING CORP., LTD.

INCOME STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2005

■ All amounts in Rmb'000 unless otherwise specified

Items	Note V	2005	2004
<b>Operating Income:</b>			
Interest income	40	17,491,718	12,941,260
Income from other financial institutions	41	3,225,771	2,193,152
Fee and commission income		494,049	411,382
Foreign exchange gain, net		221,894	109,321
Investment income	42	2,366,945	2,210,254
Other operating income, net		-	93,410
<b>Total operating income</b>		<b>23,800,377</b>	<b>17,958,779</b>
<b>Operating Expenses:</b>			
Interest expenses	40	(7,822,305)	(5,568,425)
Expenses to other financial institutions	41	(3,210,984)	(2,793,223)
Fee and commission expenses		(121,717)	(103,877)
Operating expense	43	(6,006,507)	(4,385,586)
Provision for assets impairment	44	(1,357,993)	(1,503,048)
Other operating expenses, net		(19,436)	-
<b>Total operating expenses</b>		<b>(18,538,942)</b>	<b>(14,354,159)</b>
<b>Business Tax and Surcharges</b>	<b>45</b>	<b>(1,021,109)</b>	<b>(760,070)</b>
<b>Operating Profit</b>		<b>4,240,326</b>	<b>2,844,550</b>
Add: Net non-operating income		2,364	20,896
<b>Profit before Income Tax</b>		<b>4,242,690</b>	<b>2,865,446</b>
Less: Income tax expense	46	(1,540,171)	(827,045)
<b>Net Profit</b>		<b>2,702,519</b>	<b>2,038,401</b>

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

CHINA MINSHENG BANKING CORP., LTD.

## PROFIT DISTRIBUTION STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2005

■ All amounts in Rmb'000 unless otherwise specified

Items	Note	2005	2004
<b>Net Profit</b>		<b>2,702,519</b>	<b>2,038,401</b>
Add: Retained earnings at beginning of the year		1,999,595	1,494,044
<b>Net Distributable Profit</b>		<b>4,702,114</b>	<b>3,532,445</b>
Less: Appropriation to statutory surplus reserve	III	(270,252)	(203,840)
Appropriation to statutory welfare reserve	III	(135,126)	(101,920)
Appropriation to general reserve	III	(1,200,000)	-
<b>Net Profit Distributable to Shareholders</b>		<b>3,096,736</b>	<b>3,226,685</b>
Less: Cash dividends for ordinary shares	V.39	(362,931)	(460,159)
Stock dividends	V.39	(1,036,945)	(766,931)
<b>Retained Earnings</b>		<b>1,696,860</b>	<b>1,999,595</b>

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

## CHINA MINSHENG BANKING CORP., LTD.

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2005

■ All amounts in Rmb'000 unless otherwise specified

	Note V	Capital stock	Capital surplus	Statutory surplus reserve	Statutory welfare reserve	General reserve	Retained earnings	Currency translation differences	Total
<b>Balance at January 1, 2005</b>		5,184,447	4,948,491	496,756	280,697	-	1,999,595	(2,828)	12,907,158
Arising in the year									
Net profit		-	-	-	-	-	2,702,519	-	2,702,519
Cash dividends		-	-	-	-	-	(362,931)	-	(362,931)
Stock dividends	39	1,036,945	-	-	-	-	(1,036,945)	-	-
Issue of shares-transfer from capital surplus	39	974,097	(974,097)	-	-	-	-	-	-
Appropriation to statutory surplus reserve		-	-	270,252	-	-	(270,252)	-	-
Appropriation to statutory welfare reserve		-	-	-	135,126	-	(135,126)	-	-
Appropriation to general reserve		-	-	-	-	1,200,000	(1,200,000)	-	-
Conversion of bonds into capital stock	39	63,290	233,041	-	-	-	-	-	296,331
Others		-	-	-	-	-	-	(83,598)	(83,598)
<b>Balance at December 31, 2005</b>		7,258,779	4,207,435	767,008	415,823	1,200,000	1,696,860	(86,426)	15,459,479
<b>Balance at January 1, 2004</b>		3,625,259	4,061,730	292,916	178,777	-	1,494,044	(2,522)	9,650,204
Arising in the year									
Net profit		-	-	-	-	-	2,038,401	-	2,038,401
Cash dividends		-	-	-	-	-	(460,159)	-	(460,159)
Stock dividends		766,931	-	-	-	-	(766,931)	-	-
Issue of shares-transfer from capital surplus		575,198	(575,198)	-	-	-	-	-	-
Appropriation to statutory surplus reserve		-	-	203,840	-	-	(203,840)	-	-
Appropriation to statutory welfare reserve		-	-	-	101,920	-	(101,920)	-	-
Conversion of bonds into capital stock		217,059	1,461,959	-	-	-	-	-	1,679,018
Others		-	-	-	-	-	-	(306)	(306)
<b>Balance at December 31, 2004</b>		5,184,447	4,948,491	496,756	280,697	-	1,999,595	(2,828)	12,907,158



## CHINA MINSHENG BANKING CORP., LTD.

## STATEMENT OF CASH FLOW

FOR THE YEAR ENDED DECEMBER 31, 2005

■ All amounts in Rmb'000 unless otherwise specified

Items	2005	2004
<b>I. Cash Flows from Operating Activities</b>		
Interest received	20,528,319	14,939,522
Fee and commission received	494,049	411,382
Repayment of medium and long-term customer loans	45,030,925	28,115,809
Net demand deposits received	36,725,190	40,736,444
Other deposits received	619,246,308	407,924,588
Net changes in due from banks and due to banks	1,146,917	-
<b>Sub-total of cash inflows</b>	<b>723,171,708</b>	<b>492,127,745</b>
Interest paid	(10,062,564)	(7,778,141)
Fee and commission paid	(121,717)	(92,053)
Cash payment to and for employees	(2,356,723)	(1,695,096)
Payment of income tax	(1,269,071)	(823,363)
Payment of other taxes	(877,124)	(696,565)
Granted medium and long-term customer loans	(78,258,329)	(76,174,144)
Net increase of outstanding short-term loans	(57,145,702)	(40,491,880)
Other deposits paid (exclusive of demand deposits)	(547,345,987)	(343,395,884)
Net increase of restricted deposit reserve	(6,668,587)	(6,991,483)
Net changes in due from banks and due to banks	-	(6,714,593)
Net changes in lending to banks and borrowing from banks	(1,242,926)	(20,433,988)
Cash paid for other operation-related activities	(2,499,896)	(1,938,925)
<b>Sub-total of cash outflows</b>	<b>(707,848,626)</b>	<b>(507,226,115)</b>
<b>Net cash flows from operating activities</b>	<b>15,323,082</b>	<b>(15,098,370)</b>
<b>II. Cash Flows from Investment Activities</b>		
Sales and maturity of securities investments	51,127,263	23,281,985
Interest of long-term bonds received	2,386,367,255,752	
Cash received from disposals of fixed assets, intangible assets and other long-term assets	3,852	34,138
Sub-total of cash inflows	53,517,482	25,571,875
Purchase of bonds as investments	(54,553,645)	(34,657,717)
Purchase of fixed assets, intangible assets and other long-term assets	(1,285,969)	(2,107,159)
<b>Sub-total of cash outflows</b>	<b>(55,839,614)</b>	<b>(36,764,876)</b>
<b>Net cash flows from investment activities</b>	<b>(2,322,132)</b>	<b>(11,193,001)</b>
<b>III. Cash Flows from Financing Activities</b>		
Net proceeds from issuance of subordinated bonds	1,114,891	5,788,176
Cash paid for interest of convertible bonds	(4,609)	(10,256)
Cash dividends paid	(329,446)	(436,356)
<b>Net cash flows from financing activities</b>	<b>780,836</b>	<b>5,341,564</b>
<b>IV. Effect of Changes on Exchange Rates</b>	<b>(83,598)</b>	<b>(306)</b>
<b>V. Net Increase/(Decrease) in Cash and Cash Equivalents</b>	<b>13,698,188</b>	<b>(20,950,113)</b>

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

## Statement of Cash Flow (CONT'D)

FOR THE YEAR ENDED DECEMBER 31, 2005

■ All amounts in Rmb'000 unless otherwise specified

	2005	2004
<b>1. Reconciliation of Net Profit to Net Cash Flows from Operating Activities:</b>		
Net Profit	2,702,519	2,038,401
Add/(Less): Provision for bad debt	17,362	10,403
Provision for assets impairment	1,357,993	1,503,048
Reversal of impairment on fixed assets	-	(16,553)
Depreciation of fixed assets	332,723	251,544
Amortization of intangible assets	15,757	8,492
Amortization of deferred assets	131,164	131,961
Losses on disposal of fixed assets, intangible assets and other long-term assets	(976)	198
Investment income	(2,366,945)	(2,210,254)
Interest expense of convertible bonds	3,378	6,562
Interest expense of subordinated bonds	286,254	47,526
Deferred income tax expense	87,073	(154,275)
Increase in operating receivables	(95,017,465)	(93,444,896)
Increase in operating payables	107,774,245	76,729,473
<b>Net cash flows from operating activities</b>	<b>15,323,082</b>	<b>(15,098,370)</b>
<b>2. Non-cash Investment and Financing Activities</b>		
Convertible bonds converted into capital stock	296,331	1,679,018
<b>3. Net Increase/(Decrease) on Cash and Cash Equivalents: (Note V-3)</b>		
Cash at end of year	1,918,715	1,471,945
Less: Cash at beginning of year	(1,471,945)	(1,066,223)
Add: Cash equivalents at end of year	46,737,000	33,485,582
Less: Cash equivalents at beginning of year	(33,485,582)	(54,841,417)
<b>Net increase/(decrease) on cash and cash equivalents</b>	<b>13,698,188</b>	<b>(20,950,113)</b>

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

## CHINA MINSHENG BANKING CORP., LTD.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2005

■ All amounts in Rmb'000 unless otherwise specified

**Note I Company Profile**

China Minsheng Banking Corp., Ltd. (the "Bank") was established in the People's Republic of China ("PRC") on February 7, 1996 as a joint stock national commercial bank. Its establishment was approved by the State Council of the PRC and by the People's Bank of China (the "PBOC"). In 2000, the Bank issued 350,000,000 A-shares of common stock in local currency Renminbi ("RMB") and has been listed at the Shanghai Stock Exchange since 2000.

The Bank operates under a financial licence numbered B10911000H0001 granted by the China Banking Regulatory Commission (the "CBRC") and a corporate legal person licence numbered 1000001001898(4-3) granted by the State Industry and Commerce Administration Bureau.

By the end of December 2005, the Bank has established 20 main branches in such cities as Beijing, Shanghai, Guangzhou, Shenzhen, Wuhan, Dalian, Nanjing, Hangzhou, Chongqing, Xi'an, Ji'nan, Fuzhou, Ningbo, Chengdu, Taiyuan, Suzhou, Quanzhou, Shijiazhuang, Kunming and Tianjin. Apart from these main branches, the Bank also has a sub-branch in Shantou, Guangdong Province, which directly reports to the Headquarters.

The business scope of the Bank covers:

- Deposit taking
- Granting short, medium and long-term loans;
- Granting entrusted loans;
- Domestic and international settlement;
- Bill discounting;
- Issuing financial institution bonds;
- Acting as agent on issuing, encashing and underwriting of government bonds;
- Trading bonds issued by financial institutions, government and corporates;
- Participating in inter-bank money market;
- Trading foreign exchanges and other derivative financial instruments for the Bank or on behalf of its customers;
- Issuing letters of credit ("L/C") and financial guarantees;
- Acting as agent on inward and outward payments, and selling insurance products;
- Offering safe-box service;

- Offering credit card business;
- Fiduciary service for National Social Insurance Fund;
- Other financial businesses approved by the PBOC or CBRC.

**Note II Principal Accounting Policies and Accounting Estimates****1. Basis of preparation**

The accompanying financial statements are prepared in accordance with the Accounting Standards for Business Enterprises, the Accounting System for Financial Institutions and other regulations enacted by the Ministry of Finance of the PRC.

The disclosure in the notes to the financial statements are made in accordance with the Regulations on the Information Disclosure and Compiling for Publicly Listed Companies (No. 18)-Special Provisions on the Disclosure of Commercial Banks promulgated by the China Securities Regulatory Commission (the "CSRC") and Provisional Regulation on Information Disclosure of Commercial Banks enacted by the PBOC.

These financial statements combine the individual financial statements and other information of Headquarters, Beijing branch, other branches and the directly reporting sub-branch. All significant inter-branch balances and transactions are eliminated on combination when preparing the accompanying financial statements.

**2. Accounting period**

The Bank's accounting year starts on January 1 and ends on December 31.

**3. Reporting currency**

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

**4. Basis of accounting and measurement principle**

The Bank follows the accrual basis of accounting. Assets are initially recorded at cost upon acquisition and subsequently adjusted for assets impairment provision, if any.

## 5. Foreign currencies transactions and foreign currencies translation

In respect of foreign currency business, transactions are recorded at separate accounts denominated in different foreign currencies at the date of the transactions. As at the balance sheet date, balances of the accounts in foreign currencies are firstly translated into the US dollar either at the PBOC benchmark exchange rates or the cross rates on the balance sheet date approved by the government to generate closing financial statements denominated in the US dollar, which are then translated into RMB and combined with financial statements in RMB. All assets and liabilities in the balance sheet are translated at the PBOC benchmark exchange rates on the balance sheet date or the cross rates approved by the government. Retained earnings and shareholders' equity accounts are translated at the PBOC benchmark exchange rates or the cross rates approved by the government on the transaction date. The differences arising are included in currency translation differences in the balance sheet. The income statement items are translated at the PBOC benchmark exchange rates or the cross rates approved by the government on the balance sheet date. Retained earnings is recorded as the amount in the profit distribution statement after currency translation.

## 6. Cash and cash equivalents

For the purposes of cash flow statement, cash refers to all cash in hand and call deposits. Cash equivalents refer to short-term and highly-liquid investments with original maturities of three months or less that are readily converted to known amounts of cash and which are subject to an insignificant risk of change in value, including the non-restricted reserve balance with the PBOC, demand deposits with other banks, time deposits with an original maturity of less than three months with other banks, lending to other banks, securities purchased under resale agreements, short-term bond investments of high liquidity in the bond market.

## 7. Provision for bad debts

The Bank adopts the allowance method for recognizing possible losses on bad debts.

The assessment of the bad debts is on an individual basis. Provisions are established based on the collectibility assessment of each individual item.

Provisions for bad debts are charged to the income statement of the year. When there is objective evidence that an account receivable is uncollectible, it is written off against the related provision for bad debts established previously. If the provision is not sufficient to cover the loss, the remaining loss is then recognized in the income statement of the year. Subsequent recoveries of those accounts receivable that have been recognized as bad debts and written off previously, are credited to the bad debts provision account to the extent of the previously written-off amounts.

## 8. Discounted bills

Discounted bills refer to the discount lending to customers or other financial institutions against accepted commercial bills before maturity.

Discounted bills are initially booked at the par value of the bills while the interest income is calculated and recognized according to their holding period. At the balance sheet date, the unearned interest of discounted bills for the period from the balance sheet date to the maturity date is deferred. The discounted bills are reported in the balance sheet as the difference between their maturity value and the deferred interest income.

## 9. Loans

Loans are booked at the actual amount granted to borrowers.

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

Loans are classified into different types by their original maturity dates. Those loans with maturity no more than one year are classified as short-term loans while loans with maturity over one year are classified as medium or long-term loans.

### 2) Overdue loans

Overdue loans refer to any loans for which the borrowers fail to repay the principals at the due dates in accordance with the terms (including the extension period) specified in the loan contracts, or those advances made by the Bank when the acceptors of discounted bills fails to repay at due dates while

CHINA MINSHENG BANKING CORP., LTD.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2005

■ All amounts in Rmb'000 unless otherwise specified

the customers' deposit account is insufficient to cover the repayment, or those advances made by the Bank when bills accepted by the Bank mature while the customers' deposit account is insufficient to cover the repayment, or those advances resulted from off-balance sheet businesses such as L/Cs or letters of guarantee. These loans or advances are all treated as overdue loans from the date when loans are overdue or the advances are made.

### 3) Accrual loans and non-accrual loans

A loan is placed at interest accrual status if neither of its principal and interest is overdue for 90 days or more. If either the principal or the interest is overdue for 90 days or more, the Bank ceases to accrue interest for the loan, reverses the previously accrued interests and accounts for these interests as off-balance sheet item, and places the loans at non-accrual status.

## 10. Provision for loan losses and bad debt write-offs

### 1) Provision for loan impairment

The Bank adopts the allowance method for recognizing possible loan losses.

Provision is made for possible losses from short-term loans, discounted bills accepted by corporate customers (excluding rediscounted bills under repurchase agreements with financial institutions), inward and outward documentary bills, medium and long-term loans, overdue loans, stagnant loans, bad loans, L/Cs, letters of guarantee and accepted bills, etc.

The Bank assesses whether there is any objective evidence that a loan is impaired periodically. Such objective evidences may include significant financial difficulties of a borrower, a breach of contract such as default or delinquency, or the Bank's granting of a repayment concession to a borrower. If there is objective evidence that impairment on a loan carried at amortized cost has occurred, provision is established for such an impaired loan. The amount of the provision is the difference between the loan carrying amount and its recoverable amount, which is the present value of its expected cash flows, including amounts recoverable from guarantors and sale of collateral, discounted at the original effective interest rate of the loan.

The provision for loan losses also covers unidentified losses

where there is objective evidence that possible loss has been incurred in the loan portfolio at the balance sheet date. Provision for such losses is estimated based upon the Bank's historical experience of losses, taking consideration of the current economic climate in which the borrowers operate.

### 2) Bad debt write-offs

If a loan is deemed uncollectible, it is written off against the related provision for loan loss after the Bank exhausts necessary collection procedures and ascertains the loss amount. Subsequent recoveries of the amount previously written-off are reversed in the income statement through the provision for loan losses.

## 11. Short-term investments

The short-term investments of the Bank are mainly short-term bonds. Short-term bonds are initially recorded at acquisition cost, excluding the interest due but not collected. Interest received during the holding period, excluding those which have already been recorded as interests receivable, should directly offset the carrying amount of the investments. An investment gain or loss is recognized when the investment is sold or matures. Short-term investments are measured at the lower of the cost and market value at the end of accounting period.

## 12. Long-term bonds investments

The long-term bonds investments is initially recorded at the acquisition cost after deducting surcharges such as commissions to broker, taxes, fees and the interest accrued from the bond issuance date or the last coupon date to the purchase date. The premium (or discount) paid for the long-term bonds investments are amortized using the straight-line method during the holding period.

Interest income is accrued periodically. For bonds which settle the principal and interest upon maturity, the accrued interest is presented under the long-term bonds investments account. For bonds which settle interest periodically, the accrued interest at the balance sheet date is shown in the interest receivable account. The interest income of long-term bonds investments and the amortization of premium or discount are recorded as investment gain/loss.

### 13. Long-term equity investments

Long-term equity investments held by the Bank has been specially approved by the PBOC. The investments are recorded at the acquisition cost. As the Bank has no control, common control or significant influence on the investee entity, the long-term equity investments are recorded using the cost method. Investment income is recognized when the invested entity declares its distribution of cash dividends.

### 14. Provision for impairment of long-term investments

When the market value of long-term investments continually declines or business operation of invested entity deteriorates and the deteriorating trend is unlikely to reverse in the near future, the recoverable amount from the long-term investments is lower than the book value. The difference between the recoverable amount and the book value is recognized as the provision for impairment of long-term investments.

### 15. Fixed assets and depreciation

Fixed assets include premises, buildings and equipment that are used in production, rendering of services, and held for lease and operation purposes, which have useful lives of more than one year and have relatively high unit value.

Fixed assets purchased or constructed by the Bank are recorded at cost. Fixed assets are depreciated using the straight-line method to write down the cost of assets to their estimated residual value, which is 3% of the original cost, over their estimated useful lives.

Repair and maintenance expenditures of fixed assets are expensed as incurred. Subsequent expenditures for major reconstruction, expansion, improvement and renovation are capitalized when they increase future economic benefit flows to the Bank. Capitalized expenditures arising from major reconstruction, expansion and improvement are depreciated using the straight-line method over the remaining useful lives of the related fixed assets. Capitalized expenditures arising from the renovation of fixed assets are depreciated using straight-line method over the estimated beneficial periods.

The following is a classification of fixed assets together with their estimated useful lives:

Buildings	20-30 years
Operation equipment (including machinery, office equipment, and electronic equipment)	5-10 years
Motor vehicles	5 years

Fixed assets are periodically reviewed for repairment. If the recoverable amount is lower than the carrying value, a provision for impairment is recognized in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the net proceeds from the disposal of the fixed asset less costs to sell or the present value of the cash flows from value in use and the disposal value at the end of its service life. If there is evidence that the changes of factors, based on which the impairment provision on fixed asset is made, result in the recoverable amount exceeding the carrying amount, the provision is reversed to the extent of the impairment loss previously recognized.

### 16. Construction in progress

Construction in progress represents the assets under construction or being installed and is stated at cost. Cost comprises construction cost and other direct expenses, purchase cost of equipment, installation costs, and also the interest expenses from financing for the project before it is ready for use. Construction in progress is transferred to fixed assets when it's ready for the intended use.

Provision for impairment of construction in progress is provided when:

- Construction in progress has been suspended for a long period and the construction is not expected to re-commence within 3 years.

- Construction in progress has dropped behind in terms of efficiency or technology and the economic benefits associated with the asset have significant uncertainty.

### 17. Long-term prepaid expenses

Long-term prepaid expenses represent expenditures which have been paid and should be amortized over more than one year.

Long-term prepaid expenses of the Bank mainly comprise leasehold improvement expenditures and other capital expenditures which are initially recognized at cost. Long-term

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prepaid expenses also include those expenses incurred for new branches and sub-branches in their pre-operating period.

Leasehold improvements are amortized on the straight-line basis over the shorter of the remaining term of the operating lease or the expected service life. All expenses incurred in the pre-operating period of new branches and sub-branches are recorded as long-term prepaid expenses and are expensed in the first month of their operation. When the long-term prepaid expenses cannot bring economic benefits to the Bank in the future, the carrying amount is charged into the income statement.

#### 18. Foreclosed assets and provision for foreclosed assets

Foreclosed assets are initially recognized at a value equal to the collateralized amount of the related loan principal, plus accrued interest, net of relevant provision for loan losses. The Bank reviews the recoverable amount of the assets regularly. At the balance sheet date, the carrying amount is adjusted based on the lower of the carrying amount and the recoverable value. If recoverable value is lower than carrying amount, the Bank recognizes a provision for impairment of foreclosed assets. The recoverable amount is the expected proceeds from disposal of foreclosed assets less costs of disposal.

#### 19. Subordinated bonds and convertible bonds

The subordinated bonds and convertible bonds issued by the Bank are initially recognized as liabilities at the actual issuance price. The difference between the actual issuance price and the par value of bonds is regarded as a premium or discount which is amortized on the straight-line basis during the term of the bonds.

The interest of subordinated bonds and convertible bonds is accrued on a periodical basis. The interest expenses, amortization of premium or discount, and issuance costs are capitalized or expensed according to the way of the utilization of the proceeds from the issuance of the bonds.

When convertible bonds are converted into capital shares, the amount of the number of converted shares multiplied by the par value of shares is booked into capital stock. The difference

between the book value of the converted bonds and the par value of the shares, deducted by the cash paid to bond holders, is recorded into the capital surplus.

#### 20. Employee social security and benefits

The Bank participates in employee social security plans, including pension, medical, housing and other social welfare benefits, organized and administrated by the government authorities. The Bank also participates in the supplementary pension scheme provided by commercial insurance companies. The Bank has no other substantial commitments to employees welfare benefits.

In accordance with relevant regulations and contracts, the premiums and benefit contributions are calculated based on percentages of the total salary of employees, subject to certain ceiling, and are paid to the social welfare authorities and insurance companies. The related costs are charged to the income statement, as operating expenses when incurred.

#### 21. Revenue recognition

Interest income is recognized on an accrual basis.

A loan is placed at non-accrual status if the loan principal is overdue, after the extension period if any, for 90 days or more; or when the interest of a loan is overdue for 90 days or more since the interest due date. The interest of the non-accrual loan is not recorded into the income statement but as off-balance sheet item. For the interest already recorded as receivable but not received when the loan principal or the interest is overdue for 90 days, the interest income previously booked is reserved in the current period accordingly and treated as off-balance sheet item. The compound interest on overdue interest receivable is not recorded in the income statement and also treated as off-balance sheet item. For a non-accrual loan, if any repayment is received, it is applied to offset the outstanding principal of the loan. After the principal is fully repaid, the remaining of repayment is recognized as interest income.

Fee and commission income is recognized on an accrual basis after the Bank renders service.

## 22. Expense recognition

Interest and other expenses are recognized on an accrual basis.

## 23. Assets purchased under resale agreements and assets sold under repurchased agreements

Assets purchased under resale agreements are the agreements pursuant to which the Bank purchases bonds, loans and bills at certain price from the sellers who agree to buy back the items in the future at predetermined prices. Assets sold under repurchase agreements refer to the agreements pursuant to which the Bank sells bonds, loans and bills at certain prices to the buyers who agree to sell back the items in the future at predetermined prices.

Assets purchased under resale agreements and assets sold under repurchase agreements are recognized at actual amount paid or received, and booked into securities purchased under resale agreements account and assets sold under repurchase agreements account respectively at transaction dates. The related discounted bills, bonds and loans under repurchase agreements are still reflected in related assets accounts.

The gain or loss resulted from the transactions of assets purchased under resale agreements or assets sold under repurchase agreements is recorded on a accrual basis as income from or expenses to financial institutions, during the resale or repurchase period.

## 24. Income tax

The Bank adopts the effective tax method to account for the enterprise income tax.

Deferred income taxes are calculated based on temporary differences under the liability method. Temporary differences are the differences between taxable income and accounting income due to the fact that tax regulations and accounting policies recognize income, expense or loss on different dates. Temporary differences generate accumulated income tax effect at current effective tax rates.

The Bank's temporary differences mainly arise from provisions for impaired loans. When evidence suggests that the above-mentioned temporary difference could be offset by sufficient taxable income in the future, the deferred tax then

could be recognized as assets.

The income tax payable calculated based on the tax rates applicable to the Bank is charged to the income tax expense upon the realization of the profit.

## 25. Derivative financial instruments

The Bank is engaged in foreign exchange derivative contracts, which include foreign exchange forwards and swaps, interest rate swaps, credit default swaps, foreign exchange options, and bond options. Some of these derivatives are embedded in other financial instruments. The derivatives transactions are mainly to reduce the market risk of the exposures in personal wealth management products.

The outstanding amount of financial derivative contracts is presented as the off-balance sheet item. Relevant gain or loss is recognized in the income statement on the date of settlement of the contracts.

## 26. Entrusted loans

The Bank provides custody and trustee services to customers (as the principal) who provide funds and bear the risks. According to the objective, purpose of use, amounts, terms and interest rates decided by the customers, the Bank (as the agent) acts as an agent in lending, supervising, utilizing and collecting the loans while the principal bears the risks. The entrusted loans are recorded off-balance sheet. The funds provided by the principal are recorded at the amount received in the entrusted loans account. When the Bank grants loans according to the instructions of the principal, it credits the actual amount of funds granted in the entrusted loans account.

The Bank does not make advance or bear credit risk, and only charges commission, which is recognized as income on an accrual basis according to the accounting policy for the income recognition.

## Note III Profit distribution

According to Regulations on the Information Disclosure for Publicly Listed Companies (No.4)-Difference on PRC GAAP and IFRS GAAP and Profit Distributable Base for Financial Institutions (CSRC Ji [2001] No. 58), listed financial institutions should



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appropriate 10% and 5-10% of the PRC GAAP audited net profit respectively as statutory surplus reserve and statutory welfare reserve. As for surplus reserve at discretion and dividend distribution, the distributable profit base is the lower of the audited net profits under the PRC GAAP and IFRS.

The Bank's Board of Directors authorized appropriations at 10% for the surplus reserve and 5% for the welfare reserve for each of the years ended December 31, 2004 and 2005. Upon approval by the Board of Directors, the surplus reserve can be used to make up previous losses or transferred to the registered capital; whereas the welfare reserve can be used for expenditures on employee welfare.

Pursuant to the Administration Measures for Bad Debt Provision of Financial Institutions (Caijing [2005] No. 49) and the Circular on Provision (Caijing [2005] No. 90) issued by the Ministry of Finance on May 17 and September 5, 2005 respectively,

a financial institution should establish general reserve based on certain percentage of the aggregated balance of its risk assets at each year end. It is up to the financial institution to determine the reserve ratio after full consideration of risk conditions. As a guiding principle, the balance of general reserve should not be less than 1% of the aggregated amount of all risk assets. The general reserve is appropriated and managed by head office of each financial institution. The general reserve is regarded as a means of profit appropriation and forms a component of shareholders' equity.

The above requirements have been effective since July 1, 2005. Financial institutions are allowed to set aside the general reserve over a period within three years but not exceeding five years from 2005. The Board of Directors of the Bank decided at its 28th meeting on February 24, 2005 to appropriate RMB 1,200 million from the net profit of the year 2005 to the general reserve.

## Note IV Taxation

The major applicable taxes, tax rates and taxable bases are as following:

Applicable Taxes	Rates	Taxable Bases
Business tax	5%	Operating income deducted by: -Interest income from financial institutions -Interest income from investments on government bonds -Interest income from long-term financial bonds which have been approved for deduction
Income tax	15%~33%*	Taxable income

\* The Bank complies with local governmental taxation regulations in different tax jurisdictions, which may vary on the tax rates and the taxable bases. The income tax rate of 15% (2004: 15%) applies to the Bank's operation within Shenzhen Special Economic Zone.

**Note V Notes to the Financial Statements****1. Deposits with the PBOC**

	December 31, 2005	December 31, 2004
Restricted deposits	30,979,934	24,311,347
Unrestricted deposits	23,880,128	16,341,890
<b>Total</b>	<b>54,860,062</b>	<b>40,653,237</b>

The Bank is required to maintain a restricted general reserve deposit with the PBOC. As at December 31, 2005, the reserve deposit rate of RMB deposits was 7.5% (2004: 7.5%). As at December 31, 2002, the reserve deposit rate of foreign currency deposits is 3% (2004: 2%).

**2. Due from banks**

	December 31, 2005	December 31, 2004
Demand deposits with overseas banks	1,331,205	1,660,402
Demand deposits with domestic banks	5,972,109	6,951,197
Time deposits with domestic banks		
- Original maturity within 3 months	1,310,911	372,443
- Original maturity over 3 months	2,025,021	3,093,135
<b>Total</b>	<b>10,639,246</b>	<b>12,077,177</b>

**3. Cash and cash equivalents**

Cash and cash equivalents in the cash flow statement consist of the following:

	December 31, 2005	December 31, 2004
Cash	1,918,715	1,471,945
Cash equivalents:		
Original maturity within 3 months:		
-Unrestricted deposits with the PBOC	23,880,128	16,341,890
-Due from banks	8,614,225	8,984,042
-Loans and advances to banks	3,982,985	5,512,265
-Securities purchased from banks under resale agreements	10,160,000	2,547,970
-Short-term government securities	99,662	99,415
Sub-total	46,737,000	33,485,582
<b>Total</b>	<b>48,655,715</b>	<b>34,957,527</b>

**4. Lending to other banks**

	December 31, 2005	December 31, 2004
Lending to domestic banks	6,138,071	7,606,745
Lending to overseas banks	124,774	1,312,841
<b>Total</b>	<b>6,262,845</b>	<b>8,919,586</b>

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**5. Lending to non-bank financial institutions**

	December 31, 2005	December 31, 2004
Lending to domestic non-bank financial institutions	2,025,499	2,418,282
Less: Provision for lending to financial institutions	(95,500)	(95,500)
Lending to domestic non-bank financial institutions, net	1,929,999	2,322,782

**6. Short-term loans**

	December 31, 2005	December 31, 2004
Unsecured loans	64,038,469	47,623,387
Guaranteed loans	63,116,755	64,273,361
Collateralized loans	22,310,796	13,576,505
Pledged loans	10,960,161	10,981,211
<b>Total</b>	<b>160,426,181</b>	<b>136,454,464</b>

For details about short-term loans to shareholders with 5% or more capital stock of the Bank, please refer to Note IX "related party relationships and transactions".

**7. Documentary bills**

	December 31, 2005	December 31, 2004
Outward documentary bills	224,966	606,810
Inward documentary bills	1,323,616	913,274
<b>Total</b>	<b>1,548,582</b>	<b>1,520,084</b>

Overdue inward and outward documentary bills are included in overdue loans. Please refer to Note V-15 "Overdue loans".

**8. Interest receivable**

	December 31, 2005	December 31, 2004
Interest receivable on loans	666,970	494,682
Interest receivable on bonds	838,183	827,960
Other interest receivable	77,041	60,159
<b>Total</b>	<b>1,582,194</b>	<b>1,382,801</b>

As of December 31, 2005, the interest receivable from shareholders who own 5% or more capital stock of the Bank is RMB 32,000 (2004: RMB 65,000).

**9. Other receivables**

	December 31, 2005	December 31, 2004
Prepaid equipment acquisition costs	280,409	221,502
Prepaid acquisition costs of buildings	258,123	200,994
Prepaid rents and deposits	79,971	92,763
Prepaid improvements costs	70,124	31,409
Legal fees receivable	47,104	49,560
Others	60,381	49,413
<b>Total</b>	<b>796,112</b>	<b>645,641</b>
Less: Provision for other receivables	(50,944)	(33,582)
<b>Other receivable, net</b>	<b>745,168</b>	<b>612,059</b>

Maturity	December 31, 2005			December 31, 2004		
	Amount	% of balance	provision	Amount	% of balance	provision
Within 1 year	662,337	83%	(11,884)	541,006	84%	(6,582)
1-2 years	96,226	12%	(18,399)	68,850	11%	(5,107)
2-3 years	10,807	1%	(947)	14,973	2%	(9,472)
Over 3 years	26,742	4%	(19,714)	20,812	3%	(12,421)
<b>Total</b>	<b>796,112</b>	<b>100%</b>	<b>(50,944)</b>	<b>645,641</b>	<b>100%</b>	<b>(33,582)</b>

As of December 31, 2005, there were no receivables associated with shareholders who own 5% or more capital stock of the Bank (2004: nil).

**10. Discounted bills**

	December 31, 2005	December 31, 2004
Bank acceptance bills	50,147,488	24,641,122
Commercial acceptance bills	12,938,166	5,299,045
<b>Total</b>	<b>63,085,654</b>	<b>29,940,167</b>

**11. Short-term investments**

	December 31, 2005	December 31, 2004
Government bonds	5,325,614	106,887
Short-term bills of the PBOC	5,169,996	8,391,647
Financial institution bonds	1,713,021	1,795,275
Corporate bonds	1,090,442	41,425
<b>Total</b>	<b>13,299,073</b>	<b>10,335,234</b>

**12. Assets purchased under resale agreements**

	December 31, 2005	December 31, 2004
Rediscounted bills under resale agreements	2,343,560	1,668,377
Loans purchased under resale agreements	5,866,080	5,730,500
Bonds purchased under resale agreements		
-Government bonds	10,800,000	1,054,444
-Other bonds	1,000,000	3,065,556
<b>Total</b>	<b>20,009,640</b>	<b>11,518,877</b>

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**13. Long-term bonds investments due within one year**

Bond Types	Maturity year	Annual interest rate (%)	Face value	December 31, 2005		
				Premium/Discount	Accrued interest	Total
Government bonds	2006	2.29-11.83	3,724,140	7,927	20,036	3,752,103
Financial institution bonds	2006	2.29-3.90	3,060,702	572	-	3,061,274
<b>Total</b>			<b>6,784,842</b>	<b>8,499</b>	<b>20,036</b>	<b>6,813,377</b>

Bond Types	Maturity year	Annual interest rate (%)	Face value	December 31, 2004		
				Premium/Discount	Accrued interest	Total
Government bonds	2005	1.90-6.80	2,424,253	312	65,189	2,489,754
Financial institution bonds	2005	1.35-4.50	1,081,421	(4,901)	-	1,076,520
Other bonds	2005	3.13-7.60	121,184	837	-	122,021
<b>Total</b>			<b>3,626,858</b>	<b>(3,752)</b>	<b>65,189</b>	<b>3,688,295</b>

**14. Medium and long-term loans**

	December 31, 2005			December 31, 2004		
	1-5 years	Over 5 years	Total	1-5 years	Over 5 years	Total
Unsecured loans	11,710,783	5,569,048	17,279,831	9,794,244	3,968,076	13,762,320
Guaranteed loans	22,869,354	10,534,698	33,404,052	21,876,043	9,030,836	30,906,879
Collateralized loans	18,984,514	62,309,281	81,293,795	13,303,706	43,819,055	57,122,761
Pledged loans	4,504,598	11,337,689	15,842,287	4,048,227	11,210,557	15,258,784
<b>Total</b>	<b>58,069,249</b>	<b>89,750,716</b>	<b>147,819,965</b>	<b>49,022,220</b>	<b>68,028,524</b>	<b>117,050,744</b>

As of December 31, 2005, there were no outstanding medium and long-term loans associated with shareholders who own 5% or more capital stock of the Bank (2004: nil).

**15. Overdue loans**

	December 31, 2005	December 31, 2004
Unsecured loans	336,819	38,235
Guaranteed loans	3,548,405	2,054,654
Collateralized loans	1,001,600	1,177,084
Pledged loans	304,639	126,711
<b>Total</b>	<b>5,191,463</b>	<b>3,396,684</b>

As of December 31, 2005, there were no outstanding overdue loans associated with shareholders who own 5% or more capital stock of the Bank (2004: nil).

**16. Accrual loans and non-accrual loans**

	December 31, 2005	December 31, 2004
Accrual loans	368,562,848	282,387,484
Non-accrual loans	9,508,997	5,974,659
<b>Total</b>	<b>378,071,845</b>	<b>288,362,143</b>

The above loans include short-term loans, medium and long-term loans, overdue loans, inward and outward documentary bills and discounted bills, at gross amount before the provision for loan losses.

The Bank classifies its loans into normal, special mention, substandard, doubtful and loss in compliance with the Loan Classification Guidelines (Yin Fa [2001] No. 416) issued by the PBOC. Loans are classified as normal loans when the borrower has been performing in accordance with its obligations and there are no signs that the borrower will default on the repayment of principal or interest. Special mention loans are loans where the borrower is currently able to make principal and interest payment, but there are factors that may have negative impact on repayment. Substandard loans are loans where the borrower's ability to meet payment obligations from its normal business operations is apparently problematic. The Bank will suffer a loss on these loans even taking consideration of the recoverable amount from the guarantor or the sale of collateral. Doubtful loans are loans where the borrower is unable to meet its payment obligations. The Bank will suffer significant loss on these loans even considering the proceeds from disposal of collateral. Loss loans are loans where no, or only a minimal amount of, principal and interest are collectible after exhausting all collection efforts and all available legal procedures.

A loan classified as normal or special mention is a performing loan while a loan classified as substandard, doubtful or loss is considered non-performing. As of December 31, 2005, the total non-performing loans was RMB 4,827,817,000 (2004: RMB 3,774,924,000) and non-performing loans (NPL) ratio was 1.28% (2004: 1.31%). As of December 31, 2005, there were no outstanding NPL loans associated with shareholders who own 5% or more capital stock of the Bank (2004: nil).

### 17. Provision for loan losses

	December 31, 2005	December 31, 2004
Balance at beginning of year	4,247,700	3,226,216
Provided during the year	1,254,852	1,360,249
Write-off/disposal within the year	(511,061)	(338,765)
<b>Balance at end of year</b>	<b>4,991,491</b>	<b>4,247,700</b>

The above provision for loan losses include an amount of RMB 2,324,645,000 (2004: RMB 2,489,882,000) to cover unidentified losses relating to objective evidence that a possible loss has incurred to the loan portfolio at the balance sheet date. These possible losses are estimated based upon the historical experience of losses of similar loans, the quality assessment of the loans and the economic environment in which borrowers operate. Other than the provisions for possible unidentified loan losses, the provisions are comparable to the specific provisions under the Guideline for Provisioning on Loan Losses for Commercial Banks (Yin Fa [2002] No. 98) (the "Guideline") issued by the PBOC. So far, the Bank has not made any special provisions as classified by the Guideline.

### 18. Long-term bond investments

Bond types	Maturity year	Annual interest rate (%)	December 31, 2005				Total
			Face value	Premium/Discount	Accrued interest	Provisions for long-term investments impairment	
Government bonds	2007-2035	1.58-7.50	22,598,012	142,006	48,273	(2,405)	22,785,886
Financial institution bonds	2007-2049	0.89-11.00	36,679,614	50,961	-	(129,252)	36,601,323
Other bonds	2007-2012	2.53-4.42	64,562	4,151	-	-	68,713
<b>Total</b>			<b>59,342,188</b>	<b>197,118</b>	<b>48,273</b>	<b>(131,657)</b>	<b>59,455,922</b>

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Bond types	Maturity year	Annual interest rate (%)	December 31, 2004				Total
			Face value	Premium/Discount	Accrued interest	Provisions for long-term investments impairment	
Government bonds	2006-2032	1.50-11.83	24,417,095	180,714	32,825	-	24,630,634
Financial institution bonds	2006-2049	0.89-11.00	37,391,310	120,428	-	(10,898)	37,500,840
Other bonds	2007-2012	2.53-6.38	222,752	8,832	-	-	231,584
<b>Total</b>			<b>62,031,157</b>	<b>309,974</b>	<b>32,825</b>	<b>(10,898)</b>	<b>62,363,058</b>

Long-term bond investments include structured bond investments. Please refer to Note XIV, "Financial derivative instruments".

A total amount of RMB 829,619,000 (2004: RMB 1,034,997,000) of long-term bonds are pledged as collateral for issuing the Bank's convertible bonds. For details, please refer to Note V. 37, "Convertible Bonds".

### 19. Long-term equity investments

Upon the approval of the PBOC in its Reply of People's Bank of China on the Establishment of China UnionPay Co., Ltd. (Yin Fa [2001] No. 234), the Bank invested RMB 50,000,000 in China UnionPay Co., Ltd. (the "UnionPay") (2002: RMB 50,000,000), accounting for 3.029% of the registered capital of UnionPay.

### 20. Fixed assets

	Premises & buildings	Operating equipments	Motor vehicles	Total
<b>Original cost</b>				
January 1, 2005	1,958,928	1,340,972	103,905	3,403,805
Transfer from construction in progress during the year	170,952	408	-	171,360
Other additions of the year	251,443	370,854	36,163	658,460
Decrease during the year	-	(13,098)	(9,746)	(22,844)
December 31, 2005	2,381,323	1,699,136	130,322	4,210,781
<b>Accumulated depreciation:</b>				
As of January 1, 2005	(149,535)	(495,162)	(52,104)	(696,801)
Charged for the year	(68,745)	(244,812)	(19,166)	(332,723)
Decrease of the year	-	12,709	7,927	20,636
December 31, 2005	(218,280)	(727,265)	(63,343)	(1,008,888)
<b>Impairment provisions</b>				
As of January 1, 2005	(8,970)	-	-	(8,970)
Additions during the year	-	-	-	-
Decrease during the year	-	-	-	-
December 31, 2005	(8,970)	-	-	(8,970)
<b>Net value</b>				
<b>December 31, 2005</b>	<b>2,154,073</b>	<b>971,871</b>	<b>66,979</b>	<b>3,192,923</b>
<b>December 31, 2004</b>	<b>1,800,423</b>	<b>845,810</b>	<b>51,801</b>	<b>2,698,034</b>

As of December 31, 2005, there are no fixed assets which are acquired by means of financing lease (2004: nil).

**21. Construction in progress**

	December 31, 2005	December 31, 2004
Balance at beginning of year	1,589,236	1,306,036
Additions during the year	287,783	1,114,515
Transfer to fixed assets	(171,360)	(829,126)
Disposals during the year	-	(2,189)
<b>Balance at end of year</b>	<b>1,705,659</b>	<b>1,589,236</b>

The construction in progress is funded by the Bank itself and the balance of construction in progress does not include capitalized interest expenses (2004:nil)

**22. Intangible assets**

	Original cost	Accumulated amortization	Net value
January 1, 2005	92,717	(23,172)	69,545
Additions during the year	64,169	(15,757)	48,412
<b>December 31, 2005</b>	<b>156,886</b>	<b>(38,929)</b>	<b>117,957</b>

The intangible assets of the Bank are mainly acquisition costs and development expenditures of software and IT systems.

**23. Deferred assets**

	Improvements	Prepaid office rentals	Pre-operating expenses	Others	Total
<b>Original costs</b>					
January 1, 2005	534,783	40,147	75,170	55,155	705,255
Additions during the year	103,676	761	7,692	10,807	122,936
Decrease during the year	(9,218)	(6,441)	-	(1,004)	(16,663)
December 31, 2005	629,241	34,467	82,862	64,958	811,528
<b>Accumulated amortization</b>					
January 1, 2005	(249,475)	(8,231)	(57,634)	(17,264)	(332,604)
Additions during the year	(94,396)	(5,831)	(19,815)	(11,122)	(131,164)
Decrease during the year	8,550	6,441	-	1,004	15,995
December 31, 2005	(335,321)	(7,621)	(77,449)	(27,382)	(447,773)
<b>Net value</b>					
<b>December 31, 2005</b>	<b>293,920</b>	<b>26,846</b>	<b>5,413</b>	<b>37,576</b>	<b>363,755</b>
<b>December 31, 2004</b>	<b>285,308</b>	<b>31,916</b>	<b>17,536</b>	<b>37,891</b>	<b>372,651</b>

**24. Foreclosed assets**

	December 31, 2005	December 31, 2004
Foreclosed assets	1,062,298	923,296
Less: provision for impairment of foreclosed assets	(249,173)	(146,724)
<b>Foreclosed assets, net</b>	<b>813,125</b>	<b>776,572</b>



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**25. Deferred income tax assets**

	December 31, 2005	December 31, 2004
Provision for loan losses	191,824	323,168
Provisions for impairment of foreclosed assets	37,573	37,951
Provisions for impairment of long-term investments	43,446	3,596
Others, net	23,234	18,435
<b>Total</b>	<b>296,077</b>	<b>383,150</b>

The deferred income tax assets mainly comprise the income tax effects of provisions for loan losses, provisions for impairment of foreclosed assets and provisions for impairment of long-term investments. These losses from impairment cannot be recognized as tax deductible expenses without the responsible tax authorities' approval. Therefore, the tax effect of these losses before the approval are recognized as deferred income tax assets. For details, please see Note V-46, "Income tax".

**26. Short-term corporate deposits**

	December 31, 2005	December 31, 2004
Demand corporate deposits	160,238,446	138,589,974
Time corporate deposits within 1 year	112,880,031	90,519,523
<b>Total</b>	<b>273,118,477</b>	<b>229,109,497</b>

**27. Short-term individual deposits**

	December 31, 2005	December 31, 2004
Demand deposits from individuals	25,396,043	16,101,062
Time deposits within 1 year from individuals	38,404,603	19,909,075
Demand-time deposits from individuals	152,311	84,635
<b>Total</b>	<b>63,952,957</b>	<b>36,094,772</b>

**28. Deposits from banks**

	December 31, 2005	December 31, 2004
Demand deposits from domestic banks	22,677,762	27,578,215
Time deposits from domestic banks	11,200,407	6,236,051
Deposits from overseas banks	15,000	100
<b>Total</b>	<b>33,893,169</b>	<b>33,814,366</b>

**29. Borrowings from other banks**

	December 31, 2005	December 31, 2004
Borrowings from domestic banks	-	1,219,919
<b>Total</b>	<b>-</b>	<b>1,219,919</b>

**30. Assets sold under repurchase agreements**

	December 31, 2005	December 31, 2004
Rediscounted bills	4,238,954	3,011,700
Loans sold under repurchase agreements	1,164,860	1,354,215
Government bonds sold under repurchase agreements	18,850	2,600,000
<b>Total</b>	<b>5,422,664</b>	<b>6,965,915</b>

**31. Interests payable**

	December 31, 2005	December 31, 2004
Interests payable-deposits	2,262,057	1,581,545
Interests payable-deposits from banks	47,730	40,266
Interests payable-borrowings from banks and securities sold under repurchase agreements	3,491	10,374
<b>Total</b>	<b>2,313,278</b>	<b>1,632,185</b>

**32. Taxes payable**

	December 31, 2005	December 31, 2004
Business tax payable	313,751	221,428
Income tax payable	541,439	357,412
Others	90,955	39,293
<b>Total</b>	<b>946,145</b>	<b>618,133</b>

**33. Other payables**

	December 31, 2005	December 31, 2004
Promissory notes	1,106,955	407,781
Labor insurance payable	90,072	73,802
Payables for bonds purchased	71,133	98,668
Payables for equipment purchased	60,874	83,303
Payables to securities agent	41,887	20,386
Payables on inter-bank settlement	41,883	167,671
Safe boxes deposit received	15,630	14,462
Payables for operating premises purchased	14,7531	4,313
Payables for renovations	4,890	4,988
Others	77,035	92,790
<b>Total</b>	<b>1,525,112</b>	<b>978,164</b>

As of December 31, 2005, there are no outstanding payables associated with shareholders who own 5% or more capital stock in the Bank (2004: nil).

**34. Long-term corporate deposits**

	December 31, 2005	December 31, 2004
Less than 3 years	392,764	131,664
3 years or above	70,274,828	66,213,476
<b>Total</b>	<b>70,667,592</b>	<b>66,345,140</b>

**35. Long-term individual deposits**

	December 31, 2005	December 31, 2004
Less than 3 years	4,639,448	3,110,919
3 years (inclusive) to 5 years	4,812,831	3,792,183
5 years or above	688,400	518,074
<b>Total</b>	<b>10,140,679</b>	<b>7,421,176</b>

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**36. Short-term and long-term margin deposits**

	December 31, 2005	December 31, 2004
Deposits for accepted bills	51,594,098	27,427,914
Deposits for issuance of L/C	1,414,982	1,096,550
Deposits for comprehensive credit commitments	1,723,174	2,399,420
Deposits for letter of guarantee	2,057,163	1,709,340
Others	2,924,361	3,020,112
<b>Total</b>	<b>59,713,778</b>	<b>35,653,336</b>

**37. Convertible bonds**

	December 31, 2005	December 31, 2004
Par value of convertible bonds at issuance	4,000,000	4,000,000
Add: interest payable	41,382	42,612
Less: accumulated bonds converted into capital stock	(4,026,175)	(3,729,843)
<b>Outstanding convertible bonds</b>	<b>15,207</b>	<b>312,769</b>

With the approval of the CSRC's "Notice on Approval of China Minsheng Banking Co., Ltd.'s Issuance of Convertible Bonds" (the CSRC Issuance [2003] No. 13), the Bank issued 5-year convertible bonds of RMB 4 billion at an annual interest rate of 1.5 percent from February 21 to 27, 2003. Each bond has a par value of RMB 100. The interest is payable annually and February 27, 2004 is the first interest payment date. According to agreement, these bonds can be converted into stocks at any time between August 27, 2003 and February 27, 2008. Bond holders can apply for conversion during the above period. Industrial and Commercial Bank of China ("ICBC") provided full guarantee on repayment of the convertible bonds and the Bank pledged government bonds and financial institutions bonds to ICBC accordingly (refer to Note V.18, "Long-term Bond Investments"). Once a year, ICBC reduces the amount of pledged government bonds and financial institutions bonds the Bank needs to pledge with it according to the remaining balance of convertible bonds.

The conversion price originally set at issuance was RMB 10.11 for each share. As a result of the stock dividends distribution and transfers of capital surplus into capital stocks for years of 2003, 2004 and 2005, the conversion price was adjusted to RMB 4.02 per share.

The Bank has an early redemption option, which commences one year after the bonds' issuance date, and expires on the maturity date. If the market price of the Bank's listed "A" shares is 30% higher than the conversion price for 20 consecutive trading days, the Bank has the option to redeem all or a portion of the outstanding bonds at 102% of face value plus accrued interest.

During the last year before the maturity date of the convertible bonds, if the market price of the Bank's listed "A" shares falls below 70% of the conversion price for 20 consecutive trading days, investors have the option to resell to the Bank all or a portion of the outstanding bonds at 106% of face value plus accrued interest.

As at September 29, 2005, the unconverted amount of the convertible bonds was less than Rmb 30 million. According to the Listing Rules of Shanghai Stock Exchange (revised 2004), the trading of convertible bonds was ceased on October 31, 2005. Subsequent to October 31, 2005, the convertible bonds holders can still convert the bonds to shares in accordance with the relevant terms of the bond issuance.

**38. Subordinated bonds**

	December 31, 2005					December 31, 2004	
	Term	Annual rate(%)	Par value	Interest payable	Total	Interest payable	Total
2004 subordinated bonds with fixed interest rate	10 year	5.10%	4,315,000	36,050	4,351,050	36,175	4,351,175
2004 subordinated bonds with floating interest rate	10 year	4.65%	1,485,000	11,351	1,496,351	11,351	1,496,351
2005 subordinated bonds	10 year	3.68%	1,400,000	1,270	1,401,270	-	-
			<b>7,200,000</b>	<b>48,671</b>	<b>7,248,671</b>	<b>47,526</b>	<b>5,847,526</b>

With the approvals from the PBOC on China Minsheng Banking Co., Ltd.'s Issuance of Subordinated Bonds (Yin Fu [2004] No.59) and from the CBRC's Approval on China Minsheng Banking Co., Ltd.'s Issuance of Subordinated Bonds (Yin Jian Fu [2004] No.159), the Bank completed the issuance of its 2004 subordinated bonds in a principal amount of RMB 5.8 billion on November 2, 2004.

The Bank has an early redemption option to repay all subordinated bonds issued in the year 2004 at the par value on the fifth interest payment date, i.e. November 1, 2009.

The 2004 fixed-rate subordinated bonds carry interest at the rate 5.1% per annum (i.e. the original interest rate) from the first year to the fifth year. If the Bank does not exercise the redemption right, the interest rate will increase by 3% from the sixth year onwards. The 2004 floating-rate subordinated bonds' interest rate per annum is the applicable PBOC one-year time deposit benchmark rate plus an interest spread of 2.4% for the first five years. If the Bank does not exercise the redemption right, the interest rate spread from the sixth interest payable year to the maturity date will increase by 0.5% to 2.9% per annum.

According to relevant PBOC regulation, the floating interest rate for the 2004 subordinated bonds was increased from 4.38% to 4.65% per annum on October 29, 2004.

With the approvals from the PBOC on China Minsheng Banking Co., Ltd.'s Issuance of Subordinated Bonds (Yin Fu [2005] No.112) and from the CBRC on its Approval on China Minsheng Banking Co., Ltd.'s Issuance of Subordinated Bonds (Yin Jian Fu [2005] No.309), the Bank completed the issuance of its 2005 subordinated bonds in a principal amount of RMB 1.4 billion on December 26, 2005.

The 2005 subordinated bonds carry a fixed coupon rate of 3.68% per annum (i.e. the original coupon rate) from the first year to the fifth year. If the Bank does not exercise its redemption option, the annual coupon rate of the bonds for the second 5-year period shall be the original coupon rate plus 3%.

The 2004 and 2005 subordinated bonds' annual coupon rate is calculated with simple interest instead of compound interest. No penalty interest is payable for default in payment of interests.

These bonds are subordinated to all other claims on the assets of the Bank, except those of the equity holder. In the calculation of the Bank's capital adequacy ratio, these bonds is qualified for inclusion as supplementary capital.

**39. Capital stock**

	January 1, 2005	Shares from stock dividends (1)	Shares transferred from capital surplus (2)	Shares convertible bonds (3)	Share reform effect (4)	Dec. 31, 2005
Non-listed shares						
Promoters' shares	3,621,391	724,280	673,579	-	(5,019,250)	-
Listed shares						
Common shares with lock-up period	-	-	-	-	4,345,671	4,345,671
Common shares without lock-up period	1,563,056	312,665	300,518	63,290	673,579	2,913,108
<b>Total shares</b>	<b>5,184,447</b>	<b>1,036,945</b>	<b>974,097</b>	<b>63,290</b>	<b>-</b>	<b>7,258,779</b>

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(1) According to the Resolution of the Annual General Meeting of shareholders on March 26, 2005 on the profit distribution plan of the fiscal year of 2004, a stock dividend at 20% and cash dividend of RMB 0.07 (before income tax) for each share were declared to all the 5,184,723,434 shares outstanding as of April 15, 2005. This resulted in an increase of capital stock from stock dividend by RMB 1,036,945,000. The above results have been verified by PricewaterhouseCoopers Zhong Tian CPAs Limited Company on July 4, 2005 in its (2005) No.112 Capital Verification Report on the Shares Increase from Stock Dividends and Converted from Convertible Bonds.

(2) This has been verified by PricewaterhouseCoopers Zhong Tian CPAs Limited Company on July 4, 2005 in its (2005) No.112 Capital Verification Report on the Shares Increase from Stock Dividends and Converted from Convertible Bonds, and on August 4, 2005 in its (2005) No.134 Capital Verification Report on the New Shares Converted from Convertible Bonds, and on January 26, 2006 in its (2006) No.12 Capital Verification Report on the Shares Transferred from Capital Surplus and Converted from Convertible Bonds.

(3) This has been verified by PricewaterhouseCoopers Zhong Tian CPAs Limited Company on July 4, 2005 in its (2005) No.112 Capital Verification Report on the Shares Increase from Stock Dividend and Converted from Convertible Bonds, and on August 4, 2005 in its (2005) No.134 Capital Verification Report on the New Shares Converted from Convertible Bonds, and on October 26, 2005 in its (2005) No.159 Capital Verification Report on the New Shares Converted from Convertible Bonds, and on January 26, 2006 in its (2006) No.12 Capital Verification Report on the Shares Transferred from Capital Surplus Reserve and Converted from Convertible Bonds.

(4) The Nontradable Shares Reform Scheme (the "Scheme") of the Bank was passed by the 1st Extraordinary General Meeting and related shareholders' meeting on October 17, 2005, which was implemented on October 25, 2005. According to the Scheme, a 15.5% bonus share transferred from the capital surplus was issued for each of 6,284,495,595 outstanding shares as of the closing at the date of share registration, which was further verified by PricewaterhouseCoopers Zhong Tian CPAs Limited Company on January 26, 2006 in its (2006) No.12 Capital Verification Report on the Shares Transferred from Capital Surplus and Converted from Convertible Bonds. All 673,578,944 shares transferred from capital surplus, which the non-tradable shareholders would receive, were offered as the consideration to all tradable shareholders; in return, their non-tradable shares become listed and fully-transferable. Based on the number of listed shares as of the closing of the share registration date, with a new issue of 0.502416 share to be allocated to each listed tradable share, one previous listed tradable share became 1.502416 shares after the implementation, in which the 0.155 share represents transfer from capital surplus and the 0.347416 share represents the share contributed by non-tradable shareholders as the consideration. According to the lock-up terms in the Scheme, a total of 4,345,670,605 shares held by the previously non-tradable shareholders are permitted to become tradable according to the following timetable from October 25, 2006:

	Shares ('000)
From 26 October 2006	1,450,256
From 26 October 2007	2,895,415
<b>Total</b>	<b>4,345,671</b>

**40. Interest income and expenses**

	2005	2004
<b>Interest income</b>		
Short-term loans	8,006,649	6,004,430
Medium and long-term loans	7,193,017	5,049,181
Discounted bills	2,002,466	1,663,324
Others	289,586	224,325
<b>Total</b>	<b>17,491,718</b>	<b>12,941,260</b>
<b>Interest expenses</b>		
Time corporate deposits	5,361,730	4,043,509
Demand corporate deposits	1,387,421	1,110,483
Time deposits from individuals	653,765	273,529
Demand deposits from individuals	129,521	86,136
Bonds	289,632	54,088
Others	236	680
<b>Total</b>	<b>7,822,305</b>	<b>5,568,425</b>

**41. Income from and expenses to financial institutions**

	2005	2004
<b>Income from financial institutions</b>		
Rediscounted bills	1,895,417	845,332
Deposits with the PBOC	645,945	569,159
Due from banks	251,197	189,321
Lending to banks and non-bank financial institutions	194,784	162,717
Loans purchased under resale agreements	184,130	365,447
Bonds purchased under resale agreements	54,298	61,176
<b>Total</b>	<b>3,225,771</b>	<b>2,193,152</b>
<b>Expenses to financial institutions</b>		
Rediscounted bills	2,370,691	1,667,758
Due to banks	713,985	651,283
Borrowing from other banks	54,068	83,285
Bonds sold on repurchase agreements	49,541	182,105
Loans sold on repurchase agreements	22,699	207,066
Borrowing from the PBOC	-	1,726
<b>Total</b>	<b>3,210,984</b>	<b>2,793,223</b>

**42. Investment income**

	2005	2004
Long-term bonds investments	2,186,619	2,081,616
Short-term bonds investments	180,326	128,638
<b>Total</b>	<b>2,366,945</b>	<b>2,210,254</b>

**43. Operating expenses**

	2005	2004
<b>Staff costs, including directors' emoluments</b>		
- Salary and bonus	1,591,692	1,141,305
- Other benefits	922,139	678,035
Business development expenses	459,392	321,431
Lease expense, primarily for office spaces	455,400	369,161
Office expenses	436,354	329,530
Depreciation	332,723	251,544
Expenses on vehicle	263,699	179,821
Operation costs on IT system	216,763	145,371
Conference expenses	155,254	103,647
Mailing and telecommunications	175,398	133,719
Traveling expense	115,683	89,822
CBRC regulatory fee	93,227	72,520
Others	788,783	569,680
<b>Total</b>	<b>6,006,507</b>	<b>4,385,586</b>

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**44. Provision for assets impairment**

	2005	2004
Provision for loan losses	1,254,852	1,360,249
Provision for impairment of lending to financial institutions	-	36,795
Provision for impairment of foreclosed assets	103,141	106,004
<b>Total</b>	<b>1,357,993</b>	<b>1,503,048</b>

**45. Business tax and surcharges**

	2005	2004
Business tax	916,253	683,495
Urban maintenance and construction tax	59,860	43,892
Education surcharges	29,384	21,596
Others	15,612	11,087
<b>Total</b>	<b>1,021,109</b>	<b>760,070</b>

**46. Income tax expenses**

	2005	2004
Current income tax	1,453,098	981,320
Deferred income tax	87,073	(154,275)
<b>Total</b>	<b>1,540,171</b>	<b>827,045</b>

The income tax expense differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	2005	2004
Profit before tax	4,242,690	2,865,446
Tax calculated at statutory rate	1,325,147	945,597
Exempted interest income on government bonds	(277,020)	(337,512)
Non-deductible salary, entertainment and other expenses	492,044	352,610
Deferred income tax assets not fully recognized in the previous years	-	(133,650)
<b>Total</b>	<b>1,540,171</b>	<b>827,045</b>

## Note VI Assets and Liabilities Dominated in Foreign Currencies

December 31, 2005	RMB	US\$ Equivalent in RMB	HK\$ Equivalent in RMB	JPY Equivalent in RMB	Other currencies Equivalent in RMB	Total
<b>Assets:</b>						
Cash	1,660,335	105,903	67,891	28,773	55,813	1,918,715
Deposits with the PBOC and due from banks	60,667,857	4,050,348	437,250	137,557	206,296	65,499,308
Loans, net	362,437,276	9,405,716	479,185	383,507	374,670	373,080,354
Lending to other banks and financial institutions, net	6,327,034	752,143	389,259	-	724,408	8,192,844
Investments, net	67,849,928	11,020,293	728,987	-	19,1647	9,618,372
Other assets, net	28,587,271	199,185	13,993	15,674	10,375	28,826,498
<b>Total assets</b>	<b>527,529,701</b>	<b>25,533,588</b>	<b>2,116,565</b>	<b>565,511</b>	<b>1,390,726</b>	<b>557,136,091</b>
<b>Liabilities:</b>						
Deposits	466,736,669	19,028,251	2,124,078	361,731	582,034	488,832,763
Due to banks	28,170,294	4,016,891	411,877	342,294	951,813	33,893,169
Convertible bonds	15,207	-	-	-	-	15,207
Subordinated bonds	7,248,671	-	-	-	-	7,248,671
Other liabilities	11,516,030	150,709	13,497	3,278	3,288	11,686,802
<b>Total liabilities</b>	<b>513,686,871</b>	<b>23,195,851</b>	<b>2,549,452</b>	<b>707,303</b>	<b>1,537,135</b>	<b>541,676,612</b>
<b>Net position of assets and liabilities</b>	<b>13,842,830</b>	<b>2,337,737</b>	<b>(432,887)</b>	<b>(141,792)</b>	<b>(146,409)</b>	<b>15,459,479</b>

December 31, 2004	RMB	US\$ Equivalent in RMB	HK\$ Equivalent in RMB	JPY Equivalent in RMB	Other currencies Equivalent in RMB	Total
<b>Assets:</b>						
Cash	1,137,695	152,978	71,425	46,857	62,990	1,471,945
Deposits with the PBOC and due from banks	47,620,812	3,456,081	627,055	183,077	843,389	52,730,414
Loans, net	272,141,724	10,399,047	750,910	416,644	406,118	284,114,443
Lending to other banks and financial institutions, net	5,769,489	4,645,671	106,300	557,207	163,701	11,242,368
Investments, net	64,709,090	10,584,255	1,120,874	-	22,368	76,436,587
Other assets, net	19,247,489	135,095	17,550	2,046	745	19,402,925
<b>Total assets</b>	<b>410,626,299</b>	<b>29,373,127</b>	<b>2,694,114</b>	<b>1,205,831</b>	<b>1,499,311</b>	<b>445,398,682</b>
<b>Liabilities:</b>						
Deposits	355,964,610	21,870,187	1,531,672	143,759	571,236	380,081,464
Due to banks	26,743,561	4,808,045	1,114,111	1,114,471	34,178	33,814,366
Convertible bonds	312,769	-	-	-	-	312,769
Subordinated bonds	5,847,526	-	-	-	-	5,847,526
Other liabilities	11,951,160	274,807	65,994	132	143,306	12,435,399
<b>Total liabilities</b>	<b>400,819,626</b>	<b>26,953,039</b>	<b>2,711,777</b>	<b>1,258,362</b>	<b>748,720</b>	<b>432,491,524</b>
<b>Net position of assets and liabilities</b>	<b>9,806,673</b>	<b>2,420,088</b>	<b>(17,663)</b>	<b>(52,531)</b>	<b>750,591</b>	<b>12,907,158</b>



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## Note VII Maturity Analysis of Assets and Liabilities

December 31, 2005	On demand	1-3 months	3-12 months	1-5 years	Over 5 years	Total
<b>Assets:</b>						
Cash	1,918,715	-	-	-	-	1,918,715
Deposits with the PBOC						
and due from banks	63,312,883	503,650	1,682,775	-	-	65,499,308
Loans, net	75,174,698	36,590,754	125,439,426	54,509,280	81,366,196	373,080,354
Lending to other banks and						
financial institutions, net <sup>4</sup> ,	530,283	1,288,668	1,918,301	455,592	-	8,192,844
Investments, net	1,533,002	2,327,314	16,052,130	25,506,222	34,199,704	79,618,372
Other assets, net	13,298,862	2,285,135	6,675,679	1,159,422	5,407,400	28,826,498
<b>Total assets</b>	<b>159,768,443</b>	<b>42,995,521</b>	<b>151,768,311</b>	<b>81,630,516</b>	<b>120,973,300</b>	<b>557,136,091</b>
<b>Liabilities:</b>						
Deposits	270,916,871	50,830,285	96,195,461	68,960,122	1,930,024	488,832,763
Due to banks	22,692,762	7,697,260	2,433,860	673,847	395,440	33,893,169
Convertible bonds	-	-	15,207	-	-	15,207
Subordinated bonds	-	-	48,671	5,800,000	1,400,000	7,248,671
Other liabilities	3,865,631	3,930,875	3,455,820	51,872	382,604	11,686,802
<b>Total liabilities</b>	<b>297,475,264</b>	<b>62,458,420</b>	<b>102,149,019</b>	<b>75,485,841</b>	<b>4,108,068</b>	<b>541,676,612</b>
<b>Net liquidity gap</b>	<b>(137,706,821)</b>	<b>(19,462,899)</b>	<b>49,619,292</b>	<b>6,144,675</b>	<b>116,865,232</b>	<b>15,459,479</b>
December 31, 2004	On demand	1-3 months	3-12 months	1-5 years	Over 5 years	Total
<b>Assets:</b>						
Cash	1,471,945	-	-	-	-	1,471,945
Deposits with the PBOC						
and due from banks	49,264,836	1,696,972	1,726,097	42,509	-	52,730,414
Loans, net	12,216,865	35,150,069	134,186,854	38,618,515	63,942,140	284,114,443
Lending to other banks and						
financial institutions, net	8,386,701	234,999	2,448,406	172,262	-	11,242,368
Investments, net	82,275	2,111,425	11,772,872	23,620,114	38,849,901	76,436,587
Other assets, net	2,237,319	4,113,124	6,414,095	1,119,006	5,519,381	19,402,925
<b>Total assets</b>	<b>73,659,941</b>	<b>43,306,589</b>	<b>156,548,324</b>	<b>63,572,406</b>	<b>108,311,422</b>	<b>445,398,682</b>
<b>Liabilities:</b>						
Deposits	216,997,640	30,931,631	61,572,205	68,657,968	1,922,020	380,081,464
Due to banks	27,578,314	3,212,417	1,259,858	1,080,028	683,749	33,814,366
Convertible bonds	-	1,544	-	311,225	-	312,769
Subordinated bonds	-	-	47,526	5,800,000	-	5,847,526
Other liabilities	5,881,622	3,851,315	2,470,082	33,225	199,155	12,435,399
<b>Total liabilities</b>	<b>250,457,576</b>	<b>37,996,907</b>	<b>65,349,671</b>	<b>75,882,446</b>	<b>2,804,924</b>	<b>432,491,524</b>
<b>Net liquidity gap</b>	<b>(176,797,635)</b>	<b>5,309,682</b>	<b>91,198,653</b>	<b>(12,310,040)</b>	<b>105,506,498</b>	<b>12,907,158</b>

**Note VIII Earning Per Share and Return on Equity**

In accordance with the Regulation on the Information Disclosure for Publicly Listed Companies (No.9)- Calculation of Earning per Share ("EPS") and Return on Equity ("ROE") promulgated by the CSRC (Zheng Jian Fa [2001] No. 11), the EPS and ROE calculated by the Bank are set out in the following tables.

1 EPS is calculated by dividing the net profit by the number of paid-in shares at year end as well as the weighted average number of paid-in shares during the year.

	<b>2005</b>	<b>2004</b>
Net profit (in RMB'000)	2,702,519	2,038,401
Number of paid-in shares at end of year (in thousands)	7,258,779	5,184,447
Basic EPS (in RMB)	0.37	0.39
Weighted average number of paid-in shares (in thousands)	7,211,548	5,150,061
<b>Weighted average EPS (in RMB)</b>	<b>0.37</b>	<b>0.40</b>

2 ROE is calculated by dividing the net profit by the shareholders' equity at end of year as well as the weighted average shareholders' equity during the year.

	<b>2005</b>	<b>2004</b>
Net profit (in RMB'000)	2,702,519	2,038,401
Shareholders' equity at the year of end (in RMB'000)	15,459,479	12,907,158
Basic ROE	17.48%	15.79%
Weighted average shareholders' equity (in RMB'000)	14,091,210	11,767,653
<b>Weighted average ROE</b>	<b>19.18%</b>	<b>17.32%</b>

CHINA MINSHENG BANKING CORP., LTD.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2005

■ All amounts in Rmb'000 unless otherwise specified

**Note IX Related Party Relationships and Transactions****1. Related party relationships**

The Bank has no related parties that control the Bank. Related parties that have significant influence to the Bank include: members of the Board of Directors and the Board of Supervisors, senior management, companies, controlled or significantly influenced by the above members, and their subsidiaries, and major shareholders with the power to influence the operating or financial policy decisions of the Bank.

Shareholders who own 5% or more shares of the Bank's total capital stock are:

Shareholders	Shares	Shareholding percentage (%)
New Hope Investment Co., Ltd	434,551,830	5.99
China Fanhai Holding Co., Ltd	409,301,100	5.64
China SME Investment Co., Ltd.	362,868,634	5.00
<b>Total</b>	<b>1,206,721,564</b>	<b>16.63</b>

**2. Transactions with related parties**

	Relationship with the Bank	December 31, 2005	December 31, 2004
<b>(1) Outstanding loans to related parties:</b>			
Beijing Guangcai Property Management Co. Ltd.	Controlled by a supervisor of the Bank	419,000	219,000
Oriental Home Co., Ltd.	Controlled by a director of the Bank	300,000	250,000
Shandong Xinfu Hope Aluminum	Controlled by close family member of a director	140,000	150,000
Xiamen Xindi Industry Co. Ltd.	Controlled by a director of the Bank	132,000	132,000
Oriental Hope Group Co., Ltd	Controlled by close family member of a director	100,000	100,000
China Ship-owners Mutual Assurance Association	Controlled by a director of the Bank/ major shareholder of the Bank	53,000	27,000
China SME Investment Co., Ltd.	Controlled by a director of the Bank/ major shareholder of the Bank	17,000	17,000
Shenzhen Shirble Store Co., Ltd	Controlled by a major shareholder of the Bank	14,000	-
<b>Total</b>		<b>1,175,000</b>	<b>895,000</b>

Some borrowers which are related parties of the Bank on December 31, 2004 were no longer related parties with the Bank as of December 31, 2005, or were not borrowers of the Bank although they remained to be related parties on December 31, 2005. The total loans to those borrowers on December 31, 2004 were RMB 1,478.3 million.

	December 31, 2005	December 31, 2004
(2) Credit commitments to related parties	47,000	323,000
(3) Deposits from related parties	2,111,143	3,101,121
	<b>2005</b>	<b>2004</b>
(4) Loan interest income from related parties	94,353	118,807
(5) Interest expenses on deposits from related parties	68,999	95,400

The above related party transactions have been conducted on normal commercial terms, which are not more favorable than those offered to other independent third party customers.

**Note X Segmental Information**

The following represents geographic analysis of the Bank's loans, including short-term loans, medium and long-term loans, overdue loans, inward and outward documentary bills, and discounted bills before the provision for loan losses:

<b>Locations</b>	<b>December 31, 2005</b>	<b>December 31, 2004</b>
Beijing	96,059,356	87,726,547
Shanghai	60,432,404	43,217,946
Guangdong	60,418,415	48,014,273
Zhejiang	31,404,563	23,055,413
Jiangsu	21,275,440	13,027,312
Hubei	18,163,890	14,507,548
Shanxi	16,526,198	13,045,699
Chongqing	11,396,264	9,679,524
Hebei	6,950,493	5,566,835
Other locations	55,444,822	30,521,046
<b>Total</b>	<b>378,071,845</b>	<b>288,362,143</b>

Loans are analyzed by borrowers' industry as below:

<b>Industries</b>	<b>December 31, 2005</b>	<b>December 31, 2004</b>
<b>Loans to corporations</b>		
Industrial	97,993,059	79,762,624
Commercial real estate	38,762,137	31,407,345
Transportation	29,798,962	21,878,509
Public utilities	17,161,768	9,929,396
Trading	13,788,153	16,769,973
Constructions	12,754,472	10,143,624
Education and community services	12,277,972	8,214,785
Leasing and commercial services	9,913,618	7,180,421
Conglomerates	6,957,070	11,298,290
Telecommunications	6,547,423	7,833,627
Public administration and social organizations	3,683,234	4,627,828
Others	8,180,844	6,392,293
	<b>257,818,712</b>	<b>215,438,715</b>
<b>Discounted bills</b>		
Accepted by financial institutions	50,147,488	24,641,122
Accepted by corporate customers	12,938,166	5,299,045
	<b>63,085,654</b>	<b>29,940,167</b>
Loans to individuals	57,167,479	42,983,261
<b>Total</b>	<b>378,071,845</b>	<b>288,362,143</b>

CHINA MINSHENG BANKING CORP., LTD.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2005

■ All amounts in Rmb'000 unless otherwise specified

The following represents geographical analysis of the Bank's deposits, including short-term and long-term deposits, short-term and long-term savings deposits, fiscal deposits, inward remittance and temporary deposits, short-term and long-term margin deposits:

Locations	December 31, 2005	December 31, 2004
Beijing	122,773,557	100,193,439
Shanghai	79,307,418	60,635,058
Guangdong	79,024,505	67,868,620
Zhejiang	34,577,119	26,200,339
Jiangsu	26,407,137	17,383,824
Shanxi	25,612,634	20,647,291
Hubei	22,324,284	19,451,212
Chongqing	16,120,593	12,276,697
Hebei	12,670,408	10,277,784
Other locations	70,015,108	45,147,200
<b>Total</b>	<b>488,832,763</b>	<b>380,081,464</b>

### Note XI Contingencies

As of December 31, 2005, there were a number of legal proceedings outstanding against the Bank in the normal course of business. After considering professional advice, the Bank's management believes such proceedings are unlikely to significantly affect the Bank's financial condition.

### Note XII Capital Commitment

The Bank's capital commitment mainly relates to construction in progress of office building and purchase of fixed assets as below:

	December 31, 2005	December 31, 2004
Contracted but not paid	69,699	189,610
Approved but not contracted	779,529	985,826
	<b>849,228</b>	<b>1,175,436</b>

**Note XIII Off-balance Sheet Items, Lease Commitment and Pledged Assets**

The major off-balance sheet items are as follows:

	December 31, 2005	December 31, 2004
Outstanding credit commitment	142,531,816	108,988,697
Banker's Acceptances	85,597,614	52,617,188
Letters of guarantee issued	9,800,382	6,532,418
L/C issued	7,641,361	6,143,764
<b>Entrusted loans</b>	<b>16,898,238</b>	<b>12,984,681</b>

The future aggregated minimum lease payments of the Bank due under non-cancellable operating leases are as follows:

	December 31, 2005	December 31, 2004
Less than 1 year	503,943	313,263
1-5 years	1,040,428	804,252
More than 5 years	47,618	122,678
<b>Total</b>	<b>1,591,989</b>	<b>1,240,193</b>

As of December 31, 2005, the Bank pledged assets of RMB 6,714,767,000 (2004: RMB 8,425,766,000) to third parties under repurchase agreements, issuance of convertible bonds and interest rate swap contracts.

**Note XIV Derivative Financial Instruments**

The outstanding contractual amounts of the derivative financial instruments held by the Bank are set out in the following table.

	Contractual/notional amounts	Assets	Liabilities
<b>As of December 31, 2005</b>			
Interest rate swaps	7,965,645	16,309	(264,125)
Credit default swaps	80,702	1,235	-
Currency options	44,431	24,150	-
		<b>41,694</b>	<b>(264,125)</b>
<b>As of December 31, 2004</b>			
Interest rate swaps	8,094,554	7,372	(140,661)
Currency swaps	57,230	-	(110)
Bond options	364,166	-	(823)
Credit default swaps	165,530	745	-
Currency options	54,981	-	(30)
		<b>8,117</b>	<b>(141,624)</b>

The contractual amounts of derivative financial instruments do not necessarily indicate the current fair values of the instruments, and therefore, do not indicate the Bank's exposure to credit or market risk.

Financial institutions bonds in long-term investments included structured bonds of RMB 2,875,996,000 (2004: RMB 3,651,551,000) at December 31, 2005, which are bond instruments embedding financial derivatives such as bond options or early maturity options.

## CHINA MINSHENG BANKING CORP., LTD.

## NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED DECEMBER 31, 2005

■ All amounts in Rmb'000 unless otherwise specified

Short-term deposits, short-term savings deposit, deposits from banks, long-term deposits and long-term savings deposits included structured deposits embedding financial derivatives such as bond options or early maturity options. The amount of structured deposits contracts are set out in the following table.

	December 31, 2005	December 31, 2004
Deposits from corporates with maturity no more than 1 year	4,233,897	1,641,866
Time deposits from domestic banks	526,294	762,134
Long-term deposits	7,860,473	8,015,183
	<b>12,620,664</b>	<b>10,419,183</b>

The economics of derivatives embedded in above structured bonds and structured deposits are closely related to the host contracts' economics and are not separated from the host contracts for accounting purposes. The above notional amount and fair value of derivatives exclude those embedded derivatives.

### Note XV Post Balance Sheet Events

Pursuant to the resolution of the Board of Directors' Meeting on January 23, 2006, composite bonds of no more than RMB 4.3 billion will be issued by the Bank. The resolution has been approved on the Shareholders' Meeting held on February 24, 2006. Pursuant to the resolutions of the Board of Directors' Meeting on February 24, 2006, (i) a cash dividend for the year 2005 of Rmb 0.05 per ordinary share; (ii) a 15% stock dividend; and (iii) a 25% bonus share from capital surplus were declared. Also, a special reserve is to be appropriated from retained earnings for the purpose of the implementation of the Bank's stock incentive plans. These resolutions are subject to the final approval of the 2005 Annual General Meeting.

### Note XVI Net Profit after Extraordinary Items

	2005	2004
<b>Net profit</b>	<b>2,702,519</b>	<b>2,038,401</b>
Add(Less):Extraordinary profit/loss		
Non-operating income	(15,585)	(14,627)
Non-operating expenses	13,221	10,284
Reversal of impairment provision on fixed assets	-	(16,553)
Effects of the extraordinary profit/loss on income tax	780	6,896
<b>Net profit after the extraordinary items</b>	<b>2,700,935</b>	<b>2,024,401</b>

The non-operating expenses included losses of RMB 371,000 (2004: RMB 643,000) from disposal of fixed assets.

### Note XVII Comparative Figures

Certain comparative figures have been reclassified to conform to the current year presentation.

## Report of the Auditors

PWC ZT Te Shen Zi(2006)No.35

To the Shareholders of China Minsheng Banking Corp., Ltd.

We have audited the financial statements of China Minsheng Banking Corp., Ltd. (the "Bank") for the year ended December 31, 2005 in accordance with China's Independent Auditing Standards, and issued an unqualified report (PWC ZT Shen Zi (2006) No. 58) on the financial statements on February 24, 2006. The Bank prepared the accompanying supplementary information to the 2005 financial statements in accordance with the requirements of Chapter 4 of the Information Disclosure and Compilation Provisions for Publicly Listed Companies (No.15) - General Provisions of Financial Reports, promulgated by the China Securities Regulatory Commission. We have given appropriate attention to the above-mentioned supplementary information during the course of the audit.

In our opinion, the accompanying supplementary information is consistent with the 2005 audited financial statements of the Bank, in all material aspects.



Certified Public Accountant

吳偉軍



Certified Public Accountant

楊劭





## CHINA MINSHENG BANKING CORP., LTD.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2005

■ All amounts in Rmb'000 unless otherwise specified

PricewaterhouseCoopers Zhong Tian Certified Public Accountants Ltd. Co.

China Minsheng Banking Corp., Ltd. (the "Bank") prepared the following supplementary information to the 2005 financial statements in accordance with the requirements of Chapter 4 of the Information Disclosure and Compilation Provisions for Publicly Listed Companies (No.15)-General Provisions of Financial Reports, promulgated by the China Securities Regulatory Commission:

**I Reconciliation between Audited Financial Statements under the PRC GAAP and IFRS**

	For the Year 2005
<b>Net Profit under the PRC GAAP</b>	<b>2,702,519</b>
<b>Adjustments made under IFRS:</b>	
Reversal of provision for impairment of long-term investment	120,759
Derivatives recognized on the balance sheet at fair value	(88,924)
Write-off of pre-operating expenses of new branches/sub-branches	12,123
Adjustment of shares issuance costs	(16,002)
Adjustments related to convertible bonds	10,788
Capitalization of subordinated bonds issuance costs	2,458
Recognition of interest income from short-term investments	93,243
Impact of capital translation difference on the retained earnings	(50,833)
Adjustment of deferred income tax resulting from above adjustments	(26,257)
<b>Adjusted Net Profit under IFRS</b>	<b>2,759,874</b>
	<b>As at December 31, 2005</b>
<b>Net Assets under the PRC GAAP</b>	<b>15,459,479</b>
<b>Adjustments made under IFRS:</b>	
Reversal of provision for impairment of long-term investment	131,657
Derivatives recognized on the balance sheet at fair value	(222,431)
Write-off of pre-operating expenses of new branches/sub-branches	(5,413)
Adjustment of shares issuance costs	(4,642)
Adjustments related to convertible bonds	898
Capitalization of subordinated bonds issuance costs	14,282
Unrealized loss (after tax) resulting from available-for-sale investments carried at fair value	(46,967)
Recognition of interest income from short-term investments	93,243
Adjustment of deferred income tax resulting from above adjustments	34,021
<b>Adjusted Net Assets under IFRS</b>	<b>15,454,127</b>

**II Breakdown of Provision for Assets Impairment for The Year Ended December 31, 2005**

Item	Balance at beginning year	Provided during the year	Reversal during the year	Write-off/transfer out during the year	Balance at end of year
<b>1. Provision for loan impairment</b>	<b>4,247,700</b>	<b>1,254,852</b>	-	<b>(511,061)</b>	<b>4,991,491</b>
Including: - Loans (excluding discounted bills)	4,194,710	1,242,269	-	(511,061)	4,925,918
- Discounted bills accepted by corporate customers	52,990	12,583	-	-	65,573
<b>2. Provision for impairment of foreclosed assets</b>	<b>146,724</b>	<b>103,141</b>	-	<b>(692)</b>	<b>249,173</b>
<b>3. Provision for bad debt</b>	<b>129,082</b>	<b>17,362</b>	-	-	<b>146,444</b>
Including: - Lending to other banks and financial institutions	95,500	-	-	-	95,500
- Other receivables	33,582	17,362	-	-	50,944
<b>4. Provision for impairment of long-term investment</b>	<b>10,898</b>	<b>120,759</b>	-	-	<b>131,657</b>
Including: - Long-term financial institution bonds	10,898	118,354	-	-	129,252
- Government bonds	-	2,405	-	-	2,405
<b>5. Provision for impairment of fixed assets</b>	<b>8,970</b>	-	-	-	<b>8,970</b>
Including: Buildings	8,970	-	-	-	8,970

2005 CMBC





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## Appendix II Supplementary

### Financial Statements

CHINA MINSHENG BANKING CORP., LTD.  
Annual Financial Statement and Report of the Auditors

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PricewaterhouseCoopers China Limited  
Clarendon House,  
2 Church Street,  
Hamilton, Bermuda

## Report of the Auditors

### To the Shareholders of China Minsheng Banking Corp., Ltd.

We have audited the accompanying balance sheet of China Minsheng Banking Corp., Ltd. (the "Bank") as of December 31, 2005 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 December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers'. The signature is written in a cursive, flowing style.

PricewaterhouseCoopers  
February 24, 2006

Business is undertaken in the registered name of PricewaterhouseCoopers China Limited, incorporated in Bermuda with Limited Liability. Registered address is Clarendon House, 2 Church Street, Hamilton, Bermuda.

CHINA MINSHENG BANKING CORP., LTD.

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2005

■ All amounts expressed in Rmb'000 unless otherwise specified

	Notes	For the years ended December 31	
		2005	2004
Interest income	5	23,560,702	17,457,770
Interest expense	5	(11,024,743)	(8,344,576)
<b>Net interest income</b>		12,535,959	9,113,194
Fee and commission income	6	494,049	248,880
Fee and commission expense		(117,017)	(91,697)
<b>Net fee and commission income</b>		377,032	157,183
Net gain/(loss) on disposal of available-for-sale securities		12,749	(101,226)
Other operating income	7	82,427	263,772
<b>Operating income</b>		13,008,167	9,432,923
Operating expense	8	(7,156,062)	(5,230,760)
Provision for loan impairments	14	(1,534,010)	(1,397,045)
<b>Profit before income tax</b>		4,318,095	2,805,118
Income tax expense	9	(1,558,221)	(797,722)
<b>Net profit for the year</b>		2,759,874	2,007,396
<b>Earnings per share</b> <b>(expressed in Rmb per share)</b>			
Basic earnings per share	10	0.383	0.281
Diluted earnings per share	10	0.379	0.275

## CHINA MINSHENG BANKING CORP., LTD.

## BALANCE SHEET

AS AT 31 DECEMBER 2005

■ All amounts expressed in Rmb'000 unless otherwise special

		As at December 31	
	Notes	2005	2004
<b>ASSETS</b>			
Cash and due from banks	11	12,557,961	13,549,122
Deposits with the PBOC	12	54,860,062	40,653,237
Derivative financial instruments	29	41,694	8,117
Securities purchased under resale agreements		20,009,640	11,518,877
Loans, net	14	381,273,198	295,356,812
Investment securities			
- available-for-sale	15	40,639,827	43,483,723
- held-to-maturity	15	39,051,254	32,663,245
Property, plant and equipment, net	16	5,192,501	4,572,579
Deferred income tax assets	17	342,040	490,873
Other assets	18	3,404,957	3,000,433
<b>TOTAL ASSETS</b>		<b>557,373,134</b>	<b>445,297,018</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
Customer deposits	19	488,832,763	380,081,464
Deposits from banks		33,893,169	33,814,366
Borrowings from other banks	20	306,746	1,414,785
Derivative financial instruments	29	264,125	141,624
Securities sold under repurchase agreements		5,422,664	6,965,915
Subordinated bonds	21	7,234,389	5,835,702
Convertible bonds	22	14,308	286,303
Deferred income tax liabilities	17	4,744	4,804
Other liabilities	23	5,946,099	4,035,202
<b>Total Liabilities</b>		<b>541,919,007</b>	<b>432,580,165</b>
<b>Shareholders' Equity</b>			
Capital stock	24	7,258,779	5,184,447
Capital surplus		4,167,982	4,920,894
Surplus reserve			
Statutory surplus reserve	25	767,008	496,756
Statutory welfare reserve	25	415,823	280,697
General reserve	25	1,200,000	-
Retained earnings		1,727,095	1,972,475
Unrealised loss on available-for-sale investment securities, net of tax		(46,967)	(135,588)
Other capital reserve		(35,593)	(2,828)
<b>Total Shareholders' Equity</b>		<b>15,454,127</b>	<b>12,716,853</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>557,373,134</b>	<b>445,297,018</b>

On February 24, 2006, the Bank's Board of Directors authorized these accounts for issue.

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

## CHINA MINSHENG BANKING CORP., LTD.

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

## FOR THE YEAR ENDED DECEMBER 31, 2005

■ All amounts expressed in Rmb'000 unless otherwise specified

	Notes	Capital Stock	Capital Surplus	Statutory Surplus Reserve	Statutory Welfare Reserve	General Reserve	Retained Earnings	Unrealised Gain/(Loss) on Available-for-sale Investments, net of tax	Other Reserve	Capital Total
<b>Balance at January 1, 2004</b>		3,625,259	4,267,261	292,916	178,777	-	1,497,929	(95,622)	(2,522)	9,763,998
Arising in the year										
Issue of shares-transfer from capital surplus	24	575,198	(575,198)	-	-	-	-	-	-	-
Net change in available-for-sale investments, net of tax		-	-	-	-	-	-	(39,966)	-	(39,966)
Net profit		-	-	-	-	-	2,007,396	-	-	2,007,396
Distribution of cash dividends	26	-	-	-	-	-	(460,159)	-	-	(460,159)
Stock dividends	24&26	766,931	-	-	-	-	(766,931)	-	-	-
Incremental costs attributable to the issue of new shares		-	(24,499)	-	-	-	-	-	-	(24,499)
Appropriation to surplus reserve	25	-	-	203,840	-	-	(203,840)	-	-	-
Appropriation to welfare reserve	25	-	-	-	101,920	-	(101,920)	-	-	-
Conversion of bonds into capital stock	24	217,059	1,253,330	-	-	-	-	-	-	1,470,389
Other		-	-	-	-	-	-	-	(306)	(306)
<b>Balance at December 31, 2004/January 1, 2005</b>		<b>5,184,447</b>	<b>4,920,894</b>	<b>496,756</b>	<b>280,697</b>	<b>-</b>	<b>1,972,475</b>	<b>(135,588)</b>	<b>(2,828)</b>	<b>12,716,853</b>
Arising in the year										
Issue of shares - transfer from capital surplus	24	974,097	(974,097)	-	-	-	-	-	-	-
Net change in available-for-sale investments, net of tax		-	-	-	-	-	-	88,621	-	88,621
Net profit		-	-	-	-	-	2,759,874	-	-	2,759,874
Distribution of cash dividends	26	-	-	-	-	-	(362,931)	-	-	(362,931)
Stock dividends	24&26	1,036,945	-	-	-	-	(1,036,945)	-	-	-
Adjustment of incremental costs attributable to the issue of new shares		-	24,499	-	-	-	-	-	-	24,499
Appropriation to surplus reserve	25	-	-	270,252	-	-	(270,252)	-	-	-
Appropriation to welfare reserve	25	-	-	-	135,126	-	(135,126)	-	-	-
Appropriation to general reserve	25	-	-	-	-	1,200,000	(1,200,000)	-	-	-
Conversion of bonds into capital stock	24	63,290	196,686	-	-	-	-	-	-	259,976
Other		-	-	-	-	-	-	-	(32,765)	(32,765)
<b>Balance at December 31, 2005</b>		<b>7,258,779</b>	<b>4,167,982</b>	<b>767,008</b>	<b>415,823</b>	<b>1,200,000</b>	<b>1,727,095</b>	<b>(46,987)</b>	<b>(35,593)</b>	<b>15,454,127</b>

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



## CHINA MINSHENG BANKING CORP., LTD.

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2005

■ All amounts expressed in Rmb'000 unless otherwise special

	Notes	For the years ended December 31	
		2005	2004
<b>Cash flows from operating activities</b>			
Profit before tax		4,318,095	2,805,118
Adjustments:			
Provision for loan impairments	14	1,534,010	1,397,045
Reversal of impairment on property, plant and equipment	16	-	(16,553)
Provision for bad debt on other receivables		17,362	10,403
Loss/(gain) on disposal of available-for-sale securities		(12,749)	101,226
Depreciation and amortization		479,644	391,997
(Gain)/Loss on disposal of property, plant and equipment		(976)	198
<b>Net changes in operating assets and liabilities:</b>			
Due from banks over 3 months		1,068,114	3,478,322
Restricted deposits with the PBOC		(6,668,587)	(6,991,483)
Derivative financial instruments		88,924	115,109
Trading securities		-	79,793
Securities purchased from non-bank financial institutions under resale agreements and securities purchased from banks under resale agreements over 3 months		(878,733)	(1,097,289)
Loans (excluding lending to banks within 3 months)		(88,979,676)	(88,364,630)
Other assets		(155,322)	(826,060)
Customer deposits		108,751,301	105,265,148
Deposits from banks		78,803	(10,192,915)
Borrowings from other banks		(1,108,039)	(2,111,301)
Securities sold under repurchase agreements		(1,543,251)	(16,814,433)
Other liabilities		1,938,767	751,050
Payment of income tax		(1,269,071)	(823,363)
<b>Net cash provided from/(used in) operating activities</b>		<b>17,658,616</b>	<b>(12,842,618)</b>
<b>Cash flows from investing activities</b>			
Cash received from sale and maturity of investment securities		51,127,263	23,281,985
Cash received from disposal of property, plant and equipment		3,852	34,138
Purchases of investment securities		(54,553,645)	(34,657,717)
Purchases of property, plant and equipment and other assets		(1,285,969)	(2,107,159)
<b>Net cash used in investing activities</b>		<b>(4,708,499)</b>	<b>(13,448,753)</b>
<b>Cash flows from financing activities</b>			
Net proceeds from issuance of subordinated bonds		1,114,891	5,788,176
Cash paid for interest of convertible bonds		(4,609)	(10,256)
Cash dividends paid		(329,446)	(436,356)
<b>Net cash provided from financing activities</b>		<b>780,836</b>	<b>5,341,564</b>
<b>Effect of changes on currency translation variances</b>		<b>(32,765)</b>	<b>(306)</b>

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

CHINA MINSHENG BANKING CORP., LTD.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2005

■ All amounts expressed in Rmb'000 unless otherwise special

	For the years ended December 31		
	Notes	2005	2004
Net increase/(decrease) in cash and cash equivalents		13,698,188	(20,950,113)
Cash and cash equivalents at beginning of year	13	34,957,527	55,907,640
Cash and cash equivalents at end of year	13	48,655,715	34,957,527
<b>Supplemental disclosures of cash flow information</b>			
Interest received		20,528,319	14,939,522
<b>Interest paid</b>		<b>(10,062,564)</b>	<b>(7,778,150)</b>

**Significant non-cash transactions**

Convertible bonds with aggregate face value of Rmb 1,661,855,000 and Rmb 293,827,000 were converted into 217,059,000 and 63,290,000 shares of the Bank's common stock during the years ended December 31, 2004 and 2005, respectively.

CHINA MINSHENG BANKING CORP., LTD.

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2005

■ All amounts expressed in Rmb'000 unless otherwise specified

## 1. GENERAL INFORMATION AND PRINCIPAL ACTIVITIES

China Minsheng Banking Corp., Ltd. (the "ank") was established in the People's Republic of China ("PRC") on February 7, 1996 as a joint-stock national commercial bank with capital participation primarily from non-state-owned enterprises. Its establishment was approved by the State Council of the PRC and by the People's Bank of China (the "PBOC"). The Bank's common stock is listed on the PRC domestic A-share market.

The Bank manages its business on a domestic geographic basis, determined based on customer domicile and the locations of branches in which the transactions and assets are recorded. The Bank has no subsidiaries or investments in associates.

## 2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these accounts are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 1) Basis of preparation

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to these financial statements, including the provision for loan impairments and the determination of fair value of financial instruments, are disclosed in Note 4.

Revised or new standards effective in 2005

The International Accounting Standard Board ("IASB") has issued a number of new International Financial Reporting Standards ("IFRS") and revised International Accounting Standards ("IAS") which are effective for accounting periods beginning

on or after 1 January 2005. Among them, the Bank has early adopted the revised IAS 32 - Financial Instruments: Disclosure and Presentation ("IAS 32") and the revised IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39") in 2003. The financial effects of adopting these standards were retrospectively applied in 2003. In 2005, the Bank adopted other new/revised IFRS as set out below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

IAS 1 (revised 2003) Presentation of Financial Statements  
 IAS 8 (revised 2003) Accounting Policies, Changes in Accounting Estimates and Errors  
 IAS 10 (revised 2003) Events after the Balance Sheet Date  
 IAS 16 (revised 2003) Property, Plant and Equipment  
 IAS 17 (revised 2003) Leases  
 IAS 21 (revised 2003) The Effects of Changes in Foreign Exchange Rates  
 IAS 24 (revised 2003) Related Party Disclosure  
 IAS 27 (revised 2003) Consolidated and Separate Financial Statements  
 IAS 28 (revised 2003) Investment in Associates  
 IAS 31 (revised 2003) Financial Reporting of Interests in Joint Ventures  
 IAS 33 (revised 2003) Earnings per Share  
 IAS 36 (revised 2003) Impairment of Assets  
 IAS 38 (revised 2003) Intangible Assets  
 IAS 40 (revised 2003) Investment Property  
 IFRS 2 (issued 2004) Share-based Payment  
 IFRS 3 (issued 2004) Business Combinations  
 IFRS 4 (issued 2004) Insurance Contracts  
 IFRS 5 (issued 2004) Non-current Assets Held for Sale and Discontinued Operations

The adoption of these revised and new standards did not result in substantial changes to the Bank's accounting policies. There was no impact on opening retained earnings at 1 January 2004 from the adoption of any of the above-mentioned standards.

### Revised or new standards that are not yet effective

The IASB has issued a number of revised IASs or new IFRSs which are effective for accounting period beginning or after 1 January 2006 or later periods:

IAS 19 (Amendment), Employee Benefits (effective from 1 January 2006)

## 2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

- IAS 39 (Amendment) Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006)
- IAS 39 (Amendment) The Fair Value Option (effective from 1 January 2006)
- IAS 39 and IFRS 4 (Amendment) Financial Guarantee Contracts (effective from 1 January 2006).
- IFRS 7 Financial Instruments: Disclosures (effective from 1 January 2007)

The Bank has not early adopted these revised standards for the year ended December 31, 2005. The Bank has already commenced an initial assessment of the impact of these revised IASs and new IFRSs. Based upon this initial assessment, management does not believe that these standards would have a significant impact on the Bank's results of operations or financial position.

### 2) Foreign currency translation

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Renminbi ("Rmb"), which is the Bank's functional and presentation currency and the lawful currency of the PRC.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from settlements of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statements.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analyzed between translation differences resulting from changes in the amortized cost of the security, and other changes in the carrying amount of the security. Translation differences are recognised in the income statement, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in the income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are, included in the fair value reserve in equity.

### 3) Derivative financial instruments

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair values. Fair values are obtained from quoted market prices, including counterparty quotes and recent market transactions, and valuation technique, including discounted cash flow models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Bank recognises profits on day 1.

Certain derivatives embedded in other financial instruments, such as the conversion option for the holder of a convertible bond, are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealized gains and losses reported in income.

Changes in the fair values of derivatives are included in trading income.

While certain derivative transactions are intended to provide effective economic hedges under the Bank's risk management positions, they do not qualify for hedge accounting under the specific rules in the revised IAS 39 and are therefore treated as derivatives held for trading with changes in fair value reported as other operating income. The Bank has no derivative positions that are accounted for as hedges.

The fair values of derivative instruments are disclosed in Note 29.

CHINA MINSHENG BANKING CORP., LTD.

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2005

■ All amounts expressed in Rmb'000 unless otherwise specified

## 2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

### 4) Offsetting financial instruments

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

During the year, the Bank has not offset any major financial assets and liabilities.

### 5) Interest income and expense

Interest income and expenses are recognized in the income statement for all instruments measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (e.g., prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the interest rate used to discount the future cash flows for the purpose of measuring the impairment loss.

### 6) Fee and commission income

Fees and commissions are recognized on an accrual basis when the related service has been provided.

### 7) Financial assets

The Bank classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments and avail-

able-for-sale financial assets. Management determines the classification of its investment at initial recognition.

#### (a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorized as held for trading unless they are designated as hedges.

#### (b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivable.

#### (c) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determined payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. Were the Bank to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

#### (d) Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Purchases and sales of financial assets at fair value through profit or loss, held-to-maturity and available for sale are recognized on trade-date, the date on which the Bank commits to purchase or sell the assets. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

## 2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the income statements in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in equity, until the financial assets are derecognized or impaired at which time the cumulative gain or loss previously recognized in equity should be recognized in profit or loss. However, interest calculated using the effective interest method is recognized in the income statements. Dividends on available-for-sale equity instruments are recognized in the income statements when the entity's right to receive payment is established.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial assets is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

### 8) Sale and repurchase agreements and lending securities

Securities sold subject to repurchase agreements ("repos") are retained in the accounts as investment securities and the related liability is recorded as securities sold under repurchase agreements. Securities purchased under agreements to resell ("reverse repos") are recognized in the balance sheet as an advance to the counter-party. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreement using the effective yield method. Securities lent to counter-parties are also retained in the financial statements.

The Bank accepts collateral, consisting principally of loans, bonds and bills, related to reverse repos transactions. Generally, this collateral may be sold or repledged by the Bank but it remains obligated to return the collateral as required under the terms of the related reverse repos or securities borrowing transactions. The obligation to return borrowed securities is recorded at fair value as a trading liability.

### 9) Impairment of financial assets

(1) Assets carried at amortized cost

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a Bank of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or Bank of financial assets that can be reliably estimated.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar and relevant

CHINA MINSHENG BANKING CORP., LTD.

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2005

■ All amounts expressed in Rmb'000 unless otherwise specified

## 2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for Banks of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

When a loan is uncollectible, it is written off against the related allowance on impairment losses. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the allowance on impairment losses in the income statement. If, in a subsequent period, the amount of allowance on impairment losses on loans decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement .

### (2) Assets carried at fair value

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in the income statement . Impairment losses recognised in the income statement on

equity instruments are not reversed through the income statement . If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement , the impairment loss is reversed through the income statement .

### 10) Property, plant and equipment

All property, plant and equipment are stated at historical cost less accumulated depreciation and impairment. Historical costs include expenditures that are directly attributable to the acquisition of the property, plant and equipment items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to write down the cost of property, plant and equipment to their residual values over their anticipated useful lives as follows:

Buildings	20 - 30 years
Leasehold improvements	5 - 10 years
Office equipment	5 - 10 years
Motor vehicles	5 years

No depreciation is provided against construction in progress. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Buildings, improvements, equipment and motor vehicles are periodically reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

## 2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

### 11) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

The Bank entered into various operating lease agreements to rent its branches' offices 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 leases.

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 recognized as an expense in the period in which termination takes place.

All leasing activities conducted by the Bank to date have involved solely operating leases. The Bank has not conducted any leasing activities as lessor.

### 12) 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 non-restricted balances with the PBOC, treasury bills and other eligible bills, amounts due from other banks, loans and advances to banks, securities purchased from banks under resale agreements and short-term government securities.

### 13) 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.

Employee entitlements to housing and certain other allowances are recognised when they accrue to employees.

### 14) Employee benefits

In accordance with the policies of relevant state and local governments, employees participate in various defined contribution retirement schemes managed by local Labour and Social Security Bureaus. The Bank contributes to pension and insurance schemes administered by the local pension and insurance agencies using applicable contribution rates of the

pension and insurance schemes stipulated in the relevant local regulations. Upon retirement of the employees, the local Labour and Social Security Bureaus are responsible for the payment of the basic retirement benefits to the retired employees. Contributions made by the Bank to the above retirement schemes are expensed in the income statements as incurred. The Bank has no further legal obligation to pay additional pensions even if the pension schemes that the Bank has participated in are not sufficient to provide all benefits that the employees are entitled to for the services they have provided in the current period or previous periods.

### 15) Deferred income taxes

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from provision for loan impairments and revaluation of certain financial assets and liabilities including derivative contracts. The rates enacted or substantively enacted at the balance sheet date are used to determine deferred income tax. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred income tax related to fair value re-measurement of available-for-sale investments which are charged or credited directly to equity, is also credited or charged directly to equity



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## 2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

and is subsequently recognised in the income statement together with the deferred gain and loss.

### 16) Borrowings

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

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

### 17) Share capital

#### (1) Share issue costs

Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

#### (2) Dividends on ordinary shares

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

Dividends for the year which are declared after the balance sheet date are dealt with in the subsequent events note.

### 18) Capital Surplus

Capital surplus is the excess of share issue proceeds over the par value of common stock.

### 19) Financial guarantee contracts

The Bank has the following types of financial guarantee contracts: letters of credit and letters of guarantee issued. These contracts provide for specified payments to be made to reimburse the holders for losses incurred when the guaranteed parties default under the original or modified terms of the specified debt instruments.

The Bank initially recognizes all financial guarantee contracts at fair value, which is amortized ratably over the guarantee period.

Subsequently, they are carried at the higher of amortized carrying value and any provision related to the Bank's guarantee obligation. The changes in carrying value are recorded in the income statement accounts as other operating income.

The contractual amounts of financial guarantee contracts are disclosed as contingent liabilities and commitments in Note 28.

### 20) 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 in Note 28.

### 21) Contingent liabilities and contingencies

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank. It can also be a present obligation arising from past events that is not recognized because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs that the outflow becomes probable, it will then be recognized as a provision.

### 22) Fiduciary activities

The Bank commonly acts as a trustee, or in other fiduciary capacities, that result in its holding or managing assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and any income or losses arising thereon are excluded from these financial statements, as they are not assets of the Bank.

### 23) Segment reporting

Geographical segments provide products or services within a particular environment that is subject to risks and returns that are different from those of components operating in other economic environments.

### 24) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

### 3. FINANCIAL RISK MANAGEMENT

#### 1) Strategy in using financial instruments

By their nature, the Bank's activities are principally related to the use of financial instruments including derivatives. The Bank accepts deposits from customers at both fixed and floating rates 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 an 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 only on-balance sheet loans and advances, but also other commitments, such as letters of credit, guarantees, and acceptances.

In order to hedge its open positions in foreign currencies and interest rate, the Bank also enters into currency and interest rate swaps to provide effective controls on the Bank's potential risk exposures in the related areas.

#### 2) Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counter-party will be unable to pay amounts in full when due. Credit risk is increased when counter-parties 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 individual borrowers. 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 principal repayment obligations and by changing 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 creditworthiness of the customer.

The following note incorporates both IAS 32 (revised 2003) risk disclosures and IAS 30 geographical concentrations of risk, based on the location of the branches in which the related item is recorded.

	As at December 31			
	2005		2004	
	Amount	%	Amount	%
Loans and discounted bills*				
Beijing	96,059,356	25	87,726,547	30
Guangdong	60,418,415	16	48,014,273	16
Shanghai	60,432,404	16	43,217,946	14
Hubei	18,163,890	5	14,507,548	5
Zhejiang	31,404,563	8	23,055,413	8
Shanxi	16,526,198	4	13,045,699	4
Jiangsu	21,275,440	5	13,027,312	4
Chongqing	11,396,264	3	9,679,524	3
Hebei	6,950,493	2	5,566,835	2
Other areas	55,444,822	14	30,521,047	10
Lending to banks and financial institutions	8,288,344	2	11,337,868	4
<b>Total, gross</b>	<b>386,360,189</b>	<b>100</b>	<b>299,700,012</b>	<b>100</b>

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### 3. FINANCIAL RISK MANAGEMENT (CONT'D)

Economic sector risk concentration for loans and advances to customers based on the Bank's industry classification:

	As at December 31			
	2005		2004	
	Amount	%	Amount	%
Loans to corporations*				
Industrial	97,993,059	25	79,762,624	27
Trading	13,788,153	4	16,769,973	6
Commercial real estate	38,762,137	10	31,407,345	10
Transportation	29,798,962	8	21,878,509	7
Telecommunication	6,547,423	2	7,833,627	3
Construction	12,754,472	3	10,143,624	3
Conglomerates	6,957,070	2	11,298,290	4
Public utilities	17,161,768	4	9,929,396	3
Education and community services	12,277,972	3	8,214,785	3
Leasing and commercial services	9,913,618	3	7,180,421	2
Public administration and social organizations	3,683,234	1	4,627,828	2
Others	8,180,844	2	6,392,294	2
Loans to individuals	57,167,479	15	42,983,261	14
Lending to banks and financial institutions	8,288,344	2	11,337,868	4
Discounted bills*				
Accepted by other financial institutions	50,147,488	13	24,641,122	8
Accepted by corporate customers	12,938,166	3	5,299,045	2
<b>Total, gross</b>	<b>386,360,189</b>	<b>100</b>	<b>299,700,012</b>	<b>100</b>

Loans and advances to customers by customer type:

	As at December 31			
	2005		2004	
	Amount	%	Amount	%
Loans to corporations*				
Wholly state-owned enterprise	116,783,831	30	91,445,305	31
Partly non-state-owned and other enterprises	127,725,609	33	111,934,070	37
Foreign investment enterprises	13,309,272	4	12,059,341	4
Loans to individuals	57,167,479	15	42,983,261	14
Lending to banks and financial institutions	8,288,344	2	11,337,868	4
Discounted bills*				
Accepted by other financial institutions	50,147,488	13	24,641,122	8
Accepted by corporate customers	12,938,166	3	5,299,045	2
<b>Total, gross</b>	<b>386,360,189</b>	<b>100</b>	<b>299,700,012</b>	<b>100</b>

\* Certain loans to corporations and discounted bills are pledged as collateral under repurchase agreements with other banks (Note 28).

#### 3) Market risk

The Bank takes on exposure in market risk. Market risks arise from open positions in interest rate products, currency products and derivative financial instrument transactions, which are exposed to general and specific market movements.

#### 4) Currency risk

The Bank conducts the majority of its business in Rmb, with certain foreign transactions in United States dollars ("USD"), Hong Kong dollars ("HKD") and, to a much lesser extent, other currencies. The exchange rates between Rmb to USD and HKD respectively are set by the PBOC and have historically fluctuated within a narrow band of less than 1% prior to July 2005. On 21 July 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Rmb to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of Rmb appreciated by approximately 2% against the USD. The PRC government in the future may make further adjustments to the exchange rate system.

### 3. FINANCIAL RISK MANAGEMENT (CONT'D)

The Bank's principle in controlling exchange rate risk is to match its assets and liabilities in each currency and to maintain exchange rate risk within established limits. The Bank has set risk limits which are consistent with the guidelines established by a Risk Management Committee and are in accordance with relevant regulatory requirements, and reflect the management's assessment of current circumstances. The Bank also manages its sources and uses of foreign currencies to minimise potential mismatches.

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

As at December 31, 2005	RMB	USD	HKD	JPY	Other currencies	Total
<b>Assets:</b>						
Cash and due from banks	8,391,230	3,348,856	389,436	166,330	262,109	12,557,961
Deposits with the PBOC	53,936,962	807,395	115,705	-	-	54,860,062
Derivative financial instruments	-	41,694	-	-	-	41,694
Securities purchased under resale agreements	20,009,640	-	-	-	-	20,009,640
Loans, net*	368,764,310	10,157,859	868,444	383,507	1,099,078	381,273,198
Investments**	67,939,472	11,000,461	731,813	-	19,335	79,691,081
Other assets	8,699,519	199,185	14,745	15,674	10,375	8,939,498
<b>Total assets</b>	<b>527,741,133</b>	<b>25,555,450</b>	<b>2,120,143</b>	<b>565,511</b>	<b>1,390,897</b>	<b>557,373,134</b>
<b>Liabilities:</b>						
Customer deposits	(466,736,669)	(19,028,251)	(2,124,078)	(361,731)	(582,034)	(488,832,763)
Deposits from banks	(28,170,294)	(4,016,891)	(411,877)	(342,294)	(951,813)	(33,893,169)
Borrowings from other banks	-	(80,115)	-	-	(226,631)	(306,746)
Derivative financial instruments	(4,563)	(257,364)	(2,198)	-	-	(264,125)
Securities sold under repurchase agreements	(5,422,664)	-	-	-	-	(5,422,664)
Subordinated bonds issued	(7,234,389)	-	-	-	-	(7,234,389)
Convertible bonds issued	(14,308)	-	-	-	-	(14,308)
Other liabilities	(5,780,070)	(150,710)	(13,497)	(3,278)	(3,288)	(5,950,843)
<b>Total liabilities</b>	<b>(513,362,957)</b>	<b>(23,533,331)</b>	<b>(2,551,650)</b>	<b>(707,303)</b>	<b>(1,763,766)</b>	<b>(541,919,007)</b>
<b>Net on balance sheet position</b>	<b>14,378,176</b>	<b>2,022,119</b>	<b>(431,507)</b>	<b>(141,792)</b>	<b>(372,869)</b>	<b>15,454,127</b>

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### 3 FINANCIAL RISK MANAGEMENT (CONT'D)

As at December 31, 2004	RMB	USD	HKD	JPY	Other currencies	Total
<b>Assets:</b>						
Cash and due from banks	8,612,606	3,144,126	656,075	229,935	906,380	13,549,122
Deposits with the PBOC	40,145,897	464,935	42,405	-	-	40,653,237
Derivative financial instruments	-	7,430	528	-	159	8,117
Securities purchased under resale agreements	11,518,877	-	-	-	-	11,518,877
Loans, net*	277,911,213	15,044,718	857,210	973,851	569,820	295,356,812
Investments**	64,374,400	10,623,278	1,126,166	-	23,124	76,146,968
Other assets	7,945,893	110,342	6,905	-	745	8,063,885
<b>Total assets</b>	<b>410,508,886</b>	<b>29,394,829</b>	<b>2,689,289</b>	<b>1,203,786</b>	<b>1,500,228</b>	<b>445,297,018</b>
<b>Liabilities:</b>						
Customer deposits	(355,964,610)	(21,870,187)	(1,531,672)	(143,759)	(571,236)	(380,081,464)
Deposits from banks	(26,743,561)	(4,808,045)	(1,114,111)	(1,114,471)	(34,178)	(33,814,366)
Borrowings from other banks	(1,082,000)	(132,351)	(58,465)	-	(141,969)	(1,414,785)
Derivative financial instruments	-	(141,450)	(174)	-	-	(141,624)
Securities sold under repurchase agreements	(6,965,915)	-	-	-	-	(6,965,915)
Subordinated bonds issued	(5,835,702)	-	-	-	-	(5,835,702)
Convertible bonds issued	(286,303)	-	-	-	-	(286,303)
Other liabilities	(3,883,909)	(142,457)	(12,171)	(132)	(1,337)	(4,040,006)
<b>Total liabilities</b>	<b>(400,762,000)</b>	<b>(27,094,490)</b>	<b>(2,716,593)</b>	<b>(1,258,362)</b>	<b>(748,720)</b>	<b>(432,580,165)</b>
<b>Net on balance sheet position</b>	<b>9,746,886</b>	<b>2,300,339</b>	<b>(27,304)</b>	<b>(54,576)</b>	<b>751,508</b>	<b>12,716,853</b>

\* Certain loans to corporations and discounted bills are pledged as collateral under repurchase agreements with other banks (Note 28).

\*\* Certain government bonds and financial bonds are pledged as collateral under repurchase agreements with other banks, interest rate swaps contracts, and convertible bonds issued (Note 28).

#### 5) Interest 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. The Bank operates its business predominantly in mainland China under the interest rate scheme regulated by the PBOC. As the PBOC has historically adjusted its benchmark interest rates for loans and deposits in the same direction and at the same time (though not necessarily by the same increment), the Bank has primarily managed its exposure to interest rate risk through the management of the maturity profile of its loans and deposits. However, there is no guarantee that the PBOC will continue this practice in the future.

Until October 29, 2004, according to the PBOC regulations,

loan interest rates can be set at up to 70% above the corresponding PBOC benchmark interest rates and up to 10% below the corresponding PBOC benchmark interest rates. Since then, the PBOC has removed the upper limit on lending rates on all Rmb loans to corporations while retaining the lower limit on such rates.

Interest rates for discounted bills are market driven. However, such interest rates cannot be set below the PBOC interest rate for re-discounted bills.

#### 6) 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

### 3. FINANCIAL RISK MANAGEMENT (CONT'D)

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 inter-bank 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. At the end of December 31,

2005, the Bank was required to maintain 7.5% of the total Rmb denominated deposits and 3% of the total foreign currency denominated deposits with the PBOC.

The tables below summarize the assets and liabilities of the Bank by relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

As at December 31, 2005	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
<b>Assets:</b>						
Cash and due from banks	10,371,536	503,650	1,682,775	-	-	12,557,961
Deposits with the PBOC	54,860,062	-	-	-	-	54,860,062
Derivative financial instruments	-	16,346	7,804	11,372	6,172	41,694
Securities purchased under resale agreements	13,064,850	1,289,464	5,655,326	-	-	20,009,640
Loans, net*	79,704,981	37,879,422	127,357,727	54,964,872	81,366,196	381,273,198
Investments**	1,569,796	2,329,259	16,120,476	25,469,221	34,202,329	79,691,081
Other assets	235,550	1,003,627	963,850	542,366	6,194,105	8,939,498
<b>Total assets</b>	<b>159,806,775</b>	<b>43,021,768</b>	<b>151,787,958</b>	<b>80,987,831</b>	<b>121,768,802</b>	<b>557,373,134</b>
<b>Liabilities:</b>						
Customer deposits	(270,916,871)	(50,830,285)	(96,195,461)	(68,960,122)	(1,930,024)	(488,832,763)
Deposits from banks	(22,692,762)	(7,697,260)	(2,433,860)	(673,847)	(395,440)	(33,893,169)
Borrowings from other banks	-	-	-	-	(306,746)	(306,746)
Derivative financial instruments	-	(422)	(14,056)	(128,707)	(120,940)	(264,125)
Securities sold under repurchase agreements	(2,091,656)	(2,020,934)	(1,240,074)	-	(70,000)	(5,422,664)
Subordinated bonds	-	-	(48,671)	(5,790,396)	(1,395,322)	(7,234,389)
Convertible bonds	-	-	(14,308)	-	-	(14,308)
Other liabilities	(1,783,362)	(1,894,004)	(2,215,747)	(51,872)	(5,858)	(5,950,843)
<b>Total liabilities</b>	<b>(297,484,651)</b>	<b>(62,442,905)</b>	<b>(102,162,177)</b>	<b>(75,604,944)</b>	<b>(4,224,330)</b>	<b>(541,919,007)</b>
<b>Net liquidity gap</b>	<b>(137,677,876)</b>	<b>(19,421,137)</b>	<b>49,625,781</b>	<b>5,382,887</b>	<b>117,544,472</b>	<b>15,454,127</b>

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### 3. FINANCIAL RISK MANAGEMENT (CONT'D)

As at December 31, 2004	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
<b>Assets:</b>						
Cash and due from banks	10,083,544	1,696,972	1,726,097	42,509	-	13,549,122
Deposits with the PBOC	40,653,237	-	-	-	-	40,653,237
Derivative financial instruments	-	7	-	4,669	3,441	8,117
Securities purchased under resale agreements	1,957,901	3,359,709	5,501,267	700,000	-	11,518,877
Loans, net*	20,603,566	35,385,068	136,635,259	38,790,777	63,942,142	295,356,812
Investments**	82,224	2,110,440	11,721,321	23,707,738	38,525,245	76,146,968
Other assets	219,309	806,286	909,868	534,012	5,594,410	8,063,885
<b>Total assets</b>	<b>73,599,781</b>	<b>43,358,482</b>	<b>156,493,812</b>	<b>63,779,705</b>	<b>108,065,238</b>	<b>445,297,018</b>
<b>Liabilities:</b>						
Customer deposits	(216,997,640)	(30,931,631)	(61,572,205)	(68,657,968)	(1,922,020)	(380,081,464)
Deposits from banks	(27,578,314)	(3,212,417)	(1,259,858)	(1,080,028)	(683,749)	(33,814,366)
Borrowings from other banks	(777,919)	(442,000)	-	-	(194,866)	(1,414,785)
Derivative financial instruments	(140)	(153)	(1,632)	(76,077)	(63,622)	(141,624)
Securities sold under repurchase agreements	(3,975,277)	(2,119,840)	(870,798)	-	-	(6,965,915)
Subordinated bonds	-	-	(47,526)	(5,788,176)	-	(5,835,702)
Convertible bonds	-	(3,925)	-	(282,378)	-	(286,303)
Other liabilities	(1,137,872)	(1,265,337)	(1,599,283)	(33,225)	(4,289)	(4,040,006)
<b>Total liabilities</b>	<b>(250,467,162)</b>	<b>(37,975,303)</b>	<b>(65,351,302)</b>	<b>(75,917,852)</b>	<b>(2,868,546)</b>	<b>(432,580,165)</b>
<b>Net liquidity gap</b>	<b>(176,867,381)</b>	<b>5,383,179</b>	<b>91,142,510</b>	<b>(12,138,147)</b>	<b>105,196,692</b>	<b>12,716,853</b>

\* Certain loans to corporations and discounted bills are pledged as collateral under repurchase agreements with other banks (Note 28).

\*\* Certain government bonds and financial bonds are pledged as collateral under repurchase agreements with other banks, interest rate swaps contracts, and convertible bonds issued (Note 28).

### 3. FINANCIAL RISK MANAGEMENT (CONT'D)

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 transactions are often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

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

#### 7) 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 short-term in nature, the carrying amount approximates the fair value.

(2) Investment securities: held-to-maturity

The fair value for held-to-maturity assets is based on "bid" market prices or broker/dealer price quotations. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

(3) Loans and advances to customers

Loans and advances are recorded net of allowance for impair-

ment losses. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. The carrying amount approximates the fair value.

(4) Deposits and placements from banks and other financial institutions

The fair value of checking, savings and money market accounts is the amount payable on demand at the reporting date. The estimated fair value of fixed interest-bearing deposits and placements without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

(5) Resale and repurchase agreements

The underlyings of resale and repurchase agreements comprise investment securities and loans and advances to customers. The fair value of those short-term financing arrangements approximate their carrying value.

(6) Convertible bonds and subordinated bonds

The aggregate fair values are calculated using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity of the bonds.

As at December 31, 2005 and 2004, the estimated fair values of the Bank's financial assets and liabilities, of which the respective carrying values are different, are summarized as follows:

	Carrying Value		Fair Value	
	2005	2004	2005	2004
<b>Financial assets</b>				
Investment securities				
- held-to-maturity	39,051,254	32,663,245	38,936,276	32,335,345
<b>Financial liabilities</b>				
Customer deposits	488,756,900	380,081,464	488,421,768	379,697,159
Subordinated bonds	7,234,389	5,835,702	7,488,767	5,895,882
Convertible bonds	14,308	286,303	15,269	319,190

#### 8) 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 accounts. The Bank had assets under custody accounts amounting to approximately Rmb 16,898 million as at December 31, 2005 (2004: Rmb 12,985 million).



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#### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Areas susceptible to changes in essential estimates and judgements, which affect the carrying value of assets and liabilities, are set out below. It is impracticable to determine the effect of changes to either the key assumptions discussed below or other estimation uncertainties. It is possible that actual results may require material adjustments to the estimates referred to below.

##### 1) Provision for loan impairments

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether a provision for loan impairments should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

##### 2) Fair value of financial instruments

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, cash flow models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. To the extent practical, cash flow mod-

els use only observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

##### 3) Held-to-maturity investments

The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than, for the specific circumstances, for example, selling an insignificant amount close to maturity, it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

##### 4) Income taxes

Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

## 5. NET INTEREST INCOME

	For the years ended December 31	
	2005	2004
<b>Interest income:</b>		
Loans		
- Loans to customers and discounted bills	19,376,708	13,562,268
- Loans to banks and non-bank financial institutions	194,784	162,717
Investment securities	2,564,054	2,323,358
Deposits with the PBOC	645,945	569,159
Due from banks	251,197	189,321
Securities purchased under resale agreements	238,428	426,623
Others	289,586	224,324
	<b>23,560,702</b>	<b>17,457,770</b>
<b>Interest expense:</b>		
Customer deposits	(7,532,437)	(5,513,657)
Deposits from banks	(713,985)	(651,283)
Borrowings from the PBOC	-	(1,726)
Borrowings from other banks	(54,068)	(83,285)
Securities sold under repurchase agreements	(72,240)	(388,964)
Discounted bills	(2,370,691)	(1,667,758)
Subordinated bonds	(288,496)	(47,882)
Convertible bonds	7,410	10,875
Others	(236)	(896)
	<b>(11,024,743)</b>	<b>(8,344,576)</b>
<b>Net interest income</b>	<b>12,535,959</b>	<b>9,113,194</b>

## 6. FEE AND COMMISSION INCOME

	For the years ended December 31	
	2005	2004
Commission income on remittance services for customers	312,711	191,860
Commission income on financial consultation services	72,359	4,848
Commission income on bond agency business	15,312	3,162
Others	93,667	49,010
	<b>494,049</b>	<b>248,880</b>

## 7. OTHER OPERATING INCOME

	For the years ended December 31	
	2005	2004
Net (loss)/gain on derivatives and trading securities	(111,664)	115,014
Net foreign exchange gain	171,061	109,321
Other income	23,030	39,437
	<b>82,427</b>	<b>263,772</b>

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**8. OPERATING EXPENSES**

	For the years ended December 31	
	2005	2004
Staff costs, including directors' emoluments		
- Salary, including bonus	1,591,692	1,141,306
- Other benefits	922,139	678,035
Lease expense, primarily for office space	455,400	369,161
Depreciation	394,315	339,032
Office expenses	436,354	329,530
Business development expenses	459,392	321,431
Automobile expense	263,699	179,821
Conference expense	155,254	103,647
Traveling expense	115,683	89,822
Electronic equipment operating expense	216,763	145,371
Mailing and telegraph expense	175,398	133,719
CBRC supervisory charge	93,227	72,520
Business tax	1,021,109	760,070
Other expenses	855,637	567,295
	<b>7,156,062</b>	<b>5,230,760</b>

**9. INCOME TAX EXPENSE**

The Bank is incorporated and operates in the PRC, and is only subject to PRC profits tax. The Bank does not have any over-seas profits tax expense.

The Bank implements different profits tax rates according to different regional tax regulations. The profits tax has been provided at the rate of 33% except that Shenzhen implements a rate of 15%.

Taxation in the income statement represents:

	For the years ended December 31	
	2005	2004
Current tax	1,453,098	981,320
Deferred tax	105,123	(183,598)
	<b>1,558,221</b>	<b>797,722</b>

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

	For the years ended December 31	
	2005	2004
Pretax profit	4,318,095	2,805,118
Provision for income tax calculated at statutory rate	1,350,032	925,690
Exempted interest income on government bonds	(277,020)	(337,512)
Non-deductible salary, entertainment and other expenses	485,209	343,194
Reinstatement of deferred income tax assets not fully recognized in the previous years	-	(133,650)
	<b>1,558,221</b>	<b>797,722</b>

## 10. EARNINGS PER SHARE

On March 26, 2005, the Bank issued a stock dividend to its shareholders, through which 2 shares were issued for every 10 shares of the Bank's common stocks outstanding. On October 26, 2005, the Bank issued new shares to its shareholders through an appropriation of its capital surplus, under which 1.55 shares were issued for every 10 shares of the Bank's common stock outstanding. The numbers of shares outstanding and earnings per share information set out below have been restated to reflect the effects of those share distributions.

### 1) Basic earnings per share

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

	For the years ended December 31	
	2005	2004
Net profit attributable to shareholders (in Rmb thousands)	2,759,874	2,007,396
Weighted average number of shares outstanding (in thousands)	7,204,477	7,142,651
<b>Basic earnings per share (in Rmb)</b>	<b>0.383</b>	<b>0.281</b>

### 2) Diluted earnings per share

In computing the diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Bank's only dilutive potential ordinary share is convertible bonds. The net profit is adjusted to eliminate the applicable interest expense.

	For the years ended December 31	
	2005	2004
Net profit attributable to shareholders (in Rmb thousands)	2,759,874	2,007,396
Elimination of interest on convertible bond (net of tax effect)	(4,965)	(7,286)
Net profit used to determined diluted earnings per share (in Rmb thousands)	2,754,909	2,000,110
Weighted average number of ordinary shares for diluted earnings per share (in thousands)	7,262,471	7,273,446
<b>Diluted earnings per share (in Rmb)</b>	<b>0.379</b>	<b>0.275</b>

## 11. CASH AND DUE FROM BANKS

	As at December 31	
	2005	2004
Cash	1,918,715	1,471,945
Due from banks	10,639,246	12,077,177
	<b>12,557,961</b>	<b>13,549,122</b>

## 12. DEPOSITS WITH THE PBOC

As at December 31, 2005, the Bank was required to maintain with the PBOC a restricted general reserve deposit equal to 7.5% of customer local currency deposits (from 7% to 7.5% since April 25, 2004) and 3% of customer foreign currency deposits (2004: 2%). Unrestricted deposits are maintained with the PBOC for liquidity purposes. As a result, deposits with the PBOC include:

	As at December 31	
	2005	2004
Restricted deposits	30,979,934	24,311,347
Unrestricted deposits	23,880,128	16,341,890
	<b>54,860,062</b>	<b>40,653,237</b>

Restricted deposits with the PBOC are not available for use in the Bank's day-to-day operations.

## 13. CASH AND CASH EQUIVALENTS

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

	As at December 31	
	2005	2004
Cash and bank	1,918,715	1,471,945
Unrestricted deposits with the PBOC	23,880,128	16,341,890
Due from banks within 3 months	8,614,225	8,984,042
Loans and advances to banks within 3 months	3,982,985	5,512,265
Securities purchased from banks under resale agreements within 3 months	10,160,000	2,547,970
Short-term government securities within 3 months	99,662	99,415
	<b>48,655,715</b>	<b>34,957,527</b>

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## 14. LOANS AND RECEIVABLES AND PROVISION FOR LOAN IMPAIRMENTS

The composition of loans is as follows:

	As at December 31	
	2005	2004
Loans to customers*	314,986,191	258,421,977
Loans to banks	6,262,845	8,919,586
Loans to non-bank financial institutions	2,025,499	2,418,282
Discounted bills*	63,085,654	29,940,167
	386,360,189	299,700,012
Provision for loan impairments	(5,086,991)	(4,343,200)
Loans, net	381,273,198	295,356,812

The components of the Bank's provision for loan impairments are summarised below:

	As at December 31	
	2005	2004
Provision for unimpaired loans	2,324,645	2,489,882
Provision for impaired loans	2,762,346	1,853,318
	5,086,991	4,343,200

Movement of provision for loan impairments:

	For the years ended December 31	
	2005	2004
Balance at January 1	4,343,200	3,349,846
Provision charged	1,534,010	1,397,045
Written-off and transferred upon disposal	(790,219)	(403,691)
Balance at December 31	5,086,991	4,343,200

\* Certain loans to corporations and discounted bills are pledged as collateral under repurchase agreements with other banks and other non-bank financial institutions. (Note 28).

## 15. INVESTMENT SECURITIES

Available-for-sale investment securities

	As at December 31	
	2005	2004
Debt securities at fair value:		
Government bonds*		
- Listed	1,982,392	2,449,321
- Unlisted	14,703,635	14,936,592
	16,686,027	17,385,913
Financial institution bonds - unlisted*	22,135,091	24,790,760
Corporate bonds - unlisted	1,062,123	397,399
Structured bonds - unlisted**	706,586	859,651
Other	50,000	50,000
	40,639,827	43,483,723

Held-to-maturity investment securities

	As at December 31	
	2005	2004
Debt securities at amortized cost:		
Government bonds - unlisted*	15,322,120	9,819,043
Financial institution bonds - unlisted*	21,446,639	19,886,614
Structured bonds - unlisted**	2,183,326	2,957,588
Corporate bonds - unlisted	99,169	-
	39,051,254	32,663,245

\* Certain government bonds and financial bonds are pledged as collateral under repurchase agreements with other banks, interest rate swaps contracts, and convertible bonds issued (Note 28).

\*\* Structured bonds represent debt instruments issued by other financial institutions with embedded derivatives, comprising mainly bond options.

**15. INVESTMENT SECURITIES (CONT'D)**

During the year, there was no impairment loss related to any investment security.

The movements in investment securities are summarized as follows:

	Available-for-sale	Held-to-maturity	Total
At January 1, 2005	43,483,723	32,663,245	76,146,968
Exchange differences	(195,334)	(95,097)	(290,431)
Additions	36,088,213	18,728,328	54,816,541
Disposals (sale and redemption)	(38,869,046)	(12,245,222)	(51,114,268)
Gain from changes in fair value	132,271	-	132,271
<b>At December 31, 2005</b>	<b>40,639,827</b>	<b>39,051,254</b>	<b>79,691,081</b>

**16 . PROPERTY, PLANT AND EQUIPMENT**

	As at December 31	
	2005	2004
Cost	4,840,022	3,971,394
Accumulated depreciation	(1,344,210)	(979,081)
	3,495,812	2,992,313
Less:		
Provision for impairment	(8,970)	(8,970)
Net book value	3,486,842	2,983,343
Construction in progress	1,705,659	1,589,236
	<b>5,192,501</b>	<b>4,572,579</b>

The net book values of property, plant and equipment comprise of the following:

	Buildings	Leasehold improvements	Office equipment	Motor vehicles	Total
<b>Cost</b>					
At January 1, 2005	1,958,929	567,589	1,340,972	103,904	3,971,394
Add: Additions	422,394	70,870	371,262	36,164	900,690
Less: Disposals	-	(9,218)	(13,098)	(9,746)	(32,062)
At December 31, 2005	2,381,323	629,241	1,699,136	130,322	4,840,022
<b>Accumulated depreciation</b>					
At January 1, 2005	149,535	282,279	495,163	52,104	979,081
Add: Charge for the year	68,745	61,592	244,812	19,166	394,315
Less: Written off on disposals	-	(8,550)	(12,709)	(7,927)	(29,186)
At December 31, 2005	218,280	335,321	727,266	63,343	1,344,210
<b>Less: Provision for impairment</b>	(8,970)	-	-	-	(8,970)
Net book value					
<b>At December 31, 2005</b>	<b>2,154,073</b>	<b>293,920</b>	<b>971,870</b>	<b>66,979</b>	<b>3,486,842</b>
<b>At December 31, 2004</b>	<b>1,800,424</b>	<b>285,310</b>	<b>845,809</b>	<b>51,800</b>	<b>2,983,343</b>

The movement in construction in progress is summarized as follows:

	2005	2004
Balance at January 1	1,589,236	1,306,036
Additions	287,783	1,114,515
Transfer to property, plant and equipment	(171,360)	(829,126)
Disposal	-	(2,189)
<b>Balance at December 31</b>	<b>1,705,659</b>	<b>1,589,236</b>

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## 17. DEFERRED INCOME TAXES

The movement on the deferred income tax account is as follows:

	For the years ended December 31	
	2005	2004
Balance at January 1	486,069	282,787
Profit and loss charge	(105,123)	183,598
Available-for-sale securities		
- fair value re-measurement	(81,924)	38,532
- transfer to net profit	38,274	(18,848)
<b>Balance at December 31</b>	<b>337,296</b>	<b>486,069</b>

Deferred income tax assets and liabilities consist of the following items:

	As at December 31	
	2005	2004
Deferred income tax assets:		
Provision for loan impairments	191,824	323,168
Unrealized loss on available-for-sale investment securities	23,133	66,782
Mark-to-market of derivative financial instruments and trading securities	73,402	44,057
Others	53,681	56,866
	<b>342,040</b>	<b>490,873</b>
Deferred income tax liabilities:		
Issuing costs of subordinated bonds	(4,713)	(3,902)
Issuing costs of convertible bonds	(31)	(902)
	<b>(4,744)</b>	<b>(4,804)</b>

## 18. OTHER ASSETS

	As at December 31	
	2005	2004
Accrued interest and other receivables	2,409,454	2,084,510
Other assets	931,082	846,117
Deferred assets	64,421	69,806
	<b>3,404,957</b>	<b>3,000,433</b>

Other assets mainly consist of foreclosed assets at net realisable value of Rmb 813 million as at December 31, 2005(2004: Rmb 777 million).

Deferred assets mainly consist of prepaid office rentals.

## 19. CUSTOMER DEPOSITS

	As at December 31	
	2005	2004
Corporate deposits		
Demand	181,704,912	151,482,786
Time	232,672,293	184,705,652
Deposits from individuals	74,093,637	43,515,949
Inward remittance and temporary deposits	361,921	377,077
	<b>488,832,763</b>	<b>380,081,464</b>

## 20. BORROWINGS FROM OTHER BANKS

The balances have the following maturity breakdown:

	As at December 31	
	2005	2004
Current	-	777,920
Over 1 month but less than 3 months	-	442,000
Over 3 months but less than 1 year	-	-
Over 1 year but less than 5 years	-	-
Over 5 years	306,746	194,865
	<b>306,746</b>	<b>1,414,785</b>

The above borrowings are all unsecured and bear interest rates ranging from 0.75% to 5.83% per annum as at December 31, 2005 (2004: 1.05% - 4.80%). There are no guarantees for borrowings of the bank.

## 21. SUBORDINATED BONDS

	Interest rate per annum	As at December 31	
		2005	2004
Issued in 2004:			
Rmb 4,315 million fixed rate debts due 2014	5.1% for the first 5 years and 8.1% for the remaining years	4,343,901	4,342,378
Rmb 1,485 million floating rate debts due 2014	PBOC time deposit rate + 2.4% for the first 5 years and + 2.9% for the remaining years	1,493,896	1,493,324
		<b>5,837,797</b>	<b>5,835,702</b>

**21. SUBORDINATED BONDS (CONT'D)**

	Interest rate per annum	As at December 31	
		2005	2004
Issued in 2005:			
Rmb 1,400 million fixed rate debts due 2015	3.68% for the first 5 years and 6.68% for the remaining years	1,396,592	-
		<b>7,234,389</b>	<b>5,835,702</b>

	As at December 31	
	2005	2004
Repayable within one year	48,671	47,526
Repayable in the second to fifth year	5,790,397	-
Repayable after the fifth year	1,395,321	5,788,176
	<b>7,234,389</b>	<b>5,835,702</b>

Pursuant to relevant approvals from the PBOC and CBRC, the Bank issued the following subordinated bonds:

The fixed rate subordinated bonds issued in 2004 has a maturity of 10 years, with a fixed coupon rate of 5.10% per annum, paid annually. The Bank has the option to redeem all or part of the bonds at face value on November 1, 2009. If the Bank does not exercise this option, the annual coupon rate of the bonds for second 5-year period shall be the original coupon rate plus 3%, and shall remain fixed through the maturity date.

The floating rate subordinated bonds issued in 2004 has a maturity of 10 years, with a floating rate based on a one-year PBOC time deposit rate set at each interest payment date plus a spread of 2.4% for the first five years, paid annually. The Bank has the option to redeem all or part of the bonds at face value on November 1, 2009. If the Bank does not exercise this option, the floating rate for the second 5-year period shall be the original floating rate plus 0.5%.

The fixed rate subordinated bonds issued in 2005 has a maturity of 10 years, with a fixed coupon rate of 3.68% per annum, paid annually. The Bank has the option to redeem all or part of the bonds at face value on December 26, 2010. If the Bank does not exercise this option, the annual coupon rate of the bonds for the second 5-year period shall be the original coupon rate plus 3%.

These bonds are subordinated to all other claims on the assets of the Bank, except those of the equity holder. In the calculation of the Bank's capital adequacy ratio, these bonds qualify for inclusion as supplementary capital.

There were no defaults of principal and interest or other breaches with respect to these subordinated bonds during the year. None of the subordinated bonds are secured.

**22. CONVERTIBLE BONDS**

On February 27, 2003, the Bank issued Rmb 4 billion 1.5% convertible bonds at a nominal value of Rmb 100 per bond. The bonds mature 5 years from the issue date, and it can be converted into the Bank's ordinary shares at the holder's option at Rmb 7.73 per ordinary share during the period between August 27, 2003 and February 27, 2008. As a result of the stock dividend distributions and transfers of capital surplus into new capital stock in 2003, 2004 and 2005, the conversion price of the Bank's convertible bonds has been changed to Rmb 4.02 per ordinary share at December 31, 2005 to reflect the increased number of ordinary shares in issue.

The Bank has an early redemption option, which commences one year after the bonds' issuance date, and will expire on the maturity date. If the market price of the Bank's listed "A" shares is 30% higher than the conversion price for 20 consecutive trading days, the Bank has the option to redeem all or a portion of the outstanding bonds at 102% of face value plus accrued interest.

During the final year before the maturity date of the convertible bonds, if the market price of the Bank's listed "A" shares falls below 70% of the conversion price for 20 consecutive trading days, investors have the option to resell to the Bank all or a portion of the outstanding bonds at 106% of face value plus accrued interest.

As of September 29, 2005, the unconverted amount of the convertible bonds was less than Rmb 30 million. According to the Listing Rules of Shanghai Stock Exchange (2004 revised) and Prospectus of Convertible Bond Issuance of the Bank, the trading of convertible bonds was terminated on October 31, 2005. Subsequent to October 31, 2005, the convertible bonds holders can still convert bonds to shares in accordance with the terms of the issue.



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**22. CONVERTIBLE BONDS (CONT'D)**

Details of the convertible bond are as follows:

	2005	2004
Liability component at issue date/ beginning of year	286,303	1,777,831
Decrease in liability component due to subsequent conversion	(259,976)	(1,470,397)
Interest expense accrued less amount forfeited upon conversion	(7,410)	(10,875)
Interest paid	(4,609)	(10,256)
<b>Liability component at end of year</b>	<b>14,308</b>	<b>286,303</b>

The carrying amount of the liability component of the convertible bonds approximates its fair value at the date of issuance. Interest expense on the bonds is calculated on the effective yield basis by applying the effective interest rate for an equivalent non-convertible bond to the liability component of the convertible bonds.

**23. OTHER LIABILITIES**

	As at December 31	
	2005	2004
Promissory notes	1,106,955	407,781
Outward remittance	495,475	367,674
Accrued interest payable	2,313,278	1,632,185
Tax payable	930,207	593,995
Accrued payroll	480,325	339,505
Other	619,857	694,062
	<b>5,946,097</b>	<b>4,035,202</b>

**24. CAPITAL STOCK**

Number of ordinary shares at Rmb1 par value each

	2005	2004
At January 1	5,184,447	3,625,259
Issue of shares - stock dividends	1,036,945	766,931
Issue of shares - converted from bonds	63,290	217,059
Issue of shares - transfer from capital surplus	974,097	575,198
<b>At December 31</b>	<b>7,258,779</b>	<b>5,184,447</b>

**25. STATUTORY RESERVES****Statutory 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 accounts. The Bank's Board of Directors authorized transfers set at 10% for surplus reserve and 5% for welfare reserve for each of the years ended December 31, 2004 and 2005. 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.

**General reserve**

Pursuant to circulars issued by the Ministry of Finance in 2005, financial institutions are required to establish a general reserve through appropriation of net profit. This general reserve forms part of the shareholders' equity of financial institutions. Financial institutions should provide the general reserve based on certain percentage of the aggregated balance of their risk assets at each year end. As a guiding principle, the balance of general reserve should not be less than 1% of the aggregated amount of all risk assets. Financial institutions should not distribute profit to shareholders before adequate general reserve is established.

As a transitional provision, financial institutions are allowed to set aside the general reserve over a period within three years but not exceeding five years from 2005.

As at December 31, 2005 the Bank has appropriated a general reserve of Rmb1,200 million from its net profit for the year 2005.

**26. DIVIDENDS PER SHARE**

Pursuant to a resolution of Annual General Meeting on March 26, 2005, a 20% stock dividend and a cash dividend for the year 2004 of Rmb0.07 per ordinary share totaling Rmb363 million were declared. Pursuant to the resolutions of the Board of Directors' Meeting on February 24, 2006,

- (i) a cash dividend for the year 2005 of Rmb0.05 per ordinary share;
- (ii) a 15% stock dividend; and
- (iii) a 25% stock split from capital surplus to capital stock were declared; these resolutions are subject to the shareholders' approval at the 2005 Annual General Meeting.

**27. RETIREMENT BENEFIT OBLIGATIONS**

The Bank participates in various defined contribution retirement benefit plans organized by municipal and provincial governments, and an insurance company, under which the Bank is required to make monthly contributions at specified rates of the employees' basic salary or other applicable calculation basis under each retirement plan. The Bank's contributions to these retirement plans are charged to the income statement in the year to which they relate. Expenses incurred by the Bank in connection with these retirement plans amounted to Rmb 133 million for the year ended December 31, 2005 (2004: Rmb 109 million).

No forfeited contribution was recognized by the Bank during the year (2004: Nil).

**28. CONTINGENT LIABILITIES AND COMMITMENTS**

	As at December 31	
	2005	2004
<b>Off-balance sheet financial instruments:</b>		
Letters of credit issued	7,641,361	6,143,764
Letters of guarantee issued	9,800,382	6,532,418
Bankers Acceptances	85,597,614	52,617,188
Commitment to extend credit	142,531,816	108,988,697

**Operating lease commitments:**

Future minimum lease payments on operating leases are summarized as follows:

	No later than 1 year	Later than 1 year and not later than 5 years	Later than 5 years	Total
<b>As at December 31, 2005</b>				
Land and buildings	503,911	1,040,428	47,618	1,591,957
Other equipment	32	-	-	32
	<b>503,943</b>	<b>1,040,428</b>	<b>47,618</b>	<b>1,591,989</b>
<b>As at December 31, 2004</b>				
Land and buildings	307,265	793,587	122,678	1,223,530
Other equipment	5,998	10,665	-	16,663
	<b>313,263</b>	<b>804,252</b>	<b>122,678</b>	<b>1,240,193</b>

**Assets pledged:**

	As at December 31	
	2005	2004
<b>For Repos:</b>		
Government bonds and financial bonds	26,712	2,634,990
Discounted bills	4,238,954	3,011,700
Loans	1,164,860	1,354,214
	5,430,526	7,000,904
<b>For the interest rate swaps:</b>		
Government bonds and financial bonds	445,399	424,369
<b>For the convertible bonds issued:</b>		
<b>Government bonds and financial bonds</b>	<b>853,338</b>	<b>987,164</b>

Assets are pledged as collateral under repurchase agreements with other banks and financial institutions, interest rate swaps contracts, and convertible bonds issued. Discounted bills are pledged under the repurchase agreements by which the transferees have the right to sell or repledge the pledged bills. In the case of pledged government bonds, financial bonds and loans, the transferees have no such rights during the years ended December 31, 2004 and 2005.

Mandatory reserve deposits are also held with the PBOC in accordance with statutory requirements (Note 12). These deposits are not available to finance the Bank's day-to-day operations.

CHINA MINSHENG BANKING CORP., LTD.

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2005

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## 28. CONTINGENT LIABILITIES AND COMMITMENTS (CONT'D)

### Capital commitment:

At December 31, 2005, the Bank had capital commitments of Rmb 849 million (2004: Rmb 1,175 million) in respect of build-ings and equipment purchases. The Bank's management is confident that future net revenues and funding will be sufficient to cover these commitments.

### Legal proceedings

There were a number of legal proceedings outstanding against the Bank at December 31, 2005. After considering professional advice, the Bank's management believe that no significant losses will arise.

## 29. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

Interest rate and currency swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (e.g. fixed rate for float-ing rate). The Bank's credit risk represents the potential cost to replace the swap contracts if counter-parties 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 counter-parties using the same techniques as for its lending activities.

The credit default swaps are contractual agreements that the Bank entered into whereby the counter party pays a fixed peri-odic payment for the specified life of the agreement. The Bank makes no payments unless a specified credit event occurs. Credit events were typically defined to include a material default, bankruptcy or debt restructuring for a specified reference asset, bonds or loans, usually. If such a credit event occurs, the Bank will make a payment to the counter-party, and the swap then terminates. The size of the payment of those credit default swaps is usually linked to a predetermined amount or its equiva-lent in the relevant obligation currency as of the occurrence of the relevant credit event. Therefore, the Bank takes the expo-

sure of the credit risk on the specified reference asset. The Bank controls the credit risk with the same techniques as for its lending or investing activities, according to the types of the underlyings.

Bond options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a debenture instrument at a predetermined price. In consider-ation for the assumption of market risk, the seller receives a premium from the purchaser. Options are all negotiated be-tween the Bank and a counter-party on an over-the-counter basis. The Bank is exposed to credit risk on purchased op-tions only, and only to the extent of their carrying amount, is their fair value.

As at December 31, 2005, the Bank had a total of 118 interest rate swap contracts, currency swap contracts, credit default swap contracts, bond option contracts and currency option contracts outstanding (2004: 144). These contracts will be-come due at various dates through June 2015.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on the balance sheet, but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or no-tional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus, the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

## 29. DERIVATIVE FINANCIAL INSTRUMENTS (CONT'D)

The fair values of derivative instruments held are set out in the following table.

	Contract/notional	Fair values	
	Amount	Assets	Liabilities
<b>As at December 31, 2005</b>			
Interest rate swaps	7,965,645	16,309	(264,125)
Credit default swaps	80,702	1,235	-
Currency options	44,431	24,150	-
		41,694	(264,125)
<b>As at December 31, 2004</b>			
Interest rate swaps	8,094,554	7,372	(140,661)
Credit default swaps	165,530	745	-
Currency swaps	57,230	-	(110)
Bond options	364,166	-	(823)
Currency options	54,981	-	(30)
		8,117	(141,624)

A majority of these derivative instruments were contracted to provide effective economic hedges to structured deposit liabilities as described in the following paragraph.

Included in customer deposits and deposits from banks are structured deposit contracts with embedded derivatives comprising mainly interest rate swaps, bond options and currency options. These amounted to Rmb 12,621 million as at December 31, 2005 (2004: Rmb 10,419 million). The economics of these embedded derivatives are closely related to the host deposit contracts' economics and are not separated from the host contracts for accounting purposes.

Included in held-to-maturity investment securities are structured bonds of Rmb 2,183 million as at December 31, 2005 (2004: Rmb 2,958 million), which are debt instruments with embedded derivatives (see Note 15). The economics of these embedded derivatives are closely related to the host contracts' economics and are not separated from the host contracts for accounting purposes. A portion of these structured bonds, amounting to approximately Rmb 464 million as at December 31, 2005 (2004: Rmb 575 million), was acquired to provide effective economic hedges against similar structured deposit li-

abilities taken from the Bank's customers and other financial institutions.

Included in available-for-sale securities are structured bonds of Rmb 707 million as at December 31, 2005 (2004: Rmb 860 million), which are debt instruments with embedded derivatives (see Note 15). The economics of these embedded derivatives are closely related to the host contracts' economics and are not separated from the host contracts for accounting purposes.

## 30. RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Parties are also considered to be related if they are under common control or significant influence by another party.

The terms of loans and deposits with related parties and directors and senior management follow commercial terms arranged in the ordinary course of the Bank's business.

## CHINA MINSHENG BANKING CORP., LTD.

## NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2005

■ All amounts expressed in Rmb'000 unless otherwise specified

	As at and for the years ended December 31	
	2005	2004
Loans to related parties		
Loans outstanding at January 1	2,373,300	1,795,677
Loans granted during the year	1,175,000	1,634,300
Loan repayments during the year	(1,445,000)	(1,056,677)
Loan transfers during the year*	(928,300)	-
Loans outstanding at December 31	1,175,000	2,373,300
Including:		
-Impaired loans	14,000	-
Provision for impaired loans at December 31	12,600	-
Provision for impaired loan charged to income statement during the year	12,600	-
Interest income earned	94,353	118,807

\*The ownership structure of these borrowers were changed during the current year. They were no longer considered as related parties at December 31, 2005.

## Deposit taken from related parties

	As at and for the years ended December 31			
	Key management personnel		Associated companies	
	2005	2004	2005	2004
Deposits at January 1	9,053	3,817	3,092,068	3,618,283
Deposits taken during the year	114,631	35,211	22,246,322	51,627,136
Deposits repaid during the year	(96,701)	(29,975)	(23,254,230)	(52,153,351)
Deposits at December 31	26,983	9,053	2,084,160	3,092,068
<b>Interest expenses on deposits</b>	<b>271</b>	<b>89</b>	<b>68,728</b>	<b>95,311</b>

### 30. RELATED PARTY TRANSACTIONS (CONT'D)

#### Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly, including Directors, Supervisors and Executive officers.

The Bank enters into banking transactions with directors and key management in the ordinary course of business. These include loans and deposits, which are carried out at rates charged to third party customers of the Bank. In 2005, there were no loans outstanding to the key management.

Salaries and other short-term benefits paid to the key management amounted to Rmb 26 million (2004: Rmb 15 million). No post-employment benefits, termination benefits or other long-term benefits is provided to the key management during 2005 (2004: Nil).

### 31. SEGMENTAL INFORMATION

The following represents geographical analysis of the Bank's interest income, segment results, total assets and capital expenditures. The Bank's businesses operate in four main geographical areas within the PRC:

- (i) Northern China - Including the Headquarters in Beijing as well as the following branches: Beijing, Taiyuan, Shijiazhuang and Tianjin.
- (ii) Eastern China - Including the following branches: Shanghai, Hangzhou, Ningbo, Nanjing, Jinan and Suzhou.
- (iii) Southern China - Including the following branches: Fuzhou, Guangzhou, Shenzhen, Quanzhou and Shantou.
- (iv) Other locations - Including the following branches: Xi'an, Dalian, Chongqing, Chengdu, Kunming and Wuhan.

#### As at and for the year ended December 31, 2005

	Interest income		Total interest income	Segment results	Total assets	Total liabilities	Capital expenditures
	External	Inter-segment					
Northern China	8,070,256	6,164,902	14,235,158	1,284,535	316,881,600	307,947,202	636,910
Eastern China	6,958,118	4,429,768	11,387,886	736,789	169,386,901	166,407,691	231,938
Southern China	4,307,054	2,793,381	7,100,435	629,867	101,973,600	100,124,989	132,473
Other locations	4,225,274	3,176,484	7,401,758	334,193	87,918,660	86,226,752	284,648
Inter-segment elimination	-	(16,564,535)	(16,564,535)	-	(118,787,627)	(118,787,627)	-
<b>Sub-total</b>	<b>23,560,702</b>	<b>-</b>	<b>23,560,702</b>	<b>2,985,384</b>	<b>557,373,134</b>	<b>541,919,007</b>	<b>1,285,969</b>
Unallocated costs				(225,510)			
<b>Net profit</b>				<b>2,759,874</b>			

#### As at and for the year ended December 31, 2004

Interest income	Interest income		Total interest income	Segment results	Total assets	Total liabilities	Capital expenditures
	External	Inter-segment					
Northern China	7,531,055	5,179,086	12,710,141	881,431	257,466,631	249,168,389	1,588,833
Eastern China	4,943,580	3,605,673	8,549,253	665,047	133,678,155	131,667,444	162,371
Southern China	2,929,150	2,138,411	5,067,561	354,367	89,301,030	87,906,655	132,646
Other locations	2,053,985	1,912,639	3,966,624	229,261	62,497,819	61,484,294	223,309
Inter-segment elimination	-	(12,835,809)	(12,835,809)	-	(97,646,617)	(97,646,617)	-
<b>Sub-total</b>	<b>17,457,770</b>	<b>-</b>	<b>17,457,770</b>	<b>2,130,106</b>	<b>445,297,018</b>	<b>432,580,165</b>	<b>2,107,159</b>
Unallocated costs				(122,710)			
<b>Net profit</b>				<b>2,007,396</b>			

CHINA MINSHENG BANKING CORP., LTD.

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2005

■ All amounts expressed in Rmb'000 unless otherwise specified

### 32. POST BALANCE SHEET EVENTS

Pursuant to the resolution of the Board of Directors' Meeting on January 23, 2006, composite bonds of no more than 4.3 billion will be issued by the Bank. The resolution has been approved on the Shareholders' Meeting held on February 24, 2006.

Pursuant to the resolutions of the Board of Directors' Meeting on February 24, 2006,

- (i) a cash dividend for the year 2005 of Rmb0.05 per ordinary share;
- (ii) a 15% stock dividend; and
- (iii) a 25% stock split from capital surplus to capital stock were declared. Also, a special reserve is to be appropriated from retained earnings for the use of the Bank's stock incentive plan. These resolutions are subject to the final approval of the 2005 Annual General Meeting.

2005 CMBC







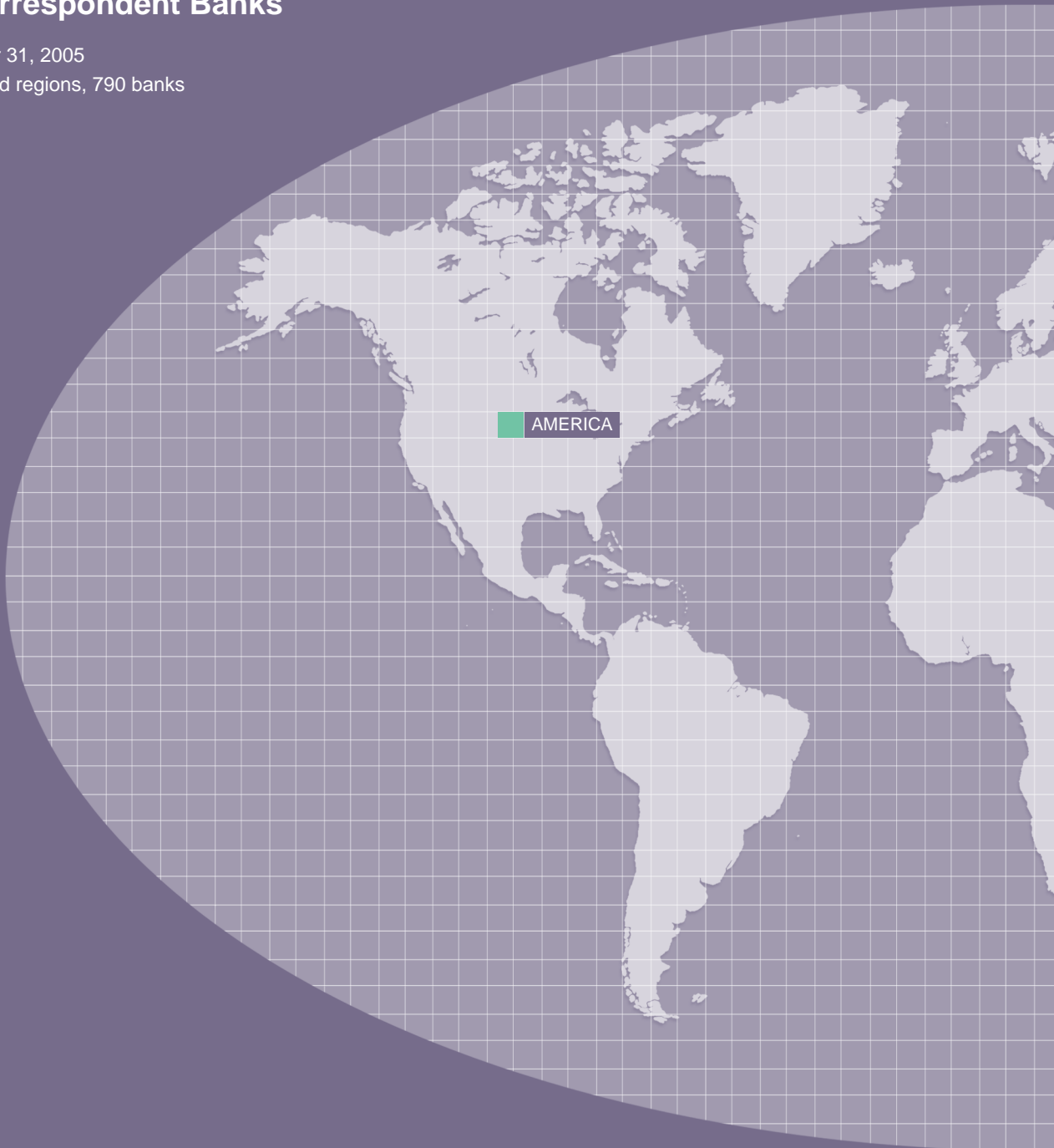
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Banks

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# List of Correspondent Banks

As of December 31, 2005

78 Countries and regions, 790 banks

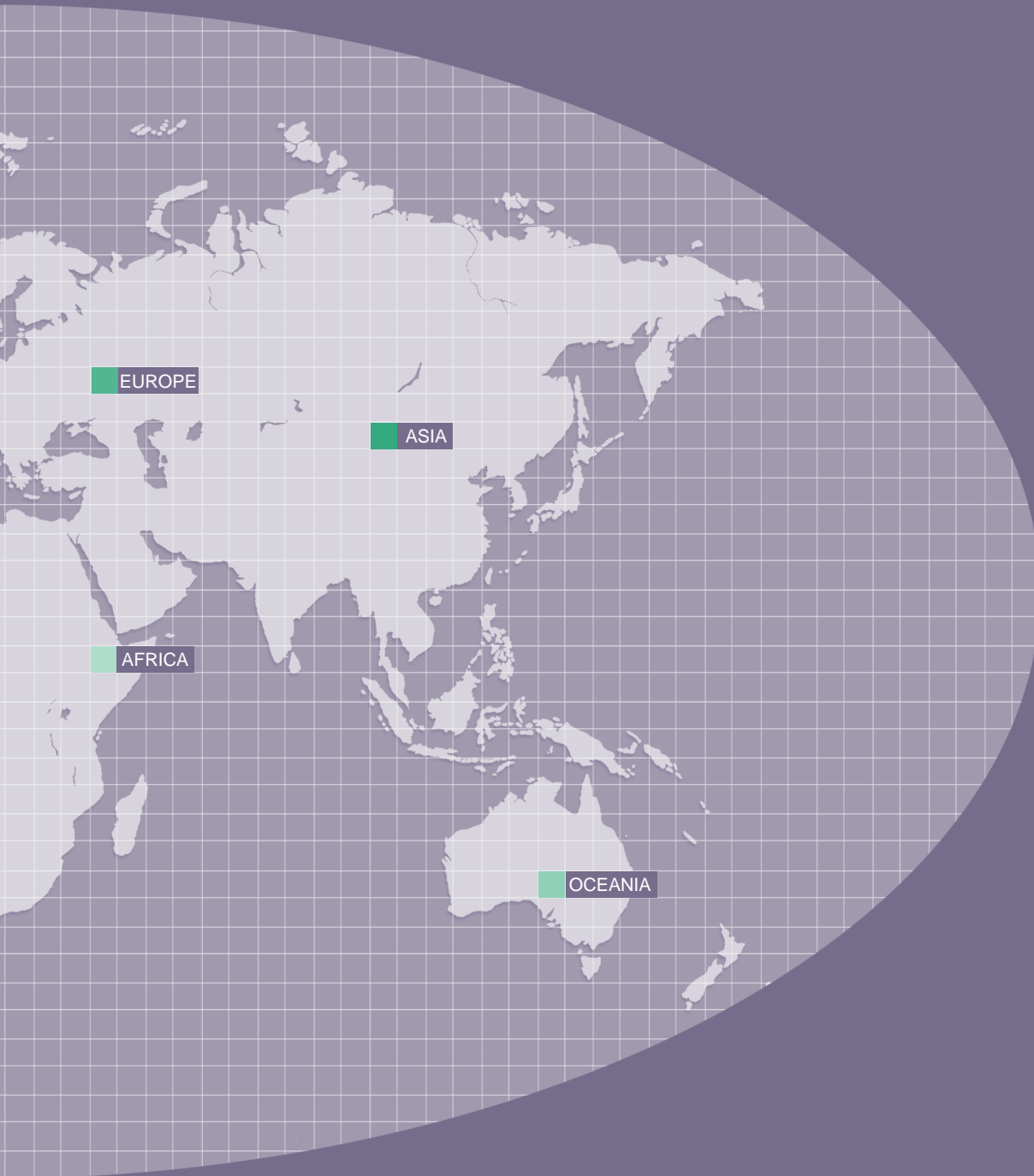


## ASIA 28COUNTRY AND REGIONS, 409 BANKS

CHINA	79	PHILIPPINES	8	SAUDI ARABIA	2
HONGKONG	78	INDIA	14	KUWAIT	2
MACAU	4	PAKISTAN	1	VIETNAM	5
TAIWAN	37	ISRAEL	5	LAOS	1
JAPAN	31	LEBANON	3	CAMBODIA	1
SINGAPORE	43	TURKEY	15	SRILANKA	3
KOREA	30	IRAN	1	CYPRUS	1
THAILAND	14	UNITED ARAB EMIR-		BANGLADESH	3
MALAYSIA	10	ATES	4	MONGOLIA	1
INDONESIA	12	NEPAL	1		

## EUROPE 26COUNTRY AND REGIONS, 223 BANKS

GERMANY	37	SWEDEN	6
ENGLAND	23	DENMARK	3
IRELAND	3	NORWAY	5
POLAND	4	GREECE	4
SWITZERLAND	12	FINLAND	3
NETHERLAND	10	AUSTRIA	16
FRANCE	13	HUNGARY	4
SPAIN	17	BELGIUM	10
ITALY	32	LUXEMBURG	4



EUROPE

ASIA

AFRICA

OCEANIA

PORTUGAL	5
MONACO	3
ROMANIA	3
CZECH	5
SLOVAK REPUBLIC	3
CROATIA	1
RUSSIA	6
YUGOSLAVIA	1

AMERICA 16 COUNTRY, 119 BANKS

U.S.A	71	BRAZIL	7
CANADA	7	DOMINICAR	1
PERU	4	BELIZE	1
CHILE	7	URUGUAY	4
BAHAMAS	2	MEXICO	3
COLOMBIA	2	CUBA	1
PUERTORICO	2	PANAMA	2
ARGENTINA	4	PARAGUAY	1

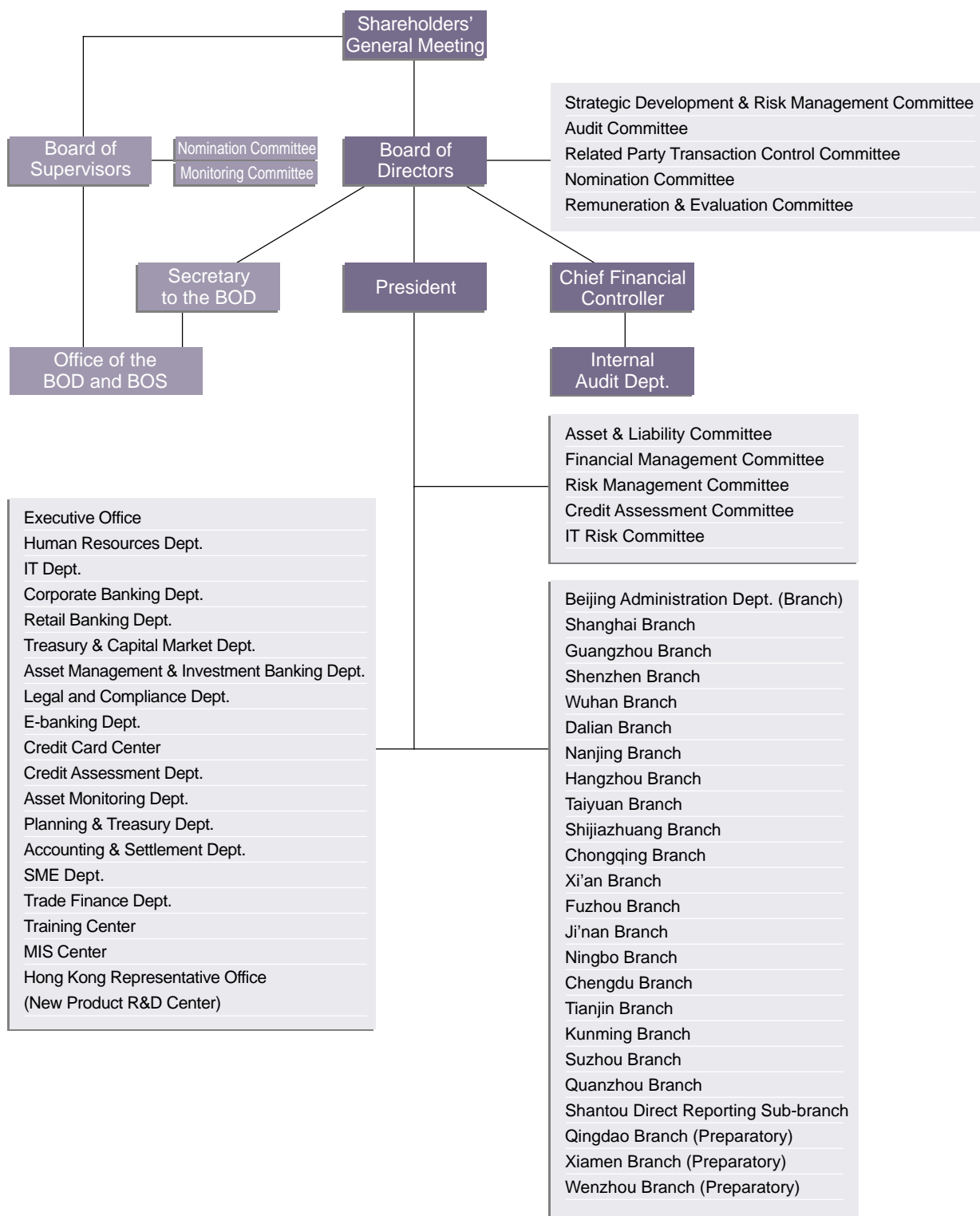
OCEANIA 2 COUNTRY, 16 BANKS

NEW ZEALAND	3
AUSTRALIA	13

AFRICA 6 COUNTRY, 13 BANKS

EGYPT	4
TUNISIE	1
MAURITIUS	1
SOUTH AFRICA	3
KENYA	3
NIGERIA	1

# Organizational Chart











**CHINA MINSHENG BANKING CORP., LTD.**

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